

KASNEB

CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

FRIDAY: 20 November 2015.

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

The following balances were extracted from the books of Mike Moit as at 30 June 2015:

	Sh. "000"
Capital	59,100
Land and buildings	48,000
Motor vehicles (at cost)	4,200
Office equipment (at cost)	9,000
Gross profit	63,600
Rates and insurance	4,860
Bad debts written off	330
Utilities	480
Bad debts recovered	420
Rent receivable	14,160
Provision for doubtful debts	1,395
Personal expenses	20,730
Cash in hand	510
Bank balance	660
Discounts received	2,760
Discounts allowed	2,400
Accumulated depreciation on motor vehicle	1,200
Accumulated depreciation on office equipment	3,105
Trade receivables	15,900
Trade payables	27,300
Salaries and wages	24,210
Investments	20,400
Sundry expenses	6,720

Additional information:

- As at 30 June 2015, inventory was valued at Sh.14,640,000. This inventory included items valued at Sh.3,000,000 which had been sold and invoiced to a customer on 30 June 2015.
- The sales returns day book had been overcast by Sh.90,000.
- Discounts allowed amounting to Sh.360,000 had been posted to the discounts allowed account, but not to the trade receivables account.
- Depreciation is to be provided as follows:
Motor vehicles - 20% per annum on cost
Office equipment - 15% per annum on cost
- Rent received amounting to Sh.300,000 had not been recorded in the accounts since the proprietor converted the amount for personal use.
- The sales day book had been overcast by Sh.450,000.

Required:

- Income statement for the year ended 30 June 2015. (12 marks)
 - Statement of financial position as at 30 June 2015. (8 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) KK Ltd. received their bank statement for the month of October 2015. It reflected a credit balance of Sh.9,290,000. However, the cash book balance as at 31 October 2015 indicated a higher amount by Sh.4,530,000.

The company accountant investigated the matter and discovered the following discrepancies:

1. Cash amounting to Sh.1,704,000 though entered in the cash book as having been banked, had been embezzled by the accounts clerk in the office.
2. The bank had erroneously credited KK Ltd. with an amount of Sh.2,510,000.
3. Direct deposits by debtors amounted to Sh.13,080,000. These deposits were made via electronic funds transfer.
4. Uncredited cheques as at 31 October 2015 amounted to Sh.9,624,000.
5. A standing order of Sh.1,770,000 for goods purchased on hire purchase, had been effected by the bank.
6. Cheques issued to suppliers, but not yet presented to the bank as at 31 October 2015 amounted to Sh.2,640,000.
7. Bank charges amounting to Sh.484,000 had not been entered in the cash book.
8. A cheque from a debtor for an amount of Sh.1,446,000 was returned by the bank stamped "Account closed".
9. A forged cheque in favour of 'XYZ Ltd.' was presented to the bank. The cheque which amounted to Sh.2,712,000 was paid by the bank.

Required:

- (i) Adjusted cash book as at 31 October 2015. (6 marks)
- (ii) Bank reconciliation statement as at 31 October 2015. (4 marks)
- (b) The trial balance of Mutua Traders as at 30 September 2015 did not balance. On investigation, the following errors were discovered:

1. A loan of Sh.40,000,000 from XYZ Bank had been correctly entered in the cash book, but posted on the wrong side of the loan account.
2. The purchase of equipment on credit for Sh.57,200,000 had been recorded by debiting the supplier's account and crediting the equipment repairs account.
3. A cheque of Sh.1,600,000 from OJ Ltd., a customer, was correctly entered in the cash book, but was credited to the bad debts recovered account. The accountant mistook it for a receipt from JO Ltd., a customer whose debt had been written off two years earlier.
4. Bank charges of Sh.760,000 had not been entered in the organisation's cash book.
5. Discounts allowed of Sh.3,680,000 and discounts received of Sh.7,940,000 had not been posted to the respective discount accounts.
6. Ten motor vehicles were purchased on 1 August 2015 for Sh.32,000,000. The payment was correctly entered in the cash book, but was debited to motor vehicle expenses account.

Depreciation on motor vehicles is provided for at the rate of 20% per annum on cost.

Required:

- (i) Journal entries with narrations to correct the errors. (7 marks)
- (ii) Suspense account showing the original difference. (3 marks)

(Total: 20 marks)

QUESTION THREE

The following is the receipts and payments account of Uwezo Football Club for the year ended 30 September 2015:

Receipts and payments account			
Receipts	Sh."000"	Payments	Sh."000"
Balance brought forward - Bank	5,096	Bar purchases	43,628
- Cash	130	Rent and rates	3,304
Subscriptions	12,000	Telephone expenses	308
Entrance fees	1,160	Water and electricity	734
Donations	8,024	Stationery expenses	364
Bar receipts	57,610	Salaries and wages	11,170
		Coach's fee	3,000
		Field expenses	2,244
		General expenses	724
		Lawn mower	4,400
		Balance carried forward - Bank	14,082
		- Cash	62
	84,020		84,020

Additional information:

1. The following balances were available:

	30 September 2014 Sh."000"	30 September 2015 Sh."000"
Subscriptions in arrears	300	350
Rent due	240	280
Rates pre-paid	320	360
Bar payables	500	820

2. The bar inventory was valued at Sh.828,000 as at 30 September 2014 and Sh.710,000 as at 30 September 2015.

3. On 30 September 2014, the values of non-current assets were as follows:

	Sh."000"
Club house	60,000
Fixtures	15,000
Equipment	11,200

4. The new lawn mower was purchased during the year ended 30 September 2015 at a cost of Sh.5,000,000. The difference between the actual cost and the amount reflected in the receipts and payments account, is a trade-in-allowance of Sh.600,000.

5. The old lawn mower which was traded-in-exchange for the new lawn mower had been included in the cost of equipment at 30 September 2014 at a value of Sh.400,000.

6. Depreciation is charged for a full year irrespective of date of purchase. No depreciation is charged in the year of disposal.

7. Depreciation is to be provided as follows:

Asset	Rate per annum
Club house	2% on cost
Fixtures	10% on cost
Equipment	20% on reducing balance

Required:

- (a) Bar income statement for the year ended 30 September 2015. (4 marks)
- (b) Income and expenditure account for the year ended 30 September 2015. (8 marks)
- (c) Statement of financial position as at 30 September 2015. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline five contents of a partnership deed. (5 marks)
- (b) The following are the statements of financial position of Embe Ltd. as at 30 June 2014 and 30 June 2015:

	2014 Sh."000"	2015 Sh."000"
Property, plant and equipment	152,720	230,448
Current assets:		
Inventory	33,120	41,400
Trade receivables	16,560	20,152
Bank balance and cash in hand	<u>6,800</u>	<u>(2,760)</u>
	<u>56,480</u>	<u>58,792</u>
Total assets	209,200	289,240
Current liabilities:		
Trade payables	11,040	16,560
Taxation	13,800	16,560
Dividends	<u>8,280</u>	<u>8,280</u>
	<u>(33,120)</u>	<u>(41,400)</u>
Net assets	<u>176,080</u>	<u>247,840</u>
Financed by:		
Ordinary share capital	126,400	181,600
Share premium	11,040	22,080
Revenue reserve	27,600	44,160
12% debentures	<u>11,040</u>	<u>-</u>
	<u>176,080</u>	<u>247,840</u>

Additional information:

1. The 12% debenture was redeemed at a premium of 10% during the year ended 30 June 2015.
2. The extract from the property, plant and equipment schedule indicated the following:

	2014			2015		
	Cost Sh."000"	Depreciation Sh."000"	Net book value Sh."000"	Cost Sh."000"	Depreciation Sh."000"	Net book value Sh."000"
Building	88,320	16,560	71,760	110,400	19,320	91,080
Plant and equipment	110,400	49,680	60,720	187,680	69,000	118,680
Motor vehicle	36,800	16,560	20,240	44,144	23,456	20,688

3. An equipment which had cost Sh.16,560,000 and had a net book value of Sh.11,040,000 was sold at a loss of Sh.2,760,000 during the year ended 30 June 2015.
4. The income statement for the year ended 30 June 2015 was as shown below:

	Sh."000"
Revenue	281,050
Cost of sales	(87,620)
Gross profit	193,430
Operating expenses	(143,750)
Profit before tax	49,680
Tax expenses	(19,320)
	30,360
Dividend - Interim paid	5,520
Final proposed	8,280
Retained profit for the year	16,560

Required:

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 30 June 2015. (15 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Distinguish between "prime costs" and "indirect costs" in the context of manufacturing accounts. (4 marks)
- (b)
 - (i) Explain three rights of preference shareholders over ordinary shareholders. (6 marks)
 - (ii) State four ways in which a company might utilise its share premium. (4 marks)
- (c) Explain the following concepts used in the preparation of financial statements:
 - (i) Relevance. (1 mark)
 - (ii) Reliability. (1 mark)
 - (iii) Faithful representation. (1 mark)
 - (iv) Neutrality. (1 mark)
 - (v) Completeness. (1 mark)
 - (vi) Comparability. (1 mark)

(Total: 20 marks)

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