

# KASNEB

## ATD LEVEL II

### FINANCIAL ACCOUNTING

MONDAY: 22 May 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

Tim Tunda started a business of selling timber on 1 April 2016. Due to his limited accounting knowledge, he has not maintained proper books of account. Tim Tunda will pay you Sh.275,000 to prepare his books of account and establish a good accounting system. He has provided you with the following information as at 31 March 2017:

- On 1 April 2016, he deposited Sh.6,000,000 into the business bank account. On the same day, he brought into the business a lorry with an estimated value of Sh.3,300,000 and an expected useful life of three years.
- He borrowed Sh.2,000,000 at an interest rate of 15% per annum on 1 July 2016 from the bank. By 31 March 2017, no interest had been paid on the loan.
- He paid salaries of Sh.3,600,000 by cheque for the year.
- He had withdrawn Sh.90,000 from the bank every week from the business account for personal use during the year.
- He purchased timber worth Sh.9,800,000 during the year and paid by cheque. Sh.790,000 worth of timber remained in stock as at 31 March 2017.
- He purchased some equipment worth Sh.4,800,000 on the commencement of his business and paid by cheque. The equipment has an expected useful life of five years.
- Rates for the year ending 30 June 2017 were Sh.180,000 but had not been paid.
- Electricity bills paid through a bank standing order up to 31 January 2017 were Sh.1,200,000. Electricity bills for the remaining two months were estimated to be Sh.240,000.
- Motor vehicle expenses amounting to Sh.910,000 and general expenses amounting to Sh.1,350,000 for the year ended 31 March 2017 were paid by cheque.
- Insurance premium for the year ending 30 June 2017 of Sh.800,000 was paid by cheque.
- The accountant sent invoices to customers for Sh.30,890,000 but only Sh.25,400,000 had been received through the bank by 31 March 2017. Debts totalling to Sh.85,000 were declared bad debts during the year.
- Some customers paid for timber in cash during the year amounting to Sh.3,630,000 out of which Sh.2,800,000 was banked. Tim Tunda then withdrew Sh.495,000 in cash for personal use. The accountant used the rest of the cash to pay for general expenses except for Sh.150,500 which was left in the cash box as at 31 March 2017.
- Assume that one year has 52 weeks.

#### Required:

- Income statement for the year ended 31 March 2017. (12 marks)
  - Statement of financial position as at 31 March 2017. (8 marks)
- (Total: 20 marks)

#### QUESTION TWO

Alice, Betty and Charles were in partnership sharing profits and losses in the ratio of 2:2:1 respectively after allowing for interest on capital at the rate of 10% per annum. On 30 June 2016, Charles retired from the partnership. Alice and Betty agreed to continue with the business sharing profits and losses in the ratio of 3:2 respectively after allowing for interest on capital of 10% per annum. For the purposes of retirement of Charles, the partners agreed on the following:

- Goodwill to be valued at two years purchase of the average profit for the last three years. The profits for the last three years ended 31 December were as follows:

	Sh. "000"
2013	460
2014	480
2015	560

- Inventory was overvalued by Sh.400,000.
- Equipment and furniture was valued at Sh.1,200,000.
- Land and buildings were valued at Sh.3,600,000.

5. The partners decided that goodwill should not appear in the books of the partnership.
6. The total amount due to Charles on retirement was settled by cheque.
7. Assume that profits and losses accrued evenly on time basis throughout the year.

The partnership's trial balance as at 31 December 2016 was as follows:

	Sh."000"	Sh."000"
<b>Capital accounts:</b>		
Alice		2,400
Betty		2,000
Charles		1,800
<b>Current accounts:</b>		
Alice		1,200
Betty		1,000
Charles		400
Profit for the year ended 31 December 2016		4,000
Drawings:		
Alice	600	
Betty	600	
Charles	400	
Land and buildings	2,400	
Equipment and furniture	1,800	
Trade receivables and trade payables	2,200	3,000
Bank balance	3,400	
Inventory	<u>4,400</u>	
	15,800	<u>15,800</u>

**Required:**

- (a) Appropriation account in columnar form for the two six-month periods ended 30 June 2016 and 31 December 2016. (6 marks)
  - (b) Partners' capital accounts for the year ended 31 December 2016. (4 marks)
  - (c) Partners' current accounts for the year ended 31 December 2016. (4 marks)
  - (d) Partners' statement of financial position as at 31 December 2016. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

The following trial balance was extracted from the books of Jaza Kikapu, a small manufacturer of bags, as at 31 March 2017:

	Sh."000"	Sh."000"
Capital as at 1 April 2016		115,650
Sales		202,750
Cash at bank	5,000	
Buildings at cost	100,000	
Plant and machinery at cost	15,000	
Office equipment at cost	15,000	
Accumulated depreciation (1 April 2016):		
Buildings		4,000
Plant and machinery		6,000
Office equipment		2,850
Inventory (1 April 2016):		
Raw materials	7,500	
Work-in-progress	3,000	
Finished goods	11,000	
Loose tools	900	
Purchases:		
Raw materials	47,500	
Loose tools	3,750	
Carriage on raw materials	2,500	
Returns outward		2,500

	Sh."000"	Sh."000"
Water and electricity	20,000	
Rates and insurance	15,500	
General factory expenses	17,500	
Direct labour	47,000	
General office expenses	3,185	
Sales and distribution costs	8,750	
Royalties payable	3,000	
Drawings	<u>7,665</u>	
	333,750	<u>333,750</u>

**Additional information:**

1. Inventories as at 31 March 2017 were as follows:

	Sh."000"
Raw materials	5,000
Work-in-progress	3,750
Finished goods	12,925
Loose tools	1,350

2. Depreciation is to be provided as follows:

Asset	Rate	Basis
Buildings	2%	Cost
Plant and machinery	20%	Cost
Office equipment	10%	Net book value

3. Costs are apportioned between factory and administration as follows:

	Factory	Administration
Water and electricity	75%	25%
Rates and insurance	60%	40%
Depreciation on buildings	80%	20%

4. As at 31 March 2017, accrued water and electricity amounted to Sh.800,000 while rates and insurance prepaid amounted to Sh.500,000.

5. Finished goods are transferred to the trading account at cost plus 10%.

**Required:**

(a) Manufacturing account for the year ended 31 March 2017. (10 marks)

(b) Income statement for the year ended 31 March 2017. (10 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following financial statements were extracted from the books of Upesi Haraka Ltd.:

**Income statement for the year ended 31 December 2016**

	Sh."000"
Revenue	23,400
Cost of sales	<u>(13,404)</u>
Gross profit	9,996
Distribution expenses	(4,620)
Administrative expenses	<u>(3,552)</u>
	1,824
Income from investment	30
Finance cost	<u>(114)</u>
Profit before tax	1,740
Tax expense	<u>(624)</u>
Net profit for the year	1,116

**Statement of financial position as at 31 December:**

	2016 Sh."000"	2015 Sh."000"
<b>Assets</b>		
<b>Non-current assets</b>	4,404	3,660
<b>Current assets</b>		
Inventory	2,220	2,460
Trade receivable	2,040	1,620
Interest receivable	24	54
Short-term investments	300	-
Cash at bank	450	-
Cash in hand	<u>42</u>	<u>30</u>
	<u>5,076</u>	<u>4,164</u>
<b>Total assets</b>	9,480	7,824
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Ordinary shares of Sh.10 each	2,178	1,800
Share premium	534	552
Revaluation reserve	300	-
Retained profits	<u>378</u>	<u>(420)</u>
	3,390	1,932
<b>Non-current liabilities</b>		
10% loan	-	240
5% loan	<u>1,974</u>	<u>2,094</u>
	1,974	2,334
<b>Current liabilities</b>		
Bank overdraft	-	420
Trade payables	3,300	2,400
Current tax	600	540
Interest payable	36	198
Other payables	<u>180</u>	<u>-</u>
	<u>4,116</u>	<u>3,558</u>
<b>Total equity and liabilities</b>	9,480	7,824

**Additional information:**

- The total depreciation charged on non-current assets during the year ended 31 December 2016 was Sh.522,000.
- Land and buildings were revalued during the year ended 31 December 2016.
- A machine with a net book value of Sh.450,000 was disposed of during the year for Sh.588,000.
- Upesi Haraka Ltd. paid an interim dividend of Sh.318,000 during the year.
- On 1 January 2016, Upesi Haraka Ltd. made a bonus issue of one share for every one hundred (100) shares held. All issued shares qualified for the bonus issue.
- On 1 March 2016, Upesi Haraka Ltd. issued 36,000 ordinary shares at a par value of Sh.10 per share. All the proceeds were received in cash.
- Proceeds from the issue of shares were used to fully liquidate the 10% loan and part of the 5% loan (principal amounts only).

**Required:**

Statement of cash flows for the year ended 31 December 2016, in accordance with the requirements of the International Accounting Standard (IAS) 7, "Statement of Cash Flows". (20 marks)

**QUESTION FIVE**

- (a) Explain two differences between:
- "Receipts and payments account" and "income and expenditure account" (4 marks)
  - "Debentures" and "equity shares". (4 marks)
- (b) Outline six features of a good accounting software. (6 marks)
- (c) Discuss three functions of a parliamentary Public Investments Committee. (6 marks)

(Total: 20 marks)