



ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 23 November 2020.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

- (a) Distinguish between “capital expenditure” and “revenue expenditure”: (4 marks)
- (b) Andrew, Ben and Christine are partners trading as ABEC Partnership. The partners share profits and losses in the ratio 3:1:1 after allowing for interest on capital at 10% per annum and salaries to Ben and Christine of Sh.300,000 each per annum.

The partnership trial balance as at 31 December 2019 was as follows:

	Debit Sh.“000”	Credit Sh.“000”
Capital accounts: Andrew		3,000
Ben		2,000
Christine		1,500
Sales and purchases	6,000	10,000
Accounts payable and accounts receivable	2,000	800
Returns inward and returns outward	400	200
Discounts allowed and discounts received	200	300
Current accounts: Andrew		500
Ben		400
Christine	200	
General expenses	1,200	
Office expenses	1,000	
Bad debts written off	200	
Allowance for doubtful debts		200
Salaries and wages	500	
Rent and rates	200	
Land and buildings	4,000	
Plant and machinery	3,000	
Motor vehicles	3,000	
Accumulated depreciation (1 January 2019):		
Land and buildings		1,000
Plant and machinery		1,500
Motor vehicles		500
	<u>21,900</u>	<u>21,900</u>

Additional information:

- Inventory as at 31 December 2019 was valued at Sh.1,000,000.
- Allowance for doubtful debts is maintained at 10% of accounts receivable.
- As at 31 December 2019, general expenses amounting to Sh.200,000 were in arrears while rent and rates amounting to Sh.100,000 was paid in advance.
- Depreciation is provided as follows:

Asset:	Rate:
• Land and buildings	10% on cost per annum.
• Plant and machinery	20% on reducing balance per annum.
• Motor vehicles	15% on cost per annum.

Required:

- (i) Statement of profit or loss and appropriation account for the year ended 31 December 2019. (8 marks)
- (ii) Statement of financial position as at 31 December 2019. (8 marks)

(Total: 20 marks)**QUESTION TWO**

- (a) Highlight two differences between the "receipts and payments account" and "income and expenditure account". (4 marks)

- (b) The following balances were extracted from the books of Dori Ltd. as at 31 March 2020:

	Sh."000"	Sh."000"
Purchases	5,200	
Sales		12,363
Trade receivables and trade payables	1,180	550
Distribution costs	920	
Administrative costs	1,650	
Inventory (1 April 2019)	1,620	
Bank interest	5	
Bank overdraft		220
Salaries and wages	420	
Allowance for doubtful debts		52
Bad debts written off	5	
Property (at cost)	3,100	
Plant and equipment (at cost)	2,200	
Motor vehicle (at cost)	900	
Accumulated depreciation (as at 1 April 2019):		
Property		750
Plant and equipment		520
Motor vehicles		230
Retained earnings brought forward (1 April 2019)		415
Ordinary share capital of Sh.1 each		700
General reserve		250
6% loan		1,500
Bank	<u>350</u>	
	<u>17,550</u>	<u>17,550</u>

Additional information:

- The inventory as at 31 March 2020 was valued Sh.1,570,000.
- As at 31 March 2020, rent owing was Sh.90,000 and Sh.25,000 had been paid in advance for insurance. Both these expenses are chargeable 60% to distribution and 40% to administration.
- Interest on 6% loan accrues yearly.
- Corporate tax is provided at 30% per annum.
- Depreciation is to be provided per annum at the following rates:
 - Property: 2% on cost, chargeable 50% distribution and 50% administration.
 - Plant and equipment: 10% on cost, chargeable 60% distribution and 40% administration.
 - Motor vehicle: 20% reducing balance, all chargeable to distribution.
- Allowance for doubtful debts is to be set at 5% on trade receivables balance at the end of the year.
- Administrative costs include Sh.350,000 in relation to spending on research and development of a new product. The product is set to go on sale on 1 April 2020 and the revenue from the product is expected to cover all costs of production.

Required:

- (i) Statement of profit or loss for the year ended 31 March 2020. (8 marks)
- (ii) Statement of financial position as at 31 March 2020. (8 marks)

(Total: 20 marks)

QUESTION THREE

Limau Stores has two branches; Nairobi branch and Eldoret branch. The following financial statements were extracted from the books of both branches of Limau Stores for the year ended 31 March 2020:

Income statement	Nairobi		Eldoret	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales (all on credit)		18,000		27,000
Less: Cost of sales				
Opening inventory	2,400		3,000	
Purchases (all on credit)	<u>13,000</u>		<u>22,500</u>	
	15,400		25,500	
Less: Closing inventory	<u>(1,400)</u>		<u>(2,600)</u>	
Cost of sales		<u>(14,000)</u>		<u>(22,900)</u>
Gross profit		4,000		4,100
Less: Expenses – Depreciation	220		400	
Other expenses	<u>3,180</u>	<u>(3,400)</u>	<u>2,800</u>	<u>3,200</u>
Net profit		<u>600</u>		<u>900</u>

Statement of financial position**Non-current assets:**

Land and buildings	450	2,200
Equipment	<u>210</u>	<u>900</u>
	<u>660</u>	<u>3,100</u>

Current assets:

Inventory	1,400	2,600
Trade receivables	2,650	1,200
Bank	<u>40</u>	<u>20</u>
	<u>4,090</u>	<u>3,820</u>
Total assets	<u>4,750</u>	<u>6,920</u>

Equity and liabilities:**Capital and reserves:**

Balance as at 1 April 2019	2,400	4,300
Add net profit	<u>600</u>	<u>900</u>
	<u>3,000</u>	<u>5,200</u>
Less drawings	<u>(700)</u>	<u>(800)</u>
	<u>2,300</u>	<u>4,400</u>

Current liabilities:

Trade payables	<u>2,450</u>	<u>2,520</u>
Total equity and liabilities	<u>4,750</u>	<u>6,920</u>

NB: Assume a 365-day year

Required:

(a) Compute the following ratios for each branch:

- | | |
|--|-----------|
| (i) Gross profit ratio. | (2 marks) |
| (ii) Net profit margin ratio. | (2 marks) |
| (iii) Return on capital employed (ROCE). | (2 marks) |
| (iv) Inventory turnover. | (2 marks) |
| (v) Current ratio. | (2 marks) |
| (vi) Acid test ratio. | (2 marks) |
| (vii) Trade receivable days. | (2 marks) |
| (viii) Trade payable days. | (2 marks) |

(b) Comment on the following for each branch:

- | | |
|------------------|-----------|
| (i) Solvency. | (2 marks) |
| (ii) Efficiency. | (2 marks) |

(Total: 20 marks)

QUESTION FOUR

The following information was extracted from the books of Alex Mala, a milk vendor who does not keep a full set of accounting records.

Summary of the bank account for the year ended 30 April 2020:

	Sh."000"	Sh."000"
Balance brought forward (1 May 2019)	100	
Cash from trade receivables	4,800	
Sale of private vehicle (VC741B)	1,000	
Sale of business motor van (BP743R)	105	
Payment of suppliers		3,600
Purchase of business motor van (CR689G)		650
Rent		130
Wages		755
Motor vehicle expenses		168
Postage and stationery		68
Drawings		460
Repairs and maintenance		33
Insurance		40
Balance carried forward		<u>101</u>
	<u>6,005</u>	<u>6,005</u>

Assets and liabilities, other than balance at bank:

	1 May 2019 Sh."000"	30 April 2020 Sh."000"
Trade payables	235	130
Trade receivables	366	475
Rent accrued	10	13
Inventory	245	295
Insurance prepaid	8	10
Motor vans:		
BP743R	500	-
Accumulated depreciation	400	-
CR689G	-	650
Accumulated depreciation	-	?

Additional information:

- All receipts are banked and all payments are made from the business bank account.
- A trade debt of Sh.15,000 owing by Elizabeth and included in the trade receivables as at 30 April 2020 is to be written off as an irrecoverable debt.
- Alex provides for depreciation at the rate of 20% on the cost of motor vans held at the end of each financial year.
- Discounts received during the year ended 30 April 2020 from trade payable amounted to Sh.55,000.
- Proceeds from the sale of the private vehicle (VC741B) were used as additional capital for the business.

Required:

- Statement of profit or loss for the year ended 30 April 2020. (10 marks)
 - Statement of financial position as at 30 April 2020. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Distinguish between the terms "accumulated fund" and "capital". (4 marks)
 - Explain five accounting concepts. (5 marks)
 - Outline three possible external sources of government revenue. (3 marks)
 - Explain two benefits and two challenges of using the accrual basis of accounting in the public sector. (8 marks)
- (Total: 20 marks)**

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