



ATD LEVEL III

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

- (a) Explain two differences between:
- (i) Receipts and payments account and income and expenditure account. (4 marks)
 - (ii) Debentures and equity shares. (4 marks)
- (b) Outline six features of a good accounting software (6 marks)
- (c) Discuss three functions of accounting (6 marks)

(Total:20 marks)

QUESTION TWO

The following balances were extracted from the books of Vijana 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 balance bank deposits	12,000
Long term loan	96,000
Bar creditors	16,800
Subscriptions in advance	1,600
Accrued bar wages	2,300

The clubs' receipts and payments account for the year ended 30 June 2021 was as follows:

Receipts and payments

	Sh."000"		Sh."000"
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 purchases	14,000
		Transfer to long term deposit account	20,000
		Balance carried forward	29,100
	502,100		502,100

Additional information:

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

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

- Interest receivable on long term deposits amounted to Sh.2,200,000
- 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

Depreciation is provided as follows;

Asset	Rate per annum	Method
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:

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

QUESTION THREE

The following trial balance was extracted from the books of Asubuhi Enterprises Ltd. as at 30 June 2021.

	Sh. "000"	Sh. "000"
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 received		493
15% debentures		20,000
Raw materials purchased	183,476	
Sales		244,925
Sundry expenses	5,830	
Bank charges	585	
Marketing expenses	4,609	
Advertising expenses	1,716	
Sales returns	269	
Raw material 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	1,986	
Bad debts	1,700	
Allowance for bad debts		2,245
Share capital -1,000,000 ordinary shares of Sh.50 each		50,000
General reserve		44,000

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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 at 1 July 2020- Raw materials	6,811	
Work in progress	11,532	
Finished goods	<u>21,669</u>	
	<u>395,683</u>	<u>395,683</u>

Additional Information

- Freehold property includes land at a cost of Sh.15,000,000. The balance is for the cost of buildings.
- Buildings are to be depreciated using the straight-line method over a fifty-year period 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:

	Sh."000"
• Lighting and heating accrued was Sh.154,000.	
• Insurance prepaid was Sh. 48,000.	
• Rates prepaid was 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

- (a) Outline five challenges that could be faced by government and other public entities in implementation of International Public Sector Accounting Standards (IPSASs). (5 marks)
- (b) Esther operates a general supplies shop but does not maintain a full set of accounting records.

The following information was extracted from her records:

Summary of bank account for the year ended 31 July 2021:

Receipts	Sh. "000"
Balance (1 August 2020)	3,940
Additional capital	40,000
Cash from trade receivables	192,000
Proceeds on sale of motor vehicle (van)	<u>4,200</u>
	<u>240,140</u>
Payments	
Rent and rates	5,200
Salaries and wages	30,200
Payment to suppliers	144,000
Purchases of motor vehicle (Lorry)	26,000
Personal drawings	18,400
Insurance	1,600
Postage and stationery	2,720
Repairs and Maintenance	1,300
Motor vehicle running expenses	6,700
Balance (31 July 2021)	<u>4,020</u>
	<u>240,140</u>

Additional information:

1. The following balances were provided:

	1 August 2020	31 July 2021
	Sh. "000"	Sh. "000"
Trade payables	9,400	5,180
Trade receivables	14,640	19,000
Accrued rent and rates	400	520
Motor vehicles:		
Van - cost	20,000	-
Depreciation	16,000	-
Lorry - Cost	-	26,000
Depreciation	-	?
Prepaid insurance	320	400
Inventory	9,800	11,800

2. Esther depreciates motor vehicles at the rate of 20% per annum on a straight-line basis. A full year's depreciation is provided in the year of purchase and no depreciation is charged in the year of disposal.
3. All receipts are banked and all payments are made from the business bank account.
4. Discount received from the suppliers during the year amounted to Sh.2,200,000.
5. A trade receivable of Sh.600,000 owed by Beba Beba Enterprises and included in the trade receivables as at 31 July 2021 is to be written off.

Required:

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

(Total: 20 marks)

QUESTION FIVE

- (a) State three reasons why organizations provide for depreciation while measuring the profits of the business. (6 marks)
- (b) The following financial statements relate to Alpha Ltd. for the years ended 31 March 2019 and 2020.

	2019	2020
	Sh. Million	Sh. Million
Ordinary shares of Sh. 10 each	5,000	6,000
Share premium	1,000	1,500
General reserve	400	500
Retained earnings	960	1,058
10% debentures	2,850	2,850
Accounts payable	700	800
Corporation tax	198	200
Dividend payable	300	450
Bank overdraft	—	<u>1,050</u>
	11,408	14,408
Non -current assets:		
Property, plant and equipment	9,012	9,408
Current assets:		
Inventory	946	1,948
Accounts receivable	1,000	3,052
Bank balance	<u>450</u>	-
	<u>11,408</u>	<u>14,408</u>

The income statement for the year ended 31 March 2020:

	Sh. Million
Sales	9,500
Cost of sales	<u>6,650</u>
Gross profit	2,850
Administrative expenses	800
Sales and distribution cost	625
Financial cost	<u>285</u>
Profit before tax	1,140
Corporation tax	<u>342</u>
Profit after tax	<u>798</u>

Additional information

- Proposed dividend amounted to Sh.600 million.
- An equipment with a net book value of Sh.112million was sold for Sh.92 million.
- A new machine was purchased for Sh.800million.

Required

Statement of cash flows for the year ended 31 March 2020 as per International Accounting Standard (IAS)7 (Statement of Cash Flows). (14 marks)

(Total: 20 marks)