



ATD LEVEL II

FINANCIAL ACCOUNTING

MONDAY: 21 May 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) Summarise four limitations of cash flow statements. (4 marks)
- (b) The following financial statements were extracted from the books of Dilco Limited for the year ended 31 December 2017:

Income statement for the year ended 31 December 2017:

	Sh. "000"
Gross profit	44,700
Discount received	410
Profit on sale of motor vehicle	<u>620</u>
	45,730
Expenses:	
Motor vehicle expenses	(1,940)
Wages and salaries	(17,200)
Bad debts	(520)
Increase in doubtful debts	(200)
Depreciation: Motor vehicle	(1,800)
General administration expenses	<u>(830)</u>
Net profit for the year	<u>23,240</u>

Statement of financial position as at 31 December 2017:

	2016 Sh. "000"	2017 Sh. "000"
Non-current assets:		
Motor vehicle (cost)	15,400	8,200
Depreciation	<u>(5,300)</u>	<u>(3,100)</u>
	10,100	5,100
Current assets:		
Inventory	18,600	24,000
Trade receivables	8,200	6,900
Bank	<u>410</u>	<u>720</u>
Total assets	<u>37,310</u>	<u>36,720</u>
Financed by:		
Capital	17,210	21,410
Net profit	<u>21,200</u>	<u>23,240</u>
	38,410	44,650
Drawings	<u>(17,000)</u>	<u>(22,630)</u>
	21,410	22,020
Long term liabilities:		
Loan from Bidii Sacco	<u>10,000</u>	<u>7,500</u>
	31,410	29,520
Current liabilities:		
Trade payables	<u>5,900</u>	<u>7,200</u>
	<u>37,310</u>	<u>36,720</u>

Additional information:

- The motor vehicle was sold for Sh.3,820,000 during the year 2017 and no new motor vehicle was purchased.
- Trade receivables in the year 2016 were Sh.8,800,000. A provision of Sh.600,000 for bad debts was made.
- In the year 2017, trade receivables were Sh.7,700,000 and a provision of Sh.800,000 for bad debts was made.

Required:

Statement of cash flows for the year ended 31 December 2017, in accordance with the requirements of International Accounting Standards (IAS) 7, "statement of cash flows".

(16 marks)

(Total: 20 marks)

QUESTION TWO

The following trial balance was extracted from the books of Justus Ongolo, a sole trader, as at 31 March 2018:

	Sh."000"	Sh."000"
Land at cost	80,000	
Buildings at cost	480,000	
Equipment at cost	320,000	
Accumulated depreciation as at 1 April 2017:		
Buildings		80,000
Equipment		152,000
Purchases	1,000,000	
Sales		1,608,800
Inventory as at 1 April 2017	200,000	
Discounts allowed	72,000	
Discounts received		9,200
Rent received		10,000
Return outwards		60,000
Salaries and wages	235,200	
Bad debts	18,400	
Bank note interest paid	10,200	
Insurance expenses	70,800	
Trade receivables	152,000	
Trade payables		133,800
Cash in hand	1,200	
Bank balances	5,200	
Drawings	16,000	
Allowance for doubtful debts (1 April 2017)		2,000
17% bank loan		120,000
Capital		485,200
	<u>2,661,000</u>	<u>2,661,000</u>

Additional information:

- Inventories as at 31 March 2018 comprised three categories (Class I, Class II and Class III) valued as follows:

	Class I Sh."000"	Class II Sh."000"	Class III Sh."000"
Cost	50,000	46,000	85,000
Net realisable value	60,000	56,000	72,000

- Salaries and wages outstanding as at 31 March 2018 were Sh.3,200,000.
- Allowance for doubtful debts is to be increased to 2% of trade receivables.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Buildings	1.5	Straight line
Equipment	25	Reducing balance
- 17% bank loan was obtained on 1 April 2017. The loan interest is due on 1 April and 1 October, as long as the loan remains outstanding.
- Prepaid insurance expenses as at 31 March 2018 amounted to Sh.1,200,000.

Required:

- Income statement for the year ended 31 March 2018. (10 marks)

- Statement of financial position as at 31 March 2018. (10 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Kevoz Ltd. that deals with manufacture of tyres as at 31 December 2017:

	Sh."000"	Sh."000"
Ordinary share capital (Sh.10 par value)		51,000
Retained profits		8,228
10% debentures		17,000
Interest on debentures paid	2,890	
Bank balances	5,780	
Inventory (1 January 2017):		
Raw materials	17,816	
Work-in-progress	748	
Finished goods	2,720	
Purchase of raw materials	11,424	
Carriage inwards	1,700	
Plant and machinery at cost	40,800	
Depreciation on plant and machinery (2017)	4,080	
Accumulated depreciation (31 December 2017)		8,160
Motor vehicles at cost	20,400	
Depreciation on motor vehicles (2017)	5,100	
Accumulated depreciation (31 December 2017)		10,200
Loose tools at cost	6,120	
Sales		120,000
Return inwards	4,400	
Royalties paid on tyres produced	6,520	
Factory wages: Direct	20,000	
Indirect	5,440	
Trade receivables and trade payables	12,410	7,616
Water and electricity	3,400	
Plant maintenance	1,088	
Motor vehicles running expenses	8,160	
Rent and insurance	7,888	
Administrative expenses	24,480	
Distribution costs	8,840	
	<u>222,204</u>	<u>222,204</u>

Additional information:

1. The following expenses were to be apportioned as shown below:

Expense	Factory (%)	Administration (%)
Water and electricity	60	40
Rent and insurance	60	40
Motor vehicle running expenses	50	50
Depreciation on motor vehicles	50	50

2. Inventories as at 31 December 2017 were as follows:

	Sh."000"
Raw materials	4,760
Finished goods	40,800
Work-in-progress	9,112
Loose tools	3,400

3. Tyres manufactured during the year were transferred to the warehouse at Sh.98,600,000.
 4. As at 31 December 2017 accrued electricity amounted to Sh.680,000 while prepaid insurance amounted to Sh.544,000.

Required:

- (a) Manufacturing account for the year ended 31 December 2017. (12 marks)
- (b) Income statement for the year ended 31 December 2017. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline four contents of the partnership deed. (4 marks)
- (b) Sweet Biscuits Limited is a company that makes and sells a range of high quality biscuits to retail outlets. The company was formed with an authorised share capital of 100,000 ordinary shares of Sh.1 each and 30,000 10% preference shares of Sh.1 each.

The following is an extract of the company's trial balance as at 31 December 2017:

	Sh."000"	Sh."000"
Issued ordinary share capital		80,000
Issued 10% preference share capital		8,000
Biscuit baking machinery (at cost)	30,000	
Delivery vehicles (at cost)	22,000	
Trade receivables and trade payables	32,250	16,550
Cash	63,200	
12% Debentures		10,000
Inventory (1 January 2017)	22,350	
Sundry expenses	10,800	
Purchases and sales	132,250	198,575
Bad debts written off	2,250	
Salaries and wages	24,575	
Insurance of delivery vehicles	550	
Provision for depreciation:		
Biscuit baking machinery		14,000
Delivery vehicles		8,000
Interim preference dividend paid	400	
Net profit carried forward (1 January 2017)		5,500
Provision for doubtful debts (1 January 2017)		600
Debentures interest	600	
Total assets	<u>341,225</u>	<u>341,225</u>

Additional information:

- Inventory as at 31 December 2017 was valued at Sh.24,250,000.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Biscuit baking machinery	10	Straight line basis
Delivery vehicles	20	Reducing balance
- Prepaid insurance as at 31 December 2017 amounted to Sh.200,000.
- Sundry expenses owing as at 31 December 2017 amounted to Sh.400,000.
- The provision for doubtful debts is to be increased to Sh.900,000.
- The directors propose to pay an ordinary dividend of 5% to the ordinary shareholders and pay the remaining dividend due to the preference shareholders.
- Corporation tax of Sh.5,000,000 is to be provided for.
- Sh.3,000,000 is to be transferred to general reserve.

Required:

- (i) Statement of comprehensive income for the year ended 31 December 2017. (8 marks)
- (ii) Statement of financial position as at 31 December 2017. (8 marks)
- (Total: 20 marks)

QUESTION FIVE

- (a) Describe four criteria that could be used to establish whether financial statements are reliable. (4 marks)
- (b) Discuss three techniques that could be adopted by public sector organisations while preparing their financial statements. (6 marks)

- (c) The treasurer of Milele Club has produced the following receipts and payments account for the year ended 30 April 2018:

Receipts	Sh. "000"	Payments	Sh. "000"
Balance at bank (1 May 2017)	716	Secretarial expenses	300
Sales of competition tickets	1,264	Rent	1,600
Members subscriptions	4,216	Meeting expenses	1,444
Donations	500	Electricity	538
		Competition prizes	1,030
		Equipment	800
		Stationery	574
		Balance at bank (30 April 2018)	410
	<u>6,696</u>		<u>6,696</u>

The following valuations are also available as at 30 April:

	2017 Sh. "000"	2018 Sh. "000"
Equipment (Original cost Sh.3,600,000)	2,600	2,920
Subscriptions in arrears	160	220
Electricity accrued	74	82
Inventory of stationery	108	92
Rent prepaid	400	480

Required:

- (i) Income and expenditure account for the year ended 30 April 2018. (5 marks)
- (ii) Statement of financial position as at 30 April 2018. (5 marks)
- (Total: 20 marks)**
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