

# KASNEB

## ATD LEVEL II

### FINANCIAL ACCOUNTING

#### PILOT PAPER

September 2015.

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) Identify the components of a complete set of financial statements. (4 marks)

(b) The following balances were extracted from the books of Chavakali Limited as at 31 August 2015:

	Sh. "000"
Sales	60,000
Purchases	32,850
Trade payables	4,725
Freehold premises	42,000
Motor vehicle at cost	7,000
Furniture and equipment	16,500
Provision for depreciation: Motor vehicles	4,500
Furniture and equipment	7,500
Trade receivables	9,522
Allowance for doubtful debts	612
Irrecoverable debts	725
Returns inwards	507
Administrative expenses	5,370
Selling and distribution costs	4,450
Bank charges	326
Investment income	1,323
Debenture interest	300
8% debentures	7,500
Interim preference dividend	450
10% Sh.10 preference shares.	9,000
Sh.10 ordinary shares (called up and fully paid)	25,000
Share premium	8,750
Retained profits	5,500
Inventory 1 September 2014	9,436
Cash and bank balance	4,974

#### Additional information:

1. Allowance for doubtful debts is to be adjusted to 5% of the debtors balance.
2. Bank charges of Sh.60,000 were outstanding as at 31 August 2015 while Sh.550,000 administrative expenses were prepaid. Debenture interest has only been paid for the first half of the year.
3. Inventory as at 31 August 2015 was valued at Sh.11,350,000.
4. Freehold premises were revalued upwards by Sh.18,000,000.
5. Depreciation is to be provided at 10% on the written down values of furniture and fittings as well as on motor vehicles.
6. The final preference share dividend is to be provided for and ordinary share dividend of Sh.1 per share has been declared for the year ended 31 August 2015.
7. Taxation on the profits is estimated at Sh.7,500,000.

#### Required:

- (i) Income statement for the year ended 31 August 2015. (8 marks)
- (ii) Statement of financial position as at 31 August 2015. (8 marks)

(Total: 20 marks)

**QUESTION TWO**

Saidi Kazungu is the sole distributor of Y-tech mobile phones in Kisiwani. Under an agreement with his suppliers, he receives a commission of 1% of his purchases every September for the previous period.

In a fire incident in July 2015, Saidi lost inventory cost Sh.6,000,000, unknown amount of cash as well as most of his accounting records.

However, after careful investigations, the following information has been obtained covering the year ended 31 August 2015:

1. Assets and liabilities as at 31 August 2014 were as follows:

	<b>Sh."000"</b>
Buildings: Cost	15,000
Provision for depreciation	9,000
Furniture and fittings: Cost	7,500
Provision for depreciation	3,000
Inventory	4,800
Agency commissions due	450
Trade receivables	9,450
Prepaid insurance expense	180
Bank and cash balance	6,400
Trade payables	6,300
Accrued salaries	350

2. Saidi Kazungu has been notified that he will receive an agency commission of Sh.640,000 on 5 September 2015.

3. Inventory as at 31 August 2015 was valued at Sh.6,300,000.

4. The insurance company admitted a claim for Sh.4,200,000 for the inventory lost through the fire incident but had not paid this amount as at the end of the year.

5. Trade payables as at 31 August 2015 amounted to Sh.14,000,000 while trade receivables balance stood at Sh.9,700,000.

6. Discounts allowed amounted to Sh.2,400,000 while discounts received were Sh.1,800,000.

7. His annual insurance expense for the year was billed at Sh.960,000.

8. Accrued salaries at the end of the year amounted to Sh.480,000.

9. Depreciation is provided annually at the following rates:

- Buildings 10% on cost
- Furniture and fittings 20% on cost

10. In addition to the payments for purchases, other payments were:

	<b>Sh."000"</b>
Salaries	3,500
Drawings	2,000
Furniture	18,000
Insurance	900

11. His cash and bank balance as at 31 August 2015 was confirmed to be Sh.4,800,000.

12. Kazungu has always obtained a gross profit of 40% on all sales.

**Required:**

(a) Ascertain the amount of cash lost in the fire incident. (4 marks)

(b) Income statement for the year ended 31 August 2015. (10 marks)

(c) Statement of financial position as at 31 August 2015. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

Eastlands Fitness Club came into existence on 1 May 2014 with 40 members. Each member agreed to pay Sh.1,000 per month membership fee and Sh.2,000 non-refundable entrance fee.

The club rented Eastlands social hall and sports ground from Nairobi City County for Sh.30,000 per month.

The social hall was converted to a Gymnasium with bar facilities.

Other cash receipts and payments from 1 May 2014 to 30 April 2015 were as follows:

**Sh.**

**Receipts:**

Membership fees	??
Entrance fees	120,000

	<b>Sh.</b>
Bar cash sales	3,400,000
Bar receivables	965,000
Sale of worn out equipment	7,000

**Payments:**

Instructors' salary	384,000
Rent expense	420,000
Wages for bar staff	720,000
Bar creditors	1,800,000
Bar glassware	556,000
Furniture and fittings	540,000
Repairs and maintenance	78,000
Aerobics equipment	205,000
Fitness competition sponsorship	44,000
Water and electricity	116,000

**Additional information:**

- Twenty new members joined the club during the year.
- Ten members had their subscriptions in arrears for the month of April 2015 while four other members had arrears for both March and April 2015. The arrears for the later group were considered irrecoverable and were thus written off.
- Eight members had already paid their subscriptions for May 2015.
- Bar inventory as at 30 April 2015 amounted to Sh.286,000.
- Bar glassware was valued at Sh.205,000 as at 30 April 2015.
- Furniture and fittings are to be depreciated at 12.5% per annum on cost.
- The aerobics equipment were disposed of at a loss of Sh.3,000. The remaining equipment are to be depreciated at  $33\frac{1}{3}\%$  per annum on the cost price.
- Bar payables amounted to Sh.54,000 as at 30 April 2015.
- Some members are yet to settle their dues with the bar amounting to Sh.75,000.
- The club received a donation of Sh.5,000,000 which they utilised in constructing a swimming pool.

**Required:**

- Bar income statement for the year ended 30 April 2015. (4 marks)
  - Statement of income and expenditure for the year ended 30 April 2015. (8 marks)
  - Statement of financial position as at 30 April 2015. (8 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- Highlight three main differences between cash basis of accounting and accrual basis of accounting as applied in public sector accounts. (6 marks)
- The following are extracts from the final accounts of Callabar Limited over the last two years:

	<b>2014</b>	<b>2015</b>
	<b>Sh.</b>	<b>Sh.</b>
Sales (all on credit)	1,350,000	1,668,000
Purchases (all on credit)	432,000	570,000
Cost of sales	420,000	544,000
Gross profit	930,000	1,124,000
Net profit before tax	260,000	400,000

Statements of financial position as at 31 August:

	<b>2014</b>	<b>2015</b>
<b>Assets</b>	<b>Sh.</b>	<b>Sh.</b>
Non-current assets	1,240,000	1,600,000
<b>Current assets</b>		
Inventory	22,000	48,000
Trade receivables	<u>190,000</u>	<u>212,000</u>
	<u>212,000</u>	<u>260,000</u>
Total assets	<u>1,452,000</u>	<u>1,860,000</u>

	2014	2015
	Sh.	Sh.
<b>Capital and liabilities</b>		
Ordinary share capital	600,000	600,000
Retained profits	<u>448,000</u>	<u>748,000</u>
	<u>1,048,000</u>	<u>1,348,000</u>
<b>Long term liabilities</b>		
10% debentures	200,000	180,000
<b>Current liabilities</b>		
Trade payables	106,000	138,000
Taxation	20,000	40,000
Bank overdraft	<u>78,000</u>	<u>154,000</u>
	<u>1,452,000</u>	<u>1,860,000</u>

**Additional information:**

Inventory and trade receivables balance as at 1 September 2013 were Sh.18,000 and Sh.196,000 respectively.

**Required:**

For each year:

- (i) Calculate two profitability ratios. (4 marks)
  - (ii) Calculate two liquidity ratios. (4 marks)
  - (iii) Calculate two efficiency ratios. (4 marks)
  - (iv) Comment on the financial performance of the company over the two years. (2 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) In the context of accounting for manufacturing enterprises, expenses are classified as either direct costs, indirect costs and administrative overheads.

**Required:**

State how the following expenses should be classified. Justify your answer in each case.

- (i) Carriage inwards on raw materials. (1 mark)
  - (ii) Rent and rates for the premises. (1 mark)
  - (iii) Salaries to products quality standards staff. (1 mark)
  - (iv) Royalties. (1 mark)
  - (v) Advertising costs. (1 mark)
  - (vi) Electricity bills. (1 mark)
- (b) Concrete Solutions Ltd. makes its accounts on 30 June every year.

On 30 June 2014, the company's statement of financial position included the following values for non-current assets:

	Cost	Accumulated depreciation
	Sh. "000"	Sh. "000"
Land and buildings	40,000	Nil
Plant and machinery	36,000	16,000
Motor vehicles	12,000	4,000
Furniture and fittings	2,000	800

The company's policy is to charge depreciation at the following rates:

Asset	rate
Land and buildings	Nil
Plant and machinery	10% on cost
Motor vehicle	15% on cost
Furniture and fittings	20% on reducing balance basis

A full years charge is made in the year of acquisition, none in the year of disposal.

During the year ended 30 June 2015, the following transactions took place:

1. The company decided to adopt a policy of revaluing its land and buildings. Value Sure Consultants were engaged for this purpose and revalued the land and buildings at Sh.60,000,000.
2. A new item of plant and machinery was purchased for Sh.10,000,000. Part of the purchase price was settled by exchanging another item of plant at an agreed value for Sh.4,500,000. The plant which was given in part exchange had cost Sh.6,000,000 on 1 July 2012.
3. Included in the furniture and fittings is an item which originally cost Sh.300,000 and which is already fully depreciated and not expected to realise much from use or disposal.
4. Imported a lorry from Mitsubishi Motor Corporation Japan at a cost of Sh.3,000,000 and incurred a further cost Sh.1,500,000 on customs duty and clearing the lorry.

**Required:**

Property, plant and equipment movement schedule for the year ended 30 June 2015. (10 marks)

- (c) Moody Limited received a Sh.2,000,000 five year loan on 1 January 2015. The loan is repayable in 10 semi-annual installments on each 1 July and 1 January.

The amount payable per instalment is Sh.125,000; Sh.100,000 being repayment of the principal and Sh.25,000 being the interest.

**Required:**

Pass journal entries to record:

- (i) Receipt of the loan. (1 mark)

- (ii) Payment of the first instalment on 1 July 2015. (3 marks)

**(Total: 20 marks)**

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