

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:

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

	Sh. "000"
Raw materials	60,000
Work-in-progress	25,000
2. The finished goods were sold at a mark-up of $66\frac{2}{3}\%$.
3. Lighting expenses, rent and insurance expenses are to be apportioned as follows: factory 70% and administration 30%.
4. Depreciation is to be provided as follows:

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

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:

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

	Sh.
Salaries and wages	200,000
Electricity	90,000

- An allowance for doubtful debts amounting to Sh.200,000 is to be made.
- Insurance paid in advance as at 30 April 2016 amounted to Sh.40,000.
- 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 Sh."000"	31 March 2016 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 Sh."000"	2016 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"
Assets:		
Non-current assets		
Plant, property and equipment	486,000	522,000
Current assets		
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>
Equity and liabilities:		
Ordinary share capital	250,000	250,000
Retained profit	<u>105,300</u>	<u>117,600</u>
Shareholders' equity	355,300	367,600
Non-current liability		
10% debenture	110,000	110,000
Current liabilities		
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. (6 marks)

(Total: 20 marks)

Extract from the financial statements of ABC Ltd for the year ended 31 March 2014

	2014	2013
Profit before tax	24,000	24,000
Income tax expense	(12,000)	(12,000)
Profit for the year	12,000	12,000
Retained profit brought down	102,000	102,000
Less: Dividend paid	(18,000)	(18,000)
Retained profit carried down	84,000	102,000

	2014	2013
Assets		
Non-current assets		
Plant, property and equipment	480,000	480,000
Current assets		
Inventory	60,000	60,000
Trade receivables	42,000	42,000
Bank balances	12,000	12,000
Total assets	594,000	594,000
Equity and liabilities		
Equity		
Share capital	150,000	150,000
Retained profit	102,000	102,000
Provision for doubtful debts	(18,000)	(18,000)
Total equity	234,000	234,000
Liabilities		
Trade payables	110,000	110,000
Other liabilities	25,000	25,000
Total liabilities	135,000	135,000
Total equity and liabilities	369,000	369,000

