

# KASNEB

ATD LEVEL II

## FINANCIAL ACCOUNTING

MONDAY: 23 May 2016.

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) (i) Explain the term "conceptual framework for financial reporting". (2 marks)
- (ii) Outline three main purposes of the conceptual framework for financial reporting. (6 marks)
- (b) On 1 January 2015, the property, plant and equipment balances of Kiatu Kizuri Ltd. were as follows:

	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh. "000"
Freehold land and buildings	28,608	-	28,608
Plant and machinery	28,080	15,124.80	12,955.20
Motor vehicles	15,120	9,216	5,904

#### Additional information:

- An item of plant and machinery purchased on 1 July 2011 for Sh.4,032,000 was sold on 1 April 2015 for Sh.2,400,000.
- The buildings represent Sh.15,408,000 of the total cost of freehold land and buildings. The buildings were all completed on 1 July 2011.
- It has been decided that buildings should be charged depreciation at the rate of 2.5% per annum on cost.
- Included in the plant and machinery, is a machine which originally cost Sh.5,400,000 and which is already fully depreciated but not expected to yield any material amount on either use or resale.
- A new machine costing Sh.4,200,000 was purchased on 31 August 2015.
- A motor vehicle purchased on 1 May 2012 for Sh.5,040,000 was traded in on 1 January 2015 at a value of Sh.2,928,000 in part exchange for a new vehicle costing Sh.7,200,000.
- A second hand machine costing Sh.5,400,000 was purchased from R. R. Ltd. on 30 June 2015. R. R. Ltd. had used the machine for 3 years and had purchased it at Sh.7,200,000.
- The company uses the straight line method of depreciation as follows:

Asset	Rate per annum
Plant and machinery	10%
Motor vehicles	20%
- It is the company's policy to make depreciation charge proportionate to the time of usage of the asset.

#### Required:

- Property, plant and equipment movement schedule for the year ended 31 December 2015. (12 marks)
- (Total: 20 marks)

### QUESTION TWO

- (a) Explain the difference between the following terms:
- (i) "Capital reserves" and "revenue reserves". (2 marks)
- (ii) "Bonus issue of shares" and "rights issue of shares". (2 marks)
- (iii) "Cumulative preference shares" and "non-cumulative preference shares". (2 marks)
- (b) Zodiac Limited has an authorised share capital of Sh.4,000,000 divided into 375,000 ordinary shares of Sh.10 each and 25,000 9% preference shares of Sh.10 each.

The trial balance of the company as at 31 March 2016, after preparation of the income statement, was as follows:

	Dr Sh.	Cr Sh.
Ordinary share capital (Sh.10 par value)		3,700,000
9% preference share capital (Sh.10 par value)		180,000
Premises	3,500,000	
Inventories	316,050	
Plant and machinery at cost	1,400,000	
Provision for depreciation:		
Plant and machinery		462,000
Revenue reserves as at 31 March 2016		650,000
Accrued electricity		48,000
Cash in hand	37,950	
Bank overdraft		52,000
General reserves		350,000
Accrued rent income	<u>188,000</u>	
	<u>5,442,000</u>	<u>5,442,000</u>

**Additional information:**

1. Revenue reserves as at 1 April 2015 were Sh.112,000.
2. The directors of the company have recommended that:
  - An ordinary dividend of Sh.0.70 per share be paid.
  - Sh.150,000 be transferred to the general reserves.
  - Provision for preference dividend be made.

**Required:**

- (i) Appropriation account for the year ended 31 March 2016. (6 marks)
  - (ii) Statement of financial position as at 31 March 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Discuss three limitations of financial ratios. (6 marks)
- (b) The following information has been extracted from the books of Silver Limited as at 31 December 2015:

Income statement for the year ended 31 December 2015:

	Sh. "000"	Sh. "000"
Sales		240,000
Less cost of sales		<u>112,000</u>
Gross profit		128,000
Less expenses:		
Administrative expenses	19,000	
Distribution expenses	<u>23,400</u>	<u>42,400</u>
Profit before tax		85,600
Taxation		<u>20,800</u>
Net profit for the year		<u>64,800</u>

Statement of financial position as at 31 December:

	2015 Sh. "000"	2014 Sh. "000"
<b>Non-current assets</b>		
Property, plant and equipment at cost	95,600	70,400
Less: Accumulated depreciation	<u>(39,000)</u>	<u>(38,000)</u>
	<u>56,600</u>	<u>32,400</u>
<b>Current assets</b>		
Inventories	36,000	8,000
Accounts receivable	106,800	34,400
Prepayments	1,600	1,200
Cash at bank and in hand	<u>-</u>	<u>2,400</u>
	<u>144,400</u>	<u>46,000</u>
Total assets	<u>201,000</u>	<u>78,400</u>

<b>Current liabilities</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Bank overdraft	64,800	-
Accounts payable	40,000	24,000
Accruals	4,000	3,200
Taxation	<u>20,800</u>	<u>12,800</u>
	<u>129,600</u>	<u>40,000</u>
<b>Non-current liabilities</b>		
15% loan notes	<u>3,000</u>	<u>2,400</u>
Total liabilities	<u>132,600</u>	<u>42,400</u>
Net assets	<u>68,400</u>	<u>36,000</u>
<b>Equity</b>		
Ordinary share capital (Sh.200 par value)	20,000	20,000
12% preference share capital (Sh.200 par value)	4,000	4,000
Retained profits	<u>44,400</u>	<u>12,000</u>
Total equity	<u>68,400</u>	<u>36,000</u>

**Additional information:**

- The taxation balances shown above are agreed with the revenue department.
- During the year ended 31 December 2015, non-current assets originally costing Sh.22,000,000 were sold for Sh.4,000,000. The accumulated depreciation on these assets as at the date of disposal was Sh.15,200,000.

**Required:**

Statement of cash flows for the year ended 31 December 2015 using the indirect method in accordance with the requirements of International Accounting Standard (IAS) 7 "Statement of Cash Flows". (14 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following is the receipts and payments account of Vijana Youth Club for the year ended 30 April 2016:

<b>Receipts</b>	<b>Sh.</b>	<b>Payments</b>	<b>Sh.</b>
Balance at bank (1 May 2015)	23,400	Wages	72,000
Members' subscriptions	498,500	Rent (15 months to 31 July 2016)	246,000
Entrance fees	320,600	Short-term deposits with Savings and Loans Limited	350,000
Bar sales	608,400	Barman's salary	54,000
Competition receipts	258,200	Grounds upkeep	45,000
		Repairs to pavilion	33,000
		Stationery and printing	38,400
		Competition prizes	144,000
		Water and electricity	50,400
		Secretarial honoraria	180,000
		Rates	12,000
		Bar supplies	423,000
		Balance carried forward	<u>61,300</u>
	<u>1,709,100</u>		<u>1,709,100</u>

**Additional information:**

- The secretarial honoraria paid excludes Sh.9,000 for travelling allowance.
- Interest earned on the deposit with Savings and Loans Limited for the year to 30 April 2016 amounted to Sh.17,500.
- The barman was also to receive a bonus of 5% of the net income of the bar after charging such bonus.
- The pavilion and equipment are to be depreciated at the rate of 10% per annum.
- From the register of members, unpaid subscriptions as at 30 April 2016 amounted to Sh.51,000 while subscriptions received during the year included Sh.25,500 in respect of the previous year and Sh.17,000 in respect of year starting 1 May 2016.
- The assets and liabilities of the club as at 1 May 2015 were as follows:
  - Land Sh.6,500,000
  - Pavilion and equipment Sh.2,500,000.
  - Bar inventory Sh.108,000.
  - Competition prizes in hand Sh.48,000.
  - Bar supplies owing Sh.42,000.
- The following balances of assets and liabilities of the club were relevant as at 30 April 2016:
  - Bar inventory Sh.96,000.

- Pre-paid competition prizes Sh.24,000.
- Bar supplies owing Sh.56,400.

**Required:**

- (a) Income and expenditure account for the year ended 30 April 2016. (12 marks)
- (b) Statement of financial position as at 30 April 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) (i) Distinguish between "full accrual basis of accounting" and "modified accrual basis of accounting" as used in public sector accounting. (4 marks)
- (ii) Describe four functions of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)
- (b) Mwai, Mwaka and Mwaki are partners in the business of selling motorcycles. The trial balance given below was extracted from the books of the partnership as at 31 December 2015:

	Sh."000"	Sh."000"
Capital accounts: Mwai		4,000
Mwaka		3,000
Mwaki (Admitted 1 July 2015)		2,000
Current accounts: Mwai (1 January 2015)		230
Mwaka (1 January 2015)	40	
Sales		15,542
Purchases	12,000	
Returns inwards	230	
Discounts allowed and discounts received	80	120
Land and building	6,000	
Motor vehicle	2,400	
Furniture and fixtures	2,600	
Provision for depreciation (1 January 2015) - Building		200
- Motor vehicle		960
- Furniture and fixtures		320
Drawings - Mwai	200	
- Mwaka	180	
Salaries and wages	840	
General administrative expenses	112	
Trade debtors and trade creditors	720	960
Insurance	90	
Rent and rates	480	
Cash at bank	1,000	
Cash in hand	160	
Inventory (1 January 2015)	200	
	<u>27,332</u>	<u>27,332</u>

**Additional information:**

- The expenses and revenues accrued evenly throughout the year.
- Prior to his admission as a partner on 1 July 2015, Mwaka was the Sales Manager earning a salary of Sh.20,000 per month (included in salaries).
- Depreciation is to be provided as follows:
 

Asset	Rate per annum
• Building	2½% on cost
• Motor vehicle	20% on straight line basis
• Furniture and fixtures	10% on cost
- Included in the value of land and building is Sh.2,000,000 which is the cost of land. For the purpose of admission of Mwaki, land was revalued upwards to Sh.3,000,000.
- Mwaki was admitted on 1 July 2015 under the following arrangement:
  - To introduce capital of Sh.2,000,000.
  - New profit and loss sharing ratios are 3:2:2 for Mwai, Mwaka and Mwaki respectively from 1 July 2015.

Before the admission of Mwaki, Mwai and Mwaka were sharing profits and losses equally. Mwaki was to bring in a goodwill of Sh.350,000 (no entry or adjustment for the goodwill has been made yet). Partners agreed to write off this goodwill.

6. The partners are entitled to:
  - Interest of 4% per annum on capital balances.
  - Salaries - Mwai Sh.15,000 per month and Mwaki Sh.10,000 per month.
7. Inventory as at 31 December 2015 was valued at Sh.420,000.

**Required:**

Partners income statement and appropriation account for the year ended 31 December 2015.

(12 marks)

(Total: 20 marks)

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