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ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 26 November 2018.

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) In preparing the books of account of your organisation for the year ended 30 September 2018, you discover the following:
- (i) The long term future survival of the organisation is extremely uncertain.
 - (ii) The chief executive officer wishes that the organisation's good public relations could be reflected in the accounts.
 - (iii) One of the owners of the organisation has invested his drawings in a corporate bond.
 - (iv) Although the sales have not yet been actualised, some reliable customers of the organisation have placed several large orders that are likely to be extremely profitable.

Required:

In the context of accounting concepts, explain how you would treat each of the above issues. (8 marks)

- (b) The following are the summarised accounts of Moto Ltd. for the years ended 31 October 2017 and 31 October 2018:

Moto Ltd.						
Statement of financial position as at 31 October:						
	2017			2018		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Assets:						
Non-current assets:						
Land	1,720	-	1,720	2,520	-	2,520
Plant	400	160	240	440	200	240
Building	<u>2,000</u>	<u>400</u>	<u>1,600</u>	<u>3,600</u>	<u>440</u>	<u>3,160</u>
	4,120	560	3,560	6,560	640	5,920
Investment (Cost)			<u>2,000</u>			<u>3,200</u>
			5,560			9,120
Current assets:						
Inventory		2,200			2,600	
Trade receivables		1,600			2,000	
Cash in hand		<u>120</u>	<u>3,920</u>		-	<u>4,600</u>
Total assets			9,480			13,720
Equity and liabilities:						
Equity:						
Ordinary share capital (Sh.20 par value)			1,600			2,000
Share premium			480			560
Revaluation reserve			-			800
Proposed dividends			800			800
Retained earnings			<u>1,000</u>			<u>1,000</u>
			3,880			5,160
Long-term liabilities:						
10% debentures			4,000			6,000

	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Current liabilities:						
Trade payables		1,600			2,400	
Bank overdraft		-	1,600		160	2,560
Total equity and liabilities			9,480			13,720

Moto Ltd.
Statement of income and appropriations for the year ended 31 October:

	2017	2018
	Sh."000"	Sh."000"
Sales	8,000	8,000
Cost of sales	(4,000)	(4,800)
Gross profit	4,000	3,200
Expenses	(2,400)	(2,400)
	1,600	800
Dividends	(800)	(800)
	800	-
Retained earnings brought forward	200	1,000
Retained earnings carried forward	1,000	1,000

Required:

Compute the following ratios for each of the two years ended 31 October 2017 and 31 October 2018:

- (i) Current ratio. (2 marks)
 - (ii) Dividend coverage ratio. (2 marks)
 - (iii) Gearing ratio. (4 marks)
 - (iv) Return on capital employed (ROCE). (4 marks)
- (Total: 20 marks)**

QUESTION TWO

Fiona, Lydia and Tiana have been trading in partnership sharing profits and losses equally after allowing for interest on capital at the rate of 15% per annum.

As at 30 September 2018, the following trial balance was extracted from the partnership books, before adjustment in respect of changes in the partnership:

	Sh."000"	Sh."000"
Premises	2,040	
Plant and machinery	800	
Accumulated depreciation (30 September 2018)		80
Inventory (30 September 2018)	540	
Trade receivables and trade payables	360	660
Bank balance		180
Capital accounts:		720
Fiona		960
Lydia		720
Tiana		180
Current accounts:		240
Fiona		120
Lydia		
Tiana		
Drawings:	660	
Fiona	780	
Lydia	480	
Tiana		
Net profit for the year		2,160
	5,840	5,840

Additional information:

1. Tiana retired on 30 June 2018. Fiona and Lydia agreed to continue with the business sharing profits and losses in the ratio of 3:2 respectively after allowing for interest on capital at the rate of 15% per annum.
2. Tiana agreed that the repayment for her capital account be delayed by two years. However, the outstanding balance is subject to an interest of 20% per annum.

3. Tiana's current account balance is to be held in a separate account and is payable on demand.
4. As at 30 June 2018, a valuation of goodwill was carried out and agreed to be Sh.1,440,000 but this was not to be shown in the books.
5. Premises were revalued at Sh.2,760,000 as at 30 June 2018.
6. No interest is charged on current accounts.
7. Assume that the net profit for the year accrued evenly over the year.

Required:

- (a) Partners' capital accounts as at 30 September 2018. (4 marks)
- (b) Partners' current accounts as at 30 September 2018. (4 marks)
- (c) Income and appropriation account for the year ended 30 September 2018. (6 marks)
- (d) Statement of financial position as at 30 September 2018. (6 marks)

(Total: 20 marks)

QUESTION THREE

George Lipa is a sole trader who has not kept complete books of account. The following is a summary of his bank statements for the year ended 31 October 2018:

	Sh."000"		Sh."000"
Amounts credited by bank	35,170	Balance brought forward	892
		Payment to trade creditors	30,500
		Rent and rates	475
		Fixtures	100
		Electricity	210
		General expenses	800
		Loan interest	120
		Drawings	900
		Customers' cheques dishonoured	180
	<u>35,170</u>	Balance carried forward	<u>993</u>
			35,170

Additional information:

1. Cheques payable to trade creditors, but not presented as at 1 November 2017 amounted to Sh.280,000 and at 31 October 2018 amounted to Sh.320,000.
2. All dishonoured cheques were re-presented and honoured during the year.
3. During the year, George Lipa made the following payments in cash:

Item	Sh."000"
Wages	2,950
General expenses	140
Drawings	156

4. Of the cash received during the year ended 31 October 2018, Sh.34,740 was deposited in the bank account and Sh.20,000 was retained as cash in hand.
5. Cheques received from debtors amounting to Sh.250,000 were banked on 31 October 2018.
6. The loan interest was paid to Kwetu Bank Ltd. which had lent George Lipa Sh.4,000,000 two years ago at the rate of 3% per annum. The interest was duly paid half yearly on 31 January and 31 July.
7. Discounts received amounted to Sh.480,000 and discounts allowed amounted to Sh.520,000 as at 31 October 2018.
8. The following were the balances as at 31 October:

	2017 Sh."000"	2018 Sh."000"
Inventory	4,500	5,800
Trade receivables	2,800	3,200
Accrued general expenses	240	190
Rates paid in advance	40	50
Fixtures	2,800	2,550
Trade payables	1,800	2,200
Accrued electricity expenses	80	70

9. The trade debtors' balance as at 31 October 2018 includes a bad debt of Sh.200,000 which is to be written off.

Required:

- (a) Statement of affairs as at 31 October 2017. (4 marks)
- (b) Income statement for the year ended 31 October 2018. (12 marks)
- (c) Statement of financial position as at 31 October 2018. (4 marks)

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

The secretary of Wazi Sports Club has approached you to prepare the club's final accounts for the year ended 30 June 2018.

The balances of assets and liabilities as at 1 July 2017 were as follows:

	Sh."000"
Building and sports pitch	90,000
Bar fixtures and fittings (cost Sh.12,000,000)	9,000
Bar inventory	1,200
Bank balance	2,410
Cash in hand	623
Subscriptions in arrears	100
Owing to bar suppliers	148
Coach's salary accrued	117.5
5% bank loan	40,000

The secretary provided you with a book which was used to record the receipts and payments for the year ended 30 June 2018 which were as follows:

	Sh."000"
Receipts:	
Sponsorship	1,820
Sale of scrap metal	5,720
Donations	285
Annual subscriptions	1,205
Sale of bar fixtures and fittings (1 October 2017)	725
Bar sales	22,155
Raffle ticket sales	3,062
Payments:	
Coach's salary	635
Ticket expenses	62.5
Printing of raffle tickets	420
Raffle prizes	550
Insurance	2,800
Bar salaries	2,870
Painting of bar	1,060
Electricity and water	1,200
Bar purchases	10,805

Additional information:

- Insurance expenses and electricity and water expenses are split 1:1 between the bar and the club.
- Bar fixtures and fittings are to be depreciated at the rate of 20% per annum on a straight line basis.
- The bar fixtures and fittings that were disposed of during the year had cost Sh.2,500,000 and were purchased on 1 January 2015.
- The club depreciates non-current assets from the date of acquisition to the date of disposal.
- As at 30 June 2018, subscriptions due to the club amounted to Sh.90,000 and subscriptions received in advance amounted to Sh.190,000.
- As at 30 June 2018, Sh.495,000 was owing to the bar suppliers.
- All receipts except the income from the raffle ticket sales were deposited into the bank account.
- All payments made by the club were made by cheque with the exception of payments in relation to raffle prizes and printing of raffle tickets.
- The bar inventory as at 30 June 2018 was valued at Sh.950,000.
- Six months of the loan interest (paid through the bank) was unpaid as at 30 June 2018.
- The building and sports pitch are not to be depreciated.

Required:

- (a) Bar trading account for the year ended 30 June 2018. (5 marks)
 - (b) Income and expenditure account for the year ended 30 June 2018. (7 marks)
 - (c) Statement of financial position as at 30 June 2018. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Highlight four characteristics of a government business enterprise. (4 marks)
 - (b) Explain three reasons why public sector entities prepare financial statements. (6 marks)
 - (c) Describe five components of a complete set of published financial statements of a company. (10 marks)
- (Total: 20 marks)**
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