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ATD LEVEL II

FINANCIAL ACCOUNTING

TUESDAY: 26 November 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) The following groups of stakeholders have different information needs in the financial statements.

Outline the specific needs of:

- (i) Shareholders. (1 mark)
  - (ii) Employees of the entity. (1 mark)
  - (iii) Suppliers. (1 mark)
- (b) Discuss five differences between “public sector accounting” and “private sector accounting”. (10 marks)
- (c) Haraka Ltd. was incorporated on 4 October 2019 with a nominal capital of Sh.10,000,000 divided into 500,000 ordinary shares of Sh.20 each.

On 5 October 2019, the directors invited interested members of the public to apply for purchase of shares at par. The closing date for application was 15 October 2019. Applications were received for 600,000 shares and paid in full. The allotment was made on 20 October 2019 and the excess application money refunded.

On 26 October 2019, the directors bought furniture for Sh.1,500,000, equipment Sh.2,500,000 and inventory Sh.5,000,000.

**Required:**

Journal entries to record the above transactions (include narrations).

(7 marks)

(Total: 20 marks)

QUESTION TWO

(a) Highlight four benefits of electronic transfer of funds. (4 marks)

(b) The following financial statements were extracted from the books of Kitabu Ltd. for the years ended 30 June 2019 and 30 June 2018:

**Statement of comprehensive income for the year ended 30 June:**

	2019	2018
	Sh.“000”	Sh.“000”
Revenue	204,000	168,000
Cost of sales	<u>(148,800)</u>	<u>(129,600)</u>
Gross profit	55,200	38,400
Distribution cost	(21,600)	(14,400)
Administrative expenses	(13,200)	(9,600)
Finance cost - Loan interest	(900)	(1,500)
- Lease interest	<u>(1,500)</u>	<u>(600)</u>
Profit before tax	18,000	12,300
Less: Income tax expense	<u>(6,000)</u>	<u>(4,500)</u>
Profit after tax	12,000	7,800
Other incomes	8,100	-
Net profit	<u>20,100</u>	<u>7,800</u>

**Statement of financial position as at 30 June:**

	2019		2018	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
<b>Non-current assets:</b>				
Property, plant and equipment		84,000		64,200
Deferred development		<u>6,000</u>		<u>-</u>
		90,000		64,200
<b>Current assets:</b>				
Inventory	21,000		24,000	
Accounts receivable	16,500		12,000	
Bank	<u>300</u>	<u>37,800</u>	<u>7,800</u>	<u>43,800</u>
		<u>127,800</u>		<u>108,000</u>
<b>Equity and liabilities:</b>				
Ordinary shares		48,000		48,000
Revaluation reserve		8,100		-
Retained earnings		<u>19,200</u>		<u>10,500</u>
		75,300		58,500
<b>Non-current liabilities:</b>				
8% loan	8,400		18,750	
Deferred tax	9,000		4,800	
Finance lease obligation	<u>7,200</u>	24,600	<u>5,400</u>	28,950
<b>Current liabilities:</b>				
Finance lease obligation	4,500		3,600	
Accounts payable	15,900		12,600	
Current tax payable	<u>7,500</u>	<u>27,900</u>	<u>4,350</u>	<u>20,550</u>
		<u>127,800</u>		<u>108,000</u>

**Additional information:**

1. Kitabu Ltd. revalued property upwards by Sh.12,000,000 and transferred Sh.3,900,000 of the revaluation amount to deferred tax on 1 January 2019.
2. There was no disposal of non-current assets during the period.
3. Depreciation of property, plant and equipment was Sh.5,400,000 for the year ended 30 June 2019.
4. Amortisation of the deferred development expenditure was Sh.1,200,000 for the year ended 30 June 2019.
5. Kitabu Ltd. acquired an additional plant with a fair value of Sh.9,000,000 through a finance lease on 1 January 2019.

**Required:**

Statement of cash flows for the year ended 30 June 2019, in accordance with International Accounting Standard (IAS) 7, "Statement of Cash Flows".

(16 marks)

(Total: 20 marks)

**QUESTION THREE**

The following trial balance was extracted from the books of James Tiibu, a manufacturer, as at 31 October 2019:

	Sh."000"	Sh."000"
Capital as at 1 November 2018		575,000
10% Bank loan		200,000
Land and buildings	675,000	
Inventory (1 November 2018):		
- Raw materials	37,000	
- Loose tools	13,000	
- Finished goods	60,000	
Purchase of raw materials	403,750	
Carriage inwards of raw materials	11,250	
Returns inward	77,500	
Royalties expenses	25,000	
Sales		1,077,500
Factory plant and machinery (at cost)	200,000	
Provision for depreciation on plant and machinery		100,000
Office furniture and fittings (at cost)	40,000	

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Provision for depreciation on furniture and fittings		30,000
Accounts receivable	80,000	
Accounts payable		60,000
Bank balance	30,000	
Factory wages - direct	182,000	
- indirect	40,000	
Direct factory expenses	18,000	
Office expenses - general	20,000	
- salaries	30,000	
Plant and machinery maintenance	20,000	
Cleaning expenses	40,000	
Rates	40,000	
	<u>2,042,500</u>	<u>2,042,500</u>

**Additional information:**

- Inventories as at 31 October 2019 were valued as follows:
 

	<b>Sh. "000"</b>
Raw materials	38,500
Loose tools	1,500
Work-in-progress	10,000
Finished goods	70,000
- Depreciation is to be provided on a straight-line basis as follows:
 

<b>Asset</b>	<b>Rate per annum</b>
Plant and machinery	10%
Furniture and fittings	25%
- Rates and cleaning expenses are to be apportioned at the rate of 75% and 25% to the factory and office respectively.
- As at 31 October 2019, interest on the bank loan had not been paid.

**Required:**

- Manufacturing account for the year ended 31 October 2019. (7 marks)
  - Income statement for the year ended 31 October 2019. (6 marks)
  - Statement of financial position as at 31 October 2019. (7 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

The following is the receipts and payments account for Mrija Sports Club for the year ended 30 September 2019:

**Receipts and payments account**

<b>Receipts</b>	<b>Sh. "000"</b>	<b>Payments</b>	<b>Sh. "000"</b>
Balance brought forward	5,100	Club house rent and rates	1,140
Subscriptions	25,800	Club house maintenance cost	2,730
Bar sales	41,400	Annual dinner cost	1,950
Annual dinner ticket sales	1,410	Bar purchases	27,600
Donation	3,504	Stationery and printing	744
		Purchase of sports equipment	7,389
		Insurance cost	267
		Salary and wages	14,100
		Petty cash	282
		Balance carried forward	<u>21,012</u>
	<u>77,214</u>		<u>77,214</u>

**Additional information:**

1. As at 30 September:

	<b>2018</b>	<b>2019</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Club house at cost (Purchased on 1 October 2016)	45,000	45,000
Bar inventory at cost	5,520	7,080
Petty cash	90	30
Fixed deposit account	1,800	2,190
Subscriptions received in advance	630	1,080
Bar payables	7,200	5,700

2. Depreciation is provided on cost as follows:

<b>Asset</b>	<b>Rate per annum</b>
Club house	10%
Sports equipment	33 <sup>1</sup> / <sub>3</sub> %

3. The petty cash is used exclusively for postage.

4. 25% of the salary and wages and 50% of the club house expenses (including depreciation) are to be apportioned to the bar.

5. The donation received during the year ended 30 September 2019 is for construction of a new tennis court.

6. The only entry in the fixed deposit account during the year ended 30 September 2019 is interest income.

**Required:**

- (a) Bar income statement for the year ended 30 September 2019. (4 marks)
- (b) Income and expenditure account for the year ended 30 September 2019. (10 marks)
- (c) Statement of financial position as at 30 September 2019. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain four factors that an organisation might consider when formulating its depreciation policy. (8 marks)
- (b) Liz Muta does not keep records of inventory movements. A physical stock take is carried out at the end of each quarter and inventory is priced at cost. This cost is used in preparing quarterly accounts.

Draft accounts have been prepared for the year ended 30 June 2019, but have not been completed as the details of the stock take carried out on 30 June 2019 were misplaced.

The company operates on a gross profit mark-up of 25% of the cost.

**The following additional information is available:**

- Total sales invoiced to customers during the months of April, May and June 2019 were Sh.5,376,400. This figure includes Sh.402,800 relating to goods dispatched on or before 31 March 2019.
- The total sales made before 30 June 2019 but invoiced in the following month were Sh.551,200.
- The total of purchases invoices entered in the purchases day book during April, May and June 2019 were Sh.4,058,000. This figure includes Sh.294,000 in respect of goods received on or before 31 March 2019.
- Invoices relating to goods received in June 2019 but which were not entered in the purchases daybook until July 2019, totalled Sh.388,000.
- The value of the inventory at cost on 1 April 2019 was Sh.4,264,000.
- In the inventory sheet for the quarter ended 31 March 2019, the following errors were noted:
  - The total of one page was overcast by Sh.8,500.
  - 1,200 items had been priced at Sh.40 each yet had cost Sh.200 each.
  - The total of inventory in one section which was Sh.526,000 had been included in the summary as Sh.562,000.

The above errors had not yet been corrected.

**Required:**

The value of inventory on 30 June 2019.

(12 marks)

**(Total: 20 marks)**