KASNEB

CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

MONDAY: 22 May 2017. **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

Julia Mila is an accounting student. On her first week as an intern in Mwenda Pole Ltd., she prepared the final statements of account for the company, but they did not balance. She thus transferred the difference to the suspense account.

The statement of financial position for Mwenda Pole Ltd. as at 31 March 2017 was as follows:

Statement of financial position as at 31 March 2017

	Cost	Accumulated depreciation	Net book value
Non-current assets:	Sh."000"	Sh."000"	Sh."000"
Motor vehicles	85,800	16,800	69,000
Fixtures and fittings	99,600	15,600	84,000
	185,400	32,400	153,000
Current assets:			
Inventory		3,600	
Trade receivables		5,400	
Cash in hand		4,440	
Suspense account		1,620	15,060
			168,060
Financed by:			
10% Preference shares		12,000	
Ordinary share capital		12,000	
Retained earnings		103,200	127,200
Non- current liability:			
12% debentures			37,200
Current liabilities:			
Trade payables		2,400	
Bank overdraft		1,260	3,660
			168,060

You have been requested by the chief accountant of Mwenda Pole Ltd. to find out the cause of the balance in the suspense account. On investigation of the books of account, you discover the following:

1. A cheque of Sh.375,000 from a debtor was correctly entered in the cash book but was posted to the wrong side of the debtor's account.
2. Sales day book was overcast by Sh.2,400,000.
3. Motor vehicles were not depreciated for the year ended 31 March 2017. Depreciation is to be provided at the rate of 15% per annum on reducing balance basis. There were no disposals or acquisitions of motor vehicles during the year.
4. Retained earnings as at 1 April 2016 was Sh.43,200,000.
5. Return inwards of Sh.1,350,000 was erroneously entered in the purchases day book.
6. The trade receivables were overstated by Sh.2,130,000.
7. An amount of Sh.600,000 was omitted from the trade payables.
8. Discount allowed of Sh.1,350,000 had been correctly entered in the cash book but was posted to the credit side of the discount allowed account.
9. Cash sale of Sh.6,000,000 was correctly posted to the sales account, but debited in the 12% debentures account. This did not affect the debenture interest paid by the company during the year.

Required:

(a) Journal entries to correct the above errors.
(Narrations not required). (8 marks)

(b) Suspense account duly balanced. (3 marks)

(c) Adjusted income statement for the year ended 31 March 2017. (3 marks)

(d) Corrected statement of financial position as at 31 March 2017. (6 marks)
(Total: 20 marks)

QUESTION TWO

(a) Highlight four challenges that a country might face when adopting the International Financial Reporting Standards (IFRSs). (4 marks)

(b) Matumizi Ltd. is a factory manufacturing chemicals. The following trial balance was extracted from the books of Matumizi Ltd. as at 31 December 2016:

	Sh."000"	Sh."000"
Ordinary share capital of Sh.25 each		250,000
10% preference share capital of Sh.25 each		100,000
15% debentures		50,000
Share premium		5,000
General reserve		15,000
Retained earnings		2,250
Sales		291,000
Purchase of raw materials	62,000	
Inventory (1 January 2016):		
Raw materials	3,250	
Work-in-progress	11,925	
Finished goods	20,250	
Land	250,000	
Buildings at cost	150,000	
Accumulated depreciation on buildings (1 January 2016)		15,000
Plant and machinery at book value	11,500	
Interest on debentures	3,750	
Direct labour	27,000	
Carriage inwards	250	
Purchase returns		500
General factory costs	4,000	
Administrative expenses	50,000	
Electricity and water expenses	5,000	
Insurance	4,500	
Royalty expenses	5,750	
Selling and distribution costs	20,500	
Provision for unrealised profit		3,375
Bank balance	60,000	
Salesmen motor vehicles at cost	20,000	
Accumulated depreciation on salesmen motor vehicles (1 January 2016)		5,000
Interim dividend paid to preference shareholders	5,000	
Trade receivables and trade payables	35,325	12,875
	750,000	750,000

Additional information:

1. Inventory as at 31 December 2016 was valued as follows:

	Sh."000"
Raw materials	3,750
Work-in-progress	7,750

2. Depreciation is to be provided on an annual basis as follows:

Non-current asset	**Rate**
Buildings	10% on cost
Motor vehicles	25% on cost
Plant and machinery	30% on reducing balance

3. The company apportions expenses between factory and administration as follows:

	Factory	**Administration**
Depreciation on buildings	80%	20%
Electricity and water	60%	40%
Insurance	75%	25%

4. During the year, the company manufactured 300,000 units and sold 246,000 units. All the opening inventory was sold during the year.

5. Finished goods are transferred to the warehouse at cost plus a mark-up of 20%.
6. As at 31 December 2016, accrued distribution cost amounted to Sh.1,000,000.
7. The directors proposed the following:
   - Payment of final dividend to preference shareholders.
   - Dividend of Sh.3.75 per share to be paid to ordinary shareholders.
   - Transfer of Sh.10,000,000 to the general reserve.
8. Corporation tax is estimated at Sh.24,750,000.

Required:

Manufacturing account and income statement for the year ended 31 December 2016. (16 marks)

(Total: 20 marks)

QUESTION THREE

Xavier, Yvonne and Zari have been in partnership sharing profits and losses equally.

Their trial balance as at 1 May 2016 was as follows:

	Sh."000"	Sh."000"
Capital account:		
Xavier		90,000
Yvonne		84,000
Zari		96,000
Current account:		
Xavier		6,000
Yvonne		12,000
Zari	12,000	
Land and buildings	210,000	
Plant and machinery at cost	300,000	
Accumulated depreciation on plant and machinery		198,000
Inventory	120,000	
Bank balance	9,000	
Accrued expenses		15,000
10% loan		120,000
Trade receivables and trade payables	90,000	120,000
	741,000	741,000

With effect from 1 May 2016, the partners agreed to change the partnership agreement as follows:

- They agreed to share profits and losses in the ratio of 3:2:1 between Xavier, Yvonne and Zari respectively.
- As at 1 May 2016, the partnership goodwill was agreed at Sh.180,000,000 but a ledger account for goodwill is not to be maintained in the accounting records.
- The land and buildings are agreed to be valued at Sh.300,000,000.
- At the end of each year, each partner to be allowed interest on opening net balance on capital and current accounts (before adjustments) at the rate of 10% per annum.

The following information relate to the year ended 30 April 2017:

1. The cash book summary for the year is as follows:

	Sh."000"		Sh."000"
Balance brought forward	9,000	Payment to trade suppliers	330,000
Receipts from customers	516,000	Operating expenses	90,000
Sale of old plant	30,000	Purchase of new plant	150,000
Balance carried forward	114,000	Drawings: Xavier	30,000
		Yvonne	33,000
		Zari	36,000
	669,000		669,000

2. As at 30 April 2017, pre-paid rent amounted to Sh.30,000,000 and accrued electricity was Sh.6,000,000.
3. Plant and machinery is to be depreciated at the rate of 10% per annum on a straight line basis with no scrap value. A full year's depreciation is charged on the year of purchase and no depreciation is charged on the year of sale.
4. The old plant sold during the year had been purchased in June 2009 at a cost of Sh.180,000,000.
5. As at 30 April 2017, trade payables were valued at Sh.105,000,000.
6. As at 30 April 2017, trade receivables were valued at Sh.120,000,000 while the bad debts were valued at Sh.12,000,000.
7. Gross profit is 50% of cost of sales.

Required:

(a) Income statement and appropriation account for the year ended 30 April 2017. (10 marks)

(b) Statement of financial position as at 30 April 2017. (10 marks)

(Total: 20 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Joyce Mello as at 30 April 2017:

	Sh."000"	Sh."000"
Inventory as at 1 May 2016	50,000	
Purchases	170,020	
Returns outward		4,600
Cash in hand	13,400	
Bank balance	32,660	
Buildings at cost	50,000	
Sundry expenses	840	
Stationery	1,640	
Legal fees	280	
Allowance for doubtful debts		3,500
Trade receivables and trade payables	36,000	39,670
Salaries	39,000	
Capital		116,800
Selling and distribution costs	1,600	
Discounts allowed and discounts received	6,300	4,600
Sales		229,950
Equipment at cost	5,000	
Rates and insurance	4,000	
Returns inward	1,550	
Accumulated depreciation (1 May 2016): Buildings		11,400
Equipment		1,770
	412,290	412,290

Additional information:

1. Allowance for doubtful debts is to be increased to Sh.5,000,000.
2. Rates due as at 30 April 2017 amounted to Sh.500,000.
3. Inventory as at 30 April 2017 was valued at Sh.52,000,000.
4. Drawings amounting to Sh.10,000,000 have been debited to the capital account.
5. Depreciation is to be charged on cost as follows:

Asset	**Rate per annum**
Buildings	5%
Equipment	10%

6. Insurance amounting to Sh.200,000 relates to the year ending 30 April 2018.

Required:

(a) Income statement for the year ended 30 April 2017. (10 marks)

(b) Statement of financial position as at 30 April 2017. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Analyse two differences between "objectives of accounting for public sector" and "objectives of accounting in the private sector". (4 marks)

(b) Enumerate two disadvantages of cash flow statements. (4 marks)

(c) Describe three sources of income for a not-for-profit organisation. (6 marks)

(d) Discuss three ethics that guide accountants in executing their duties. (6 marks)

(Total: 20 marks)

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