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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 20 May 2019.

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) A change in accounting principle is accounted for through retrospective application of the new accounting principle to all prior periods unless it is impracticable to do so.

With reference to the above statement, explain three requirements of retrospective application of changes in accounting principles in financial statements. (6 marks)

- (b) The following trial balance was extracted from the books of Amadu Company Limited as at 31 March 2019:

	Sh."000"	Sh."000"
Ordinary share capital of Sh.20 each		3,500
7% preference share capital of Sh.20 each		1,000
Retained earnings		2,420
General reserves		1,710
10% debentures		2,000
Land and buildings at cost	4,300	
Plant and machinery at cost	8,300	
Inventory (1 April 2018)	1,900	
Investments	2,310	
Goodwill	200	
Accumulated depreciation (1 April 2018):		
Buildings		200
Plant and machinery		2,220
Sales		26,950
Purchases	21,860	
Interim dividends paid: Preference shareholders	70	
Ordinary shareholders	80	
10% debentures interest paid	100	
Wages and salaries	2,540	
Electricity	310	
Sundry expenses	1,130	
Suspense account		4,200
Cash in hand	1,260	
Accounts receivable	1,790	
Accounts payable		1,950
	<u>46,150</u>	<u>46,150</u>

Additional information:

- Sundry expenses include Sh.60,000 paid in respect of insurance for the year ending 31 March 2020.
- Electricity expenses include Sh.200,000 relating to salesmen commission but exclude an invoice of Sh.30,000 for three months ended 31 March 2019.
- The suspense account is in respect to the following items:

	Sh."000"
Proceeds from the issue of 25,000 ordinary shares	1,200
Proceeds from the sale of plant	<u>3,000</u>
	<u>4,200</u>

4. Land and buildings were acquired three years ago. The buildings element of the cost was estimated at Sh.1,000,000 and the estimated useful life of the assets was fifty years at the time of purchase. As at 31 March 2019, land and buildings were valued at Sh.8,000,000 by a professional valuer.
5. The plant which was sold had cost Sh.3,500,000 and a carrying amount of Sh.2,740,000 as on 1 April 2018. Depreciation of Sh.360,000 is to be charged on plant and machinery for the year ended 31 March 2019.
6. The 10% debentures have been in issue for some years.
7. All the Sh.20 ordinary shares rank for dividends at the end of the year.
8. The management wishes to provide for:
 - 10% debentures interest due.
 - Transfer to general reserves of Sh.160,000.
 - Audit fees of Sh.40,000.
9. Inventory as at 31 March 2019 was valued at Sh.2,200,000.

Required:

- (i) Income statement for the year ended 31 March 2019. (7 marks)
 - (ii) Statement of financial position as at 31 March 2019. (7 marks)
- (Total: 20 marks)**

QUESTION TWO

Musa Makadi runs a cereals store but does not keep proper records. A summary of his bank account for the year ended 31 March 2019 was as follows:

	Sh. "000"
Receipts	
Bank balance as at 1 April 2018	30,000
Merry-go-round loan	20,000
Takings	84,000
Payments	
Purchase of goods for resale	52,800
Electricity for nine months to December 2018	1,520
Rent of premises for 15 months to 30 June 2019	7,000
Rates of premises for the year ended 31 March 2019	2,400
Wages of assistant	29,400
Purchase of motor van (1 October 2018)	15,200
Purchase of flight ticket for private business	17,000
Motor van insurance, payment covering the year to 31 March 2019	500

Additional information:

1. According to the bank account, the bank balance on 31 March 2019 was Sh.8,180,000 in Musa Makadi's favour.
2. While the intention was to bank all takings intact, the following payments were made out of takings before banking:

Sh. "000"	
Motor van running expenses	1,780
Sundry expenses	710
3. On 31 March 2019, takings of Sh.1,280,000 awaited banking but this was done on 1 April 2019.
4. It has been discovered that the amounts paid into the bank of Sh.680,000 on 29 March 2019 were not credited to Musa Makadi's bank account until 2 April 2019 and a cheque of Sh.240,000, drawn on 28 March 2019 for purchases was not paid until 10 April 2019.
5. The normal rate of gross profit on the goods sold by Musa Makadi is 50% on sales. However, during the year a purchase of yellow maize which cost Sh.1,200,000 proved to be unpopular with customers and therefore the entire stock bought had to be sold at cost price.
6. Interest at the rate of 5% per annum is payable on each anniversary of the merry-go-round loan. The loan was taken on 1 January 2019.
7. Depreciation is to be provided on the van on the straight line basis. It is estimated that the van will be disposed of after five year's use for Sh.200,000.
8. Inventory as at 31 March 2019 was valued at Sh.3,800,000.
9. Trade payables as at 31 March 2019 amounted to Sh.1,760,000 while trade receivables amounted to Sh.4,600,000.
10. Accrued electricity charges as at 31 March 2019 were Sh.360,000.

Required:

- (a) Income statement for the year ended 31 March 2019. (10 marks)
- (b) Statement of financial position as at 31 March 2019. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) State three reasons why organisations provide for depreciation while measuring the profits of the business. (6 marks)
- (b) The following financial statements relate to Mega Ltd. for the years ended 31 March 2018 and 31 March 2019:

	2018 Sh. "million"	2019 Sh. "million"
Ordinary shares of Sh.10 each	5,000	6,000
Share premium	1,000	1,500
General reserve	400	500
Retained earnings	960	1,058
10% debentures	2,850	2,850
Accounts payable	700	800
Corporation tax	198	200
Dividend payable	300	450
Bank overdraft	<u>-</u>	<u>1,050</u>
	<u>11,408</u>	<u>14,408</u>
Non-current assets:		
Property, plant and equipment	9,012	9,408
Current assets:		
Inventory	946	1,948
Accounts receivable	1,000	3,052
Bank balance	<u>450</u>	<u>-</u>
	<u>11,408</u>	<u>14,408</u>

The income statement for the year ended 31 March 2019:

	Sh. "million"
Sales	9,500
Cost of sales	<u>(6,650)</u>
Gross profit	2,850
Administrative expenses	(800)
Sales and distribution cost	(625)
Financial cost	<u>(285)</u>
Profit before tax	1,140
Corporation tax	<u>(342)</u>
Profit after tax	<u>798</u>

Additional information:

1. Proposed dividend amounted to Sh. 600 million.
2. An equipment with net book value of Sh.112 million was sold for Sh.92 million.
3. A new machine was purchased for Sh.800 million.

Required:

Statement of cash flow for the year ended 31 March 2019 as per International Accounting Standard (IAS) 7 (Statement of Cash Flows). (14 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) In relation to manufacturing concerns, explain the following:

- (i) Prime costs. (2 marks)
- (ii) Indirect factory costs. (2 marks)

- (b) Allan and Bob are in partnership sharing profits and losses in the ratio of 3:2 respectively after allowing interest of 10% on capital.

On 1 November 2018, they agreed to admit Chami into the partnership sharing profit and losses in the ratio of Allan $\frac{3}{5}$, Bob $\frac{2}{5}$ and Chami $\frac{1}{5}$ after allowing interest on capital at 10 per cent per annum.

To facilitate the admission of Chami it was agreed that goodwill be valued at Sh.15 million and written-off immediately. Land and buildings were to be valued at Sh.210 million.

Their trial balance as on 31 March 2019 was as follows: •

	Sh. "000"	Sh. "000"
Gross profit		192,000
Land and buildings at cost	200,000	
Equipment at cost	60,000	
Motor vehicles at cost	80,000	
Accumulated depreciation (1 April 2018):		
Equipment		6,000
Motor vehicles		16,000
Inventory (31 March 2018)	34,000	
Capital accounts: Allan		80,000
Bob		60,000
Capital introduced by Chami		43,000
Current account: Allan		10,000
Bob		8,000
Drawings: Allan	8,000	
Bob	6,000	
Chami	4,000	
Administrative expenses	40,000	
Sales and distribution costs	60,600	
Interest on loan	10,000	
20% bank loan		100,000
Accounts receivable and accounts payable	20,000	19,000
Bank balance	<u>11,400</u>	
	<u>534,000</u>	<u>534,000</u>

Additional information

- A half a year interest on loan was owing as at 31 March 2019.
- Depreciation is provided as follows:

Asset	Rate per annum	Method
Equipment	10%	Reducing balance
Motor vehicles	20%	Straight line
- The partners agreed that their capitals be in the new profit sharing ratio based on Chami's capital after adjustments. A partner with excess capital be paid and one with deficit to deposit cash into the bank equivalent to the deficit.
- Assume gross profit, expenses and net profit accrued evenly on time basis.

Required:

- Income statement and appropriation account for the year ended 31 March 2019 (in columnar form). (6 marks)
 - Partners capital accounts and current accounts. (6 marks)
 - Statement of financial position as at 31 March 2019. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) With reference to public accounts, explain the following:

- Revolving fund. (2 marks)
- Four functions of the National Assembly's Public Investment Committee (PIC). (4 marks)

(b) Summarise six reasons why governments are increasingly adopting the International Public Sector Accounting Standards (IPSAS). (6 marks)

(c) The following is the receipts and payments account for Wachezaji Cricket Club for the year ended 31 March 2019:

Receipts	Amounts Sh.	Payments	Amounts Sh.
Balance b/d (cash in hand)	18,000	Balance b/d (bank overdraft)	16,000
Members subscriptions	250,000	Upkeep of field and pavilion	115,000
Members admission fee	15,000	Tournament expenses	40,000
Sales of old sports material	2,500	Rates and insurance	10,000
Hire of grounds	28,000	Telephone	3,500
Subscription for tournament	60,000	Postage and courier charges	4,000
Life membership fees	20,000	Printing and stationery	26,000
Donations	600,000	Miscellaneous expenses	4,400
		Secretary's honorarium	30,000
		Grass seeds	2,600
		Investments	600,000
		Purchase of sports material	68,000
		Balance c/d	74,000
	<u>993,500</u>		<u>993,500</u>

Additional information:

- Assets at the beginning of the financial year included:

	Sh.
Playground	500,000
Cash in hand	18,000
Stock of sports material	85,000
Printing and stationery	11,000
Subscription receivables	28,000
- Donations and surplus if any are to be kept in reserve for a permanent pavilion.
- Subscriptions due on 31 March 2019 were 42,000.
- Write-off 50% of the sports material and 30% of printing and stationery.

Required:

Income and expenditure statement for Wachezaji Cricket Club as at 31 March 2019.

(8 marks)
(Total: 20 marks)

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