**ATD LEVEL 2**

**FINANCIAL ACCOUNTING**

**CAT 1**

**QUESTION 1**

Carol and Mary are in partnership sharing profits and losses equally. They make handbags under the brand name ‘CARY’.

**The partnership trial balance as at 31 December 2013 was as follows:**

|  |  |  |
| --- | --- | --- |
|  | **Sh. ‘000’** | **Sh. ‘000’** |
| Capital: Carol  Mary  Drawings: Carol  Mary  Land  Factory building at cost  Accumulated depreciation on factory building  Delivery vans at cost  Accumulated depreciation on delivery vans  Inventory (1 January 2013):  Raw materials  Work in progress  Finished goods (10,250 handbags at Sh.2,000 each)  Sales  Returns inward  Purchase of raw materials  Tax  Factory wages  Office salaries  General expenses: Factory  Office  Plant at cost  Accumulated depreciation on plant  Provision for unrealised profit (I January 2013)  Allowance for doubtful debts  Trade receivables and payables  Bank overdraft | 5,000  4,800  15,200  20,400  8,100  2,300  2,210  20,500  112  14,590  7,630  2,500  7,730  9,470  17,220  10,680  148,442 | 24,000  24,000  15,370  1,912  63,200  3,960  5,870  2,050  770  2,640  4,670  148,442 |

**Additional information:**

1. During the year ended 31 December 2013. 16,727 handbags were transferred to the warehouse at a price of sh.2, 400 each.
2. As at 31 December 2013, inventory was valued as follows:

* Raw materials - Sh.1, 900,000
* Work in progress - Sh.2, 880,000
* Finished goods - Sh.17, 428,800

1. All handbags are sold at Sh.3, 200 each.
2. The allowance for doubtful debts is to be maintained at 5% of the trade receivables.
3. Accrued general expenses as at 31 December 2013 were as follows:

* Factory - Sh.1,748,000
* Office - Sh.764, 000

1. As at 31 December 2013, rent and rates were prepaid as follows:

* Factory - Sh.104, 000
* Office - Sh.80, 000

1. Depreciation is to be provided on cost as follows:

**Asset Rate per annum**

Factory building 2%

Plant 10%

Delivery vans 20%

1. Carol is entitled to 25% of the manufacturing profit based on the transfer price to the warehouse, while Mary is entitled to 10% of the trading gross profit.
2. No interest is credited or charged on capital accounts or drawings.

**Required:**

(a) Manufacturing account for the year ended 31 December 2013. (6 marks)

(b) Income statement of the year ended 31 December 2013 (8 marks)

(c) Statement of financial position as at 31 December 2013 (6 marks)

**QUESTION 2**

The following balances were extracted from the books of Upendo Ltd. for the year ended 31 December 2013:

|  |  |
| --- | --- |
|  | **Sh. ‘000’** |
| Ordinary shares  8% preference shares  Inventory (31 December 2013)  Trade receivables  Bank balance  10% debentures  General reserves  Gross profit for the year  Bad debts  Salaries and wages  Insurance and rates  Telephone expenses  Electricity expenses  Debenture interest  Directors' fees  General expenses  Motor vehicles at cost  Accumulated depreciation on motor vehicles  Office equipment at cost  Accumulated depreciation on office equipment  Land  Buildings at cost  Trade payables  Revenue reserves (I January 2013) | 120,000  40,000  83,852  27,200  7,796  16,000  28,000  81,508  340  28,200  1,410  620  1,216  800  2,500  3,108  29,100  22,300  44,640  17,200  100,000  32,200  13,722  24,252 |

**Additional information:**

1. Accrued electricity expenses as at 31 December 2013 amounted to Sh.548, 000.
2. The amount for insurance includes a premium of Sh.300, 000 paid in September 2013 to cover the company for six months from 1 October 2013 to 31 March 2014.
3. Depreciation is to be provided as follows:

Office equipment - 15% per annum on cost

Motor vehicles - 20% per annum on cost

1. Provisions are to be made for:

•Directors fees - Sh.5, 000,000

•Audit fees - Sh.1, 200,000

•Outstanding debenture interest.

1. The directors have recommended the following:

• Sh.12, 000,000 be transferred to general reserves.

• Dividends on preference shares be paid.

• Payment of a 10% dividend on ordinary shares.

**Note:** Ignore depreciation on buildings

**Required:**

1. Income statement for the year ended 31 December 2013.
2. Statement of financial position as at 31 December 2013.

**QUESTION 3**

Jared Maanzo owns a fruit and vegetable grocery. He does not maintain a full set of accounting records. The following information was extracted from the business records.

**Summary of bank account for the year ended 31 March 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| Balance (1 April 2018)  Cash from trade receivables  Sale of land (personal asset)  Sale of motor cycle (Kc 740L) | **Sh.**  19,700  960,000  200,000  21,000  \_\_\_\_\_\_\_\_\_  1,200,700 | Payment to suppliers  Purchase of motor cycle (KBB 420B)  Rent and taxes  Wages  Motor cycle expenses  Postage and stationery  Withdrawals on account  Repairs and maintenance  Insurance  Balance (31 March 2019) | **Sh.**  720,000  130,000  26,000  151,000  33,500  13,600  92,000  6,500  8,000  20,100  1,200,700 |

Assets and liabilities, other than balance at bank were as follows:

|  |  |  |
| --- | --- | --- |
| Trade payables  Trade receivables  Rent and taxes accrued  Motor cycles:  KAC 740L At cost  Accumulated depr  KBB 420B At cost  Accumulated depr  Inventory  Insurance prepaid | **1 April 2018**  **Sh.**  47,000  73,200  2,000  100,000  80,000  -  -  49,000  1,600 | **31 March 2019**  **Sh.**  25,900  95,000  2,600  -  -  130,000  To be determined (?)  59,000  2,000 |

**Additional information:**

1. All receipts are banked and all payments are made from the business bank account.
2. All trade debt of sh.3,000 owed by Juma and included in the trade receivables at 31 March 2019 is to be written off.
3. Depreciation is to be provided at the rate of 20% per annum on the cost of motor cycles held at the end of each financial year. No depreciation is to be provided in the year of sale.
4. Discounts received during the year amounted to sh.11,000.

**Required**

1. Income statement for the year ended 31 March 2019.
2. Statement of financial position as at 31 March 2019.

**QUESTION 4**

1. Explain the type of information required by the following users of a company’s financial statements and its importance
2. Customers
3. Lenders
4. Employees (8 marks)
5. Suppliers
6. Describe three objectives of international financial reporting standards (IFRS) Foundation.
7. Express Ltd purchased a building for Sh.1,800,000 on 1 January 2009. It had an estimated useful life of 40 years.

On 1 January 2019 the building way revalued by a qualified valuer at a market value of Sh.1,500,000

Required:

Calculate the amount of depreciation to each period ended 31st December 2019 and 2020. Show the entries in the relevant ledger accounts and amounts transferred to the financial statements at the end of the two periods.

**QUESTION 5**

1. Explain the following accounting concepts
2. Consistency principle
3. Materiality principle (6 marks)
4. Explain the following criteria used in the preparation and presentation of financial statements.
5. Relevance
6. Reliability
7. Faithful presentation
8. Neutrality
9. Completeness
10. Comparability

(12 Marks)