**ATD LEVEL 2**

**FINANCIAL ACCOUNTING**

**CAT 2**

**QUESTION 1**

Dot Com Social Club’s summary of the cash book as at 30 September 2020 was as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts**  | **Sh.** | **Payments**  | **Sh.** |
| Balance at bank 1/10/19Members subscriptions Entrance fees Bar sales Competition receipt | 23,000500,000320,0006,000600,000\_\_\_\_\_\_\_\_\_\_\_20,043,000 | Casual wagesBar suppliesRates Rent of 15 months to 31st Dec 2020Secretary’s salaryUtilities Competition prizesStationery and postageRepairs to swimming poolGround upkeepBarman’s salaryDeposit with Savings and Loan LtdBalance at bank 30/9/2020 | 72,000420,00012,000240,000180,00050,000144,00038,00033,00045,00054,000350,000405,0002,043,000 |

The following additional information is provided:

1. At 1 October 2019 the club’s assets were: land and buildings Sh.6,500,000 swimming pool Sh.2,500,000, Bar stocks Sh.108,000.
2. Bar supplies owing amounted to Sh.42,000 at 1 October 2019. The social club runs a bar to supplement its income.
3. At 30 September 2020, bar stocks were Sh.96,000 and bar supplies owing amounted to Sh.56,000.
4. Subscriptions unpaid at 30 September 2020 were Sh.51,000 and subscriptions received during the year included Sh.25,000 in respect of the previous year and Sh.17,000 in respect of the year starting 1 October 2020.
5. Interest earned on the deposit with Savings and Loans Ltd for the year to 30 September 2020 mounting to Sh.17,500 had not been received.
6. The swimming pool and buildings are to be depreciated at 10% and 5% respectively per annum. The cost of land only is Sh.1,500,00.

**Required:**

(a) Income Statement for the bar for the year ended 30th September 2020. (3 marks)

(b) Income and expenditure account for the year ended 30 September 2020. (7 marks)

(c) Statement of financial position as at 30 December 2020 (5 marks)

**QUESTION 2**

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)General reserves (1 April 2015)Retained profits (1 April 2015)Production machinery ( cost Sh. 600 million)Office equipment (cost Sh. 140million)Inventory: (1 April 2015) Raw materials Finished goods Work- in-progressSalesTrade receivablesTrade payablesCarriage outwardsFactory wagesCarriage on raw materialsPurchase of raw materialsGeneral factory expensesLighting expensesFactory powerAdministrative salariesSales agents’ salariesCommission to sales agentsRentInsurance expensesGeneral administrative expensesBank overdraftCash in handBank chargesDiscounts allowedRoyalties | 441,000429,200140,000390,000100,00046,000667,00033,0002,400,000691,000497,000124,000333,00039,400400,00066,00072,000118,000270,00080,00019,000120,000132,000144,00026,80015,0009,60028,00037,000 |

**Additional information:**

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

|  |  |
| --- | --- |
|  | **Sh. ‘000’** |
| Raw materialsWork-in-progress  | 60,00025,000 |

1. The finished goods were sold at a mark-up of 66 2/3 %.
2. Lighting expenses, rent and insurance expenses are to be appointed as follows: factory 70% and administrative 30%.
3. Depreciation is to be provided for as follows:

|  |  |
| --- | --- |
|  | **Rate**  |
|  Production machineryOffice equipment  | – 10% per annum on cost.-10% per annum on reducing balance. |

1. Sales agents’ salaries include Sh. 35,000,000 that relates to the 7 months ending 31 May 2016.
2. 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.
1. Factory wages included Sh. 143 million for indirect labor.

**Required:**

1. Manufacturing account and income statement for the year ended 31 March 2016.
2. Statement of financial position as at 31 March 2016.

**QUESTION 3**

Asha, Jane and Linda are in partnership sharing profits and losses in the ratio of 3”2”1 respectively. Interest is allowed on capital accounts at 10% p.a. the trial balance for the partnership as at 31 December 2022 as follows:

|  |  |  |
| --- | --- | --- |
| Capital accounts: AshaJane Linda Gross profitTrade accounts payableTrade accounts receivableOffice equipment at costAccumulated depreciationOperating expensesStock (31 Dec 2022)Current accounts (at 1 Jan 2022)Asha Jane Linda Accrued expensesBank balance10% loan – JaneDrawings AshaJaneLinda Freehold premises at cost | **Dr** **Sh.**259,000600,000400,000250,00013,0001,262,50045,00050,00058,000 400,0003,337,500 | **Cr.****Sh.**800,000800,000600,000580,00048,000360,00044,00053,0009,00043,500\_\_\_\_\_\_\_\_\_3,337,500 |

No interest has been provided for on the loan from Jane. Asha retired from partnership on 30 June 2022. The partners agree on the following:

* + - 1. The freehold premises and stock are revalued at sh.460,000 and sh.220,000 respectively.
			2. Goodwill is agreed to worth sh.180,000 but this is not to be maintained in the books; adjusting entries being made n the current accounts only.
			3. In settlement, Asha is to be paid sh.325,000 in cash and take some of the equipment which has a cost in the books of sh.150,000 and accumulated depreciation sh.47,000. The balance of any amounts owed to her is to be transferred to a three year loan account at an interest rate of 10% per annum.
			4. Jane and Linda are to share profits and losses in the same ratio as before. It is assumed profit accrued evenly throughout the year.

**Required:**

1. Computation of the settlement made to Asha on retirement.
2. Entries in the capital and current accounts.
3. Statement of profit or loss and appropriation and statement of financial position at 31 December 2022.

**QUESTION 4**

1. 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.
2. The financial statements of Pata pata ltd for the years ended 31 march 2015 and 31 march 2016 are given below:

Income statement for the years ended 31 March:

|  |  |  |
| --- | --- | --- |
|  | **2015****Sh. ‘000’** | **2016****Sh. ‘000’** |
| Revenue Cost of salesGross profitAdministrative expensesDistribution costFinance costsProfit before taxIncome tax expensesNet profit for the year | 450,600(270,200)180,400(22,300)(31,100)(10,300)116,700(35,800)80,900 | 480,500(268,400)212,100(28,600)(33,700)(12,200)137,600(42,100)92,500 |

Extracts from statements of changes in equity for the years ended 31 March:

|  |  |  |
| --- | --- | --- |
|  | **2015****Sh. ‘000’** | **2016****Sh. ‘000’** |
| Retained profit brought downNet profit for the yearLess: Dividend paidRetained profit carried down | 112,60080,900193,500(88,200)105,300 | 130,30095,500225,800(108,200)117,600 |

Statements of financial position as at 31 March:

|  |  |  |
| --- | --- | --- |
|  | **2015****Sh. ‘000’** | **2016****Sh. ‘000’** |
| **Assets** **Non-current assets**Plant, property and equipment**Current assets**Inventory Trade receivablesBank balancesTotal assets**Equity and liabilities:**Ordinary share capitalRetained profitShareholders’ equity**Non-current liability**10%debenture**Current liabilities**Trade payablesBank overdraft Tax payableTotal equity and liabilities | 486,00060,00042,3002,300590,600250,000105,300355,300110,00027,50036,50061,300590,600 | 522,00072,00051,3003,200648,500250,000117,600367,600110,00052,40052,30066,200648,500 |

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:**

1. Gross profit margin. (2 marks)
2. Return on capital employed (ROCE). (2 marks)
3. Current ratio. (2 marks)
4. Acid test ratio. (2 marks)
5. Inventory turnover. (3 marks)
6. Trade receivable collection period. (3 marks)

**QUESTION 5**

1. Highlight six purposes of public sector accounting
2. Briefly explain the following terms in the context of public sector accounting.
3. Consolidated fund
4. Recurrent expenditure
5. The following balances of non-current assets were extracted from the financial records of Kazantan Ltd as at 1 June 2014:

|  |  |  |
| --- | --- | --- |
| Land Buildings Furniture and fixturesPlant and equipmentMotor vehicles | **Cost** **Sh.**6,243,0006,580,5002,025,00015,120,0007,930,000 | **Accumulated Depreciation****Sh.**-657,000675,00010,039,0003,307,500 |

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.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** Land Buildings Furniture and fixturesPlant and equipmentMotor vehicles | **Basis of depreciation**-Straight lineStraight lineReducing balanceReducing balance | **Rate per annum**%-2.5%10%12.5%20% |

A full year 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.