



**CPA PART I SECTION 1**

**CIFA PART I SECTION 1**

**FINANCIAL ACCOUNTING**

**MONDAY: 23 November 2020.**

**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 reasons for incomplete accounting records in an organisation. (4 marks)

(b) Grace Nene is a sole trader. The following statement of financial position was extracted from her books as at 30 April 2020:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Non-current assets:</b>			
Motor vehicles	236,000	114,000	122,000
Furniture and fittings	<u>54,000</u>	<u>26,000</u>	<u>28,000</u>
	<u>290,000</u>	<u>140,000</u>	<u>150,000</u>
<b>Current assets:</b>			
Inventory		268,000	
Accounts receivable		334,000	
Bank balance		<u>112,000</u>	<u>714,000</u>
			<u>864,000</u>
<b>Financed by:</b>			
Capital			420,000
Net profit			<u>274,000</u>
			694,000
Drawings			<u>(60,000)</u>
			634,000
<b>Current liabilities:</b>			
Accounts payable		229,800	
Suspense		<u>200</u>	<u>230,000</u>
			<u>864,000</u>

The following errors were later discovered:

1. A debit balance of Sh.800,000 for Jack was omitted from the list of accounts receivable.
2. An entry of Sh.200,000 returns outward was made in error in the sales book instead of purchases return book.
3. Purchases day book had been undercast by Sh.1,600,000.
4. Fixtures and fitting costing Sh.12,000,000 had been debited to repairs accounts.
5. Depreciation on fixtures and fittings is to be provided for at the rate of 15% per annum on cost.
6. Bad debts of Sh.500,000 should have been written off, but this was not done.
7. A cheque of Sh.500,000 paid to Arnold, a creditor, was correctly entered in the cash book, but credited to his account.
8. Goods worth Sh.4,000,000 were taken by Grace Nene for her personal use, but no entry has been made in the books.
9. Sh.18,000 discount received had been correctly entered in the cash book, but had been posted to the wrong side of the discount received account.

**Required:**

- (i) Journal entries to correct the errors. (Narrations required). (8 marks)
- (ii) Statement of adjusted profit for the period ended 30 April 2020. (4 marks)
- (iii) Adjusted statement of financial position as at 30 April 2020. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Distinguish between the "direct" and "indirect" methods of preparing a statement of cash flows. (4 marks)
- (b) The following are the comparative statements of financial position for Chui Ltd. at as at 31 December 2018 and 31 December 2019:

<b>Chui Ltd.</b>		
<b>Statement of financial position as at 31 December:</b>		
<b>Assets:</b>	<b>2019</b>	<b>2018</b>
<b>Non-current assets:</b>	<b>"000"</b>	<b>"000"</b>
Land	84,500	133,900
Plant	507,000	560,000
Accumulated depreciation on plant	<u>(152,100)</u>	<u>(111,800)</u>
	439,400	582,100
Goodwill	<u>161,200</u>	<u>224,900</u>
	<u>600,600</u>	<u>807,000</u>
<b>Current assets:</b>		
Inventory	302,900	235,300
Accounts receivable	113,100	76,700
Cash	<u>166,400</u>	<u>146,900</u>
	<u>582,400</u>	<u>458,900</u>
<b>Total assets</b>	<u>1,183,000</u>	<u>1,265,900</u>
<b>Capital and reserves:</b>		
Ordinary share capital	322,500	162,500
Retained earnings	374,400	370,200
Other comprehensive income	<u>12,500</u>	<u>59,800</u>
	<u>709,400</u>	<u>592,500</u>
<b>Current liabilities:</b>		
Notes payable	416,000	565,500
Dividends payable	19,500	41,600
Accounts payable	<u>38,100</u>	<u>66,300</u>
	<u>473,600</u>	<u>673,400</u>
<b>Total equity and liabilities</b>	<u>1,183,000</u>	<u>1,265,900</u>

**Additional information:**

- Net income for the year ended 31 December 2019 was Sh.24,700,000.
- Depreciation expense for the year ended 31 December 2019 was Sh.55,900,000.
- During the year ended 31 December 2019, land was purchased for Sh.62,400,000 for expansion purposes. During the same period, another parcel of land with a carrying value of Sh.111,800,000 was sold for Sh.150,000,000 cash.
- On 15 June 2019, notes payable of Sh.160,000,000 were retired in exchange for ordinary shares.
- On 2 December 2019, notes payable worth Sh.10,500,000 were issued.
- On 17 December 2019, a plant originally costing Sh.53,000,000 was sold for Sh.27,300,000, since it was no longer contributing to profits. At the date of sale, the accumulated depreciation on the plant was Sh.15,600,000.
- Dividends were declared for the year ended 31 December 2018. A portion of those dividends were paid in the year ended 31 December 2019.
- Goodwill impairment loss was recorded in the year ended 31 December 2019 to reflect a decrease in the recoverable amount of goodwill.

**Required:**

- Statement of cash flows in accordance with IAS 7 "Statement of Cash Flows", for the year ended 31 December 2019. (16 marks)
- (Total: 20 marks)**

### QUESTION THREE

Lydia, Mercy and Prisca have been in partnership sharing profits and losses in the ratio of 2:1:1 respectively after charging interest on capital at the rate of 10% per annum. Their financial year ends on 31 March each year.

#### Additional information:

- On 30 September 2019, Prisca retired from the partnership. Lydia and Mercy agreed to continue with the partnership and to share profits and losses in the ratio of 3:2 respectively after charging interest of 10% per annum on capital.
- For the purpose of retirement of Prisca from the partnership:
  - Land was revalued to Sh.20,000,000.
  - Equipment was revalued to Sh.12,000,000.
  - Goodwill of the partnership was valued at Sh.4,000,000 but was to be written off immediately.
- Prisca agreed to leave the amount due to her in respect of her capital as a loan earning an interest of 10% per annum. The amount due to her in respect of current account was settled in full on 31 March 2020.
- Accounts receivable amounting to Sh.2,400,000 were from sales made to a trader who was declared bankrupt and requires to be written off.
- The relevant adjustments relating to the above transactions had not been made when the following trial balance was extracted on 31 March 2020:

	Sh."000"	Sh."000"
Land	4,000	
Equipment	8,000	
Inventory	9,600	
Accounts receivable	7,600	
Accounts payable		2,800
Bank balance	5,600	
Net profit reported		16,800
Capital accounts:		
Lydia		8,000
Mercy		4,000
Prisca		4,000
Current accounts:		
Lydia		1,200
Mercy		800
Prisca		800
Drawings:		
Lydia	944	
Mercy	1,216	
Prisca	1,440	
	<u>38,400</u>	<u>38,400</u>

Assume that the net profit accrued evenly throughout the year.

#### Required:

- Statement of profit or loss and appropriation account in columnar form for the two periods ended 30 September 2019 and 31 March 2020. (6 marks)
- Partners' capital accounts. (4 marks)
- Partners' current accounts. (4 marks)
- Statement of financial position as at 31 March 2020. (6 marks)

(Total: 20 marks)

### QUESTION FOUR

Tamu Ltd. is a company that manufactures biscuits. The following trial balance was extracted from the books of the company as at 31 March 2020:

	Sh."000"	Sh."000"
Sales		7,800,441
Building: Cost	390,000	
Accumulated depreciation (1 April 2019)		30,000
Land	120,000	
Retained profits (1 April 2019)		127,425
Plant and machinery	2,190,000	
Office equipment	330,000	
Motor vehicles	600,000	

	Sh. "000"	Sh. "000"
Accumulated depreciation (1 April 2019):		
Plant and machinery		673,500
Office equipment		73,500
Motor vehicles		240,000
General administrative expenses	189,033	
Interim dividends on preference shares	30,000	
Bank interest	21,210	
Factory power	90,042	
Office salaries	138,081	
Insurance	498,039	
Rates	60,348	
Advertising expenses	150,513	
Rent	570,144	
Maintenance (plant)	120,189	
Directors' salaries	90,306	
Heating and lighting	180,342	
Bank		150,060
Purchases (raw materials)	1,555,800	
Return inwards	45,318	
Transport expenses	255,039	
Manufacturing wages	1,504,200	
Allowance for doubtful debts		3,000
Inventory (1 April 2019):		
Raw materials	210,000	
Work-in-progress	378,000	
Finished goods	750,000	
Accounts receivable and accounts payable	1,500,000	1,068,678
Ordinary shares (Sh.150 per share)		1,200,000
10% redeemable preference shares (Sh.300 per share)		600,000
	<u>11,966,604</u>	<u>11,966,604</u>

**Additional information:**

1. Accrued expenses as at 31 March 2020 were as follows:

	Sh. "000"
Heating and lighting	3,642
Rent	6,963

2. Prepaid expenses as at 31 March 2020 were as follows:

	Sh. "000"
Rates	9,420
Insurance premium	10,080

3. Depreciation and respective allocation is provided as follows:

Asset	Rate	Basis	Expense
Buildings	2%	Cost	Administration
Plant and machinery	15%	Cost	Factory
Office equipment	10%	Cost	Administration
Motor vehicles	25%	Reducing balance	Distribution

4. Rent, rates, insurance, heating and lighting to be apportioned in the ratio 5:1 in relation to factory and administration.  
5. The directors' salaries include Sh.20,000,000 paid to the production directors and office salaries of Sh.64,237,000 paid to salesmen.  
6. Allowance for doubtful debts is to be maintained at 1% of the accounts receivable as at 31 March 2020.  
7. Inventories as at 31 March 2020 were as follows:

	Sh. "000"
Raw materials	56,200
Work-in-progress	47,190

8. The factory produced 1,500 units. Only 100 units were in the inventory as at 31 March 2020.  
9. Corporate tax for year ended 31 March 2020 is estimated at Sh.100,000,000.

**Required:**

- (a) Manufacturing account for the year ended 31 March 2020. (10 marks)  
(b) Statement of profit or loss for the year ended 31 March 2020. (10 marks)

**(Total: 20 marks)**

### QUESTION FIVE

(a) Explain the following accounting concepts:

(i) Matching concept.

(2 marks)

(ii) Realisation concept.

(2 marks)

(b) One of the qualities of accounting information is reliability.

Highlight four characteristics that accounting information could have in order for it to be reliable.

(4 marks)

(c) Outline six challenges that might be faced by an organisation that is switching from a manual accounting system to a computerised accounting system.

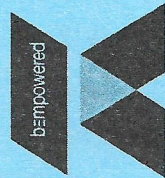
(6 marks)

(d) Discuss three sources of income for non-profit-making organisations.

(6 marks)

**(Total: 20 marks)**

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CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

TUESDAY: 26 November 2019.

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 limitations of ratio analysis. (4 marks)
- (b) Explain four principles that may be used to guide a manufacturing entity in apportioning overhead costs. (4 marks)
- (c) Discuss three guiding ethics for professional accountants. (6 marks)
- (d) Explain three types of errors that may cause the trial balance not to balance. (6 marks)
- (Total: 20 marks)

QUESTION TWO

Regina Rai is a businesswoman who does not prepare proper books of account. She makes a gross profit to cost of sales of  $\frac{3}{7}$  per annum. The following balances were extracted from her records as at 30 September:

	2018 Sh. "000"	2019 Sh. "000"
Land and buildings	18,000	18,000
Equipment	4,800	3,840
Furniture and fittings	2,400	1,920
Motor vehicles	6,000	4,500
Inventory	3,600	?
Accounts receivable	5,400	7,200
Pre-paid rates	180	240
Bank balance	1,620	15,630
15% bank loan	12,000	6,000
Accounts payable	2,700	3,000
Accrued electricity	300	480

Additional information:

- On 1 April 2019, Regina repaid part of the loan by cheque of Sh.6,000,000.
- Regina did not maintain records on cash withdrawn from the bank for personal use. The balancing figure in the bank account is to be treated as personal drawings.
- Total sales for the year ended 30 September 2019 amounted to Sh.360,000,000, while purchases amounted to Sh.253,200,000 for the same period. All purchases and sales were on credit.
- The discounts for the year ended 30 September 2019 were as follows:

	Sh.
Discounts allowed	960,000
Discounts received	900,000
- Bad debts written off during the year ended 30 September 2019 amounted to Sh.240,000.
- On 1 April 2019, Regina purchased some equipment for use in the business at a cost of Sh.600,000. No depreciation is charged on the year of purchase.
- The following expenses were paid by cheque during the year:

	Sh. "000"
Salaries	36,210
Rates, insurance and electricity	23,280
Interest on loans	900

**Required:**

- (a) Income statement for the year ended 30 September 2019. (12 marks)
- (b) Statement of financial position as at 30 September 2019. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) In the measurement of profit, partnership salaries are treated as an appropriation while directors' fees on the other hand, are treated as an expense.

Explain the difference for this treatment.

(4 marks)

- (b) The following balances were extracted from the books of Meza Ltd. on 30 June 2019:

	Sh. "000"
Authorised and issued share capital:	
Ordinary shares (Shs.5 par value)	150,000
10% preference shares (Sh.10 par value)	60,000
Inventory as at 30 June 2019	95,778
Accounts receivable and prepayments	40,800
Accounts payable and accruals	20,583
Bank balance	11,694
12% debentures	24,000
General reserves	42,000
Bad debts	510
Gross profit for the year	122,262
Wages and salaries	42,300
Insurance and rates	2,115
Telephone expenses	930
Electricity and water	1,824
Debenture interest	1,440
Directors' fees	3,750
General expenses	4,662
Motor vehicles (cost Sh.59,100,000)	40,200
Office furniture and equipment (cost Sh.36,960,000)	11,160
Land and buildings at cost	198,060
Profit and loss account (1 July 2018)	36,378

**Additional information:**

- Depreciation is to be provided as follows:
  - Motor vehicles at a rate of 20% per annum on cost.
  - Office furniture and equipment at a rate of 15% per annum on cost.
- As at 30 June 2019, an amount of Sh.822,000 for electricity consumed has not been paid.
- The insurance expense amount on 30 June 2019 includes an amount of Sh.450,000 paid in June 2019 for the period of 1 July 2019 to 30 September 2019.
- Provisions for the following are to be made:

	Sh. "000"
Directors' fees	7,500
Audit fees	7,200

- The directors recommended that:
  - Sh.18,000,000 be transferred to the general reserve.
  - The preference share dividend be paid.
  - A 10% ordinary share dividend be paid.

**Required:**

- (i) Income statement and appropriation account for the year ended 30 June 2019. (10 marks)
- (ii) Statement of financial position as at 30 June 2019. (6 marks)
- (Total: 20 marks)**

## QUESTION FOUR

The following information relates to Furahi Sana Social Club for the year ended 30 June 2019:

### Statement of receipts and payments

Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward:			
Bank	50,000	Canteen purchases	30,150
Cash	6,000	Electricity and water	4,050
Subscriptions received	144,000	Sports equipment	30,000
Canteen sales	40,500	Canteen wages	4,500
Donations	30,000	Canteen expenses	2,250
Dance ticket sales	27,000	Secretary's allowances	67,500
Investment income	9,000	Training fees	22,500
Interest income	5,400	Groundsmen's wages	18,000
		Dance expenses	13,500
		Travel expenses	18,900
		Sports pavilion expenses	8,100
		Balance carried forward:	
		Bank	50,000
		Cash	42,450
	<u>311,900</u>		<u>311,900</u>

### Additional expenses:

- The following balances were available as at 30 June:

	2018 Sh. "000"	2019 Sh. "000"
Club house	153,000	153,000
Sports equipment	36,000	?
Furniture and fittings (at cost)	27,000	27,000
Canteen inventory	9,000	11,250
Subscriptions in arrears	10,800	12,600
Subscriptions in advance	8,100	20,700
Outstanding electricity and water expenses	1,350	3,300
Canteen payables	4,050	5,400
Accumulated depreciation:		
Sports equipment	12,600	?
Furniture and fittings	8,100	?
Investment (at cost)	36,000	36,000

- Subscription received by the club during the year ended 30 June 2019 are as follows:

Year	Sh. "000"
2018	9,000
2019	114,300
2020	20,700

- The club decided to write off subscription arrears amounting to Sh.9,000,000.
- Canteen sales amounting to Sh.4,500,000 in cash were omitted from the records.
- Depreciation is charged on a straight line basis as follows:
 

Asset	Rate
Sports equipment	20% per annum
Furniture and fittings	10% per annum
- During the year ended 30 June 2019, sports equipment was disposed of at Sh.9,000,000 on credit. The equipment had cost Sh.18,000,000 and had been in use for two years.
- During the year ended 30 June 2019, the club house was extended at a cost of Sh.18,000,000. This was not recorded in the books.

### Required:

- Canteen income statement for the year ended 30 June 2019. (4 marks)
- Income and expenditure statement for the year ended 30 June 2019. (8 marks)
- Statement of financial position as at 30 June 2019. (8 marks)

(Total: 20 marks)

### QUESTION FIVE

- (a) Highlight five factors that an organisation might consider when sourcing for accounting software. (5 marks)
- (b) Identify five features of a public sector entity. (5 marks)
- (c) The following transactions relate to the sales ledger of Joy Jibu for the year ended 30 September 2019:

	Sh. "000"
Balance on sales ledger control account (1 October 2018)	124,950
Sales	1,046,920
Receipts	972,594
Discounts allowed	25,438

There were no credit balances on the ledger cards.

#### Additional information:

1. The bank statement showed a credit transfer of Sh.2,772,000 which had been omitted.
2. Debts settled by set-off against accounts payable of Sh.40,544,000 had been omitted as at 30 September 2019.
3. As at 30 September 2019, bad debts of Sh.8,960,000 had not been recorded in the control account.
4. Cash received of Sh.16,422,000 was recorded in the control account. It was later discovered that this was not a sale of goods, but disposal of motor vehicles.

#### Required:

Sales ledger control account for the year ended 30 September 2019.

(10 marks)

(Total: 20 marks)

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CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

MONDAY: 20 May 2019.

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) Giving examples, distinguish between the following types of errors:
- (i) "Error of commission" and "error of principle". (4 marks)
  - (ii) "Compensating error" and "error of complete reversal of entries". (4 marks)
- (b) In the context of accounting for not-for-profit organisations, explain three differences between a receipts and payments account and an income and expenditure account. (6 marks)
- (c) With reference to public sector accounting, explain three advantages of the commitment basis of accounting. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the meaning of the following terms:
- (i) Duality concept. (2 marks)
  - (ii) Prudence concept. (2 marks)
- (b) The following are the statements of financial position of Pwani Limited as at 31 December 2017 and 31 December 2018:

Statement of financial position as at 31 December:

	2018 Sh. "000"	2017 Sh. "000"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	7,680	5,910
<b>Current assets:</b>		
Inventories	2,070	1,830
Trade receivables	1,170	1,020
Cash balances	75	168
	<u>3,315</u>	<u>3,018</u>
Total assets	<u>10,995</u>	<u>8,928</u>
<b>Equity and liabilities:</b>		
Share capital	360	300
Share premium	150	75
Retained earnings	5,697	3,603
Revaluation surplus	120	120
Total equity	<u>6,327</u>	<u>4,098</u>
<b>Non-current liabilities:</b>		
Long-term loan	2,250	2,400
<b>Current liabilities:</b>		
Trade payables	2,208	2,250
Bank overdraft	60	90
Current tax	150	90
	<u>2,418</u>	<u>2,430</u>
Total equity and liabilities	<u>10,995</u>	<u>8,928</u>

**Additional information:**

1. Pwani Ltd.'s profit after tax for the year ended 31 December 2018 was Sh.2,180,000.
2. The property, plant and equipment in the books of Pwani Ltd. as at 1 January 2018 had been acquired at a cost of Sh.7,290,000. The company's depreciation policy is to depreciate all assets at the rate of 10% per annum on the straight line basis from the date of purchase to the date of sale. On 1 September 2018, Pwani Ltd. sold an item of plant which had a net book value at the date of sale of Sh.520,000. This item of plant had originally cost Sh.800,000 and the company made a loss of Sh.20,000 on the sale of this item of plant.
3. The company's finance cost and income tax expense for the year ended 31 December 2018 amounted to Sh.48,000 and Sh.63,000 respectively.

**Required:**

Statement of cash flows in accordance with IAS 7 "Statement of Cash Flows", for the year ended 31 December 2018.

(16 marks)

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

On 1 April 2018, Kamau, Johana and Lelei started a partnership business to sell office stationery, sharing profits and losses in the ratio of 2:2:1 respectively. On 1 April 2018, Kamau contributed Sh.20 million, Johana Sh.10 million and Lelei Sh.10 million as capital. These amounts were immediately deposited into a newly opened bank account for the partnership business.

**Additional information:**

1. During the year ended 31 March 2019, the partnership paid the following amounts through the bank account:

**Sh. "000"**

Licenses and clearing charges	3,840
Bank charges (per month)	6
Insurance expenses	1,152
Purchase of office furniture and fittings	256
Purchase of computers	1,800
Staff salaries and wages (per month)	200
Purchases of stationery	192,000
Drawings (per month) - Kamau	100
- Johana	160
- Lelei	100

2. An analysis of transactions revealed the following:

- Telephone bills amounted to Sh.16,000 per month and those for electricity amounted to Sh.20,000 per month. The telephone and electricity bills for the month of March 2019 were paid on 5 April 2019. All telephone and electricity bills were paid through the bank.
- Accounts payable for purchases amounting to Sh.1.2 million were still unpaid as at 31 March 2019.
- Accounts receivable amounting to Sh.1.8 million were still outstanding as at 31 March 2019.
- Inventory as at 31 March 2019 was valued at Sh.17.4 million.
- Included in the inventory in bullet four above is office stationery which cost Sh.2.2 million but which can now only be sold for Sh.1.6 million because of deterioration while in storage.

3. All the cash from cash sales was used to make the following payments:

**Sh. "000"**

Office running expenses (per week)	20
Rent of godowns and office space (per month)	200
Casual wages (per week)	8
Local transport (per week)	14
Partners' salaries as follows:	
Kamau (per month)	60
Johana (per month)	72

4. Receipts from debtors which were banked during the year amounted to Sh.218 million.

5. Depreciation was to be provided for as follows:

<b>Asset</b>	<b>Rate per annum</b>
Office furniture and fittings	12.5% on cost
Computers	20% on cost

6. The partners are entitled to 10% per annum interest on their fixed capitals.
7. Assume that there are 12 months and 52 weeks in one year.

**Required:**

- (a) Income statement for the year ended 31 March 2019. (10 marks)
- (b) Partners' current accounts as at 31 March 2019. (4 marks)
- (c) Statement of financial position as at 31 March 2019. (6 marks)

**(Total: 20 marks)****CA11 & CF11 Page 2****Out of 4**

we have answers to these past papers

#### QUESTION FOUR

Adam Musa operates a manufacturing business trading as AM Manufacturing Enterprise. The following trial balance relates to this business as at 31 December 2018:

	Sh."000"	Sh."000"
Factory building at cost	4,000	
Plant and machinery at cost	8,000	
Land at cost	12,000	
Motor vehicle at cost	2,400	
Provision for depreciation (1 January 2018):		
Factory building		400
Plant and machinery		3,200
Motor vehicle		960
Sales		104,665
Purchases of raw materials	60,000	
Factory wages	12,000	
Office salaries	6,000	
Distribution costs	2,850	
Factory rates and insurance	800	
Provision for unrealised profit (1 January 2018)		480
Carriage on raw materials	600	
Bank balance	8,100	
Trade receivables and trade payables	1,100	800
Royalties paid	800	
Allowance for doubtful debts (1 January 2018)		45
Office rates and insurance	450	
Factory fuel	1,200	
Inventory (1 January 2018):		
Raw materials	2,000	
Work-in-progress	3,200	
Finished goods	2,400	
Factory manager's salary	650	
Capital		18,000
	<u>128,550</u>	<u>128,550</u>

#### Additional information:

- During the year, Adam Musa had taken raw materials valued at Sh.2,500,000 from his store for private use.
- Manufactured goods are transferred to the warehouse at cost plus 25% of the factory cost.
- Allowance for doubtful debts is to be maintained at 5% of the trade receivables as at the year end.
- Inventory as at 31 December 2018 was valued as follows:

#### Sh."000"

Raw materials	3,500
Work-in-progress	4,500
Finished goods	4,000

- Accrued rates as at 31 December 2018 were as follows:

#### Sh."000"

Factory	600
Office	30

- Prepaid insurance as at 31 December 2018 was as follows:

#### Sh."000"

Factory	300
Office	50

- Depreciation is to be provided for as follows:

Asset	Rate per annum
Factory building	2½% on cost
Motor vehicle	20% on cost
Plant and machinery	10% on cost

- Provision for unrealised profit as at the end of the year should be Sh.800,000.

#### Required:

- Manufacturing account for the year ended 31 December 2018. (6 marks)
- Income statement for the year ended 31 December 2018. (6 marks)
- Statement of financial position as at 31 December 2018. (8 marks)

(Total: 20 marks)

## QUESTION FIVE

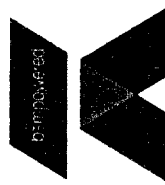
Moses Rono set up his restaurant business on 1 April 2018.

The following information relates to this business:

1. On 1 April 2018, Rono opened a business bank account and deposited Sh.500,000 of his own personal savings into the account. He also introduced into the business cash amounting to Sh.70,000 and equipment worth Sh.150,000 from his house. The cash was retained in the business's cash box.
2. On 1 April 2018, Rono signed a lease agreement for the premises which required that he pays Sh.120,000 in rent per year. Mr. Rono paid this by cheque through the business account.
3. During the year, the premises were repainted at a cost of Sh.7,500 which was paid in cash from Rono's private funds. The paint was bought by Rono at Sh.35,000 which was paid by cheque through the business account. Rono also bought furniture at a cost of Sh.120,000 which was paid by cheque through the business account. In addition, Rono bought a safe at Sh.30,000 which was also paid for by cheque through the business account.
4. On 1 April 2018, Rono borrowed Sh.90,000 from a friend and the funds were deposited into the business bank account. Rono was to pay interest of 10% per annum on the loan. The term of the loan is three years. The loan interest was still unpaid as at 31 March 2019.
5. Most of Rono's sales were in cash. Cash is deposited into the business bank account every week. During the year, cash sales amounted to Sh.100,000 per week except for the five weeks of December where due to the Christmas festivities, weekly sales increased by 80% of cash sales. Assume that one year has 52 weeks.
6. Rono also has corporate clients that are invoiced after hosting their events in the restaurant. Rono raised invoices amounting to Sh.780,000 in relation to the corporate clients during the year and had received and lodged into the business bank account Sh.620,000 by year end.
7. Rono maintains a file where all records are held. A summary of this file is as follows:
  - Inventory purchased on credit during the year amounted to Sh.2,600,000 of which Rono estimated that there was Sh.235,000 of inventory at the year end.
  - The amount owed to suppliers was Sh.300,000 at the year end.
  - Electricity bills averaged Sh.26,000 per month and were paid in cash. The bill for March 2019 was paid in April 2019.
  - Salaries and wages for the year amounted to 20% of cash sales. These were paid in cash.
  - Consumables used amounted to Sh.120,000 during the year. They were paid for in cash.
  - Miscellaneous expenses for the year paid for in cash amounted to Sh.43,000.
  - Insurance expenses for the year amounted to Sh.90,000. These were paid for by cheque through the business bank account.
8. Rono feels that it is appropriate to depreciate all the assets of the business at the rate of 15% per annum on cost regardless of the date of purchase. The safe is not to be depreciated.
9. During the year, Rono withdrew Sh.20,000 per month in cash for his private use. He also took Sh.20,000 worth of inventory out of the business to host his daughter's birthday party.

### Required:

- (a) Income statement for the year ended 31 March 2019. (12 marks)
  - (b) Statement of financial position as at 31 March 2019. (8 marks)
- (Total: 20 marks)**
- .....



**kasneb**

**CPA PART I SECTION 1**

**CIFA PART I SECTION 1**

**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 the context of the International Accounting Standards Board's Conceptual Framework for Financial Reporting, explain the five elements of financial statements. (10 marks)
- (b) With reference to the preparation of the financial statements of a manufacturing entity, explain the meaning of the following terms:
- (i) Direct costs. (2 marks)
- (ii) Overheads. (2 marks)
- (c) Differentiate between the "direct" and "indirect" methods of presentation of the statement of cash flows. (6 marks)  
**(Total: 20 marks)**

**QUESTION TWO**

- (a) Outline four objectives of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)
- (b) The following information relates to Mapozi Social Club for the year ended 30 June 2018:

**Statement of receipts and payments**

<b>Receipts</b>	<b>Sh."000"</b>	<b>Payments</b>	<b>Sh."000"</b>
Balance brought down	3,910	Repairs to sports pavillion	2,220
Canteen sales	183,840	Secretary's allowances	2,814
Donation received	2,400	Transport expenses	7,260
Subscriptions received for the year:		Canteen expenses	702
2016/2017	4,200	Canteen staff wages	25,872
2017/2018	43,050	Groundsmen's wages	65,304
2018/2019	3,600	Payment for canteen supplies	115,860
	<u>241,000</u>	Balance carried down	<u>20,968</u>
			<u>241,000</u>

**Additional information:**

- As at 30 June 2017, the club's land was valued at Sh.120 million and the sports pavillion at Sh.60 million. The sports pavillion is depreciated at the rate of 10% per annum on cost or valuation.
- The club's equipment as at 30 June 2017 was valued at Sh.7.5 million and is to be depreciated at the rate of 20% per annum on cost or valuation.
- Subscriptions owing by members amounted to Sh.4.2 million as at 30 June 2017 and Sh.5.25 million as at 30 June 2018.
- The following balances were available as at 30 June:

	<b>2017</b>	<b>2018</b>
	<b>Sh."000"</b>	<b>Sh."000"</b>
Canteen expenses owing	676	1,008
Transport expenses owing	-	796
Inventory in canteen for sale	13,488	16,674
Owing for canteen supplies	9,882	13,020

**Required:**

- (i) Canteen income statement for the year ended 30 June 2018. (4 marks)
- (ii) Income and expenditure statement for the year ended 30 June 2018. (6 marks)
- (iii) Statement of financial position as at 30 June 2018. (6 marks)

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

Mercy, Nelly and Onyango are in partnership sharing profits and losses equally after allowing for interest on capital at the rate of 5% per annum to the partners and a salary to Nelly of Sh.60,000 per month.

The trial balance of the partnership as at 30 September 2018 was as follows:

	Sh. "000"	Sh. "000"
Sales		60,000
Inventory (1 October 2017)	9,000	
Purchases	30,900	
Operating expenses	19,200	
Loan from: Nelly		3,000
Onyango		6,000
Land	3,000	
Buildings	15,000	
Plant and machinery (cost)	21,000	
Accumulated depreciation (30 September 2018)		12,000
Accounts receivable and accounts payable	12,000	9,900
Bank overdraft		3,300
Capital accounts: Mercy		7,500
Nelly		6,000
Onyango		3,000
Current accounts: Mercy		600
Nelly		900
Onyango		600
Drawings: Mercy	900	
Nelly	1,200	
Onyango	600	
	<u>112,800</u>	<u>112,800</u>

**Additional information:**

- On 1 April 2018, the terms of the partnership agreement were changed. The new terms provided as follows:
  - A profit sharing ratio of 5:3:2 for Mercy, Nelly and Onyango respectively.
  - Salaries of Sh.30,000 per month to Nelly and Onyango.
  - Interest on capital at the rate of 5% per annum.
  - For the purpose of the changes, goodwill was valued at Sh.3,600,000 and was to be written off immediately while the land and buildings were valued at Sh.6,000,000 and Sh.19,200,000 respectively.
- Sales include a credit sale of Sh.1,800,000 in respect of goods sold on the basis of confirmation by the customer. The goods had cost Sh.600,000. As at 30 September 2018, the customer had not confirmed whether he would buy the goods.
- Interest on the loans from Nelly and Onyango is to be charged at the rate of 10% per annum. This interest had not been paid as at 30 September 2018.
- Closing inventory as at 30 September 2018 was valued at Sh.7,200,000.
- Unless where otherwise provided, the incomes and expenses accrued evenly throughout the year.

**Required:**

- (a) Income and appropriation statement for the year ended 30 September 2018. (8 marks)
- (b) Partners' current accounts as at 30 September 2018. (6 marks)
- (c) Statement of financial position as at 30 September 2018. (6 marks)

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

Zam Zam Ltd. has an authorised share capital of 100,000,000 shares of Sh.1 each and 20,000,000 8% preference shares of Sh. 1 each. The following trial balance was extracted as at 31 December 2017.

	Sh. "000"	Sh. "000"
Ordinary share capital (issued, Sh.0.5 paid per share)		50,000
8% preference share capital (issued and fully paid)		8,000
Plant and machinery at cost	34,000	

	Sh."000"	Sh."000"
Motor vehicles at cost	16,000	
Computer hardware at cost	5,000	
Accounts receivable and accounts payable	34,980	15,900
Corporate tax payable (1 January 2017)		1,970
Bank balance	14,505	
10% debentures		9,000
Inventories (1 January 2017)	25,200	
General expenses	11,020	
Purchases and sales	164,764	233,384
Preliminary expenses	2,400	
Debenture interest paid	450	
Investment income		1,125
Salaries	24,210	
Insurance premiums	750	
Investments (shares in Nguru Ltd.)	13,500	
Accumulated depreciation (1 January 2017):		
Plant and machinery		16,000
Motor vehicles		7,200
Computer hardware		1,750
Directors' fees	7,000	
Auditors' fees	2,500	
Computer software	1,500	
Interim preference dividend paid	320	
Retained earnings (1 January 2017)		8,470
Allowance for doubtful debts (1 January 2017)		5,300
	<u>358,099</u>	<u>358,099</u>

#### Additional Information:

- Inventories as at 31 December 2017 were valued at Sh.28,247,000.
- Investments have a market value of Sh.15,000,000.
- Debenture interest is payable in two equal annual instalments.
- Insurance premiums prepaid as at 31 December 2017 amounted to Sh.240,000.
- Depreciation is to be provided as follows:
  - Plant and machinery, at the rate of 10% per annum on cost.
  - Motor vehicles, at the rate of 20% per annum on reducing balance.
  - Computer hardware, at the rate of 25% per annum on cost.
- The allowance for doubtful debts is to be increased to Sh.7,500,000.
- A corporate tax of Sh.4,750,000 is to be provided for with respect to the year ended 31 December 2017.
- The directors proposed to pay the remaining dividend due to the preference shareholders and a first and final dividend to the ordinary shareholders at the rate of 6%.
- A sum of Sh.2,000,000 is to be transferred to the general reserve.

#### Required:

- Income statement for the year ended 31 December 2017. (8 marks)
  - Statement of changes in equity for the year ended 31 December 2017. (4 marks)
  - Statement of financial position as at 31 December 2017. (8 marks)
- (Total: 20 marks)

#### QUESTION FIVE

- Outline four reasons why it is important to undertake bank reconciliation. (4 marks)
- The income statement of United Trading Enterprises (UTE) for the year ended 31 December 2017, as prepared by an accounts assistant, indicated a net profit of Sh.49,360,000. The cash book as at 31 December 2017 showed a balance at bank of Sh.6,440,000. Your attention, however, has been drawn to the following matters:
  - Cheques from customers totalling Sh.4,980,000 which were recorded in the cash book on 29 December 2017, were actually not credited by the bank until 2 January 2018.
  - Cheques issued on 31 December 2017 totalling Sh.7,420,000 in favour of suppliers were not paid by the bank until after the end of the year (that is, after 31 December 2017).
  - On 22 November 2017, the bank paid an amount of Sh.3,600,000 with respect to a standing order from UTE for rent of business premises for the three months to 31 January 2018 but, unfortunately, no entry for this payment had been made in the cash book. Additionally, no record of this rent had been made in the income statement for the period.

4. On 31 December 2017, Mr. Ken Abusi, a customer, had paid Sh.2,340,000 directly into UTE's bank account in full settlement of a debt of Sh.2,400,000 owing to UTE but no entry had been made in the books.
5. On 31 December 2017, a cheque for Sh.480,000 was received from a customer in settlement of a sales invoice for the same amount. The cheques were lodged into UTE's bank account. However, still on 31 December 2017, the customer returned the goods and also instructed his bankers not to pay the cheque. This instruction was carried out the same day but no entries in respect of these latter developments have been made in UTE's books. The cost of these goods amounting to Sh.320,000 was not included in the closing inventories.
6. A cheque for Sh.840,000 from an insurance company in settlement of a claim for damage to inventory by fire had been paid into and credited by the bank on 21 December 2017, but an estimated amount of Sh.800,000 had been entered in UTE's income statement.

**Required:**

- (i) Adjusted cash book as at 31 December 2017. (4 marks)
- (ii) Bank reconciliation statement as at 31 December 2017. (4 marks)
- (iii) Statement of corrected net profit for the year ended 31 December 2017. (6 marks)
- (iv) Explain how the bank balance will be reported in UTE's final accounts. (2 marks)

**(Total: 20 marks)**

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CPA PART I SECTION 1

CIFA PART I SECTION 1

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

Asuba Enterprises is a business run by a sole trader. The following trial balance was extracted from the accounts of the business as at 31 March 2018:

	Sh.	Sh.
Capital		1,852,800
Inventory (1 April 2017)	242,000	
Sales		4,214,500
Purchases	1,673,500	
Electricity expenses	22,300	
Discounts received		42,700
Purchases returns		60,400
Discounts allowed	24,200	
Motor vehicle running expenses	15,800	
Drawings	320,000	
Bank balance	245,110	
Salaries	1,080,000	
Insurance	154,000	
Trade receivables	1,101,400	
Irrecoverable debts	14,200	
Allowance for receivables (1 April 2017)		31,530
Trade payables		762,880
General expenses	67,800	
9% loan		1,500,000
Interest on loan paid	120,000	
Land and building	3,400,000	
Accumulated depreciation on building (1 April 2017)		260,000
Equipment at cost	220,000	
Accumulated depreciation on equipment (1 April 2017)		103,000
Motor vehicles at cost	260,000	
Accumulated depreciation on motor vehicles (1 April 2017)		132,500
	<u>8,960,310</u>	<u>8,960,310</u>

Additional information:

- Only 10 months' salaries are shown in the trial balance. An equal amount is paid for salaries for each month of the year.
- As at 31 March 2018, Sh.32,000 had been prepaid for insurance, whilst Sh.4,100 was owing for general expenses.
- Sh.46,000 had been charged to general expenses for the owner's private holiday.
- As at 31 March 2018, inventory was valued at Sh.225,000.
- A customer owing Sh.50,400 has been declared bankrupt. This amount is to be written off in full. An allowance for receivables is to be maintained at 3% of the remaining trade receivables.
- As at 31 March 2018, land was valued at Sh.1,000,000. Land is not to be depreciated.
- Depreciation is to be provided as follows:
  - Building - 4% per annum on cost.
  - Equipment - 25% per annum on cost.
  - Motor vehicles - 40% per annum on reducing balance.
- There were no additions or disposals of non-current assets during the financial year.

**Required:**

- (a) The income statement for the year ended 31 March 2018. (8 marks)
- (b) The statement of financial position as at 31 March 2018. (6 marks)
- (c) Explain the accounting concepts involved in each of the additional information notes 1, 3 and 5 above. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Highlight six uses of the general journal. (6 marks)
- (b) The sales ledger control account of Pie Ltd. for the year ended 31 March 2018 was prepared from the following information:

	Sh. "000"
Debit balance (1 April 2017)	128,540
Credit balance (1 April 2017)	2,800
<b>Totals for the year from 1 April 2017 to 31 March 2018:</b>	
Credit sales	1,144,200
Cash sales	52,400
Cheques received from credit customers	1,046,200
Cash received from credit customers	7,100
Sales returns from credit customers	12,000
Discounts allowed	2,480
Dishonoured cheques	5,000
Contras (purchases ledger)	10,640
Irrecoverable debts	6,500

The sales ledger control account balance, which is part of the double entry system, failed to agree with the total receivables of Sh.189,380,000 as shown by the schedule of receivables. The following errors were subsequently discovered:

1. A customer had returned goods to Pie Ltd. at the selling price of Sh.2,400,000. The goods had been bought on credit. No entries had been made to record the return of the goods in the records of Pie Ltd.
2. The discounts allowed column in the cash book had been overcast by Sh.1,080,000.
3. No contra entry had been made in the receivables account in the sales ledger in respect of purchases by Pie Ltd. of goods at a list price of Sh.2,000,000. Pie Ltd. received a trade discount of 10% on these goods. This transaction had been correctly dealt with in the sales ledger control account.
4. A credit sale of Sh.3,520,000 to Joto Ltd. was correctly recorded in the sales ledger control account, but no other entry had been made.
5. A cheque received from a customer for Sh.6,900,000 which had been correctly processed through the books, had subsequently been dishonoured. No entries were made to record this dishonoured cheque.
6. Dot Ltd., a customer, has recently been declared bankrupt and the amount owed of Sh.3,500,000 is to be written off but no entries have yet been made.

**Required:**

- (i) Revised sales ledger control account for the year ended 31 March 2018. (8 marks)
- (ii) Revised statement showing the correct total of the schedule of receivables for the year ended 31 March 2018. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

ABC Ltd. is a manufacturer of motor vehicle spare parts. The company's trial balance as at 31 December 2017 was as follows:

	Sh. "000"	Sh. "000"
Share capital		30,000
Share premium		17,150
Revenue reserves (1 January 2017)		9,800
8% debentures		20,000
Inventory as at 1 January 2017:		
Raw materials	18,100	
Work-in-progress	9,350	
Finished goods	12,800	
Purchases of raw materials	60,350	
Creditors		18,050
Land at cost	6,000	
Factory and office buildings (at cost)	17,500	
Factory, provision for depreciation (1 January 2017)		1,750
Plant and machinery (at cost)	12,600	

	Sh."000"	Sh."000"
Plant and machinery, provision for depreciation (1 January 2017)		4,000
Motor vehicles (at cost)	4,200	
Motor vehicles, provision for depreciation (1 January 2017)		1,800
Sales		112,750
Debtors	24,200	
Factory wages (direct labour)	11,900	
Factory wages (other)	4,800	
Factory heating and electricity	5,550	
Factory overheads	8,920	
Machine repairs and maintenance	4,100	
Distribution expenses	6,350	
Selling expenses	2,750	
Administrative expenses	2,920	
Interest on debentures paid	800	
Bank balance	1,960	
Cash in hand	150	
	<u>215,300</u>	<u>212,750</u>

#### Additional information:

- Inventory as at 31 December 2017 was valued at:

	Sh.
Raw materials	17,200,000
Work-in-progress	9,950,000
Finished goods	14,650,000

- Depreciation is to be provided as follows:

- Factory and office buildings - 2% per annum on cost.
- Plant and machinery - 10% per annum on cost.
- Motor vehicles - 25% per annum on reducing balance.

Factory and office buildings are regarded as 6/7 for factory and 1/7 for office; motor vehicles at 75% for distribution and 25% for sales.

- Although no provision for bad and doubtful debts had been made previously, it is considered necessary now to write off a debt of Sh.200,000 and to make a provision for doubtful debts of 1% on the balance of debtors.
- No entries have been made in the books of account of the company in respect of the following items accrued as at 31 December 2017:

	Sh.
• Factory electricity	- 320,000
• Repairs to machines	- 80,000
• Salesmen's travelling expenses	- 60,000
• Transport expenses (for delivery of finished goods)	- 70,000
• Directors' remuneration	- 250,000

- A consignment of raw materials was received between Christmas and new year, and due to the factory being closed, was stored in the gatekeeper's store. The invoice for Sh.170,000 for the consignment has not been recorded and the goods were not counted during the stock take as at 31 December 2017.
- Rates of Sh.960,000 had been paid in respect of the half-year from 1 October 2017. In the accounts, these should be divided between factory overheads and administrative expenses in the ratio of 5:1.
- Annual insurance premiums of Sh.900,000 were paid for the year commencing 1 May 2017. These were apportioned between factory overheads, distribution expenses and administrative expenses in the ratio of 4:1:1.
- A commission on net profit is payable to certain management staff of the company. A provision of 10% of the company's net profit after charging this commission is to be made.
- Tax for the year is provisionally estimated at Sh.500,000.
- The directors have proposed a dividend of 4% on the ordinary shares.

#### Required:

- Manufacturing account for the year ended 31 December 2017. (8 marks)
- Income statement for the year ended 31 December 2017. (6 marks)
- Statement of financial position as at 31 December 2017. (6 marks)

(Total: 20 marks)

#### QUESTION FOUR

- Explain three reasons why an entity's statement of cash flows might be more useful and reliable than its statement of comprehensive income. (6 marks)

- (b) The following are the financial statements of Ole Kina Ltd. for the year ended 31 March 2018:

**Ole Kina Ltd.**

**Income statement for the year ended 31 March 2018**

	Sh. "million"
Revenue	1,276.5
Cost of sales	(907)
	369.5
Distribution costs	(62.5)
Administrative expenses	(132)
	175
Interest received	12.5
Interest paid	(37.5)
	150
Tax	(70)
Profit after tax	(80)

**Ole Kina Ltd.**

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

	2018 Sh. "million"	2017 Sh. "million"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	190	152.5
Intangible assets	125	100
Investments	-	12.5
<b>Current assets:</b>		
Inventories	75	51
Receivables	195	157.5
Short-term investment	25	-
Cash in hand	1	0.5
Total assets	611	474
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital (10 million ordinary shares of Sh. 10 par value)	100	75
Share premium	80	75
Revaluation reserve	50	45.5
Retained earnings	130	90
<b>Non-current liabilities:</b>		
Loan	85	25
<b>Current liabilities:</b>		
Trade payables	63.5	59.5
Bank overdraft	42.5	49
Tax	60	55
Total equity and liabilities	611	474

**Additional information:**

- During the year, the investments classified as non-current assets were sold. The proceeds of the sale of these investments amounted to Sh.15 million.
- Fixtures and fittings, with an original cost of Sh.42.5 million and a carrying amount of Sh.22.5 million were sold for Sh.16 million during the year.
- The following information relates to property, plant and equipment:

	31 March 2018 Sh. "million"	31 March 2017 Sh. "million"
Cost	360	297.5
Accumulated depreciation	(170)	(145.0)
Carrying amount	190	152.5
- 2.5 million ordinary shares of Sh.10 par value were issued during the year at a premium of Sh.2.0 per ordinary share.
- Dividends totalling Sh.40 million were paid during the year.

**Required:**

Statement of cash flows in accordance with international accounting standard (IAS) 7 "Statement of Cash Flows" for the year ended 31 March 2018.

(14 marks)

(Total: 20 marks)

### QUESTION FIVE

- (a) Faithful representation is the requirement that financial statements should be produced that accurately reflect the condition of a business. The faithful representation concept should extend to all parts of the financial statements including the results of operations, financial position and cash flows of the reporting entity.

**Required:**

Describe two attributes that financial statements should possess in order to meet the faithful representation criterion.

(4 marks)

- (b) In the context of public sector accounting, explain the meaning of the following terms:

(i) Fund accounting. (2 marks)

(ii) Commitment accounting. (2 marks)

- (c) Tuungane is a welfare club with an annual membership fee of Sh.200. The club's statement of financial position as at 31 December 2017, which is presented below, failed to balance and the difference was posted in the suspense account:

**Tuungane**

**Statement of financial position as at 31 December 2017**

	Sh.	Sh.
<b>Non-current assets:</b>		
Pavillion		1,260,000
<b>Current assets:</b>		
Bar stock	394,000	
Bar debtors	50,000	
Subscriptions in arrears	42,500	
Prepayments	9,200	
Bank balance	170,000	665,700
		1,925,700
Accumulated fund (1 January 2017)	1,337,700	
Surplus for the year	141,400	1,479,100
<b>Current liabilities:</b>		
Bar creditors	96,600	
Accruals	5,800	
Subscriptions in advance	65,700	
Suspense account	278,500	446,600
		1,925,700

On further investigation, the following matters were revealed:

1. Bar takings had been overcast by Sh.115,000.
2. 600 members had not paid their subscriptions as at 31 December 2017.
3. Depreciation for the pavillion amounting to Sh.56,000 had not been provided.
4. A loan of Sh.450,000 obtained from the bank was only recorded in the receipts and payments account.
5. Repairs on the pavillion amounting to Sh.135,000 had been capitalised.
6. Bar creditors of Sh.45,000 had been omitted from the creditors list.
7. A receipt of Sh.50,750 had been entered as a payment in the receipts and payments account.

**Required:**

- (i) Journal entries to correct the above errors (narrations not required). (6 marks)

- (ii) Suspense account duly balanced. (2 marks)

- (iii) Statement of adjusted surplus (or deficit) for the year ended 31 December 2017. (4 marks)

**(Total: 20 marks)**



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**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**

- (a) Distinguish between “accounting policies” and “accounting standards”. (4 marks)
- (b) Describe three objectives of the International Financial Reporting Standards (IFRS) Foundation. (6 marks)
- (c) The following information relates to the non-current assets of Jirani Mwema Ltd. as at 1 October 2016:

Non-current assets	Cost Sh.“000”	Accumulated depreciation Sh.“000”
Freehold property	35,000	-
Plant and machinery	26,250	10,115
Office equipment	5,250	2,555
Motor vehicles	15,750	9,100

**Additional information:**

1. The following non-current assets were acquired during the year ended 30 September 2017:

Date	Non-current asset	Cost Sh.“000”
1 October 2016	Machinery	3,500
1 April 2017	Motor vehicle	2,100

2. The following non-current assets were disposed of during the year ended 30 September 2017:

Date	Non-current asset	Sale proceeds Sh.“000”	Cost Sh.“000”	Accumulated depreciation Sh.“000”
1 October 2016	Machinery	2,415	3,150	350
1 January 2017	Office equipment	224	280	70
30 September 2017	Motor vehicle	1,120	1,750	175

3. Jirani Mwema Ltd. depreciates the assets using the straight-line method on a prorata basis at the following rates per annum:

Non-current asset	Rate per annum
Plant and machinery	20%
Office equipment	15%
Motor vehicles	25%

4. On 1 October 2016, the management of Jirani Mwema Ltd. decided to start depreciating freehold property at the rate of 2.5% per annum.

**Required:**

Non-current asset movement schedule for the year ended 30 September 2017.

(10 marks)

**(Total: 20 marks)**

## QUESTION TWO

The following is the receipts and payments account of Cheka Kidogo Sports Club for the year ended 30 September 2017:

Receipts	Sh. "000"	Payments	Sh. "000"
Bank and cash balance brought forward	6,912	Repairs and maintenance	2,976
Subscriptions	59,832	Purchases of sports equipment	13,560
Dinner dance	17,352	Salaries and wages	6,096
Canteen sales	15,768	Office expenses	9,960
Dividends	9,600	Printing and stationery	4,032
		Canteen purchases	11,928
		Dinner dance expenses	7,560
		Refund of subscriptions	1,080
		Sports prizes	600
		Transport	5,952
		Shares from companies	36,000
		Balance carried forward	9,720
	<u>109,464</u>		<u>109,464</u>

Balances of assets and liabilities as at 30 September:

	2016 Sh. "000"	2017 Sh. "000"
Land and sports field	24,000	24,000
Sports equipment (net book value)	16,560	?
Furniture and fittings (net book value)	5,760	?
Investment in company shares	84,000	?
Subscription in arrears	7,200	9,000
Salaries accrued	1,632	1,728
Inventory for canteen	3,888	4,416
Subscriptions in advance	2,040	?

### Additional information:

- Depreciation is to be provided for on a reducing balance basis at the following rates:
 

Non-current asset	Rate per annum
Furniture and fittings	10%
Sports equipment	20%
- During the year ended 30 September 2017, company shares valued at Sh.12,000,000 were sold for Sh.15,000,000. No entries have been made in the books in this respect.
- During the year ended 30 September 2017, subscriptions received amounting to Sh.5,976,000 were for the year ended 30 September 2016, while Sh.4,656,000 were for the year ended 30 September 2018.
- Any subscription in arrears after a period of twelve months is written off.

### Required:

- Canteen income statement for the year ended 30 September 2017. (3 marks)
  - Income and expenditure account for the year ended 30 September 2017. (10 marks)
  - Statement of financial position as at 30 September 2017. (7 marks)
- (Total: 20 marks)

## QUESTION THREE

- As a means to ensure strong financial management in the public sector, most governments have adopted International Public Sector Accounting Standards (IPSAS).

In reference to the above statement, discuss three ways in which governments could ensure the success of the adoption of these standards. (6 marks)

- (b) The following information was extracted from the financial statements of Happy Time Ltd.:

**Income statement for the year ended 30 June 2017:**

	Sh."000"
Revenue	105,000
Cost of sales	(63,000)
Gross profit	42,000
Operating expenses	(16,100)
	25,900
Finance cost	(868)
Profit before tax	25,032
Income tax expense	(7,280)
Profit after tax	17,752
Dividends	(7,700)
Retained profit for the year	10,052

**Statement of financial position as at 30 June 2017:**

	2017	2016
<b>Non-current assets:</b>	Sh."000"	Sh."000"
Property, plant and equipment	127,120	101,500
<b>Current assets:</b>		
Inventory	11,200	7,700
Accounts receivable	10,500	5,600
Bank balance	1,050	8,400
Total assets	149,870	123,200
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Share capital	45,500	35,000
Share premium	26,838	19,705
Revaluation reserve	3,500	-
	75,838	54,705
Accumulated profits	40,852	30,800
<b>Non-current liabilities:</b>		
Long term loan	16,100	23,100
<b>Current liabilities:</b>		
Accounts payable	4,900	5,600
Proposed dividend	4,900	4,200
Tax payable	7,280	4,795
	17,080	14,595
	149,870	123,200

**Additional information:**

- Property, plant and equipment

	Property Sh."000"	Plant Sh."000"	Total Sh."000"
<b>As at 30 June 2016:</b>			
Cost	58,800	75,600	134,400
Depreciation	(9,100)	(23,000)	(32,900)
Net book value	49,700	51,800	101,500
<b>As at 30 June 2017:</b>			
Cost	78,400	93,800	172,200
Depreciation	(10,780)	(34,300)	(45,080)
Net book value	67,620	59,500	127,120

- Plant disposed of during the year ended 30 June 2017 had an original cost of Sh.18,200,000 and accumulated depreciation of Sh.6,300,000. The disposal proceeds amounted to Sh.5,110,000.
- The dividends were declared before the year end.

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 30 June 2017.

(14 marks)

(Total: 20 marks)

#### QUESTION FOUR

The following trial balance was extracted from the books of Night Shade Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"
Land and buildings	151,000	
Motor vehicles at cost	60,000	
Accumulated depreciation on motor vehicles (1 October 2016)		15,000
Purchases and sales	1,204,000	1,574,050
Inventory (1 October 2016)	91,000	
Revenue reserves		66,700
General expenses	2,325	
Salaries and wages	244,150	
Electricity	5,600	
Bank balance	42,200	
Interim dividend paid	7,000	
Motor vehicles expenses	4,475	
Insurance	7,150	
Discounts allowed and discounts received	10,900	8,300
Bad debts written off	3,050	
Accounts receivable and accounts payable	136,500	100,700
Debenture interest paid	2,400	
Ordinary shares (Sh.40 par value)		160,000
Share premium		36,000
8% debentures		60,000
Cash in hand	9,000	
Directors' fees	40,000	
	<u>2,020,750</u>	<u>2,020,750</u>

#### Additional information:

1. Goods costing Sh.710,000 purchased on credit on 29 September 2017, were in transit and therefore had not been entered in the books by close of business on 30 September 2017.
2. Inventory as at 30 September 2017 was valued at Sh.112,300,000.
3. A debtor who owed the company Sh.1,500,000 was declared bankrupt. His debt has not yet been written off.
4. Allowance for doubtful debts is to be set at 2% of the outstanding receivables.
5. Depreciation is to be provided on motor vehicles at a rate of 20% per annum on cost.
6. As at 30 September 2017, outstanding motor vehicles expenses amounted to Sh.125,000 while pre-paid insurance amounted to Sh.1,150,000.
7. Invoices issued amounting to Sh.950,000 had completely been omitted from the records as at 30 September 2017.
8. Provision is to be made for outstanding debenture interest and corporation tax of Sh.22,975,000.
9. The directors have proposed a final dividend of Sh.2.50 per share.

#### 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 FIVE

David Kweya started a business of selling children's clothes on 1 July 2016. He commenced the business with a capital of Sh.14,000,000. He deposited this amount in a business bank account. During the year, David Kweya made the following payments through the bank account:

	Sh. "000"
Purchase of furniture and fittings	2,450
Salaries	399
Electricity	14
Rent	175
Payment to suppliers	5,460
Drawings	210
Insurance	35

**Additional information:**

1. Gross profit is 20% of the sales.
2. Total purchases during the year amounted to Sh.8,400,000.
3. Inventory as at 30 June 2017 was valued at Sh.1,400,000.
4. Depreciation on furniture and fittings is provided at 10% per annum on cost.
5. Accounts receivable as at 30 June 2017 amounted to Sh.1,400,000.
6. Rent accrued as at 30 June 2017 amounted to Sh.70,000.
7. On 1 January 2017, David Kweya obtained a ten-year loan of Sh.5,600,000 at an interest rate of 12% per annum from the bank. The amount was credited into his business bank account.

**Required:**

- (a) Income statement for the year ended 30 June 2017. (10 marks)
- (b) Statement of financial position as at 30 June 2017. (10 marks)

**(Total: 20 marks)**

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# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## 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

Julia Mila is an accounting student. On her first week as an intern in Mwenda Pole Ltd., she prepared the final statements of account for the company, but they did not balance. She thus transferred the difference to the suspense account.

The statement of financial position for Mwenda Pole Ltd. as at 31 March 2017 was as follows:

Statement of financial position as at 31 March 2017			
	Cost	Accumulated depreciation	Net book value
	Sh. "000"	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>			
Motor vehicles	85,800	16,800	69,000
Fixtures and fittings	99,600	15,600	84,000
	<u>185,400</u>	<u>32,400</u>	<u>153,000</u>
<b>Current assets:</b>			
Inventory		3,600	
Trade receivables		5,400	
Cash in hand		4,440	
Suspense account		<u>1,620</u>	<u>15,060</u>
			168,060
<b>Financed by:</b>			
10% Preference shares		12,000	
Ordinary share capital		12,000	
Retained earnings		<u>103,200</u>	<u>127,200</u>
<b>Non-current liability:</b>			
12% debentures			37,200
<b>Current liabilities:</b>			
Trade payables		2,400	
Bank overdraft		<u>1,260</u>	<u>3,660</u>
			168,060

You have been requested by the chief accountant of Mwenda Pole Ltd. to find out the cause of the balance in the suspense account. On investigation of the books of account, you discover the following:

1. A cheque of Sh.375,000 from a debtor was correctly entered in the cash book but was posted to the wrong side of the debtor's account.
2. Sales day book was overcast by Sh.2,400,000.
3. Motor vehicles were not depreciated for the year ended 31 March 2017. Depreciation is to be provided at the rate of 15% per annum on reducing balance basis. There were no disposals or acquisitions of motor vehicles during the year.
4. Retained earnings as at 1 April 2016 was Sh.43,200,000.
5. Return inwards of Sh.1,350,000 was erroneously entered in the purchases day book.
6. The trade receivables were overstated by Sh.2,130,000.
7. An amount of Sh.600,000 was omitted from the trade payables.
8. Discount allowed of Sh.1,350,000 had been correctly entered in the cash book but was posted to the credit side of the discount allowed account.
9. Cash sale of Sh.6,000,000 was correctly posted to the sales account, but debited in the 12% debentures account. This did not affect the debenture interest paid by the company during the year.

### Required:

- (a) Journal entries to correct the above errors.  
(Narrations not required). (8 marks)
- (b) Suspense account duly balanced. (3 marks)

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- (c) Adjusted income statement for the year ended 31 March 2017. (3 marks)
- (d) Corrected statement of financial position as at 31 March 2017. (6 marks)
- (Total: 20 marks)**

## QUESTION TWO

- (a) Highlight four challenges that a country might face when adopting the International Financial Reporting Standards (IFRSs). (4 marks)
- (b) Matumizi Ltd. is a factory manufacturing chemicals. The following trial balance was extracted from the books of Matumizi Ltd. as at 31 December 2016:

	Sh."000"	Sh."000"
Ordinary share capital of Sh.25 each		250,000
10% preference share capital of Sh.25 each		100,000
15% debentures		50,000
Share premium		5,000
General reserve		15,000
Retained earnings		2,250
Sales		291,000
Purchase of raw materials	62,000	
Inventory (1 January 2016):		
Raw materials	3,250	
Work-in-progress	11,925	
Finished goods	20,250	
Land	250,000	
Buildings at cost	150,000	
Accumulated depreciation on buildings (1 January 2016)		15,000
Plant and machinery at book value	11,500	
Interest on debentures	3,750	
Direct labour	27,000	
Carriage inwards	250	
Purchase returns		500
General factory costs	4,000	
Administrative expenses	50,000	
Electricity and water expenses	5,000	
Insurance	4,500	
Royalty expenses	5,750	
Selling and distribution costs	20,500	
Provision for unrealised profit		3,375
Bank balance	60,000	
Salesmen motor vehicles at cost	20,000	
Accumulated depreciation on salesmen motor vehicles (1 January 2016)		5,000
Interim dividend paid to preference shareholders	5,000	
Trade receivables and trade payables	35,325	12,875
	<u>750,000</u>	<u>750,000</u>

### Additional information:

- Inventory as at 31 December 2016 was valued as follows:
 

	Sh."000"
Raw materials	3,750
Work-in-progress	7,750
- Depreciation is to be provided on an annual basis as follows:
 

Non-current asset	Rate
Buildings	10% on cost
Motor vehicles	25% on cost
Plant and machinery	30% on reducing balance
- The company apportions expenses between factory and administration as follows:
 

	Factory	Administration
Depreciation on buildings	80%	20%
Electricity and water	60%	40%
Insurance	75%	25%
- During the year, the company manufactured 300,000 units and sold 246,000 units. All the opening inventory was sold during the year.

5. Finished goods are transferred to the warehouse at cost plus a mark-up of 20%.
6. As at 31 December 2016, accrued distribution cost amounted to Sh.1,000,000.
7. The directors proposed the following:
  - Payment of final dividend to preference shareholders.
  - Dividend of Sh.3.75 per share to be paid to ordinary shareholders.
  - Transfer of Sh.10,000,000 to the general reserve.
8. Corporation tax is estimated at Sh.24,750,000.

**Required:**

Manufacturing account and income statement for the year ended 31 December 2016.

(16 marks)

(Total: 20 marks)

**QUESTION THREE**

Navier, Yvonne and Zari have been in partnership sharing profits and losses equally.

Their trial balance as at 1 May 2016 was as follows:

	Sh."000"	Sh."000"
<b>Capital account:</b>		
Navier		90,000
Yvonne		84,000
Zari		96,000
<b>Current account:</b>		
Navier		6,000
Yvonne		12,000
Zari	12,000	
Land and buildings	210,000	
Plant and machinery at cost	300,000	
Accumulated depreciation on plant and machinery		198,000
Inventory	120,000	
Bank balance	9,000	
Accrued expenses		15,000
10% loan		120,000
Trade receivables and trade payables	<u>90,000</u>	<u>120,000</u>
	741,000	741,000

With effect from 1 May 2016, the partners agreed to change the partnership agreement as follows:

- They agreed to share profits and losses in the ratio of 3:2:1 between Navier, Yvonne and Zari respectively.
- As at 1 May 2016, the partnership goodwill was agreed at Sh.180,000,000 but a ledger account for goodwill is not to be maintained in the accounting records.
- The land and buildings are agreed to be valued at Sh.300,000,000.
- At the end of each year, each partner to be allowed interest on opening net balance on capital and current accounts (before adjustments) at the rate of 10% per annum.

The following information relate to the year ended 30 April 2017:

1. The cash book summary for the year is as follows:

	Sh."000"		Sh."000"
Balance brought forward	9,000	Payment to trade suppliers	330,000
Receipts from customers	516,000	Operating expenses	90,000
Sale of old plant	30,000	Purchase of new plant	150,000
Balance carried forward	114,000	Drawings: Navier	30,000
		Yvonne	33,000
		Zari	<u>36,000</u>
	<u>669,000</u>		669,000

2. As at 30 April 2017, pre-paid rent amounted to Sh.30,000,000 and accrued electricity was Sh.6,000,000.
3. Plant and machinery is to be depreciated at the rate of 10% per annum on a straight line basis with no scrap value. A full year's depreciation is charged on the year of purchase and no depreciation is charged on the year of sale.
4. The old plant sold during the year had been purchased in June 2009 at a cost of Sh.180,000,000.
5. As at 30 April 2017, trade payables were valued at Sh.105,000,000.
6. As at 30 April 2017, trade receivables were valued at Sh.120,000,000 while the bad debts were valued at Sh.12,000,000.
7. Gross profit is 50% of cost of sales.

**Required:**

(a) Income statement and appropriation account for the year ended 30 April 2017. (10 marks)

(b) Statement of financial position as at 30 April 2017. (10 marks)

(Total: 20 marks)

**QUESTION FOUR**

The following trial balance was extracted from the books of Joyce Mello as at 30 April 2017:

	Sh."000"	Sh."000"
Inventory as at 1 May 2016	50,000	
Purchases	170,020	
Returns outward		4,600
Cash in hand	13,400	
Bank balance	32,660	
Buildings at cost	50,000	
Sundry expenses	840	
Stationery	1,640	
Legal fees	280	
Allowance for doubtful debts		3,500
Trade receivables and trade payables	36,000	39,670
Salaries	39,000	
Capital		116,800
Selling and distribution costs	1,600	
Discounts allowed and discounts received	6,300	4,600
Sales		229,950
Equipment at cost	5,000	
Rates and insurance	4,000	
Returns inward	1,550	
Accumulated depreciation (1 May 2016): Buildings		11,400
Equipment		1,770
	412,290	412,290

**Additional information:**

- Allowance for doubtful debts is to be increased to Sh.5,000,000.
- Rates due as at 30 April 2017 amounted to Sh.500,000.
- Inventory as at 30 April 2017 was valued at Sh.52,000,000.
- Drawings amounting to Sh.10,000,000 have been debited to the capital account.
- Depreciation is to be charged on cost as follows:

Asset	Rate per annum
Buildings	5%
Equipment	10%

- Insurance amounting to Sh.200,000 relates to the year ending 30 April 2018.

**Required:**

(a) Income statement for the year ended 30 April 2017. (10 marks)

(b) Statement of financial position as at 30 April 2017. (10 marks)

(Total: 20 marks)

**QUESTION FIVE**

(a) Analyse two differences between "objectives of accounting for public sector" and "objectives of accounting in the private sector". (4 marks)

(b) Enumerate two disadvantages of cash flow statements. (4 marks)

(c) Describe three sources of income for a not-for-profit organisation. (6 marks)

(d) Discuss three ethics that guide accountants in executing their duties. (6 marks)

(Total: 20 marks)

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## 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

The following trial balance was extracted from the books of accounts of Furaha Ltd. as at 30 June 2016:

	Sh."000"	Sh."000"
Freehold property (cost)	28,000	
Machinery (cost)	18,000	
Furniture (cost)	6,000	
Accumulated depreciation (1 July 2015):		
Machinery		5,400
Furniture		2,160
Purchases	68,000	
Sales		91,000
Inventory (1 July 2015)	26,400	
Trade receivables	14,640	
Trade payables		7,200
Discounts allowed	1,350	
Discounts received		1,100
Selling and distribution expenses	2,750	
Administrative expenses	5,300	
Debenture interest	160	
Allowance for doubtful debts (1 July 2015)		610
8% debentures		2,000
Ordinary share capital		30,000
10% preference share capital		20,000
Share premium		5,000
Retained earnings (1 July 2015)		12,330
Bank balance and cash in hand	2,100	
Interim dividend paid: Preference	800	
Ordinary	1,200	
Insurance	2,100	
	<u>176,800</u>	<u>176,800</u>

### Additional information:

- At the end of the financial year, it was not possible to carry out a stock take for inventory valuation. However, the normal profit margin is 20%.
- On 30 June 2016, administrative costs included a prepayment of Sh.500,000.
- Insurance was paid on 1 July 2015 and is to cover a period of three years in equal instalments from that date.
- Debtors amounting to Sh.640,000 had been unable to pay by 30 June 2016. This amount should be written off.
- Allowance for doubtful debts is maintained at 5% of the trade receivables at the end of each year.
- Depreciation is provided as follows per annum:

Asset	Rate
Machinery	10% on straight line basis.
Furniture	20% on reducing balance basis.
- The directors have proposed the following:
  - A 6% dividend on ordinary shares.
  - A final dividend on preference shares.

**Required:**

- (a) Income statement for the year ended 30 June 2016. (12 marks)
- (b) Statement of financial position as at 30 June 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Give two reasons why a manufacturing entity might need to determine manufacturing profit. (4 marks)
- (b) The books of account of NDI Ltd. for the year ended 30 June 2016 showed the balance at bank as recorded in the cash book as Sh.1,254,800. This balance differed with the actual bank balance.

The books of account were investigated, and the following information was revealed:

- Cheque number 113571 dated 12 May 2016 for Sh.324,000 in favour of Miriam Ltd. was correctly recorded in the bank statement, but recorded in the cash book as Sh.234,000.
- Bank commission charged of Sh.24,500 and bank interest of Sh.18,100 were not recorded in the cash book.
- A cheque for Sh.46,500 received from Bado Ltd. and recorded in the cash book was returned by the bank with the stamp "insufficient funds".
- A cheque for Sh.65,000 for payment of electricity had been entered twice in the cash book.
- Cash received on 30 June 2016 amounting to Sh.352,500 had been recorded in the cash book but was not yet banked.
- A standing order payment for rent of Sh.98,000 had not been recorded in the cash book.
- Cheques paid by NDI Ltd. amounting to Sh.84,500 were unpresented to the bank as at 30 June 2016.
- Jamii Ltd., a debtor, cleared their debt of Sh.285,000 on 28 June 2016 through a direct deposit in the bank. This had not been recorded in the cash book.

**Required:**

- (i) The bank statement balance as at 30 June 2016. (10 marks)
- (ii) The updated cash book as at 30 June 2016. (4 marks)
- (iii) Bank reconciliation statement. (2 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight five roles of the accountant general in your country. (5 marks)
- (b) The following are the financial statements of Tahidi Limited:

**Statement of financial position as at 31 October 2016 and 31 October 2015:**

	2016 Sh."million"	2015 Sh."million"
<b>Non-current assets:</b>		
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	-	25
	<u>630</u>	<u>530</u>
<b>Current assets:</b>		
Inventories	150	102
Receivables	390	315
Short term investments	50	-
Cash in hand	<u>2</u>	<u>1</u>
	<u>592</u>	<u>418</u>
Total assets	<u>1,222</u>	<u>948</u>
<b>Current liabilities:</b>		
Trade payables	127	119
Bank overdraft	85	98
Corporation tax	120	110
Proposed dividends	<u>100</u>	<u>80</u>
	<u>432</u>	<u>407</u>
Net assets	<u>790</u>	<u>541</u>

	Sh.“million”	Sh.“million”
<b>Financed by:</b>		
<b>Capital and reserves</b>		
Share capital	200	150
Share premium	160	150
Revaluation reserve	100	91
Revenue reserve	<u>160</u>	<u>100</u>
	620	491
<b>Non-current liabilities:</b>		
Long-term loans	<u>170</u>	<u>50</u>
	<u>790</u>	<u>541</u>

**Income statement for the year ended 31 October 2016:**

	Sh.“million”
Sales	2,553
Cost of sales	<u>1,814</u>
Gross profit	739
Interest income	<u>25</u>
	764
Less: Distribution expenses	(125)
Administrative expenses	<u>(264)</u>
Operating profit	375
Less: Interest paid	<u>(75)</u>
Profit on ordinary activities before taxation	300
Taxation	<u>140</u>
Profit after tax	160
Dividends	<u>(100)</u>
Retained profit for the year	<u>60</u>

**Additional information:**

- 5,000,000 ordinary shares of Sh.10 each were issued during the year at a price of Sh.12 per share.
- Fixtures and fittings which had an original cost of Sh.85 million and a net book value of Sh.45 million were sold for Sh.32 million during the year.
- The proceeds of the sale of long-term investments amounted to Sh.30 million.
- The following information relates to tangible non-current assets:

	31 October 2016 Sh.“million”	31 October 2015 Sh.“million”
Cost	720	595
Accumulated depreciation	<u>340</u>	<u>290</u>
Net book value	<u>380</u>	<u>305</u>

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 “Statement of cash flows” for the year ended 31 October 2016.

(15 marks)

(Total: 20 marks)

**QUESTION FOUR**

The following is the receipts and payments account of Tegemeo Club for the year ended 30 September 2016:

Receipts and payments account			
Receipts	Sh.“000”	Payments	Sh.“000”
Balance brought forward - Bank	1,994	Bar purchases	8,258
- Cash	42	Salaries and wages	1,482
Joining fees	112	Electricity expenses	220
Subscriptions	824	Rent and rates	460
Bar sales	10,400	Stationery expenses	150
Receipts from golf tournament	620	Golf tournament expenses	228
Interest on loan stock	70	Mowing machine	152
		General expenses	204
		Purchase of loan stock	2,000
		Ground expenses	112
		Balance carried forward - Bank	724
		- Cash	<u>72</u>
	<u>14,062</u>		<u>14,062</u>

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**Additional information:**

1. The bar inventory on 30 September 2016 was valued at Sh.852,000 which was Sh.58,000 higher than the value of inventory on 1 October 2016.
2. The following balances were available:

	30 September 2015	30 September 2016
	Sh.	Sh.
Subscriptions in arrears	120,000	70,000
Rent in arrears	40,000	70,000
Electricity due	28,000	24,000
Rates prepaid	38,000	42,000

3. Fixtures and fittings were valued at Sh.1,008,000 on 30 September 2015.
4. The amount paid for the new mowing machine purchased on 1 January 2016 represents the net amount after taking into account the trade-in allowance of Sh.28,000 on the old mowing machine.
5. Machines and equipment were valued at Sh.400,000 on 30 September 2015. This includes the old mowing machine valued at Sh.40,000.
6. Depreciation is charged on a pro-rata basis for all machines and equipment purchased during the year. No depreciation is charged in the year of disposal.
7. Depreciation is to be provided as follows:

Asset	Rate per annum
Fixtures and fittings	12.5% on cost
Machines and equipment	20% on cost

**Required:**

- (a) Bar income statement for the year ended 30 September 2016. (4 marks)
  - (b) Income and expenditure account for the year ended 30 September 2016. (8 marks)
  - (c) Statement of financial position as at 30 September 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Distinguish between partners' capital accounts and partners' current accounts. (4 marks)
  - (b) Many countries have adopted and implemented accrual accounting as per the International Public Sector Accounting Standards (IPSAS).  
  
Outline four principles of accrual accounting. (4 marks)
  - (c) Explain four elements of manufacturing costs. (4 marks)
  - (d) Discuss four advantages of computerised accounting systems. (8 marks)
- (Total: 20 marks)**
- .....

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

MONDAY: 23 May 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

Bidii Ltd. is in the business of manufacturing gas cylinders. The following balances were extracted from the books of the company as at 31 March 2016:

	Sh. "000"
Issued and fully paid ordinary share capital (Sh.10 par value)	441,000
General reserves (1 April 2015)	429,200
Retained profit (1 April 2015)	140,000
Production machinery (cost Sh.600 million)	390,000
Office equipment (cost Sh.140 million)	100,000
Inventory: (1 April 2015)	
Raw materials	46,000
Finished goods	667,000
Work-in-progress	33,000
Sales	2,400,000
Trade receivables	691,000
Trade payables	497,000
Carriage outwards	124,000
Factory wages	333,000
Carriage on raw materials	39,400
Purchases of raw materials	400,000
General factory expenses	66,000
Lighting expenses	72,000
Factory power	118,000
Administrative salaries	270,000
Sales agents' salaries	80,000
Commission to sales agents	19,000
Rent	120,000
Insurance expenses	132,000
General administrative expenses	144,000
Bank overdraft	26,800
Cash in hand	15,000
Bank charges	9,600
Discounts allowed	28,000
Royalties	37,000

#### Additional information:

- Inventory as at 31 March 2016 was made up of the following:

	Sh. "000"
Raw materials	60,000
Work-in-progress	25,000

- The finished goods were sold at a mark-up of  $66\frac{2}{3}\%$ .
- Lighting expenses, rent and insurance expenses are to be apportioned as follows: factory 70% and administration 30%.
- Depreciation is to be provided as follows:

Production machinery	-	10% per annum on cost
Office equipment	-	10% per annum on reducing balance
- Sales agents' salaries include Sh.35,000,000 that relates to the 7 months ending 31 May 2016.

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Out of 5

6. The directors have proposed the following:
  - Sh.100 million be transferred to general reserves.
  - Dividend of Sh.0.8 per share be paid to ordinary shareholders.
7. Factory wages included Sh.143 million for indirect labour.

**Required:**

- (a) Manufacturing account and income statement for the year ended 31 March 2016. (12 marks)
  - (b) Statement of financial position as at 31 March 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

Maria and Bakari are in partnership sharing profits and losses in the ratio of  $\frac{3}{5}$  for Maria and  $\frac{2}{5}$  for Bakari. The partnership deed provides for interest on capital at the rate of 5% per annum. The partners are entitled to annual salaries of Sh.1,000,000 and Sh.700,000 for Maria and Bakari respectively.

The following balances were extracted from the books of the partnership as at 30 April 2016:

	Sh."000"	Sh."000"
Capital accounts: Maria		12,000
Bakari		5,000
Current accounts: Maria		3,000
Bakari		1,000
Inventory as at 1 May 2015	19,000	
Buildings at cost	8,500	
Furniture at cost	3,200	
Renovation of building	1,500	
Sales		87,460
Purchases	62,140	
Rent and rates	400	
Electricity	500	
Bank balance		1,070
Accounts payable		6,200
Accounts receivable	5,660	
Repairs and maintenance	1,320	
General expenses	4,700	
Insurance	300	
Carriage inwards	960	
Bad debts written off	270	
Salaries and wages	2,400	
Office expenses	600	
Provision for depreciation – Furniture (1 May 2015)		750
Cash balance	230	
Drawings: Maria	2,800	
Bakari	2,000	
	<u>116,480</u>	<u>116,480</u>

**Additional information:**

1. Inventory as at 30 April 2016 was valued at Sh.15,600,000.
2. Depreciation is to be provided for as follows:
  - Buildings - 2.5% per annum on cost
  - Furniture - 10% per annum on the reducing balance
3. The following amounts were owing as at 30 April 2016:
 

	Sh.
Salaries and wages	200,000
Electricity	90,000
4. An allowance for doubtful debts amounting to Sh.200,000 is to be made.
5. Insurance paid in advance as at 30 April 2016 amounted to Sh.40,000.
6. During the year ended 30 April 2016, the partners withdrew goods from stock for personal use as follows:
 

	Sh.
Maria	150,000
Bakari	590,000

**Required:**

- (a) Income statement for the year ended 30 April 2016. (12 marks)
- (b) Statement of financial position as at 30 April 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Samson Kimwatu operates a wholesale and retail business. He does not maintain proper books of account. The following balances were extracted from his records as at 31 March 2015 and 31 March 2016:

	31 March 2015	31 March 2016
	Sh."000"	Sh."000"
Furniture and fittings	1,200	960
Motor vehicle	3,000	2,250
Equipment	2,400	1,920
Freehold land	6,000	8,000
Inventory	1,800	?
Trade receivables	2,700	3,600
Prepaid rates	90	120
Bank balance	810	7,815
15% bank loan	6,000	3,000
Trade payables	1,350	1,500
Accrued power	150	240

**Additional information:**

- On 1 June 2015, the freehold land was revalued upwards by Sh.2,000,000.
- During the year ended 31 March 2016, total purchases amounted to Sh.126.6 million and total sales amounted to Sh.180 million all of which were on credit.
- Discounts allowed and discounts received amounted to Sh.480,000 and Sh.450,000 respectively.
- A debtor owing Sh.120,000 was declared bankrupt during the year. Hence, the amount due from him was written off.
- Samson Kimwatu makes a uniform gross profit to cost of sales of  $\frac{3}{7}$  every year.
- During the year, Samson Kimwatu purchased new equipment at a cost of Sh.300,000 and paid by cheque.
- The following expenses were paid by cheque during the year:
 

	Sh."000"
Interest on loan	450
Salaries of staff	18,105
Rates, insurance and power	11,640
- On 30 September 2015, Samson Kimwatu repaid part of the loan by issuing a cheque for Sh.3,000,000.
- Samson Kimwatu did not maintain records of cash withdrawn from the bank for personal use. Hence, any deficit in the bank account is due to personal drawings.

**Required:**

- (a) Income statement for the year ended 31 March 2016. (12 marks)
- (b) Statement of financial position as at 31 March 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain three reasons why the amount of cash generated by a business entity might differ from the profit reported by the same business entity during the same financial period. (6 marks)
- (b) The financial statements of Pata Pata Ltd. for the years ended 31 March 2015 and 31 March 2016 are as given below:

Income statements for the years ended 31 March:

	2015	2016
	Sh."000"	Sh."000"
Revenue	450,600	480,500
Cost of sales	(270,200)	(268,400)
Gross profit	180,400	212,100
Administrative expenses	(22,300)	(28,600)
Distribution costs	(31,100)	(33,700)
Finance costs	(10,300)	(12,200)

	2015 Sh."000"	2016 Sh."000"
Profit before tax	116,700	137,600
Income tax expenses	(35,800)	(42,100)
Net profit for the year	<u>80,900</u>	<u>95,500</u>

**Extracts from statements of changes in equity for the years ended 31 March:**

	2015 Sh."000"	2016 Sh."000"
Retained profit brought down	112,600	130,300
Net profit for the year	<u>80,900</u>	<u>95,500</u>
	193,500	225,800
Less: Dividend paid	(88,200)	(108,200)
Retained profit carried down	<u>105,300</u>	<u>117,600</u>

**Statements of financial position as at 31 March:**

	2015 Sh."000"	2016 Sh."000"
<b>Assets:</b>		
<b>Non-current assets</b>		
Plant, property and equipment	486,000	522,000
<b>Current assets</b>		
Inventory	60,000	72,000
Trade receivables	42,300	51,300
Bank balance	<u>2,300</u>	<u>3,200</u>
Total assets	<u>590,600</u>	<u>648,500</u>
<b>Equity and liabilities:</b>		
Ordinary share capital	250,000	250,000
Retained profit	<u>105,300</u>	<u>117,600</u>
Shareholders' equity	355,300	367,600
<b>Non-current liability</b>		
10% debenture	110,000	110,000
<b>Current liabilities</b>		
Trade payables	27,500	52,400
Bank overdraft	36,500	52,300
Tax payable	<u>61,300</u>	<u>66,200</u>
Total equity and liabilities	<u>590,600</u>	<u>648,500</u>

Inventory as at 31 March 2014 was valued at Sh.64 million. Assume that all the sales were made on credit and that each year has 365 days.

**Required:**

- (i) Gross profit margin. (2 marks)
- (ii) Return on capital employed (ROCE). (2 marks)
- (iii) Current ratio. (2 marks)
- (iv) Acid test ratio. (2 marks)
- (v) Inventory turnover. (3 marks)
- (vi) Trade receivables collection period. (3 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain two objectives of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)
- (b) Describe three qualities of useful accounting information. (6 marks)

- (c) Explain in what way, if at all, the practice of providing for depreciation ensures that property, plant and equipment are replaced at the end of their useful economic lives. (4 marks)
- (d) Describe three errors that do not affect the trial balance. (5 marks)
- (Total: 20 marks)**
- .....

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

FRIDAY: 20 November 2015.

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 balances were extracted from the books of Mike Moit as at 30 June 2015:

	Sh. "000"
Capital	59,100
Land and buildings	48,000
Motor vehicles (at cost)	4,200
Office equipment (at cost)	9,000
Gross profit	63,600
Rates and insurance	4,860
Bad debts written off	330
Utilities	480
Bad debts recovered	420
Rent receivable	14,160
Provision for doubtful debts	1,395
Personal expenses	20,730
Cash in hand	510
Bank balance	660
Discounts received	2,760
Discounts allowed	2,400
Accumulated depreciation on motor vehicle	1,200
Accumulated depreciation on office equipment	3,105
Trade receivables	15,900
Trade payables	27,300
Salaries and wages	24,210
Investments	20,400
Sundry expenses	6,720

### Additional information:

- As at 30 June 2015, inventory was valued at Sh.14,640,000. This inventory included items valued at Sh.3,000,000 which had been sold and invoiced to a customer on 30 June 2015.
- The sales returns day book had been overcast by Sh.90,000.
- Discounts allowed amounting to Sh.360,000 had been posted to the discounts allowed account, but not to the trade receivables account.
- Depreciation is to be provided as follows:  
Motor vehicles - 20% per annum on cost  
Office equipment - 15% per annum on cost
- Rent received amounting to Sh.300,000 had not been recorded in the accounts since the proprietor converted the amount for personal use.
- The sales day book had been overcast by Sh.450,000.

### Required:

- Income statement for the year ended 30 June 2015. (12 marks)
  - Statement of financial position as at 30 June 2015. (8 marks)
- (Total: 20 marks)

## QUESTION TWO

- (a) KK Ltd. received their bank statement for the month of October 2015. It reflected a credit balance of Sh.9,290,000. However, the cash book balance as at 31 October 2015 indicated a higher amount by Sh.4,530,000.

The company accountant investigated the matter and discovered the following discrepancies:

1. Cash amounting to Sh.1,704,000 though entered in the cash book as having been banked, had been embezzled by the accounts clerk in the office.
2. The bank had erroneously credited KK Ltd. with an amount of Sh.2,510,000.
3. Direct deposits by debtors amounted to Sh.13,080,000. These deposits were made via electronic funds transfer.
4. Uncredited cheques as at 31 October 2015 amounted to Sh.9,624,000.
5. A standing order of Sh.1,770,000 for goods purchased on hire purchase, had been effected by the bank.
6. Cheques issued to suppliers, but not yet presented to the bank as at 31 October 2015 amounted to Sh.2,640,000.
7. Bank charges amounting to Sh.484,000 had not been entered in the cash book.
8. A cheque from a debtor for an amount of Sh.1,446,000 was returned by the bank stamped "Account closed".
9. A forged cheque in favour of 'XYZ Ltd.' was presented to the bank. The cheque which amounted to Sh.2,712,000 was paid by the bank.

### Required:

- (i) Adjusted cash book as at 31 October 2015. (6 marks)
  - (ii) Bank reconciliation statement as at 31 October 2015. (4 marks)
- (b) The trial balance of Mutua Traders as at 30 September 2015 did not balance. On investigation, the following errors were discovered:
1. A loan of Sh.40,000,000 from XYZ Bank had been correctly entered in the cash book, but posted on the wrong side of the loan account.
  2. The purchase of equipment on credit for Sh.57,200,000 had been recorded by debiting the supplier's account and crediting the equipment repairs account.
  3. A cheque of Sh.1,600,000 from OJ Ltd., a customer, was correctly entered in the cash book, but was credited to the bad debts recovered account. The accountant mistook it for a receipt from JO Ltd., a customer whose debt had been written off two years earlier.
  4. Bank charges of Sh.760,000 had not been entered in the organisation's cash book.
  5. Discounts allowed of Sh.3,680,000 and discounts received of Sh.7,940,000 had not been posted to the respective discount accounts.
  6. Ten motor vehicles were purchased on 1 August 2015 for Sh.32,000,000. The payment was correctly entered in the cash book, but was debited to motor vehicle expenses account.

Depreciation on motor vehicles is provided for at the rate of 20% per annum on cost.

### Required:

- (i) Journal entries with narrations to correct the errors. (7 marks)
- (ii) Suspense account showing the original difference. (3 marks)

(Total: 20 marks)

## QUESTION THREE

The following is the receipts and payments account of Uwezo Football Club for the year ended 30 September 2015:

Receipts and payments account			
Receipts	Sh."000"	Payments	Sh."000"
Balance brought forward - Bank	5,096	Bar purchases	43,628
- Cash	130	Rent and rates	3,304
Subscriptions	12,000	Telephone expenses	308
Entrance fees	1,160	Water and electricity	734
Donations	8,024	Stationery expenses	364
Bar receipts	57,610	Salaries and wages	11,170
		Coach's fee	3,000
		Field expenses	2,244
		General expenses	724
		Lawn mower	4,400
		Balance carried forward - Bank	14,082
		- Cash	62
	<u>84,020</u>		<u>84,020</u>

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**Additional information:**

1. The following balances were available:

	30 September 2014	30 September 2015
	Sh."000"	Sh."000"
Subscriptions in arrears	300	350
Rent due	240	280
Rates pre-paid	320	360
Bar payables	500	820

2. The bar inventory was valued at Sh.828,000 as at 30 September 2014 and Sh.710,000 as at 30 September 2015.

3. On 30 September 2014, the values of non-current assets were as follows:

	Sh."000"
Club house	60,000
Fixtures	15,000
Equipment	11,200

4. The new lawn mower was purchased during the year ended 30 September 2015 at a cost of Sh.5,000,000. The difference between the actual cost and the amount reflected in the receipts and payments account, is a trade-in allowance of Sh.600,000.
5. The old lawn mower which was traded-in-exchange for the new lawn mower had been included in the cost of equipment at 30 September 2014 at a value of Sh.400,000.
6. Depreciation is charged for a full year irrespective of date of purchase. No depreciation is charged in the year of disposal.
7. Depreciation is to be provided as follows:
- | Asset      | Rate per annum          |
|------------|-------------------------|
| Club house | 2% on cost              |
| Fixtures   | 10% on cost             |
| Equipment  | 20% on reducing balance |

**Required:**

- (a) Bar income statement for the year ended 30 September 2015. (4 marks)
- (b) Income and expenditure account for the year ended 30 September 2015. (8 marks)
- (c) Statement of financial position as at 30 September 2015. (8 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Outline five contents of a partnership deed. (5 marks)
- (b) The following are the statements of financial position of Embe Ltd. as at 30 June 2014 and 30 June 2015:

	2014	2015
	Sh."000"	Sh."000"
Property, plant and equipment	152,720	230,448
<b>Current assets:</b>		
Inventory	33,120	41,400
Trade receivables	16,560	20,152
Bank balance and cash in hand	<u>6,800</u>	<u>(2,760)</u>
	<u>56,480</u>	<u>58,792</u>
Total assets	209,200	289,240
<b>Current liabilities:</b>		
Trade payables	11,040	16,560
Taxation	13,800	16,560
Dividends	<u>8,280</u>	<u>8,280</u>
	<u>(33,120)</u>	<u>(41,400)</u>
Net assets	<u>176,080</u>	<u>247,840</u>
<b>Financed by:</b>		
Ordinary share capital	126,400	181,600
Share premium	11,040	22,080
Revenue reserve	27,600	44,160
12% debentures	<u>11,040</u>	<u>-</u>
	<u>176,080</u>	<u>247,840</u>

**Additional information:**

- The 12% debenture was redeemed at a premium of 10% during the year ended 30 June 2015.
- The extract from the property, plant and equipment schedule indicated the following:

	2014			2015		
	Cost	Depreciation	Net book value	Cost	Depreciation	Net book value
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Building	88,320	16,560	71,760	110,400	19,320	91,080
Plant and equipment	110,400	49,680	60,720	187,680	69,000	118,680
Motor vehicle	36,800	16,560	20,240	44,144	23,456	20,688

- An equipment which had cost Sh.16,560,000 and had a net book value of Sh.11,040,000 was sold at a loss of Sh.2,760,000 during the year ended 30 June 2015.
- The income statement for the year ended 30 June 2015 was as shown below:

	Sh."000"
Revenue	281,050
Cost of sales	(87,620)
Gross profit	193,430
Operating expenses	(143,750)
Profit before tax	49,680
Tax expenses	(19,320)
	30,360
Dividend - Interim paid	5,520
Final proposed	8,280
Retained profit for the year	16,560

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 30 June 2015.

(15 marks)

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

- Distinguish between "prime costs" and "indirect costs" in the context of manufacturing accounts. (4 marks)
- Explain three rights of preference shareholders over ordinary shareholders. (6 marks)
  - State four ways in which a company might utilise its share premium. (4 marks)
- Explain the following concepts used in the preparation of financial statements:
  - Relevance. (1 mark)
  - Reliability. (1 mark)
  - Faithful representation. (1 mark)
  - Neutrality. (1 mark)
  - Completeness. (1 mark)
  - Comparability. (1 mark)

**(Total: 20 marks)**

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# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

### PILOT PAPER

September 2015.

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) Enumerate four features of public sector accounting that distinguish it from private sector accounting. (4 marks)
- (b) Abdi and Badi were partners in Abai Enterprises trading as general merchants and sharing profits and losses in the ratio 2:1 after charging interest on capital at 10% per annum.

On 30 November 2014 Coy was admitted as a partner and from that day, profits and losses were to be shared in the ratio 2:2:1 for Abdi, Badi and Coy respectively.

The following trial balance was extracted from the partnership books as at 31 August 2015:

	Sh. "000"	Sh. "000"
Land and building	22,500	
Motor vehicles	24,600	
Furniture and fittings	8,700	
Accumulated depreciation: Motor vehicles		5,670
Furniture and fittings		1,455
Capital Abdi		9,750
Badi		8,400
Cash introduced by Coy		13,500
Purchases	64,800	
Sales		120,000
Bank balance	3,690	
Accounts receivable	9,660	
Rent expense	1,260	
Inventory	14,400	
Salaries	22,440	
Selling and distribution expenses	7,860	
Partners current accounts: Abdi		7,460
Badi	2,000	
Trade payables		15,675
	<u>181,910</u>	<u>181,910</u>

#### Additional information:

- Other than receipt of cash from Coy, no entries have been made to record the admission. On 30 November 2014, land and buildings were revalued at Sh. 30 million while goodwill which was to be written off was estimated at Sh.9 million.
- After the admission of Coy, partners agreed that interest on capital would subsequently be paid at 20% per annum.
- Salaries include the following partners drawings:

Abdi	Sh.3,870,000
Badi	Sh.3,060,000
Coy	Sh.1,030,000
- Depreciation on motor vehicles is to be provided at 20% p.a on a reducing balance basis while depreciation on furniture and fittings is to be provided at 20% p.a on cost.
- Sales for the period after admission of Coy were 50% more than sales for the period before admission in the year to 31 August 2015. Selling and distribution expenses varied with sales while other expenses accrued evenly over the year.

6. Allowance for doubtful debts was Sh.350,000 on 30 November 2014 and Sh.500,000 on 31 August 2015.
7. Inventory on 31 August 2015 was valued at Sh.15 million.

**Required:**

- (i) Income statement for the year ended 31 August 2015.

(10 marks)

- (ii) Statement of financial position as at 31 August 2015.

(6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain two liquidity ratios.

(4 marks)

- (b) The following trial balance was extracted from the books of Vixen Ltd. as at 31 May 2015:

	Sh."000"	Sh."000"
Ordinary share capital - Sh.10 each		22,500
Share premium		1,200
10% debentures		1,500
General reserve		1,500
Revenue reserves		2,430
10% preference shares		12,000
Goodwill	3,750	
Inventory	4,185	
Purchases and sales	33,270	56,955
Discounts	510	753
Salaries	4,275	
Rates and insurance	2,553	
Office expenses	2,208	
Directors remuneration	750	
Interim dividends paid: Preference	480	
Ordinary	2,250	
Financial assets at fair value	12,000	
Trade receivables and payables	3,600	3,015
Allowance for doubtful debts		420
Bank	1,917	
Buildings	25,500	
Furniture and fittings	2,250	
Motor vehicles	12,000	
Provision for depreciation: Furniture and fittings		450
Motor vehicles		4,650
Debenture interest	75	
Investment income		4,200
	<u>111,573</u>	<u>111,573</u>

1. The cost and net realisable value of inventory as at 31 May 2015 was Sh.4,200,000 and Sh.3,950,000 respectively.
2. Invoices received amounting to Sh.500,000 had erroneously been treated as invoices issued.
3. Depreciation is to be provided as follows:
 

Asset	Rate per annum
Furniture and fittings	10% reducing balance basis
Motor vehicles	20% straight line basis
4. Allowance for doubtful debts to be adjusted to Sh.300,000.
5. Irrecoverable debts amounting to Sh.50,000 to be written off.
6. Insurance amounting to Sh.600,000 had been paid to cater for a period of one year ending 31 August 2015.
7. Provisions for accrued debenture interest and preference dividends are to be made.
8. Corporate tax for the year is estimated at Sh.1,750,000.
9. A final dividend of 10% was declared.

**Required:**

- (i) Income statement for the year ended 31 May 2015.

(10 marks)

- (ii) Statement of financial position as at 31 May 2015.

(6 marks)

**(Total: 20 marks)**

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### QUESTION THREE

- (a) Explain the two fundamental qualitative characteristics of good financial information. (4 marks)
- (b) Enumerate four errors that are not detected by a trial balance. (4 marks)
- (c) The following balances of non-current assets were extracted from the financial records of Kazantan Ltd. as at 1 June 2014:

	Cost	Accumulated Depreciation
	Sh.	Sh.
Land	6,243,000	-
Buildings	6,580,500	657,000
Furniture and fixtures	2,025,000	675,000
Plant and equipment	15,120,000	10,039,000
Motor vehicles	7,930,000	3,307,500

The following information relates to the year ended 31 May 2015:

1. An item of plant was disposed off during the year ended 31 May 2015 for Sh.1,070,000. The item had cost Sh.3,140,000 and had accumulated depreciation of Sh.2,200,000.
2. Land and buildings were professionally revalued on 1 June 2014 at Sh.7 million and Sh.6.5 million respectively.
3. A delivery van purchased in March 2013 for Sh.2 million was stolen during the year. The insurer accepted to compensate the company by paying 70% of the original cost.
4. During the period furniture and fixtures acquired amounted to Sh.3 million while a vehicle that had cost Sh.1.2 million and on which depreciation of Sh.400,000 had been charged was traded in for a new vehicle costing Sh.3 million and the company was required to pay Sh.2.4 million in cash settlement of the trade in balance.
5. The depreciation policy of Kazantan Ltd. was as follows:

Asset	Basis of depreciation	Rate per annum %
Land	-	-
Buildings	Straight line	2.5%
Furniture and fixtures	Straight line	10%
Plant and equipment	Reducing balance	12.5%
Motor vehicles	Reducing balance	20%

A full years depreciation is provided in the year of acquisition and none in the year of disposal.

#### Required:

Property, plant and equipment movement schedule for the year ended 31 May 2015.

(12 marks)

(Total: 20 marks)

### QUESTION FOUR

- (a) Explain three differences between an income and expenditure account and a receipts and payment account in accounting for a not-for-profit organisation. (6 marks)
- (b) Joy Niton owns a manufacturing plant under the name Jotan Manufacturers. The following trial balance was extracted from the books of Jotan Manufacturers as at 30 June 2015:

	Sh. "million"	Sh. "million"
Capital		1,250
10% bank loan		1,100
Land	1,475	
Factory building	1,450	
Factory plant	200	
Office expenses	18	
Electricity	20	
Factory fuel	25	
Factory salaries	18	
Delivery vans	150	
Inventory: Raw materials	125	
Work in progress	75	
Finished goods	300	

	Sh. "million"	Sh. "million"
Sales		3,554
Sales returns	50	
Purchases of raw materials	1,500	
Insurance	9	
Water	40	
General salaries	200	
Allowance for irrecoverable debts		30
Trade receivables and payables	600	820
Bank	400	
Cash	60	
Computers	200	
Provision for depreciation:		
Factory building		200
Factory plant		40
Delivery van		60
Computers		50
Irrecoverable debts	10	
Loan interest	110	
Discount received		36
Investments	120	
Investment income		15
	<u>7,155</u>	<u>7,155</u>

**Additional information:**

1. Inventory as at 30 June 2015 was valued as follows:

	Sh. "million"
Raw materials	200
Work in progress	100
Finished goods	250

2. Allowance for irrecoverable debts is to be adjusted to Sh.25 million  
3. Prepaid insurance amounted to Sh.3 million as at 30 June 2015.  
4. Accrued general salaries amounted to Sh.16 million.  
5. Expenses to be apportioned between factory office and selling expenses as follows:

	Factory Expenses Sh. "million"	Administration expenses Sh. "million"	Selling expenses Sh. "million"
Electricity	80%	20%	
General salaries	20%	60%	20%
Insurance	20%	60%	20%
Water	80%	20%	
Depreciation:			
Factory buildings	100%		
Factory plant	100%		
Delivery van			100%
Computers	50%	50%	

6. Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Factory buildings	2%
Factory plant	10%
Delivery van	20%
Computers	20%

**Required:**

Manufacturing account and income statement for the year ended 30 June 2015.

(14 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Explain two categories of financial assets.

(4 marks)

- (b) Ally Ltd. has provided the following financial information for the month ended 31 August 2015:

	Sh. "million"
Receivables debit balance as at 1 August 2015	1,200
Payables credit balance as at 1 August 2015	800

	Sh. "million"
Credit purchases	2,840
Allowance for irrecoverable debts (30 June 2009)	60
Credit sales	3,630
Returns inwards	100
Discounts received	9
Returns outwards	40
Interest charged to credit customers on overdue accounts	20
Discounts allowed	6
Receipt from credit customers	2,904
Payment to creditors	2,207
Irrecoverable debts written off	12
Customers cheques dishonoured	50
Payables ledger credits transferred to receivables	240

**Additional information:**

1. An amount of Sh.200,000 previously written off was received in the month of August 2015.
2. Claims by Ally Ltd. for price reduction in the month of August due to defective goods was approved by suppliers amounting to Sh.150,000.
3. An invoice issued of Sh.480,000 was omitted from the relevant day book.

**Required:**

- (i) Sales ledger control account. (8 marks)
- (ii) Purchases ledger control account. (8 marks)

**(Total: 20 marks)**

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