kasneb

CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

MONDAY: 23 November 2020. **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) Outline four reasons for incomplete accounting records in an organisation. (4 marks)

(b) Grace Nene is a sole trader. The following statement of financial position was extracted from her books as at 30 April 2020:

	Cost	Accumulated depreciation	Net book value
Non-current assets:	**Sh."000"**	**Sh."000"**	**Sh."000"**
Motor vehicles	236,000	114,000	122,000
Furniture and fittings	54,000	26,000	28,000
	290,000	140,000	150,000
Current assets:			
Inventory		268,000	
Accounts receivable		334,000	
Bank balance		112,000	714,000
			864,000
Financed by:			
Capital			420,000
Net profit			274,000
			694,000
Drawings			(60,000)
			634,000
Current liabilities:			
Accounts payable		229,800	
Suspense		200	230,000
			864,000

The following errors were later discovered:

1. A debit balance of Sh.800,000 for Jack was omitted from the list of accounts receivable.
2. An entry of Sh.200,000 returns outward was made in error in the sales book instead of purchases return book.
3. Purchases day book had been undercast by Sh.1,600,000.
4. Fixtures and fitting costing Sh.12,000,000 had been debited to repairs accounts.
5. Depreciation on fixtures and fittings is to be provided for at the rate of 15% per annum on cost.
6. Bad debts of Sh.500,000 should have been written off, but this was not done.
7. A cheque of Sh.500,000 paid to Arnold, a creditor, was correctly entered in the cash book, but credited to his account.
8. Goods worth Sh.4,000,000 were taken by Grace Nene for her personal use, but no entry has been made in the books.
9. Sh.18,000 discount received had been correctly entered in the cash book, but had been posted to the wrong side of the discount received account.

Download more at www.ebookskenya.co.ke

Required:

(i) Journal entries to correct the errors. (Narrations required). (8 marks)

(ii) Statement of adjusted profit for the period ended 30 April 2020. (4 marks)

(iii) Adjusted statement of financial position as at 30 April 2020. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Distinguish between the "direct' and "indirect" methods of preparing a statement of cash flows. (4 marks)

(b) The following are the comparative statements of financial position for Chui Ltd. at as at 31 December 2018 and 31 December 2019:

Chui Ltd.
Statement of financial position as at 31 December:

Assets:	**2019**	**2018**
Non-current assets:	**"000"**	**"000"**
Land	84,500	133,900
Plant	507,000	560,000
Accumulated depreciation on plant	(152,100)	(111,800)
	439,400	582,100
Goodwill	161,200	224,900
	600,600	807,000
Current assets:		
Inventory	302,900	235,300
Accounts receivable	113,100	76,700
Cash	166,400	146,900
	582,400	458,900
Total assets	1,183,000	1,265,900
Capital and reserves:		
Ordinary share capital	322,500	162,500
Retained earnings	374,400	370,200
Other comprehensive income	12,500	59,800
	709,400	592,500
Current liabilities:		
Notes payable	416,000	565,500
Dividends payable	19,500	41,600
Accounts payable	38,100	66,300
	473,600	673,400
Total equity and liabilities	1,183,000	1,265,900

Additional information:

1. Net income for the year ended 31 December 2019 was Sh.24,700,000.
2. Depreciation expense for the year ended 31 December 2019 was Sh.55,900,000.
3. During the year ended 31 December 2019, land was purchased for Sh.62,400,000 for expansion purposes. During the same period, another parcel of land with a carrying value of Sh.111,800,000 was sold for Sh.150,000,000 cash.
4. On 15 June 2019, notes payable of Sh.160,000,000 were retired in exchange for ordinary shares.
5. On 2 December 2019, notes payable worth Sh.10,500,000 were issued.
6. On 17 December 2019, a plant originally costing Sh.53,000,000 was sold for Sh.27,300,000, since it was no longer contributing to profits. At the date of sale, the accumulated depreciation on the plant was Sh.15,600,000.
7. Dividends were declared for the year ended 31 December 2018. A portion of those dividends were paid in the year ended 31 December 2019.
8. Goodwill impairment loss was recorded in the year ended 31 December 2019 to reflect a decrease in the recoverable amount of goodwill.

Required:

Statement of cash flows in accordance with IAS 7 "Statement of Cash Flows", for the year ended 31 December 2019. (16 marks)

(Total: 20 marks)

Download more at www.ebookskenya.co.ke

QUESTION THREE

Lydia, Mercy and Prisca have been in partnership sharing profits and losses in the ratio of 2:1:1 respectively after charging interest on capital at the rate of 10% per annum. Their financial year ends on 31 March each year.

Additional information:

1. On 30 September 2019, Prisca retired from the partnership. Lydia and Mercy agreed to continue with the partnership and to share profits and losses in the ratio of 3:2 respectively after charging interest of 10% per annum on capital.
2. For the purpose of retirement of Prisca from the partnership:
   - Land was revalued to Sh.20,000,000.
   - Equipment was revalued to Sh.12,000,000.
   - Goodwill of the partnership was valued at Sh.4,000,000 but was to be written off immediately.
3. Prisca agreed to leave the amount due to her in respect of her capital as a loan earning an interest of 10% per annum. The amount due to her in respect of current account was settled in full on 31 March 2020.
4. Accounts receivable amounting to Sh.2,400,000 were from sales made to a trader who was declared bankrupt and requires to be written off.
5. The relevant adjustments relating to the above transactions had not been made when the following trial balance was extracted on 31 March 2020:

		Sh."000"	Sh."000"
Land		4,000	
Equipment		8,000	
Inventory		9,600	
Accounts receivable		7,600	
Accounts payable			2,800
Bank balance		5,600	
Net profit reported			16,800
Capital accounts:	Lydia		8,000
	Mercy		4,000
	Prisca		4,000
Current accounts:	Lydia		1,200
	Mercy		800
	Prisca		800
Drawings:	Lydia	944	
	Mercy	1,216	
	Prisca	1,440	
		38,400	38,400

Assume that the net profit accrued evenly throughout the year.

Required:

(a) Statement of profit or loss and appropriation account in columnar form for the two periods ended 30 September 2019 and 31 March 2020. (6 marks)

(b) Partners' capital accounts. (4 marks)

(c) Partners' current accounts. (4 marks)

(d) Statement of financial position as at 31 March 2020. (6 marks)

(Total: 20 marks)

QUESTION FOUR

Tamu Ltd. is a company that manufactures biscuits. The following trial balance was extracted from the books of the company as at 31 March 2020:

	Sh."000"	Sh."000"
Sales		7,800,441
Building: Cost	390,000	
Accumulated depreciation (1 April 2019)		30,000
Land	120,000	
Retained profits (1 April 2019)		127,425
Plant and machinery	2,190,000	
Office equipment	330,000	
Motor vehicles	600,000	

Download more at www.ebookskenya.co.ke

	Sh."000"	Sh."000"
Accumulated depreciation (1 April 2019):		
Plant and machinery		673,500
Office equipment		73,500
Motor vehicles		240,000
General administrative expenses	189,033	
Interim dividends on preference shares	30,000	
Bank interest	21,210	
Factory power	90,042	
Office salaries	138,081	
Insurance	498,039	
Rates	60,348	
Advertising expenses	150,513	
Rent	570,144	
Maintenance (plant)	120,189	
Directors' salaries	90,306	
Heating and lighting	180,342	
Bank		150,060
Purchases (raw materials)	1,555,800	
Return inwards	45,318	
Transport expenses	255,039	
Manufacturing wages	1,504,200	
Allowance for doubtful debts		3,000
Inventory (1 April 2019):		
Raw materials	210,000	
Work-in-progress	378,000	
Finished goods	750,000	
Accounts receivable and accounts payable	1,500,000	1,068,678
Ordinary shares (Sh.150 per share)		1,200,000
10% redeemable preference shares (Sh.300 per share)		600,000
	11,966,604	11,966,604

Additional information:

1. Accrued expenses as at 31 March 2020 were as follows:

	Sh."000"
Heating and lighting	3,642
Rent	6,963

2. Prepaid expenses as at 31 March 2020 were as follows:

	Sh."000"
Rates	9,420
Insurance premium	10,080

3. Depreciation and respective allocation is provided as follows:

Asset	Rate	Basis	Expense
Buildings	2%	Cost	Administration
Plant and machinery	15%	Cost	Factory
Office equipment	10%	Cost	Administration
Motor vehicles	25%	Reducing balance	Distribution

4. Rent, rates, insurance, heating and lighting to be apportioned in the ratio 5:1 in relation to factory and administration.
5. The directors' salaries include Sh.20,000,000 paid to the production directors and office salaries of Sh.64,237,000 paid to salesmen.
6. Allowance for doubtful debts is to be maintained at 1% of the accounts receivable as at 31 March 2020.
7. Inventories as at 31 March 2020 were as follows:

	Sh."000"
Raw materials	56,200
Work-in-progress	47,190

8. The factory produced 1,500 units. Only 100 units were in the inventory as at 31 March 2020.
9. Corporate tax for year ended 31 March 2020 is estimated at Sh.100,000,000.

Required:

(a) Manufacturing account for the year ended 31 March 2020. (10 marks)

(b) Statement of profit or loss for the year ended 31 March 2020. (10 marks)

(Total: 20 marks)

Download more at www.ebookskenya.co.ke

QUESTION FIVE

(a) Explain the following accounting concepts:

(i) Matching concept. (2 marks)

(ii) Realisation concept. (2 marks)

(b) One of the qualities of accounting information is reliability.

Highlight four characteristics that accounting information could have in order for it to be reliable. (4 marks)

(c) Outline six challenges that might be faced by an organisation that is switching from a manual accounting system to a computerised accounting system. (6 marks)

(d) Discuss three sources of income for non-profit-making organisations. (6 marks)

(Total: 20 marks)

.....

Download more at www.ebookskenya.co.ke