



CPA PART I SECTION 1  
CIFA PART I SECTION 1  
FINANCIAL ACCOUNTING

MONDAY: 20 May 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) Giving examples, distinguish between the following types of errors:
- (i) "Error of commission" and "error of principle". (4 marks)
  - (ii) "Compensating error" and "error of complete reversal of entries". (4 marks)
- (b) In the context of accounting for not-for-profit organisations, explain three differences between a receipts and payments account and an income and expenditure account. (6 marks)
- (c) With reference to public sector accounting, explain three advantages of the commitment basis of accounting. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the meaning of the following terms:
- (i) Duality concept. (2 marks)
  - (ii) Prudence concept. (2 marks)
- (b) The following are the statements of financial position of Pwani Limited as at 31 December 2017 and 31 December 2018:

Statement of financial position as at 31 December:

|                                 | 2018<br>Sh. "000" | 2017<br>Sh. "000" |
|---------------------------------|-------------------|-------------------|
| <b>Assets:</b>                  |                   |                   |
| <b>Non-current assets:</b>      |                   |                   |
| Property, plant and equipment   | 7,680             | 5,910             |
| <b>Current assets:</b>          |                   |                   |
| Inventories                     | 2,070             | 1,830             |
| Trade receivables               | 1,170             | 1,020             |
| Cash balances                   | 75                | 168               |
|                                 | <u>3,315</u>      | <u>3,018</u>      |
| Total assets                    | <u>10,995</u>     | <u>8,928</u>      |
| <b>Equity and liabilities:</b>  |                   |                   |
| Share capital                   | 360               | 300               |
| Share premium                   | 150               | 75                |
| Retained earnings               | 5,697             | 3,603             |
| Revaluation surplus             | 120               | 120               |
| Total equity                    | <u>6,327</u>      | <u>4,098</u>      |
| <b>Non-current liabilities:</b> |                   |                   |
| Long-term loan                  | 2,250             | 2,400             |
| <b>Current liabilities:</b>     |                   |                   |
| Trade payables                  | 2,208             | 2,250             |
| Bank overdraft                  | 60                | 90                |
| Current tax                     | 150               | 90                |
|                                 | <u>2,418</u>      | <u>2,430</u>      |
| Total equity and liabilities    | <u>10,995</u>     | <u>8,928</u>      |

**Additional information:**

- Pwani Ltd.'s profit after tax for the year ended 31 December 2018 was Sh.2,180,000.
- The property, plant and equipment in the books of Pwani Ltd. as at 1 January 2018 had been acquired at a cost of Sh.7,290,000. The company's depreciation policy is to depreciate all assets at the rate of 10% per annum on the straight line basis from the date of purchase to the date of sale. On 1 September 2018, Pwani Ltd. sold an item of plant which had a net book value at the date of sale of Sh.520,000. This item of plant had originally cost Sh.800,000 and the company made a loss of Sh.20,000 on the sale of this item of plant.
- The company's finance cost and income tax expense for the year ended 31 December 2018 amounted to Sh.48,000 and Sh.63,000 respectively.

**Required:**

Statement of cash flows in accordance with IAS 7 "Statement of Cash Flows", for the year ended 31 December 2018.

(16 marks)

**(Total: 20 marks)****QUESTION THREE**

On 1 April 2018, Kamau, Johana and Lelei started a partnership business to sell office stationery, sharing profits and losses in the ratio of 2:2:1 respectively. On 1 April 2018, Kamau contributed Sh.20 million, Johana Sh.10 million and Lelei Sh.10 million as capital. These amounts were immediately deposited into a newly opened bank account for the partnership business.

**Additional information:**

- During the year ended 31 March 2019, the partnership paid the following amounts through the bank account:

**Sh. "000"**

|   |         |
|---|---------|
| Licenses and clearing charges             | 3,840   |
| Bank charges (per month)                  | 6       |
| Insurance expenses                        | 1,152   |
| Purchase of office furniture and fittings | 256     |
| Purchase of computers                     | 1,800   |
| Staff salaries and wages (per month)      | 200     |
| Purchases of stationery                   | 192,000 |
| Drawings (per month) - Kamau              | 100     |
| - Johana                                  | 160     |
| - Lelei                                   | 100     |

- An analysis of transactions revealed the following:

- Telephone bills amounted to Sh.16,000 per month and those for electricity amounted to Sh.20,000 per month. The telephone and electricity bills for the month of March 2019 were paid on 5 April 2019. All telephone and electricity bills were paid through the bank.
- Accounts payable for purchases amounting to Sh.1.2 million were still unpaid as at 31 March 2019.
- Accounts receivable amounting to Sh.1.8 million were still outstanding as at 31 March 2019.
- Inventory as at 31 March 2019 was valued at Sh.17.4 million.
- Included in the inventory in bullet four above is office stationery which cost Sh.2.2 million but which can now only be sold for Sh.1.6 million because of deterioration while in storage.

- All the cash from cash sales was used to make the following payments:

**Sh. "000"**

|  |     |
|--|-----|
| Office running expenses (per week)           | 20  |
| Rent of godowns and office space (per month) | 200 |
| Casual wages (per week)                      | 8   |
| Local transport (per week)                   | 14  |
| Partners' salaries as follows:               |     |
| Kamau (per month)                            | 60  |
| Johana (per month)                           | 72  |

- Receipts from debtors which were banked during the year amounted to Sh.218 million.
- Depreciation was to be provided for as follows:

| Asset                         | Rate per annum |
|-------------------------------|----------------|
| Office furniture and fittings | 12.5% on cost  |
| Computers                     | 20% on cost    |

- The partners are entitled to 10% per annum interest on their fixed capitals.
- Assume that there are 12 months and 52 weeks in one year.

**Required:**

- Income statement for the year ended 31 March 2019. (10 marks)
- Partners' current accounts as at 31 March 2019. (4 marks)
- Statement of financial position as at 31 March 2019. (6 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

Adam Musa operates a manufacturing business trading as AM Manufacturing Enterprise. The following trial balance relates to this business as at 31 December 2018:

|  | Sh."000"       | Sh."000"       |
|--|----------------|----------------|
| Factory building at cost                         | 4,000          |                |
| Plant and machinery at cost                      | 8,000          |                |
| Land at cost                                     | 12,000         |                |
| Motor vehicle at cost                            | 2,400          |                |
| Provision for depreciation (1 January 2018):     |                |                |
| Factory building                                 |                | 400            |
| Plant and machinery                              |                | 3,200          |
| Motor vehicle                                    |                | 960            |
| Sales  |                | 104,665        |
| Purchases of raw materials                       | 60,000         |                |
| Factory wages                                    | 12,000         |                |
| Office salaries                                  | 6,000          |                |
| Distribution costs                               | 2,850          |                |
| Factory rates and insurance                      | 800            |                |
| Provision for unrealised profit (1 January 2018) |                | 480            |
| Carriage on raw materials                        | 600            |                |
| Bank balance                                     | 8,100          |                |
| Trade receivables and trade payables             | 1,100          | 800            |
| Royalties paid                                   | 800            |                |
| Allowance for doubtful debts (1 January 2018)    |                | 45             |
| Office rates and insurance                       | 450            |                |
| Factory fuel                                     | 1,200          |                |
| Inventory (1 January 2018):                      |                |                |
| Raw materials                                    | 2,000          |                |
| Work-in-progress                                 | 3,200          |                |
| Finished goods                                   | 2,400          |                |
| Factory manager's salary                         | 650            |                |
| Capital  |                | <u>18,000</u>  |
|  | <u>128,550</u> | <u>128,550</u> |

#### Additional information:

1. During the year, Adam Musa had taken raw materials valued at Sh.2,500,000 from his store for private use.
2. Manufactured goods are transferred to the warehouse at cost plus 25% of the factory cost.
3. Allowance for doubtful debts is to be maintained at 5% of the trade receivables as at the year end.
4. Inventory as at 31 December 2018 was valued as follows:

|                  | Sh."000" |
|------------------|----------|
| Raw materials    | 3,500    |
| Work-in-progress | 4,500    |
| Finished goods   | 4,000    |

5. Accrued rates as at 31 December 2018 were as follows:

|         | Sh."000" |
|---------|----------|
| Factory | 600      |
| Office  | 30       |

6. Prepaid insurance as at 31 December 2018 was as follows:

|         | Sh."000" |
|---------|----------|
| Factory | 300      |
| Office  | 50       |

7. Depreciation is to be provided for as follows:

| Asset               | Rate per annum |
|---------------------|----------------|
| Factory building    | 2½% on cost    |
| Motor vehicle       | 20% on cost    |
| Plant and machinery | 10% on cost    |

8. Provision for unrealised profit as at the end of the year should be Sh.800,000.

#### Required:

- (a) Manufacturing account for the year ended 31 December 2018. (6 marks)
- (b) Income statement for the year ended 31 December 2018. (6 marks)
- (c) Statement of financial position as at 31 December 2018. (8 marks)

(Total: 20 marks)

## QUESTION FIVE

Moses Rono set up his restaurant business on 1 April 2018.

The following information relates to this business:

1. On 1 April 2018, Rono opened a business bank account and deposited Sh.500,000 of his own personal savings into the account. He also introduced into the business cash amounting to Sh.70,000 and equipment worth Sh.150,000 from his house. The cash was retained in the business's cash box.
2. On 1 April 2018, Rono signed a lease agreement for the premises which required that he pays Sh.120,000 in rent per year. Mr. Rono paid this by cheque through the business account.
3. During the year, the premises were repainted at a cost of Sh.7,500 which was paid in cash from Rono's private funds. The paint was bought by Rono at Sh.35,000 which was paid by cheque through the business account. Rono also bought furniture at a cost of Sh.120,000 which was paid by cheque through the business account. In addition, Rono bought a safe at Sh.30,000 which was also paid for by cheque through the business account.
4. On 1 April 2018, Rono borrowed Sh.90,000 from a friend and the funds were deposited into the business bank account. Rono was to pay interest of 10% per annum on the loan. The term of the loan is three years. The loan interest was still unpaid as at 31 March 2019.
5. Most of Rono's sales were in cash. Cash is deposited into the business bank account every week. During the year, cash sales amounted to Sh.100,000 per week except for the five weeks of December where due to the Christmas festivities, weekly sales increased by 80% of cash sales. Assume that one year has 52 weeks.
6. Rono also has corporate clients that are invoiced after hosting their events in the restaurant. Rono raised invoices amounting to Sh.780,000 in relation to the corporate clients during the year and had received and lodged into the business bank account Sh.620,000 by year end.
7. Rono maintains a file where all records are held. A summary of this file is as follows:
  - Inventory purchased on credit during the year amounted to Sh.2,600,000 of which Rono estimated that there was Sh.235,000 of inventory at the year end.
  - The amount owed to suppliers was Sh.300,000 at the year end.
  - Electricity bills averaged Sh.26,000 per month and were paid in cash. The bill for March 2019 was paid in April 2019.
  - Salaries and wages for the year amounted to 20% of cash sales. These were paid in cash.
  - Consumables used amounted to Sh.120,000 during the year. They were paid for in cash.
  - Miscellaneous expenses for the year paid for in cash amounted to Sh.43,000.
  - Insurance expenses for the year amounted to Sh.90,000. These were paid for by cheque through the business bank account.
8. Rono feels that it is appropriate to depreciate all the assets of the business at the rate of 15% per annum on cost regardless of the date of purchase. The safe is not to be depreciated.
9. During the year, Rono withdrew Sh.20,000 per month in cash for his private use. He also took Sh.20,000 worth of inventory out of the business to host his daughter's birthday party.

### Required:

- (a) Income statement for the year ended 31 March 2019. (12 marks)
  - (b) Statement of financial position as at 31 March 2019. (8 marks)
- (Total: 20 marks)**
- .....