



CPA FOUNDATION LEVEL

CIFA FOUNDATION LEVEL

FINANCIAL ACCOUNTING

WEDNESDAY: 15 December 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) Outline two benefits and two challenges of adopting International Public Sector Accounting Standards (IPSASs). (4 marks)
- (b) Explain five uses of control accounts in an organisation. (5 marks)
- (c) The following balances were extracted from the books of Ruth Sifa, who runs a car wash business. She has no knowledge of double entry book-keeping but records everything correctly.

The following balances relate to the year ended 30 September 2021:

	Sh. "000"
Accounts payable	200
Cleaning income	35,288
Cash balance	70
Own salary	21,200
Equipment	1,500
Repair to customers' cars due to damage	460
Miscellaneous expenses	220
Owed by customers	440
Insurance	700
License fees paid	1,050
Stationery	100
Bank balance	4,690
Cleaning materials inventory (30 September 2021)	6,800
Opening capital balance	1,332

Ruth Sifa has not included the following items in her records:

- As at 30 September 2021, bank charges amounted to Sh.90,000.
- As at 30 September 2021, insurance amounting to Sh.100,000 was pre-paid.
- Amounts owed by customers might not easily be recovered. Ruth Sifa would like to make an allowance for doubtful debts of 50% of the amount owing as at 30 September 2021.
- License fees paid amounting to Sh.500,000 relates to the year ended 30 September 2020.
- Equipment is to be depreciated over two years with no residual value.

Required:

- (i) Statement of profit or loss for the year ended 30 September 2021. (6 marks)
- (ii) Statement of financial position as at 30 September 2021. (5 marks)

(Total: 20 marks)

QUESTION TWO

Zamu Ltd. has an authorised capital of 2,000,000 ordinary shares of Sh.20 each. The company's trial balance as at 30 June 2021 was as follows:

	Sh."000"	Sh."000"
Purchases and sales	6,560	10,936
Administrative expenses	320	
Bad debts written off	86	
Inventory (1 July 2020)	840	
Debenture interest paid	140	
Investment income		400
Investments	1,800	
Salaries and wages	1,640	
Directors' emoluments	240	
Insurance	160	
Cash at bank	850	
Motor vehicle at cost	4,200	
Freehold land at cost	6,400	
Furniture and fittings at cost	2,600	
Accumulated depreciation (1 July 2020):		
• Motor vehicle		1,600
• Furniture and fittings		780
General reserve (1 July 2020)		2,100
Revenue reserve (1 July 2020)		1,500
12% Debentures		2,000
Accounts receivables and accounts payable	2,200	640
Ordinary share capital		8,000
Allowance for doubtful debt		80
	<u>28,036</u>	<u>28,036</u>

Additional information:

- The inventory as at 30 June 2021 was valued at Sh.1,240,000.
- The freehold land was revalued to Sh.9,400,000. Part of the revaluation amount was used for a rights issue of 1 for every 4 shares held at a value of Sh.20 each.
- As at 30 June 2021, insurance paid in advance amounted to Sh.40,000 while salaries and wages outstanding amounted to Sh.60,000.
- The directors proposed a dividend of 10% of the issued share capital and a transfer of Sh.420,000 to the general reserve.
- The corporation tax for the year amounted to Sh.540,000.
- Depreciation is provided as follows:

Asset	Rate per annum
• Motor vehicle	20% on cost
• Furniture and fittings	10% reducing balance
- Allowance for doubtful debts is to be maintained at 5% of the accounts receivable.

Required:

- Statement of profit or loss for the year ended 30 June 2021. (10 marks)
 - Statement of financial position as at 30 June 2021. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- Identify four books of original entry used in accounting. (4 marks)
- The following are the summarised financial statements of Eneza Limited as at 31 October 2020 and 31 October 2021:

Eneza Limited
Statement of profit or loss for the year ended 31 October 2021:

	Sh."000"
Sales	51,060
Cost of sales	<u>(36,280)</u>
Gross profit	14,780
Distribution costs	<u>(2,500)</u>
Administrative expenses	<u>(5,280)</u>
	7,000

	Sh. "000"
Interest received	500
Interest paid	<u>(1,500)</u>
Profit before tax	6,000
Taxation	<u>(2,800)</u>
Profit for the year	<u>3,200</u>

Statements of financial position as at 31 October:

	2021	2020
	Sh. "000"	Sh. "000"
Non-current assets:		
Property, plant and equipment	7,600	6,100
Intangible assets	5,000	4,000
Investments	<u>-</u>	<u>500</u>
	<u>12,600</u>	<u>10,600</u>
Current assets:		
Inventory	3,000	2,040
Accounts receivable	7,800	6,300
Short-term investments	1,000	-
Cash in hand	<u>40</u>	<u>20</u>
Total assets	<u>24,440</u>	<u>18,960</u>
Equity and liabilities:		
Equity:		
Share capital (Sh.100 ordinary shares)	4,000	3,000
Share premium	3,200	3,000
Revaluation reserve on property, plant and equipment	2,000	1,820
Retained earnings	<u>5,200</u>	<u>3,600</u>
	<u>14,400</u>	<u>11,420</u>
Non-current liabilities:		
Long-term loan	3,400	1,000
Current liabilities:		
Accounts payables	2,540	2,380
Bank overdraft	1,700	1,960
Taxation	<u>2,400</u>	<u>2,200</u>
Total equity and liabilities	<u>24,440</u>	<u>18,960</u>

Additional information:

- The process of the sale of non-current investments amounted to Sh.600,000.
- Equipment with an original cost of Sh.1,700,000 and a net book value of Sh.900,000 was sold for Sh.640,000 during the year ended 31 October 2021.
- The following information relate to property, plant and equipment:

	31 October 2021	31 October 2020
	Sh. "000"	Sh. "000"
Cost	14,400	11,900
Accumulated depreciation	<u>(6,800)</u>	<u>(5,800)</u>
	<u>7,600</u>	<u>6,100</u>

- Dividends totalling Sh.1,600,000 were paid during the year.

Required:

Statement of cash flows in accordance with requirements of International Accounting Standard (IAS) 7, "Statement of Cash Flows" for the year ended 31 October 2021. (16 marks)

(Total: 20 marks)

QUESTION FOUR

Timothy and Lisa are in partnership sharing profit and loss equally in a manufacturing venture. Timothy manages the manufacturing entity, while Lisa manages the selling and distribution of the end product.

The following trial balance was extracted from their books for the year ended 30 September 2021:

	Sh. "000"	Sh. "000"
Sales		59,220
Purchase of raw materials	28,000	
Production wages	8,000	
Production supervisors salaries	240	
Office staff salaries	3,600	

	Sh. "000"	Sh. "000"
Distribution costs	2,340	
Factory insurance	600	
Provision for unrealised profit		360
Carriage inwards of raw materials	600	
Cash at bank	7,200	
12% bank loan		6,000
Bank loan interest	600	
Accounts receivable and accounts payable	1,400	600
Manufacturing royalties paid	800	
Bad debts written off	40	
Office administration expenses	880	
Fuel and electricity	1,200	
Inventories (1 October 2020):		
Raw materials	4,200	
Work-in-progress	2,400	
Finished goods	1,800	
Capital accounts : Timothy		10,000
Lisa		8,000
Current accounts : Timothy		400
Lisa		600
Drawings : Timothy	800	
Lisa	400	
Factory building (at cost)	16,000	
Plant and machinery (at cost)	4,500	
Motor vehicles (at cost)	2,400	
Allowance for depreciation (1 October 2020) :		
Building		1,200
Plant and machinery		900
Motor vehicles		720
	<u>88,000</u>	<u>88,000</u>

Additional information:

1. Inventories as at 30 September 2021 were valued as follows:

	Sh.
- Raw materials	5,200,000
- Work-in-progress	2,000,000
- Finished goods	3,600,000

2. Depreciation is provided on cost as follows:

Asset	Rate per annum
- Building	2½%
- Plant and machinery	10%
- Motor vehicles	20%

3. Manufactured goods are transferred to the warehouse at factory cost plus profit at 20% of the factory cost.

4. The partnership agreement provided that:

- Each partner is entitled to a salary of Sh.100,000 per month.
- Timothy is entitled to 10% commission based on factory profit, while Lisa is entitled to a 10% commission based on the net profit.
- Interest on capital is to be charged at 10% per annum.
- Interest on drawings is to be charged at 15% per annum.

5. Fuel and electricity are to be apportioned at 80% to the factory and 20% to the office.

Required:

- (a) Manufacturing and statement of profit or loss for the year ended 30 September 2021. (12 marks)
- (b) Statement of financial position as at 30 September 2021. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Highlight four types of errors that might not affect the trial balance. (4 marks)
- (b) Discuss four sources of revenue for not-for-profit entities. (8 marks)
- (c) Evaluate four qualities of useful financial information. (8 marks)
- (Total: 20 marks)**

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