

KASNEB
FINANCIAL ACCOUNTING

31 MAY 2013.

QUESTION ONE

Mboyamak Ltd. manufactures farm implements. The following list of balances was extracted from the books of account of the company as at 31 December 2012:

	Sh
Inventory as at 1 January 2012:	
Raw materials	1,270,000
Work in progress	1,555,000
Finished goods	1,163,000
Purchase of raw materials	4,576,750
Carriage of raw materials	98,000
Direct labour	4,210,400
Office salaries	1,670,950
Rent	260,000
Electricity (office)	221,000
Depreciation expenses:	
Machinery	510,000
Equipment (office)	115,000
Sales	15,931,100
Electricity (factory)	406,000

Additional information:

1. **Inventory** as at 31 December 2012 was given as follows:

	Sh
raw materials	1,445,000
Work in progress	1,230,000
Finished goods	1,442,000

2. Rent is to be apportioned between factory and office in the ratio 3:1
3. Finished goods are transferred from factory to sales at a mark up of 20 %
4. The values of opening and closing inventory are given at the transfer price.

Required:

- i. Manufacturing account for the year ended 31 December 2012 (12 marks)
- ii. **Income** statement for the year ended 31 December 2012 (8 marks)

(Total: 20 marks)

QUESTION TWO

- Discuss five users of accounting information clearly indicating their information needs (10 marks)
- You have just been employed by Best way Ltd. as a trainee accountant. Your first exercise is to check the transactions in the company's cash book, check entries in the bank statement, update the cash book and make any amendments as necessary after which you will prepare a bank reconciliation statement at the end of the month.

The company's cash book and bank statement for the month of March 2013 are provided below:

Dr		CASH BOOK (Bank column only)			Cr	
Date	Details	Amount	Date	Details	Amount	Sh.
2013		Sh. "000"	2013		"000"	
1-Mar	Balance brought down	4,865	2-Mar	Salama Insurance	187.5	
1-Mar	Devco. & Co. Ltd.	622.5	2-Mar	Hellen- cheque number 4100	515	
5-Mar	J. Karanja	470	4-Mar	Orchards Ltd. - cheque number 4101	787.5	
8-Mar	P. Otieno	375	8-Mar	Buki Garage- cheque number 4102	527.5	
10-Mar	Huge Ltd	1,100	9-Mar	Value sure finance	300	
18-Mar	Tiny Ltd	162.5	13-Mar	Joseph Baraka- cheque number 4103	55	
27-Mar	R. Nafula	1,300	20-Mar	Good samaritan Ltd- cheque number 4104	342.5	
30-Mar	David and Partners	205	27-Mar	Kenya power Ltd- cheque number 4105	675	
			31-Mar	Balance carried down	5,710	
		<u>9.100</u>			<u>9.100</u>	
1-Apr	Balance brought forward	5,710				

Best way Ltd.

Bank statement

**Date: 31
March
2013**

Date	Details	Debit	Credit	Balance
2013		Sh.		Sh. "000"
		"000" Sh. "000"		
1-Mar				4,865 CR
2-Mar	Balance Cheques		622.5	5,487.5CR
4-Mar	Salama insurance	187.5		5,300CR
5-Mar	Cheque number 4101	787.5		4,512.5CR
6-Mar	J. Karanja		470	4982.5CR

9-Mar	P. Otieno		375	5,357.5CR
9-Mar	Cheque number 4102	527.5		4,830CR
12-Mar	Cheques		1,100	5,930 CR
12-Mar	Value sure Finance	300		5,630 CR
20-Mar	Cheques		162.5	5,792.5 CR
28-Mar	Kenya power	675		5,117.5CR
30-Mar	Skyline Ltd		230	5,347.5CR
31-Mar	Bank charges	137.5		5.210CR
31-Mar	Bottom line co. Ltd	2,500		2,710 CR

Required:

A bank reconciliation statement as at 31 March 2013

(10 marks)

(Total: 20 marks)

QUESTION THREE

Kanini, Lucy and Ndwiga are in a partnership sharing profits and losses in the ratio 3:2:1 respectively. Ndwiga decided to retire on 31 December 2012 and Gitonga was admitted as a partner on that date. The following is the partnership trial balance as at 31 December 2012.

	Sh	Sh
premise	1,800,000	
plant	740,000	
vehicles	300,000	
equipment	40,000	
inventory as a 31 December 2012	1,247,580	
accounts receivables	699,600	
cash	15,200	
accounts payable		380720
bank overdraft		84,000
Loan- Ndigwa		560,000
Capital- Kanini		1,700,000
Lucy		1,300,000
Ndwiga		700,000
current accounts- Kanini		74,280
Lucy	50,180	
Ndwiga		93,560
	<u>4,892,560</u>	<u>4,892,560</u>

Additional information

1. Revaluation: premises Sh. 2,400,000; Plant Sh. 700,000 and inventory Sh. 1,083,580
2. Allowance for doubtful debts amounting to Sh. 60,000 is to be provided

3. Goodwill amounting to Sh. 840,000 is to be provided in the books on the day Ndwiga retires. The partners in the new partnership do not wish to maintain goodwill
4. Kanini and Lucy are to share profits in the same ratio as before. Gitonga will have same share profits as Lucy.
5. Ndwiga is to take his car at book value of Sh. 78,000 in part payment, and the balance of all he is owed by the firm in cash except Sh. 400,000 which he is will to leave as a loan account
6. The partners in the new firm are to start on equal footing so far as capital and current account are concerned. Gitonga is to contribute cash to bring his capital and current accounts to the same amount as the original partner from the old firm who has the lower investment in the business.
7. The original partner in the old firm who has the higher investment will withdraw cash so that his capital and current account balances equal those of his new partners.

Required:

- a) Partner's capital account (6 marks)
- b) Partner's current account (6 marks)
- c) Statement of financial position for the partnership of Kanini, Lucy and Gitonga as at 31 December 2012 (8 marks)

(Total: 20 marks)

QUESTION FOUR

- a) The following extracts are from the financial statements of SOY Ltd, as at 31 March:

	2013 Sh. "000"	2012 Sh."000"
Non- current assets		
Freehold land and building	50,400	36,000
Plant and machinery	17,580	19,050
Investment at cost	10,800	11,250
Goodwill	8,400	8,700
	87,180	75,000
Current assets		
Inventory	30,150	26,100
Trade receivables	18,420	23,400
Short term investments	5,130	2,520
Cash in hand	600	1,290
	54,300	53,310
	141,480	128,310
Total assets		
Equity and liabilities		
Ordinary share capital	54,000	45,000
Share premium	4,500	2,250
Revaluation reserves	13,500	
Revenue reserve	18,450	15,750
	90,450	63,000

Non- current liabilities

14% loan stock	22.500	27.000
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Current liabilities

Trade payables	17,550	15,750
Bank overdraft	7,170	19,620
Proposed dividend	1,350	1,140
Taxation	2.460	1.800
	28.530	38.310
Total equity and liabilities	141.480	128.310

Additional information:

- The income statement extract for the year ended 31 March 2013 is as follows;

	Sh."000"	Sh."000"
Profit before tax		7,200
Less corporation tax		<u>2.700</u>
Profit after tax		4,500
Dividends:		
Interim paid	450	
Proposed	1.350	1.800
Retained earnings		2.700

- During the year, plant with a net book value of Sh. 2,250,000 was sold for Sh. 4,410,000. The plant had originally cost Sh. 9,000,000
- Part of the investment was sold during the year at a profit of Sh. 480,000
- Depreciation on plant and machinery amounting to Sh. 3,450,000 was charged to the income statement during the year
- During the year impairment of good will was estimated to be Sh. 1,260,000
- The revaluation reserve relates to freehold land and building

Required:

Statement of cash flow in accordance with international accounting standard (IAS) 7 "statement of cash flow" (14 marks)

- b) Discuss three categories of financial ratios (6 marks)

(Total: 20 marks)

QUESTION FIVE

The following were the estimates and actual expenditure of Barani ministry of Youth and Sports for the financial year ended 30 June 2012:

Item	Details	Estimates	Actual
		Sh."000"	Sh."000"
201	Basic salaries	96,000	92,400

201	Other personal allowance	18,900	21,420
400	Utilities, supplies and salaries	56,300	47,800
450	Printing and stationery	12,400	12,100
250	Travelling expenses	42,500	44,700
280	Training expenses	9,200	7,300
305	Maintenance and repairs of equipment	2,500	1,880
500	Grants to youth clubs	8,900	8,900
	Gross expenditure	<u>246,700</u>	<u>236,500</u>
600	Appropriation-in-aid	15,000	12,500
	Net expenditure	<u>231,700</u>	<u>224,000</u>

Drawings from the exchequer during the financial year ended 30 June 2012 amounted to Sh. 226,000,000.

Required:

- a) General account of vote (3 marks)
- b) Exchequer account (3 marks)
- c) Paymaster general (PMG) account (3 marks)
- d) Appropriation account for the year ended 30 June 2012 (8 marks)
- e) Statement of assets and liabilities as at 30 June 2012 (3 marks)

Total: 20 marks