KASNEB
CPA (PART 1 SEC 1)
FINANCIAL ACCOUNTING

Friday 22 may 2015

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 Mawazo Ltd. as at 31 December 2014:

	Sh.	Sh.
inventories (1 January 2014)		
Raw materials	238,385	
Work-in-progress	403,315	
Finished goods	758,415	
Freehold land and buildings at cost (land Sh. 525,000)	875,000	
Plant and machinery at cost	910,000	
Motor vehicle at cost	371,000	
Fixtures and fittings at cost	277,935	
Accumulated depreciation (1 January 2014):		
Plant and machinery		434,000
Motor vehicles		213,500
Fixtures and fittings		82,350
Bad debts written off	34,265	
Allowance for doubtful debts		48,335
Rates and insurance	64,505	
Factory wages	758,590	
Factory power	157,920	
Electricity and water	113,920	
Maintenance of plant and machinery	76,790	
office salaries	630,000	
Return inwards and return outwards	9,415	22,190
Discount received		17,255
15% debentures		700,000
Purchases and sales	6,421,660	8,572,375
General expenses	204,415	
Bank charges	20,415	
Advertising	60,060	
Cash and bank balances	234,990	
Trade receivables and trade payables	924,315	407,645

Revenues reserve (1 January 2014)		730,835
General reserve		840,000
Share premium		350,000
Share capital - issued and fully paid:		
140,000 ordinary shares of Sh.10 each		1,400,000
Interim dividend paid	112,000	
Motor vehicle expenses	161.135	
	13, 818,485	13,818,485

Additional information

1. Electricity and water, insurance and general expenses are to be apportioned as follows;
   - Factory 80%
   - Office 20%
2. The allowance for doubtful debts is to be maintained at 10% of trade receivables as at 31 December 2014.
3. The Directors propose to pay final dividend. This shall increase the dividend for the year to Sh. 2 per share.
4. Corporation tax is to be provided at 30% of net profit.
5. Prepaid expenses as at 31 December 2014 were as follows:
   - Rates Sh. 5,250
   - Insurance Sh. 1,680
6. Accrued electricity and water amounted to Sh. 5,390 as at 31 December 2014.
7. The value of inventories as at 31 December 2014 were as follows:

	Sh.
raw materials	974,785
Work-in- progress	577,150
finised goods	861,945

8. Depreciation is to be provided as follows;

Assets	**Rate per annum**
buildings	4% on cost
plant and machinery	15% on written down value
motor veh ices	25% on written down value
fixtures and fittings	10% on written down value

Required

a) Manufacturing account for the year ended 31 December 2014. (10marks)

b) Income statement for the year ended 31 December 2014. (10 marks)

(Total 20 marks)

Question two

Samuel and Mary are trading as partners sharing profits and losses in the ratio of 2:1 respectively.

On 1 May 2015, Ann was admitted as a partner. The statement of financial position as at 30 April 2015 was a follows:

Non-currents assets		**Sh.**	**Sh.**
Freehold premises			9,000,000
Plant and equipment			3,700,000
Fixures and fittings			1,700,000
			14,400,000
Current assets			
Inventory		6,200,000	
Trade receivables		4,300,000	
Cash balance		69,800	10,569,800
			24,969,800
Financed by			
Capital account:	Samuel	8,000,000	
	Mary	4,000,000	12,000,000
Current account:	Samuel	3,154,800	
	Mary	915,000	4,069,800
Non-current liabilty			
Term loan			600
Current liabities			
Trade payables		2,700,000	
Bank overdraft		5,600,000	8,300,000
			24,969,800

The admission of Ann was subject to the following;

1. Samuel, Mary and Ann to share profits and losses in the ratio 2:1:1 respectively.
2. Ann is to contribute cash in order to bring her capital and current accounts to the same level as the initial partners from the old firm who has lower investment in the business. In addition, the partner in the old firm with the higher investment will draw out cash so that his/her capital and current accounts equal those of new partners
3. On admission of Ann, goodwill was to be valued at Sh. 600,000 but not to be maintained in the books of new firm.
4. An allowance for doubtful debts is to be made for Sh. 300,000
5. On admission of Ann, the assets were to be revalued as follows;

Assets	**Sh.**
Freehold premises	11,000,000
Plant and equipment	3,400,000
Inventory	5,400,000

Required

a)

i Revaluation account (4 marks)

ii. Partners' capital accounts (4 marks)

iii. Partners' current accounts (4 marks)

iv. Bank account (2 marks) b) Statement of financial position as at 1 May 2015 after the admission of Ann. (8 marks)

(Total 20 marks)

Question three

a) Using illustrations, explain four types of errors that might not be disclosed by the trial balance. (8 marks)

b) The following information was extracted from the financial records of Jane Wangi for the year ended 30 April 2015;

	Sh.
sales ledger balances (1 May 2014)	62,540
Cash received from debtors	212,390
Discount allowed	3,470
Return inwards	4,820
cash sales	58,330
Bad debts written off	1,960
Credit sales for the year	249,490
Debit balance transferred to purchase ledger accounts	3,410

During the same financial year, Jane Wangi's sales ledger balances amounted to Sh. 80,080 which did not agree with the closing balance in the sales ledger control.

After checking all the entries, the following errors were discovered;

1. A debtor balance of Sh.930 had been omitted from the list of debtors
2. Return inwards journal had been undercast by Sh. 870
3. Peter Maina had returned goods worth Sh. 540 but the amount had been recorded as Sh. 450 in his account
4. Discount allowed of Sh. 270 had been posted to the wrong side of debtors account
5. A debtor had been charged with an interest of Sh. 80 but which had been overlooked by the accountant
6. Sales day book had been overcast by Sh. 1,360
7. Bad debts amounting to Sh. 190 had been entered in the control account but had not been posted to customer's account
8. Discount allowed of Sh. 350 had been entered in the cash book but was yet to be entered in the customer's account
9. Return inwards amounting to Sh. 440 from Robert Rotich had not been recorded in the books
10. Macred Juma was both a customer and a supplier. He had a balance of Sh. 270 in the purchases ledger and 190 in the sales ledger. The contra entry was made in Macred Juma's account but no entry had been made in the control account.
11. A sales invoice of Sh. 1,490 had not been entered in the books
12. A credit sale of Sh. 1,860 to James Onsango had been entered on the credit side of his account

Required

i. Sales ledger control account from the original list of balances (4marks)

ii. Adjustment sales ledger control account (4marks)

iii. Debtors reconciliation statement for the year ended 30 April 2015 (4 marks)

(Total 20 marks)

Question four

Explain the use of the following source document:

i. Sales and purchase invoice (2 marks)
ii. Debit note (2 marks)
iii. Credit note (2 marks)

Patrick Joe retired from employment on 31 December 2013 and decided to venture into business. He bought an existing business on 1 April 2014, acquiring the inventory at a valuation of Sh. 1,142,000, furniture and fixtures at Sh. 1,500,000 and goodwill for the remaining balance.

He used his existing bank account and did not maintain a full set of accounting records, the only record available being till book recording cash payments from the till. Surplus cash was banked periodically during the year.

A summary of Patrick Joe's bank account for the year ended 31 March 2015 was as follows:

Bank account

	Sh. "000"		**Sh."000"**
Balance brought forward	3,646	Purchase of business	3,192
Pension	975	Rent, 15 months to 30 June 2015	500
Bankings from shop	16,427	Rates, 9 months to December 2014	84
		Electricty	92
		Hire of equipment	80
		Purchases	14,700
		Personal cheques	1,122
		Balance carried forward	1.272
	21.048		21.048

Additional information:

1. A summary of the till book for the year ended 31 March 2015 showed the following;

	Sh."000"
Purchases	1,606
Staff wages	742

	Sundry expenses	156
	Drawing	520

2. Other balance as at 31 March 2015 were given as follows

	Sh. "000"
Inventory	1,542
Receivables	74
Cash in hand	54
Payables	470
Rate payable	120

3. Furniture and fixtures are to depreciated at 10% per annum on cost

Required;

i. Income statement for the year ended 31 March 2015. (7 marks)
ii. Statement of financial position as at 31 March 2015 (7 marks)

Question five

a) "A statement of cash flows is considered to be of such importance to users of financial statements that International Accounting Standard (IAS) 7 requires an entity to include such a statement as an integral part of the financial statements".

Required:

Justify the above statement (4 marks)

b) Explain three roles of the International Accounting Standards Board (IASB) as provide by the International Financial Reporting Standards (IFRSs) foundation constitution (6 marks)

c) The approved estimates and actual expenditure details relating to the Ministry of Agriculture and Fishing as at 30 June 2014 were as follows:

	Approved estimates Sh."million"	Approved expenditure Sh."million"
Capital expenditures		
Purchase of motor vehicles	220	230
purchase of office equipment	180	160
Networking the offices with fiber optic	60	40
Recurrent expenditure		
Electricity, water and telephone	70	68

Travelling expenses	92	89
Passages and leave	84	62
House allowance	54	61
Personal emoluments	490	495
internal income		
Sale of hybrid grains/seeds	30	32
Artificial insemination fees	150	145
Grain drying services	20	25

Required:

Appropriation account for the year ended 30 June 2014 showing the net surplus to be surrendered to the exchequer (if any). (10 marks)

(Total 20 marks)