



ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 17 May 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

Rebecca Mwalimu, a sole trader, does not keep a complete set of accounting records. However, the following balances have been extracted from her business records:

1. Summary of the bank statement for the year ended 31 December 2020:

	Sh. "000"		Sh. "000"
Balance brought forward (1 January 2020)	3,940	Payment to suppliers	144,000
Cash from accounts receivable	192,000	Purchase of lorry	26,000
Sale of private car	40,000	Rent	5,200
Sale of bus	4,200	Motor vehicle expenses	6,700
		Wages	30,200
		Stationery	2,720
		Drawings	18,400
		General expenses	1,300
		Insurance	1,600
		Balance carried forward (31 December 2020)	4,020
	240,140		240,140

2. Assets and liabilities other than balance at bank:

	1 January 2020 Sh. "000"	31 December 2020 Sh. "000"
Accounts payable	9,400	5,180
Accounts receivable	14,640	19,000
Rent accrued	400	520
Bus at cost	20,000	-
Accumulated depreciation	16,000	-
Lorry at cost	-	26,000
Accumulated depreciation	-	?
Inventory	9,800	11,800
Insurance prepaid	320	400

Additional information:

1. All receipts are banked and all payments are made from the business bank account.
2. Accounts receivable amounting to Sh.600,000 and included in the accounts receivable as at 31 December 2020 is to be written off as an irrecoverable debt.
3. It is Rebecca Mwalimu's policy to provide depreciation at the rate of 20% on the cost of motor vehicles held at the end of each financial year. No depreciation is provided in the year of sale or disposal of the motor vehicle.
4. Discounts received during the year ended 31 December 2020 from accounts payable amounted to Sh.2,200,000.

Required:

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

QUESTION TWO

- (a) Briefly explain the following accounting concepts:
- (i) Accrual concept. (2 marks)
- (ii) Money measurement concept. (2 marks)
- (b) The following are the statements of financial position of Bahasha Ltd.:

Bahasha Ltd.				
Statement of financial position as at 31 December:				
	2020		2019	
Non-current assets:	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Plant at cost		4,680		1,800
Less: Accumulated depreciation		<u>(2,160)</u>		<u>(720)</u>
		2,520		1,080
Investments at cost		<u>360</u>		<u>720</u>
		2,880		1,800
Current assets:				
Inventories	5,040		1,440	
Accounts receivable	11,160		4,860	
Bank balance	<u>-</u>		<u>360</u>	
		<u>16,200</u>		<u>6,660</u>
Total assets		19,080		8,460
Current liabilities:				
Bank overdraft	432		-	
Accounts payable	5,688		2,340	
Current tax payable	1,368		828	
Proposed dividends	<u>936</u>		<u>540</u>	
		<u>(8,424)</u>		<u>(3,708)</u>
Net assets		<u>10,656</u>		<u>4,752</u>
Financed by:				
Share capital (ordinary shares of Sh.100 each)		5,400		1,800
Share premium		1,440		540
Retained earnings		<u>3,816</u>		<u>2,412</u>
Capital employed		<u>10,656</u>		<u>4,752</u>

Additional information:

1. During the year ended 31 December 2020, the company issued new ordinary shares for cash.
2. During the year ended 31 December 2020, no interim dividend was paid.
3. As at 31 December 2020, the current tax payable for the year ended 31 December 2019 was fully paid.
4. During the year ended 31 December 2020, investments costing Sh.540,000 were sold for cash at their book value.
5. Plant with an original cost of Sh.90,000 was sold for Sh.72,000 in cash during the year ended 31 December 2020. The accumulated depreciation on the plant as at the date of disposal amounted to Sh.36,000.

Required:

Statement of cash flows for the year ended 31 December 2020 in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". (16 marks)

(Total: 20 marks)

QUESTION THREE

Bolt and Nut Ltd. is a medium sized manufacturing company. The following trial balance was extracted from the books of the company as at 30 September 2020:

	Sh."000"	Sh."000"
Ordinary share capital		60,000
Share premium		20,000
Retained profits (1 October 2019)		16,000
Allowance for unrealised profits as at 1 October 2019		2,760
Motor vehicle expenses	9,000	
Bank balance	33,200	
Dividends paid	23,000	
Accounts receivable	56,000	
Accounts payable		11,000
Inventories at 1 October 2019:		
Raw materials	14,000	
Work-in-progress	10,000	
Finished goods	13,800	
Purchases of raw materials	76,000	
Direct labour cost	56,000	
Factory general expenses -		
Variable	32,000	
Fixed	18,000	
Administrative expenses -		
Rent	38,000	
Electricity	12,000	
Stationery and postage	4,000	
Staff salaries	38,760	
Sales		384,000
Plant and machinery (at cost)		60,000
Accumulated depreciation (1 October 2019)		24,000
Motor vehicles (for sales deliveries) at cost	32,000	
Accumulated depreciation (1 October 2019)		8,000
	<u>525,760</u>	<u>525,760</u>

Additional information:

- Inventories as at 30 September 2020 were valued as follows:

	Sh."000"
Raw materials	18,000
Work-in-progress	16,000
Finished goods	20,700
- Finished goods are transferred to the warehouse at cost plus a mark-up of 25%.
- Depreciation is charged on a straight-line basis as follows:

Asset	Rate per annum
Plant and machinery	10%
Motor vehicles	25%
- As at 30 September 2020, accrued direct labour cost amounted to Sh.6,000,000 while prepaid rent amounted to Sh.4,000,000.

Required:

- Manufacturing account and statement of profit or loss for the year ended 30 September 2020. (12 marks)
- Statement of financial position as at 30 September 2020. (8 marks)

(Total: 20 marks)

QUESTION FOUR

Tangazo Society organises educational seminars and workshops for its members. It also publishes a monthly magazine for circulation to both members and non-members.

The following is the receipts and payments account for the society for the year ended 30 September 2020:

Receipts and payments account

	Sh. "000"		Sh. "000"
Balance brought forward	2,950	Printing of magazine	5,075
Subscriptions	9,275	Lecture fees	1,175
Investment income	1,645	Stationery and postage	1,435
Magazine advertisements	2,225	Telephone expenses	360
Magazine subscriptions	4,795	General expenses	1,445
		Purchase of office equipment	700
		Rent and rates	1,025
		Salaries and wages	4,925
		Balance carried forward	<u>4,750</u>
	<u>20,890</u>		<u>20,890</u>

Additional information:

1. As at 30 September:

	2019	2020
	Sh. "000"	Sh. "000"
Salaries and wages accruing	475	375
Owing to the magazine printers	1,295	1,395
Magazine advertisement income receivable	360	550
Magazine subscriptions in advance	1,190	925
Office equipment	4,800	4,950
Investments	21,950	?
2. During the year ended 30 September 2020, the following amounts were spent on distribution of the magazine:
 - Sh.325,000 of the total cost of salaries and wages.
 - Sh.545,000 of the total cost of stationery and postage.
3. During the year ended 30 September 2020, the annual subscriptions received included:

	Sh. "000"
• For the year ended 30 September 2019	185,000
• For the year ending 30 September 2021	1,175,000

Required:

- (a) Magazine income and expenditure account for the year ended 30 September 2020. (4 marks)
 - (b) Income and expenditure account for the year ended 30 September 2020. (10 marks)
 - (c) Statement of financial position as at 30 September 2020. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) State whether each of the following items should be classified as capital expenditure, revenue expenditure or income:

(i) Legal fees in connection with the purchase of premises.	(1 mark)
(ii) Cost of repainting a building.	(1 mark)
(iii) Proceeds from insurance compensation.	(1 mark)
(iv) Insurance premiums for a new vehicle.	(1 mark)
(v) Cost of training staff to operate a new machine.	(1 mark)
(vi) Revenue from sale of scrap metal.	(1 mark)
 - (b) In the context of public sector accounting, explain the following:

(i) Cash accounting.	(2 marks)
(ii) Commitment accounting.	(2 marks)
 - (c) Discuss five fundamental principles of professional ethics that a professional accountant should be guided by. (10 marks)
- (Total: 20 marks)**