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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 30 August 2021.

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) Explain the following accounting concepts:

- (i) Substance over form concept. (2 marks)
- (ii) Prudence concept. (2 marks)
- (iii) Consistency concept. (2 marks)

(b) The following information relates to Uzima Club for the year ended 30 June 2021:

1. The club started the year with Sh.4,780,000 in the bank.
2. The club's treasurer received subscriptions amounting to Sh.3,071,000. This amount included Sh.301,000 in arrears for the year ended 30 June 2020 and Sh.399,000 in advance for the year ending 30 June 2022.
3. During the year ended 30 June 2021, the club received Sh.980,000 to the general fund and Sh.880,000 to the election fund. The election fund had a balance of Sh.150,000 as at 1 July 2020. During the year ended 30 June 2021, election expenses paid amounted to Sh.720,000.
4. The club held investments valued at Sh.2,000,000 on 1 July 2020. Half of these investments were sold for Sh.1,750,000 and the balance were valued at Sh.1,200,000. These investments generated an interest income of Sh.364,000 during the year ended 30 June 2021. This income was received directly in to the club's bank account.
5. Office furniture was valued at Sh.1,800,000 as at 1 July 2020. Additional furniture was acquired during the year and Sh.170,000 was paid for while Sh.70,000 was still owing for this furniture as at 30 June 2021. Depreciation on office furniture is provided at the rate of 10% per annum on cost.
6. During the year ended 30 June 2021, there was a receipt of Sh.750,000 for sale of magazines. Magazines worth Sh.60,000 were donated to various libraries during the year. The total amount paid for production and sale of the magazines was Sh.1,200,000. No inventories of magazines were left as at 30 June 2021.
7. During the year, the club acquired an office building through a bank loan. The club paid the first instalment of loan repayment of Sh.80,000 on 20 June 2021.
8. The office building was painted and partitioned at a total cost of Sh.507,000. As at 30 June 2021, an amount of Sh.150,000 of the cost of partitioning was still owing to the suppliers.
9. Other payments made by the club during the year:

	Sh.
Wages	1,700,000
Office salaries	2,350,000
Rent and rates	1,450,000
Meeting expenses	1,750,000
Stationery and postage	150,000

10. Accruals for the year ended 30 June 2021 were:

	Sh.
Wages	50,000
Rent and rates	5,000

11. Prepayment for the year ended 30 June 2021:

	Sh.
Meeting expenses	300,000

**Required:**

Receipts and payments account for the year ended 30 June 2021.

(14 marks)

**(Total: 20 marks)**

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**QUESTION TWO**

- (a) Distinguish between “direct method” and “indirect method” of cash flow statement preparation. (4 marks)
- (b) The following are the statements of financial position of Pambaza Ltd., a chemical manufacturing company for the year ended 31 December 2019 and 31 December 2020:

**Pambaza Ltd.**  
**Statement of financial position as at 31 December:**

	<b>2020</b>	<b>2019</b>
	<b>Sh.“000”</b>	<b>Sh.“000”</b>
<b>Non-current assets:</b>		
Property, plant and equipment	<u>23,040</u>	<u>17,730</u>
Total non-current assets	<u>23,040</u>	<u>17,730</u>
<b>Current assets:</b>		
Inventories	6,210	5,490
Accounts receivable	3,510	3,060
Cash and cash equivalents	<u>225</u>	<u>504</u>
Total current assets	<u>9,945</u>	<u>9,054</u>
Total assets	<u>32,985</u>	<u>26,784</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital	1,080	900
Share premium	270	225
Retained earnings	17,091	10,809
Revaluation reserve	<u>540</u>	<u>360</u>
Total equity	<u>18,981</u>	<u>12,294</u>
<b>Non-current liabilities:</b>		
Long-term loan	<u>6,750</u>	<u>7,200</u>
Total non-current liability	<u>6,750</u>	<u>7,200</u>
<b>Current liabilities:</b>		
Accounts payable	6,624	6,750
Bank overdraft	180	270
Current tax	<u>450</u>	<u>270</u>
Total current liabilities	<u>7,254</u>	<u>7,290</u>
Total equity and liabilities	<u>32,985</u>	<u>26,784</u>

**Additional information:**

- Pambaza Ltd. made a profit before tax of Sh.6,729,000 during the year ended 31 December 2020.
- The income tax expense for the year ended 31 December 2020 was Sh.189,000.
- It is the policy of Pambaza Ltd. to depreciate all assets at a rate of 10% per annum on cost with a pro-rata charge in the year of acquisition and disposal.
- The cost of property, plant and equipment was Sh.21,870,000 on 1 January 2020. The purchase of new equipment occurred on 31 December 2020.
- Pambaza Ltd. disposed of a plant with a carrying value of Sh.1,560,000 on 1 October 2020. The original cost of this plant was Sh.2,400,000 and the company made a loss of Sh.60,000.
- The finance cost incurred and paid in the year ended 31 December 2020 was Sh.144,000.
- Paid a dividend of Sh.258,000 in the year ended 31 December 2020.

**Required:**

Statement of cash flows for the year ended 31 December 2020 in accordance with the requirements of International Accounting Standard (IAS)7 “Statement of Cash Flows”.

(16 marks)

**(Total: 20 marks)**

**QUESTION THREE**

Dan and Lucy are partners sharing profits and losses in the ratio of 3:2 respectively. The partnership agreement provides for Lucy to receive a salary of Sh.8 million per annum. Interest on capital is allowed at the rate of 5% per annum.

Their statement of financial position as at 31 July 2020 was as follows:

	<b>Cost</b> <b>Sh. "000"</b>	<b>Depreciation</b> <b>Sh. "000"</b>	<b>Net book value</b> <b>Sh. "000"</b>
<b>Non-current assets:</b>			
Premises	48,000	6,400	41,600
Equipment	<u>16,000</u>	<u>9,600</u>	<u>6,400</u>
	<u>64,000</u>	<u>16,000</u>	48,000
<b>Current-assets:</b>			
Inventory		11,200	
Accounts receivable		4,400	
Cash		<u>800</u>	<u>16,400</u>
			<u>64,400</u>
<b>Capital and liabilities:</b>			
Capital accounts: Dan		32,000	
Lucy		<u>20,000</u>	52,000
Current accounts: Dan		6,400	
Lucy		<u>(600)</u>	5,800
<b>Current liabilities:</b>			
Accounts payable			<u>6,600</u>
			<u>64,400</u>

**Additional information:**

- On 1 November 2020, Pendo was admitted to the partnership. The terms of her admission were as follows:
  - Interest on capital was raised from 5% per annum to 6% per annum for all partners.
  - Pendo introduced Sh.24 million in cash as capital into the partnership.
  - Pendo received a salary of Sh.12 million per annum. Lucy's salary was raised to Sh.12 million per annum.
  - The profit sharing ratio for Dan, Lucy and Pendo was adjusted to 4:2:1 respectively.
- The profit for the year ended 31 July 2021 was Sh.11,570,000.
- As at 31 July 2021, the working capital of the partnership was as follows:

	<b>Sh. "000"</b>
Inventory	25,110
Accounts receivable	7,000
Cash	7,260
Accounts payable and accruals	6,960

- Partners' drawings for the year ended 31 July 2021 were as follows:

	<b>Sh. "000"</b>
Dan	51,410
Lucy	39,050
Pendo	16,500

- The non-current assets are to be depreciated as follows:

<b>Asset</b>	<b>Rate per annum</b>
Premises	5% on cost
Equipment	10% on cost

**Required:**

- Statement of profit or loss and appropriation account for the year ended 31 July 2021. (10 marks)
  - Partners' current accounts. (4 marks)
  - Statement of financial position as at 31 July 2021. (6 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

The following trial balance was extracted from the books of Guru Ltd. on 31 December 2020:

	Sh. "000"	Sh. "000"
Land	1,500	
Buildings at cost	8,000	
Plant and equipment at cost	9,200	
Investments (Interest rate 10% per annum)	1,500	
Accumulated depreciation (1 January 2020):		
Buildings		3,480
Plant and equipment		2,150
Purchases and sales	5,500	12,920
Inventory (1 January 2020)	390	
Bad debts written off	235	
Distribution expenses	1,160	
Administrative expenses	2,410	
Investment income		75
Ordinary share capital		6,000
Share premium		550
Retained earnings		1,030
General reserve		2,405
6% debentures		4,000
Accounts receivable and accounts payable	2,000	735
Allowance for doubtful debts		300
Debenture interest	120	
Bank and cash	580	
Dividends paid	1,050	
	<u>33,645</u>	<u>33,645</u>

#### Additional information:

- Inventory as at 31 December 2020 was valued at Sh.420,500.
- Depreciation is to be charged as follows:  
Buildings - 5% per annum on cost  
Plant and equipment - 10% per annum on a reducing balance basis
- The following were the balances as at 31 December 2020:  

	Sh.
Accrued distribution expenses	75,000
Pre-paid administrative expenses	40,000
- Allowance for doubtful debts is to be adjusted to 5% of the accounts receivable as at 31 December 2020.
- A half year debenture interest is outstanding.
- Investment income amounting to Sh.75,000 was received during the year ended 31 December 2020. The balance of the investment income was received in February 2021.
- The estimated income tax for the year is Sh.925,000.
- The management provides for a transfer of Sh.200,500 to the general reserve.

#### Required:

- Statement of profit or loss for the year ended 31 December 2020. (12 marks)
  - Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- Outline five challenges that could be faced by government and other public entities in implementation of International Public Sector Accounting Standards (IPSAs). (5 marks)
- Bob Muli operates a general supplies shop but does not maintain a full set of accounting records.

The following information was extracted from his records:

Summary of bank account for the year ended 31 July 2021:

Receipts	Sh. "000"
Balance (1 August 2020)	3,940
Additional capital	40,000
Cash from trade receivables	192,000
Proceeds on sale of motor vehicle (van)	<u>4,200</u>
	<u>240,140</u>

**Payments**

Rent and rates	5,200
Salaries and wages	30,200
Payment to suppliers	144,000
Purchases of motor vehicle (Lorry)	26,000
Personal drawings	18,400
Insurance	1,600
Postage and stationery	2,720
Repairs and maintenance	1,300
Motor vehicle running expenses	6,700
Balance (31 July 2021)	<u>4,020</u>
	<u>240,140</u>

**Additional information:**

1. The following balances were provided:

	<b>1 August 2020</b>	<b>31 July 2021</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Trade payables	9,400	5,180
Trade receivables	14,640	19,000
Accrued rent and rates	400	520
Motor vehicles:		
• Van - Cost	20,000	-
• Van - Depreciation	16,000	-
• Lorry - Cost	-	26,000
• Lorry - Depreciation	-	?
Prepaid insurance	320	400
Inventory	9,800	11,800

2. Bob Muli depreciates motor vehicles at the rate of 20% per annum on a straight line basis. A full year's depreciation is provided in the year of purchase and no depreciation is charged in the year of disposal.
3. All receipts are banked and all payments are made from the business bank account.
4. Discount received from the suppliers during the year amounted to Sh.2,200,000.
5. A trade receivable of Sh.600,000 owed by Wambu Enterprises and included in the trade receivables as at 31 July 2021 is to be written off.

**Required:**

(i) Statement of profit or loss for the year ended 31 July 2021. (8 marks)

(ii) Statement of financial position as at 31 July 2021. (7 marks)

**(Total: 20 marks)**

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