



CPA PART I SECTION 1
CIFA PART I SECTION 1
FINANCIAL ACCOUNTING

MONDAY: 30 August 2021.

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) Explain the following types of accounting errors:
- (i) Compensating errors. (2 marks)
 - (ii) Complete reversal of entry. (2 marks)
 - (iii) Error of commission. (2 marks)
- (b) Discuss three functions of the International Accounting Standards Board (IASB). (6 marks)
- (c) The following information was extracted from the books of Dada Traders for the month of May 2021:

Balance on purchases ledger as at 1 May 2021:

	Sh.
• Debit balance	980,000
• Credit balance	2,990,000

Transactions during the month of May 2021:

	Sh. "000"
Purchases on credit	39,245
Purchases returns	895
Cheques paid to trade payables	23,370
Cash paid to trade payables	6,515
Discounts received from trade creditors	1,155
Credit sales offset against credit purchases	1,780
Credit purchase of a motor vehicle posted in the purchases ledger	2,990
Balance as at 31 May 2021 (Debit)	885

Required:

Purchases ledger control account for the month ended 31 May 2021.

(8 marks)

(Total: 20 marks)

QUESTION TWO

Alpha Omega operates a retail business. He has not employed a qualified accountant, and therefore has not maintained proper accounting records.

The following information was extracted from his books for the year ended 31 March 2020:

	Sh. "000"
Accounts receivable	2,000
Bank overdraft	240
Accounts payable	1,520
Electricity expenses accrued	60
10% bank loan	2,400
Allowance for doubtful debts	100
Freehold property (cost)	2,400
Motor vehicles (Net book value)	3,000
Furniture and fixtures (Net book value)	960
Inventory	1,560

The following transactions took place during the year ended 31 March 2021:

1. Sales and purchases on credit amounted to Sh.8,320,000 and Sh.7,600,000 respectively.
2. The following transactions were carried out through the bank account:

Sh. "000"

Electricity expenses	260
General expenses	140
Interest on loan	120
Drawings	240
Loan repayment on 30 September 2020	400
Collections from accounts receivable	7,560
Proceeds from sale of motor vehicle	480
Salaries and wages	640
Purchases of furniture	800
Payments to accounts payable	7,760
Sales – Cash	2,880
Purchases – Cash	960

3. The business operates at a gross profit margin of 25%.
4. Accrued electricity as at 31 March 2021 amounted to Sh.76,000.
5. Bad debts of Sh.80,000 were written off during the year ended 31 March 2021. The allowance for doubtful debts is to be maintained at 5% of the outstanding accounts receivable at the end of year.
6. During the year ended 31 March 2021, the business received discounts of Sh.160,000 and allowed discounts of Sh.280,000.
7. Loan interest paid was for half a year up to 30 September 2020.
8. The business depreciates motor vehicles at 20% per annum on a reducing balance basis. A full years' depreciation is provided on a motor vehicle acquired in the course of the year and no depreciation is provided on a motor vehicle disposed of in the course of the year.
9. The motor vehicle disposed during the year ended 31 March 2021, had been purchased at Sh.1,000,000 and had an accumulated depreciation of Sh.488,000 at the time of disposal.
10. Furniture is depreciated at a rate of 10% per annum on cost and is pro-rated to the period used in the year. The additional furniture was purchased on 1 October 2020, while the cost of furniture held on 31 March 2020 was Sh.1,600,000.

Required:

- (a) Statement of profit or loss for the year ended 31 March 2021. (12 marks)
- (b) Statement of financial position as at 31 March 2021. (8 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Alfajiri Manufacturers Ltd. as at 30 June 2021:

	Sh. "000"	Sh. "000"
Freehold property at cost	25,000	
Plant at cost	26,000	
Accumulated depreciation on plant		12,400
Motor vehicles at cost	10,600	
Accumulated depreciation on motor vehicles		6,100
Fixtures and fittings at cost	7,941	
Accumulated depreciation on fixtures and fittings		2,358
Discounts receivable		493
15% debentures		20,000
Raw materials purchases	183,476	
Sales		244,925
Sundry expenses	5,830	
Bank charges	585	
Marketing expenses	4,609	
Advertising expenses	1,716	
Sales returns	269	
Raw materials purchases returns		634
Salaries	18,000	
Plant maintenance	2,194	
Lighting and heating	3,256	
Factory power	4,512	
Factory wages	21,674	
Rates and insurance	1,843	
Bad debts	979	
Allowance for doubtful debts		1,381

	Sh. "000"	Sh. "000"
Share capital – 1,000,000 ordinary shares of Sh.50 each		50,000
General reserve		44,000
Revenue reserve (unappropriated profits)		881
Interim dividend paid	3,200	
Cash at bank	6,714	
Accounts receivable and accounts payable	26,409	11,647
Inventories as at 1 July 2020:		
- Raw materials	6,811	
- Work-in-progress	11,532	
- Finished goods	<u>21,669</u>	
	<u>394,819</u>	<u>394,819</u>

Additional information:

- Freehold property includes land at a cost of Sh.15,000,000. The other amount is the cost of buildings.
- Buildings are to be depreciated using the straight line method over a fifty-year life commencing 1 July 2020. This expense is considered to be a factory overhead.
- Depreciation is to be provided on a reducing balance basis as follows:

Asset	Rate per annum
Plant	15%
Motor vehicles	25%
Fixtures and fittings	10%

Only plant depreciation is charged to the factory. The other depreciation charges are considered administrative expenses.
- Allowance for doubtful debts is to be adjusted to 8% of the accounts receivable.
- The following expenses are to be apportioned in the ratio 4:1 between factory and administrative overheads:
 - Lighting and heating
 - Risks and insurance
 - Sundry expenses
- An amount of Sh.6,000,000 included in the factory wages account is the factory manager's salary.
- The directors wish to provide for a final dividend which will bring the dividend for the year up to Sh.5 per share.
- Debenture interest for the current year has not yet been paid.
- Some finished goods which cost Sh.541,000 have been sold to a customer at an additional profit margin of Sh.57,000 but the customer has indicated that he intends to return them since they are not what he ordered. This sale was a credit sale and has been included in the accounts receivable.
- As at 30 June 2021:
 - Light and heat accrued was Sh.154,000
 - Insurance prepaid was Sh.48,000
 - Rates prepaid were Sh.150,000
- Inventories as at 30 June 2021 were valued at:

	Sh. "000"
• Raw materials	27,851
• Work-in-progress	16,490
• Finished goods	24,627

Required:

- Manufacturing account for the year ended 30 June 2021. (10 marks)
 - Statement of profit or loss for the year ended 30 June 2021. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

The following balances were extracted from the books of Afya Youth Club for the year ended 30 June 2020:

	Sh. "000"
Land at cost	90,000
Equipment (Cost – Sh.25,000,000)	20,000
Furniture and fittings (Cost Sh.80,000,000)	46,000
Bar inventory	18,400
Subscriptions in arrears	5,000
Bank balance	4,500
Long-term bank deposits	12,000
Long-term loan	96,000
Bar creditors	16,800
Subscription in advance	1,600
Accrued bar wages	2,300

The club's receipts and payment account for the year ended 30 June 2021 was as follows:

Receipts and payment account			
	Sh. "000"		Sh. "000"
Balance brought forward	4,500	Bar wages	151,200
Subscription received	136,000	Rates	20,000
Competition entries	29,600	Loan repayments	39,200
Bar sales	332,000	Bar expenses	58,400
		Competition ticket cost	20,800
		Bar purchases	149,400
		Equipment purchase	14,000
		Transfer to long-term deposit account	20,000
		Balance carried forward	29,100
	<u>502,1000</u>		<u>502,100</u>

Additional information:

1. The following information relates to the club as at 30 June 2021:

	Sh. "000"
Subscription in arrears	4,000
Bar creditors	16,000
Bar inventory	19,800
Subscription in advance	2,400
Bar wages due	3,200

2. Interest receivable on long-term deposits amounted Sh.2,200,000.

3. The long-term loan is repaid in annual instalments of Sh.30,000,000 excluding interest. The interest for the year ended 30 June 2021 was Sh.9,200,000.

4. Depreciation is provided as follows:

Asset	Rate per annum	Method
Equipment	10%	Straight line
Furniture and fittings	15%	Reducing balance

It is the policy of the club to charge a full year's depreciation on assets in the year of purchase and no depreciation in the year of disposal.

Required:

(a) Bar statement of profit or loss for the year ended 30 June 2021. (4 marks)

(b) Statement of income and expenditure for the year ended 30 June 2021. (8 marks)

(c) Statement of financial position as at 30 June 2021. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain three roles played by accounting officers in public sector accounting. (6 marks)

(b) The following are the financial statement extracts from the books of Karamu Traders:

Karamu Traders		
Statement of profit or loss for the year ended 31 December:		
	2020	2019
	Sh. "000"	Sh. "000"
Sales (all on credit)	400,000	240,000
Cost of sales	<u>(300,000)</u>	<u>(160,000)</u>
Gross profit	100,000	80,000
Expenses	<u>(30,000)</u>	<u>(20,000)</u>
Net profit	<u>70,000</u>	<u>60,000</u>

Karamu Traders
Statement of financial position as at 31 December:

	2020		2019
Assets:	Sh. "000"		Sh. "000"
Non-current assets	24,000		30,000
Current assets:			
Inventory	36,000		14,000
Trade receivables	72,000		24,000
Cash at bank	-	<u>108,000</u>	<u>2,000</u>
Total assets		<u>132,000</u>	<u>70,000</u>
Equity and liabilities:			
Capital and reserves:			
Capital balance 1 January	58,000		24,000
Net profit	<u>70,000</u>		<u>60,000</u>
	128,000		84,000
Less: Drawings	<u>(46,000)</u>	82,000	<u>(26,000)</u>
			58,000
Current liabilities:			
Trade payables	30,000		12,000
Bank overdraft	<u>20,000</u>	<u>50,000</u>	<u>12,000</u>
		<u>132,000</u>	<u>70,000</u>

Additional information:

1. There were no purchases or disposals of non-current assets during the years ended 31 December 2019 and 31 December 2020.
2. During the year ended 31 December 2020, Karamu Traders reduced their selling prices in order to stimulate sales.
3. Assume price levels were stable.
4. Assume a 365-day year.

Required:

For the year ended 31 December 2019 and 31 December 2020, compute the following ratios:

- | | | |
|-------|--|-----------|
| (i) | Gross profit mark-up. | (2 marks) |
| (ii) | Gross profit margin. | (2 marks) |
| (iii) | Net profit margin. | (2 marks) |
| (iv) | Return on capital employed (ROCE). | (2 marks) |
| (v) | Current ratio. | (2 marks) |
| (vi) | Acid test ratio. | (2 marks) |
| (vii) | Accounts receivable collection period. | (2 marks) |

(Total: 20 marks)

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