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**CPA PART I SECTION 1**

**CIFA PART I SECTION 1**

**FINANCIAL ACCOUNTING**

**MONDAY: 26 November 2018.**

**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) In the context of the International Accounting Standards Board’s Conceptual Framework for Financial Reporting, explain the five elements of financial statements. (10 marks)
  - (b) With reference to the preparation of the financial statements of a manufacturing entity, explain the meaning of the following terms:
    - (i) Direct costs. (2 marks)
    - (ii) Overheads. (2 marks)
  - (c) Differentiate between the “direct” and “indirect” methods of presentation of the statement of cash flows. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Outline four objectives of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)
- (b) The following information relates to Mapozi Social Club for the year ended 30 June 2018:

**Statement of receipts and payments**

<b>Receipts</b>	<b>Sh. “000”</b>	<b>Payments</b>	<b>Sh. “000”</b>
Balance brought down	3,910	Repairs to sports pavillion	2,220
Canteen sales	183,840	Secretary’s allowances	2,814
Donation received	2,400	Transport expenses	7,260
Subscriptions received for the year:		Canteen expenses	702
2016/2017	4,200	Canteen staff wages	25,872
2017/2018	43,050	Groundsmen’s wages	65,304
2018/2019	3,600	Payment for canteen supplies	115,860
	<u>241,000</u>	Balance carried down	<u>20,968</u>
			<u>241,000</u>

**Additional information:**

1. As at 30 June 2017, the club’s land was valued at Sh.120 million and the sports pavillion at Sh.60 million. The sports pavillion is depreciated at the rate of 10% per annum on cost or valuation.
2. The club’s equipment as at 30 June 2017 was valued at Sh.7.5 million and is to be depreciated at the rate of 20% per annum on cost or valuation.
3. Subscriptions owing by members amounted to Sh.4.2 million as at 30 June 2017 and Sh.5.25 million as at 30 June 2018.
4. The following balances were available as at 30 June:

	<b>2017</b>	<b>2018</b>
	<b>Sh. “000”</b>	<b>Sh. “000”</b>
Canteen expenses owing	676	1,008
Transport expenses owing	-	796
Inventory in canteen for sale	13,488	16,674
Owing for canteen supplies	9,882	13,020

**Required:**

- (i) Canteen income statement for the year ended 30 June 2018. (4 marks)
- (ii) Income and expenditure statement for the year ended 30 June 2018. (6 marks)
- (iii) Statement of financial position as at 30 June 2018. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Mercy, Nelly and Onyango are in partnership sharing profits and losses equally after allowing for interest on capital at the rate of 5% per annum to the partners and a salary to Nelly of Sh.60,000 per month.

The trial balance of the partnership as at 30 September 2018 was as follows:

	Sh. "000"	Sh. "000"
Sales		60,000
Inventory (1 October 2017)	9,000	
Purchases	30,900	
Operating expenses	19,200	
Loan from: Nelly		3,000
Onyango		6,000
Land	3,000	
Buildings	15,000	
Plant and machinery (cost)	21,000	
Accumulated depreciation (30 September 2018)		12,000
Accounts receivable and accounts payable	12,000	9,900
Bank overdraft		3,300
Capital accounts: Mercy		7,500
Nelly		6,000
Onyango		3,000
Current accounts: Mercy		600
Nelly		900
Onyango		600
Drawings: Mercy	900	
Nelly	1,200	
Onyango	600	
	<u>112,800</u>	<u>112,800</u>

**Additional information:**

- On 1 April 2018, the terms of the partnership agreement were changed. The new terms provided as follows:
  - A profit sharing ratio of 5:3:2 for Mercy, Nelly and Onyango respectively.
  - Salaries of Sh.30,000 per month to Nelly and Onyango.
  - Interest on capital at the rate of 5% per annum.
  - For the purpose of the changes, goodwill was valued at Sh.3,600,000 and was to be written off immediately while the land and buildings were valued at Sh.6,000,000 and Sh.19,200,000 respectively.
- Sales include a credit sale of Sh.1,800,000 in respect of goods sold on the basis of confirmation by the customer. The goods had cost Sh.600,000. As at 30 September 2018, the customer had not confirmed whether he would buy the goods.
- Interest on the loans from Nelly and Onyango is to be charged at the rate of 10% per annum. This interest had not been paid as at 30 September 2018.
- Closing inventory as at 30 September 2018 was valued at Sh.7,200,000.
- Unless where otherwise provided, the incomes and expenses accrued evenly throughout the year.

**Required:**

- (a) Income and appropriation statement for the year ended 30 September 2018. (8 marks)
- (b) Partners' current accounts as at 30 September 2018. (6 marks)
- (c) Statement of financial position as at 30 September 2018. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

Zam Zam Ltd. has an authorised share capital of 100,000,000 shares of Sh.1 each and 20,000,000 8% preference shares of Sh. 1 each. The following trial balance was extracted as at 31 December 2017.

	Sh. "000"	Sh. "000"
Ordinary share capital (issued, Sh.0.5 paid per share)		50,000
8% preference share capital (issued and fully paid)		8,000
Plant and machinery at cost	34,000	

	Sh."000"	Sh."000"
Motor vehicles at cost	16,000	
Computer hardware at cost	5,000	
Accounts receivable and accounts payable	34,980	15,900
Corporate tax payable (1 January 2017)		1,970
Bank balance	14,505	
10% debentures		9,000
Inventories (1 January 2017)	25,200	
General expenses	11,020	
Purchases and sales	164,764	233,384
Preliminary expenses	2,400	
Debenture interest paid	450	
Investment income		1,125
Salaries	24,210	
Insurance premiums	750	
Investments (shares in Nguru Ltd.)	13,500	
Accumulated depreciation (1 January 2017):		16,000
Plant and machinery		
Motor vehicles		7,200
Computer hardware		1,750
Directors' fees	7,000	
Auditors' fees	2,500	
Computer software	1,500	
Interim preference dividend paid	320	
Retained earnings (1 January 2017)		8,470
Allowance for doubtful debts (1 January 2017)		5,000
	<u>358,099</u>	<u>358,099</u>

#### Additional Information:

- Inventories as at 31 December 2017 were valued at Sh.28,247,000.
- Investments have a market value of Sh.15,000,000.
- Debenture interest is payable in two equal annual instalments.
- Insurance premiums prepaid as at 31 December 2017 amounted to Sh.240,000.
- Depreciation is to be provided as follows:
  - Plant and machinery, at the rate of 10% per annum on cost.
  - Motor vehicles, at the rate of 20% per annum on reducing balance.
  - Computer hardware, at the rate of 25% per annum on cost.
- The allowance for doubtful debts is to be increased to Sh.7,500,000.
- A corporate tax of Sh.4,750,000 is to be provided for with respect to the year ended 31 December 2017.
- The directors proposed to pay the remaining dividend due to the preference shareholders and a first and final dividend to the ordinary shareholders at the rate of 6%.
- A sum of Sh.2,000,000 is to be transferred to the general reserve.

#### Required:

- Income statement for the year ended 31 December 2017. (8 marks)
  - Statement of changes in equity for the year ended 31 December 2017. (4 marks)
  - Statement of financial position as at 31 December 2017. (8 marks)
- (Total: 20 marks)

#### QUESTION FIVE

- Outline four reasons why it is important to undertake bank reconciliation. (4 marks)
- The income statement of United Trading Enterprises (UTE) for the year ended 31 December 2017, as prepared by an accounts assistant, indicated a net profit of Sh.49,360,000. The cash book as at 31 December 2017 showed a balance at bank of Sh.6,440,000. Your attention, however, has been drawn to the following matters:
  - Cheques from customers totalling Sh.4,980,000 which were recorded in the cash book on 29 December 2017, were actually not credited by the bank until 2 January 2018.
  - Cheques issued on 31 December 2017 totalling Sh.7,420,000 in favour of suppliers were not paid by the bank until after the end of the year (that is, after 31 December 2017).
  - On 22 November 2017, the bank paid an amount of Sh.3,600,000 with respect to a standing order from UTE for rent of business premises for the three months to 31 January 2018 but, unfortunately, no entry for this payment had been made in the cash book. Additionally, no record of this rent had been made in the income statement for the period.

4. On 31 December 2017, Mr. Ken Abusi, a customer, had paid Sh.2,340,000 directly into UTE's bank account in full settlement of a debt of Sh.2,400,000 owing to UTE but no entry had been made in the books.
5. On 31 December 2017, a cheque for Sh.480,000 was received from a customer in settlement of a sales invoice for the same amount. The cheques were lodged into UTE's bank account. However, still on 31 December 2017, the customer returned the goods and also instructed his bankers not to pay the cheque. This instruction was carried out the same day but no entries in respect of these latter developments have been made in UTE's books. The cost of these goods amounting to Sh.320,000 was not included in the closing inventories.
6. A cheque for Sh.840,000 from an insurance company in settlement of a claim for damage to inventory by fire had been paid into and credited by the bank on 21 December 2017, but an estimated amount of Sh.800,000 had been entered in UTE's income statement.

**Required:**

- (i) Adjusted cash book as at 31 December 2017. (4 marks)
- (ii) Bank reconciliation statement as at 31 December 2017. (4 marks)
- (iii) Statement of corrected net profit for the year ended 31 December 2017. (6 marks)
- (iv) Explain how the bank balance will be reported in UTE's final accounts. (2 marks)

**(Total: 20 marks)**

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