

# KASNEB

## ATD LEVEL II

### FINANCIAL ACCOUNTING

MONDAY: 21 November 2016.

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 fundamental principles of the code of ethics which a professional accountant is expected to abide by while undertaking his or her duties. (4 marks)
- (b) The following trial balance was extracted from the books of account of Leah Bosibori, a sole proprietor, as at 30 September 2016:

	Dr	Cr
	Sh. "000"	Sh. "000"
Purchases and sales	240,400	396,000
Accounts receivable and accounts payable	26,000	18,000
Returns inward and returns outward	4,000	2,000
Inventory (1 October 2015)	32,000	
Carriage inwards	1,600	
Carriage outwards	2,400	
Salaries and wages	16,500	
Rates and insurance	7,200	
Rent received		7,800
Sales and distribution cost	8,600	
Bad debts written off	600	
Allowance for doubtful debts (1 October 2015)		1,300
Drawings	6,000	
Bank balance	11,000	
Capital account		315,000
Freehold land (at cost)	184,000	
Equipment (at cost)	156,000	
Motor vehicles (at cost)	100,000	
Accumulated depreciation (1 October 2015):		
• Equipment		31,200
• Motor vehicles		25,000
	<u>796,300</u>	<u>796,300</u>

#### Additional information:

1. The following information relates to the firm as at 30 September 2016:
- |                              | Sh. "000" |
|------------------------------|-----------|
| • Inventory                  | 31,800    |
| • Accrued salaries and wages | 240       |
| • Insurance prepaid          | 200       |
| • Rent received in advance   | 600       |
2. A debtor had returned goods on 29 September 2016 amounting to Sh.2 million. Leah Bosibori sells goods at a uniform profit margin of 40 per cent. This transaction was totally omitted from the books of account and the goods returned were not included in the closing inventory in note (1) above.
3. During the year, goods costing Sh.5 million were destroyed by fire. However, the insurance company has accepted a claim for Sh.4 million only. No record was made in respect of this transaction.
4. Allowance for doubtful debts is to be maintained at 5% of the accounts receivable.
5. Provision for depreciation should be provided as follows:
- | Asset          | Rate per annum | Method           |
|----------------|----------------|------------------|
| Equipment      | 20%            | Reducing balance |
| Motor vehicles | 25%            | Straight line    |

**Required:**

- (i) Income statement for the year ended 30 September 2016. (8 marks)
- (ii) Statement of financial position as at 30 September 2016. (8 marks)

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

The following is the receipts and payments account of Boresha Youth Club for the year ended 31 October 2016:

<b>Receipts and payments account</b>			
<b>Receipts</b>	<b>Sh."000"</b>	<b>Payments</b>	<b>Sh."000"</b>
Balance brought forward (1 November 2015):		Rates and insurance	1,010
- Bank	600	Ground maintenance	1,020
Subscriptions	4,800	Staff salaries	2,400
Bar takings	8,000	Bar payables	6,700
Donations	1,800	Water and electricity	600
Income from investment	500	Cash refund to subscribers	10
Sale of equipment	120	Bar wages	500
		Honoraria	130
		Balance carried down (31 October 2016):	
		- Bank	<u>3,450</u>
	<u>15,820</u>		<u>15,820</u>

The following were the assets and liabilities of the club as at 31 October:

	<b>2015</b>	<b>2016</b>
	<b>Sh."000"</b>	<b>Sh."000"</b>
Bank balance	600	3,450
Bar inventory	600	700
Bar payables	200	300
Accrued rates	40	30
Electricity prepaid	100	80
Land at cost	1,500	1,500
Motor vehicles	4,800	3,600
Equipment	3,100	?
Investment at cost	5,000	5,000
Subscriptions in arrears	240	300
Subscriptions in advance	200	100

**Additional information:**

- On 1 November 2015, equipment with a net book value of Sh.100,000 was sold for Sh.120,000.
- Equipment is depreciated at the rate of 20 per cent per annum on reducing balance basis.
- Subscriptions received during the year include arrears of the year ended 31 October 2014 amounting to Sh.190,000. It is the policy of the club to write-off any arrears owing for more than one year.

**Required:**

- (a) Bar income statement for the year ended 31 October 2016. (3 marks)
- (b) Subscriptions account. (4 marks)
- (c) Income and expenditure account for the year ended 31 October 2016. (7 marks)
- (d) Statement of financial position as at 31 October 2016. (6 marks)

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

- (a) (i) Explain the meaning of the term "intangible asset" as used in the International Accounting Standard (IAS) 38 "Intangible Assets". (2 marks)
- (ii) Outline two characteristics of intangible assets. (2 marks)

- (b) The following financial statements were extracted from the books of Afropac Limited for the years ended 30 June 2015 and 30 June 2016:

**Income statement for the year ended 30 June:**

	<b>2015</b>	<b>2016</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Sales (all on credit)	240,000	240,000
Cost of sales	<u>(144,000)</u>	<u>(120,000)</u>
Gross profit	96,000	120,000
Expenses	<u>(72,000)</u>	<u>(72,000)</u>
Net profit	24,000	48,000
Dividends	<u>(24,000)</u>	<u>(24,000)</u>
Retained profit	-	24,000
Retained profit brought forward	<u>30,000</u>	<u>30,000</u>
Retained profit carried forward	<u>30,000</u>	<u>54,000</u>

**Statement of financial position as at 30 June:**

	<b>2015</b>	<b>2016</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Non-current assets:</b>		
Land	75,600	52,800
Plant and machinery	7,200	10,200
Building	94,800	72,000
Financial assets at fair value	<u>96,000</u>	<u>63,600</u>
	<u>273,600</u>	<u>198,600</u>
<b>Current assets:</b>		
Inventory	78,000	66,000
Trade receivables	<u>60,000</u>	<u>48,000</u>
	<u>138,000</u>	<u>114,000</u>
Total assets	<u>411,600</u>	<u>312,600</u>
<b>Financed by:</b>		
Ordinary share capital	60,000	48,000
Share premium	16,800	15,600
Revaluation reserve	24,000	-
Retained profit	30,000	54,000
10% debenture	<u>180,000</u>	<u>120,000</u>
	<u>310,800</u>	<u>237,600</u>
<b>Current liabilities:</b>		
Trade payables	72,000	48,000
Proposed dividends	24,000	24,000
Bank balance	<u>4,800</u>	<u>3,000</u>
	<u>100,800</u>	<u>75,000</u>
Total equity and liabilities	<u>411,600</u>	<u>312,600</u>

Assume a 365-day year.

**Required:**

Compute the following ratios:

- |                                   |           |
|-----------------------------------|-----------|
| (i) Current ratio.                | (2 marks) |
| (ii) Quick ratio.                 | (2 marks) |
| (iii) Debt to equity ratio.       | (2 marks) |
| (iv) Inventory turnover ratio.    | (2 marks) |
| (v) Trade receivables turnover.   | (2 marks) |
| (vi) Average collection period.   | (2 marks) |
| (vii) Return on capital employed. | (2 marks) |
| (viii) Net profit margin.         | (2 marks) |

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Describe five components of a company's published financial statements. (5 marks)
- (b) Octopus Limited deals in designer clothes and has an authorised share capital of Sh.500 million divided into 30 million 8% preference shares and 10 million ordinary shares of Sh.10 and Sh.20 each respectively.

The following trial balance was extracted from the books of Octopus Limited as at 31 October 2016:

	Dr Sh."000"	Cr Sh."000"
Motor vehicle running expenses	59,680	
Depreciation: Fixtures and fittings	1,040	
Motor vehicles	12,520	
Selling and distribution expenses	78,840	
Salaries and wages	95,830	
Administrative costs	11,490	
Debenture interest	1,200	
Cost of sales	699,900	
Sales		1,191,800
Investment income		2,500
Preference dividend	8,000	
Tax paid	10,650	
Directors' fees	8,500	
Cash in hand	6,200	
8% debenture		30,000
Issued and paid up ordinary share capital		200,000
8% preference share capital		200,000
Bank overdraft		12,500
Inventory	214,100	
Accounts receivable	336,400	
Accounts payable		105,000
Fixtures and fittings (Net book value)	11,300	
Motor vehicles (Net book value)	24,800	
Allowance for doubtful debts		14,400
Retained profit (1 November 2015)		101,750
General reserve		60,000
Share premium		40,000
Freehold land	240,000	
Financial assets at fair value	137,500	
	<u>1,957,950</u>	<u>1,957,950</u>

**Additional information:**

- The following provisions for the year ended 31 October 2016 were to be made:  

	Sh."000"
• Audit fees	1,400
• Directors' fees	15,000
• Allowance for doubtful debts	12,500
- The directors have recommended an ordinary dividend of Sh.1 per share.
- A final preference dividend is to be paid.
- Freehold land was professionally valued at Sh.270 million.
- Prepaid salaries amounted to Sh.300,000 as at 31 October 2016.
- Corporation tax for the year has been agreed at Sh.65,520,000.

**Required:**

- Income statement for the year ended 31 October 2016. (8 marks)
- Statement of financial position as at 31 October 2016. (7 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Highlight four responsibilities of the accounting officer at the county level. (4 marks)
- (b) Define the following terms as used in public sector accounting:
  - (i) Recurrent expenditure. (1 mark)
  - (ii) Development expenditure. (1 mark)
  - (iii) Encumbrance. (1 mark)
  - (iv) Vote book. (1 mark)
- (c) Lila, Fila and Mina were partners in a food processing and retail business and shared profits and losses in the ratio 2:2:1 respectively. The following was the statement of the financial position of the partnership as at 30 September 2015:

**Statement of financial position as at 30 September 2015:**

<b>Assets:</b>	<b>Sh.</b>	<b>Sh.</b>
Non-current assets		1,395,000
<b>Current assets:</b>		
Inventories	882,000	
Trade receivables	<u>627,000</u>	<u>1,509,000</u>
Total assets		<u>2,904,000</u>
<b>Capital and liabilities:</b>		
<b>Capital accounts:</b>		
Lila	480,000	
Fila	420,000	
Mina	<u>600,000</u>	1,500,000
<b>Current accounts:</b>		
Lila	195,900	
Fila	147,000	
Mina	<u>159,000</u>	<u>501,900</u>
		2,001,900
<b>Current liabilities:</b>		
Bank overdraft	146,100	
Trade payables	<u>756,000</u>	<u>902,100</u>
Total capital and liabilities		<u>2,904,000</u>

**Additional information:**

1. On 1 October 2015, Mina retired from the partnership and was to start a business as a sole trader while Lila and Fila continued in partnership.
2. On retirement of Mina, the food processing business was transferred to him while Lila and Fila continued with the retail business.

The assets and liabilities transferred to Mina were as follows:

	<b>Net book value</b>	<b>Transfer value</b>
	<b>Sh.</b>	<b>Sh.</b>
Non-current assets	780,000	918,000
Inventories	498,000	471,000
Trade receivables	516,000	495,000
Trade payables	468,000	468,000

The net amount due to (from) Mina was settled in cash.

3. On retirement of Mina from the partnership, goodwill was valued at Sh.600,000 but was not to be maintained in the books of the partnership of Lila and Fila.

4. After retirement of Mina on 1 October 2015, Lila and Fila agreed on the following terms of the new partnership:
- Lila and Fila to introduce additional capital of Sh.120,000 and Sh.180,000 respectively in cash.
  - Each partner was entitled to interest on capital at the rate of 10% per annum with effect from 1 October 2015 and the balance of the profits to be shared equally after allowing for annual salaries of Sh.216,000 and Sh.180,000 to Lila and Fila respectively.
5. The profit of the new partnership before interest on capital and partner's salaries was Sh.720,000 for the year ended 30 September 2016.
6. Drawings by the partners in the year ended 30 September 2016 were Sh.255,000 and Sh.210,000 for Lila and Fila respectively.

**Required:**

- (i) Income statement and appropriation account for the year ended 30 September 2016. (4 marks)
- (ii) Partners' capital accounts for the year ended 30 September 2016. (4 marks)
- (iii) Partners' current accounts for the year ended 30 September 2016. (4 marks)

**(Total: 20 marks)**

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