



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**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) Outline four limitations of ratio analysis. (4 marks)
- (b) Explain four principles that may be used to guide a manufacturing entity in apportioning overhead costs. (4 marks)
- (c) Discuss three guiding ethics for professional accountants. (6 marks)
- (d) Explain three types of errors that may cause the trial balance not to balance. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Regina Rai is a businesswoman who does not prepare proper books of account. She makes a gross profit to cost of sales of  $\frac{3}{7}$  per annum. The following balances were extracted from her records as at 30 September:

	<b>2018</b> Sh. "000"	<b>2019</b> Sh. "000"
Land and buildings	18,000	18,000
Equipment	4,800	3,840
Furniture and fittings	2,400	1,920
Motor vehicles	6,000	4,500
Inventory	3,600	?
Accounts receivable	5,400	7,200
Pre-paid rates	180	240
Bank balance	1,620	15,630
15% bank loan	12,000	6,000
Accounts payable	2,700	3,000
Accrued electricity	300	480

**Additional information:**

- On 1 April 2019, Regina repaid part of the loan by cheque of Sh.6,000,000.
- Regina did not maintain records on cash withdrawn from the bank for personal use. The balancing figure in the bank account is to be treated as personal drawings.
- Total sales for the year ended 30 September 2019 amounted to Sh.360,000,000, while purchases amounted to Sh.253,200,000 for the same period. All purchases and sales were on credit.
- The discounts for the year ended 30 September 2019 were as follows:

	<b>Sh.</b>
Discounts allowed	960,000
Discounts received	900,000
- Bad debts written off during the year ended 30 September 2019 amounted to Sh.240,000.
- On 1 April 2019, Regina purchased some equipment for use in the business at a cost of Sh.600,000. No depreciation is charged on the year of purchase.
- The following expenses were paid by cheque during the year:

	<b>Sh. "000"</b>
Salaries	36,210
Rates, insurance and electricity	23,280
Interest on loans	900

**Required:**

(a) Income statement for the year ended 30 September 2019. (12 marks)

(b) Statement of financial position as at 30 September 2019. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

(a) In the measurement of profit, partnership salaries are treated as an appropriation while directors' fees on the other hand, are treated as an expense.

Explain the difference for this treatment. (4 marks)

(b) The following balances were extracted from the books of Meza Ltd. on 30 June 2019:

	Sh. "000"
Authorised and issued share capital:	
Ordinary shares (Shs.5 par value)	150,000
10% preference shares (Sh.10 par value)	60,000
Inventory as at 30 June 2019	95,778
Accounts receivable and prepayments	40,800
Accounts payable and accruals	20,583
Bank balance	11,694
12% debentures	24,000
General reserves	42,000
Bad debts	500
Gross profit for the year	122,262
Wages and salaries	42,300
Insurance and rates	2,115
Telephone expenses	930
Electricity and water	1,824
Debenture interest	1,440
Directors fees	3,750
General expenses	4,662
Motor vehicles (cost Sh.59,100,000)	40,200
Office furniture and equipment (cost Sh.36,960,000)	11,160
Land and buildings at cost	198,060
Profit and loss account (1 July 2018)	36,378

**Additional information:**

1. Depreciation is to be provided as follows:
  - Motor vehicles at a rate of 20% per annum on cost.
  - Office furniture and equipment at a rate of 15% per annum on cost.
2. As at 30 June 2019, an amount of Sh.822,000 for electricity consumed has not been paid.
3. The insurance expense amount on 30 June 2019 includes an amount of Sh.450,000 paid in June 2019 for the period of 1 July 2019 to 30 September 2019.
4. Provisions for the following are to be made:

	Sh. "000"
Directors' fees	7,500
Audit fees	7,200

5. The directors recommended that:
  - Sh.18,000,000 be transferred to the general reserve.
  - The preference share dividend be paid.
  - A 10% ordinary share dividend be paid.

**Required:**

(i) Income statement and appropriation account for the year ended 30 June 2019. (10 marks)

(ii) Statement of financial position as at 30 June 2019. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following information relates to Furahi Sana Social Club for the year ended 30 June 2019:

**Statement of receipts and payments**

Receipts		Sh. "000"	Payments	Sh. "000"
Balance brought forward:	Bank	50,000	Canteen purchases	30,150
	Cash	6,000	Electricity and water	4,050
Subscriptions received		144,000	Sports equipment	30,000
Canteen sales		40,500	Canteen wages	4,500
Donations		30,000	Canteen expenses	2,250
Dance ticket sales		27,000	Secretary's allowances	67,500
Investment income		9,000	Training fees	22,500
Interest income		5,400	Groundsmen's wages	18,000
			Dance expenses	13,500
			Travel expenses	18,900
			Sports pavilion expenses	8,100
			Balance carried forward:	
			Bank	50,000
			Cash	42,450
		<u>311,900</u>		<u>311,900</u>

**Additional expenses:**

1. The following balances were available as at 30 June:

	2018 Sh. "000"	2019 Sh. "000"
Club house	153,000	153,000
Sports equipment	36,000	?
Furniture and fittings (at cost)	27,000	27,000
Canteen inventory	9,000	11,250
Subscriptions in arrears	10,800	12,600
Subscriptions in advance	8,700	20,700
Outstanding electricity and water expenses	1,350	3,300
Canteen payables	4,050	5,400
Accumulated depreciation:		
Sports equipment	12,600	?
Furniture and fittings	8,100	?
Investment (at cost)	36,000	36,000

2. Subscription received by the club during the year ended 30 June 2019 are as follows:

Year	Sh. "000"
2018	9,000
2019	114,300
2020	20,700

3. The club decided to write off subscription arrears amounting to Sh.9,000,000.

4. Canteen sales amounting to Sh.4,500,000 in cash were omitted from the records.

5. Depreciation is charged on a straight line basis as follows:

Asset	Rate
Sports equipment	20% per annum
Furniture and fittings	10% per annum

6. During the year ended 30 June 2019, sports equipment was disposed of at Sh.9,000,000 on credit. The equipment had cost Sh.18,000,000 and had been in use for two years.

7. During the year ended 30 June 2019, the club house was extended at a cost of Sh.18,000,000. This was not recorded in the books.

**Required:**

(a) Canteen income statement for the year ended 30 June 2019. (4 marks)

(b) Income and expenditure statement for the year ended 30 June 2019. (8 marks)

(c) Statement of financial position as at 30 June 2019. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Highlight five factors that an organisation might consider when sourcing for accounting software. (5 marks)
- (b) Identify five features of a public sector entity. (5 marks)
- (c) The following transactions relate to the sales ledger of Joy Jibu for the year ended 30 September 2019:

	<b>Sh. "000"</b>
Balance on sales ledger control account (1 October 2018)	124,950
Sales	1,046,920
Receipts	972,594
Discounts allowed	25,438

There were no credit balances on the ledger cards.

**Additional information:**

- 1. The bank statement showed a credit transfer of Sh.2,772,000 which had been omitted.
- 2. Debts settled by set-off against accounts payable of Sh.40,544,000 had been omitted as at 30 September 2019.
- 3. As at 30 September 2019, bad debts of Sh.8,960,000 had not been recorded in the control account.
- 4. Cash received of Sh.16,422,000 was recorded in the control account. It was later discovered that this was not a sale of goods, but disposal of motor vehicles.

**Required:**

Sales ledger control account for the year ended 30 September 2019.

(10 marks)

**(Total: 20 marks)**

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