



ATD LEVEL II
FINANCIAL ACCOUNTING

MONDAY: 27 November 2017.

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 trial balance was extracted from the books of Sunbird Limited on 30 September 2017:

	Sh. "000"	Sh. "000"
Issued and fully paid capital:		
Ordinary shares (Sh.20 par value)		80,000
10% preference shares (Sh.20 par value)		10,000
Share premium		20,000
General reserves		30,000
Retained profit		8,000
Inventory (1 October 2016)		8,000
Purchases and sales	221,000	400,000
Land and buildings (buildings Sh.40 million) at cost	131,000	
Equipment at cost	20,000	
Motor vehicles at cost	60,000	
Accumulated depreciation (1 October 2016):		
- Buildings		1,000
- Equipment		2,000
- Motor vehicles		12,000
Trade receivables and trade payables	80,000	60,000
Administrative expenses	44,600	
Distribution costs	80,000	
Rent income		10,000
Bad debts	3,600	
Provision for doubtful debts (1 October 2016)		3,000
10% Debentures		40,000
Interest on debentures paid	2,000	
Bank balance	<u>25,800</u>	
	<u>676,000</u>	<u>676,000</u>

Additional information:

1. The following balances were available as at 30 September 2017:

	Sh. "000"
Inventory	9,000
Rent income owing	2,000
Estimated corporation tax	12,000
2. A half year interest on debentures is outstanding.
3. Provision for doubtful debts is to be provided at a rate of 5% on trade receivables.
4. The company's Chief Executive Officer (CEO) is entitled to a 10% bonus on profit before tax after charging such bonus.
5. Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Buildings	2.5	Straight line
Motor vehicles	20	Straight line
Equipment	10	Reducing balance
6. The directors have proposed that the preference dividend be paid and ordinary shareholders be paid Sh.5 per share after transferring Sh.5 million to general reserves.

Required:

- (a) Income statement for the year ended 30 September 2017. (12 marks)
- (b) Statement of financial position as at 30 September 2017. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Jasmal Limited obtained a loan of Sh.2,140,000 from Bidii Bank to enable it acquire a plant. The loan is to be repaid in five equal annual installments of Sh.580,000 each, payable at the beginning of each year. The loan attracts an interest rate of 18% per annum.

Required:

- (i) A loan repayment schedule showing the principal and interest components. (3 marks)
- (ii) Loan repayment journal entries. (3 marks)
- (b) The following financial statements were extracted from the books of Furaha Limited for the year ended 30 September 2016 and 30 September 2017:

Income statement for the year ended 30 September:

	2016 Sh."000"	2017 Sh."000"
Sales (all on credit)	1,125	3,500
Cost of sales	<u>(450)</u>	<u>(2,100)</u>
Gross profit	675	1,400
Selling expenses	(187.5)	(337.5)
Bad debts	(22.5)	(170)
Depreciation	(72.5)	(260)
Interest	<u>(15)</u>	<u>(240)</u>
Retained profit	377.5	392.5
Retained profit brought down	<u>408.75</u>	<u>786.25</u>
Retained profit carried down	<u>786.25</u>	<u>1,178.75</u>

Statement of financial position as at 30 September:

	2016		2017	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non-current assets:				
Buildings		562.5		551.25
Machinery		<u>612.5</u>		<u>2,238.75</u>
		1,175.0		2,790.0
Current assets:				
Inventory	37.5		297.5	
Accounts receivable	103.75		728.75	
Bank	<u>15.00</u>	<u>156.25</u>	<u>-</u>	<u>1,026.25</u>
Total Assets		<u>1,331.25</u>		<u>3,816.25</u>
Financed by:				
Ordinary share capital		375.0		410.0
Retained profit		<u>786.25</u>		<u>1,178.75</u>
		1,161.25		1,588.75
Long term liabilities:				
12% Debentures		125.0		2,000
Current liabilities:				
Accounts payable	45		213.75	
Bank overdraft	<u>-</u>	<u>45.0</u>	<u>13.75</u>	<u>227.50</u>
Total equity and liabilities		<u>1,331.25</u>		<u>3,816.25</u>

Assume a 365-day year.

Required:

Compute the following ratios:

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

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

Susan Anyika started a business of manufacturing office supplies on 1 October 2016, but maintained rather inadequate accounting records. On 1 October 2016, Susan Anyika transferred Sh.4,000,000 to a new business bank account from her private bank account and purchased by cheque:

	Sh."000"
Business premises	2,000
Manufacturing equipment	1,920
Sales motor vehicles	880
Office equipment	120

During the year ended 30 September 2017, she paid by cheque:

	Sh."000"
Raw materials	2,800
Factory rates, water, electricity	224
Office rates, water, electricity	96
Her children school fees	120
Sundry office expenses	480

She paid in cash (out of her sales receipts):

	Sh."000"
Manufacturing wages	4,080
Sundry office expenses	316
Minor raw materials	164
Sales vehicles expenses	520
Personal drawings	480

Additional information:

- Cash paid into the bank after deducting these payments amounted to Sh.4,800,000.
- The following balances were available on 30 September 2017:

	Sh."000"
Cash in hand	32
Raw materials inventory at cost	240
Finished goods inventory at cost	280
Trade receivables for sales	520
Trade payables for materials	960
Accrued factory electricity	16
Prepaid factory rates	20
Owing for factory wages	56
Owing for sundry office expenses	88

Note: There was no work-in-progress

Additional information:

- 1. The expenses and revenues accrued evenly throughout the year.
- 2. Non-current assets are to be depreciated at the rate of 25% on cost per annum.
- 3. Inventory as at 30 September 2017 was valued at Sh.1,496,000.

Required:

- (a) Partners' income statement and appropriation account for the year ended 30 September 2017. (10.marks)
 - (b) Partners' capital account. (5 marks)
 - (c) Statement of financial position as at 30 September 2017. (5 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Highlight five features of not-for-profit organisations. (5 marks)
 - (b) Describe four functions of Public Accounts Committee (PAC) in your country. (4 marks)
 - (c) Explain four benefits that could accrue to a country that adopts International Financial Reporting Standards (IFRs). (8 marks)
 - (d) State three reasons why a business entity should make provision for depreciation on non-current assets. (3 marks)
- (Total: 20 marks)**
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