KASNEB

ATD LEVEL II

FINANCIAL ACCOUNTING

TUESDAY: 17 November 2015. **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

Juma Makori is a businessman based in the central business district. He does not maintain a complete set of accounting records. The following balances are available from his books of account as at 31 May 2014 and 31 May 2015:

	31 May 2014 Sh."000"	31 May 2015 Sh."000"
Machinery (cost)	3,240	3,240
Equipment (net book value)	1,620	1,998
Motor vehicles (cost)	1,270	1,270
Trade receivables	?	1,296
Trade payables	864	?
Inventories	?	91.8
Bank loan	540	432
Cash	864	?
Outstanding electricity bills	40.5	67.5
Unexpired insurance	32.4	24.3

The cash transactions during the year ended 31 May 2015 were as follows:

	Sh. "000"
Collection from customers	7,722
Payment to suppliers	3,294
Cash purchases	864
Electricity bills	229.5
Rent	324
Insurance	97.2
Salaries and wages	202.5
Sale of equipment (net book value Sh.270,000)	378
Drawings	405
Interest on loan	48.6
Acquisition of equipment	810

Additional information:

1. Cash sales amounted to 10% of total sales.
2. Credit sales amounted to Sh.7,290,000.
3. Credit purchases amounted to 80% of total purchases.
4. All sales are at a profit mark up of $33^{1}/_{3}\%$.
5. The suppliers allowed him a discount of Sh.54,000 and he extended a discount to his customers of Sh.40,500.
6. Outstanding debts of Sh.121,500 proved irrecoverable and were written off.
7. Depreciation is to be provided as follows:

Asset:	**Rate per annum:**
Machinery	15% on cost
Motor vehicles	20% on cost

Required:

(a) Income statement for the year ended 31 May 2015. (12 marks)

(b) Statement of financial position as at 31 May 2015. (8 marks)

(Total: 20 marks)

QUESTION TWO

Alex, Ben and Caro are in partnership sharing profits and losses equally after allowing for interest on capital at 5% per annum to the partners, and a salary of Sh.20,000 per month to Ben.

The following balances were extracted from their books as at 30 September 2015:

		Sh."000"
Sales		20,000
Inventory (1 October 2014)		3,000
Purchases		10,300
Operating expenses		6,400
Capital accounts:	Alex	2,500
	Ben	2,000
	Caro	1,000
Current accounts:	Alex	200
	Ben	300
	Caro	200
Loan: Ben (interest at 10% per annum)		1,000
Caro (interest at 10% per annum)		2,000
Land		1,000
Buildings		5,000
Plant and machinery at cost		7,000
Accumulated depreciation on plant and machinery (30 September 2015)		4,000
Cash at bank (credit)		1,100
Accounts receivable		4,000
Accounts payable		3,300
Drawings:	Alex	300
	Ben	400
	Caro	200

Additional information:

1. On 1 April 2015, the terms of the partnership agreement were changed. The new terms provided for:
   - Profit and losses sharing ratio of 5:3:2 for Alex, Ben and Caro respectively.
   - Interest on capital at 5% per annum.
   - Salaries of Sh.10,000 per month each to Ben and Caro.
2. For the purpose of the change, goodwill was valued at Sh.1,200,000 and was to be written off immediately while the land and buildings were revalued at Sh.2,000,000 and Sh.6,400,000 respectively.
3. Interest on loans had not been repaid.
4. Closing inventory as at the year-end was valued at Sh.2,400,000.
5. Sales include credit sales of Sh.600,000 in respect of two items sold on the basis of confirmation by the customers. The items had each cost Sh.100,000.

Required:

(a) Income statement and appropriation account for the year ended 30 September 2015. (8 marks)

(b) Partners' capital and current accounts. (6 marks)

(c) Statement of financial position as at 30 September 2015. (6 marks)

(Total: 20 marks)

QUESTION THREE

Mina Ltd. is a company that manufactures electronic equipment. The following trial balance had been extracted from the books of the company as at 31 August 2015:

	Sh."000"	Sh."000"
Ordinary shares (Sh.50 each)		400,000
10% redeemable preference shares (Sh.100 each)		200,000
Retained profits (1 September 2014)		42,475
Land	40,000	
Buildings: Cost	130,000	
Accumulated depreciation (1 September 2014)		10,000
Plant and machinery	730,000	
Office equipment	110,000	

		Sh."000"	Sh."000"
Motor vehicles		200,000	
Accumulated depreciation (1 September 2014):	Plant		224,500
	Office equipment		24,500
	Motor vehicles		80,000
Trade receivables and trade payables		500,000	356,226
Allowance for doubtful debts			1,000
Manufacturing wages		501,400	
Inventory (1 September 2014):	Raw materials	70,000	
	Work-in-progress	126,000	
	Finished goods	250,000	
Transport expenses		85,013	
Returns inward		15,106	
Purchases (raw materials)		518,600	
Sales			2,600,147
Bank			50,020
Directors' salaries		60,114	
Maintenance (plant)		30,102	
Rent		40,063	
Advertising		190,048	
Rates		50,171	
Insurance		20,116	
Office salaries		166,013	
Light and heat		46,027	
Factory power		30,014	
Bank interest		7,070	
Interim dividends on preference shares		10,000	
General administrative expenses		63,011	
		3,988,868	3,988,868

Additional information:

1. Depreciation and respective allocation is provided as follows:

Asset	Rate	Basis	Expense
Buildings	2%	Cost	Administration
Plant and machinery	15%	Cost	Factory
Office equipment	10%	Cost	Administration
Motor vehicles	25%	Reducing balance	Distribution

2. Rates have been prepaid by Sh.3,140,000 and insurance premium of Sh.3,360,000 had been paid for the year to 30 November 2015.
3. Accrued expenses as at 31 August 2015 were as follows:

	Sh."000"
Light and heat	1,214
Rent	2,321

4. Rent, rates, light and heat and insurance are to be apportioned in the ratio of 5:1 in relation to factory and administration.
5. The directors' salary includes Sh.20 million paid to the production directors and office salaries of Sh.64,237,000 paid to salesmen.
6. Allowance for doubtful debts is to be maintained at 1% of the trade receivables as at 31 August 2015.
7. Inventories as at 31 August 2015 were as follows:

	Sh."000"
Raw materials	56,200
Work in progress	47,190

8. The factory completed 1,500 units and only 100 units were in the inventory as at 31 August 2015.
9. Corporation tax for the year is estimated at Sh.100,000,000.

Required:

(a) Manufacturing account for the year ended 31 August 2015. (10 marks)

(b) Income statement for the year ended 31 August 2015. (10 marks)

(Total: 20 marks)

QUESTION FOUR

The following are the statements of financial position for Crystal Ltd. as at 31 October 2014 and 31 October 2015:

	2015	2014
	Sh."000"	Sh."000"
Non-current assets:		
Freehold land	16,800	12,000
Plant and machinery (net book value)	5,860	6,350
Goodwill	2,800	2,900
Investments at cost	3,600	3,750
	29,060	25,000
Current assets:		
Inventories	10,050	8,700
Trade receivables	6,140	7,800
Investments	1,710	840
Cash at hand and bank	200	430
	18,100	17,770
Total assets	47,160	42,770
Financed by:		
Capital and reserves		
Authorised, issued and fully paid ordinary shares of Sh.10 each	18,000	15,000
Share premium	1,500	750
Revaluation reserve	4,500	-
Revenue reserves	6,150	5,250
	30,150	21,000
Current liabilities:		
Bank overdraft	2,390	6,540
Trade payables	5,850	5,250
Proposed dividends	450	380
Corporation tax	820	600
	9,510	12,770
15% debentures	7,500	9,000
Total equity and liabilities	47,160	42,770

The income statement for the year ended 31 October 2015 was as follows:

	Sh."000"	Sh."000"
Operating profit before tax		2,400
Corporation tax		(900)
Profit after tax		1,500
Dividends: Interim paid	150	
Final proposed	450	600
		900

Additional information:

1. The investment portfolio was reduced by selling one block of shares at a profit of Sh.160,000.
2. During the year, a plant with a net book value of Sh.750,000 was sold for Sh.1,470,000. The plant had originally cost Sh.3,000,000.
3. The profit for the year was after charging:
   - Depreciation on plant and machinery of Sh.1,150,000.
   - Amortisation of goodwill of Sh.420,000.

Required:

Statement of cash flows for the year ended 31 October 2015, in accordance with the requirements of International Accounting Standard (IAS) 7, "Statement of Cash Flows". (20 marks)

QUESTION FIVE

(a) Explain the functions of the following committees in relation to public sector accounting:

(i) Public accounts committee. (2 marks)

(ii) Committee of ways and means. (2 marks)

(b) Describe four uses of share premium. (8 marks)

(c) Examine four benefits of International Accounting Standards (IASs). (8 marks)

(Total: 20 marks)

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