KASNEB

FINANCIAL ACCOUNTING

May 2014

QUESTION ONE

Carol and Mary are in a partnership sharing profits equally. They make handbags under the brand name "CARY".

The partnership trial balance as at 31 December 2013 was as follows:

		Sh. "000"	Sh."000"
Capital	Carol		24,000
	Mary		24,000
Drawings	Carol	5,000	
	Mary	4,800	
Land		15,200	
Factory building at cost		20,400	
Accumulated depreciation on factory building			15,370
Delivery van at cost		8,100	
Accumulated depreciation on delivery van			1,912
Inventory (1 January 2013):			
	Raw materials	2,300	
	Work in progress	2,210	
	Finished goods (10,250 handbags at sh 2,000 each)	20,500	
Sales			63,000
Return inwards		112	
Purchase of raw materials		14,590	
Tax			3,960
Factory wages		7,630	
office salaries		2,500	
General expenses:	Factory	7,730	
	Office	9,470	
Plant at cost		17,220	
Accumulated depreciation on plant			5,870
Provision for unrealized profit (1 January 2013)			2,050
Allowance for doubtful debts			770
Trade receivables and payables		10,680	2,640
Bank overdraft			4,670
		148.442	148.442

Additional information

1. During the year ended 31,December 2013, 16,727 handbags were transferred to the warehouse at a price of Sh. 2400 each
2. As at 31 December 2013, inventory was valued as follows:
   - Raw material - Sh. 1,900,000
   - Work in progress - Sh. 2,880,000
   - Finished goods - Sh. 17, 428,800
3. All handbags sold at Sh. 3200 each
4. The allowance for doubtful debt is to be maintained at 5% of the trade receivables
5. Accrued general expenses as at 31 December 2013 were as follows;
   - Factory - Sh. 1, 748, 000
   - Office - Sh. 764, 000
6. As at 31 December 2013, rent and rates were prepaid as follows:
   - Factory - Sh. 104, 000
   - Office - Sh. 80, 000
7. Depreciation is to be provided on cost as follows;

Assets	**Rate per annum**
Factory building	2%
Plant	10%
Delivery vans	20%

8. Carol is entitled to 25% of the manufacturing profit based on the transfer price to the warehouse, wile Mary is entitled to 10% of the trading gross profit
9. No interest is credited or charged on capital account or drawings.

Required:

a) Manufacturing account for the year ended 31 December 2013. (6 marks)
b) Income statement for the year ended 31 December 2013 (8 marks)
c) Statement of financial position as at 31 December 2013 (6 marks)

(Total: 20 marks)

QUESTION TWO

The following balances were extracted from the books of Upendo Ltd, for the year ended 31 December 2013;

	Sh. "000"
Ordinary Shares	120,000
8% Preference Shares	40,000
Inventory (31 December 2013)	83,852
Trade Receivables	27,200
Bank Balance	7,796
10% Debentures	16,000
General Reserves	28,000

Gross Profit for the year	81,508
Bad Debts	340
Salaries and Wages	28,200
Insurance and Rates	1,410
Telephone Expenses	620
Electricity Expenses	1,216
Debenture Interests	800
Directors Fees	2,500
General Expenses	3,108
Motor vehicles at cost	29,100
Accumulated depreciation on motor vehicles	22,300
Office Equipments at cost	44,640
Accumulated Depreciation on Office Equipments	17,200
Land	100,000
Buildings at cost	32,200
Trade Payables	13,722
Revenue Reserves (1st January 2013)	24,252

Additional information

1. Accrued electricity expenses as at 31 December 2013 amounted to Sh. 548,000
2. The amount of insurance includes a premium of Sh. 300,000 paid in September 2013 to cover the company for six months from 1 October 2013 to 31 March 2014.
3. Depreciation is provided for as follows:
   - Office equipment - 15 % per annum on cost
   - Motor vehicles - 20% per annum on cost
4. Provisions are to be made for:
   - Directors fees - Sh. 5,000,000
   - Audit fees- Sh. 1, 200,000
   - Outstanding debenture interest
5. The directors have recommended the following:
   - Sh. 12,000,000 be transferred to general reserves
   - Dividends on preference shares be paid
   - Payment of 10% dividend on ordinary shares

Note: Ignore depreciation on buildings

Required:

a) Income statement for the year ended 31 December 2013. (12 marks)
b) Statement of financial position as at 31 December 2013 (8 marks)

(Total: 20 marks)

QUESTION THREE

a) The property plant and equipment balances of Matatizo Ltd. comprised the following as at 1 January 2013:

	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh."000"
Freehold land	300,000		30,000
Buildings	38,520		38,520
Plant and machinery	70,200	37,812	32,388
Motor vehicles	37,800	23,040	14,760

The company uses straight line method of depreciation on assets as follows:

- 10% per annum for plant and machinery
- 20% per annum for motor vehicles

Additional information

1. It is the company's policy to make a depreciation charge proportionate to the period of usage of the assets
2. An item of machinery bought on 1 July 2009 for sh. 10,080,000 was sold on 1 April 2013 at Sh. 6,000,000
3. From the year ended 31 December 2013, the management of the company decided to charge depreciation on buildings at a rate of 2.5% per annum. The buildings were completed on 1 July 2009.
4. On 1 January 2013, a vehicle purchased on 1 May 2010 for sh. 12,600,000 was traded in at a value of Sh. 7,320,000 in part exchange for a new vehicle costing Sh. 18,000,000
5. Included in machinery is an old machine which originally cost Sh. 13,500,000 and which was already fully depreciated and not expected to yield any material amount on either use or resale.
6. On 30 June 2013, a machine costing Sh 13,500,000 was purchased from a vendor who had used it for three years. The vendor had bought the machine costing Sh. 10,500,000 was purchased on 1 august 2013.

Required:

A schedule showing the movement of property, plant and equipment for the year ended 31 December 2013 (12 marks)

b) The following were approved estimates and actual expenditures for the ministry of Health for the financial year ended 30 June 2013:

Item	Details	Approved estimates Sh. "000"	Actual expenditure Sh. "000"
300	Transport	76,500	73,100
301	Travel and subsistence	88,400	86,700
500	Personal emoluments	102,000	96,900
700	**Electricity** expenses	81,600	76,500
240	Staff development	15,980	17,510
900	Purchase of equipment	166,600	166,600

400	Other allowances	116,960	113,390
1000	Appropriations-in-aid	133,960	125,800

Drawings from the exchequer during the financial year ended 30 June 2013 amounted to Sh. 127,500,000

Required:

i. General account of vote (3 marks)
ii. Exchequer account (2 marks)
iii. Paymaster general account (3 marks)

(Total: 20 marks)

QUESTION FOUR

a) Summarise three limitation of ration analysis (6 marks)
b) The following financial statements were extracted from the books of Majengo Ltd. for the years ended 31 December 2012 and 2013:

Income statements for the years ended 31 December:

	2012	**2013**
	Sh."000"	**Sh "000"**
Sales (all on credit)	200,000	200,000
Cost of sales	120.000	100.000
Gross profit	80,000	100,000
Expenses	-60,000	-60,000
Net profit	20,000	40,000
Dividends	-20,000	-20,000
Retailed profit		20,000
Balance brought forward	25.000	25.000
Balance carried forward	25,000	45,000

Statements of financial position as at 31 December:

	2012	**2,013**
	Sh."000"	**Sh."000"**
Non current assets		
Land	63,000	44,000
Plant and machinery at cost	6,000	8,500
Buildings at cost	79,000	60,000
Investments at cost	80.000	53.000
	228,000	165,500
Current assets		
Inventory	65,000	55,000

Trade receivables	50,000	40,000
	115,000	95,000
Current liabilities		
Trade payables	60,000	40,000
Proposed dividend	20,000	20,000
Bank balance	4,000	2,500
	-84,000	-62,500
Net current assets	31,000	32,500
Net assets	259,000	198,000
Financed by:		
Ordinary share capital	50,000	40,000
Share premium	14,000	13,000
Revaluation reserve	20,000	
Revenue reserve	25,000	45,000
10% debentures	150,000	100,000
	259,000	198,000

Additional information

1. Ordinary shares with nominal value of Sh. 10,000,000 were repurchased at a premium during the year. All necessary approvals were obtained for this transaction.
2. Part of debentures were redeemed at par during the year.
3. Ignore taxation.

Required:

The following rations were for Majengo Ltd for years ended 31 December 2012 and 2013;

i. Gross profit margin (2 marks)
ii. Net profit (2 marks)
iii. Trade receivables turnover (2marks)
iv. Acid test ratio (2 marks)
v. Dividend cover (2 marks)
vi. Gearing ration (2 marks)
vii. Return on capital employed (ROCE) (2 marks)

(Total: 20 marks)

QUESTION FIVE

a) Discuss five principles of the code of ethics that govern the profession conduct of accountants (10 marks)
b) Highlight six types of errors that could be reflected in a trial balance (6 marks)
c) Outline two advantages of an income and expenditure account to a receipts and payments account (4 marks)

(Total: 20 marks)