



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**TUESDAY: 22 April 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) In the context of public sector accounting, outline **FOUR** principles of accrual accounting. (4 marks)
- (b) Explain how the following items are disclosed in the financial statements of a club:
- (i) Life membership fees. (2 marks)
- (ii) Specific donation. (2 marks)
- (c) Kilimo Enterprises commenced its operations on 1 January 2021. The firm acquired several items of plant for its use.

Plant movement extracts for the years ended 31 December were as follows:

	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<b>Sh.“000”</b>	<b>Sh.“000”</b>	<b>Sh.“000”</b>	<b>Sh.“000”</b>
Plant at cost	80,000	80,000	90,000	?
Accumulated depreciation	(16,000)	(28,800)	(36,700)	?
Net book value (NBV)	<u>64,000</u>	<u>51,200</u>	<u>53,300</u>	<u>?</u>

**Additional information:**

- Disposals took place as follows:
  - Plant W which was acquired at the commencement of the business at a cost of Sh.15,000,000 was disposed of at Sh.8,000,000 on 31 December 2023.
  - On 31 December 2024, plant X which was acquired on 1 January 2021 for Sh.30,000,000 was disposed of at Sh.21,000,000.
- Acquisition of plant:
  - Plant W was sold and replaced on the same date with Plant Y. The value of Plant Y is to be determined.
  - Plant X was sold and replaced on the same date with Plant Z. Plant Z was acquired at Sh.50,000,000.
- Depreciation is provided at the rate of 20% per annum on reducing balance.

**Required:**

- (i) Extract of the plant movement schedule for the years ended 2021, 2022, 2023 and 2024. (8 marks)
- (ii) Disposal accounts for Plant W and Plant X. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Highlight **TWO** features that distinguish a public sector entity from a private sector entity. (4 marks)
- (b) Explain **FOUR** objectives of financial accounting. (4 marks)

- (c) The following information relates to the summary receipts and payments for Beipoa Football Club for the year ended 31 December 2024:

<b>Receipts:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Balance as at 1 January 2024		786
Subscription received for: 2023		2,100
2024		21,525
2025		1,800
Restaurant sales		91,920
Donation received		<u>1,200</u>
		119,331
<b>Payments:</b>		
Payment for restaurant supplies	57,930	
Groundsmen wages	29,908	
Restaurant staff wages	12,936	
Restaurant expenses	351	
Repair to stands and pavilion	1,110	
Gym rent and upkeep	2,744	
Management expenses	1,407	
Transport costs	<u>3,630</u>	<u>110,016</u>
Balance as at 31 December 2024		<u>9,315</u>

**Additional information:**

- The following balances were available as at 31 December:

	<b>2023</b>	<b>2024</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Inventory in the restaurant	6,744	8,337
Owing for restaurant supplies	4,941	6,510
Accrued restaurant expenses	338	504
Transport cost accrued	-	398
- The gym equipment as at 31 December 2023 was valued at Sh.3,750,000 and is to be depreciated at the rate of 20% per annum.
- Subscriptions owing by members amounted to Sh.2,100,000 on 31 December 2023 and Sh.2,625,000 on 31 December 2024.
- As at 31 December 2023, land was valued at Sh.60 million and the pavilion at Sh.30 million. The pavilion was depreciated at the rate of 10% per annum on cost.

**Required:**

- Restaurant statement of profit or loss for the year ended 31 December 2024. (6 marks)
  - Restaurant income and expenditure account for the year ended 31 December 2024. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Oliver and Karen were partners in a business of selling school uniforms sharing profit or loss in the ratio of 3:2 respectively after allowing interest on capital at the rate of 10% per annum.

The following trial balance was extracted on 31 March 2025:

	<b>Sh.</b>	<b>Sh.</b>
Capital account:		
Oliver		7,840,000
Karen		6,552,000
Current account:		
Oliver		840,000
Karen		952,000
Amount paid in by Michael		2,352,000
Sales		69,440,000
Purchases	53,760,000	
Wages and salaries	2,397,200	
General expenses	2,520,000	
Plant and machinery	14,064,000	

	Sh.	Sh.
Motor vehicles	3,684,800	
Furniture and fittings	2,500,000	
Trade receivables	5,040,000	
Trade payables		2,853,200
Allowance for depreciation:		
- Plant and machinery		1,344,000
- Motor vehicles		1,052,800
- Furniture and fittings		260,000
Inventory (1 April 2024)	4,480,000	
Allowance for credit loss		392,000
Cash in hand	448,000	
Cash in bank	<u>4,984,000</u>	
	<u>93,878,000</u>	<u>93,878,000</u>

The following additional information is available:

- On 1 April 2024, Michael was admitted into the partnership under the following terms:
  - He introduced Sh.2,352,000 in the partnership of which it was agreed that Sh.2,000,000 should comprise his fixed capital and the balance should be credited to his current account. Goodwill was agreed to be Sh.1,000,000. No goodwill account was to be maintained in the books.
  - Michael was entitled to a salary of Sh.1,008,000 per annum.
  - Share of profit or loss after admission of Michael is now in the ratio of 2:2:1 to Oliver, Karen and Michael respectively.
- The actual balance at bank on 31 March 2025 was Sh.1,512,000, the difference being drawings as follows:
  - Oliver Sh.1,624,000
  - Karen Sh.1,400,000
  - Michael Sh.448,000
 Drawings attracted interest of 10% per annum.
- As at 31 March 2025, inventory was valued at Sh.6,300,000.
- Depreciation is provided on cost as follows:
 

	Rate per annum
Plant and machinery	15%
Motor vehicles	25%
Furniture and fitting	12½%
- Allowance for credit loss is maintained at 5% of trade receivables.

**Required:**

- Partners statement of profit or loss for the year ended 31 March 2025. (10 marks)
  - Partners current accounts. (4 marks)
  - Statement of financial position as at 31 March 2025. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- Explain how the following ratios assist the investors in decision making:
  - Return on capital employed (ROCE). (2 marks)
  - Dividend per share (DPS). (2 marks)
- Rhino Ltd. extracted the following trial balance as at 31 December 2024:

	Sh.	Sh.
Retained earnings as at 1 January 2024		478,534
Buildings at cost (1 January 2019)	2,242,500	
Equipment at cost (1 January 2019)	864,050	
Sales		7,542,520
Purchases	4,875,260	
Accounts receivables	345,875	
Accounts payables		248,750
Other receivables	40,000	



	Sh.	Sh.
Office equipment (Net book value)	3,420,000	
Plant and machinery (Net book value)	20,220,000	
Allowance for credit loss		40,000
Directors salaries	2,006,120	
Inventory as at 1 January 2024:		
Raw materials	2,800,000	
Work-in-progress	5,040,000	
Finished goods	10,000,000	
Selling and distribution costs	11,002,440	
Rent and rates	3,609,360	
Office salaries	6,640,520	
Insurance	804,640	
Other indirect factory costs	1,602,520	
Electricity and water	3,041,640	
General administrative expenses	2,803,240	
Preference dividend	400,000	
Ordinary share capital		16,000,000
10% preference shares		8,000,000
	<u>147,290,480</u>	<u>147,290,480</u>

**Additional information:**

- Inventories as at 31 December 2024 were valued as follows:

	Sh.
Raw materials	9,400,000
Work-in-progress	3,145,000

- The company transfers output to the warehouse at a cost plus mark up of 25%. During the year ended 31 December 2024, the company produced 2,500 chairs. At the end of the year, 2,300 chairs produced during the year were sold. All opening inventories were sold during the year.
- The allowance for credit loss was increased by Sh.15,000.
- The company charges depreciation on all its fixed asset on reducing balance basis at the rates shown below:

Asset	Rate	Apportionment
Building	2.5%	Administration
Plant and machinery	15%	Factory
Office equipment	10%	Administration
Motor vehicle	20%	60% factory, 40% administration
- As at 31 December 2024, there was an outstanding insurance premium of Sh.250,000 and prepaid rent amounting to Sh.275,000.
- Rent and rates, insurance and electricity and water are to be apportioned in the ratio 4/5 to the factory and 1/5 to administration.
- The directors have proposed the following:
  - Payment of final preference dividends.
  - Payment of ordinary dividend at 10%.
- Corporate tax for the year ended 31 December 2024 amounts to Sh.12,500,000.

**Required:**

- Manufacturing account for the year ended 31 December 2024. (10 marks)
  - Statement of profit or loss for the year ended 31 December 2024. (8 marks)
- (Total: 20 marks)**

.....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 2 December 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) In the context of public sector accounting, explain the following terms:
- (i) Contingent liability. (2 marks)
  - (ii) Social benefits. (2 marks)
- (b) Outline **FOUR** reasons for incomplete accounting records in sole proprietorship business organisations. (4 marks)
- (c) Summarise **FOUR** objectives of preparing financial statements of an organisation. (4 marks)
- (d) Explain **TWO** categories of financial ratios. (4 marks)
- (e) Distinguish between “historical cost convention” and “going concern convention”. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

Ann, Ben and Chad have been operating a partnership business under the name ABC Traders. Their partnership agreement provides for a profit or loss sharing ratio of 5:3:2 respectively.

On 31 December 2023, Ann retired from the partnership and left Ben and Chad to continue with the partnership, sharing profit or loss equally.

The following balances were extracted from their books for the year ended 30 June 2024 before adjusting for Ann’s retirement:

		<b>Sh.“000”</b>
Land at cost		2,400
Building at cost		6,400
Equipment at cost		960
Accumulated depreciation 1 July 2023	- Building	480
	- Equipment	220
Trade receivables		1,368
Trade payables		1,624
Allowance for doubtful debts (1 July 2023)		42
Cash at bank		84
Capital account (1 July 2023)	Ann	3,600 (Credit)
	Ben	3,400 (Credit)
	Chad	3,200 (Credit)
Current account (1 July 2023)	Ann	60 (Credit)
	Ben	40 (Debit)
	Chad	40 (Credit)
Purchases		5,820
Sales		9,880
Staff salaries and wages		1,172
Rent and rates		500
General administrative expenses		284
Bad debts written off		18

**Additional information:**

- Inventory was valued at Sh.1,620,000 and Sh.1,800,000 as at 1 July 2023 and 30 June 2024 respectively.
- As at 30 June 2024, rent and rates paid in advance amounted to Sh.100,000.
- As at 30 June 2024, general administrative expenses accruing amounted to Sh.88,000.
- The partners made the following drawings during the year ended 30 June 2024:

Partner	Date	Amount Sh."000"
Ann	31 December 2023	420
Ben	30 June 2024	740
Chad	30 June 2024	720
- Depreciation is to be provided on a straight line basis as follows:

Asset	Rate per annum
Building	2%
Equipment	15%
- Allowance for doubtful debt to be increased to Sh.48,000.
- Balance due to Ann was to remain in partnership carrying no interest until 1 July 2024.
- The value of partnership goodwill as at 31 December 2023 was agreed by the three partners at Sh.4,000,000 and was not to remain in the books of the partnership.
- On 31 December 2023, the partners agreed to revalue the land upwards to Sh.3,200,000.
- Assume profits accrued evenly throughout the year.

**Required:**

- Statement of profit or loss and appropriation account for the year ended 30 June 2024. (10 marks)
  - Statement of financial position as at 30 June 2024. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- Highlight **FOUR** roles of Accounting Standards. (4 marks)
- Roka Ltd. manufactures high quality shoes. The following are the financial statements of the company during the years ended 31 August 2024 and 31 August 2023:

**Roka Ltd.****Statement of profit or loss for the year ended 31 August 2024:**

	Sh.	Sh.
Sales		14,963,130
Cost of sales		(7,707,050)
		7,256,080
Investment income		29,484
		7,285,564
<b>Expenses:</b>		
Distribution cost	2,552,784	
Administration cost	1,772,576	(4,325,360)
Net profit before tax and finance cost		2,960,204
Finance cost		(410,800)
Net profit before tax		2,549,404
Corporation tax		(820,924)
Net profit for the year		1,728,480
Retained earnings brought forward		8,658,000
Retained earnings carried forward		10,386,480

**Roka Ltd.****Statement of financial position as at 31 August:**

	2024 Sh.	2023 Sh.
Non-current assets	33,930,702	27,833,208
Accumulated depreciation	(7,695,142)	(6,607,874)
	26,235,560	21,225,334
<b>Current assets:</b>		
Inventory	8,582,288	7,573,696
Trade receivables	3,231,150	4,504,864
Bank	309,192	278,408
	12,122,630	12,356,968
Total assets	38,358,190	33,582,302

	2024	2023
	Sh.	Sh.
<b>Capital and liabilities:</b>		
Ordinary share capital	10,920,000	7,800,000
Share premium	4,103,840	4,038,814
Revaluation reserve	3,876,080	2,127,840
Retained earnings	<u>10,386,480</u>	<u>8,658,000</u>
	29,286,400	22,624,654
<b>Non-current liabilities:</b>		
12% debentures	3,501,680	4,589,000
<b>Current liabilities:</b>		
Trade payables	4,942,860	5,694,624
Corporation tax	<u>627,250</u>	<u>674,024</u>
	5,570,110	6,368,648
Total capital and liabilities	<u>38,358,190</u>	<u>33,582,302</u>

**Additional information:**

- The company made a profit of Sh.34,320 on the sale of a machine whose cost was Sh.466,986 and whose accumulated depreciation was Sh.102,986.
- The only revaluation made on non-current assets was for freehold land.

**Required:**

Statement of cash flows for the year ended 31 August 2024 in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(16 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain **TWO** objectives of not-for-profit organisation. (4 marks)

- (b) The following trial balance was extracted from the books of Bella Omari, a sole trader, as at 30 September 2024:

	Sh.	Sh.
Capital (1 October 2023)		4,748,430
Purchases	1,385,400	
Sales		2,952,240
Returns outward		8,400
Returns inward	24,240	
Discount allowed	27,300	
Discount received		21,120
Wages and salaries	933,000	
Rates	73,500	
Insurance	53,400	
General expenses	121,800	
Trade receivables	552,000	
Trade payables		483,600
Bank overdraft		120,600
Inventory (1 October 2023)	183,000	
Land and buildings	2,550,000	
Plant and machinery	1,600,000	
Motor vehicles	843,000	
Drawings	312,300	
Furniture and fittings	245,000	
Cash	60,300	
Accumulated depreciation:		
Plant and machinery		447,010
Motor vehicles		168,600
Furniture and fittings		14,240
	<u>8,964,240</u>	<u>8,964,240</u>

**Additional information:**

- As at 30 September 2024, inventory was valued at Sh.222,600.
- As at 30 September 2024, rates paid in advanced amounted to Sh.10,500.
- As at 30 September 2024, outstanding electricity expenses amounted to Sh.5,370. This is included in general expenses.
- Trade receivables include an irrecoverable amount of Sh.8,400.
- A 5% allowance for doubtful debt is to be made on the remaining trade receivables.

6. Depreciation is provided at the following annual rates using the straight line method:
 

Plant and machinery	25%
Motor vehicles	20%
Furniture and fittings	12½%

 No depreciation is provided on the land and buildings.
7. Included in wages and salaries is an amount of Sh.93,000 paid to the domestic workers of Bella Omari.
8. As at 30 September 2024, outstanding wages and salaries amounted to Sh.37,200.

**Required:**

- (a) Statement of profit or loss for the year ended 30 September 2024. (10 marks)
  - (b) Statement of financial position as at 30 September 2024. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Enumerate **SIX** reasons for preparing a cash flow statement in a business. (6 marks)
- (b) The following trial balance was extracted from the books of Venus Ltd., a manufacturing company as at 31 August 2024:

	Sh.“000”	Sh.“000”
Ordinary share capital		250,000
Retained earnings (1 September 2023)		182,750
Share premium		100,000
Bank	17,100	
Factory building (Land Sh.40,000,000)	175,000	
Plant and machinery	200,000	
Furniture and fittings	120,000	
Accumulated depreciation:		
Factory building		6,000
Furniture and fittings		25,000
Plant and machinery		20,000
Inventory (1 September 2023):		
Raw materials	55,000	
Work-in-progress	40,000	
Finished goods (200,000 units)	39,000	
Purchases and sales	225,000	681,500
Trade receivables and trade payables	133,500	101,250
Allowance for doubtful debts		17,500
Bad debts	1,500	
Carriage on raw materials	7,500	
Direct wages	120,000	
Administrative salaries	80,000	
Electricity	20,000	
Maintenance and repairs	34,000	
Return outwards		5,250
Sales and marketing expenses	13,630	
General administration expenses	46,120	
Insurance	24,000	
Bank charges	6,250	
Factory equipment hire	22,500	
Discount allowed	9,150	
	<u>1,389,250</u>	<u>1,389,250</u>

**Additional information:**

1. Depreciation is provided at the following rates:
  - Factory building - 4% on a straight line basis
  - Plant and machinery - 20% on reducing balance
  - Furniture and fittings - 12.5% on a straight line basis
 Furniture and fittings are purely for office use.
2. Inventory as at 31 August 2024 was valued as follows:
  - Raw materials - Sh.30,000,000.
  - Work-in-progress - Sh.56,500,000
  - Finished goods - 160,000 units
 Inventories are sold on first-in-first-out (FIFO) basis.
3. 2,000,000 units were produced during the year.

4. Allowance for doubtful debts is provided at the rate of 10% for debts between 6 months to 12 months and at the rate of 25% on debts above 12 months. The debtors aging analysis was as below:

0 – 5 months	6 – 12 months	Above 12 months	Total
Sh.38,500	Sh.45,000	Sh.50,000	Sh.33,500

5. Goods are transferred to the warehouse at a cost plus 20%.
6. Electricity, insurance and maintenance costs are to be apportioned in the ratio 3:1 between factory and administrative expenses.

**Required:**

- (i) Manufacturing account for the year ended 31 August 2024. (6 marks)
- (ii) Statement of profit or loss for the year ended 31 August 2024. (8 marks)
- (Total: 20 marks)**

.....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 19 August 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

Angela Riziki started a wholesale business on 1 July 2023 by depositing Sh.12,000,000 into a business bank account. Angela Riziki did not maintain a full set of accounting records. The following transactions took place during the year ended 30 June 2024:

1. Brought in her personal pick-up van valued at Sh.6,000,000 to be used in the business. The van was estimated to have an economic useful life of 4 years as at 1 July 2023.
2. On 31 December 2023, she took a bank loan of Sh.4,000,000 at an interest rate of 15% per annum. At the end of the year the loan interest was in arrears.
3. During the year ended 30 June 2024, Angela purchased goods amounting to Sh.79,000,000 on credit and Sh.6,000,000 on cash paid through the bank. As at 30 June 2024, Sh.3,000,000 accounts payable to suppliers was still outstanding.
4. Credit sales during the year amounted to Sh.125,000,000 while cash sales amounted to Sh.6,500,000. A customer who owed Sh.1,500,000 was declared bankrupt and the debt had to be written off. By 30 June 2024, accounts receivable stood at Sh.5,500,000.
5. During the year, Angela Riziki spent Sh.2,500,000 of the cash sales received for her personal use and Sh.1,200,000 to pay for telephone and water bills. The balance was banked.
6. Discount received and discount allowed during the year ended 30 June 2024 amounted to Sh.1,800,000 and 1,100,000 respectively.
7. As at 30 June 2024, inventory was valued at Sh.7,200,000.
8. Credit suppliers and credit customers are paid and pay through the bank respectively.
9. The following payments were made through the bank during the year:

<b>Expenses</b>	<b>Sh.‘000’</b>
Rent expenses	3,600
Purchase of furniture (1 July 2023)	8,000
Salaries and wages	11,000
Transport	4,200
Insurance	2,800
Advertisement	2,100
Repair of motor vehicle (van)	850
Electricity and internet	2,200
Carriage inwards	2,500

10. Furniture was to be depreciated at the rate of 15% per annum on a straight line basis.
11. As at 30 June 2024, electricity bills unpaid amounted to Sh.450,000, while insurance prepaid was Sh.1,200,000.

**Required:**

- (a) Statement of profit or loss for the year ended 30 June 2024. (12 marks)
- (b) Statement of financial position as at 30 June 2024. (8 marks)

**(Total: 20 marks)**

## QUESTION TWO

The following is the receipt and payment account of Vijana Youth Club for the year ended 30 June 2024:

Vijana Youth Club Receipt and payments account			
	Sh. "000"		Sh. "000"
Balance brought forward	1,400	Motor vehicle	26,000
Subscriptions	25,800	Water and electricity	3,520
Bar takings	40,000	Secretary honoraria	720
Donations	9,600	Bar wages	2,800
Sale of equipment	800	Administrative staff salaries	12,800
Sale of magazines	3,200	Bar payables	29,600
Competition tickets	7,200	Ground maintenance	4,400
		Insurance	4,800
		Balance carried forward	?
	<u>88,000</u>		<u>88,000</u>

### Additional information:

- Investment income of 10% per annum is receivable as at 30 June 2024.
- During the year ended 30 June 2024, equipment with a net book value of Sh.600,000 was disposed of for Sh.800,000.
- Depreciation policy is on a reducing balance basis at the following rates:

Asset	Rate per annum (%)
Motor vehicle	10
Equipment	20
- The following balances were provided for the years ended 30 June:

	2023 Sh. "000"	2024 Sh. "000"
Bank	1,400	?
Land at cost	10,000	10,000
Motor vehicles	20,000	?
Equipment	14,400	?
Investment at cost	40,000	40,000
Bar inventory	880	1,440
Bar payables	1,600	2,000
Subscription in arrears	1,840	1,480
Subscriptions in advance	2,880	720
Accrued insurance	800	1,200
Accrued electricity	400	520
Accrued bar wages	-	600

### Required:

- Bar statement of profit or loss for the year ended 30 June 2024. (4 marks)
  - Income and expenditure account for the year ended 30 June 2024. (8 marks)
  - Statement of financial position as at 30 June 2024. (8 marks)
- (Total: 20 marks)**

## QUESTION THREE

- Describe **TWO** uses of source documents in accounting. (4 marks)
- The following trial balance was extracted from the books of Hibiscus Ltd. as at 30 June 2024:

	Sh. "000"	Sh. "000"
Ordinary share capital of Sh.100 each		78,000
12% preference share capital of Sh.100 each		13,000
Share premium		10,400
10% debentures		13,000
Accounts payable		19,240
Accounts receivable	42,900	
Sales		724,000
Purchases	548,600	
Discounts allowed	650	
Discounts received		1,690

	Sh. "000"	Sh. "000"
Freehold buildings	165,000	
Furniture and fittings	83,200	
Accumulated depreciation:		
Freehold buildings		6,500
Furniture and fittings		33,280
Inventory (1 July 2023)	54,600	
Returns outward		10,400
Rent expenses	16,900	
Selling and distribution expenses	21,710	
Bad debts written off	520	
Allowance for doubtful debts		2,340
Administrative expenses	7,280	
Retained earnings (1 July 2023)		47,060
Goodwill	20,800	
Bank overdraft		3,250
	<u>962,160</u>	<u>962,160</u>

The following additional information is available:

- Depreciation on non-current assets is provided on a straight line basis at the following rates:
 

Asset	Rate per annum (%)
Freehold buildings	20
Furniture and fittings	12.5
- As at 30 June 2023, accounts receivables included Sh.130,000 due from Johnson Wetu who has now been declared bankrupt. It has been decided to write off this debt as a bad debt.
- The allowance for doubtful debt as at 30 June 2024 is to be adjusted to 10% of accounts receivable.
- Rent expenses prepaid as at 30 June 2024 amounted to Sh.52,000.
- Administrative expenses accrued as at 30 June 2024 amounted to Sh.95,000.
- The company paid the interest on debentures for the year ended 30 June 2024 on 31 July 2024.
- As at 30 June 2024, inventory was valued at Sh.7,280,000.
- The company directors propose that the preference shares dividend be paid and a dividend of 10% of the ordinary shares be paid.
- Corporation tax is charged at the rate of 30% of the net profit.

**Required:**

- Statement of profit or loss for the year ended 30 June 2024. (10 marks)
  - Statement of financial position as at 30 June 2024. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- Distinguish between "partners' capital accounts" and "partners' current accounts". (4 marks)
- The following are the financial statements of Precious Ltd. for the years ended 31 March 2023 and 31 March 2024:

**Precious Ltd.**  
**Statement of profit or loss for the year ended 31 March 2024:**

	Sh. "000"	Sh. "000"
Gross profit		26,700
Operating expenses		<u>(22,050)</u>
		4,650
<b>Other incomes:</b>		
Interest income received	900	
Gain on sale of investments	1,800	
Less: Loss on sale of plant	<u>(450)</u>	<u>2,250</u>
		6,900
Interest expenses paid		<u>(3,450)</u>
Net profit before tax		3,450
Income tax		<u>(1,050)</u>
Net profit after tax		<u>2,400</u>

**Precious Ltd.**  
**Statement of financial position as at 31 March:**

	<b>2023</b>	<b>2024</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Non-current assets:</b>		
Property, plant and equipment (cost)	75,750	107,250
Accumulated depreciation	<u>(10,200)</u>	<u>(15,450)</u>
	65,550	91,800
Investments	19,050	17,250
<b>Current assets:</b>		
Inventory	16,500	21,600
Accounts receivable	8,250	7,050
Cash	2,250	6,900
Prepayments	<u>750</u>	<u>150</u>
Total current assets	<u>27,750</u>	<u>35,700</u>
<b>Total assets</b>	<b><u>112,350</u></b>	<b><u>144,750</u></b>
<b>Liabilities and capital:</b>		
Ordinary share capital	47,250	69,750
Revenue reserves	<u>19,800</u>	<u>21,000</u>
	67,050	90,750
<b>Long term liabilities:</b>		
Bonds	36,750	44,250
<b>Current liabilities:</b>		
Accounts payable	6,450	7,500
Accrued liabilities	1,350	1,800
Tax payable	<u>750</u>	<u>450</u>
Current liabilities	<u>8,550</u>	<u>9,750</u>
<b>Total liabilities and equity</b>	<b><u>112,350</u></b>	<b><u>144,750</u></b>

**Additional information:**

- Precious Ltd. purchased investments worth Sh.11,700,000 during the year ended 31 March 2024.
- The company sold investments that had cost Sh.13,500,000 for Sh.15,300,000 during the year.
- During the year, new machinery worth Sh.18,000,000 was acquired. Some items of property, plant and equipment that had cost Sh.1,500,000 with accumulated depreciation of Sh.300,000 were disposed of for Sh.750,000.
- Included in the operating expenses for the year ended 31 March 2024 is the depreciation charged for the year amounting to Sh.5,550,000.
- The company issued bonds worth Sh.15,000,000 at face value in exchange for plant assets on 31 March 2024 and repaid Sh.7,500,000 of bonds at face value.
- The company issued 2,250,000 ordinary shares at Sh.10 par value during the year.
- The company paid cash dividends of Sh.1,200,000 during the year ended 31 March 2024.

**Required:**

Statement of cash flows for the year ended 31 March 2024 in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(16 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain the following terms as used in public sector accounting:
- Appropriation-in-aid. (2 marks)
  - Paymaster general. (2 marks)
  - Exchequer account. (2 marks)
- (b) Highlight **FOUR** reasons that may cause a cheque to be dishonoured by a bank. (4 marks)

- (c) The following information relates to the non-current assets of Daraja Ltd. as at 1 April 2023:

Non-current assets	Cost Sh. "000"	Accumulated depreciation Sh. "000"
Freehold property	70,000	-
Plant and machinery	52,500	20,230
Office equipment	10,500	5,110
Motor vehicles	31,500	18,200

**Additional information:**

1. The following non-current assets were acquired during the year ended 31 March 2024:

Date	Non-current assets	Cost Sh. "000"
1 April 2023	Machinery	7,000
1 October 2023	Motor vehicle	4,200

2. The following non-current assets were disposed of during the year ended 31 March 2024:

Date	Non-current assets	Sales proceeds Sh. "000"	Cost Sh. "000"	Accumulated depreciation as at date of disposal Sh. "000"
1 April 2023	Machinery	4,830	6,300	700
1 July 2023	Office equipment	448	560	140
31 March 2024	Motor vehicle	2,240	3,500	350

3. Daraja Ltd. depreciates the assets using the straight-line method on a pro rata basis at the following rates per annum:

Non-current assets	Rate per annum (%)
Plant and machinery	20
Office equipment	15
Motor vehicle	25

4. On 1 April 2023, the management of Daraja Ltd. decided to start depreciating freehold property at the rate of 2.5% per annum.

**Required:**

Non-current asset movement schedule for the year ended 31 March 2024.

(10 marks)

(Total: 20 marks)

.....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 22 April 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Explain the following accounting principles:
- (i) Economic entity principle. (2 marks)
  - (ii) Matching principle. (2 marks)
- (b) Citing relevant examples, describe the following terms:
- (i) Financial assets. (3 marks)
  - (ii) Financial liabilities. (3 marks)
- (c) Explain the following types of accounting errors:
- (i) Complete reversal of entry. (2 marks)
  - (ii) Transposition error. (2 marks)
  - (iii) Error of commission. (2 marks)
- (d) Highlight **FOUR** benefits of public sector accounting. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Melody and Olivia commenced a partnership business on 1 January 2023 sharing profit or loss in the ratio of 2:1 after allowing interest on the capital introduced by the partners at a rate of 10% per annum. Olivia was to receive a salary of Sh.80,000 per month starting from 1 February 2023. Melody and Olivia, have not employed a qualified accountant, hence the business lacks complete accounting records.

The following summary of the bank statements for the year ended 31 December 2023 was provided:

<b>Receipts:</b>	<b>Sh.“000”</b>
Capital introduced - Melody	7,000
- Olivia	4,000
Balance of cash received from customers	25,400
<b>Payments:</b>	
Purchase of : - Equipment	5,000
- Motor vehicle	2,000
- Furniture and fittings	750
Godown rent	750
Wages	3,544
Salary to sales team	2,400
Purchase of inventory	19,800
Rates	400
Repairs and maintenance	125
Insurance expenses	110
Motor vehicle operating expenses	373

The following cash payments were made before banking the balance of the cash received from customers:

	Sh. "000"
Motor vehicle operating expenses	258
Wages	296
General administrative expenses	50
Drawings	15
- Melody (per week)	15
- Olivia (per week)	12

**Additional information:**

- During the year ended 31 December 2023, discount allowed to customers amounted to Sh.245,000 while discounts received from suppliers amounted to Sh.110,000.
- As at 31 December 2023, the amounts owing to suppliers amounted to Sh.1,500,000 and the amount owing by customers was Sh.3,100,000. An amount of Sh.400,000 owing by a customer was written off.
- As at 31 December 2023, rates and insurance prepaid amounted to Sh.50,000 and Sh.10,000 respectively.
- Inventory was valued at Sh.2,410,000 as at 31 December 2023.
- The go-down had been occupied since 1 January 2023 at an annual rent of Sh.1,000,000.
- Depreciation is provided on a straight-line basis as follows:

Asset	Rate
• Motor vehicles	20% per annum
• Equipment, furniture and fittings	10% per annum
- The partners had taken goods for their domestic use as follows:

	Sh.
• Melody	100,000
• Olivia	150,000

**Assume a 52-week year.**

**Required:**

- Partnership statement of profit or loss and appropriation account for the year ended 31 December 2023. (10 marks)
  - Partners' current accounts as at 31 December 2023. (4 marks)
  - Statement of financial position as at 31 December 2023. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

The following trial balance was extracted from the books of Kwanza Ltd., a manufacturing company, as at 31 March 2024:

	Sh. "000"	Sh. "000"
Ordinary share capital		42,000
Revenue reserve		10,150
Bank	8,592	
Trade receivables	11,080	
Trade payables		4,886
Factory building (Land Sh.4,200,000)	10,500	
Plant and machinery	10,920	
Motor vehicles	7,112	
Furniture and fittings	3,400	
Accumulated depreciation (1 April 2023):		
- Buildings		1,250
- Motor vehicles		2,562
- Plant and machinery		3,958
- Furniture and fittings		980
Inventory (1 April 2023):		
- Raw materials	2,870	
- Work-in-progress (WIP)	4,830	
- Finished goods	9,100	
Allowance for doubtful debts		588
Bad debts	406	
Rates and insurance	798	
Direct wages	6,440	
Salaries	7,560	
Factory power	1,890	
Electricity	1,386	
Maintenance	924	

	Sh. "000"	Sh. "000"
Returns outward		266
Returns inward	84	
Advertising expenses	728	
Transport expenses	1,946	
Bank charges	238	
Sundry expenses	2,436	
Purchases and sales	<u>77,000</u>	<u>103,600</u>
	<u>170,240</u>	<u>170,240</u>

**Additional information:**

1. Depreciation is provided using straight-line basis as follows:

Asset	Rate per annum
• Plant and machinery	30%
• Motor vehicles	25%
• Furniture and fittings	12.5%
• Building	4%

2. Inventory as at 31 March 2024 was valued as follows:

	Sh.
• Raw materials	11,690,000
• Work-in-progress	6,930,000
• Finished goods	8,680,000

3. Allowance for doubtful debts is provided at a rate of 10% of the trade receivables as at 31 March 2024.  
 4. Electricity, rates and insurance, sundry expenses and maintenance are to be apportioned in the ratio of 2:1 between factory and administration overheads.  
 5. Manufactured goods are transferred to the warehouse at total factory cost.

**Required:**

- (a) Manufacturing statement for the year ended 31 March 2024. (6 marks)  
 (b) Statement of profit or loss for the year ended 31 March 2024. (8 marks)  
 (c) Statement of financial position as at 31 March 2024. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following are the financial statements of HMK Limited as at 31 December:

	2023	2022
Equity and Liabilities:	Sh. "000"	Sh. "000"
<b>Equity:</b>		
Ordinary share capital	900,000	600,000
Share premium	210,000	90,000
Revenue reserves	<u>246,000</u>	<u>84,000</u>
Total equity and reserves	1,356,000	774,000
<b>Non-current liabilities:</b>		
Debentures	180,000	300,000
Bank loan	<u>-</u>	<u>120,000</u>
Total long term liabilities	180,000	420,000
<b>Current liabilities:</b>		
Trade payables	288,000	204,000
Proposed dividends	90,000	45,000
Corporate tax	198,000	129,000
Bank overdraft	<u>-</u>	<u>84,000</u>
	<u>576,000</u>	<u>462,000</u>
Total equity and liabilities	<u>2,112,000</u>	<u>1,656,000</u>
<b>Non-current assets:</b>		
Freehold land (Net book value)	780,000	660,000
Plant and machinery (Net book value)	582,000	450,000
Furniture and fittings (Net book value)	<u>84,000</u>	<u>66,000</u>
	1,446,000	1,176,000
<b>Current assets:</b>		
Inventory	306,000	222,000
Trade receivables	264,000	256,800
Short term investments	27,600	-
Cash in hand	<u>68,400</u>	<u>1,200</u>
	<u>666,000</u>	<u>480,000</u>
Total assets	<u>2,112,000</u>	<u>1,656,000</u>

**Additional information:**

1. A machinery with a net book value of Sh.12,000,000 (original cost Sh.48,000,000) was sold for Sh.18,000,000. Furniture with a net book value of Sh.18,000,000 (original cost Sh.30,000,000) was sold for Sh.13,000,000. Profits and losses on these transactions had been reported in the statement of profit or loss.
2. Corporate tax for the year ended 31 December 2023 was Sh.80,000,000.
3. The proposed dividends for the year ended 31 December 2022, were paid during the year ended 31 December 2023.
4. There was no disposal or revaluation of freehold property in the year ended 31 December 2023.
5. Interest expense charged to the statement of profit or loss for the year ended 31 December 2023 was Sh.38,400,000. Accrued interest of Sh.26,400,000 is included in the trade payables as at 31 December 2023.
6. Depreciation charged to the statement of profit or loss for the year ended 31 December 2023 was as follows:

	Sh.
• Furniture and fixtures	34,000,000
• Plant and machinery	58,000,000

**Required:**

Statement of cash flows for the year ended 31 December 2023 in accordance with International Accounting Standard (IAS) 7 “Statement of Cash Flows”. **(Total: 20 marks)**

**QUESTION FIVE**

- (a) Discuss **FIVE** reasons why companies do not distribute all their profits to shareholders. (10 marks)
- (b) Rahisi Social Club provided the following information from their records for the year ended 31 March 2024:
1. As at 1 April 2023, the club’s bank balance amounted to Sh.7,050,000.
  2. During the year ended 31 March 2024, the amount of subscription received amounted to Sh.12,525,000 out of which there was Sh.325,000 represented subscription in arrears. Sh.11,400,000 represented subscription for the current year while Sh.225,000 was subscription received in advance.
  3. The club received donations amounting to Sh.7,800,000 for repairing a roof that was leaking and Sh.12,250,000 for putting up a new building.
  4. The 100,000 shares which the club acquired in Bidii Ltd. paid a dividend of Sh.3 per share.
  5. Office furniture acquired during the year ended 31 March 2024 cost the club Sh.5,000,000. Half of the amount was paid and the balance is to be paid during the year ending 31 March 2025.
  6. During the year ended 31 March 2024, the club started printing magazines for sale to the public. As at 31 March 2024, the club had printed 35,000 magazines at a cost of Sh.120 each and sold 32,500 magazines at a price of Sh.170 each.
  7. Other payments made during the year ended 31 March 2024 include:
    - Salaries and wages amounting to Sh.10,500,000 of which Sh.500,000 relates to the year ended 31 March 2023.
    - Rent and rates amounting to Sh.2,550,000 whereby Sh.50,000 was owing as at 1 April 2023.
    - Meeting expenses amounting to Sh.2,475,000.
    - Stationery, postage and internet charges amounting to Sh.2,250,000.

**Required:**

- (i) Subscriptions account for the year ended 31 March 2024. (4 marks)
- (ii) Receipts and payments account for the year ended 31 March 2024. (6 marks)
- (Total: 20 marks)**
- .....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 4 December 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) The Conceptual Framework for Financial Reporting (the Conceptual Framework), identifies TWO fundamental qualitative characteristics and FOUR enhancing qualitative characteristics that useful financial information is required to have.

**Required:**

- (i) Explain the **TWO** fundamental qualitative characteristics of useful financial information. (4 marks)
- (ii) Describe any **TWO** enhancing qualitative characteristics of useful financial information. (4 marks)
- (b) Explain **TWO** functions of each of the following in the management of public finances:
- (i) Office of the Auditor General. (2 marks)
- (ii) Public Accounts Committee. (2 marks)
- (c) Explain the difference between “reserves” and “provisions”. (4 marks)
- (d) In the context of the issue of ordinary shares, differentiate between a “rights issue” and a “bonus issue”. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Dadu, Elegwa and Fondo have been operating a retail business as partners. The partnership agreement provides that:

1. The partners are to be credited at the end of each year with the following salaries:
- |        | <b>Sh.“000”</b> |
|--------|-----------------|
| Dadu   | 150,000         |
| Elegwa | 75,000          |
| Fondo  | 75,000          |
2. Each partner is to be credited with interest on capital balances at the beginning of each year at the rate of 5% per annum.
3. No interest is to be charged on drawings.
4. After charging partnership salaries and interest on capital, Dadu, Elegwa and Fondo are to share profits or losses in the ratio of 5:3:2 respectively, with a provision that Fondo’s share in any year (exclusive of salary and interest) shall not be less than Sh.150 million. Any deficiency is to be borne in the profit and loss sharing ratio by the other partners.

The trial balance of the partnership as at 31 December 2022 was as follows:

	<b>Sh.“million”</b>	<b>Sh.“million”</b>
Partners’ capital accounts:		
Dadu		1,200
Elegwa		750
Fondo		450
Partners’ current accounts:		
Dadu		240
Elegwa		180
Fondo		120

	Sh. "million"	Sh. "million"
Sales		6,975
Freehold land	900	
Buildings (purchased during the year)	675	
Buildings (renovations and improvements)	375	
Purchases	4,200	
Trade receivables	309	
Trade payables		555
Drawings:		
Dadu	255	
Elegwa	165	
Fondo	135	
Furniture and fittings: Cost	540	
Accumulated depreciation (1 January 2022)		210
Inventory (1 January 2022)	630	
Salaries and wages	960	
Office expenses	678	
Rent, rates and insurance	157.5	
Professional fees	52.5	
Allowance for doubtful debts (1 January 2022)		7.5
Bank balance	<u>655.5</u>	<u>10,687.5</u>
	<u>10,687.5</u>	<u>10,687.5</u>

**Additional information:**

- Inventory as at 31 December 2022 was valued at Sh.540 million.
- A debt of Sh.9 million is to be written off and the allowance for doubtful debts should be provided at the rate of 5% of the trade receivables on 31 December 2022.
- As at 31 December 2022, salaries and wages included the following monthly drawings by the partners:

**Sh. "million"**

Dadu	7.5
Elegwa	4.5
Fondo	3.75

- Partners had during the year been supplied with goods from inventory and it was agreed that these should be charged to them as follows:

**Sh. "million"**

Dadu	9.0
Elegwa	6.0
Fondo	-

- On 31 December 2022, rates paid in advance and office expenses owing were Sh.37.5 million and Sh.36 million respectively.
- Professional fees included Sh.37.5 million paid in respect of the acquisition of the buildings.
- Depreciation is to be provided as follows:

Asset	Rate per annum	Basis
Buildings	2.5%	Cost
Furniture and fittings	15%	Cost

- The buildings were brought into use during the year ended 31 December 2022.

**Required:**

- Partnership statement of profit or loss and appropriation account for the year ended 31 December 2022. (10 marks)
  - Partners' current accounts as at 31 December 2022. (4 marks)
  - Statement of financial position as at 31 December 2022. (6 marks)
- (Total: 20 marks)**

### QUESTION THREE

The following is the statement of financial position of Bidii traders as at 30 September 2023.

The statement of financial position was prepared by an inexperienced accounts clerk and included a suspense account balance under current assets.

	Sh. "000"	Sh. "000"		Sh. "000"	Sh. "000"
<b>Capital and liabilities:</b>			<b>Assets:</b>		
Capital		694,000	<b>Non-current assets:</b>		
Net profit		<u>126,000</u>	Plant and equipment	634,000	
		820,000	<b>Less: Depreciation</b>	<u>(72,000)</u>	562,000
Drawings		<u>(160,000)</u>	Furniture and fittings	70,000	
		660,000	<b>Less: Depreciation</b>	<u>(14,000)</u>	<u>56,000</u>
					618,000
<b>Current liabilities:</b>			<b>Current assets:</b>		
Accounts payable	50,000		Inventory	28,000	
Bank balance	<u>1,520</u>		Accounts receivable	57,000	
		<u>51,520</u>	Suspense account	<u>8,520</u>	<u>93,520</u>
<b>Total capital and liabilities</b>		<u>711,520</u>	<b>Total assets</b>		<u>711,520</u>

#### Investigations revealed the following additional information:

1. The purchases day book had been undercast by Sh.2,800,000.
2. An item of equipment costing Sh.2,600,000 had been debited to repairs account. Depreciation on equipment is charged at the rate of 15% per annum on cost.
3. A debit balance of Sh.2,400,000 for a debtor had been omitted from total accounts receivable.
4. An entry of Sh.2,100,000 for return outwards was made in error in the sales day book instead of the purchases returns day book.
5. A cheque of Sh.2,250,000 paid to a creditor was correctly posted in the cash book but credited in error to the creditor's account.
6. Goods valued at Sh.220,000 were withdrawn for personal use, but no entry had been made in the books of Bidii Traders.
7. A bad debt of Sh.1,250,000 was yet to be written off from the accounts receivable account.
8. A discount received of Sh.590,000 had been correctly entered in the cash book, but had been posted to the wrong side of discounts received account.

#### Required:

- (a) Journal entries (including narrations), necessary to correct the above errors. (8 marks)
  - (b) Suspense account fully balanced. (2 marks)
  - (c) A statement of adjusted profit for the year ended 30 September 2023. (4 marks)
  - (d) A corrected statement of financial position as at 30 September 2023. (6 marks)
- (Total: 20 marks)**

### QUESTION FOUR

The following balances were extracted from the books of Sagana Golf Club as at 1 September 2022:

	Sh. "000"	Sh. "000"
Golf course at cost		80,000
Club house at cost		20,000
Investments representing the building fund:		
Ordinary shares	7,400	
Deposit with Jamii Building Society	<u>12,000</u>	19,400
Subscriptions received in advance		400
Creditors for bar supplies		350
Life membership fund		5,000
Subscriptions in arrears		600
Bar inventory		4,850
Club house equipment at cost		3,400
Cash in hand	100	
Bank balance	<u>950</u>	1,050

An analysis of the bank account operated by the club showed the following receipts and payments during the year ended 31 August 2023:

	Sh. "000"
<b>Receipts:</b>	
Subscriptions	26,000
Life membership fees	2,000
Tournament fees	1,000
Bar sales	28,600
Dividend from ordinary shares	800
	<b>Sh. "000"</b>
<b>Payments:</b>	
Maintenance of golf course	17,150
General club house expenses	12,150
Utilities	1,528
Bar supplies	23,500
Purchase of club house equipment	700
Deposit into Jamii Building Society	800
Repainting of club house	1,260

**Additional information:**

- The club maintains a building fund separate from the accumulated fund and life membership fund. The building fund is invested in ordinary shares and also deposited into Jamii Building Society.
- Jamii Building Society has been instructed to credit the interest on the club's deposits to the club's account at each half year. Jamii Building Society computes interest half yearly on 28 February and 31 August. For the year ended 31 August 2023, the interest amounted to Sh.840,000. Dividends paid on the ordinary shares are also added to the building fund by paying them into the building society account.
- There were five life members as at 1 September 2022, one of whom died before the end of the year. Two other life members joined the club during the year. Life membership fee is Sh.1,000,000 per member. When a life member dies, his contribution is transferred to the accumulated fund.
- General club house expenses included bar wages of Sh.4,200,000.
- Balances as at 31 August 2023 were as follows:

	Sh. "000"
Creditors for bar supplies	1,600
Subscriptions in advance	900
Subscriptions in arrears	300
Bar debtors	650

- As at 31 August 2023, bar inventory was valued at Sh.4,350,000.
- An insurance premium of Sh.480,000 was also included in the general club house expenses that had been paid by cheque. The insurance premium was for the year ended 30 November 2023.

**Required:**

- Bar statement of profit or loss for the year ended 31 August 2023. (4 marks)
- Statement of income and expenditure for the year ended 31 August 2023. (8 marks)
- Statement of financial position as at 31 August 2023. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- Highlight **SIX** reasons why it is necessary to make adjustments to accounts at the end of the accounting year. (6 marks)
- The following are the financial statements of Utajiri Ltd. for the two years ended 30 September 2022 and 30 September 2023:

**Statement of profit or loss for the year ended 30 September:**

	2022 Sh. "million"	2023 Sh. "million"
Net Sales (80% credit sales)	4,400	5,100
Cost of sales	<u>(2,200)</u>	<u>(2,850)</u>
Gross profit	2,200	2,250
Operating expenses	<u>(640)</u>	<u>(910)</u>
Net profit before interest and taxes	1,560	1,340
Interest expense	<u>(45)</u>	<u>(60)</u>

	2022 Sh.“million”	2023 Sh.“million”
Profit before tax	1,515	1,280
Corporate tax	<u>(400)</u>	<u>(240)</u>
Net profit after tax	1,115	1,040
Less: Dividends - Interim	(50)	(65)
- Final	<u>(150)</u>	<u>(105)</u>
Retained profit	<u>915</u>	<u>870</u>

**Statement of financial position as at 30 September:**

	2022 Sh.“million”	2023 Sh.“million”
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment (NBV)	1,400	1,800
<b>Current assets:</b>		
Inventory	800	1,200
Trade receivables	490	600
Cash in hand	<u>420</u>	<u>395</u>
	<u>1,710</u>	<u>2,195</u>
<b>Total assets</b>	<u>3,110</u>	<u>3,995</u>
<b>Capital and liabilities:</b>		
<b>Capital:</b>		
Ordinary share capital (Sh.10 par)	1,000	1,000
Revenue reserves	<u>915</u>	<u>1,785</u>
	<u>1,915</u>	<u>2,785</u>
<b>Non-current liabilities:</b>		
10% debentures	450	600
<b>Current liabilities:</b>		
Tax payable	400	240
Trade payables	145	200
Proposed dividends	<u>200</u>	<u>170</u>
	<u>745</u>	<u>610</u>
<b>Total capital and liabilities</b>	<u>3,110</u>	<u>3,995</u>

**Required:**

Compute the following ratios for the years ended 30 September 2022 and 30 September 2023. Assume a 365-day year.

- (i) Current ratio. (2 marks)
- (ii) Quick ratio. (2 marks)
- (iii) Average trade receivables collection period. (2 marks)
- (iv) Gross profit margin. (2 marks)
- (v) Interest cover. (2 marks)
- (vi) Return on capital employed (ROCE). (2 marks)
- (vii) Earnings per share (EPS). (2 marks)

**(Total: 20 marks)**

.....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 21 August 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Feisal Rajab runs a business as a sole trader under the name Feraj Traders. The following balances of assets and liabilities were extracted from Feraj Traders' books of account as at 31 March 2022:

	<b>Sh.</b>
Bank loan	450,000
Equipment (Net book value)	5,580,000
Cash balance	830,700
Inventory	1,750,500
Building (Net book value)	15,000,000
Bank loan interest payable	22,500
Trade receivables	2,635,200
Prepaid insurance	85,500
Interest due on customers' accounts	40,500
Other payables	153,000
Trade payables	2,137,500

The following cash book for the year ended 31 March 2023 was provided:

**Cash book**

	<b>Sh.</b>		<b>Sh.</b>
Balance brought forward	830,700	Payment in respect of trade payables	6,769,500
Receipts from trade receivables	5,720,700	Bank loan (including interest of Sh.100,000)	234,000
Bank loan	800,000	Transport for purchases	194,000
Cash sales	2,619,000	Withdrawals for personal use	200,000
Interest on overdue accounts	23,850	Insurance premium	14,700
Rent from building	540,000	Purchase of equipment	500,000
		Operating expenses	714,150
		Other payables	60,000
		Balance carried forward	1,847,900
	<u>10,534,250</u>		<u>10,534,250</u>

**Additional information:**

- Inventory as at 31 March 2023 was valued at Sh.3,500,000.
- Returns inwards and returns outwards from credit transactions were Sh.100,000 and Sh.80,000 respectively.
- Discounts allowed amounted to Sh.75,000 while discounts received were Sh.112,000.
- Depreciation was to be provided as follows:
 

<b>Asset</b>	<b>Rate per annum</b>
• Building	5% on the reducing balance
• Equipment	25% on the reducing balance
- Trade payables balance as at 31 March 2023 amounted to Sh.850,000 while trade receivables at the same date amounted to Sh.1,100,000 excluding interest on overdue accounts. All purchases were on credit.
- Trade receivables of Sh.42,000 had been written off during the accounting period. Sh.43,400 of the trade receivables as at 31 March 2023 may be uncollectible and an allowance for this is required.
- Prepaid insurance as at 31 March 2023 amounted to Sh.25,000.

**Required:**

- (a) Statement of profit or loss for the year ended 31 March 2023. (10 marks)
- (b) Statement of financial position as at 31 March 2023. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) The bank statement of Maji Marefu Enterprises as at 30 June 2023 showed an overdraft of Sh.2,324,000 while the bank balance as per the cash book showed a credit balance of Sh.1,108,000.

The following extract from the cash book of Maji Marefu Enterprises for the month of June 2023 was provided:

<b>Cash book (extract)</b>			
	<b>Sh.‘000’</b>		<b>Sh.‘000’</b>
Receipts during the month	2,938	Balance (1 June 2023)	1,522
Balance (30 June 2023)	1,108	Payments during the month	2,524
	<u>4,046</u>		<u>4,046</u>

Upon investigation, the following matters were discovered:

1. A cheque received for Sh.160,000 had been returned unpaid. No adjustment had been made in the cash book.
2. During the month of June 2023, dividends amounting to Sh.124,000 were credited directly into the bank account, but no entries had been made in the cash book.
3. A cheque drawn for Sh.12,000 had been incorrectly entered in the cash book as Sh.132,000.
4. The balance brought forward as per the above cash book was overstated by Sh.100,000.
5. Bank charges amounting to Sh.272,000 appeared in the bank statement only.
6. Cheques drawn amounting to Sh.554,000 had not been presented to the bank for payment.
7. Cheques received totalling Sh.1,524,000 had been entered in the cash book and deposited in the bank, but were not credited until 5 July 2023.
8. A cheque for Sh.54,000 had been entered as a receipt in the cash book instead of a payment.
9. A cheque for Sh.50,000 had erroneously been debited by the bank into Maji Marefu’s account.

**Required:**

- (i) The adjusted cash book balance as at 30 June 2023. (6 marks)
- (ii) Bank reconciliation statement as at 30 June 2023. (4 marks)
- (b) The following balances were extracted from the books of Juhudi Traders for the month of July 2023:

	<b>Sh.‘000’</b>
Debit balances: (1 July 2023) Sales ledger	1,428,000
(1 July 2023) Purchases ledger	10,500
Credit balances: (1 July 2023) Sales ledger	40,500
(1 July 2023) Purchases ledger	553,800
Discounts received	142,500
Discounts allowed	209,700
Purchases (including cash purchases of Sh.152,000)	1,334,000
Cash sales	618,000
Credit sales	2,068,200
Credit notes issued to customers	75,000
Contra settlements	36,900
Payments to trade payables	1,159,200
Interest charged by trade payables on overdue accounts	69,000
Receipts from trade receivables	1,578,000
Bad debts written off	37,200
Customer’s dishonoured cheques	26,100
Interest charged on customers’ overdue accounts	96,100
Debt collection expenses charged to trade receivables	10,800
Credit notes received from trade payables	26,700
Balances as at 31 July 2023:	
Purchases ledger (Debit)	14,400
Sales ledger (Credit)	50,700

**Required:**

- (i) Sales ledger control account for the month ended 31 July 2023. (5 marks)
- (ii) Purchases ledger control account for the month ended 31 July 2023. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Faida Ltd. is a company that manufactures and supplies gas cylinders. The following trial balance was extracted from the books of the company as at 30 June 2023:

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Sales		5,220,294
Purchases of raw materials	1,030,000	
Returns inward	37,412	
Ordinary share capital		900,000
10% redeemable preference share capital		300,000
Retained profit (1 July 2022)		89,950
Land	80,000	
Building (cost)	320,000	
Accumulated depreciation (1 July 2022)		15,000
Plant and machinery (cost)	1,400,000	
Office equipment (cost)	220,000	
Motor vehicles (cost)	400,000	
Accumulated depreciation (1 July 2022):		
Plant and machinery		401,000
Office equipment		98,000
Motor vehicles		160,000
Bank balance		80,040
General administrative expenses	63,011	
Interim dividend on preference shares	15,000	
Factory power	70,028	
Light and heat	102,054	
Bank interest	14,140	
Insurance	30,232	
Rates	80,342	
Office salaries	352,026	
Advertising	340,096	
Directors' salaries	119,239	
Inventory (1 July 2022):		
Raw materials	140,000	
Work-in-progress	252,000	
Finished goods	500,000	
Plant repairs	100,204	
Rent	80,126	
Carriage inwards of raw materials	170,026	
Direct wages	1,062,800	
Trade receivables and trade payables	1,000,000	712,452
Allowance for doubtful debts (1 July 2022)		2,000
	<u>7,978,736</u>	<u>7,978,736</u>

**Additional information:**

- Allowance for doubtful debts is to be maintained at 2% of the trade receivables balance as at 30 June 2023.
- Inventory as at 30 June 2023 was valued as follows:
 

Raw materials	Sh. 116,000,000
Work-in-progress	Sh. 64,000,000
- Light and heat of Sh.1,500,000 and rent of Sh.2,400,000 were accruing as at 30 June 2023, while rates of Sh.4,200,000 and insurance of Sh.3,200,000 relates to the period ending 30 June 2024.
- Rent, rates, light and heat as well as insurance are to be apportioned in the ratio 80% to factory and 20% to administration.
- Depreciation is to be provided at the following rates:

	<b>Rate per annum</b>	<b>Basis</b>	<b>Allocated to</b>
Building	2.5%	Cost	Administration
Plant and machinery	10%	Cost	Factory
Office equipment	10%	Cost	Administration
Motor vehicles	25%	Cost	Distribution

6. The company completed 2,000 units during the year and only 150 units were in the inventory as at 30 June 2023.
7. Corporation tax is to be provided at the rate of 30%.

**Required:**

- (a) Manufacturing statement for the year ended 30 June 2023. (10 marks)
  - (b) Statement of profit or loss for the year ended 30 June 2023. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

The following information was extracted from the financial statements of Biashara Ltd. for the year ended 30 June 2023:

**Statement of profit or loss for the year ended 30 June 2023:**

	Sh. "000"
Revenue	134,400
Cost of sales	<u>(105,000)</u>
Gross profit	29,400
Investment income	1,500
Operating expenses	<u>(14,000)</u>
Finance cost	<u>(2,500)</u>
Profit before tax	14,400
Corporation tax	<u>(5,400)</u>
Profit after tax	<u>9,000</u>

**Statement of financial position as at 30 June:**

	2023 Sh. "000"	2022 Sh. "000"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Freehold land	100,800	72,000
Plant and machinery	51,960	55,500
Investments at cost	<u>21,600</u>	<u>22,500</u>
	174,360	150,000
<b>Current assets:</b>		
Inventory	40,300	32,200
Accounts receivable	36,840	46,800
Short-term investments	10,260	5,040
Cash in hand	<u>1,200</u>	<u>2,580</u>
	88,600	86,620
<b>Total assets</b>	<u>262,960</u>	<u>236,620</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	108,000	90,000
Share premium	9,000	4,500
Revaluation reserve	27,000	-
Retained earnings	<u>36,900</u>	<u>31,500</u>
	180,900	126,000
<b>Non-current liabilities:</b>		
10% loan	25,000	34,000
<b>Current liabilities:</b>		
Accounts payable	35,100	31,500
Bank overdraft	14,340	39,240
Proposed dividends	2,700	2,280
Taxation	<u>4,920</u>	<u>3,600</u>
	57,060	76,620
<b>Total equity and liabilities</b>	<u>262,960</u>	<u>236,620</u>

**Additional information:**

1. The revaluation reserve relates to freehold land.
2. Depreciation on plant and machinery amounting to Sh.6,900,000 was charged to the statement of profit or loss for the year.
3. Part of the long-term investments were sold during the year at a profit of Sh.960,000.
4. During the year, plant with a net book value of Sh.4,500,000 was sold for Sh.8,820,000. The plant had an original cost of Sh.18,000,000.

5. The following is an extract from the statement of changes in equity for the year ended 30 June 2023 (Retained earnings column only):

	Sh. "000"
Balance as at 1 July 2022	31,500
Profit after tax for the year	9,000
Interim ordinary dividend paid during the year	(900)
Final ordinary dividend proposed	<u>(2,700)</u>
Balance as at 30 June 2023	<u>36,900</u>

**Required:**

- (a) Statement of cash flows for the year ended 30 June 2023 in accordance with International Accounting Standards (IAS) 7 "Statement of Cash Flows". (14 marks)
- (b) Comment on how Biashara Ltd. has generated and used its cash and cash equivalents for the year ended 30 June 2023. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain the nature of the accounting equation. (4 marks)
- (b) Highlight **FOUR** advantages of books of prime entry. (4 marks)
- (c) The following statement of financial position as at 30 June 2023 was prepared by an inexperienced bookkeeper:

Utamaduni Ltd. Statement of financial position as at 30 June 2023			
	Cost	Accumulated Depreciation	Net book value
	Sh. "000"	Sh. "000"	Sh. "000"
<b>Assets:</b>			
<b>Non-current assets</b>	363,400	103,500	259,900
<b>Current assets:</b>			
Inventory		316,250	
Accounts receivable (Less allowance for doubtful debts)		278,070	
Bank balance		<u>25,875</u>	<u>620,195</u>
<b>Total assets</b>			<u>880,095</u>
<b>Capital and liabilities:</b>			
Authorised issued and fully paid			
Share capital 3,220,000 shares of Sh.100 each			322,000
Share premium			23,000
Profit for the year			<u>132,250</u>
			477,250
<b>Current liabilities:</b>			
Accounts payable			<u>402,845</u>
<b>Total capital and liabilities</b>			<u>880,095</u>

**Additional information:**

- A new machine purchased for Sh.2,300,000 had been recorded in the repairs account.
- An inventory sheet had been misplaced causing the closing inventory to be undercast by Sh.2,300,000.
- An invoice from a supplier of Sh.1,460,500 had been omitted from the books.
- Bank reconciliation had not been done and the following items on the bank statement had not been entered in the books:
  - Bank charges Sh. 1,150,000
  - Standing order for rent payment Sh. 805,000
- An additional allowance of Sh.575,000 is required in respect of doubtful debts.
- No provision has been made for electricity expense of Sh.402,500 and audit fees of Sh.1,035,000.
- The company has signed an agreement to buy a new plant costing Sh.8,050,000 to be delivered and installed in six months' time.
- Depreciation on non-current assets is provided at 10% per annum on straight line basis. A full year's depreciation is charged in the year of purchase.

**Required:**

- (i) Journal entries to correct the above errors. (Narrations not required). (6 marks)
- (ii) Corrected statement of profit or loss for the year ended 30 June 2023. (6 marks)
- (Total: 20 marks)**



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 24 April 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

(a) Using appropriate examples, explain **THREE** errors that do not affect the trial balance. (6 marks)

(b) The following errors were discovered in the books of Eric Barasa for the year ended 31 December 2022:

1. A debit balance of Sh.1,080,000 with respect to Pius Munene was omitted from the list of accounts receivable.
2. An entry of Sh.270,000 concerning returns outward was made in error in the sales book instead of the purchases returns book.
3. The purchases day book had been undercast by Sh.2,160,000.
4. Purchase of new equipment costing Sh.16,200,000 had been recorded in the repairs account (Depreciation on equipment is provided at the rate of 12½% on cost per annum).
5. A cheque for Sh.135,000 paid to Peter Karanja (a creditor) was correctly entered in the cash book but credited to his account.
6. Bad debts of Sh.675,000 should have been written off, but this was not done.
7. Goods valued at Sh.5,400,000 were taken by Eric Barasa for his personal use and no entry had been made in the books.
8. Sh.2,430,000 discounts received had been correctly entered in the cash book but had been posted to the wrong side of the discounts received account.

**Required:**

(i) Journal entries to correct the above errors (include appropriate narrations). (8 marks)

(ii) Suspense account fully balanced indicating the amount by which the trial balance had failed to balance. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Peter Mwangi and Aloyce Onyango began trading as Pengo Manufacturers on 1 January 2022.

The following trial balance was extracted from the books of the partnership as at 31 December 2022:

	Sh. "000"	Sh. "000"
Capital accounts: Peter Mwangi		115,000
Aloyce Onyango		107,000
Drawings: Peter Mwangi	8,000	
Aloyce Onyango	6,400	
Trade receivables and trade payables	22,800	28,560
Balance at bank	31,400	
Plant and machinery at cost	57,600	
Loose tools at cost	16,800	
Sales		160,600
Motor vehicles at cost	33,600	
Raw materials purchased	44,000	
Direct factory wages	40,800	
Electricity expenses	13,600	
Indirect factory wages	16,000	
Plant and machinery repairs	10,880	

	Sh. "000"	Sh. "000"
Motor vehicle running expenses	19,200	
Rent and insurance	18,880	
Administrative staff salaries	34,400	
Administrative expenses	16,800	
Sales and distribution expenses	<u>20,000</u>	
	<u>411,160</u>	<u>411,160</u>

**Additional information:**

1. Inventories as at 31 December 2022 were as follows:

	Sh. "000"
Raw materials	15,200
Work-in-progress	19,440
Finished goods	8,000

2. As at 31 December 2022, accrued electricity expenses amounted to Sh.10,400,000 while prepaid rent and insurance amounted to Sh.7,840,000.

3. The following expenses are to be apportioned between the factory and administration in the ratios indicated:

	Factory	Administration
Motor vehicle running expenses	$\frac{1}{2}$	$\frac{1}{2}$
Electricity expenses	$\frac{2}{3}$	$\frac{1}{3}$
Rent and insurance	$\frac{3}{4}$	$\frac{1}{4}$
Plant and machinery repairs	$\frac{4}{5}$	$\frac{1}{5}$
Motor vehicle depreciation	$\frac{1}{2}$	$\frac{1}{2}$

4. The estimated useful life of plant and machinery is 10 years while that of motor vehicles is 4 years. The partnership uses the straight-line method to provide for depreciation on motor vehicles and plant and machinery.
5. The partners share profits and losses equally.
6. Allowance for doubtful debts is to be made at the rate of 5% of the accounts receivable as at 31 December 2022.
7. Manufactured goods were transferred from the factory to the warehouse at Sh.85,600,000.
8. Loose tools as at 31 December 2022 were valued at Sh.13,600,000.

**Required:**

- (a) Manufacturing and statement of profit or loss for the year ended 31 December 2022. (14 marks)

- (b) Statement of financial position as at 31 December 2022. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following is the statement of financial position of Riziki Ali, a sole trader, as at 1 January 2022:

Assets:	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Building		4,650
Equipment		2,150
Motor vehicles		<u>1,540</u>
		8,340
<b>Current assets:</b>		
Inventory	1,260	
Accounts receivable	885	
Cash in hand	73	
Cash at bank	<u>387</u>	<u>2,605</u>
Total assets		<u>10,945</u>
<b>Capital and liabilities:</b>		
Capital		6,015
<b>Long-term liability:</b>		
Bank loan		1,500
<b>Current liabilities:</b>		
Accounts payable	1,480	
Short-term loan from Paul Sila	600	
Accrued general expenses	<u>1,350</u>	<u>3,430</u>
Total capital and liabilities		<u>10,945</u>

**Additional information:**

1. During the year ended 31 December 2022, Riziki Ali only maintained the cash book, whose summary is as follows:

<b>Cash summary</b>			
	<b>Sh. “000”</b>		<b>Sh. “000”</b>
Balance brought forward	460	Bank loan repayment	1,000
Receipts from debtors	8,950	Sila’s loan repayment	500
Additional capital	4,800	Payments to creditors	6,750
Cash sales	4,250	Payment for general expenses	3,000
Rent income	220	Drawings	1,700
		Rates	160
		Wages	1,190

2. Accounts receivable and accounts payable as at 31 December 2022 were Sh.1,320,000 and Sh.1,820,000 respectively.
3. During the year ended 31 December 2022, proceeds from cash sales amounting to Sh.1,650,000 were not recorded, but the amount was used as follows:

<b>Sh. “000”</b>
Purchase of goods for sale
Loan repayment – Paul Sila
Office stationery
Family use
<u>1,650</u>

4. Accrued general expenses as at 31 December 2022 amounted to Sh.400,000.
5. Inventory as at 31 December 2022 was valued at Sh.1,480,000.
6. Depreciation is to be provided on book values as follows:
- Buildings – 10% per annum
  - Equipment – 15% per annum
  - Motor vehicles – 20% per annum
7. House furniture valued at Sh.250,000 was converted to business use. Depreciation on the furniture was to be provided at 12½% per annum on this amount.

**Required:**

- (a) Statement of profit or loss for the year ended 31 December 2022. (10 marks)
- (b) Statement of financial position as at 31 December 2022. (10 marks)

**(Total: 20 marks)****QUESTION FOUR**

The following trial balance was extracted from the books of Bahati Ltd. as at 31 March 2023:

	<b>Sh. “000”</b>	<b>Sh. “000”</b>
Ordinary share capital (Sh.10 par value)		15,000
10% preference share capital (Sh.10 par value)		2,500
Share premium		2,000
8% debentures		2,500
Accounts payable		3,325
Accounts receivable	8,250	
Sales		120,000
Purchases	105,500	
Bank overdraft		1,000
Discounts received		325
Discounts allowed	125	
Building (cost)	22,500	
Fixtures and fittings (cost)	6,000	
Accumulated depreciation (1 April 2022): Building		6,250
Fixtures and fittings		1,400
Inventory (1 April 2022)	10,500	
Returns outward		2,000
Directors’ fees	1,000	
Administrative expenses	3,650	
Selling and distribution expenses	4,175	
Bad debt written off	100	
Allowance for doubtful debts (1 April 2022)		450
Retained profit (1 April 2022)		9,050
Investments at fair value	<u>4,000</u>	
	<u>165,800</u>	<u>165,800</u>

**Additional information:**

1. The company maintains a gross profit margin of 20%.
2. As at 31 March 2023, accounts receivable balance included Sh.250,000 due from a customer who has been declared bankrupt.
3. The allowance for doubtful debts is to be adjusted to 5% of the accounts receivable as at 31 March 2023.
4. As at 31 March 2023, administrative expenses accrued amounted to Sh.175,000 while prepaid selling and distribution expenses amounted to Sh.75,000.
5. The company paid interest on the debentures for the year ended 31 March 2023 on 5 April 2023.
6. Depreciation is to be provided as follows:
  - Building - 2% per annum on cost
  - Fixtures and fittings - 10% per annum on reducing balance
7. The company's directors propose that:
  - The preference dividend be paid
  - A dividend of 10% on ordinary shares be paid
  - Sh.2,500,000 be transferred to general reserves

**Required:**

- (a) The value of inventory as at 31 March 2023. (2 marks)
  - (b) Statement of profit or loss for the year ended 31 March 2023. (10 marks)
  - (c) Statement of financial position as at 31 March 2023. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Analyse **FOUR** advantages of ratio analysis as a tool for assessing financial performance. (8 marks)
  - (b) Explain the importance of the following ratios to investors:
    - (i) Price-to-earnings (P/E) ratio. (2 marks)
    - (ii) Debt-to-equity ratio. (2 marks)
  - (c) Explain the following terms as used in public sector accounting:
    - (i) Appropriations-in-Aid. (2 marks)
    - (ii) Consolidated fund. (2 marks)
  - (d) Describe **FOUR** benefits of adopting International Financial Reporting Standards (IFRSs). (4 marks)
- (Total: 20 marks)**
- .....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 5 December 2022. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) The following balances were extracted from the books of Jiwe Traders for the month of November 2022:

	Sh.
Debit balance (1 November 2022)	
Sales ledger	5,698,000
Purchases ledger	36,750
Credit balance (1 November 2022)	
Sales ledger	141,750
Purchases ledger	2,288,300
Payment to suppliers	4,057,200
Interest charged by creditors on overdue accounts	241,500
Receipts from credit customers	6,223,000
Bad debts written off	130,200
Customers dishonoured cheques	91,350
Interest charged to customers on overdue accounts	336,350
Debt collection expenses charged to debtors	37,800
Credit notes received from suppliers	93,450
Discounts received	498,750
Discounts allowed	733,950
Purchases (including cash purchases of Sh.532,000)	4,669,000
Cash sales	2,163,000
Credit sales	7,238,700
Credit notes issued to customers	262,500
Contra settlement	129,150
Balances as at 30 November 2022:	
Purchases ledger (debit)	50,400
Sales ledger (credit)	177,450

**Required:**

- (i) Sales ledger control account for the month ended 30 November 2022. (6 marks)
- (ii) Purchases ledger control account for the month ended 30 November 2022. (5 marks)
- (b) Ujenzi Enterprises is a small retail firm. The trial balance of the firm failed to agree on 30 June 2022. The difference was transferred to a suspense account and financial statements prepared. On detailed review of the books, the following errors were revealed:
- The purchases daybook had been undercast by Sh.1,200,000.
  - Purchases on credit from Demario Ltd. for Sh.600,000 had been posted to their account as Sh.6,000,000.
  - A purchase of a machine worth Sh.8,400,000 had been posted to repairs of machinery account.
  - A customer returned goods worth Sh.1,200,000. This transaction had been entered in the sales returns daybook and posted to the debit of the customer's account.
  - Sh.7,200,000 owed by Jeru Ltd., a customer, had been omitted when drawing up a schedule of debtors from the ledger.
  - A cash discount of Sh.240,000 had been correctly entered in the cashbook, but has not been posted to the customer's account.

**Required:**

(i) Journal entries to correct the above errors. (Narrations not required). (6 marks)

(ii) Suspense account duly balanced (including the opening balance). (3 marks)

**(Total: 20 marks)**

**QUESTION TWO**

(a) Explain the following terms as used in company accounts:

(i) Discount on shares. (2 marks)

(ii) Allotment of shares. (2 marks)

(iii) Share premium. (2 marks)

(b) The following information was extracted from the books of Viki Ltd. as at 30 September 2021 and 30 September 2022:

**Statement of financial position as at 30 September:**

	<b>2022</b> <b>Sh. “000”</b>	<b>2021</b> <b>Sh. “000”</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Land and buildings	540,000	240,000
Motor vehicles	120,000	144,000
Furniture and fittings	<u>96,000</u>	<u>168,000</u>
	<u>756,000</u>	<u>552,000</u>
<b>Current assets:</b>		
Inventory	96,000	84,000
Accounts receivable	144,000	108,000
Cash and bank	<u>24,000</u>	<u>36,000</u>
	<u>264,000</u>	<u>228,000</u>
Total assets	<u>1,020,000</u>	<u>780,000</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	480,000	360,000
Share premium	180,000	60,000
Retained earnings	<u>156,000</u>	<u>96,000</u>
	<u>816,000</u>	<u>516,000</u>
<b>Non-current liabilities:</b>		
Long-term loan	120,000	180,000
<b>Current liabilities:</b>		
Accounts payable	62,400	48,000
Accruals	12,000	24,000
Proposed dividends	<u>9,600</u>	<u>12,000</u>
	<u>84,000</u>	<u>84,000</u>
Total equity and liabilities	<u>1,020,000</u>	<u>780,000</u>

**Additional information:**

- Profit after tax for the year ended 30 September 2022 was Sh.84,000,000.
- Interest expense for the year ended 30 September 2022 charged to the statement of profit or loss was Sh.12,000,000.
- All the taxes and interest for the year ended 30 September 2022 were paid. Total tax for the year ended 30 September 2022 amounted to Sh.48,000,000.
- Proposed dividends for the year ended 30 September 2022 amounted to Sh.24,000,000.
- Land and buildings were acquired during the year ended 30 September 2022 at a cost of Sh.360,000,000.
- During the year ended 30 September 2022, some motor vehicles which had a net book value of Sh.60,000,000 were disposed of for Sh.72,000,000.
- Motor vehicles are depreciated at 10% on reducing balance.

**Required:**

Statement of cash flows in accordance with the requirements of “International Accounting Standard (IAS) 7, “Statement of Cash Flows”, for the year ended 30 September 2022. (14 marks)

**(Total: 20 marks)**

### QUESTION THREE

Kate, Mercy and Nickson have been trading as partners under the name Komon Partnership. The partners share profits and losses in the ratio of 4:3:2 respectively. On 1 November 2021, an employee, Oliver, was admitted as a partner. He was to bring Sh.1,750,000 as capital and Sh.1,680,000 as his share of goodwill. The partners do not intend to open a goodwill account. The admission of Oliver has not been fully recorded in the books of account other than the cash record.

The following trial balance was extracted from the books of Komon Partnership as at 31 October 2022:

	Sh. "000"	Sh. "000"
Capital accounts: Kate		9,500
Mercy		7,500
Nickson		6,000
Current accounts: Kate		4,350
Mercy	2,280	
Nickson		3,780
Drawings: Kate	3,500	
Mercy	3,000	
Nickson	3,200	
Oliver	2,500	
Land and buildings	11,500	
Furniture and fittings (cost)	7,100	
Motor vehicles (cost)	10,000	
Accounts receivable	3,550	
Allowance for depreciation (1 November 2021)		
Furniture and fittings		4,100
Motor vehicles		4,350
Accounts payable		3,050
Oliver's account		3,430
Sales		86,360
Purchases	56,350	
Inventory (1 November 2021)	5,460	
Salaries and wages	5,000	
Advertising expenses	3,580	
Motor vehicle expenses	3,980	
Insurance expenses	2,400	
Office expenses	3,430	
Bad debts	1,730	
Cash	1,650	
Bank	2,210	
	<u>132,420</u>	<u>132,420</u>

#### Additional information:

- The new profit or loss sharing ratio was agreed at 4:3:2:1 for Kate, Mercy, Nickson and Oliver respectively.
- On 31 October 2022, inventory was valued at Sh.5,780,000.
- As at 31 October 2022, accrued salaries and wages and accrued advertising expenses amounted to Sh.1,790,000 and Sh.1,680,000 respectively.
- As at 31 October 2022, prepaid insurance amounted to Sh.660,000.
- It was further agreed that since Oliver was a former employee, he would be entitled to a salary of Sh.853,000 per annum with effect from 1 November 2021.
- The partners resolved that they would receive an interest of 10% per annum on their respective balances of fixed capital at the beginning of the year.
- Depreciation is to be provided per annum on cost as follows:

Asset	Rate per annum
Furniture and fittings	12%
Motor vehicles	25%

#### Required:

- Statement of profit or loss and appropriation account for the year ended 31 October 2022. (10 marks)
- Partners' current accounts. (4 marks)
- Statement of financial position as at 31 October 2022. (6 marks)

(Total: 20 marks)

#### QUESTION FOUR

Blaze Sports Club is a members only club. The club generates income through member subscriptions, bar sales and sale of sports shoes.

The following information relates to Blaze Sports Club for the year ended 30 September 2022:

##### Statement of affairs as at 1 October 2021:

Sh. "000"

##### Assets:

##### Non-current assets:

Building at cost	15,000
Sports equipment (net book value)	10,500

##### Current assets:

Cash at bank	18,150
Sports shoes inventory	9,000
Bar inventory	12,000
Prepaid rent (2 months)	3,000
Accrued subscriptions	<u>900</u>
	<u>68,550</u>

##### Liabilities and accumulated fund:

Life membership fund	21,000
Subscriptions in advance	1,800
Accrued insurance (3 months)	2,250
Accumulated fund	<u>43,500</u>
	<u>68,550</u>

##### Receipts and payments account for the year ended 30 September 2022

Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward	18,150	Rent (for 12 months)	18,000
Subscriptions received for the year ended 30 September:		Bar manager's wages	30,000
- 2021	600	Bar supplies	28,500
- 2022	16,500	Building repairs	6,750
- 2023	1,200	Purchases of sports equipment	7,500
- Life membership	3,000	18 months insurance	13,500
Sale of sports shoes	13,500	Purchase of sports shoes	7,500
Sale of sports equipment	210		
Bar sales	<u>69,900</u>	Balance carried forward	<u>11,310</u>
	<u>123,060</u>		<u>123,060</u>

##### Additional information:

- The building was constructed by the club and completed on 30 September 2021. It was commissioned on 1 October 2021 and was estimated to have a useful life of 40 years.
- Life membership subscriptions are brought into income equally over 10 years in a scheme that begun a few years ago. Since the scheme began, the subscription of Sh.3,000,000 per person has been constant. Prior to the year ended 30 September 2022, eleven (11) life membership subscriptions had been received.
- As at 30 September 2022, closing bar inventory was valued at Sh.12,750,000 and Sh.1,200,000 was due to the bar suppliers.
- Four annual subscriptions of Sh.300,000 each had been promised relating to the year ended 30 September 2021, but had not yet been received. Annual subscriptions promised, but not paid, are carried forward for a maximum of 12 months and written off thereafter.
- As at 30 September 2022, inventory of sports shoes was valued at Sh.13,500,000 while the sports equipment had a net book value of Sh.10,500,000. During the year ended 30 September 2022, sports equipment with a net book value of Sh.200,000 was sold.

##### Required:

- Bar statement of profit or loss for the year ended 30 September 2022. (4 marks)
- Income and expenditure statement for the year ended 30 September 2022. (8 marks)
- Statement of financial position as at 30 September 2022. (8 marks)

(Total: 20 marks)

### QUESTION FIVE

- (a) Explain the following accounting concepts:
- (i) Materiality concept. (2 marks)
  - (ii) Matching concept. (2 marks)
- (b) In the context of manufacturing accounts:
- (i) Explain the term “unrealised profit”. (2 marks)
  - (ii) Describe the treatment of unrealised profits in the books of a manufacturing firm. (2 marks)
- (c) Explain the following types of funds in the context of public sector accounting:
- (i) Revolving funds. (2 marks)
  - (ii) Fiduciary funds. (2 marks)
- (d) Analyse **FOUR** objectives of financial statements. (8 marks)

**(Total: 20 marks)**

.....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 1 August 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) The finance manager of Wali Traders has provided you with the following information:

	<b>Sh. "000"</b>
Cost of sales	22,000
Gross profit	9,500
Interest expense	3,000
Tax expense	1,116
Net profit after tax	4,464

**Required:**

- (i) Interest coverage ratio. (3 marks)
- (ii) Gross profit margin ratio. (2 marks)
- (b) Grace Solo is a sole trader who runs a commercial bakery. She does not maintain proper records, but has provided you with the following information.

	<b>31 December 2020</b>	<b>31 December 2021</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Factory building (at cost)	425,000	425,000
Motor vehicles (at cost)	93,000	?
Furniture and fittings (at cost)	13,500	13,500
Inventories	13,700	14,930
Accounts receivable	11,450	11,570
Accounts payable	15,460	16,800
Loan	19,500	?
Salaries and wages due	8,420	8,250
Prepaid rates	7,750	7,860
Rent received in advance	7,900	8,180
Capital	502,320	?
Accumulated depreciation:		
• Factory building	8,500	17,000
• Motor vehicles	2,580	5,422
• Furniture and fittings	1,600	3,200

**Additional information:**

1. Grace Solo's cash summary is provided as follows:

<b>Cash summary</b>			
	<b>Sh. "000"</b>		<b>Sh. "000"</b>
Balance brought forward	1,880	Accounts payable	57,760
Accounts receivable	98,810	Cash purchases	15,640
Cash sales	28,860	Salaries and wages	15,820
Rent	13,700	Rates	9,140
Capital	72,250	Motor vehicle expenses	10,320
		Bank charges	7,650
		General expenses	4,770
		Loan interest	800
		Loan repayment	17,500
		Motor vehicle	10,500
		Drawings	11,100
		Balance carried forward	<u>54,500</u>
	<u>215,500</u>		<u>215,500</u>

2. During the year ended 31 December 2021, discounts allowed amounted to Sh.873,000 while discounts received amounted to Sh.886,000.
3. During the year ended 31 December 2021, Grace Solo took goods valued at Sh.800,000 for her personal use.

**Required:**

- (i) Statement of profit or loss for the year ended 31 December 2021. (10 marks)
- (ii) Statement of financial position as at 31 December 2021. (5 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Outline four objectives of accounting regulatory bodies. (4 marks)
- (b) The following are the statements of financial position of Sabuni Ltd., a soap manufacturing company for year ended 30 June 2022 and 30 June 2021:

**Sabuni Ltd.**  
**Statements of financial position as at 30 June:**

	<b>2022</b> <b>Sh. "000"</b>	<b>2021</b> <b>Sh. "000"</b>
<b>Non-current assets:</b>		
Property, plant and equipment	48,080	37,460
<b>Current assets:</b>		
Inventories	13,420	11,980
Accounts receivable	6,020	5,120
Cash and cash equivalents	<u>450</u>	<u>1,008</u>
Total current assets	<u>19,890</u>	<u>18,108</u>
Total Assets	<u>67,970</u>	<u>55,568</u>
<b>Equity and liabilities:</b>		
Share capital	4,160	3,800
Share premium	540	450
Retained earnings	34,182	21,618
Revaluation reserve	<u>1,080</u>	<u>720</u>
Total equity	<u>39,962</u>	<u>26,588</u>
<b>Non-current liabilities:</b>		
Long-term loan	<u>13,500</u>	<u>14,400</u>
Total non-current liabilities.	<u>13,500</u>	<u>14,400</u>
<b>Current liabilities:</b>		
Accounts payable	12,448	12,700
Accrued expenses	800	800
Bank overdraft	360	540
Current tax	<u>900</u>	<u>540</u>
Total current liabilities	<u>14,508</u>	<u>14,580</u>
Total equity and liabilities	<u>67,970</u>	<u>55,568</u>

**Additional information:**

1. The cost of property, plant and equipment was Sh.45,740,000 on 1 July 2021.
2. The company disposed of a plant with a carrying value of Sh.3,120,000 on 1 April 2022. The original cost of this plant was Sh.4,800,000 and the company made a loss of Sh.120,000.
3. It is the policy of the company to depreciate all assets at the rate of 10% per annum on cost from date of purchase to date of sale.
4. The finance cost incurred and paid in the year ended 30 June 2022 was Sh.288,000, while a dividend of Sh.516,000 was paid for the same period.
5. Sabuni Ltd. made a profit before tax of Sh.13,458,000 during the year ended 30 June 2022.
6. The income tax expense for the year ended 30 June 2022 was Sh.378,000.

**Required:**

Statement of cash flows in accordance with the requirement of “International Accounting Standard (IAS)7”, statement of cash flows, for the year ended 30 June 2022.

(16 marks)

**(Total: 20 marks)****QUESTION THREE**

Maji Matamu Ltd. is company that manufacturers Tamu juice. On 1 January 2021, 100,000 litres of Tamu juice were in stock. During the year ended 31 December 2021, the company manufactured 366,000 litres of juice. The company sold 400,000 litres of juice at a price of Sh.600 per litre.

The following trial balance was extracted from the books of the company for year ended 31 December 2021:

	Sh. “000”	Sh. “000”
240,000 ordinary shares of Sh.100 each		24,000
Retained earnings (1 January 2021)		3,000
Factory land and building at cost (land Sh.11,000,000)	22,700	
Plant and machinery (at cost)	35,000	
Motor vehicles (at cost)	4,050	
<b>Accumulated depreciation (1 January 2021)</b>		
• Factory building		7,680
• Plant and machinery		2,930
• Motor vehicles		950
<b>Inventories (1 January 2021)</b>		
• Raw materials	3,280	
• Work-in-progress	11,000	
• Finished goods	50,000	
Sales		276,381
Purchases of raw materials	166,101	
Factory wages	3,810	
Office salaries	1,250	
Factory expenses	13,490	
Office expenses	3,860	
Allowance for doubtful debts		380
Accounts receivable	5,340	
Accounts payable		4,320
Bank		240
	<u>319,881</u>	<u>319,881</u>

**Additional information:**

1. Inventories as at 31 December 2021 were valued as follows:

**Sh. “000”**

Raw materials	3,560
Work-in progress	18,400
Finished goods	33,000

2. The allowance for doubtful debts is to be maintained at 5% of the accounts receivable.
3. As at 31 December 2021, accrued factory expenses amounted to Sh.125,000 (including office expenses of Sh.75,000) and prepaid factory expenses amounted to Sh.12,000 (including office rent and rates of Sh.7,000).
4. Depreciation is provided on cost as follows:

**Rate per annum**

Factory buildings	2%
Factory plant	20%
Motor vehicles	25%

5. The inventory of finished goods of Tamu juice on 1 January 2021 was valued at factory cost.
6. The directors of Maji Matamu decided to transfer all the Tamu juice manufactured to the warehouse at a mark-up of 10% from 1 January 2021.
7. The directors proposed a dividend of Sh.10 per share issued.

**Required:**

(a) Manufacturing and statement of profit or loss for the year ended 31 December 2021. (12 marks)

(b) Statement of financial position as at 31 December 2021. (8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The authorised share capital of MLO Ltd. consists of one million ordinary shares of Sh.10 each and 500,000 6% preference shares of Sh.10.

The following trial balance was extracted from the books of MLO Ltd. as at 30 June 2022:

	Sh. "000"	Sh. "000"
Ordinary shares fully paid (1 July 2021)		6,000
6% preference shares		5,000
Share premium		500
Revaluation reserve		2,200
General reserve		500
Retained earnings (1 July 2021)		2,500
Land at cost	20,000	
Building at cost	8,000	
Machinery at cost	10,000	
Motor vehicles at cost	8,000	
Accumulated depreciation (1 July 2021):		
• Building		600
• Machinery		1,500
• Motor vehicles		3,200
Accounts receivable and accounts payable	1,400	600
Distribution expenses	3,800	
Administrative expenses	1,800	
12% bank loan		6,000
Bank and cash balances	2,100	
Dividend paid - Preference (interim)	150	
- Ordinary (interim)	600	
Suspense account		750
Gross profit		30,740
Bank loan interest paid	240	
Inventory (30 June 2022)	<u>4,000</u>	
	<u>60,090</u>	<u>60,090</u>

**Additional information:**

- The suspense account relates to 50,000 new ordinary shares which were issued at a premium of 50% each on 31 January 2022.
- On 30 November 2021, the directors made a bonus issue of one share for every five shares held at par fully paid from the revenue reserves.
- Depreciation is provided per annum on straight line basis as follows:
 

Asset	Rate per annum (%)
Building	2½
Machinery	10
Motor vehicle	20
- Corporate tax expenses for the year amounted to Sh.3,100,000.
- The directors proposed the following:
  - A transfer of Sh.2,500,000 to general reserve.
  - Payment of final dividends for preference shares.
  - A dividend of Sh.5 per share for ordinary shares. The additional ordinary shares also qualified for the final dividend.
- Land was revalued upwards to Sh.22 million on 1 July 2021.

**Required:**

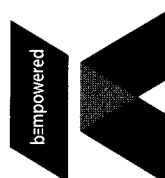
(a) Statement of profit or loss for the year ended 30 June 2022. (12 marks)

(b) Statement of financial position as at 30 June 2022. (8 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Outline the information required by each of the following users of accounting information:
- (i) Owners. (2 marks)
  - (ii) Customers. (2 marks)
  - (iii) Suppliers. (2 marks)
  - (iv) Lenders. (2 marks)
  - (v) Management. (2 marks)
- (b) Discuss two benefits of using the double entry system of bookkeeping to an organisation. (4 marks)
- (c) Explain three objectives of the International Public Sector Accounting Standards Board (IPSASB). (6 marks)
- (Total: 20 marks)**
- .....



**kasneb**

**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**MONDAY: 4 April 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Highlight five elements of financial statements. (5 marks)
- (b) Fatuma Ali commenced business as a retail chemist on 1 January 2021 with an initial capital of Sh.30,000,000 which she paid into her business bank account. She hired a shop manager at an annual salary of Sh.2,000,000. In addition, the shop manager is to receive a commission of 10% of the gross profit.

During the year ended 31 December 2021, Fatuma Ali did not maintain proper books of account. After an examination of the available records the following information was extracted:

Bank statement for the year ended 31 December 2021:

Receipts	Sh. "000"	Payments	Sh. "000"
Capital	30,000	Leasehold premises	20,000
Sales	123,720	Shop fittings and equipment	8,800
Bank loan	20,000	Motor vehicle	2,740
		Payment to suppliers	112,360
		Interest on bank loan	1,000
		General expenses	8,335
		Rent	3,750
		Balance carried forward	16,735
	<u>173,720</u>		<u>1,173,720</u>

**Additional information:**

- All sales were for cash and sales are banked daily subject to the retention of a cash float of Sh.100,000. The following payments were made out of the cash sales:  

	Sh. "000"
Manager's salary	1,980
Drawings	4,000
Payments to suppliers	1,390
General expenses	840
- As at 31 December 2021, cheques sent to suppliers amounting to Sh.2,500,000 had not been presented to the bank for payment.
- As at 31 December 2021, invoices from suppliers amounting to Sh.8,600,000 had not been paid.
- As at 31 December 2021, inventory was valued at Sh.36,500,000.
- Depreciation per annum is to be provided on the motor vehicle at the rate of 25% on cost and on the shop fittings and equipment at 10% on cost.
- During the year ended 31 December 2021, Fatuma Ali took goods which cost Sh.100,000 for her personal use.

**Required:**

- Statement of profit or loss for the year ended 31 December 2021. (8 marks)
- Statement of financial position as at 31 December 2021. (7 marks)

**(Total: 20 marks)**

## QUESTION TWO

Jack and Nina were operating a shop dealing in designer bags as partners sharing profits and losses in the ratio of 2:1 respectively. On 31 March 2021 they admitted Maria to the partnership. The partnership deed provides for interest on capital at the rate of 10% per annum.

The balances as per the partnership's book of account as at 30 September 2021 were as follows:

	Sh. "000"
Office building (Purchased 1 October 2020)	6,000
Purchases	16,700
Sales	35,000
Motor vehicles (cost)	3,400
Salaries and wages	7,400
Accumulated depreciation:	
• Motor vehicle	1,200
• Furniture and fittings	400
Inventory	4,800
Furniture and fittings (cost)	1,200
Accounts receivable	900
Bank	9,280
Partners' capital accounts:	
Jack	3,000
Nina	2,000
Maria	3,500
Current accounts:	
Jack	1,600
Nina	1,200
Maria	1,500
Consultancy fees	420
Rent, rates and electricity	1,240
General expenses (Sh.1,410,000 for six months to 31 March 2021)	2,520
Accounts payable	4,460

### Additional information:

- On admission of Maria, the profit sharing ratio changed to Jack  $\frac{2}{5}$ , Nina  $\frac{2}{5}$ , Maria  $\frac{1}{5}$ . For purpose of admission, goodwill was valued at Sh.12,000,000 and was written off the books immediately.
- Sales for the period to 31 March 2021 were equal to two third of sales from 1 April to year end.
- On 1 April 2021, Maria paid Sh.5,000,000 which comprised her fixed capital of Sh.3,500,000 and her current account contribution of Sh.1,500,000.
- Apportionment of gross profit was to be made on the basis of sales while for expenses is based on time, unless otherwise indicated.
- On 30 September 2021, inventory was valued at Sh.5,100,000
- Allowance for depreciation on motor vehicles, and furniture and fittings is at the rate of 20% and 5% per annum respectively, based on cost.
- Salaries included the following partner's drawings during the year:

	Sh.
Jack	600,000
Nina	480,000
Maria	250,000
- As at 30 September 2021, rates paid in advance amounted to Sh.260,000 while electricity accrued amounted to Sh.60,000.
- Doubtful debts (for which full provision was required) as at 31 March 2021 amounted to Sh.120,000 and Sh.160,000 as at 30 September 2021.
- Consultancy fees included Sh.200,000 paid in respect to the acquisition of office building. These fees are to be capitalised as part of the building. The building is estimated to have a useful life of 25 years.

### Required:

- Statement of profit or loss for the year ended 30 September 2021. (10 marks)
- Statement of financial position as at 30 September 2021. (6 marks)
- Partners' current accounts. (4 marks)

(Total: 20 marks)

### QUESTION THREE

The treasurer of Kite Golf Club has provided the following receipts and payments for the year ended 31 October 2021:

Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward	20,000	Bar purchases	27,000
Subscriptions	83,000	Salaries - Bar	10,000
Bar receipts	42,000	- Clubhouse	36,000
Donations	36,000	Course repairs	19,000
Tournament receipts	11,000	Insurance expenses	9,000
Competition fees	5,900	Electricity expenses	6,000
Disposal of course equipment	2,500	Telephone expenses	2,500
		Tournament expenses	6,000
		Sundry expenses	1,900
		Competition expenses	1,600
		Balance carried forward	81,400
	<u>200,400</u>		<u>200,400</u>

The following were the assets and liabilities of the Club as at 31 October:

	2020 Sh. "000"	2021 Sh. "000"
Bar Payables	9,000	7,000
Bar inventory	7,000	5,000
Subscriptions in arrears	2,000	3,500
Subscriptions in advance	7,000	4,500
Telephone expenses due	500	750
Competition expenses due	400	500
Course equipment	154,400	?

#### Additional information:

- As at 1 November 2020, the following assets were identified at cost:

	Sh. "000"
Clubhouse and course	400,000
Fixtures and fittings	70,000
Course equipment	160,000
- Depreciation rates per annum were as follows:

Asset	Rate
- Fixtures and fittings	10% on cost
- Course equipment	20% on cost
- Course equipment was disposed of during the year for a scrap value of Sh.2,500,000. The equipment was purchased for Sh.7,000,000 and had an accumulated depreciation charge of Sh.5,600,000 as at 1 November 2020. No depreciation is charged in the year of disposal.
- As at 1 November 2020, insurance pre-paid amounted to Sh.4,500,000.
- The insurance expense paid for the year covers the period to 31 July 2022. The Insurance for the period to 31 July 2021 amounted to Sh.6,000,000.

#### Required:

- Bar income statement for the year ended 31 October 2021. (4 marks)
  - Income and expenditure statement for the year ended 31 October 2021. (8 marks)
  - Statement of financial position as at 31 October 2021. (8 marks)
- (Total: 20 marks)**

### QUESTION FOUR

Green Traders and Gold Traders are two businesses dealing with the sale of household furniture. The following financial statements were extracted from their books for the year ended 31 December 2021:

#### Statement of profit or loss:

	Green Traders		Gold Traders	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Sales (all on credit)		3,000		1,800
Less: Cost of Sales				
Opening inventory	348		750	
Purchases (all on credit)	<u>2,304</u>		<u>1,620</u>	
	2,652		2,370	
Less: Closing inventory	<u>(252)</u>	<u>(2,400)</u>	<u>(1,170)</u>	<u>(1,200)</u>
Gross profit		600		600

	Green Traders		Gold Traders	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Less expenses:				
• Distribution cost	324		120	
• Administrative cost	30		108	
• Finance cost	<u>6</u>	<u>(360)</u>	<u>72</u>	<u>(300)</u>
Net profit before tax		240		300
Tax expenses		<u>(120)</u>		<u>(150)</u>
Net profit for the year		<u>120</u>		<u>150</u>

**Statement of financial position:**

**Non-Current assets:**

Property, plant and equipment	558	2,070
-------------------------------	-----	-------

**Current assets:**

Inventory	252	1,170
Accounts receivable	150	600
Bank	<u>6</u>	<u>360</u>
	<u>408</u>	<u>2,130</u>
Total assets	<u>966</u>	<u>4,200</u>

**Equity and liabilities:**

**Capital and reserves**

Ordinary shares	450	2,100
Retained profits	<u>150</u>	<u>900</u>
	<u>600</u>	<u>3,000</u>

**Non-current liabilities:**

10% debentures	<u>60</u>	<u>720</u>
----------------	-----------	------------

**Current liabilities:**

Accounts payables	186	330
Current tax	<u>120</u>	<u>150</u>
	<u>306</u>	<u>480</u>
Total equity and liabilities	<u>966</u>	<u>4,200</u>

**NB: Assume a 365-day year.**

**Required:**

(a) Compute the following ratios for each company:

- |                                   |           |
|-----------------------------------|-----------|
| (i) Gross profit margin.          | (2 marks) |
| (ii) Net profit margin.           | (2 marks) |
| (iii) Return on capital employed. | (2 marks) |
| (iv) Return on assets.            | (2 marks) |
| (v) Current ratio.                | (2 marks) |
| (vi) Assets turnover.             | (2 marks) |
| (vii) Inventory turnover.         | (2 marks) |
| (viii) Trade receivable days.     | (2 marks) |
| (ix) Trade payable days.          | (2 marks) |

(b) Comment on the profitability for each company.

(2 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a) In relation to public sector accounting:

- |  |           |
|--|-----------|
| (i) Explain the term "encumbrance (obligations)".                        | (2 marks) |
| (ii) Highlight four characteristics of a government business enterprise. | (4 marks) |

(b) Describe the following types of preference share capital:

- (i) Cumulative preference shares. (2 marks)
- (ii) Participating preference share capital. (2 marks)
- (iii) Redeemable preference shares. (2 marks)

(c) On 30 September 2021, the cashbook (bank column) of Legume Traders showed a debit balance of Sh.530,000 while the bank statement balance on the same date had a balance of Sh.608,500.

On investigation, the following discrepancies were discovered:

- 1. A cheque received from a debtor for Sh.92,000 and debited in the cashbook was refunded by the bank stamped "Insufficient funds" on 28 September 2021.
- 2. A receipt from a debtor of Sh.65,000 was entered as a payment in the cashbook.
- 3. Bank charges amounting to Sh.9,500 were reflected in the bank statement only.
- 4. Cheques totalling to Sh.299,000 had been issued to suppliers, but not yet been presented to the bank for payment.
- 5. A standing order placed for rent of Sh.230,000 was effected in the bank as per the bank statement.
- 6. Cheques amounting to Sh.206,000 were received and debited in the cash book. These cheques had not yet been credited into the bank statement.
- 7. A customer made a direct deposit of Sh.187,000 into the business bank account.

**Required:**

- (i) An updated cashbook as at 30 September 2021. (4 marks)
- (ii) Bank reconciliation statement as at 30 September 2021. (4 marks)

**(Total: 20 marks)**

.....



**CPA FOUNDATION LEVEL**

**CIFA FOUNDATION LEVEL**

**FINANCIAL ACCOUNTING**

**WEDNESDAY: 15 December 2021.**

**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 two benefits and two challenges of adopting International Public Sector Accounting Standards (IPSASs). (4 marks)
- (b) Explain five uses of control accounts in an organisation. (5 marks)
- (c) The following balances were extracted from the books of Ruth Sifa, who runs a car wash business. She has no knowledge of double entry book-keeping but records everything correctly.

The following balances relate to the year ended 30 September 2021:

	<b>Sh. "000"</b>
Accounts payable	200
Cleaning income	35,288
Cash balance	70
Own salary	21,200
Equipment	1,500
Repair to customers' cars due to damage	460
Miscellaneous expenses	220
Owed by customers	440
Insurance	700
License fees paid	1,050
Stationery	100
Bank balance	4,690
Cleaning materials inventory (30 September 2021)	6,800
Opening capital balance	1,332

Ruth Sifa has not included the following items in her records:

- As at 30 September 2021, bank charges amounted to Sh.90,000.
- As at 30 September 2021, insurance amounting to Sh.100,000 was pre-paid.
- Amounts owed by customers might not easily be recovered. Ruth Sifa would like to make an allowance for doubtful debts of 50% of the amount owing as at 30 September 2021.
- License fees paid amounting to Sh.500,000 relates to the year ended 30 September 2020.
- Equipment is to be depreciated over two years with no residual value.

**Required:**

- (i) Statement of profit or loss for the year ended 30 September 2021. (6 marks)
- (ii) Statement of financial position as at 30 September 2021. (5 marks)

**(Total: 20 marks)**

## QUESTION TWO

Zamu Ltd. has an authorised capital of 2,000,000 ordinary shares of Sh.20 each. The company's trial balance as at 30 June 2021 was as follows:

	Sh."000"	Sh."000"
Purchases and sales	6,560	10,936
Administrative expenses	320	
Bad debts written off	86	
Inventory (1 July 2020)	840	
Debenture interest paid	140	
Investment income		400
Investments	1,800	
Salaries and wages	1,640	
Directors' emoluments	240	
Insurance	160	
Cash at bank	850	
Motor vehicle at cost	4,200	
Freehold land at cost	6,400	
Furniture and fittings at cost	2,600	
Accumulated depreciation (1 July 2020):		
• Motor vehicle		1,600
• Furniture and fittings		780
General reserve (1 July 2020)		2,100
Revenue reserve (1 July 2020)		1,500
12% Debentures		2,000
Accounts receivables and accounts payable	2,200	640
Ordinary share capital		8,000
Allowance for doubtful debt		80
	<u>28,036</u>	<u>28,036</u>

### Additional information:

- The inventory as at 30 June 2021 was valued at Sh.1,240,000.
- The freehold land was revalued to Sh.9,400,000. Part of the revaluation amount was used for a rights issue of 1 for every 4 shares held at a value of Sh.20 each.
- As at 30 June 2021, insurance paid in advance amounted to Sh.40,000 while salaries and wages outstanding amounted to Sh.60,000.
- The directors proposed a dividend of 10% of the issued share capital and a transfer of Sh.420,000 to the general reserve.
- The corporation tax for the year amounted to Sh.540,000.
- Depreciation is provided as follows:

<b>Asset</b>	<b>Rate per annum</b>
• Motor vehicle	20% on cost
• Furniture and fittings	10% reducing balance
- Allowance for doubtful debts is to be maintained at 5% of the accounts receivable.

### Required:

- Statement of profit or loss for the year ended 30 June 2021. (10 marks)
  - Statement of financial position as at 30 June 2021. (10 marks)
- (Total: 20 marks)**

## QUESTION THREE

- Identify four books of original entry used in accounting. (4 marks)
- The following are the summarised financial statements of Eneza Limited as at 31 October 2020 and 31 October 2021:

**Eneza Limited**  
**Statement of profit or loss for the year ended 31 October 2021:**

	Sh."000"
Sales	51,060
Cost of sales	<u>(36,280)</u>
Gross profit	14,780
Distribution costs	<u>(2,500)</u>
Administrative expenses	<u>(5,280)</u>
	7,000

	<b>Sh. "000"</b>
Interest received	500
Interest paid	<u>(1,500)</u>
Profit before tax	6,000
Taxation	<u>(2,800)</u>
Profit for the year	<u>3,200</u>

**Statements of financial position as at 31 October:**

	<b>2021 Sh. "000"</b>	<b>2020 Sh. "000"</b>
<b>Non-current assets:</b>		
Property, plant and equipment	7,600	6,100
Intangible assets	5,000	4,000
Investments	<u>-</u>	<u>500</u>
	12,600	10,600
<b>Current assets:</b>		
Inventory	3,000	2,040
Accounts receivable	7,800	6,300
Short-term investments	1,000	-
Cash in hand	<u>40</u>	<u>20</u>
Total assets	<u>24,440</u>	<u>18,960</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital (Sh.100 ordinary shares)	4,000	3,000
Share premium	3,200	3,000
Revaluation reserve on property, plant and equipment	2,000	1,820
Retained earnings	<u>5,200</u>	<u>3,600</u>
	14,400	11,420
<b>Non-current liabilities:</b>		
Long-term loan	3,400	1,000
<b>Current liabilities:</b>		
Accounts payables	2,540	2,380
Bank overdraft	1,700	1,960
Taxation	<u>2,400</u>	<u>2,200</u>
Total equity and liabilities	<u>24,440</u>	<u>18,960</u>

**Additional information:**

- The process of the sale of non-current investments amounted to Sh.600,000.
- Equipment with an original cost of Sh.1,700,000 and a net book value of Sh.900,000 was sold for Sh.640,000 during the year ended 31 October 2021.
- The following information relate to property, plant and equipment:

	<b>31 October 2021 Sh. "000"</b>	<b>31 October 2020 Sh. "000"</b>
Cost	14,400	11,900
Accumulated depreciation	<u>(6,800)</u>	<u>(5,800)</u>
	<u>7,600</u>	<u>6,100</u>

- Dividends totalling Sh.1,600,000 were paid during the year.

**Required:**

Statement of cash flows in accordance with requirements of International Accounting Standard (IAS) 7, "Statement of Cash Flows" for the year ended 31 October 2021. (16 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

Timothy and Lisa are in partnership sharing profit and loss equally in a manufacturing venture. Timothy manages the manufacturing entity, while Lisa manages the selling and distribution of the end product.

The following trial balance was extracted from their books for the year ended 30 September 2021:

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Sales		59,220
Purchase of raw materials	28,000	
Production wages	8,000	
Production supervisors salaries	240	
Office staff salaries	3,600	

	Sh. "000"	Sh. "000"
Distribution costs	2,340	
Factory insurance	600	
Provision for unrealised profit		360
Carriage inwards of raw materials	600	
Cash at bank	7,200	
12% bank loan		6,000
Bank loan interest	600	
Accounts receivable and accounts payable	1,400	600
Manufacturing royalties paid	800	
Bad debts written off	40	
Office administration expenses	880	
Fuel and electricity	1,200	
Inventories (1 October 2020):		
Raw materials	4,200	
Work-in-progress	2,400	
Finished goods	1,800	
Capital accounts :		
Timothy		10,000
Lisa		8,000
Current accounts :		
Timothy		400
Lisa		600
Drawings :		
Timothy	800	
Lisa	400	
Factory building (at cost)	16,000	
Plant and machinery (at cost)	4,500	
Motor vehicles (at cost)	2,400	
Allowance for depreciation (1 October 2020) :		
Building		1,200
Plant and machinery		900
Motor vehicles		720
	<u>88,000</u>	<u>88,000</u>

**Additional information:**

1. Inventories as at 30 September 2021 were valued as follows:

	Sh.
- Raw materials	5,200,000
- Work-in-progress	2,000,000
- Finished goods	3,600,000

2. Depreciation is provided on cost as follows:

Asset	Rate per annum
- Building	2½%
- Plant and machinery	10%
- Motor vehicles	20%

3. Manufactured goods are transferred to the warehouse at factory cost plus profit at 20% of the factory cost.

4. The partnership agreement provided that:

- Each partner is entitled to a salary of Sh.100,000 per month.
- Timothy is entitled to 10% commission based on factory profit, while Lisa is entitled to a 10% commission based on the net profit.
- Interest on capital is to be charged at 10% per annum.
- Interest on drawings is to be charged at 15% per annum.

5. Fuel and electricity are to be apportioned at 80% to the factory and 20% to the office.

**Required:**

- (a) Manufacturing and statement of profit or loss for the year ended 30 September 2021. (12 marks)
- (b) Statement of financial position as at 30 September 2021. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Highlight four types of errors that might not affect the trial balance. (4 marks)
- (b) Discuss four sources of revenue for not-for-profit entities. (8 marks)
- (c) Evaluate four qualities of useful financial information. (8 marks)
- (Total: 20 marks)**

.....



**CPA FOUNDATION LEVEL**  
**CIFA FOUNDATION LEVEL**  
**PILOT PAPER**  
**FINANCIAL ACCOUNTING**

**December 2021.**

**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**

Accountants prepare and maintain financial records for firms and other institutions and extract financial statements as guided by various International Accounting Standards and other statutory regulations.

**Required:**

- (a) Explain any four fundamental qualities of financial information. (8 marks)
- (b) Identify and explain any six users of financial information, indicating clearly the area of interest for each. (12 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Peter and John have been trading in partnership for several years sharing profits and losses equally after allowing interest on their capitals at the rate of 8% per annum. On 1 September 2020, the Director of their business, James, was admitted as a partner and was to share one fifth of the profits after interest on capital. Peter and John were to share the balance of the profits equally but guaranteed that James's share would not fall below Sh.1,200,000 per annum.

James was not required to introduce any capital at the date of admission but agreed to retain Sh.300,000 of his profit share at the end of each financial year to be credited to his capital account until the balance reached Sh.1,500,000. Until that time, no interest was to be allowed on his capital.

Goodwill was agreed at Sh.3,000,000 as at 1 September 2020, but was not to be maintained in the accounts. Land and buildings were professionally valued at Sh.5,680,000 on the same date while the book value of equipment and motor vehicles was to be reduced to Sh.3,000,000 as at that date.

James was previously entitled to a bonus of 5% of the gross profit. This bonus was payable half yearly. The Director's bonus and the Director's salary were to cease when he became a partner.

The trial balance below was extracted as at 31 December 2020. No adjustments had yet been made in respect of James's admission and the amount he introduced as his contribution for goodwill had been posted to his current account. The drawings of all the partners had been charged to their current accounts.

**Trial balance as at 31 December 2020**

	Sh.	Sh.
Capital accounts : Peter		6,000,000
John		3,000,000
Current accounts : Peter	1,560,000	
John	1,420,000	
James		360,000
Land and buildings	3,600,000	
Equipment and motor vehicles	4,200,000	
Inventory	1,840,000	
Gross profit		8,400,000
General expenses	3,200,000	
Director's salary	800,000	
Director's bonus	210,000	
Debtors	970,000	
Creditors		620,000
Bank balance	580,000	
	<u>18,380,000</u>	<u>18,380,000</u>

**Additional information:**

1. It is assumed that gross profit and general expenses accrued evenly throughout the year except that Sh.200,000 of the general expenses relate to a bad debt that arose in the period after James's admission. The balance of the general expenses accrued evenly.
2. Depreciation is to be charged on equipment and motor vehicles at the rate of 20% per annum on the book value. No depreciation is to be charged on land and buildings.

**Required:**

- (a) Profit or loss and appropriation account for the year ended 31 December 2020. (10 marks)
  - (b) Partner's capital accounts as at 31 December 2020. (4 marks)
  - (c) Partner's current accounts as at 31 December 2020. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Explain the meaning of the following accounting concepts.
  - (i) Going concern concept. (2 marks)
  - (ii) Business entity concept. (2 marks)
  - (iii) Materiality. (2 marks)
- (b) Simba Ltd is a company incorporated to sell Motorcycle spares. The following is a trial balance of the company as at 31 October 2021:

	Sh. "000"	Sh. "000"
Ordinary shares of Sh.50 each		40,000
10% Preference shares of Sh.100 each		36,000
10% Debentures		32,000
Land and buildings (net book value)	100,000	
Plant and machinery (net book value)	32,000	
Motor vehicles (net book value)	8,000	
Inventory	24,000	
Accounts receivable and payable	80,000	76,000
Cash at bank	16,400	
Capital redemption reserve		24,000
Share premium		16,000
Retained profits as at 1 November 2020		12,000
Debenture interest	1,600	
Preference dividend	1,800	
Gross profit		100,000
Other operating income		16,000
Administrative expenses	52,000	
Distribution costs	24,000	
Other operating expenses	6,200	
Interim ordinary dividend paid	8,000	
Corporation tax		<u>2,000</u>
	<u>354,000</u>	<u>354,000</u>

**Additional information:**

1. A building whose net book value is currently Sh.20 million is to be revalued to Sh.36 million
2. The directors have proposed to pay final ordinary dividend of Sh.8 million.
3. The corporation tax for the current year is estimated at Sh.12 million.

**Required:**

- (i) Income statement for the year ended 31 October 2021. (6 marks)
  - (ii) Balance sheet as at 31 October 2021. (8 marks)
- (Total 20 Marks)**

#### QUESTION FOUR

Wageni Olympic Sports Club is an amateur baseball club which have been in existence for several years. The following draft accounts have been prepared by the treasurer of the Club. The treasurer had little accounting knowledge and some figures appearing in the draft accounts were incorrect.

##### Income and expenditure account (extract) for the year ended 31 December 2020

	Sh. "000"	Sh. "000"
<b>Sundry income</b>		96,508
<b>Expenditure</b>		
Use of premises	19,248	
Printing, postage and stationery	3,132	
Overdue members subscriptions written off	480	
Members welfare	2,080	
Bar purchases	30,880	
Wages	8,320	
Reference books purchased	<u>9,324</u>	<u>(73,464)</u>
<b>Surplus for the year</b>		<u><u>23,044</u></u>

##### Statement of financial position (extract) as at 31 December 2020

	Sh. '000
<b>Assets:</b>	
Minibus (Cost:: 1 January 2018)	24,000
Library and furniture	5,520
Members subscriptions due	21,600
Cash in hand	480
Bank: Fixed deposit account	6,000
Current account	11,240
10% Treasury bond (Sh.10 million nominal value)	<u>40,000</u>
	108,840
Less: Owing for bar purchases	<u>7,468</u>
Club funds as at 31 December 2020	<u><u>101,372</u></u>

##### Additional information:

1. The club's policy on outstanding subscriptions was to write off amounts outstanding for a period exceeding five years. As at 1 January 2020, subscriptions outstanding from members were Sh.12,480,000
2. The club's premises were purchased on 1 October 2020 for Sh.16 million. This amount was posted to the use of premises account in the draft accounts.
3. The Treasury bond was purchased for Sh.37.2 million on 1 January 2016 by utilizing donations earmarked for a member's welfare fund. Up to 31 December 2019, the income received from this investment had been distributed to members. The income for the year ended 31 December 2020 was included under sundry income as resolved at the annual general meeting held on 10 April 2020.
4. The club runs a bar for the benefit of members. This bar sells stock at a mark-up of 30%. The income from bar sales amounting to Sh.39,708,000 was included under sundry income. There was no opening inventory as at 1 January 2020 and the club owed suppliers Sh.6,500,000 as at 1 January 2020. Bar closing inventory as at 31 December 2020 was not ascertained.
5. The balance of the fixed deposit account as at 1 January 2020 amounted to Sh.6,000,000 reflected in the statement of financial position as at 31 December 2020. No account was taken of interest amounting to Sh.400,000 which had been credited to the fixed deposit during the year.
6. As at 1 January 2020, cash in hand was Sh.400,000 and the bank current account was overdrawn by Sh.3,572,000.
7. The reference e-books purchased during the year are to be capitalized as part of the library. Library and furniture are to be revalued to Sh.20,000,000
8. Depreciation is to be provided based on the cost of the assets as follows:  
Club premises - 2% per annum  
Minibus - 20% per annum

##### Required:

- (a) Income and expenditure account for the year ended 31 December 2020. (10 marks)
- (b) Statement of financial position as at 31 December 2020. (10 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) A bookkeeper extracted a trial balance on 31 December 2020 that failed to agree by Sh.330,000, a shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2021, the following errors made in 2020 were found:

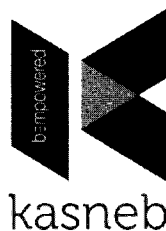
- Sales daybook had been undercast by Sh.100,000.
- Sales of Sh.250,000 to J Church had been debited in error to J Chane account.
- Rent account had been undercast by Sh.70,000.
- Discounts received account had been undercast by Sh.300,000.
- The sale of a motor vehicle at book value had been credited in error to Sales account for Sh.360,000.

**Required:**

- (i) Show the journal entries necessary to correct the errors. (3 marks)
- (ii) Draw up the suspense account after the errors described have been corrected. (5 marks)
- (iii) If the net profit had previously been calculated at Sh.7,900,000 for the year ended 31 December 2020, show the calculations of the corrected net profit. (4 marks)
- (b) With specific reference to government sector accounting, briefly explain the following concepts:
- (i) Budgetary accounting. (4 marks)
- (ii) Cash accounting. (4 marks)

**(Total: 20 marks)**

.....



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**FINANCIAL ACCOUNTING**

**MONDAY: 30 August 2021.**

**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) Explain the following types of accounting errors:

- (i) Compensating errors. (2 marks)
- (ii) Complete reversal of entry. (2 marks)
- (iii) Error of commission. (2 marks)

(b) Discuss three functions of the International Accounting Standards Board (IASB). (6 marks)

(c) The following information was extracted from the books of Dada Traders for the month of May 2021:

Balance on purchases ledger as at 1 May 2021:

**Sh.**

- Debit balance 980,000
- Credit balance 2,990,000

Transactions during the month of May 2021:

**Sh. "000"**

Purchases on credit	39,245
Purchases returns	895
Cheques paid to trade payables	23,370
Cash paid to trade payables	6,515
Discounts received from trade creditors	1,155
Credit sales offset against credit purchases	1,780
Credit purchase of a motor vehicle posted in the purchases ledger	2,990
Balance as at 31 May 2021 (Debit)	885

**Required:**

Purchases ledger control account for the month ended 31 May 2021.

(8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Alpha Omega operates a retail business. He has not employed a qualified accountant, and therefore has not maintained proper accounting records.

The following information was extracted from his books for the year ended 31 March 2020:

**Sh. "000"**

Accounts receivable	2,000
Bank overdraft	240
Accounts payable	1,520
Electricity expenses accrued	60
10% bank loan	2,400
Allowance for doubtful debts	100
Freehold property (cost)	2,400
Motor vehicles (Net book value)	3,000
Furniture and fixtures (Net book value)	960
Inventory	1,560

The following transactions took place during the year ended 31 March 2021:

1. Sales and purchases on credit amounted to Sh.8,320,000 and Sh.7,600,000 respectively.
2. The following transactions were carried out through the bank account:

**Sh.“000”**

Electricity expenses	260
General expenses	140
Interest on loan	120
Drawings	240
Loan repayment on 30 September 2020	400
Collections from accounts receivable	7,560
Proceeds from sale of motor vehicle	480
Salaries and wages	640
Purchases of furniture	800
Payments to accounts payable	7,760
Sales – Cash	2,880
Purchases – Cash	960

3. The business operates at a gross profit margin of 25%.
4. Accrued electricity as at 31 March 2021 amounted to Sh.76,000.
5. Bad debts of Sh.80,000 were written off during the year ended 31 March 2021. The allowance for doubtful debts is to be maintained at 5% of the outstanding accounts receivable at the end of year.
6. During the year ended 31 March 2021, the business received discounts of Sh.160,000 and allowed discounts of Sh.280,000.
7. Loan interest paid was for half a year up to 30 September 2020.
8. The business depreciates motor vehicles at 20% per annum on a reducing balance basis. A full years' depreciation is provided on a motor vehicle acquired in the course of the year and no depreciation is provided on a motor vehicle disposed of in the course of the year.
9. The motor vehicle disposed during the year ended 31 March 2021, had been purchased at Sh.1,000,000 and had an accumulated depreciation of Sh.488,000 at the time of disposal.
10. Furniture is depreciated at a rate of 10% per annum on cost and is pro-rated to the period used in the year. The additional furniture was purchased on 1 October 2020, while the cost of furniture held on 31 March 2020 was Sh.1,600,000.

**Required:**

- (a) Statement of profit or loss for the year ended 31 March 2021. (12 marks)
- (b) Statement of financial position as at 31 March 2021. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance was extracted from the books of Alfajiri Manufacturers Ltd. as at 30 June 2021:

	<b>Sh.“000”</b>	<b>Sh.“000”</b>
Freehold property at cost	25,000	
Plant at cost	26,000	
Accumulated depreciation on plant		12,400
Motor vehicles at cost	10,600	
Accumulated depreciation on motor vehicles		6,100
Fixtures and fittings at cost	7,941	
Accumulated depreciation on fixtures and fittings		2,358
Discounts receivable		493
15% debentures		20,000
Raw materials purchases	183,476	
Sales		244,925
Sundry expenses	5,830	
Bank charges	585	
Marketing expenses	4,609	
Advertising expenses	1,716	
Sales returns	269	
Raw materials purchases returns		634
Salaries	18,000	
Plant maintenance	2,194	
Lighting and heating	3,256	
Factory power	4,512	
Factory wages	21,674	
Rates and insurance	1,843	
Bad debts	979	
Allowance for doubtful debts		1,381

	Sh. "000"	Sh. "000"
Share capital – 1,000,000 ordinary shares of Sh.50 each		50,000
General reserve		44,000
Revenue reserve (unappropriated profits)		881
Interim dividend paid	3,200	
Cash at bank	6,714	
Accounts receivable and accounts payable	26,409	11,647
Inventories as at 1 July 2020: - Raw materials	6,811	
- Work-in-progress	11,532	
- Finished goods	21,669	
	<u>394,819</u>	<u>394,819</u>

**Additional information:**

- Freehold property includes land at a cost of Sh.15,000,000. The other amount is the cost of buildings.
- Buildings are to be depreciated using the straight line method over a fifty-year life commencing 1 July 2020. This expense is considered to be a factory overhead.
- Depreciation is to be provided on a reducing balance basis as follows:

Asset	Rate per annum
Plant	15%
Motor vehicles	25%
Fixtures and fittings	10%

Only plant depreciation is charged to the factory. The other depreciation charges are considered administrative expenses.
- Allowance for doubtful debts is to be adjusted to 8% of the accounts receivable.
- The following expenses are to be apportioned in the ratio 4:1 between factory and administrative overheads:
  - Lighting and heating
  - Risks and insurance
  - Sundry expenses
- An amount of Sh.6,000,000 included in the factory wages account is the factory manager's salary.
- The directors wish to provide for a final dividend which will bring the dividend for the year up to Sh.5 per share.
- Debenture interest for the current year has not yet been paid.
- Some finished goods which cost Sh.541,000 have been sold to a customer at an additional profit margin of Sh.57,000 but the customer has indicated that he intends to return them since they are not what he ordered. This sale was a credit sale and has been included in the accounts receivable.
- As at 30 June 2021:
  - Light and heat accrued was Sh.154,000
  - Insurance prepaid was Sh.48,000
  - Rates prepaid were Sh.150,000
- Inventories as at 30 June 2021 were valued at:

	Sh. "000"
• Raw materials	27,851
• Work-in-progress	16,490
• Finished goods	24,627

**Required:**

- Manufacturing account for the year ended 30 June 2021. (10 marks)
  - Statement of profit or loss for the year ended 30 June 2021. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

The following balances were extracted from the books of Afya Youth Club for the year ended 30 June 2020:

	Sh. "000"
Land at cost	90,000
Equipment (Cost – Sh.25,000,000)	20,000
Furniture and fittings (Cost Sh.80,000,000)	46,000
Bar inventory	18,400
Subscriptions in arrears	5,000
Bank balance	4,500
Long-term bank deposits	12,000
Long-term loan	96,000
Bar creditors	16,800
Subscription in advance	1,600
Accrued bar wages	2,300

The club's receipts and payment account for the year ended 30 June 2021 was as follows:

<b>Receipts and payment account</b>			
	<b>Sh. "000"</b>		<b>Sh. "000"</b>
Balance brought forward	4,500	Bar wages	151,200
Subscription received	136,000	Rates	20,000
Competition entries	29,600	Loan repayments	39,200
Bar sales	332,000	Bar expenses	58,400
		Competition ticket cost	20,800
		Bar purchases	149,400
		Equipment purchase	14,000
		Transfer to long-term deposit account	20,000
		Balance carried forward	29,100
	<u>502,100</u>		<u>502,100</u>

**Additional information:**

1. The following information relates to the club as at 30 June 2021:

	<b>Sh. "000"</b>
Subscription in arrears	4,000
Bar creditors	16,000
Bar inventory	19,800
Subscription in advance	2,400
Bar wages due	3,200

2. Interest receivable on long-term deposits amounted Sh.2,200,000.  
 3. The long-term loan is repaid in annual instalments of Sh.30,000,000 excluding interest. The interest for the year ended 30 June 2021 was Sh.9,200,000.  
 4. Depreciation is provided as follows:

<b>Asset</b>	<b>Rate per annum</b>	<b>Method</b>
Equipment	10%	Straight line
Furniture and fittings	15%	Reducing balance

It is the policy of the club to charge a full year's depreciation on assets in the year of purchase and no depreciation in the year of disposal.

**Required:**

- (a) Bar statement of profit or loss for the year ended 30 June 2021. (4 marks)  
 (b) Statement of income and expenditure for the year ended 30 June 2021. (8 marks)  
 (c) Statement of financial position as at 30 June 2021. (8 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain three roles played by accounting officers in public sector accounting. (6 marks)  
 (b) The following are the financial statement extracts from the books of Karamu Traders:

<b>Karamu Traders</b>		
<b>Statement of profit or loss for the year ended 31 December:</b>		
	<b>2020</b>	<b>2019</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Sales (all on credit)	400,000	240,000
Cost of sales	(300,000)	(160,000)
Gross profit	100,000	80,000
Expenses	(30,000)	(20,000)
Net profit	<u>70,000</u>	<u>60,000</u>

**Karamu Traders**  
**Statement of financial position as at 31 December:**

		<b>2020</b>		<b>2019</b>
		<b>Sh. "000"</b>		<b>Sh. "000"</b>
<b>Assets:</b>		<b>24,000</b>		<b>30,000</b>
<b>Non-current assets</b>				
<b>Current assets:</b>				
Inventory	36,000		14,000	
Trade receivables	72,000		24,000	
Cash at bank	-	<u>108,000</u>	<u>2,000</u>	<u>40,000</u>
Total assets		<u>132,000</u>		<u>70,000</u>
<b>Equity and liabilities:</b>				
<b>Capital and reserves:</b>				
Capital balance 1 January	58,000		24,000	
Net profit	<u>70,000</u>		<u>60,000</u>	
	128,000		84,000	
<b>Less: Drawings</b>	<u>(46,000)</u>	82,000	<u>(26,000)</u>	58,000
<b>Current liabilities:</b>				
Trade payables	30,000		12,000	
Bank overdraft	<u>20,000</u>	<u>50,000</u>	<u>-</u>	<u>12,000</u>
		<u>132,000</u>		<u>70,000</u>

**Additional information:**

- There were no purchases or disposals of non-current assets during the years ended 31 December 2019 and 31 December 2020.
- During the year ended 31 December 2020, Karamu Traders reduced their selling prices in order to stimulate sales.
- Assume price levels were stable.
- Assume a 365-day year.

**Required:**

For the year ended 31 December 2019 and 31 December 2020, compute the following ratios:

- Gross profit mark-up. (2 marks)
- Gross profit margin. (2 marks)
- Net profit margin. (2 marks)
- Return on capital employed (ROCE). (2 marks)
- Current ratio. (2 marks)
- Acid test ratio. (2 marks)
- Accounts receivable collection period. (2 marks)

**(Total: 20 marks)**

.....



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**FINANCIAL ACCOUNTING**

**MONDAY: 17 May 2021.**

**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) You have been appointed as the accounts assistant of Newa Enterprises. The business does not maintain complete records.

The following information is availed to you by the owner:

1. Current ratio = 2.6 : 1
2. Quick ratio = 1.4 : 1
3. Working capital = Sh.1,100,000

**Required:**

- (i) Current assets. (2 marks)
  - (ii) Current liabilities. (2 marks)
  - (iii) Liquid assets. (2 marks)
  - (iv) Inventory. (2 marks)
- (b) In the books of Rhyme Enterprises, the balance at bank as at 30 October 2020 according to the cash book, was Sh.894,680. Subsequently, the following discoveries were made:
1. Cheque No.176276 dated 3 October 2020 for Sh.310,840 in favour of Love Ltd. had been incorrectly recorded in the cash book payments as Sh.301, 840.
  2. Bank commission charged of Sh.169,560 and bank interest charged of Sh.109,100 had been entered in the bank statement on 23 October 2020, but not included in the cash book.
  3. The bank statement showed a cheque of Sh.29,310 received from Andrew Oloo and credited in the bank statement on 9 October 2020 was dishonoured on 26 October 2020. No entry had been made in the cash book with regard to the dishonoured cheque.
  4. Cheque No.177145 for Sh.15,100 had been recorded twice as a credit in the cash book.
  5. Cash received in the last few days of October 2020 amounting to Sh.1,895,000 was deposited in the bank on 31 October 2020. This amount was recorded in the cash book, but was updated in the bank statement on 2 November 2020.
  6. Some customers paid directly into the bank account amounts totalling to Sh.210,100 on 25 October 2020. These amounts had not been recorded in the cash book.
  7. Cheques paid by Rhyme Enterprises during October 2020 amounting to Sh.395,800 were not presented to the bank for payment until November 2020.
  8. A standing order payment of Sh.15,000 on 17 October 2020, had not been recorded in the cash book.

**Required:**

- (i) Updated cash book as at 30 October 2020. (8 marks)
- (ii) Bank reconciliation statement as at 30 October 2020. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

(a) Alice Kibibi's accountant has prepared her trial balance, which did not balance, as follows:

	Debit Sh."000"	Credit Sh."000"
Returns inward and returns outward	2,500	2,710
Capital		45,000
Sales		30,000
Purchases	25,000	
Drawings	8,220	
Rent and rates	7,000	
Motor vehicles	8,000	
Discounts allowed and discounts received	800	600
Accounts receivable and accounts payable	32,900	5,000
	<u>84,420</u>	<u>83,310</u>

**Additional information:**

1. A credit note for Sh.2,850,000 was entered in the account of customer P. Toro, but no entry was made in the returns account.
2. The sales account was overcast by Sh.4,800,000.
3. Sh.2,970,000 of goods withdrawn for Alice Kibibi's personal use was entered into the drawings account, but no other entries were made.
4. A discount allowed of Sh.2,520,000 was credited in error to the discounts received account.
5. Cash sales of Sh.19,780,000 had not been entered in the sales account.
6. A bad debt of Sh.6,300,000 had been entered in the customer's account, but not in any other account.
7. The purchases account had been undercast by Sh.2,650,000.

**Required:**

- (i) Journal entries to correct the above errors. (Narrations not required). (7 marks)
- (ii) Suspense account duly balanced. (3 marks)

(b) The following details relate to the machines owned by Ujenzi Contractors:

Machine	Cost Sh."000"	Date of Purchase
A	26,000	2 January 2011
B	15,000	17 November 2013
C	47,500	30 June 2014
D	18,000	10 May 2017
E	110,000	9 October 2018

Ujenzi Contractor's depreciation policy is as follows:

1. Machines A and B are depreciated on a straight line basis with no scrap value, over 10 years.
2. Machine C is depreciated on a reducing balance basis at 20% per annum, with a scrap value of Sh.5,000,000.
3. Machines D and E are depreciated on a straight line basis over 5 years with a scrap value equal to 10% of the original cost.
4. A full year's depreciation for each machine is provided in the year of purchase.

**Required:**

A property, plant and equipment schedule from 1 January 2011 to 31 December 2020 with the following details:

- Date of purchase.
- Cost.
- Annual depreciation.
- Accumulated depreciation.
- Net book value.

(10 marks)

(Total: 20 marks)

### QUESTION THREE

Andrew and Benta have been partners in a business sharing profits and losses in the ratio of 2:1 after interest on capital is charged at the rate of 10% per annum. Their financial year ends on 31 December each year.

#### Additional information:

- On 1 July 2020, Chris was admitted as a partner. From that date, Andrew, Benta and Chris were to share profits and losses in the ratio 2:2:1 respectively after charging interest on capital at 10% per annum.
- For the purpose of admission of the new partner, the value of the goodwill of the business was agreed at Sh.9,000,000, but was to be written off immediately.
- On 1 July 2020, Chris paid Sh.8,500,000 into the business. It was agreed that Sh.5,000,000 be his fixed capital and the balance be credited to his current account. No adjusting entries had been made yet to record his admission into the partnership.
- The following trial balance was extracted from the books of the partnership as at 31 December 2020:

	Sh. "000"	Sh. "000"
Leasehold premises	12,000	
Motor vehicles (cost)	18,400	
Furniture and fittings (cost)	5,600	
Inventory (1 January 2020)	9,600	
Salaries (including partners' drawings)	14,960	
Accounts receivable	6,440	
Bank	2,460	
Rent and rates	840	
Selling and distribution expenses	5,240	
Capital accounts: Andrew		6,000
Benta		5,400
Current accounts: Andrew		3,200
Benta		2,440
Purchases	43,200	
Sales		80,000
Cash introduced by Chris		8,500
Accounts payable		8,560
Accumulated depreciation:		
Motor vehicles		3,680
Furniture and fittings		960
	<u>118,740</u>	<u>118,740</u>

- Sales during the second half of the year 2020 were 60% of the total sales.
- Selling and distribution expenses were in proportion to the sales for each period. All other expenses were incurred evenly throughout the year.
- Depreciation is to be charged on cost per annum as follows:

Asset	Rate
Motor vehicles	20%
Furniture and fittings	10%

- Drawings by the partners were as follows:

	Sh. "000"
Andrew	2,540
Benta	2,020
Chris	660

- Allowance for doubtful debts is apportioned as follows:

1 January 2020 – 30 June 2020	–	Sh.129,000
1 July 2020 – 31 December 2020	–	Sh.80,000

- The leasehold premises was acquired on 1 January 2020 and is being amortised over a period of 25 years.
- Inventory as at 31 December 2020 was valued at Sh.10,800,000.

#### Required:

- Statement of profit or loss and appropriation account in columnar form for the two periods ended 30 June 2020 and 31 December 2020. (10 marks)
- Partners' current accounts. (4 marks)
- Statement of financial position as at 31 December 2020. (6 marks)

(Total: 20 marks)

#### QUESTION FOUR

The following trial balance was extracted from the books of account of Almond Ltd. as at 30 September 2020:

	Sh. "000"	Sh. "000"
Ordinary share capital (Sh.10 par value)		20,000
8% redeemable preference shares		12,000
6% debentures		10,000
Revaluation reserve		3,400
Retained earnings (1 October 2019)		14,160
Sales		283,460
Inventory (1 October 2019)	12,400	
Purchases	147,200	
Distribution costs	22,300	
Administrative expenses	34,440	
Interest on debentures paid	300	
Interim dividend paid: Ordinary	2,000	
Preference	480	
Investment income		1,500
Building	56,250	
Plant and equipment at cost	55,000	
Furniture and fittings at cost	35,000	
Investments	34,500	
Accumulated depreciation (1 October 2019): Building		18,000
Plant and equipment		12,800
Furniture and fittings		9,600
Accounts receivable	35,700	
Bank overdraft		1,680
Accounts payable		17,770
Deferred tax		5,200
Suspense account		26,000
	<u>435,570</u>	<u>435,570</u>

#### Additional information:

- The amount in the suspense account was discovered to be as a result of 2,000,000 ordinary shares issued at Sh.13 per share.
- The annual stock-take took place on 6 October 2020. It gave an inventory value of Sh.14,500,000. During the period from 1 October 2020 to 6 October 2020, the following transactions took place:

#### Sh. "000"

Sales	1,600
Purchases	470
Sales returns	200
Purchases returns	80

Almond Ltd. makes a uniform rate of gross profit of 25% on selling price.

- As at 30 September 2020, no entry had been made in the books for the following unpresented cheques:
  - Stationery Sh.160,000
  - Payment in advance for goods worth Sh.300,000 to be delivered in October 2020.
- The company received a demand notice for rates of Sh.240,000 for the year ended 30 September 2020.
- The company's policy in relation to the annual depreciation on its non-current assets is as follows:
  - Building - 4% on a straight line basis.
  - Plant and equipment - 15% on a straight line basis.
  - Furniture and fittings - 10% on a reducing balance basis.Plant and equipment have a residue value of Sh.5,000,000.
- As at 30 September 2020, an allowance of 4% of accounts receivable is to be made as well as a provision for corporation tax of Sh.18,500,000.
- As at 30 September 2020, the investment portfolio was as follows:

#### Sh. "000"

Short-term investment	22,500
Long-term investment	12,000
- The directors proposed to pay a final ordinary dividend of 10%.

#### Required:

- Statement of profit or loss for the year ended 30 September 2020. (10 marks)
- Statement of financial position as at 30 September 2020. (10 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Highlight four uses of the general journal. (4 marks)
- (b) Distinguish between the terms “prime cost” and “factory overheads” as applied in manufacturing accounts. (4 marks)
- (c) In the context of public sector accounting, explain the following terms:
- (i) Social benefits. (2 marks)
  - (ii) Contingent asset. (2 marks)
  - (iii) Contingent liability. (2 marks)
- (d) Explain the following terms as used in not-for-profit organisations:
- (i) Crowdfunding. (2 marks)
  - (ii) Life membership. (2 marks)
  - (iii) Grants. (2 marks)
- (Total: 20 marks)**
- .....



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

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.

**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:**

<b>Assets:</b>	<b>2019</b>	<b>2018</b>
<b>Non-current assets:</b>	<b>"000"</b>	<b>"000"</b>
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
	<u>600,600</u>	<u>807,000</u>
<b>Current assets:</b>		
Inventory	302,900	235,300
Accounts receivable	113,100	76,700
Cash	166,400	146,900
	<u>582,400</u>	<u>458,900</u>
<b>Total assets</b>	<b><u>1,183,000</u></b>	<b><u>1,265,900</u></b>
<b>Capital and reserves:</b>		
Ordinary share capital	322,500	162,500
Retained earnings	374,400	370,200
Other comprehensive income	12,500	59,800
	<u>709,400</u>	<u>592,500</u>
<b>Current liabilities:</b>		
• Notes payable	416,000	565,500
• Dividends payable	19,500	41,600
• Accounts payable	38,100	66,300
	<u>473,600</u>	<u>673,400</u>
<b>Total equity and liabilities</b>	<b><u>1,183,000</u></b>	<b><u>1,265,900</u></b>

**Additional information:**

- Net income for the year ended 31 December 2019 was Sh.24,700,000.
- Depreciation expense for the year ended 31 December 2019 was Sh.55,900,000.
- 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.
- On 15 June 2019, notes payable of Sh.160,000,000 were retired in exchange for ordinary shares.
- On 2 December 2019, notes payable worth Sh.10,500,000 were issued.
- 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.
- Dividends were declared for the year ended 31 December 2018. A portion of those dividends were paid in the year ended 31 December 2019.
- 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)**

### 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:

- 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.
- 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.
- 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.
- 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.
- 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	
	<u>38,400</u>	<u>38,400</u>

Assume that the net profit accrued evenly throughout the year.

#### Required:

- 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)
- Partners' capital accounts. (4 marks)
- Partners' current accounts. (4 marks)
- 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	

	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
	<u>11,966,604</u>	<u>11,966,604</u>

#### 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 2/6

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)

### 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.

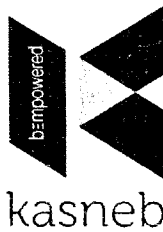
(6 marks)

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

(6 marks)

**(Total: 20 marks)**

.....



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**FINANCIAL ACCOUNTING**

**TUESDAY: 26 November 2019.**

**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 limitations of ratio analysis. (4 marks)
  - (b) Explain four principles that may be used to guide a manufacturing entity in apportioning overhead costs. (4 marks)
  - (c) Discuss three guiding ethics for professional accountants. (6 marks)
  - (d) Explain three types of errors that may cause the trial balance not to balance. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

Regina Rai is a businesswoman who does not prepare proper books of account. She makes a gross profit to cost of sales of  $\frac{3}{7}$  per annum. The following balances were extracted from her records as at 30 September:

	<b>2018</b> Sh. "000"	<b>2019</b> Sh. "000"
Land and buildings	18,000	18,000
Equipment	4,800	3,840
Furniture and fittings	2,400	1,920
Motor vehicles	6,000	4,500
Inventory	3,600	?
Accounts receivable	5,400	7,200
Pre-paid rates	180	240
Bank balance	1,620	15,630
15% bank loan	12,000	6,000
Accounts payable	2,700	3,000
Accrued electricity	300	480

**Additional information:**

- On 1 April 2019, Regina repaid part of the loan by cheque of Sh.6,000,000.
- Regina did not maintain records on cash withdrawn from the bank for personal use. The balancing figure in the bank account is to be treated as personal drawings.
- Total sales for the year ended 30 September 2019 amounted to Sh.360,000,000, while purchases amounted to Sh.253,200,000 for the same period. All purchases and sales were on credit.
- The discounts for the year ended 30 September 2019 were as follows:

	<b>Sh.</b>
Discounts allowed	960,000
Discounts received	900,000
- Bad debts written off during the year ended 30 September 2019 amounted to Sh.240,000.
- On 1 April 2019, Regina purchased some equipment for use in the business at a cost of Sh.600,000. No depreciation is charged on the year of purchase.
- The following expenses were paid by cheque during the year:

	<b>Sh. "000"</b>
Salaries	36,210
Rates, insurance and electricity	23,280
Interest on loans	900

**Required:**

- (a) Income statement for the year ended 30 September 2019. (12 marks)
- (b) Statement of financial position as at 30 September 2019. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) In the measurement of profit, partnership salaries are treated as an appropriation while directors' fees on the other hand, are treated as an expense.

Explain the difference for this treatment. (4 marks)

- (b) The following balances were extracted from the books of Meza Ltd. on 30 June 2019:

	Sh. "000"
Authorised and issued share capital:	
Ordinary shares (Shs.5 par value)	150,000
10% preference shares (Sh.10 par value)	60,000
Inventory as at 30 June 2019	95,778
Accounts receivable and prepayments	40,800
Accounts payable and accruals	20,583
Bank balance	11,694
12% debentures	24,000
General reserves	42,000
Bad debts	510
Gross profit for the year	122,262
Wages and salaries	42,300
Insurance and rates	2,115
Telephone expenses	930
Electricity and water	1,824
Debenture interest	1,440
Directors fees	3,750
General expenses	4,662
Motor vehicles (cost Sh.59,100,000)	40,200
Office furniture and equipment (cost Sh.36,960,000)	11,160
Land and buildings at cost	198,060
Profit and loss account (1 July 2018)	36,378

**Additional information:**

- Depreciation is to be provided as follows:
  - Motor vehicles at a rate of 20% per annum on cost.
  - Office furniture and equipment at a rate of 15% per annum on cost.
- As at 30 June 2019, an amount of Sh.822,000 for electricity consumed has not been paid.
- The insurance expense amount on 30 June 2019 includes an amount of Sh.450,000 paid in June 2019 for the period of 1 July 2019 to 30 September 2019.
- Provisions for the following are to be made:

	Sh. "000"
Directors' fees	7,500
Audit fees	7,200

- The directors recommended that:
  - Sh.18,000,000 be transferred to the general reserve.
  - The preference share dividend be paid.
  - A 10% ordinary share dividend be paid.

**Required:**

- (i) Income statement and appropriation account for the year ended 30 June 2019. (10 marks)
- (ii) Statement of financial position as at 30 June 2019. (6 marks)
- (Total: 20 marks)**

## QUESTION FOUR

The following information relates to Furahi Sana Social Club for the year ended 30 June 2019:

### Statement of receipts and payments

Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward:			
Bank	50,000	Canteen purchases	30,150
Cash	6,000	Electricity and water	4,050
Subscriptions received	144,000	Sports equipment	30,000
Canteen sales	40,500	Canteen wages	4,500
Donations	30,000	Canteen expenses	2,250
Dance ticket sales	27,000	Secretary's allowances	67,500
Investment income	9,000	Training fees	22,500
Interest income	5,400	Groundsmen's wages	18,000
		Dance expenses	13,500
		Travel expenses	18,900
		Sports pavilion expenses	8,100
		Balance carried forward:	
		Bank	50,000
		Cash	42,450
	<u>311,900</u>		<u>311,900</u>

### Additional expenses:

- The following balances were available as at 30 June:

	2018 Sh. "000"	2019 Sh. "000"
Club house	153,000	153,000
Sports equipment	36,000	?
Furniture and fittings (at cost)	27,000	27,000
Canteen inventory	9,000	11,250
Subscriptions in arrears	10,800	12,600
Subscriptions in advance	8,100	20,700
Outstanding electricity and water expenses	1,350	3,300
Canteen payables	4,050	5,400
Accumulated depreciation:		
Sports equipment	12,600	?
Furniture and fittings	8,100	?
Investment (at cost)	36,000	36,000

- Subscription received by the club during the year ended 30 June 2019 are as follows:

Year	Sh. "000"
2018	9,000
2019	114,300
2020	20,700

- The club decided to write off subscription arrears amounting to Sh.9,000,000.
- Canteen sales amounting to Sh.4,500,000 in cash were omitted from the records.
- Depreciation is charged on a straight line basis as follows:

Asset	Rate
Sports equipment	20% per annum
Furniture and fittings	10% per annum
- During the year ended 30 June 2019, sports equipment was disposed of at Sh.9,000,000 on credit. The equipment had cost Sh.18,000,000 and had been in use for two years.
- During the year ended 30 June 2019, the club house was extended at a cost of Sh.18,000,000. This was not recorded in the books.

### Required:

- Canteen income statement for the year ended 30 June 2019. (4 marks)
  - Income and expenditure statement for the year ended 30 June 2019. (8 marks)
  - Statement of financial position as at 30 June 2019. (8 marks)
- (Total: 20 marks)

**QUESTION FIVE**

- (a) Highlight five factors that an organisation might consider when sourcing for accounting software. (5 marks)
- (b) Identify five features of a public sector entity. (5 marks)
- (c) The following transactions relate to the sales ledger of Joy Jibu for the year ended 30 September 2019:

	Sh. "000"
Balance on sales ledger control account (1 October 2018)	124,950
Sales	1,046,920
Receipts	972,594
Discounts allowed	25,438

There were no credit balances on the ledger cards.

**Additional information:**

1. The bank statement showed a credit transfer of Sh.2,772,000 which had been omitted.
2. Debts settled by set-off against accounts payable of Sh.40,544,000 had been omitted as at 30 September 2019.
3. As at 30 September 2019, bad debts of Sh.8,960,000 had not been recorded in the control account.
4. Cash received of Sh.16,422,000 was recorded in the control account. It was later discovered that this was not a sale of goods, but disposal of motor vehicles.

**Required:**

Sales ledger control account for the year ended 30 September 2019.

(10 marks)

**(Total: 20 marks)**

.....



kasneb

CPA PART I SECTION 1

CIFA PART I SECTION 1

FINANCIAL ACCOUNTING

MONDAY: 20 May 2019.

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) Giving examples, distinguish between the following types of errors:
- (i) "Error of commission" and "error of principle". (4 marks)
  - (ii) "Compensating error" and "error of complete reversal of entries". (4 marks)
- (b) In the context of accounting for not-for-profit organisations, explain three differences between a receipts and payments account and an income and expenditure account. (6 marks)
- (c) With reference to public sector accounting, explain three advantages of the commitment basis of accounting. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the meaning of the following terms:
- (i) Duality concept. (2 marks)
  - (ii) Prudence concept. (2 marks)
- (b) The following are the statements of financial position of Pwani Limited as at 31 December 2017 and 31 December 2018:

Statement of financial position as at 31 December:

	2018 Sh. "000"	2017 Sh. "000"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	<u>7,680</u>	<u>5,910</u>
<b>Current assets:</b>		
Inventories	2,070	1,830
Trade receivables	1,170	1,020
Cash balances	<u>75</u>	<u>168</u>
	<u>3,315</u>	<u>3,018</u>
Total assets	<u>10,995</u>	<u>8,928</u>
<b>Equity and liabilities:</b>		
Share capital	360	300
Share premium	150	75
Retained earnings	5,697	3,603
Revaluation surplus	<u>120</u>	<u>120</u>
Total equity	<u>6,327</u>	<u>4,098</u>
<b>Non-current liabilities:</b>		
Long-term loan	<u>2,250</u>	<u>2,400</u>
<b>Current liabilities:</b>		
Trade payables	2,208	2,250
Bank overdraft	60	90
Current tax	<u>150</u>	<u>90</u>
	<u>2,418</u>	<u>2,430</u>
Total equity and liabilities	<u>10,995</u>	<u>8,928</u>

**Additional information:**

1. Pwani Ltd.'s profit after tax for the year ended 31 December 2018 was Sh.2,180,000.
2. The property, plant and equipment in the books of Pwani Ltd. as at 1 January 2018 had been acquired at a cost of Sh.7,290,000. The company's depreciation policy is to depreciate all assets at the rate of 10% per annum on the straight line basis from the date of purchase to the date of sale. On 1 September 2018, Pwani Ltd. sold an item of plant which had a net book value at the date of sale of Sh.520,000. This item of plant had originally cost Sh.800,000 and the company made a loss of Sh.20,000 on the sale of this item of plant.
3. The company's finance cost and income tax expense for the year ended 31 December 2018 amounted to Sh.48,000 and Sh.63,000 respectively.

**Required:**

Statement of cash flows in accordance with IAS 7 "Statement of Cash Flows", for the year ended 31 December 2018.

(16 marks)

**(Total: 20 marks)****QUESTION THREE**

On 1 April 2018, Kamau, Johana and Lelei started a partnership business to sell office stationery, sharing profits and losses in the ratio of 2:2:1 respectively. On 1 April 2018, Kamau contributed Sh.20 million, Johana Sh.10 million and Lelei Sh.10 million as capital. These amounts were immediately deposited into a newly opened bank account for the partnership business.

**Additional information:**

1. During the year ended 31 March 2019, the partnership paid the following amounts through the bank account:

**Sh. "000"**

Licenses and clearing charges	3,840
Bank charges (per month)	6
Insurance expenses	1,152
Purchase of office furniture and fittings	256
Purchase of computers	1,800
Staff salaries and wages (per month)	200
Purchases of stationery	192,000
Drawings (per month) - Kamau	100
- Johana	160
- Lelei	100

2. An analysis of transactions revealed the following:

- Telephone bills amounted to Sh.16,000 per month and those for electricity amounted to Sh.20,000 per month. The telephone and electricity bills for the month of March 2019 were paid on 5 April 2019. All telephone and electricity bills were paid through the bank.
- Accounts payable for purchases amounting to Sh.1.2 million were still unpaid as at 31 March 2019.
- Accounts receivable amounting to Sh.1.8 million were still outstanding as at 31 March 2019.
- Inventory as at 31 March 2019 was valued at Sh.17.4 million.
- Included in the inventory in bullet four above is office stationery which cost Sh.2.2 million but which can now only be sold for Sh.1.6 million because of deterioration while in storage.

3. All the cash from cash sales was used to make the following payments:

**Sh. "000"**

Office running expenses (per week)	20
Rent of godowns and office space (per month)	200
Casual wages (per week)	8
Local transport (per week)	14
Partners' salaries as follows:	
Kamau (per month)	60
Johana (per month)	72

4. Receipts from debtors which were banked during the year amounted to Sh.218 million.
5. Depreciation was to be provided for as follows:

<b>Asset</b>	<b>Rate per annum</b>
Office furniture and fittings	12.5% on cost
Computers	20% on cost

6. The partners are entitled to 10% per annum interest on their fixed capitals.
7. Assume that there are 12 months and 52 weeks in one year.

**Required:**

- (a) Income statement for the year ended 31 March 2019. (10 marks)
- (b) Partners' current accounts as at 31 March 2019. (4 marks)
- (c) Statement of financial position as at 31 March 2019. (6 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

Adam Musa operates a manufacturing business trading as AM Manufacturing Enterprise. The following trial balance relates to this business as at 31 December 2018:

	Sh."000"	Sh."000"
Factory building at cost	4,000	
Plant and machinery at cost	8,000	
Land at cost	12,000	
Motor vehicle at cost	2,400	
Provision for depreciation (1 January 2018):		
Factory building		400
Plant and machinery		3,200
Motor vehicle		960
Sales		104,665
Purchases of raw materials	60,000	
Factory wages	12,000	
Office salaries	6,000	
Distribution costs	2,850	
Factory rates and insurance	800	
Provision for unrealised profit (1 January 2018)		480
Carriage on raw materials	600	
Bank balance	8,100	
Trade receivables and trade payables	1,100	800
Royalties paid	800	
Allowance for doubtful debts (1 January 2018)		45
Office rates and insurance	450	
Factory fuel	1,200	
Inventory (1 January 2018):		
Raw materials	2,000	
Work-in-progress	3,200	
Finished goods	2,400	
Factory manager's salary	650	
Capital		18,000
	<u>128,550</u>	<u>128,550</u>

#### Additional information:

- During the year, Adam Musa had taken raw materials valued at Sh.2,500,000 from his store for private use.
- Manufactured goods are transferred to the warehouse at cost plus 25% of the factory cost.
- Allowance for doubtful debts is to be maintained at 5% of the trade receivables as at the year end.
- Inventory as at 31 December 2018 was valued as follows:

#### Sh."000"

Raw materials	3,500
Work-in-progress	4,500
Finished goods	4,000

- Accrued rates as at 31 December 2018 were as follows:

#### Sh."000"

Factory	600
Office	30

- Prepaid insurance as at 31 December 2018 was as follows:

#### Sh."000"

Factory	300
Office	50

- Depreciation is to be provided for as follows:

Asset	Rate per annum
Factory building	2½% on cost
Motor vehicle	20% on cost
Plant and machinery	10% on cost

- Provision for unrealised profit as at the end of the year should be Sh.800,000.

#### Required:

- Manufacturing account for the year ended 31 December 2018. (6 marks)
- Income statement for the year ended 31 December 2018. (6 marks)
- Statement of financial position as at 31 December 2018. (8 marks)

(Total: 20 marks)

## QUESTION FIVE

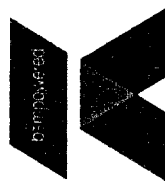
Moses Rono set up his restaurant business on 1 April 2018.

The following information relates to this business:

1. On 1 April 2018, Rono opened a business bank account and deposited Sh.500,000 of his own personal savings into the account. He also introduced into the business cash amounting to Sh.70,000 and equipment worth Sh.150,000 from his house. The cash was retained in the business's cash box.
2. On 1 April 2018, Rono signed a lease agreement for the premises which required that he pays Sh.120,000 in rent per year. Mr. Rono paid this by cheque through the business account.
3. During the year, the premises were repainted at a cost of Sh.7,500 which was paid in cash from Rono's private funds. The paint was bought by Rono at Sh.35,000 which was paid by cheque through the business account. Rono also bought furniture at a cost of Sh.120,000 which was paid by cheque through the business account. In addition, Rono bought a safe at Sh.30,000 which was also paid for by cheque through the business account.
4. On 1 April 2018, Rono borrowed Sh.90,000 from a friend and the funds were deposited into the business bank account. Rono was to pay interest of 10% per annum on the loan. The term of the loan is three years. The loan interest was still unpaid as at 31 March 2019.
5. Most of Rono's sales were in cash. Cash is deposited into the business bank account every week. During the year, cash sales amounted to Sh.100,000 per week except for the five weeks of December where due to the Christmas festivities, weekly sales increased by 80% of cash sales. Assume that one year has 52 weeks.
6. Rono also has corporate clients that are invoiced after hosting their events in the restaurant. Rono raised invoices amounting to Sh.780,000 in relation to the corporate clients during the year and had received and lodged into the business bank account Sh.620,000 by year end.
7. Rono maintains a file where all records are held. A summary of this file is as follows:
  - Inventory purchased on credit during the year amounted to Sh.2,600,000 of which Rono estimated that there was Sh.235,000 of inventory at the year end.
  - The amount owed to suppliers was Sh.300,000 at the year end.
  - Electricity bills averaged Sh.26,000 per month and were paid in cash. The bill for March 2019 was paid in April 2019.
  - Salaries and wages for the year amounted to 20% of cash sales. These were paid in cash.
  - Consumables used amounted to Sh.120,000 during the year. They were paid for in cash.
  - Miscellaneous expenses for the year paid for in cash amounted to Sh.43,000.
  - Insurance expenses for the year amounted to Sh.90,000. These were paid for by cheque through the business bank account.
8. Rono feels that it is appropriate to depreciate all the assets of the business at the rate of 15% per annum on cost regardless of the date of purchase. The safe is not to be depreciated.
9. During the year, Rono withdrew Sh.20,000 per month in cash for his private use. He also took Sh.20,000 worth of inventory out of the business to host his daughter's birthday party.

### Required:

- (a) Income statement for the year ended 31 March 2019. (12 marks)
  - (b) Statement of financial position as at 31 March 2019. (8 marks)
- (Total: 20 marks)**
- .....



**kasneb**

**CPA PART I SECTION 1**

**CIFA PART I SECTION 1**

**FINANCIAL ACCOUNTING**

**MONDAY: 26 November 2018.**

**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) In the context of the International Accounting Standards Board's Conceptual Framework for Financial Reporting, explain the five elements of financial statements. (10 marks)
- (b) With reference to the preparation of the financial statements of a manufacturing entity, explain the meaning of the following terms:
- (i) Direct costs. (2 marks)
- (ii) Overheads. (2 marks)
- (c) Differentiate between the "direct" and "indirect" methods of presentation of the statement of cash flows. (6 marks)  
**(Total: 20 marks)**

**QUESTION TWO**

- (a) Outline four objectives of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)
- (b) The following information relates to Mapozi Social Club for the year ended 30 June 2018:

**Statement of receipts and payments**

<b>Receipts</b>	<b>Sh."000"</b>	<b>Payments</b>	<b>Sh."000"</b>
Balance brought down	3,910	Repairs to sports pavillion	2,220
Canteen sales	183,840	Secretary's allowances	2,814
Donation received	2,400	Transport expenses	7,260
Subscriptions received for the year:		Canteen expenses	702
2016/2017	4,200	Canteen staff wages	25,872
2017/2018	43,050	Groundsmen's wages	65,304
2018/2019	3,600	Payment for canteen supplies	115,860
	<u>241,000</u>	Balance carried down	<u>20,968</u>
			<u>241,000</u>

**Additional information:**

- As at 30 June 2017, the club's land was valued at Sh.120 million and the sports pavillion at Sh.60 million. The sports pavillion is depreciated at the rate of 10% per annum on cost or valuation.
- The club's equipment as at 30 June 2017 was valued at Sh.7.5 million and is to be depreciated at the rate of 20% per annum on cost or valuation.
- Subscriptions owing by members amounted to Sh.4.2 million as at 30 June 2017 and Sh.5.25 million as at 30 June 2018.
- The following balances were available as at 30 June:

	<b>2017</b>	<b>2018</b>
	<b>Sh."000"</b>	<b>Sh."000"</b>
Canteen expenses owing	676	1,008
Transport expenses owing	-	796
Inventory in canteen for sale	13,488	16,674
Owing for canteen supplies	9,882	13,020

**Required:**

- (i) Canteen income statement for the year ended 30 June 2018. (4 marks)
- (ii) Income and expenditure statement for the year ended 30 June 2018. (6 marks)
- (iii) Statement of financial position as at 30 June 2018. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Mercy, Nelly and Onyango are in partnership sharing profits and losses equally after allowing for interest on capital at the rate of 5% per annum to the partners and a salary to Nelly of Sh.60,000 per month.

The trial balance of the partnership as at 30 September 2018 was as follows:

	Sh."000"	Sh."000"
Sales		60,000
Inventory (1 October 2017)	9,000	
Purchases	30,900	
Operating expenses	19,200	
Loan from: Nelly		3,000
Onyango		6,000
Land	3,000	
Buildings	15,000	
Plant and machinery (cost)	21,000	
Accumulated depreciation (30 September 2018)		12,000
Accounts receivable and accounts payable	12,000	9,900
Bank overdraft		3,300
Capital accounts: Mercy		7,500
Nelly		6,000
Onyango		3,000
Current accounts: Mercy		600
Nelly		900
Onyango		600
Drawings: Mercy	900	
Nelly	1,200	
Onyango	600	
	<u>112,800</u>	<u>112,800</u>

**Additional information:**

- On 1 April 2018, the terms of the partnership agreement were changed. The new terms provided as follows:
  - A profit sharing ratio of 5:3:2 for Mercy, Nelly and Onyango respectively.
  - Salaries of Sh.30,000 per month to Nelly and Onyango.
  - Interest on capital at the rate of 5% per annum.
  - For the purpose of the changes, goodwill was valued at Sh.3,600,000 and was to be written off immediately while the land and buildings were valued at Sh.6,000,000 and Sh.19,200,000 respectively.
- Sales include a credit sale of Sh.1,800,000 in respect of goods sold on the basis of confirmation by the customer. The goods had cost Sh.600,000. As at 30 September 2018, the customer had not confirmed whether he would buy the goods.
- Interest on the loans from Nelly and Onyango is to be charged at the rate of 10% per annum. This interest had not been paid as at 30 September 2018.
- Closing inventory as at 30 September 2018 was valued at Sh.7,200,000.
- Unless where otherwise provided, the incomes and expenses accrued evenly throughout the year.

**Required:**

- (a) Income and appropriation statement for the year ended 30 September 2018. (8 marks)
- (b) Partners' current accounts as at 30 September 2018. (6 marks)
- (c) Statement of financial position as at 30 September 2018. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

Zam Zam Ltd. has an authorised share capital of 100,000,000 shares of Sh.1 each and 20,000,000 8% preference shares of Sh. 1 each. The following trial balance was extracted as at 31 December 2017.

	Sh."000"	Sh."000"
Ordinary share capital (issued, Sh.0.5 paid per share)		50,000
8% preference share capital (issued and fully paid)		8,000
Plant and machinery at cost	34,000	

	Sh."000"	Sh."000"
Motor vehicles at cost	16,000	
Computer hardware at cost	5,000	
Accounts receivable and accounts payable	34,980	15,900
Corporate tax payable (1 January 2017)		1,970
Bank balance	14,505	
10% debentures		9,000
Inventories (1 January 2017)	25,200	
General expenses	11,020	
Purchases and sales	164,764	233,384
Preliminary expenses	2,400	
Debenture interest paid	450	
Investment income		1,125
Salaries	24,210	
Insurance premiums	750	
Investments (shares in Nguru Ltd.)	13,500	
Accumulated depreciation (1 January 2017):		
Plant and machinery		16,000
Motor vehicles		7,200
Computer hardware		1,750
Directors' fees	7,000	
Auditors' fees	2,500	
Computer software	1,500	
Interim preference dividend paid	320	
Retained earnings (1 January 2017)		8,470
Allowance for doubtful debts (1 January 2017)		5,300
	<u>358,099</u>	<u>358,099</u>

**Additional Information:**

- Inventories as at 31 December 2017 were valued at Sh.28,247,000.
- Investments have a market value of Sh.15,000,000.
- Debenture interest is payable in two equal annual instalments.
- Insurance premiums prepaid as at 31 December 2017 amounted to Sh.240,000.
- Depreciation is to be provided as follows:
  - Plant and machinery, at the rate of 10% per annum on cost.
  - Motor vehicles, at the rate of 20% per annum on reducing balance.
  - Computer hardware, at the rate of 25% per annum on cost.
- The allowance for doubtful debts is to be increased to Sh.7,500,000.
- A corporate tax of Sh.4,750,000 is to be provided for with respect to the year ended 31 December 2017.
- The directors proposed to pay the remaining dividend due to the preference shareholders and a first and final dividend to the ordinary shareholders at the rate of 6%.
- A sum of Sh.2,000,000 is to be transferred to the general reserve.

**Required:**

- Income statement for the year ended 31 December 2017. (8 marks)
  - Statement of changes in equity for the year ended 31 December 2017. (4 marks)
  - Statement of financial position as at 31 December 2017. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- Outline four reasons why it is important to undertake bank reconciliation. (4 marks)
- The income statement of United Trading Enterprises (UTE) for the year ended 31 December 2017, as prepared by an accounts assistant, indicated a net profit of Sh.49,360,000. The cash book as at 31 December 2017 showed a balance at bank of Sh.6,440,000. Your attention, however, has been drawn to the following matters:
  - Cheques from customers totalling Sh.4,980,000 which were recorded in the cash book on 29 December 2017, were actually not credited by the bank until 2 January 2018.
  - Cheques issued on 31 December 2017 totalling Sh.7,420,000 in favour of suppliers were not paid by the bank until after the end of the year (that is, after 31 December 2017).
  - On 22 November 2017, the bank paid an amount of Sh.3,600,000 with respect to a standing order from UTE for rent of business premises for the three months to 31 January 2018 but, unfortunately, no entry for this payment had been made in the cash book. Additionally, no record of this rent had been made in the income statement for the period.

4. On 31 December 2017, Mr. Ken Abusi, a customer, had paid Sh.2,340,000 directly into UTE's bank account in full settlement of a debt of Sh.2,400,000 owing to UTE but no entry had been made in the books.
5. On 31 December 2017, a cheque for Sh.480,000 was received from a customer in settlement of a sales invoice for the same amount. The cheques were lodged into UTE's bank account. However, still on 31 December 2017, the customer returned the goods and also instructed his bankers not to pay the cheque. This instruction was carried out the same day but no entries in respect of these latter developments have been made in UTE's books. The cost of these goods amounting to Sh.320,000 was not included in the closing inventories.
6. A cheque for Sh.840,000 from an insurance company in settlement of a claim for damage to inventory by fire had been paid into and credited by the bank on 21 December 2017, but an estimated amount of Sh.800,000 had been entered in UTE's income statement.

**Required:**

- (i) Adjusted cash book as at 31 December 2017. (4 marks)
- (ii) Bank reconciliation statement as at 31 December 2017. (4 marks)
- (iii) Statement of corrected net profit for the year ended 31 December 2017. (6 marks)
- (iv) Explain how the bank balance will be reported in UTE's final accounts. (2 marks)

**(Total: 20 marks)**

.....



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**FINANCIAL ACCOUNTING**

**MONDAY: 21 May 2018.**

**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**

Asuba Enterprises is a business run by a sole trader. The following trial balance was extracted from the accounts of the business as at 31 March 2018:

	Sh.	Sh.
Capital		1,852,800
Inventory (1 April 2017)	242,000	
Sales		4,214,500
Purchases	1,673,500	
Electricity expenses	22,300	
Discounts received		42,700
Purchases returns		60,400
Discounts allowed	24,200	
Motor vehicle running expenses	15,800	
Drawings	320,000	
Bank balance	245,110	
Salaries	1,080,000	
Insurance	154,000	
Trade receivables	1,101,400	
Irrecoverable debts	14,200	
Allowance for receivables (1 April 2017)		31,530
Trade payables		762,880
General expenses	67,800	
9% loan		1,500,000
Interest on loan paid	120,000	
Land and building	3,400,000	
Accumulated depreciation on building (1 April 2017)		260,000
Equipment at cost	220,000	
Accumulated depreciation on equipment (1 April 2017)		103,000
Motor vehicles at cost	260,000	
Accumulated depreciation on motor vehicles (1 April 2017)		132,500
	<u>8,960,310</u>	<u>8,960,310</u>

**Additional information:**

- Only 10 months' salaries are shown in the trial balance. An equal amount is paid for salaries for each month of the year.
- As at 31 March 2018, Sh.32,000 had been prepaid for insurance, whilst Sh.4,100 was owing for general expenses.
- Sh.46,000 had been charged to general expenses for the owner's private holiday.
- As at 31 March 2018, inventory was valued at Sh.225,000.
- A customer owing Sh.50,400 has been declared bankrupt. This amount is to be written off in full. An allowance for receivables is to be maintained at 3% of the remaining trade receivables.
- As at 31 March 2018, land was valued at Sh.1,000,000. Land is not to be depreciated.
- Depreciation is to be provided as follows:
  - Building - 4% per annum on cost.
  - Equipment - 25% per annum on cost.
  - Motor vehicles - 40% per annum on reducing balance.
- There were no additions or disposals of non-current assets during the financial year.

**Required:**

- (a) The income statement for the year ended 31 March 2018. (8 marks)
- (b) The statement of financial position as at 31 March 2018. (6 marks)
- (c) Explain the accounting concepts involved in each of the additional information notes 1, 3 and 5 above. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Highlight six uses of the general journal. (6 marks)
- (b) The sales ledger control account of Pie Ltd. for the year ended 31 March 2018 was prepared from the following information:

	Sh. "000"
Debit balance (1 April 2017)	128,540
Credit balance (1 April 2017)	2,800
<b>Totals for the year from 1 April 2017 to 31 March 2018:</b>	
Credit sales	1,144,200
Cash sales	52,400
Cheques received from credit customers	1,046,200
Cash received from credit customers	7,100
Sales returns from credit customers	12,000
Discounts allowed	2,480
Dishonoured cheques	5,000
Contras (purchases ledger)	10,640
Irrecoverable debts	6,500

The sales ledger control account balance, which is part of the double entry system, failed to agree with the total receivables of Sh.189,380,000 as shown by the schedule of receivables. The following errors were subsequently discovered:

1. A customer had returned goods to Pie Ltd. at the selling price of Sh.2,400,000. The goods had been bought on credit. No entries had been made to record the return of the goods in the records of Pie Ltd.
2. The discounts allowed column in the cash book had been overcast by Sh.1,080,000.
3. No contra entry had been made in the receivables account in the sales ledger in respect of purchases by Pie Ltd. of goods at a list price of Sh.2,000,000. Pie Ltd. received a trade discount of 10% on these goods. This transaction had been correctly dealt with in the sales ledger control account.
4. A credit sale of Sh.3,520,000 to Joto Ltd. was correctly recorded in the sales ledger control account, but no other entry had been made.
5. A cheque received from a customer for Sh.6,900,000 which had been correctly processed through the books, had subsequently been dishonoured. No entries were made to record this dishonoured cheque.
6. Dot Ltd., a customer, has recently been declared bankrupt and the amount owed of Sh.3,500,000 is to be written off but no entries have yet been made.

**Required:**

- (i) Revised sales ledger control account for the year ended 31 March 2018. (8 marks)
- (ii) Revised statement showing the correct total of the schedule of receivables for the year ended 31 March 2018. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

ABC Ltd. is a manufacturer of motor vehicle spare parts. The company's trial balance as at 31 December 2017 was as follows:

	Sh. "000"	Sh. "000"
Share capital		30,000
Share premium		17,150
Revenue reserves (1 January 2017)		9,800
8% debentures		20,000
Inventory as at 1 January 2017:		
Raw materials	18,100	
Work-in-progress	9,350	
Finished goods	12,800	
Purchases of raw materials	60,350	
Creditors		18,050
Land at cost	6,000	
Factory and office buildings (at cost)	17,500	
Factory, provision for depreciation (1 January 2017)		1,750
Plant and machinery (at cost)	12,600	

	Sh."000"	Sh."000"
Plant and machinery, provision for depreciation (1 January 2017)		4,000
Motor vehicles (at cost)	4,200	
Motor vehicles, provision for depreciation (1 January 2017)		1,800
Sales		112,750
Debtors	24,200	
Factory wages (direct labour)	11,900	
Factory wages (other)	4,800	
Factory heating and electricity	5,550	
Factory overheads	8,920	
Machine repairs and maintenance	4,100	
Distribution expenses	6,350	
Selling expenses	2,750	
Administrative expenses	2,920	
Interest on debentures paid	800	
Bank balance	1,960	
Cash in hand	150	
	<u>215,300</u>	<u>215,300</u>

#### Additional information:

- Inventory as at 31 December 2017 was valued at:

	Sh.
Raw materials	17,200,000
Work-in-progress	9,950,000
Finished goods	14,650,000

- Depreciation is to be provided as follows:

- Factory and office buildings - 2% per annum on cost.
- Plant and machinery - 10% per annum on cost.
- Motor vehicles - 25% per annum on reducing balance.

Factory and office buildings are regarded as 6/7 for factory and 1/7 for office; motor vehicles at 75% for distribution and 25% for sales.

- Although no provision for bad and doubtful debts had been made previously, it is considered necessary now to write off a debt of Sh.200,000 and to make a provision for doubtful debts of 1% on the balance of debtors.
- No entries have been made in the books of account of the company in respect of the following items accrued as at 31 December 2017:

	Sh.
• Factory electricity	- 320,000
• Repairs to machines	- 80,000
• Salesmen's travelling expenses	- 60,000
• Transport expenses (for delivery of finished goods)	- 70,000
• Directors' remuneration	- 250,000

- A consignment of raw materials was received between Christmas and new year, and due to the factory being closed, was stored in the gatekeeper's store. The invoice for Sh.170,000 for the consignment has not been recorded and the goods were not counted during the stock take as at 31 December 2017.
- Rates of Sh.960,000 had been paid in respect of the half-year from 1 October 2017. In the accounts, these should be divided between factory overheads and administrative expenses in the ratio of 5:1.
- Annual insurance premiums of Sh.900,000 were paid for the year commencing 1 May 2017. These were apportioned between factory overheads, distribution expenses and administrative expenses in the ratio of 4:1:1.
- A commission on net profit is payable to certain management staff of the company. A provision of 10% of the company's net profit after charging this commission is to be made.
- Tax for the year is provisionally estimated at Sh.500,000.
- The directors have proposed a dividend of 4% on the ordinary shares.

#### Required:

- Manufacturing account for the year ended 31 December 2017. (8 marks)
- Income statement for the year ended 31 December 2017. (6 marks)
- Statement of financial position as at 31 December 2017. (6 marks)

(Total: 20 marks)

#### QUESTION FOUR

- Explain three reasons why an entity's statement of cash flows might be more useful and reliable than its statement of comprehensive income. (6 marks)

- (b) The following are the financial statements of Ole Kina Ltd. for the year ended 31 March 2018:

**Ole Kina Ltd.**

**Income statement for the year ended 31 March 2018**

	Sh. "million"
Revenue	1,276.5
Cost of sales	(907)
	369.5
Distribution costs	(62.5)
Administrative expenses	(132)
	175
Interest received	12.5
Interest paid	(37.5)
	150
Tax	(70)
Profit after tax	(80)

**Ole Kina Ltd.**

**Statement of financial position as at 31 March:**

	2018 Sh. "million"	2017 Sh. "million"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	190	152.5
Intangible assets	125	100
Investments	-	12.5
<b>Current assets:</b>		
Inventories	75	51
Receivables	195	157.5
Short-term investment	25	-
Cash in hand	1	0.5
Total assets	611	474
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital (10 million ordinary shares of Sh. 10 par value)	100	75
Share premium	80	75
Revaluation reserve	50	45.5
Retained earnings	130	90
<b>Non-current liabilities:</b>		
Loan	85	25
<b>Current liabilities:</b>		
Trade payables	63.5	59.5
Bank overdraft	42.5	49
Tax	60	55
Total equity and liabilities	611	474

**Additional information:**

- During the year, the investments classified as non-current assets were sold. The proceeds of the sale of these investments amounted to Sh.15 million.
- Fixtures and fittings, with an original cost of Sh.42.5 million and a carrying amount of Sh.22.5 million were sold for Sh.16 million during the year.
- The following information relates to property, plant and equipment:

	31 March 2018 Sh. "million"	31 March 2017 Sh. "million"
Cost	360	297.5
Accumulated depreciation	(170)	(145.0)
Carrying amount	190	152.5
- 2.5 million ordinary shares of Sh.10 par value were issued during the year at a premium of Sh.2.0 per ordinary share.
- Dividends totalling Sh.40 million were paid during the year.

**Required:**

Statement of cash flows in accordance with international accounting standard (IAS) 7 "Statement of Cash Flows" for the year ended 31 March 2018.

(14 marks)

(Total: 20 marks)

### QUESTION FIVE

- (a) Faithful representation is the requirement that financial statements should be produced that accurately reflect the condition of a business. The faithful representation concept should extend to all parts of the financial statements including the results of operations, financial position and cash flows of the reporting entity.

**Required:**

Describe two attributes that financial statements should possess in order to meet the faithful representation criterion.

(4 marks)

- (b) In the context of public sector accounting, explain the meaning of the following terms:

(i) Fund accounting.

(2 marks)

(ii) Commitment accounting.

(2 marks)

- (c) Tuungane is a welfare club with an annual membership fee of Sh.200. The club's statement of financial position as at 31 December 2017, which is presented below, failed to balance and the difference was posted in the suspense account:

**Tuungane**

**Statement of financial position as at 31 December 2017**

	Sh.	Sh.
<b>Non-current assets:</b>		
Pavillion		1,260,000
<b>Current assets:</b>		
Bar stock	394,000	
Bar debtors	50,000	
Subscriptions in arrears	42,500	
Prepayments	9,200	
Bank balance	<u>170,000</u>	<u>665,700</u>
		1,925,700
Accumulated fund (1 January 2017)	1,337,700	
Surplus for the year	<u>141,400</u>	1,479,100
<b>Current liabilities:</b>		
Bar creditors	96,600	
Accruals	5,800	
Subscriptions in advance	65,700	
Suspense account	<u>278,500</u>	<u>446,600</u>
		1,925,700

On further investigation, the following matters were revealed:

1. Bar takings had been overcast by Sh.115,000.
2. 600 members had not paid their subscriptions as at 31 December 2017.
3. Depreciation for the pavillion amounting to Sh.56,000 had not been provided.
4. A loan of Sh.450,000 obtained from the bank was only recorded in the receipts and payments account.
5. Repairs on the pavillion amounting to Sh.135,000 had been capitalised.
6. Bar creditors of Sh.45,000 had been omitted from the creditors list.
7. A receipt of Sh.50,750 had been entered as a payment in the receipts and payments account.

**Required:**

- (i) Journal entries to correct the above errors (narrations not required).

(6 marks)

- (ii) Suspense account duly balanced.

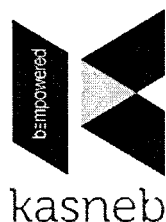
(2 marks)

- (iii) Statement of adjusted surplus (or deficit) for the year ended 31 December 2017.

(4 marks)

**(Total: 20 marks)**

.....



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**FINANCIAL ACCOUNTING**

**MONDAY: 27 November 2017.**

**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) Distinguish between “accounting policies” and “accounting standards”. (4 marks)
- (b) Describe three objectives of the International Financial Reporting Standards (IFRS) Foundation. (6 marks)
- (c) The following information relates to the non-current assets of Jirani Mwema Ltd. as at 1 October 2016:

Non-current assets	Cost Sh.“000”	Accumulated depreciation Sh.“000”
Freehold property	35,000	-
Plant and machinery	26,250	10,115
Office equipment	5,250	2,555
Motor vehicles	15,750	9,100

**Additional information:**

1. The following non-current assets were acquired during the year ended 30 September 2017:

Date	Non-current asset	Cost Sh.“000”
1 October 2016	Machinery	3,500
1 April 2017	Motor vehicle	2,100

2. The following non-current assets were disposed of during the year ended 30 September 2017:

Date	Non-current asset	Sale proceeds Sh.“000”	Cost Sh.“000”	Accumulated depreciation Sh.“000”
1 October 2016	Machinery	2,415	3,150	350
1 January 2017	Office equipment	224	280	70
30 September 2017	Motor vehicle	1,120	1,750	175

3. Jirani Mwema Ltd. depreciates the assets using the straight-line method on a prorata basis at the following rates per annum:

Non-current asset	Rate per annum
Plant and machinery	20%
Office equipment	15%
Motor vehicles	25%

4. On 1 October 2016, the management of Jirani Mwema Ltd. decided to start depreciating freehold property at the rate of 2.5% per annum.

**Required:**

Non-current asset movement schedule for the year ended 30 September 2017.

(10 marks)

(Total: 20 marks)

## QUESTION TWO

The following is the receipts and payments account of Cheka Kidogo Sports Club for the year ended 30 September 2017:

Receipts	Sh."000"	Payments	Sh."000"
Bank and cash balance brought forward	6,912	Repairs and maintenance	2,976
Subscriptions	59,832	Purchases of sports equipment	13,560
Dinner dance	17,352	Salaries and wages	6,096
Canteen sales	15,768	Office expenses	9,960
Dividends	9,600	Printing and stationery	4,032
		Canteen purchases	11,928
		Dinner dance expenses	7,560
		Refund of subscriptions	1,080
		Sports prizes	600
		Transport	5,952
		Shares from companies	36,000
		Balance carried forward	9,720
	<u>109,464</u>		<u>109,464</u>

Balances of assets and liabilities as at 30 September:

	2016 Sh."000"	2017 Sh."000"
Land and sports field	24,000	24,000
Sports equipment (net book value)	16,560	?
Furniture and fittings (net book value)	5,760	?
Investment in company shares	84,000	?
Subscription in arrears	7,200	9,000
Salaries accrued	1,632	1,728
Inventory for canteen	3,888	4,416
Subscriptions in advance	2,040	?

### Additional information:

- Depreciation is to be provided for on a reducing balance basis at the following rates:  

Non-current asset	Rate per annum
Furniture and fittings	10%
Sports equipment	20%
- During the year ended 30 September 2017, company shares valued at Sh.12,000,000 were sold for Sh.15,000,000. No entries have been made in the books in this respect.
- During the year ended 30 September 2017, subscriptions received amounting to Sh.5,976,000 were for the year ended 30 September 2016, while Sh.4,656,000 were for the year ended 30 September 2018.
- Any subscription in arrears after a period of twelve months is written off.

### Required:

- Canteen income statement for the year ended 30 September 2017. (3 marks)
  - Income and expenditure account for the year ended 30 September 2017. (10 marks)
  - Statement of financial position as at 30 September 2017. (7 marks)
- (Total: 20 marks)

## QUESTION THREE

- As a means to ensure strong financial management in the public sector, most governments have adopted International Public Sector Accounting Standards (IPSAS).

In reference to the above statement, discuss three ways in which governments could ensure the success of the adoption of these standards. (6 marks)

- (b) The following information was extracted from the financial statements of Happy Time Ltd.:

**Income statement for the year ended 30 June 2017:**

	Sh."000"
Revenue	105,000
Cost of sales	(63,000)
Gross profit	42,000
Operating expenses	(16,100)
	25,900
Finance cost	(868)
Profit before tax	25,032
Income tax expense	(7,280)
Profit after tax	17,752
Dividends	(7,700)
Retained profit for the year	10,052

**Statement of financial position as at 30 June 2017:**

	2017	2016
<b>Non-current assets:</b>	Sh."000"	Sh."000"
Property, plant and equipment	127,120	101,500
<b>Current assets:</b>		
Inventory	11,200	7,700
Accounts receivable	10,500	5,600
Bank balance	1,050	8,400
Total assets	149,870	123,200
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Share capital	45,500	35,000
Share premium	26,838	19,705
Revaluation reserve	3,500	-
	75,838	54,705
Accumulated profits	40,852	30,800
<b>Non-current liabilities:</b>		
Long term loan	16,100	23,100
<b>Current liabilities:</b>		
Accounts payable	4,900	5,600
Proposed dividend	4,900	4,200
Tax payable	7,280	4,795
	17,080	14,595
	149,870	123,200

**Additional information:**

- Property, plant and equipment

	Property Sh."000"	Plant Sh."000"	Total Sh."000"
<b>As at 30 June 2016:</b>			
Cost	58,800	75,600	134,400
Depreciation	(9,100)	(23,000)	(32,900)
Net book value	49,700	51,800	101,500
<b>As at 30 June 2017:</b>			
Cost	78,400	93,800	172,200
Depreciation	(10,780)	(34,300)	(45,080)
Net book value	67,620	59,500	127,120

- Plant disposed of during the year ended 30 June 2017 had an original cost of Sh.18,200,000 and accumulated depreciation of Sh.6,300,000. The disposal proceeds amounted to Sh.5,110,000.
- The dividends were declared before the year end.

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 30 June 2017.

(14 marks)

(Total: 20 marks)

#### QUESTION FOUR

The following trial balance was extracted from the books of Night Shade Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"
Land and buildings	151,000	
Motor vehicles at cost	60,000	
Accumulated depreciation on motor vehicles (1 October 2016)		15,000
Purchases and sales	1,204,000	1,574,050
Inventory (1 October 2016)	91,000	
Revenue reserves		66,700
General expenses	2,325	
Salaries and wages	244,150	
Electricity	5,600	
Bank balance	42,200	
Interim dividend paid	7,000	
Motor vehicles expenses	4,475	
Insurance	7,150	
Discounts allowed and discounts received	10,900	8,300
Bad debts written off	3,050	
Accounts receivable and accounts payable	136,500	100,700
Debenture interest paid	2,400	
Ordinary shares (Sh.40 par value)		160,000
Share premium		36,000
8% debentures		60,000
Cash in hand	9,000	
Directors' fees	40,000	
	<u>2,020,750</u>	<u>2,020,750</u>

#### Additional information:

1. Goods costing Sh.710,000 purchased on credit on 29 September 2017, were in transit and therefore had not been entered in the books by close of business on 30 September 2017.
2. Inventory as at 30 September 2017 was valued at Sh.112,300,000.
3. A debtor who owed the company Sh.1,500,000 was declared bankrupt. His debt has not yet been written off.
4. Allowance for doubtful debts is to be set at 2% of the outstanding receivables.
5. Depreciation is to be provided on motor vehicles at a rate of 20% per annum on cost.
6. As at 30 September 2017, outstanding motor vehicles expenses amounted to Sh.125,000 while pre-paid insurance amounted to Sh.1,150,000.
7. Invoices issued amounting to Sh.950,000 had completely been omitted from the records as at 30 September 2017.
8. Provision is to be made for outstanding debenture interest and corporation tax of Sh.22,975,000.
9. The directors have proposed a final dividend of Sh.2.50 per share.

#### Required:

- (a) Income statement for the year ended 30 September 2017. (12 marks)
  - (b) Statement of financial position as at 30 September 2017. (8 marks)
- (Total: 20 marks)

#### QUESTION FIVE

David Kweya started a business of selling children's clothes on 1 July 2016. He commenced the business with a capital of Sh.14,000,000. He deposited this amount in a business bank account. During the year, David Kweya made the following payments through the bank account:

	Sh. "000"
Purchase of furniture and fittings	2,450
Salaries	399
Electricity	14
Rent	175
Payment to suppliers	5,460
Drawings	210
Insurance	35

**Additional information:**

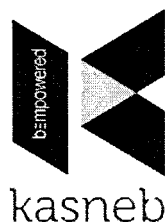
1. Gross profit is 20% of the sales.
2. Total purchases during the year amounted to Sh.8,400,000.
3. Inventory as at 30 June 2017 was valued at Sh.1,400,000.
4. Depreciation on furniture and fittings is provided at 10% per annum on cost.
5. Accounts receivable as at 30 June 2017 amounted to Sh.1,400,000.
6. Rent accrued as at 30 June 2017 amounted to Sh.70,000.
7. On 1 January 2017, David Kweya obtained a ten-year loan of Sh.5,600,000 at an interest rate of 12% per annum from the bank. The amount was credited into his business bank account.

**Required:**

- (a) Income statement for the year ended 30 June 2017. (10 marks)
- (b) Statement of financial position as at 30 June 2017. (10 marks)

**(Total: 20 marks)**

.....



**CPA PART I SECTION 1**  
**CIFA PART I SECTION 1**  
**FINANCIAL ACCOUNTING**

**MONDAY: 27 November 2017.**

**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) Distinguish between “accounting policies” and “accounting standards”. (4 marks)
- (b) Describe three objectives of the International Financial Reporting Standards (IFRS) Foundation. (6 marks)
- (c) The following information relates to the non-current assets of Jirani Mwema Ltd. as at 1 October 2016:

Non-current assets	Cost Sh.“000”	Accumulated depreciation Sh.“000”
Freehold property	35,000	-
Plant and machinery	26,250	10,115
Office equipment	5,250	2,555
Motor vehicles	15,750	9,100

**Additional information:**

1. The following non-current assets were acquired during the year ended 30 September 2017:

Date	Non-current asset	Cost Sh.“000”
1 October 2016	Machinery	3,500
1 April 2017	Motor vehicle	2,100

2. The following non-current assets were disposed of during the year ended 30 September 2017:

Date	Non-current asset	Sale proceeds Sh.“000”	Cost Sh.“000”	Accumulated depreciation Sh.“000”
1 October 2016	Machinery	2,415	3,150	350
1 January 2017	Office equipment	224	280	70
30 September 2017	Motor vehicle	1,120	1,750	175

3. Jirani Mwema Ltd. depreciates the assets using the straight-line method on a prorata basis at the following rates per annum:

Non-current asset	Rate per annum
Plant and machinery	20%
Office equipment	15%
Motor vehicles	25%

4. On 1 October 2016, the management of Jirani Mwema Ltd. decided to start depreciating freehold property at the rate of 2.5% per annum.

**Required:**

Non-current asset movement schedule for the year ended 30 September 2017.

(10 marks)

(Total: 20 marks)

## QUESTION TWO

The following is the receipts and payments account of Cheka Kidogo Sports Club for the year ended 30 September 2017:

Receipts	Sh."000"	Payments	Sh."000"
Bank and cash balance brought forward	6,912	Repairs and maintenance	2,976
Subscriptions	59,832	Purchases of sports equipment	13,560
Dinner dance	17,352	Salaries and wages	6,096
Canteen sales	15,768	Office expenses	9,960
Dividends	9,600	Printing and stationery	4,032
		Canteen purchases	11,928
		Dinner dance expenses	7,560
		Refund of subscriptions	1,080
		Sports prizes	600
		Transport	5,952
		Shares from companies	36,000
		Balance carried forward	9,720
	<u>109,464</u>		<u>109,464</u>

Balances of assets and liabilities as at 30 September:

	2016 Sh."000"	2017 Sh."000"
Land and sports field	24,000	24,000
Sports equipment (net book value)	16,560	?
Furniture and fittings (net book value)	5,760	?
Investment in company shares	84,000	?
Subscription in arrears	7,200	9,000
Salaries accrued	1,632	1,728
Inventory for canteen	3,888	4,416
Subscriptions in advance	2,040	?

### Additional information:

- Depreciation is to be provided for on a reducing balance basis at the following rates:  

Non-current asset	Rate per annum
Furniture and fittings	10%
Sports equipment	20%
- During the year ended 30 September 2017, company shares valued at Sh.12,000,000 were sold for Sh.15,000,000. No entries have been made in the books in this respect.
- During the year ended 30 September 2017, subscriptions received amounting to Sh.5,976,000 were for the year ended 30 September 2016, while Sh.4,656,000 were for the year ended 30 September 2018.
- Any subscription in arrears after a period of twelve months is written off.

### Required:

- Canteen income statement for the year ended 30 September 2017. (3 marks)
  - Income and expenditure account for the year ended 30 September 2017. (10 marks)
  - Statement of financial position as at 30 September 2017. (7 marks)
- (Total: 20 marks)

## QUESTION THREE

- As a means to ensure strong financial management in the public sector, most governments have adopted International Public Sector Accounting Standards (IPSAS).

In reference to the above statement, discuss three ways in which governments could ensure the success of the adoption of these standards. (6 marks)

- (b) The following information was extracted from the financial statements of Happy Time Ltd.:

**Income statement for the year ended 30 June 2017:**

	Sh."000"
Revenue	105,000
Cost of sales	(63,000)
Gross profit	42,000
Operating expenses	(16,100)
	25,900
Finance cost	(868)
Profit before tax	25,032
Income tax expense	(7,280)
Profit after tax	17,752
Dividends	(7,700)
Retained profit for the year	10,052

**Statement of financial position as at 30 June 2017:**

	2017	2016
<b>Non-current assets:</b>	Sh."000"	Sh."000"
Property, plant and equipment	127,120	101,500
<b>Current assets:</b>		
Inventory	11,200	7,700
Accounts receivable	10,500	5,600
Bank balance	1,050	8,400
Total assets	149,870	123,200
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Share capital	45,500	35,000
Share premium	26,838	19,705
Revaluation reserve	3,500	-
	75,838	54,705
Accumulated profits	40,852	30,800
<b>Non-current liabilities:</b>		
Long term loan	16,100	23,100
<b>Current liabilities:</b>		
Accounts payable	4,900	5,600
Proposed dividend	4,900	4,200
Tax payable	7,280	4,795
	17,080	14,595
	149,870	123,200

**Additional information:**

- Property, plant and equipment

	Property Sh."000"	Plant Sh."000"	Total Sh."000"
<b>As at 30 June 2016:</b>			
Cost	58,800	75,600	134,400
Depreciation	(9,100)	(23,000)	(32,900)
Net book value	49,700	51,800	101,500
<b>As at 30 June 2017:</b>			
Cost	78,400	93,800	172,200
Depreciation	(10,780)	(34,300)	(45,080)
Net book value	67,620	59,500	127,120

- Plant disposed of during the year ended 30 June 2017 had an original cost of Sh.18,200,000 and accumulated depreciation of Sh.6,300,000. The disposal proceeds amounted to Sh.5,110,000.
- The dividends were declared before the year end.

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 30 June 2017.

(14 marks)

(Total: 20 marks)

#### QUESTION FOUR

The following trial balance was extracted from the books of Night Shade Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"
Land and buildings	151,000	
Motor vehicles at cost	60,000	
Accumulated depreciation on motor vehicles (1 October 2016)		15,000
Purchases and sales	1,204,000	1,574,050
Inventory (1 October 2016)	91,000	
Revenue reserves		66,700
General expenses	2,325	
Salaries and wages	244,150	
Electricity	5,600	
Bank balance	42,200	
Interim dividend paid	7,000	
Motor vehicles expenses	4,475	
Insurance	7,150	
Discounts allowed and discounts received	10,900	8,300
Bad debts written off	3,050	
Accounts receivable and accounts payable	136,500	100,700
Debenture interest paid	2,400	
Ordinary shares (Sh.40 par value)		160,000
Share premium		36,000
8% debentures		60,000
Cash in hand	9,000	
Directors' fees	40,000	
	<u>2,020,750</u>	<u>2,020,750</u>

#### Additional information:

1. Goods costing Sh.710,000 purchased on credit on 29 September 2017, were in transit and therefore had not been entered in the books by close of business on 30 September 2017.
2. Inventory as at 30 September 2017 was valued at Sh.112,300,000.
3. A debtor who owed the company Sh.1,500,000 was declared bankrupt. His debt has not yet been written off.
4. Allowance for doubtful debts is to be set at 2% of the outstanding receivables.
5. Depreciation is to be provided on motor vehicles at a rate of 20% per annum on cost.
6. As at 30 September 2017, outstanding motor vehicles expenses amounted to Sh.125,000 while pre-paid insurance amounted to Sh.1,150,000.
7. Invoices issued amounting to Sh.950,000 had completely been omitted from the records as at 30 September 2017.
8. Provision is to be made for outstanding debenture interest and corporation tax of Sh.22,975,000.
9. The directors have proposed a final dividend of Sh.2.50 per share.

#### Required:

- (a) Income statement for the year ended 30 September 2017. (12 marks)
  - (b) Statement of financial position as at 30 September 2017. (8 marks)
- (Total: 20 marks)

#### QUESTION FIVE

David Kweya started a business of selling children's clothes on 1 July 2016. He commenced the business with a capital of Sh.14,000,000. He deposited this amount in a business bank account. During the year, David Kweya made the following payments through the bank account:

	Sh. "000"
Purchase of furniture and fittings	2,450
Salaries	399
Electricity	14
Rent	175
Payment to suppliers	5,460
Drawings	210
Insurance	35

**Additional information:**

1. Gross profit is 20% of the sales.
2. Total purchases during the year amounted to Sh.8,400,000.
3. Inventory as at 30 June 2017 was valued at Sh.1,400,000.
4. Depreciation on furniture and fittings is provided at 10% per annum on cost.
5. Accounts receivable as at 30 June 2017 amounted to Sh.1,400,000.
6. Rent accrued as at 30 June 2017 amounted to Sh.70,000.
7. On 1 January 2017, David Kweya obtained a ten-year loan of Sh.5,600,000 at an interest rate of 12% per annum from the bank. The amount was credited into his business bank account.

**Required:**

- (a) Income statement for the year ended 30 June 2017. (10 marks)
- (b) Statement of financial position as at 30 June 2017. (10 marks)

**(Total: 20 marks)**

.....

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

MONDAY: 22 May 2017.

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

Julia Mila is an accounting student. On her first week as an intern in Mwenda Pole Ltd., she prepared the final statements of account for the company, but they did not balance. She thus transferred the difference to the suspense account.

The statement of financial position for Mwenda Pole Ltd. as at 31 March 2017 was as follows:

Statement of financial position as at 31 March 2017			
	Cost	Accumulated depreciation	Net book value
Non-current assets:	Sh. "000"	Sh. "000"	Sh. "000"
Motor vehicles	85,800	16,800	69,000
Fixtures and fittings	<u>99,600</u>	<u>15,600</u>	<u>84,000</u>
	185,400	32,400	153,000
Current assets:			
Inventory		3,600	
Trade receivables		5,400	
Cash in hand		4,440	
Suspense account		<u>1,620</u>	<u>15,060</u>
			168,060
Financed by:			
10% Preference shares		12,000	
Ordinary share capital		12,000	
Retained earnings		<u>103,200</u>	127,200
Non-current liability:			
12% debentures			37,200
Current liabilities:			
Trade payables		2,400	
Bank overdraft		<u>1,260</u>	<u>3,660</u>
			168,060

You have been requested by the chief accountant of Mwenda Pole Ltd. to find out the cause of the balance in the suspense account. On investigation of the books of account, you discover the following:

1. A cheque of Sh.375,000 from a debtor was correctly entered in the cash book but was posted to the wrong side of the debtor's account.
2. Sales day book was overcast by Sh.2,400,000.
3. Motor vehicles were not depreciated for the year ended 31 March 2017. Depreciation is to be provided at the rate of 15% per annum on reducing balance basis. There were no disposals or acquisitions of motor vehicles during the year.
4. Retained earnings as at 1 April 2016 was Sh.43,200,000.
5. Return inwards of Sh.1,350,000 was erroneously entered in the purchases day book.
6. The trade receivables were overstated by Sh.2,130,000.
7. An amount of Sh.600,000 was omitted from the trade payables.
8. Discount allowed of Sh.1,350,000 had been correctly entered in the cash book but was posted to the credit side of the discount allowed account.
9. Cash sale of Sh.6,000,000 was correctly posted to the sales account, but debited in the 12% debentures account. This did not affect the debenture interest paid by the company during the year.

### Required:

- (a) Journal entries to correct the above errors.  
(Narrations not required). (8 marks)
- (b) Suspense account duly balanced. (3 marks)

- (c) Adjusted income statement for the year ended 31 March 2017. (3 marks)
- (d) Corrected statement of financial position as at 31 March 2017. (6 marks)
- (Total: 20 marks)**

## QUESTION TWO

- (a) Highlight four challenges that a country might face when adopting the International Financial Reporting Standards (IFRSs). (4 marks)
- (b) Matumizi Ltd. is a factory manufacturing chemicals. The following trial balance was extracted from the books of Matumizi Ltd. as at 31 December 2016:

	Sh."000"	Sh."000"
Ordinary share capital of Sh.25 each		250,000
10% preference share capital of Sh.25 each		100,000
15% debentures		50,000
Share premium		5,000
General reserve		15,000
Retained earnings		2,250
Sales		291,000
Purchase of raw materials	62,000	
Inventory (1 January 2016):		
Raw materials	3,250	
Work-in-progress	11,925	
Finished goods	20,250	
Land	250,000	
Buildings at cost	150,000	
Accumulated depreciation on buildings (1 January 2016)		15,000
Plant and machinery at book value	11,500	
Interest on debentures	3,750	
Direct labour	27,000	
Carriage inwards	250	
Purchase returns		500
General factory costs	4,000	
Administrative expenses	50,000	
Electricity and water expenses	5,000	
Insurance	4,500	
Royalty expenses	5,750	
Selling and distribution costs	20,500	
Provision for unrealised profit		3,375
Bank balance	60,000	
Salesmen motor vehicles at cost	20,000	
Accumulated depreciation on salesmen motor vehicles (1 January 2016)		5,000
Interim dividend paid to preference shareholders	5,000	
Trade receivables and trade payables	35,325	12,875
	<u>750,000</u>	<u>750,000</u>

### Additional information:

- Inventory as at 31 December 2016 was valued as follows:
 

	Sh."000"
Raw materials	3,750
Work-in-progress	7,750
- Depreciation is to be provided on an annual basis as follows:
 

Non-current asset	Rate
Buildings	10% on cost
Motor vehicles	25% on cost
Plant and machinery	30% on reducing balance
- The company apportions expenses between factory and administration as follows:
 

	Factory	Administration
Depreciation on buildings	80%	20%
Electricity and water	60%	40%
Insurance	75%	25%
- During the year, the company manufactured 300,000 units and sold 246,000 units. All the opening inventory was sold during the year.

5. Finished goods are transferred to the warehouse at cost plus a mark-up of 20%.
6. As at 31 December 2016, accrued distribution cost amounted to Sh.1,000,000.
7. The directors proposed the following:
  - Payment of final dividend to preference shareholders.
  - Dividend of Sh.3.75 per share to be paid to ordinary shareholders.
  - Transfer of Sh.10,000,000 to the general reserve.
8. Corporation tax is estimated at Sh.24,750,000.

**Required:**

Manufacturing account and income statement for the year ended 31 December 2016.

(16 marks)

**(Total: 20 marks)**

**QUESTION THREE**

Xavier, Yvonne and Zari have been in partnership sharing profits and losses equally.

Their trial balance as at 1 May 2016 was as follows:

	Sh."000"	Sh."000"
<b>Capital account:</b>		
Xavier		90,000
Yvonne		84,000
Zari		96,000
<b>Current account:</b>		
Xavier		6,000
Yvonne		12,000
Zari	12,000	
Land and buildings	210,000	
Plant and machinery at cost	300,000	
Accumulated depreciation on plant and machinery		198,000
Inventory	120,000	
Bank balance	9,000	
Accrued expenses		15,000
10% loan		120,000
Trade receivables and trade payables	<u>90,000</u>	<u>120,000</u>
	741,000	741,000

With effect from 1 May 2016, the partners agreed to change the partnership agreement as follows:

- They agreed to share profits and losses in the ratio of 3:2:1 between Xavier, Yvonne and Zari respectively.
- As at 1 May 2016, the partnership goodwill was agreed at Sh.180,000,000 but a ledger account for goodwill is not to be maintained in the accounting records.
- The land and buildings are agreed to be valued at Sh.300,000,000.
- At the end of each year, each partner to be allowed interest on opening net balance on capital and current accounts (before adjustments) at the rate of 10% per annum.

The following information relate to the year ended 30 April 2017:

1. The cash book summary for the year is as follows:

	Sh."000"		Sh."000"
Balance brought forward	9,000	Payment to trade suppliers	330,000
Receipts from customers	516,000	Operating expenses	90,000
Sale of old plant	30,000	Purchase of new plant	150,000
Balance carried forward	114,000	Drawings: Xavier	30,000
		Yvonne	33,000
		Zari	<u>36,000</u>
	<u>669,000</u>		669,000

2. As at 30 April 2017, pre-paid rent amounted to Sh.30,000,000 and accrued electricity was Sh.6,000,000.
3. Plant and machinery is to be depreciated at the rate of 10% per annum on a straight line basis with no scrap value. A full year's depreciation is charged on the year of purchase and no depreciation is charged on the year of sale.
4. The old plant sold during the year had been purchased in June 2009 at a cost of Sh.180,000,000.
5. As at 30 April 2017, trade payables were valued at Sh.105,000,000.
6. As at 30 April 2017, trade receivables were valued at Sh.120,000,000 while the bad debts were valued at Sh.12,000,000.
7. Gross profit is 50% of cost of sales.

**Required:**

(a) Income statement and appropriation account for the year ended 30 April 2017. (10 marks)

(b) Statement of financial position as at 30 April 2017. (10 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following trial balance was extracted from the books of Joyce Mello as at 30 April 2017:

	Sh."000"	Sh."000"
Inventory as at 1 May 2016	50,000	
Purchases	170,020	
Returns outward		4,600
Cash in hand	13,400	
Bank balance	32,660	
Buildings at cost	50,000	
Sundry expenses	840	
Stationery	1,640	
Legal fees	280	
Allowance for doubtful debts		3,500
Trade receivables and trade payables	36,000	39,670
Salaries	39,000	
Capital		116,800
Selling and distribution costs	1,600	
Discounts allowed and discounts received	6,300	4,600
Sales		229,950
Equipment at cost	5,000	
Rates and insurance	4,000	
Returns inward	1,550	
Accumulated depreciation (1 May 2016): Buildings		11,400
Equipment		1,770
	412,290	412,290

**Additional information:**

- Allowance for doubtful debts is to be increased to Sh.5,000,000.
- Rates due as at 30 April 2017 amounted to Sh.500,000.
- Inventory as at 30 April 2017 was valued at Sh.52,000,000.
- Drawings amounting to Sh.10,000,000 have been debited to the capital account.
- Depreciation is to be charged on cost as follows:

Asset	Rate per annum
Buildings	5%
Equipment	10%

- Insurance amounting to Sh.200,000 relates to the year ending 30 April 2018.

**Required:**

(a) Income statement for the year ended 30 April 2017. (10 marks)

(b) Statement of financial position as at 30 April 2017. (10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a) Analyse two differences between "objectives of accounting for public sector" and "objectives of accounting in the private sector". (4 marks)

(b) Enumerate two disadvantages of cash flow statements. (4 marks)

(c) Describe three sources of income for a not-for-profit organisation. (6 marks)

(d) Discuss three ethics that guide accountants in executing their duties. (6 marks)

**(Total: 20 marks)**

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

MONDAY: 21 November 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

The following trial balance was extracted from the books of accounts of Furaha Ltd. as at 30 June 2016:

	Sh."000"	Sh."000"
Freehold property (cost)	28,000	
Machinery (cost)	18,000	
Furniture (cost)	6,000	
Accumulated depreciation (1 July 2015):		
Machinery		5,400
Furniture		2,160
Purchases	68,000	
Sales		91,000
Inventory (1 July 2015)	26,400	
Trade receivables	14,640	
Trade payables		7,200
Discounts allowed	1,350	
Discounts received		1,100
Selling and distribution expenses	2,750	
Administrative expenses	5,300	
Debenture interest	160	
Allowance for doubtful debts (1 July 2015)		610
8% debentures		2,000
Ordinary share capital		30,000
10% preference share capital		20,000
Share premium		5,000
Retained earnings (1 July 2015)		12,330
Bank balance and cash in hand	2,100	
Interim dividend paid: Preference	800	
Ordinary	1,200	
Insurance	2,100	
	<u>176,800</u>	<u>176,800</u>

### Additional information:

- At the end of the financial year, it was not possible to carry out a stock take for inventory valuation. However, the normal profit margin is 20%.
- On 30 June 2016, administrative costs included a prepayment of Sh.500,000.
- Insurance was paid on 1 July 2015 and is to cover a period of three years in equal instalments from that date.
- Debtors amounting to Sh.640,000 had been unable to pay by 30 June 2016. This amount should be written off.
- Allowance for doubtful debts is maintained at 5% of the trade receivables at the end of each year.
- Depreciation is provided as follows per annum:

Asset	Rate
Machinery	10% on straight line basis.
Furniture	20% on reducing balance basis.
- The directors have proposed the following:
  - A 6% dividend on ordinary shares.
  - A final dividend on preference shares.

**Required:**

- (a) Income statement for the year ended 30 June 2016. (12 marks)
- (b) Statement of financial position as at 30 June 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Give two reasons why a manufacturing entity might need to determine manufacturing profit. (4 marks)
- (b) The books of account of NDI Ltd. for the year ended 30 June 2016 showed the balance at bank as recorded in the cash book as Sh.1,254,800. This balance differed with the actual bank balance.

The books of account were investigated, and the following information was revealed:

1. Cheque number 113571 dated 12 May 2016 for Sh.324,000 in favour of Miriam Ltd. was correctly recorded in the bank statement, but recorded in the cash book as Sh.234,000.
2. Bank commission charged of Sh.24,500 and bank interest of Sh.18,100 were not recorded in the cash book.
3. A cheque for Sh.46,500 received from Bado Ltd. and recorded in the cash book was returned by the bank with the stamp "insufficient funds".
4. A cheque for Sh.65,000 for payment of electricity had been entered twice in the cash book.
5. Cash received on 30 June 2016 amounting to Sh.352,500 had been recorded in the cash book but was not yet banked.
6. A standing order payment for rent of Sh.98,000 had not been recorded in the cash book.
7. Cheques paid by NDI Ltd. amounting to Sh.84,500 were unpresented to the bank as at 30 June 2016.
8. Jamii Ltd., a debtor, cleared their debt of Sh.285,000 on 28 June 2016 through a direct deposit in the bank. This had not been recorded in the cash book.

**Required:**

- (i) The bank statement balance as at 30 June 2016. (10 marks)
- (ii) The updated cash book as at 30 June 2016. (4 marks)
- (iii) Bank reconciliation statement. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight five roles of the accountant general in your country. (5 marks)
- (b) The following are the financial statements of Tahidi Limited:

**Statement of financial position as at 31 October 2016 and 31 October 2015:**

	2016 Sh."million"	2015 Sh."million"
<b>Non-current assets:</b>		
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	-	25
	<u>630</u>	<u>530</u>
<b>Current assets:</b>		
Inventories	150	102
Receivables	390	315
Short term investments	50	-
Cash in hand	<u>2</u>	<u>1</u>
	<u>592</u>	<u>418</u>
Total assets	<u>1,222</u>	<u>948</u>
<b>Current liabilities:</b>		
Trade payables	127	119
Bank overdraft	85	98
Corporation tax	120	110
Proposed dividends	<u>100</u>	<u>80</u>
	<u>432</u>	<u>407</u>
Net assets	<u>790</u>	<u>541</u>

	Sh.“million”	Sh.“million”
<b>Financed by:</b>		
<b>Capital and reserves</b>		
Share capital	200	150
Share premium	160	150
Revaluation reserve	100	91
Revenue reserve	<u>160</u>	<u>100</u>
	620	491
<b>Non-current liabilities:</b>		
Long-term loans	<u>170</u>	<u>50</u>
	<u>790</u>	<u>541</u>

**Income statement for the year ended 31 October 2016:**

	Sh.“million”
Sales	2,553
Cost of sales	<u>1,814</u>
Gross profit	739
Interest income	<u>25</u>
	764
Less: Distribution expenses	(125)
Administrative expenses	<u>(264)</u>
Operating profit	375
Less: Interest paid	<u>(75)</u>
Profit on ordinary activities before taxation	300
Taxation	<u>140</u>
Profit after tax	160
Dividends	<u>(100)</u>
Retained profit for the year	<u>60</u>

**Additional information:**

- 5,000,000 ordinary shares of Sh.10 each were issued during the year at a price of Sh.12 per share.
- Fixtures and fittings which had an original cost of Sh.85 million and a net book value of Sh.45 million were sold for Sh.32 million during the year.
- The proceeds of the sale of long-term investments amounted to Sh.30 million.
- The following information relates to tangible non-current assets:

	31 October 2016 Sh.“million”	31 October 2015 Sh.“million”
Cost	720	595
Accumulated depreciation	<u>340</u>	<u>290</u>
Net book value	<u>380</u>	<u>305</u>

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 “Statement of cash flows” for the year ended 31 October 2016.

(15 marks)

(Total: 20 marks)

**QUESTION FOUR**

The following is the receipts and payments account of Tegemeo Club for the year ended 30 September 2016:

Receipts and payments account			
Receipts	Sh.“000”	Payments	Sh.“000”
Balance brought forward - Bank	1,994	Bar purchases	8,258
- Cash	42	Salaries and wages	1,482
Joining fees	112	Electricity expenses	220
Subscriptions	824	Rent and rates	460
Bar sales	10,400	Stationery expenses	150
Receipts from golf tournament	620	Golf tournament expenses	228
Interest on loan stock	70	Mowing machine	152
		General expenses	204
		Purchase of loan stock	2,000
		Ground expenses	112
		Balance carried forward - Bank	724
		- Cash	<u>72</u>
	<u>14,062</u>		<u>14,062</u>

CA11 & CF11 Page 3  
Out of 4

**Additional information:**

1. The bar inventory on 30 September 2016 was valued at Sh.852,000 which was Sh.58,000 higher than the value of inventory on 1 October 2016.
2. The following balances were available:

	30 September 2015	30 September 2016
	Sh.	Sh.
Subscriptions in arrears	120,000	70,000
Rent in arrears	40,000	70,000
Electricity due	28,000	24,000
Rates prepaid	38,000	42,000

3. Fixtures and fittings were valued at Sh.1,008,000 on 30 September 2015.
4. The amount paid for the new mowing machine purchased on 1 January 2016 represents the net amount after taking into account the trade-in allowance of Sh.28,000 on the old mowing machine.
5. Machines and equipment were valued at Sh.400,000 on 30 September 2015. This includes the old mowing machine valued at Sh.40,000.
6. Depreciation is charged on a pro-rata basis for all machines and equipment purchased during the year. No depreciation is charged in the year of disposal.
7. Depreciation is to be provided as follows:

Asset	Rate per annum
Fixtures and fittings	12.5% on cost
Machines and equipment	20% on cost

**Required:**

- (a) Bar income statement for the year ended 30 September 2016. (4 marks)
  - (b) Income and expenditure account for the year ended 30 September 2016. (8 marks)
  - (c) Statement of financial position as at 30 September 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Distinguish between partners' capital accounts and partners' current accounts. (4 marks)
  - (b) Many countries have adopted and implemented accrual accounting as per the International Public Sector Accounting Standards (IPSAS).  
  
Outline four principles of accrual accounting. (4 marks)
  - (c) Explain four elements of manufacturing costs. (4 marks)
  - (d) Discuss four advantages of computerised accounting systems. (8 marks)
- (Total: 20 marks)**
- .....

# 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:

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

	Sh."000"
Raw materials	60,000
Work-in-progress	25,000

- The finished goods were sold at a mark-up of  $66\frac{2}{3}\%$ .
- Lighting expenses, rent and insurance expenses are to be apportioned as follows: factory 70% and administration 30%.
- Depreciation is to be provided as follows:  
Production machinery - 10% per annum on cost  
Office equipment - 10% per annum on reducing balance
- 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:**

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

	Sh.
Salaries and wages	200,000
Electricity	90,000
4. An allowance for doubtful debts amounting to Sh.200,000 is to be made.
5. Insurance paid in advance as at 30 April 2016 amounted to Sh.40,000.
6. 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	31 March 2016
	Sh."000"	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	2016
	Sh."000"	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)

	<b>2015</b>	<b>2016</b>
	<b>Sh.“000”</b>	<b>Sh.“000”</b>
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:**

	<b>2015</b>	<b>2016</b>
	<b>Sh.“000”</b>	<b>Sh.“000”</b>
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:**

	<b>2015</b>	<b>2016</b>
	<b>Sh.“000”</b>	<b>Sh.“000”</b>
<b>Assets:</b>		
<b>Non-current assets</b>		
Plant, property and equipment	486,000	522,000
<b>Current assets</b>		
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>
<b>Equity and liabilities:</b>		
Ordinary share capital	250,000	250,000
Retained profit	<u>105,300</u>	<u>117,600</u>
Shareholders' equity	355,300	367,600
<b>Non-current liability</b>		
10% debenture	110,000	110,000
<b>Current liabilities</b>		
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)**
- .....

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## FINANCIAL ACCOUNTING

FRIDAY: 20 November 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

The following balances were extracted from the books of Mike Moit as at 30 June 2015:

	Sh. "000"
Capital	59,100
Land and buildings	48,000
Motor vehicles (at cost)	4,200
Office equipment (at cost)	9,000
Gross profit	63,600
Rates and insurance	4,860
Bad debts written off	330
Utilities	480
Bad debts recovered	420
Rent receivable	14,160
Provision for doubtful debts	1,395
Personal expenses	20,730
Cash in hand	510
Bank balance	660
Discounts received	2,760
Discounts allowed	2,400
Accumulated depreciation on motor vehicle	1,200
Accumulated depreciation on office equipment	3,105
Trade receivables	15,900
Trade payables	27,300
Salaries and wages	24,210
Investments	20,400
Sundry expenses	6,720

### Additional information:

- As at 30 June 2015, inventory was valued at Sh.14,640,000. This inventory included items valued at Sh.3,000,000 which had been sold and invoiced to a customer on 30 June 2015.
- The sales returns day book had been overcast by Sh.90,000.
- Discounts allowed amounting to Sh.360,000 had been posted to the discounts allowed account, but not to the trade receivables account.
- Depreciation is to be provided as follows:  
Motor vehicles - 20% per annum on cost  
Office equipment - 15% per annum on cost
- Rent received amounting to Sh.300,000 had not been recorded in the accounts since the proprietor converted the amount for personal use.
- The sales day book had been overcast by Sh.450,000.

### Required:

- Income statement for the year ended 30 June 2015. (12 marks)
  - Statement of financial position as at 30 June 2015. (8 marks)
- (Total: 20 marks)

## QUESTION TWO

- (a) KK Ltd. received their bank statement for the month of October 2015. It reflected a credit balance of Sh.9,290,000. However, the cash book balance as at 31 October 2015 indicated a higher amount by Sh.4,530,000.

The company accountant investigated the matter and discovered the following discrepancies:

1. Cash amounting to Sh.1,704,000 though entered in the cash book as having been banked, had been embezzled by the accounts clerk in the office.
2. The bank had erroneously credited KK Ltd. with an amount of Sh.2,510,000.
3. Direct deposits by debtors amounted to Sh.13,080,000. These deposits were made via electronic funds transfer.
4. Uncredited cheques as at 31 October 2015 amounted to Sh.9,624,000.
5. A standing order of Sh.1,770,000 for goods purchased on hire purchase, had been effected by the bank.
6. Cheques issued to suppliers, but not yet presented to the bank as at 31 October 2015 amounted to Sh.2,640,000.
7. Bank charges amounting to Sh.484,000 had not been entered in the cash book.
8. A cheque from a debtor for an amount of Sh.1,446,000 was returned by the bank stamped "Account closed".
9. A forged cheque in favour of 'XYZ Ltd.' was presented to the bank. The cheque which amounted to Sh.2,712,000 was paid by the bank.

### Required:

- (i) Adjusted cash book as at 31 October 2015. (6 marks)
  - (ii) Bank reconciliation statement as at 31 October 2015. (4 marks)
- (b) The trial balance of Mutua Traders as at 30 September 2015 did not balance. On investigation, the following errors were discovered:
1. A loan of Sh.40,000,000 from XYZ Bank had been correctly entered in the cash book, but posted on the wrong side of the loan account.
  2. The purchase of equipment on credit for Sh.57,200,000 had been recorded by debiting the supplier's account and crediting the equipment repairs account.
  3. A cheque of Sh.1,600,000 from OJ Ltd., a customer, was correctly entered in the cash book, but was credited to the bad debts recovered account. The accountant mistook it for a receipt from JO Ltd., a customer whose debt had been written off two years earlier.
  4. Bank charges of Sh.760,000 had not been entered in the organisation's cash book.
  5. Discounts allowed of Sh.3,680,000 and discounts received of Sh.7,940,000 had not been posted to the respective discount accounts.
  6. Ten motor vehicles were purchased on 1 August 2015 for Sh.32,000,000. The payment was correctly entered in the cash book, but was debited to motor vehicle expenses account.

Depreciation on motor vehicles is provided for at the rate of 20% per annum on cost.

### Required:

- (i) Journal entries with narrations to correct the errors. (7 marks)
- (ii) Suspense account showing the original difference. (3 marks)

(Total: 20 marks)

## QUESTION THREE

The following is the receipts and payments account of Uwezo Football Club for the year ended 30 September 2015:

Receipts and payments account			
Receipts	Sh."000"	Payments	Sh."000"
Balance brought forward - Bank	5,096	Bar purchases	43,628
- Cash	130	Rent and rates	3,304
Subscriptions	12,000	Telephone expenses	308
Entrance fees	1,160	Water and electricity	734
Donations	8,024	Stationery expenses	364
Bar receipts	57,610	Salaries and wages	11,170
		Coach's fee	3,000
		Field expenses	2,244
		General expenses	724
		Lawn mower	4,400
		Balance carried forward - Bank	14,082
		- Cash	62
	<u>84,020</u>		<u>84,020</u>

**Additional information:**

1. The following balances were available:

	30 September 2014	30 September 2015
	Sh."000"	Sh."000"
Subscriptions in arrears	300	350
Rent due	240	280
Rates pre-paid	320	360
Bar payables	500	820

2. The bar inventory was valued at Sh.828,000 as at 30 September 2014 and Sh.710,000 as at 30 September 2015.

3. On 30 September 2014, the values of non-current assets were as follows:

	Sh."000"
Club house	60,000
Fixtures	15,000
Equipment	11,200

4. The new lawn mower was purchased during the year ended 30 September 2015 at a cost of Sh.5,000,000. The difference between the actual cost and the amount reflected in the receipts and payments account, is a trade-in allowance of Sh.600,000.
5. The old lawn mower which was traded-in-exchange for the new lawn mower had been included in the cost of equipment at 30 September 2014 at a value of Sh.400,000.
6. Depreciation is charged for a full year irrespective of date of purchase. No depreciation is charged in the year of disposal.
7. Depreciation is to be provided as follows:
- | Asset      | Rate per annum          |
|------------|-------------------------|
| Club house | 2% on cost              |
| Fixtures   | 10% on cost             |
| Equipment  | 20% on reducing balance |

**Required:**

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

**QUESTION FOUR**

- (a) Outline five contents of a partnership deed. (5 marks)
- (b) The following are the statements of financial position of Embe Ltd. as at 30 June 2014 and 30 June 2015:

	2014	2015
	Sh."000"	Sh."000"
Property, plant and equipment	152,720	230,448
<b>Current assets:</b>		
Inventory	33,120	41,400
Trade receivables	16,560	20,152
Bank balance and cash in hand	<u>6,800</u>	<u>(2,760)</u>
	<u>56,480</u>	<u>58,792</u>
Total assets	209,200	289,240
<b>Current liabilities:</b>		
Trade payables	11,040	16,560
Taxation	13,800	16,560
Dividends	<u>8,280</u>	<u>8,280</u>
	<u>(33,120)</u>	<u>(41,400)</u>
Net assets	<u>176,080</u>	<u>247,840</u>
<b>Financed by:</b>		
Ordinary share capital	126,400	181,600
Share premium	11,040	22,080
Revenue reserve	27,600	44,160
12% debentures	<u>11,040</u>	<u>-</u>
	<u>176,080</u>	<u>247,840</u>

**Additional information:**

1. The 12% debenture was redeemed at a premium of 10% during the year ended 30 June 2015.
2. The extract from the property, plant and equipment schedule indicated the following:

	2014			2015		
	Cost	Depreciation	Net book value	Cost	Depreciation	Net book value
	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Building	88,320	16,560	71,760	110,400	19,320	91,080
Plant and equipment	110,400	49,680	60,720	187,680	69,000	118,680
Motor vehicle	36,800	16,560	20,240	44,144	23,456	20,688

3. An equipment which had cost Sh.16,560,000 and had a net book value of Sh.11,040,000 was sold at a loss of Sh.2,760,000 during the year ended 30 June 2015.
4. The income statement for the year ended 30 June 2015 was as shown below:

	Sh."000"
Revenue	281,050
Cost of sales	(87,620)
Gross profit	193,430
Operating expenses	(143,750)
Profit before tax	49,680
Tax expenses	(19,320)
	30,360
Dividend - Interim paid	5,520
Final proposed	8,280
Retained profit for the year	16,560

**Required:**

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 30 June 2015.

(15 marks)

**(Total: 20 marks)****QUESTION FIVE**

- (a) Distinguish between "prime costs" and "indirect costs" in the context of manufacturing accounts. (4 marks)
- (b)
  - (i) Explain three rights of preference shareholders over ordinary shareholders. (6 marks)
  - (ii) State four ways in which a company might utilise its share premium. (4 marks)
- (c) Explain the following concepts used in the preparation of financial statements:
  - (i) Relevance. (1 mark)
  - (ii) Reliability. (1 mark)
  - (iii) Faithful representation. (1 mark)
  - (iv) Neutrality. (1 mark)
  - (v) Completeness. (1 mark)
  - (vi) Comparability. (1 mark)

**(Total: 20 marks)**

.....

# KASNEB

## CPA PART I SECTION 1

## CIFA PART I SECTION 1

## 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) Enumerate four features of public sector accounting that distinguish it from private sector accounting. (4 marks)
- (b) Abdi and Badi were partners in Abai Enterprises trading as general merchants and sharing profits and losses in the ratio 2:1 after charging interest on capital at 10% per annum.

On 30 November 2014 Coy was admitted as a partner and from that day, profits and losses were to be shared in the ratio 2:2:1 for Abdi, Badi and Coy respectively.

The following trial balance was extracted from the partnership books as at 31 August 2015:

	Sh. "000"	Sh. "000"
Land and building	22,500	
Motor vehicles	24,600	
Furniture and fittings	8,700	
Accumulated depreciation: Motor vehicles		5,670
Furniture and fittings		1,455
Capital Abdi		9,750
Badi		8,400
Cash introduced by Coy		13,500
Purchases	64,800	
Sales		120,000
Bank balance	3,690	
Accounts receivable	9,660	
Rent expense	1,260	
Inventory	14,400	
Salaries	22,440	
Selling and distribution expenses	7,860	
Partners current accounts: Abdi		7,460
Badi	2,000	
Trade payables		15,675
	<u>181,910</u>	<u>181,910</u>

#### Additional information:

- Other than receipt of cash from Coy, no entries have been made to record the admission. On 30 November 2014, land and buildings were revalued at Sh. 30 million while goodwill which was to be written off was estimated at Sh.9 million.
- After the admission of Coy, partners agreed that interest on capital would subsequently be paid at 20% per annum.
- Salaries include the following partners drawings:

Abdi	Sh.3,870,000
Badi	Sh.3,060,000
Coy	Sh.1,030,000
- Depreciation on motor vehicles is to be provided at 20% p.a on a reducing balance basis while depreciation on furniture and fittings is to be provided at 20% p.a on cost.
- Sales for the period after admission of Coy were 50% more than sales for the period before admission in the year to 31 August 2015. Selling and distribution expenses varied with sales while other expenses accrued evenly over the year.

6. Allowance for doubtful debts was Sh.350,000 on 30 November 2014 and Sh.500,000 on 31 August 2015.
7. Inventory on 31 August 2015 was valued at Sh.15 million.

**Required:**

- (i) Income statement for the year ended 31 August 2015. (10 marks)
- (ii) Statement of financial position as at 31 August 2015. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain two liquidity ratios. (4 marks)

- (b) The following trial balance was extracted from the books of Vixen Ltd. as at 31 May 2015:

	Sh."000"	Sh."000"
Ordinary share capital - Sh.10 each		22,500
Share premium		1,200
10% debentures		1,500
General reserve		1,500
Revenue reserves		2,430
10% preference shares		12,000
Goodwill	3,750	
Inventory	4,185	
Purchases and sales	33,270	56,955
Discounts	510	753
Salaries	4,275	
Rates and insurance	2,553	
Office expenses	2,208	
Directors remuneration	750	
Interim dividends paid: Preference	480	
Ordinary	2,250	
Financial assets at fair value	12,000	
Trade receivables and payables	3,600	3,015
Allowance for doubtful debts		420
Bank	1,917	
Buildings	25,500	
Furniture and fittings	2,250	
Motor vehicles	12,000	
Provision for depreciation: Furniture and fittings		450
Motor vehicles		4,650
Debenture interest	75	
Investment income		4,200
	<u>111,573</u>	<u>111,573</u>

1. The cost and net realisable value of inventory as at 31 May 2015 was Sh.4,200,000 and Sh.3,950,000 respectively.
2. Invoices received amounting to Sh.500,000 had erroneously been treated as invoices issued.
3. Depreciation is to be provided as follows:
 

Asset	Rate per annum
Furniture and fittings	10% reducing balance basis
Motor vehicles	20% straight line basis
4. Allowance for doubtful debts to be adjusted to Sh.300,000.
5. Irrecoverable debts amounting to Sh.50,000 to be written off.
6. Insurance amounting to Sh.600,000 had been paid to cater for a period of one year ending 31 August 2015.
7. Provisions for accrued debenture interest and preference dividends are to be made.
8. Corporate tax for the year is estimated at Sh.1,750,000.
9. A final dividend of 10% was declared.

**Required:**

- (i) Income statement for the year ended 31 May 2015. (10 marks)
- (ii) Statement of financial position as at 31 May 2015. (6 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Explain the two fundamental qualitative characteristics of good financial information. (4 marks)
- (b) Enumerate four errors that are not detected by a trial balance. (4 marks)
- (c) The following balances of non-current assets were extracted from the financial records of Kazantan Ltd. as at 1 June 2014:

	Cost	Accumulated Depreciation
	Sh.	Sh.
Land	6,243,000	-
Buildings	6,580,500	657,000
Furniture and fixtures	2,025,000	675,000
Plant and equipment	15,120,000	10,039,000
Motor vehicles	7,930,000	3,307,500

The following information relates to the year ended 31 May 2015:

1. An item of plant was disposed off during the year ended 31 May 2015 for Sh.1,070,000. The item had cost Sh.3,140,000 and had accumulated depreciation of Sh.2,200,000.
2. Land and buildings were professionally revalued on 1 June 2014 at Sh.7 million and Sh.6.5 million respectively.
3. A delivery van purchased in March 2013 for Sh.2 million was stolen during the year. The insurer accepted to compensate the company by paying 70% of the original cost.
4. During the period furniture and fixtures acquired amounted to Sh.3 million while a vehicle that had cost Sh.1.2 million and on which depreciation of Sh.400,000 had been charged was traded in for a new vehicle costing Sh.3 million and the company was required to pay Sh.2.4 million in cash settlement of the trade in balance.
5. The depreciation policy of Kazantan Ltd. was as follows:

Asset	Basis of depreciation	Rate per annum %
Land	-	-
Buildings	Straight line	2.5%
Furniture and fixtures	Straight line	10%
Plant and equipment	Reducing balance	12.5%
Motor vehicles	Reducing balance	20%

A full years depreciation is provided in the year of acquisition and none in the year of disposal.

#### Required:

Property, plant and equipment movement schedule for the year ended 31 May 2015.

(12 marks)

(Total: 20 marks)

### QUESTION FOUR

- (a) Explain three differences between an income and expenditure account and a receipts and payment account in accounting for a not-for-profit organisation. (6 marks)
- (b) Joy Niton owns a manufacturing plant under the name Jotan Manufacturers. The following trial balance was extracted from the books of Jotan Manufacturers as at 30 June 2015:

	Sh. "million"	Sh. "million"
Capital		1,250
10% bank loan		1,100
Land	1,475	
Factory building	1,450	
Factory plant	200	
Office expenses	18	
Electricity	20	
Factory fuel	25	
Factory salaries	18	
Delivery vans	150	
Inventory: Raw materials	125	
Work in progress	75	
Finished goods	300	

	Sh. "million"	Sh. "million"
Sales		3,554
Sales returns	50	
Purchases of raw materials	1,500	
Insurance	9	
Water	40	
General salaries	200	
Allowance for irrecoverable debts		30
Trade receivables and payables	600	820
Bank	400	
Cash	60	
Computers	200	
Provision for depreciation:		
Factory building		200
Factory plant		40
Delivery van		60
Computers		50
Irrecoverable debts	10	
Loan interest	110	
Discount received		36
Investments	120	
Investment income		15
	<u>7,155</u>	<u>7,155</u>

**Additional information:**

- Inventory as at 30 June 2015 was valued as follows:

	Sh. "million"
Raw materials	200
Work in progress	100
Finished goods	250

- Allowance for irrecoverable debts is to be adjusted to Sh.25 million
- Prepaid insurance amounted to Sh.3 million as at 30 June 2015.
- Accrued general salaries amounted to Sh.16 million.
- Expenses to be apportioned between factory office and selling expenses as follows:

	Factory Expenses Sh. "million"	Administration expenses Sh. "million"	Selling expenses Sh. "million"
Electricity	80%	20%	
General salaries	20%	60%	20%
Insurance	20%	60%	20%
Water	80%	20%	
Depreciation:			
Factory buildings	100%		
Factory plant	100%		
Delivery van			100%
Computers	50%	50%	

- Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Factory buildings	2%
Factory plant	10%
Delivery van	20%
Computers	20%

**Required:**

Manufacturing account and income statement for the year ended 30 June 2015.

(14 marks)

(Total: 20 marks)

**QUESTION FIVE**

- Explain two categories of financial assets.

(4 marks)

- Ally Ltd. has provided the following financial information for the month ended 31 August 2015:

	Sh. "million"
Receivables debit balance as at 1 August 2015	1,200
Payables credit balance as at 1 August 2015	800

	Sh. "million"
Credit purchases	2,840
Allowance for irrecoverable debts (30 June 2009)	60
Credit sales	3,630
Returns inwards	100
Discounts received	9
Returns outwards	40
Interest charged to credit customers on overdue accounts	20
Discounts allowed	6
Receipt from credit customers	2,904
Payment to creditors	2,207
Irrecoverable debts written off	12
Customers cheques dishonoured	50
Payables ledger credits transferred to receivables	240

**Additional information:**

1. An amount of Sh.200,000 previously written off was received in the month of August 2015.
2. Claims by Ally Ltd. for price reduction in the month of August due to defective goods was approved by suppliers amounting to Sh.150,000.
3. An invoice issued of Sh.480,000 was omitted from the relevant day book.

**Required:**

- (i) Sales ledger control account. (8 marks)
- (ii) Purchases ledger control account. (8 marks)

**(Total: 20 marks)**

.....