



**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:

<b>Receipts</b>	<b>Sh. "000"</b>	<b>Payments</b>	<b>Sh. "000"</b>
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:

	<b>2016</b>	<b>2017</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
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:**

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

<b>Non-current asset</b>	<b>Rate per annum</b>
Furniture and fittings	10%
Sports equipment	20%
2. 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.
3. 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.
4. Any subscription in arrears after a period of twelve months is written off.

**Required:**

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

**QUESTION THREE**

- (a) 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	<u>(63,000)</u>
Gross profit	42,000
Operating expenses	<u>(16,100)</u>
	25,900
Finance cost	<u>(868)</u>
Profit before tax	25,032
Income tax expense	<u>(7,280)</u>
Profit after tax	17,752
Dividends	<u>(7,700)</u>
Retained profit for the year	<u>10,052</u>

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

	2017		2016	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
<b>Non-current assets:</b>				
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	<u>1,050</u>	<u>22,750</u>	<u>8,400</u>	<u>21,700</u>
Total assets		<u>149,870</u>		<u>123,200</u>
<b>Equity and liabilities:</b>				
<b>Capital and reserves:</b>				
Share capital		45,500		35,000
Share premium		26,838		19,705
Revaluation reserve		<u>3,500</u>		<u>-</u>
		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	<u>7,280</u>	<u>17,080</u>	<u>4,795</u>	<u>14,595</u>
		<u>149,870</u>		<u>123,200</u>

**Additional information:**

1. 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	<u>(9,100)</u>	<u>(23,000)</u>	<u>(32,900)</u>
Net book value	<u>49,700</u>	<u>51,800</u>	<u>101,500</u>
<b>As at 30 June 2017:</b>			
Cost	78,400	93,800	172,200
Depreciation	<u>(10,780)</u>	<u>(34,300)</u>	<u>(45,080)</u>
Net book value	<u>67,620</u>	<u>59,500</u>	<u>127,120</u>

- 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)**

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