



**CERTIFIED PUBLIC ACCOUNTANT (CPA)**

**INTERMEDIATE LEVEL**

**FINANCIAL REPORTING AND ANALYSIS**

**WEDNESDAY: 22 April 2026. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of five (5) questions. 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) With reference to International Accounting Standard (IAS 37) “Provisions, Contingent Liabilities and Contingent Assets” or International Public Sector Accounting Standard (IPSAS 19) “Provisions, Contingent Liabilities and Contingent Assets”:
- (i) Describe the **TWO** criteria that must be met for a provision to be recognised in the financial statements. (2 marks)
  - (ii) Distinguish between a “present obligation” and a “possible obligation” in the context of liabilities. (4 marks)
- (b) Under International Financial Reporting Standard (IFRS 15) “Revenue from Contracts with Customers” or International Public Sector Accounting Standard (IPSAS 47) “Revenue”:
- (i) Explain the concept of a "performance obligation" (referred to as a compliance obligation in IPSAS 47). (2 marks)
  - (ii) Identify the **TWO** conditions that must be met for a promised good or service to be considered "distinct". (2 marks)
- (c) International Public Sector Accounting Standard (IPSAS 24) “Presentation of Budget Information in Financial Statements” requires a comparison between budget and actual amounts. Analyse **TWO** ways in which an entity may present this comparison in its financial statements. (4 marks)
- (d) In the context of International Accounting Standard (IAS 8) “Accounting Policies, Changes in Accounting Estimates and Errors” or International Public Sector Accounting Standard (IPSAS 3) “Accounting Policies, Changes in accounting policies and Errors” distinguish between the “retrospective application” of a new accounting policy and the “prospective recognition” of a change in an accounting estimate. (4 marks)
- (e) With reference to International Public Sector Accounting Standard (IPSAS 46) “Measurement”, explain the term "current operational value" citing one key objective that determines its use for property, plant, and equipment. (2 marks)
- (Total: 20 marks)**

## QUESTION TWO

The following trial balance was extracted from the books of Sulmac Engineering Ltd. as at 31 December 2025:

	Sh."000"	Sh."000"
Ordinary share capital (Sh.10 par value)		1,500,000
Share premium		310,000
Retained earnings (1 January 2025)		385,600
10% Loan notes (issued 1 July 2025)		400,000
Deferred tax (1 January 2025)		45,000
Land at cost	600,000	
Buildings at cost	1,500,000	
Plant and machinery at cost	980,000	
Accumulated depreciation (1 January 2025):		
• Buildings		300,000
• Plant and machinery		340,000
Investment property (at cost)	450,000	
Goodwill (Carrying amount 1 January 2025)	120,000	
Financial assets at fair value through profit or loss (FVTPL)	200,000	
Right-of-use (ROU) Asset (1 January 2025)	160,000	
Lease liability (1 January 2025)		160,000
Inventory (1 January 2025)	245,000	
Purchases and Sales	2,840,000	5,510,300
Returns inward and returns outward	45,000	30,000
Carriage inward	30,900	
Distribution costs	412,500	
Administrative expenses	568,400	
Director's remuneration and audit fees	70,000	
Investment income		32,000
Interest paid	20,000	
Trade receivables and trade payables	684,200	465,000
Expected Credit Loss (1 January 2025)		14,200
Bank balance and Cash in hand	462,500	
Hire of plant and Credit Losses	43,600	
Dividends paid	60,000	
<b>Total</b>	<b><u>9,492,100</u></b>	<b><u>9,492,100</u></b>

### Additional information:

- Closing inventory as at 31 December 2025 was valued at Sh.285,000,000. This valuation includes items with a cost of Sh.25,000,000 that were damaged; their net realisable value is estimated at Sh.16,000,000.
- Depreciation is to be provided as follows:
  - Buildings: 2% per annum on cost.
  - Plant and machinery: 15% per annum on cost.
  - Right-of-use (ROU) Asset: Over the 5-year lease term on a straight-line basis.
  - Investment Property: Using the cost model, 5% per annum on cost.Depreciation is to be allocated: 70% to cost of sales and 30% to administrative expenses.
- Sulmac Engineering Ltd. revalued its land to Sh.750,000,000 on 31 December 2025. This revaluation has not yet been reflected in the accounts.
- The lease liability relates to an agreement where Sh.40,000,000 is payable annually in arrears. The interest rate implicit in the lease is 10% per annum. The payment for the year ended 31 December 2025 was made and correctly recorded in the lease liability account, but the finance cost for the year has not yet been provided for.
- The 10% loan notes were issued at a discount of 5%. The issue costs of Sh.15,000,000 were debited to administrative expenses. The effective interest rate is 12% per annum.
- On 1 October 2025, the company made a 1-for-4 rights issue at Sh.12 per share. The full proceeds have been correctly incorporated into the harmonised trial balance above.
- During the year, the company received a Government grant of Sh.50,000,000 related to the purchase of the plant. This was incorrectly credited to sales revenue. The company's policy is to treat grants as deferred income, with 20% of the grant to be recognised in the current year's profit or loss.
- An impairment test revealed that Goodwill was impaired by 10%. A fair value gain of Sh.15,000,000 on financial assets at fair value through profit or loss (FVTPL) is to be recognised in the current year's profit or loss. The expected credit loss is to be adjusted to 5% of the closing trade receivables.

9. A legal claim against the company for breach of contract is deemed "probable" with an estimated settlement of Sh.15,000,000. No provision has been made.
10. The directors estimate current tax for the year at Sh.95,000,000. The temporary differences at year-end require the deferred tax liability to be adjusted to a closing balance of Sh.58,000,000.

**Required:**

- (i) Statement of profit or loss and other comprehensive income for the year ended 31 December 2025. (8 marks)
- (ii) Statement of changes in equity for the year ended 31 December 2025. (4 marks)
- (iii) Statement of financial position as at 31 December 2025. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

Magnate Ltd., a public limited company, acquired 16 million (80%) of the 20 million ordinary shares of Sphere Ltd. on 1 January 2025. At the date of acquisition, the retained earnings of Sphere Ltd. stood at Sh.145 million.

The purchase consideration was settled as follows:

- An exchange of one (1) ordinary share in Magnate Ltd. for every four (4) ordinary shares acquired in Sphere Ltd. The market price of a Magnate Ltd. share on 1 January 2025 was Sh.60. The par value of Magnate Ltd.'s shares is Sh.10.
- A cash payment of Sh.121 million to be made on 1 January 2027 (two years after acquisition). Magnate Ltd.'s cost of capital is 10% per annum.

No entries have been made in the books of Magnate Ltd. to reflect either the share exchange or the deferred consideration.

The draft statements of financial position for the two companies as at 31 December 2025 were as follows:

Assets	Magnate Ltd. Sh."000"	Sphere Ltd. Sh."000"
<b>Non-current assets:</b>		
Property, plant and equipment	840,000	410,000
Investments (at cost)	110,000	45,000
<b>Current assets:</b>		
Inventories	142,000	98,000
Trade receivables	115,000	82,000
Bank balance	<u>43,000</u>	<u>15,000</u>
<b>Total assets</b>	<b><u>1,250,000</u></b>	<b><u>650,000</u></b>
<b>Equity and liabilities</b>		
Ordinary share capital (Sh.10 par value)	500,000	200,000
Share premium	150,000	50,000
Retained earnings	380,000	260,000
<b>Non-current liabilities:</b>		
8% Loan notes	100,000	60,000
<b>Current liabilities:</b>		
Trade payables	<u>120,000</u>	<u>80,000</u>
<b>Total equity and liabilities</b>	<b><u>1,250,000</u></b>	<b><u>650,000</u></b>

**Additional information:**

1. At the date of acquisition, the fair value of Sphere Ltd.'s land was Sh.25 million in excess of its carrying amount. This land is still held by Sphere Ltd., and the revaluation has not been recorded in its individual financial statements.
2. During the year, Magnate Ltd. sold goods to Sphere Ltd. for Sh.40 million. Magnate Ltd. applied a mark-up of 25% on cost. At the year-end, three-quarters of these goods remained in Sphere Ltd.'s inventory.
3. On 31 December 2025, Sphere Ltd. sent a cheque for Sh.10 million to Magnate Ltd. to reduce its intercompany trade payable. Magnate Ltd. did not receive or record this cheque until 4 January 2026.

4. Sphere Ltd. acquired a new machine on 1 July 2025 for Sh.40 million. The acquisition was financed through a short-term bank loan, which was incorrectly included in Sphere's trade payables.
5. It is the group's policy to measure the non-controlling interest at its fair value at the date of acquisition. The fair value of the non-controlling interest in Sphere Ltd. on 1 January 2025 was estimated at Sh.95 million.
6. Goodwill was tested for impairment at the year-end and was found to have reduced in value by 10%.
7. At the date of acquisition, the plant and equipment of Sphere Ltd. had a fair value of Sh.20 million in excess of its carrying amount. This plant had a remaining useful life of 5 years at 1 January 2025. Sphere Ltd. has not adjusted its records to reflect this revaluation or the additional depreciation.
8. On 30 December 2025, Magnate Ltd. dispatched goods to Sphere Ltd. at an invoiced price of Sh.5 million. These goods were not received by Sphere Ltd. until 5 January 2026 and were not included in its closing inventory. Magnate applied the same 25% mark-up on these goods.
9. On 28 December 2025, Sphere Ltd. declared a final dividend of Sh.0.50 per share. Magnate Ltd. has not yet recorded its share of this dividend in its individual financial statements.
10. Magnate Ltd. has not yet recorded the interest due on its 8% Loan notes for the year ended 31 December 2025.

**Required:**

- (a) Calculate the goodwill on acquisition of Sphere Ltd. (6 marks)
- (b) Prepare the consolidated statement of financial position for the Magnate Group as at 31 December 2025. (14 marks)  
(Total: 20 marks)

**QUESTION FOUR**

- (a) With reference to International Accounting Standard (IAS 41) "Agriculture" or International Public Sector Accounting Standard (IPSAS 27):
  - (i) Explain the accounting treatment of biological assets and the criteria for their recognition. (2 marks)
  - (ii) Distinguish between "consumable" and "bearer biological assets" providing an example of each. (4 marks)
- (b) Green Pastures Ltd. is a large-scale farming enterprise. The following trial balance was extracted from the company's books as at 30 June 2025:

	Sh."000"	Sh."000"
Capital (1 July 2024)		400,000
Retained earnings (1 July 2024)		154,600
Land and bearer plants at cost	480,000	
Accumulated depreciation: Bearer plants		120,000
Dairy cattle at fair value (1 July 2024)	185,000	
Sheep and goats at fair value (1 July 2024)	92,400	
Inventories: Animal feeds and fertilizers	34,200	
Cash at bank and in hand	56,800	
Purchases of livestock during the year	42,000	
Sales: Milk and wool		245,000
Sales: Livestock		68,000
Operating expenses	115,600	
Trade receivables	84,600	
Trade payables		<u>103,000</u>
<b>TOTAL</b>	<b><u>1,090,600</u></b>	<b><u>1,090,600</u></b>

**Additional information:**

1. The fair value of the dairy cattle at 30 June 2025 was Sh.210,000,000.
2. The fair value of sheep and goats at 30 June 2025 was Sh.85,000,000.
3. Bearer plants are depreciated at 10% per annum on cost. No depreciation has been provided for the year.
4. Animal feeds costing Sh.12,500,000 were still in inventory at 30 June 2025.
5. During the year, milk worth Sh.8,000,000 was consumed by the farm workers. This has not been recorded.
6. A government grant of Sh.15,000,000 was received for the sheep and goats project, but it was incorrectly credited to the land account. The grant is unconditional.

7. Operating expenses include Sh.5,000,000 incurred for the primary purpose of managing the biological transformation.
8. The estimated cost to sell for all biological assets is 2% of the fair value.

**Required:**

- (i) Livestock Account (to determine the fair value gain or loss for the year). (6 marks)
- (ii) Statement of profit or loss for the year ended 30 June 2025. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain **TWO** advantages of common-size vertical analysis in evaluating a company's financial performance. (4 marks)
- (b) The following financial statements extracts relates to Vanguard Ltd. for the years ended 31 December 2024 and 2025:

<b>Income Statement extract:</b>	<b>2025</b> <b>Sh. "000"</b>	<b>2024</b> <b>Sh. "000"</b>
Revenue	3,200,000	2,800,000
Cost of sales	(2,144,000)	(1,736,000)
Operating expenses	(416,000)	(392,000)
Finance costs	(95,000)	(80,000)
Income tax expense	(163,500)	(177,600)

<b>Statement of Financial Position extract:</b>	<b>2025</b> <b>Sh. "000"</b>	<b>2024</b> <b>Sh. "000"</b>
Property, Plant and Equipment	1,840,000	1,620,000
Inventory	485,000	410,000
Trade receivables	512,000	445,000
Cash and bank	64,000	115,000
Ordinary Share Capital	1,000,000	1,000,000
Retained Earnings	945,000	812,000
10% Loan notes	650,000	500,000
Current Liabilities	306,000	278,000

**Required:**

- (i) Prepare common-size vertical statements of profit or loss for Vanguard Ltd., for both years. (6 marks)
- (ii) Compute the following ratios for the year 2025 and year 2024:
  - Gross profit margin. (2 marks)
  - Return on Capital Employed (ROCE). (2 marks)
  - Inventory turnover period (in days), assuming a 365- day year. (2 marks)
  - Gearing ratio (Debt-to-Equity). (2 marks)
- (iii) Evaluate the company's profitability and solvency position based on your findings in (i) and (ii) above. (2 marks)

**(Total: 20 marks)**

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**CERTIFIED PUBLIC ACCOUNTANTS (CPA)**

**INTERMEDIATE LEVEL**

**FINANCIAL REPORTING AND ANALYSIS**

**WEDNESDAY: 3 December 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of five (5) questions. 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) International Accounting Standard (IAS) 8 “Accounting Policies, Changes in Accounting Estimates and Errors” provides guideline on the treatments of prior period errors.

**Required:**

- (i) Explain the term “prior period errors” as per IAS 8. (2 marks)
- (ii) Describe how prior period errors are corrected as provided by IAS 8. (4 marks)
- (b) International Financial Reporting Standard (IFRS) 15 “Revenue from contracts with customers” establishes a comprehensive framework for revenue recognition guiding on how and when revenue is recognised.

**Required:**

With reference to IFRS 15, explain the following:

- (i) Contract modification. (2 marks)
- (ii) Performance obligations. (2 marks)
- (c) With reference to International Accounting Standard (IAS) 40 “Investment Property”, explain the accounting treatment of investment properties. (4 marks)
- (d) International Financial Reporting Standard (IFRS) 5 “Non-current Assets Held for Sale and Discontinued Operations”, provides that when an operation qualifies as a discontinued operation, the standard requires specific disclosures to help users understand the financial impact.

**Required:**

Explain **THREE** disclosure requirements for a discontinued operation segment.

(6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Hazel Limited, a public limited company which operates in motor vehicle industry has owned 75% of the voting share capital of Senter Limited, another public limited company in the same industry since 1 October 2021. The acquisition consideration comprised of cash payment of Sh.47 million made on 1 October 2021. The retained profit of Senter Limited at the date of acquisition amounted to Sh.19 million and had no other reserves.

The completed financial statements for Hazel Limited and Senter Limited for the year ended 30 September 2025 are as follows.

**Statement of profit or loss and other comprehensive income for the year ended 30 September 2025:**

	<b>Hazel Limited</b> <b>Sh.‘‘000’’</b>	<b>Senter Limited</b> <b>Sh.‘‘000’’</b>
Revenue	282,000	192,000
Cost of sales	<u>(197,400)</u>	<u>(153,600)</u>
Gross profit	84,600	38,400
Distribution costs	(23,200)	(8,400)
Administrative expenses	<u>(36,800)</u>	<u>(13,600)</u>
Profit from operations	24,600	16,400
Finance costs	(4,800)	(3,600)
Investment income	<u>6,200</u>	<u>3,200</u>
Profit before tax	26,000	16,000
Income tax expense	<u>(8,200)</u>	<u>(5,200)</u>
Profit for the year	17,800	10,800
<b>Other comprehensive income:</b>		
Gain on property revaluation	<u>3,200</u>	<u>2,600</u>
Total comprehensive income for the year	<u>21,000</u>	<u>13,400</u>

**Statements of financial position as at 30 September 2025:**

	<b>Hazel Limited</b> <b>Sh.‘‘000’’</b>	<b>Senter Limited</b> <b>Sh.‘‘000’’</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	130,300	78,200
Investment in Senter Limited	47,000	
Other investments	<u>67,000</u>	<u>32,000</u>
	244,300	110,200
<b>Current assets:</b>		
Inventory	18,800	14,500
Trade receivables	14,200	9,700
Cash and cash equivalents	<u>3,700</u>	<u>2,600</u>
Total assets	<u>281,000</u>	<u>137,000</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 par value)	50,000	20,000
Share premium	5,000	2,000
Revaluation surplus	13,400	10,800
Retained profit	<u>153,500</u>	<u>50,400</u>
Total equity	221,900	83,200
<b>Non-current liabilities:</b>		
Long-term borrowings	38,400	37,800
Deferred tax	4,900	3,600
<b>Current liabilities:</b>		
Trade payables	13,200	10,600
Current tax	<u>2,600</u>	<u>1,800</u>
Total equity and liabilities	<u>281,000</u>	<u>137,000</u>

**Additional information:**

1. A fair value exercise conducted on 1 October 2021 revealed that the carrying amounts of Senter Limited net assets were equal to their fair values with the exception of an item of machinery which had a carrying amount of Sh.18 million below its fair value. As at 1 October 2021, the machinery had a remaining useful life of nine (9) years. Depreciation on machinery is charged to cost of sales.
2. Hazel Limited’s policy is to value the non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest in Senter Limited on 1 October 2021 was estimated at Sh.16 million.
3. On 28 September 2025, Senter Limited dispatched goods to Hazel Limited with a selling price of Sh.6 million. These goods were not received by Hazel Limited until 5 October 2025. Senter Limited applies a consistent mark-up on cost of 25% when arriving at its selling prices.
4. On 30 September 2025, Senter Limited’s records showed a receivable due from Hazel Limited of Sh.6 million. This differed from the equivalent payable in Hazel Limited’s records due to the goods-in-transit.
5. The investment income of Hazel Limited for the year ended 30 September 2025 includes Sh.2 million interest received on an 8% loan of Sh.25 million made to Senter Limited on 1 October 2024. The loan is repayable on 1 October 2028.
6. There has been no impairment losses within the group since acquisition.

**Required:**

- (a) Consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2025. (8 marks)
- (b) Consolidated statement of financial position as at 30 September 2025. (12 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Highland Farm Ltd. is a medium size company that operates an Agri-business. The following trial balance was extracted from the books of the company as at 30 June 2025:

	Sh. "000"	Sh. "000"
Land and building (land Sh.150 million)	250,000	
Farm machinery (cost Sh.135 million)	97,500	
Sales of crops		43,750
Sale of cattle		60,000
Sale of carcasses		18,750
Balance at bank		3,000
Payables		18,750
Insurance premium - crops	6,000	
<b>Inventory as at 1 July 2024:</b>		
• Growing crops, seeds and fertiliser	25,000	
• Livestock	30,000	
• Livestock feeds	7,500	
Administrative expenses	5,000	
<b>Expenses:</b> Crops	12,500	
Livestock	15,370	
<b>Purchase of:</b> Livestock	16,250	
Seeds	5,000	
Livestock feeds	875	
Farm house expenses	1,500	
Repairs of farm machinery	1,875	
Farm tools	3,100	
Receivables	37,500	
Cash in hand	32,500	
Farm manager salary	7,500	
Farm workers' wages	6,250	
Ordinary share capital		300,000
Retained profit 1 July 2024		41,970
Loan from co-operative society		75,000
	<u>561,220</u>	<u>561,220</u>

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**Additional information:**

- Inventory as at 30 June 2025 was valued as follows:
 

	Sh. "000"
Growing crops	5,000
Seeds, fertilisers and pesticides	7,500
Livestock	50,000
Livestock feeds	1,250
- Farm managers salary is charged to livestock and crop accounts in the ratio of 4:1 respectively.
- The valuation of farm tools as at 30 June 2025 was Sh.2,500,000. Any depreciation on farm tools is to be apportioned equally for crop and livestock respectively.
- Depreciation on farm machinery is to be provided at 20% per annum on cost. This depreciation and the repairs on farm machinery are to be charged to the general statement of profit or loss.
- Buildings are depreciated at 2.5% per annum on cost.
- Growing crops valued at Sh.6,500,000 were destroyed by floods. The insurance company accepted 90% of the loss suffered by the company.
- Crops consumed by the farm workers were valued at Sh.1,500,000. This amount was recovered from their wages.
- The loan from co-operative society had an accrued interest of Sh.3,000,000.
- The company gave a donation of harvested crops to the disaster management committee valued at Sh.2,500,000.

**Required:**

- (a) Crop account and livestock account for the year ended 30 June 2025. (8 marks)
- (b) General statement of profit or loss for the year ended 30 June 2025. (6 marks)
- (c) Statement of financial position as at 30 June 2025. (6 marks)

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

The following completed financial statements for the year ended 31 October 2025 together with the relevant comparatives were extracted from the accounting records of Pemways Limited, a public limited company.

**Statement of profit or loss and other comprehensive income for the year ended 31 October 2025:**

	<b>Sh.“000”</b>
Revenue	36,000
Cost of sales	<u>(26,350)</u>
Gross profit	9,650
Distribution costs	<u>(2,630)</u>
Administrative expenses	<u>(3,290)</u>
Profit from operations	3,730
Finance costs	<u>(1,000)</u>
Investment income (dividend received)	<u>150</u>
Profit before tax	2,880
Income tax expense	<u>(940)</u>
Profit for the year	1,940
<b>Other comprehensive income:</b>	
Gain on property revaluation	7,000
Fair value gain on equity investments	<u>600</u>
Total comprehensive income for the year	<u>9,540</u>

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

	<b>2025</b>	<b>2024</b>
	<b>Sh.“000”</b>	<b>Sh.“000”</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	37,470	24,160
Investment in equity instruments	<u>12,100</u>	<u>0</u>
	49,570	24,160
<b>Current assets:</b>		
Inventory	9,580	6,880
Trade receivables	6,500	5,590
Cash and cash equivalents	<u>3,330</u>	<u>1,870</u>
Total assets	<u>68,980</u>	<u>38,500</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 par value)	40,000	20,000
Share premium	4,000	4,000
Revaluation reserve	6,800	0
Financial asset reserve	600	0
Retained earnings	<u>4,040</u>	<u>2,350</u>
Total equity	55,440	26,350
<b>Non-current liabilities:</b>		
12.5% loan stock (2028)	8,400	7,600
Deferred tax	880	960
<b>Current liabilities:</b>		
Trade payables	3,640	3,100
Current tax	<u>620</u>	<u>490</u>
Total equity and liabilities	<u>68,980</u>	<u>38,500</u>

**Additional information:**

1. The property, plant and equipment comprised of:

	<b>31 October 2025</b>	<b>31 October 2024</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Cost of valuation	47,900	33,400
Accumulated depreciation	<u>(10,430)</u>	<u>(9,240)</u>
Carrying amount	<u>37,470</u>	<u>24,160</u>

2. On 1 November 2024, the company revalued its property for the first time to a fair value of Sh.24 million (land: Sh.6 million). The property had cost Sh.25 million (land: Sh.5 million). The building was being depreciated on a straight-line basis at the rate of 2% per annum and had a remaining economic useful life of thirty (30) years as at the date of revaluation. The company did not account for deferred tax on this revaluation. However, it made an inter-reserve transfer for excess depreciation upon revaluation.
3. During the year ended 31 October 2025, a motor vehicle with a cost of Sh.2,000,000 and an accumulated depreciation of Sh.800,000 was disposed of for cash proceeds of Sh.1,020,000. The gain or loss on this disposal has been included in the distribution costs.
4. The company acquired new investments in equity investments instruments for cash and designated them as at fair value through other comprehensive income.
5. During the year to 31 October 2025, the company made a 1 for 5 bonus issue of ordinary shares, utilising the share premium account.
6. All sales and purchases were made on credit.

**Required:**

A statement of cash flows for Pemways Limited for the year ended 31 October 2025, using the indirect method. **(Total: 20 marks)**

**QUESTION FIVE**

- (a) In the context of International and Public Sector Accounting Standards (IPSAS) 4, "The effect of Changes in foreign exchange rate", explain how foreign currency monetary item and non-monetary items are translated and the treatment of subsequent exchange differences on both monetary and non-monetary items. (4 marks)
- (b) Belta Ltd. purchased an equipment for Sh.12 million on 1 July 2021. Depreciation on equipment is provided on a straight-line basis at the rate of 25% per annum. During the four years from 1 July 2021 to 30 June 2025, the profit after tax and allowed wear and tear charges for tax purposes were as follows:

	<b>Profit after tax</b>	<b>Allowable wear and tear charges for tax purpose</b>
	<b>Sh. "000"</b>	
1 July 2021 – 30 June 2022	2,400	40% on cost
1 July 2022 – 30 June 2023	2,700	30% on cost
1 July 2023 – 30 June 2024	2,850	20% on cost
1 July 2024 – 30 June 2025	2,550	10% on cost

Corporation tax rate is 30%.

**Required:**

- (i) Taxable profits. (2 marks)
- (ii) Temporary differences. (2 marks)
- (iii) Deferred tax account. (2 marks)
- (c) As a newly employed accountant of Bakers Ltd., you have been presented with the following financial statements:

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

	<b>2024</b>	<b>2025</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Net turnover	456,500	420,000
Cost of sales	<u>(295,000)</u>	<u>(227,000)</u>
Gross profit	161,500	193,000
Operating expenses	<u>(109,500)</u>	<u>(93,000)</u>
Operating profit	52,000	100,000
Interest expenses	(14,500)	(3,000)
Investment income	<u>5,000</u>	<u>4,500</u>
Profit before tax	42,500	101,500
Income tax	<u>(12,500)</u>	<u>(15,000)</u>
Profit for the year	<u>30,000</u>	<u>86,500</u>

**Statement of retained earnings for the year ended 30 June:**

	<b>2024</b>	<b>2025</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Retained profit brought forward	149,500	89,500
Net profit for the year	<u>30,000</u>	<u>86,500</u>
	179,500	176,000
<b>Dividends:</b> Preference shares	(10,000)	(9,000)
Ordinary shares	<u>(12,000)</u>	<u>(17,500)</u>
Retained profit carried forward	<u>157,500</u>	<u>149,500</u>

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

	<b>2024</b>	<b>2025</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Assets:</b>		
Property, plant and equipment	106,000	132,000
Goodwill	10,000	5,000
Inventories	147,000	118,500
Account receivable	80,000	24,000
Cash and bank balances	<u>26,000</u>	<u>28,500</u>
	<u>369,000</u>	<u>308,000</u>
<b>Equity and liabilities:</b>		
<b>Share capital:</b>		
• Ordinary shares	50,000	50,000
• Preference shares	40,000	25,000
Retained earnings	157,500	149,500
Account payable	37,500	26,500
Accruals	25,500	20,000
Debentures	<u>58,500</u>	<u>37,000</u>
	<u>369,000</u>	<u>308,000</u>

**Required:**

Compute for the two years, the following ratios:

- (i) Return on capital employed. (2 marks)
- (ii) Assets turnover. (2 marks)
- (iii) Current ratio. (2 marks)
- (iv) Quick ratio. (2 marks)
- (v) Debt to equity ratio. (2 marks)

**(Total: 20 marks)**

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CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

WEDNESDAY: 20 August 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) International Public Sector Accounting Standard (IPSAS) 31 – “Intangible assets”, requires intangible assets to be recognised if identifiable and controlled by the public entity.

With reference to the above statement, explain **TWO** components of identifiability as per IPSAS 31. (4 marks)

- (b) When an entity transfers its product to a dealer or distributor for sale to end customers, it must determine whether the contract is a sale or a consignment arrangement.

In relation to the above statement, explain **TWO** indicators of a consignment arrangement. (4 marks)

- (c) Zee Energy has entered into a contract with GasB Limited to purchase 100,000 units of gas at Sh.50 per unit. The contract allows Zee Energy to pay a penalty of Sh.15 per unit of gas that it does not purchase.

The market price of gas has fallen to Sh.30 per unit and Zee Energy has decided to invoke the penalty clause rather than pay the Sh.50 per unit. It is still contracted to buy 74,000 units of gas.

**Required:**

Determine the amount of provision that Zee Energy should make in its books of account. (3 marks)

- (d) International Accounting Standard (IAS) 2 – “Inventory”, provides guidance on the determination of cost and its subsequent recognition as an expense including any write down to net realisable value.

In relation to the above statement, highlight **THREE** situations in which net realisable value is likely to be less than cost. (3 marks)

- (e) As at 31 December 2023, a plantation consisted of 100 insignis pine trees that were planted 10 years earlier. Insignis pine takes 30 years to mature and will ultimately be processed into building material for houses or furniture.

Only mature trees have established fair values by reference to a quoted price in an active market. The fair value (inclusive of current transport costs to get 100 logs to market) for a mature tree of the same grade as the plantation is:

	Sh.
As at 31 December 2023	171
As at 31 December 2024	165

The appropriate discount rate is 6% per annum.

**Required:**

- (i) Estimate fair value of plantation as at 31 December 2023 and 31 December 2024. (4 marks)

- (ii) Using suitable computation, explain the accounting treatment of the change in fair value in the year 2024. (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The consideration given by an investor to acquire an interest in an investee may be settled in different forms.

**Required:**

Identify **FOUR** forms of consideration that might be used to settle the interest in an investee.

(4 marks)

- (b) On 1 October 2024, Chui Ltd. acquired 80% of the ordinary shares of Swara Ltd. at a cost of Sh.2,570,000. On the same date, it also acquired 50% of Swara Ltd. 10% loan notes at par. The summarised draft financial statements of both companies are as follows:

**Statement of profit or loss for the year ended 30 June 2025:**

	<b>Chui Ltd.</b> <b>Sh. "000"</b>	<b>Swara Ltd.</b> <b>Sh. "000"</b>
Sales revenue	15,000	6,000
Cost of sales	<u>(10,500)</u>	<u>(5,000)</u>
Gross profit	4,500	1,000
Operating expenses	(1,500)	(50)
Loan interest received/paid	<u>18.75</u>	<u>(50)</u>
Profit before tax	3,018.75	900
Income tax expense	<u>(750)</u>	<u>(150)</u>
Profit for the year	<u>2,268.75</u>	<u>750</u>

**Statement of financial position as at 30 June 2025:**

	<b>Chui Ltd.</b> <b>Sh. "000"</b>	<b>Swara Ltd.</b> <b>Sh. "000"</b>
<b>Non-current assets:</b>		
Property, plant and equipment	4,830	2,000
Investments	<u>2,820</u>	<u>-</u>
	7,650	2,000
Current assets	<u>3,750</u>	<u>2,000</u>
Total assets	<u>11,400</u>	<u>4,000</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Share capital	2,500	500
Retained earnings	<u>6,400</u>	<u>2,100</u>
	8,900	2,600
<b>Non-current liabilities:</b>		
10% loan notes	-	500
Current liabilities	<u>2,500</u>	<u>900</u>
Total equity and liabilities	<u>11,400</u>	<u>4,000</u>

**Additional information:**

- The fair value of Swara Ltd.'s assets was equal to their book values with the exception of its plant, which had fair values of Sh.800,000 in excess of its book value at the date of acquisition. The remaining useful life of all of Swara Ltd.'s plant at the date of its acquisition was four years and this period has not changed as a result of the acquisition. Depreciation of plant is on a straight line basis and charged to cost of sales. Swara Ltd. has not adjusted the value of its plant as a result of the fair valuation of the assets.
- In the post-acquisition period, Chui Ltd. sold goods worth Sh.3 million to Swara Ltd. These goods had cost Chui Ltd. Sh.2,250,000. During the year, Swara Ltd. managed to sell Sh.2,500,000 of the Sh.3,000,000 goods from Chui Ltd. for Sh.3,750,000.
- The current accounts of the two companies were reconciled at the year end with Swara Ltd. owing Chui Ltd. Sh.187,500.
- The goodwill was reviewed for impairment at the end of the reporting period and had suffered an impairment loss of Sh.75,000 which is to be treated as an operating expense.
- Chui Ltd. and Swara Ltd. retained earnings as at 1 July 2024 were Sh.4,131,250 and Sh.1,350,000 respectively. No dividends were paid or declared by either entity during the year.
- It is the group policy to value the non-controlling interest at acquisition at fair value. The directors valued the non-controlling interest at Sh.625,000 at the date of acquisition.
- Revenue and expenses are deemed to accrue evenly throughout the year.

**Required:**

- (i) Consolidated statement of profit or loss for the year ended 30 June 2025. (8 marks)
- (ii) Consolidated statement of financial position as at 30 June 2025. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) A company enjoys a number of benefits over a partnership business enterprise. This is the reason as to why conversion of partnership to a company offers several advantages.

With reference to the above statement, explain **FIVE** advantages of converting a partnership into a limited liability company. (5 marks)

- (b) James Mwala set up a business on 1 April 2024 in Nairobi with a branch in Mombasa. Purchases are made exclusively by Nairobi office where packaging and weighing occur. The branch handles packaged goods and these are charged thereto at packaged cost plus 10%. All sales by both branches are sold at a uniform gross profit of 25% on the packaged cost. The following details have been extracted from the business on 31 March 2025:

	Nairobi Head Office		Mombasa Branch:	
	Sh.	Sh.	Sh.	Sh.
Capital		2,640,000		
Drawings	300,000			
Purchases	23,920,200			
Cost of weighting and packing	415,800			
Sales		17,040,000		7,680,000
Goods sent to and received by branch		7,814,400	7,682,400	
Selling and sundry expenses	2,688,000		324,000	
Accounts receivable and accounts payable	2,760,000	7,000,200	1,104,000	28,800
Head office and branch current account	2,466,600			1,809,600
Balance at bank	<u>1,944,000</u>		<u>408,000</u>	
	<u>34,494,600</u>	<u>34,494,600</u>	<u>9,518,400</u>	<u>9,518,400</u>

**Additional information:**

- Goods delivered by Nairobi office to Mombasa branch in March 2025 at Sh.132,000 were not received or recorded by the branch until 4 April 2025. A remittance of Sh.525,000 from the branch to Nairobi in March 2025 was not received until 2 April 2025.
- Inventory taking at the branch disclosed a shortage of goods of a selling value of Sh.60,000. There was no shortage or surplus in Nairobi.
- The cost of the inventory of unpacked goods in Nairobi as at 31 March was Sh.2,160,000.
- All inventories are valued at cost to each entity and there was no loss or wastage in weighing and packaging.

**Required:**

- (i) The valuation of closing inventory at the head office and branch. (6 marks)
- (ii) The trading profit or loss account in columnar form for the year ended 31 March 2025 for the head office, branch and combined. (9 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain **THREE** benefits of using common size approach in analysing financial statements compared to other methods. (6 marks)
- (b) In reference to International Financial Reporting Standard (IFRS) 6 “Exploration for and Evaluation of Mineral Resources”.

Explain **FOUR** conditions that must be met for exploration and evaluation expenditures to be recognised as assets. (4 marks)

- (c) The following information was extracted from the books of the Ministry of TVET for the fiscal year ended 30 June 2025:

	Sh. "million"
Transfer from exchequer	3,750
Fees and licenses	750
Liabilities for long term benefits	300
Long term borrowings	1,500
Finance cost	150
Supplies and consumable used	600
Wages and salaries	1,500
Other expenses	1,800
Transfer from other ministries	75
Transfer to other ministries	750
Computer equipment and software	400
Motor vehicles	350
Land and buildings	5,250
Revenue from exchange transactions	150
Other revenues	900
Payables	750
Reserves	2,700
Accumulated funds	1,125
Cash and cash equivalent	750
Receivables	300
Inventory of consumables	150

**Required:**

- (i) Statement of financial performance for the year ended 30 June 2025. (5 marks)
- (ii) Statement of financial position as at 30 June 2025. (5 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

The following trial balance relates to Flex Limited as at 31 March 2025:

	Sh. "000"	Sh. "000"
Equity shares of 50 cents each		45,000
Share premium		5,000
Retained earnings (1 April 2024)		5,100
Property at cost	48,000	
Plant and equipment at cost	47,500	
Accumulated depreciation: Property (1 April 2024)		16,000
Plant and equipment (1 April 2024)		33,500
Inventories (31 March 2025)	25,200	
Trade receivables	28,500	
Bank		1,400
Deferred tax		3,200
Trade payables		27,300
Revenue		350,000
Cost of sales	298,700	
Lease payments	8,000	
Selling expenses	16,100	
General and administrative expenses	26,900	
Bank interest	300	
Current tax	800	
Suspense account		13,500
	<u>500,000</u>	<u>500,000</u>

**Additional information:**

1. Suspense account represents the corresponding credit for cash received for a fully subscribed rights issue of equity shares made on 1 January 2025. The terms of the share issue were one new share for every five held and at a price of Sh.0.75 each. The market price of the company's equity shares immediately before the issue was Sh.1.20 each.
2. Non-current assets: Property had 12-year useful life on acquisition. To reflect a marked increase in property prices, Flex Ltd. decided to revalue it on 1 April 2024. The fair value of the property at that date was Sh.36 million. Flex Ltd. has not yet recorded the revaluation. The remaining useful life of the property is eight years at the date of revaluation. Flex Ltd. makes an annual transfer to retained earnings to reflect the realisation of the revaluation surplus. In Flex Ltd.'s tax jurisdiction, the revaluation does not give rise to a deferred tax liability.
3. On 1 April 2024, Flex Ltd. acquired an item of plant under a lease agreement that had an implicit interest rate of 10% per annum. The lease payments in the trial balance represents an initial deposit of Sh.2 million paid on 1 April 2024 and the first annual rental of Sh.6 million paid on 31 March 2025. The lease agreement requires further annual payments of Sh.6 million on 31 March each year for the next four years. The plant was initially measured at Sh.25 million on 1 April 2024.

Plant and equipment (other than leased plant) is depreciated at a rate of 20% per annum using reducing balance method. No depreciation has yet been charged on non-current assets for year ended 31 March 2025. Depreciation is charged to cost of sales.

4. In the month of March 2025, internal audit in Flex Ltd. discovered a fraud committed by the company's credit controller who did not return from a sabbatical leave. The fraud revealed that Sh.4 million of the company's receivables had been stolen by the credit controller and are not recoverable. Of this amount, Sh.1 million relates to the year ended 31 March 2024 and the remainder to the current year. This fraud was not insured.
5. Flex Ltd. income tax calculation for the year ended 31 March 2025 shows a tax refund of Sh.2.4 million. The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2024. As at 31 March 2025, Flex Ltd. had taxable temporary differences of Sh.12 million (requiring a deferred tax liability). The income tax rate of Flex Ltd. is 25%.

**Required:**

- (a) Prepare a statement of profit or loss and other comprehensive incomes for the year ended 31 March 2025. (8 marks)
- (b) Prepare statement of changes in equity for the year ended 31 March 2025. (5 marks)
- (c) Prepare statement of financial position as at 31 March 2025. (7 marks)

**(Total: 20 marks)**

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CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

THURSDAY: 24 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) With reference to International Accounting Standard (IAS) 10 “Events After the Reporting Period” explain the accounting treatment of ‘Adjusting events’ and ‘Non-adjusting events’ cite two examples of these events in each case. (6 marks)
- (b) In the context of International Accounting Standard (IAS) 16 “Property, Plant and Equipment” discuss the accounting treatment of revaluation gains and revaluation losses on property, plant and equipment at revalued amount. (4 marks)
- (c) In view of International Public Sector Accounting Standard (IPSAS) 19 “Provisions, Contingent Liabilities and Contingent Assets” describe **THREE** conditions that must be met before a provision can be recognised. (6 marks)
- (d) International Financial Reporting Standard (IFRS) 5 “Non-current asset held for sale and discontinued operations” provides guidance on the accounting treatment of discontinued operations and non-current assets held for sale.

**Required:**

- (i) With reference to IFRS 5, explain the meaning of discontinued operations. (2 marks)
- (ii) Discuss the IFRS 5 criteria which must be satisfied in order for a non-current asset to be classified as held for sale. (2 marks)

**(Total: 20 marks)**

QUESTION TWO

- (a) Distinguish between “government grants” and “government assistance” as per International Accounting Standard (IAS) 20 “Government grants”. (4 marks)
- (b) Venture Capital presented the following financial statements of Brook Limited for analysis:

**Brook Limited**

**Income statement for the year ended 31 December 2024:**

	<b>Sh. “000”</b>
Revenue	6,514,978
Cost of sales	(1,680,408)
Gross profit	<u>4,834,570</u>
<b>Less expenses:</b>	
Salaries and wages	2,072,010
Rent and rates	246,934
Other administrative expenses	<u>1,567,938</u>
Total operating expenses	<u>3,886,882</u>
Profit before interest, tax, depreciation and amortisation	947,688
Less depreciation and amortisation	<u>(312,736)</u>
Earnings before interest and tax	634,952
Finance costs	<u>(62,178)</u>
Profit before tax	572,774
Less income tax	<u>(171,284)</u>
Profit after tax	<u>401,490</u>

**Brook Limited****Statement of financial position for the year ended 31 December:**

	2023	2024
<b>Non-current assets:</b>	<b>Sh.‘‘000’’</b>	<b>Sh.‘‘000’’</b>
Land and buildings	3,389,440	3,549,100
Plant and equipment	1,236,168	1,326,944
Motor vehicles	<u>30,002</u>	<u>47,930</u>
	4,655,610	4,923,974
Accumulated depreciation	<u>(2,591,522)</u>	<u>(2,837,670)</u>
Total non-current assets	2,064,088	2,086,304
Goodwill	<u>433,210</u>	<u>505,580</u>
	<u>2,497,298</u>	<u>2,591,884</u>
<b>Current assets:</b>		
Inventory	134,046	141,118
Trade receivables	93,176	87,888
Cash	<u>147,266</u>	<u>124,542</u>
Total current assets	<u>374,488</u>	<u>353,548</u>
Total assets	<u>2,871,786</u>	<u>2,945,432</u>
<b>Financed by:</b>		
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	1,015,472	1,025,470
Retained earnings	<u>(1,172,392)</u>	<u>(1,451,668)</u>
	<u>(156,920)</u>	<u>(426,198)</u>
<b>Non-current liabilities:</b>		
Loan notes	<u>1,941,650</u>	<u>2,227,898</u>
<b>Current liabilities:</b>		
Trade payables	824,224	854,320
Accrued expenses	<u>262,832</u>	<u>289,412</u>
	<u>1,087,056</u>	<u>1,143,732</u>
Total equity and liabilities	<u>2,871,786</u>	<u>2,945,432</u>

**Required:**

- (i) Vertical analysis on the statement of profit or loss for the year ended 31 December 2024. (8 marks)
- (ii) Horizontal analysis on the statement of financial position. (8 marks)

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

On 1 January 2024, Pull Limited acquired an 80% controlling interest in Shape Limited when the retained earnings of Shape Limited amounted to Sh.3,200,000. The acquisition consideration consisted of an immediate cash payment of Sh.12,000,000 on 1 January 2024 and a further cash payment of Sh.12,100,000 deferred until 1 January 2026. Pull Limited has a cost of capital of 10%.

No accounting entries have been made in respect of the deferred cash consideration.

Pull Limited also acquired 50% of the equity interest in Jolty Limited and obtained joint control over Jolty Limited on 1 January 2024. The purchase consideration comprised an immediate cash payment of Sh.10,000,000 on 1 January 2024. The retained earnings of Jolty Limited stood at Sh.2,500,000 on 1 January 2024.

The following are draft statements of financial position of the three companies as at 31 December 2024:

	Pull Limited	Shape Limited	Jolty Limited
	Sh.‘‘000’’	Sh.‘‘000’’	Sh.‘‘000’’
<b>Assets:</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	36,400	18,500	14,600
Investments:			
Shape Limited	12,000	-	-
Jolty Limited	<u>10,000</u>	<u>-</u>	<u>-</u>
	<u>58,400</u>	<u>18,500</u>	<u>14,600</u>

	Sh. "000"	Sh. "000"	Sh. "000"
<b>Current assets:</b>			
Inventory	21,400	13,000	10,200
Trade receivables	18,500	11,400	8,900
Cash and cash equivalents	<u>12,700</u>	<u>8,100</u>	<u>6,300</u>
	<u>52,600</u>	<u>32,500</u>	<u>25,400</u>
Total assets	<u>111,000</u>	<u>51,000</u>	<u>40,000</u>
<b>Equity and liabilities:</b>			
<b>Equity:</b>			
Ordinary share capital (Sh.10 par value)	50,000	20,000	15,000
Share premium	5,000	2,000	1,500
Retained earnings	<u>13,200</u>	<u>6,100</u>	<u>3,800</u>
Total equity	<u>68,200</u>	<u>28,100</u>	<u>20,300</u>
<b>Non-current liabilities:</b>			
Long-term borrowings	18,000	8,500	7,500
<b>Current liabilities:</b>			
Trade payables	16,300	9,500	7,900
Current tax	<u>8,500</u>	<u>4,900</u>	<u>4,300</u>
	<u>42,800</u>	<u>22,900</u>	<u>19,700</u>
Total equity and liabilities	<u>111,000</u>	<u>51,000</u>	<u>40,000</u>

**Additional information:**

- At the date of acquisition, the fair value of Shape Limited's net assets approximated their carrying amounts, with the exception of some plant whose fair value was Sh.1,000,000 above its carrying amount. At this date, the plant had a remaining economic useful life of five years. No fair value adjustment was necessary in respect of Jolty Limited.
- Pull Limited measures goodwill and the non-controlling interest using the fair value method. The fair value of the non-controlling interest of Shape Limited was Sh.5,700,000 at the date of acquisition.
- During the year ended 31 December 2024, Shape Limited sold goods to Pull Limited for Sh.4,500,000 at a mark-up on cost of 25%. One third ( $\frac{1}{3}$ ) of these goods were still held by Pull Limited at 31 December 2024 and the balance payable was still outstanding.
- Impairment review performed on 31 December 2024 revealed that goodwill arising from the acquisition of Shape Limited had been impaired to the extent of 10%. The interest in Jolty Limited was unimpaired.

**Required:**

- Calculate the value of goodwill arising on acquisition of Shape Limited as at 31 December 2024. (6 marks)
  - Determine the value of interest in Jolty Limited as at 31 December 2024. (2 marks)
  - Prepare the consolidated statement of financial position for Pull Group as at 31 December 2024. (12 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- With reference to International Public Sector Accounting Standard (IPSAS) 4 "The effects of changes in foreign Exchange Rates", explain the term "functional currency". (2 marks)
- On 1 January 2021, Trends Limited issued Sh.20,000,000 8% loan notes at a discount of 5%. The issue costs amounted to Sh.1,000,000.

The loan notes were redeemable on 31 December 2024 at a premium of Sh.1,130,000. The effective rate of interest was therefore 12.5% per annum.

**Required:**

With suitable calculations, illustrate the accounting treatment of the above transactions from 1 January 2021 to 31 December 2024 in the financial statements of Trends Limited in accordance with International Financial Reporting Standard (IFRS) 9 "Financial Instruments: Recognition and Measurement".

(Round your answers to the nearest one thousand). (8 marks)



	Sh. "000"	Sh. "000"
<b>Non-current liabilities:</b>		
10% loan notes (2028)	16,500	10,500
Government grants	6,300	4,800
Deferred tax	3,840	1,620
<b>Current liabilities:</b>		
Trade payables	22,400	17,540
Current tax	5,370	5,550
Government bonds	<u>1,620</u>	<u>1,200</u>
	<u>155,360</u>	<u>127,270</u>

**Statement of profit or loss and other comprehensive income for the year ended 31 December 2024:**

	Sh. "000"
Revenue	113,100
Cost of sales	<u>(89,720)</u>
	23,380
Other operating income – government grant	<u>1,500</u>
	24,880
Other operating expenses	<u>(6,690)</u>
	18,190
Finance cost	<u>(1,410)</u>
Profit before tax	16,780
Income tax expenses	<u>(5,310)</u>
Profit after tax	11,470
Other comprehensive income	
Gain on property revaluation	<u>5,100</u>
Total comprehensive income for the year	<u>16,570</u>

**Additional information:**

- During the year ended 31 December 2024, motor vehicle with a cost of Sh.5.26 million with accumulated depreciation of Sh.2.33 million was disposed for a cash proceeds of Sh.4.020 million. The gain on disposal has been included in the other operating income.
- Bestway Limited acquired new plants during the year ended 31 December 2024 at a cost of Sh.3.6 million from a financing company. An arrangement was made at the date of acquisition for the liability for the plant to be settled by Bestway Limited issuing at par a 10% loan note dated 2028 to the finance company. The value by which the loan note exceeded the liability for the plant was received from the finance company in cash.
- Depreciation charged on property, plant and equipment during the year was Sh.10.98 million and was included in the cost of sales.
- Intangible assets were amortised during the year and amortisation charged to the profit and loss amounted to Sh.1,080,000.
- During the year ended 31 December 2024, Bestway Limited made a bonus issue of ordinary shares of one new share for every ten shares held utilising the share premium account.

**Required:**

Statement of cash flows for Bestway Limited for the year ended 31 December 2024 using indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". (16 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**

**FINANCIAL REPORTING AND ANALYSIS**

**WEDNESDAY: 4 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) With reference to International Financial Reporting Standard (IFRS) 9 “Financial Instruments: Recognition and Measurement”, explain the following ways of measuring financial assets that are investments in debt securities:
- (i) At amortised cost. (2 marks)
  - (ii) At fair value through other comprehensive income (OCI). (2 marks)
  - (iii) At fair value through profit or loss. (2 marks)
- (b) Potters Ltd. borrowed Sh.120 million on 1 July 2023 at the rate of 9% per annum to finance two capital projects namely; “Cometic” and “Robotic” projects. The funds were invested in the two projects as follows:

	Project	
	Cometic Sh.“000”	Robotic Sh.“000”
1 July 2023	20,000	40,000
1 January 2024	20,000	40,000

Unutilised funds on 1 July 2023 were invested temporarily at the rate of 7% per annum.

**Required:**

- (i) Determine borrowing costs to be capitalised for each of the project as at 30 June 2024. (4 marks)
  - (ii) Compute the value of the investment in the books of Potters Ltd. as at 30 June 2024. (2 marks)
- (c) The following information was obtained from the Ministry of Finance of a developing country with a view of presentation of budget information for the fiscal year ended 30 June 2024:

	Budgeted amounts Sh.“billion”	Actual amounts Sh.“billion”
<b>Receipts:</b>		
Taxes	1,175	968
Local borrowings	558	495
Overseas borrowings	630	716
Donations from foreign agencies	378	486
Trading activities	754	1,066
Sale of fixed assets	792	1,012
Other receipts	261	220
<b>Payments:</b>		
Internal security	806	738
Education	797	810
Agriculture	263	291
Health	423	486

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	Sh. "billion"	Sh. "billion"
Affordable housing	450	410
Social welfare	218	216
Transport	535	540
Defence	389	512
Other payments	475	627

**Additional information:**

During the year ended 30 June 2024, the National Assembly approved a supplementary budget for the following votes:

	Sh. "billion"	
Overseas borrowings	54	Addition
Sale of fixed assets	140	Addition
Education	63	Addition
Health	37	Addition
Affordable housing	(32)	Reduction

**Required:**

Prepare a statement of comparison of budget and actual amounts for the fiscal year ended 30 June 2024 as per the requirements of International Public Sector Accounting Standard (IPSAS) 24 "Presentation of Budget Information in Financial Statements".

(8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) International Public Sector Accounting Standard (IPSAS) 4 "The effect of changes in foreign exchange rates" provides clear guidance on how entities should translate monetary items and non-monetary items as well as the treatment of the resultant exchange differences.

With reference to the above statement, explain how monetary items and non-monetary items should be translated and the treatment of their respective exchange differences. (4 marks)

- (b) On 1 November 2023, Kip Ltd. acquired a 75% of interest in Limah's equity shares. The acquisition was completed through a share for share transaction, where Kip Ltd. exchanged two of its own shares for every three Limah's Ltd. shares acquired. On the acquisition date, Kip Ltd.'s share price was Sh.40 per share.

Summarised below are the statements of profit or loss and other comprehensive income for Kip Ltd. and Limah Ltd. for the financial year ended 30 April 2024:

	Kip Ltd. Sh. "000"	Limah Ltd. Sh. "000"
Revenue	1,800,000	960,000
Cost of sales	(1,040,000)	(440,000)
Gross profit	760,000	520,000
Distribution costs	(94,400)	(48,000)
Administrative expenses	(108,000)	(92,000)
Finance cost	(6,000)	(4,800)
Profit before tax	551,600	375,200
Income tax expense	(192,000)	(111,200)
Profit for the year	359,600	264,000
Other comprehensive income:		
Gain on revaluation of land	10,000	4,000
Loss on fair value of equity financial assets	(2,800)	(1,600)
	7,200	2,400
Total comprehensive income	366,800	266,400

**Additional information:**

1. Details of equity as at 1 November 2023 before acquisition:

	Kip Ltd. Sh. "000"	Limah Ltd. Sh. "000"
Ordinary shares of Sh.10 each	1,000,000	640,000
Share premium	400,000	-

	Sh. "000"	Sh. "000"
Revaluation reserve	33,600	-
Equity reserve (financial asset)	12,800	8,800
Retained earnings	360,000	500,000
2. Kip Ltd, follows a policy of revaluing land to market value at the end of each reporting period. Limah Ltd. had previously measured its land at historical cost before being acquired. Since the acquisition, Limah Ltd.'s land increased by Sh.4 million in value, which it has recorded in its financial statements.		
3. After the acquisition on 1 November 2023, Kip Ltd. transferred plant equipment to Limah Ltd. at an agreed value of Sh.20 million. This equipment had a carrying amount of Sh.16 million at the transfer date and a remaining useful life of 2.5 years. Kip Ltd. accounted for the gain from this transaction by reducing its depreciation expenses. Depreciation is charged to cost of sales.		
4. Following the acquisition, Limah Ltd. sold goods to Kip Ltd. worth Sh.160 million, which had originally cost Limah Ltd. Sh.120 million. Of these, goods worth Sh.48 million remained in Kip Ltd.'s inventory at the year end.		
5. There has been no impairment in the goodwill arising from Kip Ltd.'s acquisition of Limah Ltd.		
6. All items within the profit or loss and other comprehensive income statements are considered to accrue evenly throughout the year.		
7. Non-Controlling Interest (NCI) in Limah Ltd. was valued at Sh.400 million during acquisition.		

**Required:**

- (i) Calculate the value of goodwill arising on acquisition of Limah Ltd. (4 marks)
- (ii) Prepare a consolidated statement of profit or loss and other comprehensive income for the year ended 30 April 2024. (12 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Outline the accounting treatment of government grants related to income in accordance with International Accounting Standard (IAS) 20 "Accounting for Government Grants". (4 marks)
- (b) The draft financial statements set out below relate to Betlite Limited, a public limited entity:

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

<b>Assets:</b>	<b>2024</b>	<b>2023</b>
<b>Non-current assets:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Property, plant and equipment	72,475	54,160
Intangible assets	15,700	12,240
Investments at fair value	<u>5,825</u>	<u>5,500</u>
	94,000	71,900
<b>Current assets:</b>		
Inventory	7,485	7,040
Accounts receivable	6,030	5,830
Cash and cash equivalents	<u>2,485</u>	<u>2,230</u>
Total assets	<u>110,000</u>	<u>87,000</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 par value)	50,000	40,000
Share premium	12,500	10,000
Revaluation reserve	9,500	5,000
Retained profit	<u>17,505</u>	<u>14,755</u>
Total equity	<u>89,505</u>	<u>69,755</u>
<b>Non-current liabilities:</b>		
Long-term borrowings	11,600	10,300
Deferred tax	2,370	1,955
<b>Current liabilities:</b>		
Accounts payable	4,645	3,505
Current tax	<u>1,880</u>	<u>1,485</u>
Total equity and liabilities	<u>110,000</u>	<u>87,000</u>

**Extract of statement of profit or loss and other comprehensive income for the year ended 31 October 2024:**

	<b>Sh. "000"</b>
Operating profit	5,540
Finance costs	(1,200)
Fair value gain on investments	<u>325</u>
Profit before tax	4,665
Income tax expense	(1,330)
Profit for the year	3,335
Other comprehensive income:	
Gain on property revaluation	<u>4,500</u>
Total comprehensive income for the year	<u>7,835</u>

**Additional information:**

- During the year ended 31 October 2024, the directors of the company accepted a property revaluation report at a gain of Sh.4,500,000. The company does not make inter-reserve transfer for excess depreciation upon revaluation.
- Depreciation on non-current tangible assets charged to profit or loss for the year amounted to Sh.2,780,000.
- During the year to 31 October 2024 new patent rights were acquired at a cost of Sh.4,000,000.
- The investments held by Betlite Limited are measured at fair value through profit or loss. Neither purchase nor sale of the investments occurred during the year.

**Required:**

A statement of cash flows for Betlite Limited for the year ended 31 October 2024 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". (16 marks)

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

Farmland Ltd. has been in operation for the past 15 years dealing in agricultural produce processing business. The following trial balance was extracted from the books of the company as at 31 October 2024:

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Revenue		278,400
Income from investment		4,500
Ordinary shares of Sh.20 each		150,000
Retained earnings		119,500
8% loan stock		50,000
Accounts payable		33,400
Deferred tax		12,500
Bank balance		15,400
Land and building at cost	270,000	
Plant at cost	156,000	
Accumulated depreciation : Building		60,000
Plant		26,000
Purchases	78,200	
Distribution cost	10,000	
Administrative expenses	5,500	
Loan interest paid	2,000	
Leased plant rental	22,000	
Dividends paid	15,000	
Inventory (1 November 2023)	37,800	
Accounts receivable	63,200	
Investments (Long-term)	<u>90,000</u>	
	<u>749,700</u>	<u>749,700</u>

**Additional information:**

- As at 31 October 2024, the inventories were valued at Sh.43.2 million.
- The land and buildings were purchased on 1 November 2008. The cost of land at the date of purchase was Sh.70 million. However, on 1 November 2023, the land and buildings were professionally valued at Sh.175 million and Sh.80 million respectively. The estimated useful life of the buildings before revaluation was 50 years. However, the revaluation did not change the useful life of the buildings. Plant is depreciated at 15% per annum using the reducing balance method.

- Depreciation expenses are to be included under cost of sales in the income statement.
3. On 1 November 2023, Farmland Ltd. entered into a five year lease agreement for an item of plant. This item had an estimated useful life of five years. The annual rental which was payable in advance with effect from 1 November 2023 was Sh.22 million. The fair value of the plant is Sh.92 million and the implicit interest rate is 10% per annum.
  4. The 8% loan stock was issued on 1 January 2024 and interest is payable six months in arrears.
  5. The income tax for the year ended 31 October 2024 is estimated at Sh.28.3 million. The deferred tax provision as at 31 October 2024 was to be increased to Sh.14.1 million.

**Required:**

- (a) Statement of profit or loss for the year ended 31 October 2024. (8 marks)
  - (b) Statement of changes in equity for the year ended 31 October 2024. (4 marks)
  - (c) Statement of financial position as at 31 October 2024. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) In relation to International Accounting Standard (IAS) 41 “Agriculture”, explain the following:
  - (i) Recognition of biological assets. (2 marks)
  - (ii) Measurement of biological assets. (2 marks)
- (b) Explain the **TWO** types of post-employment benefits plans in accordance with International Accounting Standard (IAS) 19 “Employee Benefits”. (4 marks)
- (c) Baraka Ltd. is a private limited company that operates in the hospitality industry.

The following statements of financial position have been extracted from accounting records of the company for analysis purposes:

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

	<b>2024</b>	<b>2023</b>
	<b>Sh. “000”</b>	<b>Sh. “000”</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	23,760	13,440
Intangible assets	<u>16,720</u>	<u>11,760</u>
	40,480	25,200
<b>Current assets:</b>		
Inventories	20,240	14,560
Trade receivables	17,600	10,640
Cash and cash equivalents	<u>9,680</u>	<u>5,600</u>
Total assets	<u>88,000</u>	<u>56,000</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	17,600	14,000
Share premium	1,760	1,400
Retained profit	<u>15,840</u>	<u>9,240</u>
Total equity	35,200	24,640
<b>Non-current liabilities:</b>		
Long term loans	14,080	7,840
Deferred tax	7,040	3,360
<b>Current liabilities:</b>		
Trade payables	18,480	12,880
Current tax	<u>13,200</u>	<u>7,280</u>
Total equity and liabilities	<u>88,000</u>	<u>56,000</u>

**Required:**

Prepare common-size vertical statements of financial position as at 31 August 2023 and 31 August 2024. (12 marks)

**(Total: 20 marks)**

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CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

WEDNESDAY: 21 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**

- (a) Distinguish between “taxable temporary differences” and “deductible temporary differences” as per the requirements of International Accounting Standard (IAS) – 12 “Income Taxes”. (4 marks)
- (b) Explain **THREE** limitations of common size financial statements. (6 marks)
- (c) International Public Sector Accounting Standard (IPSAS) 45 “Property, Plant and Equipment” provides public sector entities with a choice between the historical cost model and the current value model in the measurement of items of property, plant and equipment.

**Required:**

With reference to IPSAS 45 “Property, Plant and Equipment”, explain the accounting treatment of revaluation increases and revaluation decreases relating to property, plant and equipment in the financial statements of an entity that adopts the current value model. (4 marks)

- (d) Citing examples, describe the accounting treatment of changes in accounting policies in line with International Accounting Standard (IAS) 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. (6 marks)
- (Total: 20 marks)**

**QUESTION TWO**

The following information was extracted from the financial statements of Xcel Ltd., Yep Ltd. and Zed Ltd. for the year ended 30 June 2024.

**Statement of financial position as at 30 June 2024:**

	Xcel Ltd. Sh.“million”	Yep Ltd. Sh.“million”	Zed Ltd. Sh.“million”
<b>Non-current assets:</b>			
Property, plant and equipment	2,100	1,500	900
Intangible assets (including patents)	400	300	200
Investments	1,400	-	-
<b>Current assets:</b>			
Inventories	700	600	240
Trade receivables	640	340	160
Financial assets at fair value	360	260	240
Bank and cash balance	<u>200</u>	<u>100</u>	<u>160</u>
Total assets	<u>5,800</u>	<u>3,100</u>	<u>1,900</u>
<b>Equity and liabilities:</b>			
<b>Equity and reserves:</b>			
Ordinary share capital (Sh.20 per share)	1,600	400	200
Share premium	400	200	100
Retained earnings	<u>800</u>	<u>700</u>	<u>500</u>
Shareholders funds	2,800	1,300	800
<b>Non-current liabilities:</b>			
10% debentures	1,200	400	400
Deferred tax	500	200	100

	Xcel Ltd. Sh.“million”	Yep Ltd. Sh.“million”	Zed Ltd. Sh.“million”
<b>Current liabilities:</b>			
Trade payables	600	700	300
Current tax	500	300	200
Proposed dividends	<u>200</u>	<u>200</u>	<u>100</u>
Total equity and liabilities	<u>5,800</u>	<u>3,100</u>	<u>1,900</u>

**Additional information:**

1. Xcel Ltd. acquired its investments as follows:

Company	Number of shares acquired	Cost of investment Sh.“million”	Retained earnings Sh.“million”	Date of acquisition
Yep Ltd.	16 million	960	300	1 July 2022
Zed Ltd.	3 million	240	200	1 July 2023

Xcel Ltd. also invested in half of the 10% debentures of Yep Ltd. The fair value of the non-controlling interest in Yep Ltd. amounted to Sh.240 million.

2. The group use the full goodwill method. However it does not amortise goodwill, instead goodwill is assessed for impairment annually. Impairment tests for the year ended 30 June 2024 revealed that none of the goodwill is impaired.
3. Immediately prior to the date of its acquisition, Yep Ltd. revalued its non-current assets in readiness for acquisition as shown below:

	Carrying amount Sh.“million”	Fair value Sh.“million”	Remaining useful life in years
Equipment	500	580	10
Patents	300	320	10

Equipment and patents are depreciated or amortised on a straight-line basis over their remaining useful life respectively by Xcel Ltd.

4. During the year ended 30 June 2024, Xcel Ltd. sold non-current assets to Yep Ltd. for Sh.360 million. Xcel Ltd. marked-up the equipment at the rate of 20% per annum on cost. Yep Ltd. included the equipment in its non-current asset and charged depreciation at the rate of 20% per annum on cost.
5. During the year ended 30 June 2024, Yep Ltd. sold inventories to Xcel Ltd. for Sh.300 million. Yep Ltd. marked-up these goods at 25% on cost. Half of these goods were still held by Xcel Ltd. at the year end.
6. Xcel Ltd. owed Yep Ltd. Sh.200 million as at the year end with regards to the transaction in note 5 above. The books of Xcel Ltd. however showed that it owed Yep Ltd. Sh.160 million. Xcel Ltd. had sent a cheque to Yep Ltd. on 24 June 2024 which was not received by Yep Ltd. until 2 July 2024.

**Required:**

- (a) Calculate the value of the goodwill arising on acquisition of the investments in Yep Ltd. and Zed Ltd. (6 marks)
- (b) Prepare the group statement of financial position as at 30 June 2024. (14 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Alfa Ltd. has an year end of 30 June. On 25 April 2024, Alfa Ltd. bought goods from a Mexican supplier for 286,000 Pesos. The goods were still in inventory at year end.

The following exchange rates are applicable:

Exchange rates	Pesos to Ksh.
25 April 2024	11.16
16 May 2024	10.87
30 June 2024	11.02

**Required:**

Show the accounting entries for the transaction in each of the following events:

- (i) On 16 May 2024, Alfa Ltd. pays the Mexican supplier in full. (2 marks)
- (ii) The supplier remains unpaid at the year ended 30 June 2024. (2 marks)

(b) The following trial balance was extracted from the books of Lakers Ltd. as at 30 June 2024:

	Sh. "000"	Sh. "000"
Revenue		1,153,800
Cost of sales	678,900	
Distribution costs	95,700	
Administrative expenses	118,400	
Inventory as at 30 June 2024	117,500	
Trade receivables and trade payables	155,600	87,200
Bank balance	29,800	
Ordinary share capital (Sh.10 par value)		60,000
Share premium		5,000
Retained earnings as at 1 July 2023		44,300
Property at cost (Buildings: Sh.150 million)	220,000	
Plant and equipment at cost	102,000	
Motor vehicles at cost	28,000	
Furniture and fixtures at cost	12,000	
Accumulated depreciation as at 1 July 2023:		
• Buildings		75,000
• Plant and equipment		29,600
• Motor vehicles		11,200
• Furniture and fixtures		4,800
Deferred tax		16,600
Current tax	2,800	
Investment property at fair value	7,800	
12% bank loan		87,500
Interest paid	5,250	
Interim dividend paid	1,250	
	<u>1,575,000</u>	<u>1,575,000</u>

**Additional information:**

1. On 1 July 2023, the property of Lakers Limited was revalued for the first time to a market value of Sh.190 million of which Sh.100 million related to the buildings. The buildings were being depreciated on a straight line basis over their economic useful life, originally of 50 years and annual depreciation charged to administrative expenses.

The remaining useful life of buildings remained unchanged. Lakers Limited will make annual transfer to retained earnings in respect of excess depreciation upon revaluation of its assets. However, the company does not intend to account for deferred tax on the revaluation surplus.

2. Depreciation on other non-current assets is to be provided and allocated as follows:

Assets	Rate per annum	Basis	Allocation
Plant and equipment	12.5%	Reducing balance	Cost of sales
Motor vehicles	20%	Straight line	Distribution
Furniture and fixtures	10%	Straight line	Administrative

3. The 12% bank loan was issued on 1 October 2023 with the same effective interest rate as the coupon rate. Interest is payable semi-annually on 31 March and 30 September.

4. Investment property has been recorded at its fair value on 1 July 2023. The fair value gain on the investment property for the year ended 30 June 2024 amounted to Sh.1,100,000.

5. The balance on the current tax in the above trial balance represents the withholding tax paid on the company's behalf. The current income tax for the year ended 30 June 2024 is estimated at Sh.69 million. In addition, the carrying amounts of Lakers Limited's net assets exceeded their tax bases by Sh.73 million at 30 June 2024.

The corporation tax rate applicable to Lakers Limited is 30%.

6. During the year ended 30 June 2024, the company made a rights issue of ordinary shares at a concessionary price of Sh.12 per share, on the basis of one new share for every five held. The rights issue had already been posted in the financial records of Lakers Limited.

**Required:**

- (i) Statement of profit or loss and other comprehensive income for the year ended 30 June 2024. (6 marks)
- (ii) Statement of changes in equity for the year ended 30 June 2024. (4 marks)
- (iii) Statement of financial position as at 30 June 2024. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) In the context of International Accounting Standard (IAS) 10 “Events After the Reporting Period”, distinguish between “adjusting events” and “non-adjusting events”. (4 marks)
- (b) John, Kelvin and Linet have been into partnership business for several years sharing profits and losses in the ratio of 5:3:2 respectively after allowing for a 10% interest on fixed capital balances of the partners. No salaries or commission were to be paid to partners.

The trial balance as at 30 June 2024 extracted from the financial records of the business revealed the following:

	Sh. “000”	Sh. “000”
Net profit for the year		42,800
Inventory as at 30 June 2024	28,400	
Accounts receivable	23,800	
Accounts payable		32,700
Bank overdraft		6,800
Property at carrying amount	72,950	
Plant and machinery at carrying amount	37,730	
Motor vehicles at carrying amount	10,580	
Office equipment at carrying amount	25,240	
Equity investments at fair value	10,000	
<b>Capital accounts:</b> John		43,700
Kelvin		28,500
Linet		18,800
<b>Current accounts:</b> John		14,790
Kelvin		12,960
Linet		9,850
<b>Drawings:</b> John	4,370	
Kelvin	4,020	
Linet	2,910	
Loan from Kelvin		<u>9,100</u>
	<u>220,000</u>	<u>220,000</u>

**Additional information:**

The partnership was converted into a limited liability company JKL Limited with effect from 1 July 2024 under the following terms:

- The purchase consideration on business purchase was agreed at Sh.150 million and the new company issued 15 million ordinary shares of Sh.10 par value each in full satisfaction of the purchase consideration.
- Equity investments were taken over by the partners at the new fair value of Sh.18 million and allocated to the partners in their profit and loss sharing ratios.
- Loan from partner Kelvin was transferred to the new company at its carrying amount.
- Other assets and liabilities of the partnership were taken over by the new company at the following values:

	Sh. “000”
• Property	74,560
• Plant and machinery	35,200
• Motor vehicles	9,520
• Office equipment	23,660
• Inventory at book value less 15%	
• Accounts receivable at book value less 10%	
• Current liabilities at book value	

- The new company issued two million ordinary shares of Sh.10 each at par value. The proceeds from the issue were utilised to settle the bank overdraft and the loan taken over, with the balance used as working capital.

**Required:**

The following ledger entries to close off the books of the partnership:

- (i) Realisation account. (4 marks)
- (ii) Partners current accounts. (4 marks)
- (iii) Partners capital accounts. (3 marks)
- (iv) Opening statement of financial position for JKL Limited as at 1 July 2024. (5 marks)

**(Total: 20 marks)**

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**QUESTION FIVE**

- (a) Top Ltd. a Construction Company entered in a leasing agreement on 31 December 2023 for a piece of equipment costing Sh.94,920,000, with Zuk Bank Ltd. The lease requires Top Ltd. to pay an annual rent of Sh.27,220,000 payable in advance. The primary period of the lease is for 4 years. After the end of the primary period, Top Ltd. has the right to extend the lease indefinitely on a payment of a nominal annual rental. Top Ltd. believes that the equipment will last for 4 years and will have no scrap value at the end of that period. Top Ltd. depreciates assets of this type using straight line basis. Top Ltd. and Zuk Bank Ltd. have accounting periods ending 31 December. The implicit rate of interest is 10%.

**Required:**

- (i) Show how the above transactions will be reflected in the statement of profit or loss extracts of Top Ltd. for each of the 5 years ending 31 December 2023, 31 December 2024, 31 December 2025, 31 December 2026 and 31 December 2027. (3 marks)
- (ii) Prepare an extract statement of financial position of Top Ltd. as at 31 December 2023, 31 December 2024, 31 December 2025, 31 December 2026 and 31 December 2027. (6 marks)
- (b) Explain the following terms as used in the accounts of professional practitioners:
- (i) Office account. (1 mark)
- (ii) Client account. (1 mark)
- (c) The following trial balance was extracted from the books of Kakai and Kabanze a firm of practicing advocates as at 31 July 2024:

	Sh.“000”	Sh.“000”
Cash at bank: Client account	3,720	
Office account	8,355	
Furniture, fitting and library books	6,750	
Insurance expenses	1,275	
Disbursement on behalf of clients	13,500	
Accounts payables		4,080
Work-in-progress (1 August 2023)	5,520	
Clients for the money held on their behalf		3,720
Cost charged to clients		37,500
Communication expenses	2,730	
Printing and stationery	5,250	
Rent and rates	9,000	
Salaries	10,800	
Drawings	9,000	
Capital account		30,600
	<u>75,900</u>	<u>75,900</u>

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**Additional information:**

- The uncompleted work on 31 July 2024 was valued at Sh.3,525,000.
- Depreciation to be provided at 20% per annum on the book value of the furniture, fittings and library books.

**Required:**

- (i) Statement of profit or loss for the year ended 31 July 2024. (4 marks)
- (ii) Statement of financial position as at 31 July 2024. (5 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**  
**FINANCIAL REPORTING AND ANALYSIS**

**WEDNESDAY: 24 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) The objective of International Accounting Standard (IAS) 2 – Inventories, is to prescribe the accounting treatment for inventories for various types of business organisations.

**Required:**

Summarise the key requirements of IAS 2 for manufacturing entity under the following headings:

- (i) Scope of the term “inventories”. (2 marks)
- (ii) Measurement of inventories. (3 marks)
- (iii) Disclosure requirements. (3 marks)
- (b) Highlight **FOUR** categories of expenses that should be recognised in the statement of profit or loss in accordance with International Accounting Standard (IAS) 19 – Employee benefits. (4 marks)
- (c) International Financial Reporting Standard (IFRS) 15 – Revenue from contracts with customers specifies how and when an entity will recognise revenue. (3 marks)

The standard provides a single principle based five-step model to be applied to all contracts with customers.

**Required:**

Describe the five-step model as specified under IFRS 15. (5 marks)

- (d) With reference to International Financial Reporting Standard (IFRS) 9 – Financial instruments, explain the requirement for derecognition of financial instruments. (3 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The following trial balance was extracted from the books of Kaleb Ltd. as at 31 March 2024:

	Sh. “000”	Sh. “000”
Ordinary share capital		475,00
Share premium		95,000
Retained profit (1 April 2023)		184,600
8% loan note		120,000
Revenue		1,783,800
Cost of sales	1,300,500	
Distribution costs	209,900	
Administrative costs	258,600	
Inventory (31 March 2024)	308,000	
Trade receivables	382,400	
Trade payables		388,300
Bank balance		27,500
Deferred tax	33,000	
Property at cost (Land Sh.87 million)	457,000	

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Plant and equipment at cost	360,000	
Motor vehicles at cost	82,000	
Fixtures and fittings at cost	64,000	
<b>Accumulated depreciation (1 April 2023):</b>		
- Building		162,800
- Plant and equipment		119,400
- Motor vehicles		41,000
- Fixtures and fittings		25,600
Interest paid	9,600	
Suspense account		42,000
	<u>3,465,000</u>	<u>3,465,000</u>

**Additional information:**

- During the year ended 31 March 2024, the company sold of an item of plant with a carrying amount of Sh.46,200,000 for cash proceeds of Sh.42,000,000. The disposal proceeds were credited to the suspense account.  
Plant and equipment is depreciated at the rate of 12.5% per annum on reducing balance basis. Full year depreciation is provided in the year of asset purchase and none in the year of disposal. Depreciation and any gain or loss on disposal of plant and equipment should be classified under the cost of sales.
- Depreciation on other non-current assets is provided and allocated as follows:

Asset	Rate per annum (%)	Basis	Allocation
Building	2	Straight line	Administration
Motor vehicles	25	Straight line	Distribution
Fixtures and fittings	10	Straight line	Administration
- The 8% loan note was issued on 1 April 2023 and will be redeemable in three years' time at a substantial premium which gives an effective interest rate of 10% per annum.
- Tax provision for the year to 31 March 2024 was determined to be a tax credit estimated at Sh.15,700,000. In addition, at 31 March 2024, the tax bases of assets and liabilities exceeded their carrying amounts by Sh.121,000,000.  
The income tax rate applicable to Kaleb Ltd. is 30%.

**Required:**

- Property, plant and equipment movement schedule for the year ended 31 March 2024. (4 marks)
  - Statement of profit or loss for the year ended 31 March 2024. (6 marks)
- (b) On 30 June 2022, Fora Ltd. had a credit balance on its deferred tax account of Sh.1,340,600 all in respect of differences between depreciation and capital allowances.

During the year ended 30 June 2023, the following transactions took place:

- Sh.45 million was charged against profit in respect of depreciation. The tax computation showed capital allowances of Sh.50 million.
- Interest receivable of Sh.50,000 was reflected in profits for the period. However, only Sh.45,000 of interest was actually received during the year. Interest is not taxed until received.
- Interest payable of Sh.32,000 was treated as an expense for the period. However, only Sh.28,000 of interest was actually paid during the year. Interest is not an allowable expense for tax purposes until it is paid.
- During the year, Fora Ltd. incurred development costs of Sh.500,600 which it has capitalised. Development costs are an allowable expense for tax purposes in the period in which they are paid.
- Land and buildings with a net book value of Sh.4,900,500 were revalued to Sh.6 million.
- The tax rate is 30%.
- Fora Ltd. has a right to offset deferred tax asset and deferred tax liabilities.

**Required:**

Determine the deferred tax liability on 30 June 2023.

(10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

Poloh Ltd. acquired 90% of the ordinary shares of Sh.10 par value in Soloh Ltd. on 1 November 2021 paying Sh.30 per share. The balance on Soloh Ltd.'s retained reserves at this date was Sh.9,600 million.

On 1 May 2023, Poloh Ltd. acquired 30 % of Aloh Ltd.'s Sh.10 ordinary shares for Sh.35 per share.

The statements of financial position of the three companies as at 31 October 2023 are provided below:

Statements of financial position as at 31 October 2023:

	Poloh Ltd. Sh. "million"	Soloh Ltd. Sh. "million"	Aloh Ltd. Sh. "million"
<b>Non-current assets:</b>			
Property, plant and equipment	96,600	43,200	19,800
Investments	<u>48,000</u>	<u>10,920</u>	<u>-</u>
	<u>144,600</u>	<u>54,120</u>	<u>19,800</u>
<b>Current assets:</b>			
Inventories	9,960	4,080	3,000
Trade receivables	6,240	3,480	4,200
Bank balances	<u>2,880</u>	<u>-</u>	<u>1,200</u>
	<u>19,080</u>	<u>7,560</u>	<u>8,400</u>
Total assets	<u>163,680</u>	<u>61,680</u>	<u>28,200</u>
<b>Equity and liabilities:</b>			
<b>Equity:</b>			
Ordinary share capital (Sh.10 each)	60,000	14,400	7,200
Revenue reserves	<u>87,600</u>	<u>26,400</u>	<u>16,800</u>
	<u>147,600</u>	<u>40,800</u>	<u>24,000</u>
<b>Non-current liabilities:</b>			
10% debentures	<u>6,000</u>	<u>2,880</u>	<u>-</u>
<b>Current liabilities:</b>			
Trade payables	5,040	11,520	2,400
Current tax	5,040	4,200	1,800
Bank overdraft	<u>-</u>	<u>2,280</u>	<u>-</u>
	<u>10,080</u>	<u>18,000</u>	<u>4,200</u>
Total equity and liabilities:	<u>163,680</u>	<u>61,680</u>	<u>28,200</u>

**Additional information:**

1. The details relating to revenue reserves were as follows:

	Poloh Ltd. Sh. "million"	Soloh Ltd. Sh. "million"	Aloh Ltd. Sh. "million"
Revenue reserves as at 1 November 2022	72,000	16,800	9,600
Retained earnings for the year ended 31 October 2023	<u>15,600</u>	<u>9,600</u>	<u>7,200</u>
	<u>87,600</u>	<u>26,400</u>	<u>16,800</u>

2. It is the group's policy to value non-controlling interest at acquisition date at fair value. The fair value of non-controlling interest on 1 November 2021 was Sh.3,600 million.
3. A cheque of Sh.480 million from Soloh Ltd. to Poloh Ltd. was not received until 3 November 2023. Intercompany balances are included in the accounts receivables and payables as appropriate.
4. In October 2023, Poloh Ltd. sold goods to Aloh Ltd. for Sh.780 million. These were transferred at a mark-up of 30% on cost. Two thirds of these goods were still in the inventory of Aloh Ltd. as at 31 October 2023.
5. Just prior to its acquisition, Soloh Ltd. was successful in applying for a six year licence to dispose of waste products. The licence was granted by the County government at no cost. However, Soloh Ltd. estimated that the licence was worth Sh.2,160 million at the date of acquisition.
6. On 1 November 2021, Soloh Ltd. owned an investment property that had a fair value of Sh.1,440 million in excess of its book value. The value of this property has not changed since acquisition.

**Required:**

- (a) Computation of goodwill on each investment. (4 marks)
- (b) Group statement of financial position as at 31 October 2023. (16 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) In the context of International Public Sector Accounting Standard (IPSAS) 23 – Revenue from non-exchange transactions (taxes and transfers):
- (i) Explain when an entity is required to recognise an asset in respect of taxes. (4 marks)
- (ii) Citing **TWO** suitable examples, explain the term “transfers”. (4 marks)
- (b) Mazuri benefits scheme is a registered retirement scheme. The trustees of the scheme extracted the following trial balance as at 30 September 2023:

	Sh. “million”	Sh. “million”
Interest receivable	80	
Payable to members		8
Receivable from members	635.6	
Current account deposits	32.2	
Fixed deposits	260	
Accumulated fund balance (1 October 2022)		7,640
Employer’s contribution		630.6
Offshore investment in shares	1,200	
Property, plant and equipment	800	
Government securities	590	
Investment in unquoted shares	2,500	
Investment in quoted shares	3,000	
Provision for exchange losses		160
Interest on investments		640
Members contributions		250.2
Management expenses	7	
Withdrawals from scheme	15	
Pensions and commutations	209	
	<u>9,328.8</u>	<u>9,328.8</u>

**Additional information:**

- Interest on investments amounting to Sh.24.5 million was accrued as at 30 September 2023.
- Management expenses of Sh.450,000 was prepaid as at 30 September 2023.

**Required:**

- (i) Statement of changes in net assets for the year ended 30 September 2023. (6 marks)
- (ii) Statement of net assets as at 30 September 2023. (6 marks)

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

- (a) The following information was extracted from the financial records of the Ministry of Public Works for the fiscal year ended 30 June 2023:

	Sh. “million”
Accumulated fund as at 1 July 2022	17,850
Transfers in from exchequer	6,320
Transfers in from other ministries	1,870
Transfers out to other ministries	860
Fines and penalties	2,240
Wages, salaries and other emoluments	1,960
Finance expenses	680
Supplies consumed	1,790
Revenue from exchange transactions	6,730
Premises	26,390
Motor vehicles	20,350
Computers and accessories	1,430
Furniture and equipment	3,320
Receivables	13,680
Cash and cash equivalents	1,290
Payables	7,140
Long-term borrowings	29,600

**Required:**

Prepare the following financial statements for the Ministry of Public Works for the fiscal year ended 30 June 2023 in accordance with International Public Sector Accounting Standard (IPSAS) 1 “Presentation of Financial Statements”:

- (i) Statement of financial performance for the year ended 30 June 2023. (6 marks)
  - (ii) Statement of financial position as at 30 June 2023. (6 marks)
- (b) On 1 December 2020, Zalendo Ltd. issued a 9% convertible loan stock at par value of Sh.120,000,000. There were no issue costs. Interest on loan stock is payable in arrears on 30 November each year.

The loan stock will be redeemable at par on 1 December 2024 or may be converted into 180 ordinary shares for every Sh.100 of the loan stock.

An equivalent loan stock without the conversion option would have carried an interest rate of 11% per annum.

**Required:**

With suitable calculations, demonstrate the accounting treatment of the above transactions in the financial statements of Zalendo Ltd. for the years ended 30 November: 2021, 2022, 2023 and 2024 (Round your answers to the nearest thousand). (8 marks)

**(Total: 20 marks)**

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CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

WEDNESDAY: 6 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) With reference to International Financial Reporting Standard (IFRS) 6 – Exploration for and Evaluation of Mineral Resources:

- (i) State the underlying principle for measurement of exploration and evaluation assets. (2 marks)
- (ii) Describe **THREE** circumstances that indicate that an entity should test exploration and evaluation assets for impairment. (3 marks)

(b) International Financial Reporting Standard (IFRS) 15 – Revenue from Contracts with Customers establishes the principles that an entity shall apply to report information about the nature, amount, timing and uncertainty of revenue from a contract with a customer.

**Required:**

Summarise **FIVE** ways through which the benefits of an asset can be obtained in the context of IFRS 15.

(5 marks)

(c) International Accounting Standard (IAS) 26 – Accounting and Reporting by Retirement Benefit Plans provides the financial statements to be prepared by defined benefit plans.

Explain **TWO** key statements required under IAS 26.

(4 marks)

(d) (i) Explain the term “heritage assets” as applied under International Public Sector Accounting Standard (IPSAS) 17 – Property, Plant and Equipment, citing suitable examples. (3 marks)

(ii) Describe **THREE** characteristics of heritage assets.

(3 marks)

**(Total: 20 marks)**

**QUESTION TWO**

G Limited acquired 80% of the ordinary shares of Sh.10 par value in S Limited on 1 February 2023 at a cost of Sh.3,612 million. G Limited had acquired 4,500,000 shares at a cost of Sh.488 million in B Limited on 1 November 2021 when B Limited’s revenue reserves stood at Sh.50 million.

The financial statements of the three companies for the year ended 31 October 2023 are provided below:

	<b>Statement of profit or loss</b>		
	<b>G Ltd.</b>	<b>S Ltd.</b>	<b>B Ltd.</b>
	<b>Sh.“million”</b>	<b>Sh.“million”</b>	<b>Sh.“million”</b>
Revenue	3,600	1,500	1,000
Cost of sales	<u>(1,400)</u>	<u>(600)</u>	<u>(400)</u>
Gross profit	2,200	900	600
Investment income	150	-	-
Administrative expenses	(500)	(330)	(200)
Distribution costs	(200)	(120)	(100)
Finance cost	<u>(80)</u>	<u>(60)</u>	<u>(40)</u>
Profit before tax	1,570	390	260
Income tax expense	<u>(300)</u>	<u>(150)</u>	<u>(80)</u>
Profit after tax	1,270	240	180
Dividends paid	<u>(600)</u>	<u>(120)</u>	<u>(100)</u>
Retained profit for the year	<u>670</u>	<u>120</u>	<u>80</u>

**Statement of financial position as at 31 October 2023:**

	<b>G Ltd.</b> Sh.“million”	<b>S Ltd.</b> Sh.“million”	<b>B Ltd.</b> Sh.“million”
<b>Non-current assets:</b>			
Property, plant and equipment	5,000	4,200	1,900
Investment	<u>4,500</u>	<u>450</u>	<u>-</u>
	<u>9,500</u>	<u>4,650</u>	<u>1,900</u>
<b>Current assets:</b>			
Inventory	1,200	900	500
Trade receivables	900	900	350
Cash and cash equivalents	<u>400</u>	<u>300</u>	<u>150</u>
	<u>2,500</u>	<u>2,100</u>	<u>1,000</u>
Total assets	<u>12,000</u>	<u>6,750</u>	<u>2,900</u>
<b>Equity and liabilities:</b>			
Ordinary share capital	6,000	2,000	1,200
Share premium	1,500	400	300
Retained profit	<u>2,500</u>	<u>1,950</u>	<u>300</u>
	<u>10,000</u>	<u>4,350</u>	<u>1,800</u>
<b>Non-current liabilities:</b>			
10% loan stock	800	1,000	400
Deferred tax	<u>200</u>	<u>560</u>	<u>180</u>
	<u>1,000</u>	<u>1,560</u>	<u>580</u>
<b>Current liabilities:</b>			
Trade payables	800	750	430
Accruals	40	30	50
Current tax	<u>160</u>	<u>60</u>	<u>40</u>
	<u>1,000</u>	<u>840</u>	<u>520</u>
Total equity and liabilities	<u>12,000</u>	<u>6,750</u>	<u>2,900</u>

**Additional information:**

- On date of acquisition, the fair value of identifiable net assets of S Ltd. approximated their carrying amount except for an item of plant whose fair value was in excess of its carrying value by Sh.150 million. This item of plant had a remaining economic useful life of 5 years.
- On 30 September 2023, S Ltd. sold goods worth Sh.100 million to G Ltd. reporting a gross profit margin of 20% on this sale. G Ltd. had neither received nor recorded those goods in its books of account as at 31 October 2023.
- The group policy is to measure the non-controlling interest at their proportionate share of net assets in the subsidiary at the date of acquisition.
- The inter-company outstanding balances between G Ltd. and S Ltd. did not agree due to goods in transit as per note 2 above. As at 31 October 2023, the trade receivables of S Ltd included Sh.60 million due from G Ltd. Amount due from B Ltd. to G Ltd. stood at Sh.20 million.
- Any goodwill on acquisition of the subsidiary or associate is considered impaired by 20%.

**Required:**

- (a) Consolidated statement of profit or loss for the year ended 31 October 2023. (10 marks)
- (b) Consolidated statement of financial position as at 31 October 2023. (10 marks)

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

R and M were partners in the business of buying and selling fruits for two activities; export and oil processing, sharing profits and losses in the ratio 2:1 for R and M respectively. The partners agreed that with effect from 1 October 2023, the business be split off and transferred to two separate companies; P Ltd. and Q Ltd. P Ltd. took over the fruit buying for export business while Q Ltd. took over the fruit buying for oil processing business.

The partnership's statement of financial position as at 30 September 2023 was as follows:

	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Land and building (cost)		750,000
Motor vehicles (cost)		300,000
Equipment (net book value)		90,000
Investment property		<u>9,000</u>
		1,149,000
<b>Current assets:</b>		
Cash in hand	3,000	
Trade receivables: Export	384,000	
Oil	648,000	
Inventory: Export	1,380,000	
Oil	<u>675,000</u>	<u>3,090,000</u>
Total assets		<u>4,239,000</u>
<b>Capital and liabilities:</b>		
Capital: R	1,500,000	
M	<u>900,000</u>	2,400,000
Current account: R	78,000	
M	<u>72,000</u>	150,000
<b>Non-current liabilities:</b>		
Bank loan		72,000
<b>Current liabilities:</b>		
Bank overdraft	537,000	
Trade payables: Export	924,000	
Oil	<u>56,000</u>	<u>1,617,000</u>
Total capital and liabilities		<u>4,239,000</u>

**Additional information:**

- P Ltd. took over all the non-current assets, cash, bank overdraft and its share of trade receivables, inventory and trade payables. Q Ltd. took its share of trade receivables, inventory and trade payables. The assets and liabilities were transferred at book values and the partners were paid Sh.300 million being goodwill for the oil business and Sh.240 million being goodwill for export business.
- The bank that had provided the loan agreed to accept Sh.43.2 million 10% debentures in P Ltd. and Sh.28.8 million 10% debentures in Q Ltd.
- On 1 October 2023, the purchase consideration was settled by the allotment of fully paid ordinary shares of Sh.20 each in the respective companies as follows:  
**R:** 71,250,000 shares in P Ltd. and the balance in shares in Q Ltd.  
**M:** 47,760,000 shares in Q Ltd. and the balance in shares in P Ltd.
- P Ltd. also raised a 12% debenture of Sh.600 million on 1 October 2023 and paid-off the bank overdraft. The expenses incurred in raising the 12% debentures amounted to Sh.21 million.
- P Ltd. and Q Ltd. also issued 3,000,000 and 4,500,000 fully paid ordinary shares of Sh.20 each respectively to two companies, E Ltd., and F Ltd. on 1 October 2023.
- None of the companies has amortised the goodwill.
- The formation expenses were paid by the respective companies as follows:

	Sh. "million"
<b>P Ltd.</b>	39
<b>Q Ltd.</b>	24

**Required:**

- Business purchases accounts. (6 marks)
- Partners' capital accounts. (2 marks)
- Bank account. (2 marks)
- Vendor's account. (2 marks)
- Statements of financial position for P Ltd. and Q Ltd. as at 31 October 2023 (assuming no other transactions took place). (8 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

The following financial information was extracted from the accounting records of Bundo Limited, a public limited company:

##### Statement of financial position as at 31 October:

	2023 Sh. "000"	2022 Sh. "000"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	118,400	113,600
Intangible assets	<u>24,290</u>	<u>23,680</u>
	142,690	137,280
<b>Current assets:</b>		
Inventory	5,880	5,760
Trade receivables	4,070	4,290
Cash and cash equivalents	<u>6,360</u>	<u>4,670</u>
Total assets	<u>159,000</u>	<u>152,000</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	40,000	32,000
Share premium	3,000	2,600
Revaluation surplus	3,400	2,560
Retained profit	<u>52,770</u>	<u>42,400</u>
Total equity	<u>99,170</u>	<u>79,560</u>
<b>Non-current liabilities:</b>		
Long term borrowings	37,550	46,800
Deferred tax	6,750	7,070
<b>Current liabilities:</b>		
Trade payables	7,800	8,200
Current tax	4,230	5,570
Interest payable	<u>3,500</u>	<u>4,800</u>
Total equity and liabilities	<u>159,000</u>	<u>152,000</u>

##### Statement of comprehensive income for the year ended 31 October 2023:

	Sh. "000"
Revenue	312,300
Cost of sales	<u>(211,400)</u>
Gross profit	100,900
Distribution costs	(35,280)
Administrative expenses	<u>(43,120)</u>
Profit from operations	22,500
Finance costs	<u>(3,800)</u>
Profit before tax	18,700
Income tax expense	<u>(4,830)</u>
Profit for the year	13,870
<b>Other comprehensive income:</b>	
Revaluation gain on property (net of deferred tax)	<u>840</u>
Total comprehensive income for the year	<u>14,710</u>

##### Additional information:

- The property, plant and equipment was made up as follows:

	31 October 2023 Sh. "000"	31 October 2022 Sh. "000"
Cost of valuation	138,200	126,200
Accumulated depreciation	<u>(19,800)</u>	<u>(12,600)</u>
Carrying amount	<u>118,400</u>	<u>113,600</u>

During the year ended 31 October 2023, the property was revalued upwards for a gain amounting to Sh.1,200,000. The company does not make any transfers for excess depreciation upon revaluation. However, it accounts for deferred tax on revaluation gain. The income tax rate applicable to Bundo Limited is 30%. Depreciation on property, plant and equipment has been charged to profit or loss.

- During the year ended 31 October 2023, Bundo limited acquired some patent rights at a cost of Sh.5,000,000. Any amortisation of intangible assets has been included in administrative expenses.
- The company repaid some borrowings which had matured during the year and issued new loans amounting to Sh.3,000,000.

**Required:**

A statement of cash flows for Bundo Limited for the year ended 31 October 2023 using the indirect method in accordance with the requirements of International Accounting Standard (IAS) 7 “Statement of cash flows”.

**(Total: 20 marks)**

**QUESTION FIVE**

The following trial balance was extracted from the books of Kima Ltd., a manufacturing company as at 31 October 2023:

	Sh.“000”	Sh.“000”
Ordinary share capital		2,500,000
Share premium		500,000
Revaluation reserve (1 November 2022)		600,000
Retained earnings (1 November 2022)		3,570,000
Purchases and revenue	3,000,000	17,400,000
Production cost	2,400,000	
Administrative expenses	1,960,000	
Distribution cost	740,000	
Interest on loan	100,000	
Research and development	940,000	
Land and building at valuation (1 November 2022)	3,400,000	
Equipment at cost	9,000,000	
Investment property at valuation (1 November 2022)	4,400,000	
Accumulated depreciation (1 November 2022):		
- Building		800,000
- Equipment		900,000
Intangible assets at cost	1,000,000	
Accumulated amortisation (1 November 2022)		100,000
Inventory (1 November 2022)	100,000	
Bank balance	800,000	
Trade receivables and trade payables	700,000	800,000
10% bank loan		2,000,000
Interim dividends paid	700,000	
Corporate tax		<u>70,000</u>
	<u>29,240,000</u>	<u>29,240,000</u>

**Additional information:**

- Inventory as at 31 October 2023 was valued at Sh.130,000,000, but it was subsequently discovered that goods included in this value with a cost of Sh.14,000,000 were sold for Sh.4,000,000.
- Kima Ltd. took out the bank loan of Sh.2,000,000,000 on 1 November 2022 which is repayable in four equal annual installments. The interest rate on the loan is 10% per annum payable semi-annually.
- The corporation tax for the previous year was paid during the current year. The corporation tax for the year ended 31 October 2023 was Sh.1,250,000,000.
- The directors have discovered that a customer who owed Sh.250,000,000 as at year end was declared bankrupt.
- Included in the revenue is a grant from the government of Sh.300,000,000 that Kima Ltd. received for accepting to employ additional youth in the next financial year.
- Research and development expenditure comprised of:
  - Sh.160,000,000 on general research.
  - Sh.134,000,000 on developing new technology. At the end of the year the directors did not have confidence that the development will be successful.
  - Sh.643,000,000 on development of new production technology. The development is almost complete and the directors are highly confident that the technology would result in significant cost savings.
- Intangible assets at cost relate to a development that was being amortised over a useful life of 10 years. As at 1 November 2022, this was reviewed and was then assessed as having a remaining useful life of 6 years.
- The Sh.3,400,000,000 relating to land and building is based on last year’s valuation and includes land at a valuation of Sh.2,000,000,000 and has an indefinite useful life. The building should be depreciated on the value at the start of the year. The remaining useful life was 20 years as at 1 November 2022.

9. As at 31 October 2023, the values were as follows:
- Land Sh.2,500,000,000
  - Building Sh.1,140,000,000
10. Equipment is depreciated on straight line basis over 5 years. Kima Ltd. estimated that the equipment is used in the business on the following basis:
- 50% on production.
  - 25% in the administrative functions.
  - 25% in the distribution functions.
11. As at 31 October 2023, investment property was valued at Sh. 5,000,000,000 and the company policy is to use fair value on investment valuation.

**Required:**

- (a) A statement of comprehensive income for the year ended 31 October 2023. (10 marks)
- (b) Statement of financial position as at 30 October 2023. (10 marks)
- (Total: 20 marks)**
- .....



CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

WEDNESDAY: 23 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) International Public Sector Accounting Standard (IPSAS) 24 – Presentation of Budget Information in Financial Statements, requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable.

With reference to International Public Sector Accounting Standard (IPSAS) 24:

- (i) Differentiate between “original budget” and “final budget”. (2 marks)
- (ii) Explain the requirements of the standard where there are changes between the original and final budget. (2 marks)
- (iii) Summarise **TWO** key disclosure requirements of the standard. (4 marks)
- (b) Citing **TWO** practical examples, explain the meaning and application of “predictive analytics”, in the context of financial analysis. (6 marks)
- (c) With reference to International Accounting Standard (IAS) 21 – The Effects of Changes in Foreign Exchange Rates, describe the procedure for translating results and financial position of a foreign entity. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Somalax Ltd. has its head office in town A and a branch in town B. Orders are received from customers by the head office, processed, packaged and sold at a profit of 12% of the selling price. Finished products are sent to the branch at selling price less 6%.

The following are extracts from the company as at 31 December 2022:

	Head Office		Branch	
	Sh. “000”	Sh. “000”	Sh. “000”	Sh. “000”
Bank balance	316,000		124,000	
Branch office current account	720,000			
Head office current account				562,080
Trade payables		800,000		80,000
Trade receivables	560,000		300,000	
Other general expenses	800,000		80,000	
Goods sent to branch		3,196,000	3,138,080	
Sales		5,600,000		3,000,000
Purchase of material	8,000,000			
Packaging material	880,000			
Fixtures	320,000			
Capital		2,000,000		
	<u>11,596,000</u>	<u>11,596,000</u>	<u>3,642,080</u>	<u>3,642,080</u>

**Additional information:**

1. Fixtures are depreciated at the rate of 20% per annum on straight-line basis.
2. A provision is to be made for a bonus to the branch manager at the rate of 10% of the net profit after the bonus.
3. Finished products whose selling price to the public was Sh.61,618,000 were dispatched by head office to the branch on 30 December 2022 and were received on 10 January 2023.
4. The branch had sent cash amounting to Sh.100,000,000 to the head office on 28 December 2022. This amount was received on 8 January 2023.
5. Materials which cost the head office Sh.20,000,000 were considered worthless.
6. There was a loss of packaging materials costing Sh.10,000,000 at the head office.
7. There was a shortage of products from the head office at the branch valued at Sh.26,000,000. This loss was at invoice price by the head office to the branch.

**Required:**

- (i) The head office, branch and combined statement of profit or loss for the year ended 31 December 2022. (7 marks)
- (ii) The head office, branch and combined statement of financial position as at 31 December 2022, in a columnar format. (6 marks)

(b) Roy Ltd. has provided the following information to be used in inventory valuation:

Product	Cost Sh. "million"	Realisable value Sh. "million"	Selling expenses Sh. "million"
A	100	120	25
B	50	60	5
C	75	85	15

**Required:**

Determine the value of closing inventory for Roy Ltd. in compliance with International Accounting Standard (IAS) 2 - Inventories. (3 marks)

(c) On 1 January 2022, a farmer had a herd of 100 cattle all of which were 2 years old. At this date, the fair value less point of sale costs of the herd was Sh.10,000,000.

On 1 July 2022, the farmer purchased 20 cattle (each two and a half years old) for Sh.60,000 each.

As at 31 December 2022, three-year-old cattle were selling at the market for Sh.90,000 each. Market auctioneers usually charge a sales levy of 2%.

**Required:**

- (i) Valuation of cattle bought on 1 July 2022. (2 marks)
  - (ii) Valuation of cattle as at 31 December 2022. (1 mark)
  - (iii) Total charge to statement of profit and loss for the year ended 31 December 2022. (1 mark)
- (Total: 20 marks)**

**QUESTION THREE**

Pika Limited, a public limited entity intends to expand its operations by acquiring investments in other entities.

On 1 November 2022, Pika Limited secured a 75% equity interest in Shiba Limited under the following terms:

- An immediate cash payment at a fair value of Sh.13 per share on 1 November 2022.
- An issue of three ordinary shares of Sh.10 par value in Pika Limited for every five shares acquired in Shiba Limited. The fair value of a Pika Limited share was Sh.13 per share at the date of acquisition. The share issue has not yet been recorded by Pika Limited.

On the same date, Pika Limited also acquired a 30% equity shareholding in Amua Limited paying Sh.24 million in cash.

The following draft statements of financial position as at 30 April 2023 relate to Pika Limited and Shiba Limited:

	<b>Pika Limited</b> <b>Sh. "000"</b>	<b>Shiba Limited</b> <b>Sh. "000"</b>
<b>Non-current assets:</b>		
Property, plant and equipment	135,000	100,400
Investments: Shiba Limited (6 million shares at Sh.13 each)	78,000	-
Amua Limited	<u>24,000</u>	<u>-</u>
	237,000	100,400
<b>Current assets:</b>		
Inventory	28,400	12,100
Trade receivables	27,500	19,900
Cash and cash equivalents	<u>10,600</u>	<u>6,800</u>
Total assets	<u>303,500</u>	<u>139,200</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary shares of Sh.10 each	160,000	80,000
Retained profit: As at 1 May 2022	62,400	12,800
For the year ended 30 April 2023	<u>21,700</u>	<u>10,800</u>
Total equity	244,100	103,600
<b>Non-current liabilities:</b>		
10% bank loans	25,000	10,000
Deferred tax	3,700	3,100
<b>Current liabilities:</b>		
Trade payables	28,800	21,200
Current tax payable	<u>1,900</u>	<u>1,300</u>
Total equity and liabilities	<u>303,500</u>	<u>139,200</u>

**Additional information:**

- At the date of acquisition, the fair values of Shiba Limited's net assets approximated their carrying values with the exception of plant whose fair value exceeded its carrying amount by Sh.10 million.  
The plant had a remaining useful life of ten years at the date of Shiba Limited's acquisition. The plant is being depreciated on a straight-line basis. The plant is still carried at its carrying value in Shiba Limited's financial statements.
- No fair value adjustments were necessary on the acquisition of investment in Amua Limited.
- On 28 April 2023, Shiba Limited sent goods at an invoice price of Sh.7 million to Pika Limited which Pika Limited neither received nor recorded until 5 May 2023. Shiba Limited had marked up those goods by 25% on cost.  
The agreed trade payables recorded in the books of Pika Limited before the above transactions were Sh.6 million.
- Pika Limited's policy is to measure the non-controlling interests at fair value at the date of acquisition. For this purpose, the directors of Pika Limited considered Shiba Limited's share price of Sh.12 per share to be appropriate.
- Impairment tests performed on 30 April 2023 revealed that goodwill on acquisition of Shiba Limited had not been impaired, but due to declining sales of Amua Limited, the value of investment in Amua Limited had been impaired to the extent of Sh.2 million.
- Amua Limited reported a profit after tax of Sh.4 million for the year ended 30 April 2023.
- Assume all profits and losses of the three companies accrued evenly throughout the year.

**Required:**

- Calculate the value of goodwill arising on acquisition of Shiba Limited. (4 marks)
- Determine the value of investment in Amua Limited as at 30 April 2023. (4 marks)
- Prepare a consolidated statement of financial position for Pika Group as at 30 April 2023. (12 marks)

**(Total: 20 marks)**

## QUESTION FOUR

- (a) Lilongwe Ltd. is a public listed company. Details of the company's statement of financial position as at 31 March 2022 and 31 March 2023 are shown below together with other relevant information.

	2023		2022	
	Sh. "million"	Sh. "million"	Sh. "million"	Sh. "million"
<b>Non-current assets:</b>				
Property, plant and equipment		880		760
Intangible assets		<u>400</u>		<u>510</u>
		<u>1,280</u>		<u>1,270</u>
<b>Current assets:</b>				
Inventory	350		420	
Trade receivables	808		372	
Interest receivable	5		3	
Short term deposits	32		120	
Bank	<u>15</u>	<u>1,210</u>	<u>75</u>	<u>990</u>
Total assets		<u>2,490</u>		<u>2,260</u>
<b>Share capital and reserves:</b>				
Ordinary shares of Sh.1 each		300		200
<b>Reserves:</b>				
Share premium	60		-	
Revaluation reserves	112		45	
Retained earnings	<u>1,098</u>	<u>1,270</u>	<u>1,165</u>	<u>1,210</u>
Total equity		1,570		1,410
<b>Non-current liabilities:</b>				
12% loan note	-		150	
8% variable rate loan note	160		-	
Deferred tax	<u>90</u>	250	<u>75</u>	225
<b>Current liabilities:</b>				
Trade payables	530		515	
Bank overdraft	125		-	
Taxation	<u>15</u>	<u>670</u>	<u>110</u>	<u>625</u>
		<u>2,490</u>		<u>2,260</u>

### Additional information:

- Details of property, plant and equipment as at:

	31 March 2023			31 March 2022		
	Cost/ valuation Sh. "million"	Depreciation Sh. "million"	Carrying amount Sh. "million"	Cost/ valuation Sh. "million"	Depreciation Sh. "million"	Carrying amount Sh. "million"
Land and building	600	12	588	500	80	420
Plant	440	148	<u>292</u>	445	105	<u>340</u>
			<u>880</u>			<u>760</u>

- The company revalued the carrying value of land and building by an increase of Sh.70 million on 1 April 2022. On 31 March 2023, it transferred Sh.3 million from revaluation reserves to retained earnings relating to depreciation on revaluation of buildings.
- During the year, the company acquired new plant at a cost of Sh.60 million and sold some old plant for Sh.15 million, incurring a loss of Sh.12 million.

4. The following is the statement of profit or loss (extract) for the year ended 31 March 2023:

	Sh. "million"	Sh. "million"
Operating loss		(32)
Interest receivable		12
Finance costs		<u>(24)</u>
Loss before tax		(44)
Income tax repayment claim	14	
Deferred tax charge	<u>(15)</u>	<u>(1)</u>
<b>Loss for the period</b>		<b><u>(45)</u></b>
<b>Finance costs are made of:</b>		
Interest expenses	(18)	
Penalty for early loan redemption	<u>(6)</u>	
	<u>24</u>	

5. Short term deposits are deemed as cash equivalents.

6. Dividends of Sh.25 million were paid during the year.

**Required:**

Cash flow statement for Lilongwe Ltd. for the year ended 31 March 2023 in line with International Accounting Standard (IAS) 7 - Cash Flow Statements. (14 marks)

(b) An item of plant and equipment in the books of Lima Ltd. had a carrying amount of Sh.6,000,000. It was classified as held for sale on 30 September 2022. At that date, its fair value less costs to sell was estimated at Sh.5,500,000. The asset was sold for Sh.5,550,000 on 30 November 2022. Lima Ltd.'s year end was 31 December 2022.

**Required:**

(i) Describe how the classification as held for sale and subsequent disposal should be treated in the financial statements of Lima Ltd. (2 marks)

(ii) State how your response in (b) (i) above would change if the carrying amount of the asset at 30 September 2022 was Sh.5,000,000 and the rest of the amounts remained unchanged. (1 mark)

(c) A company received legal advice that the most likely outcome of a court case brought by an employee is that it will lose the case and have to pay Sh.10 million. The legal team estimates that there is an 80% chance of this, but that there is also a 10% chance of having to pay Sh.12 million and a 10% chance of paying nothing.

**Required:**

Determine if a provision is necessary and the best estimate of provision, if any.

(3 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

The following trial balance relates to Bidii Limited as at 31 December 2022:

	Sh. "000"	Sh. "000"
Property at cost (Building Sh.400 million)	600,000	
Plant at cost	280,000	
Motor vehicles at cost	70,000	
Office equipment at cost	40,000	
Accumulated depreciation (1 January 2022):		
• Building		80,000
• Plant		111,160
• Motor vehicles		42,000
• Office equipment		15,000
Inventory (1 January 2022)	138,000	
Purchases at cost	667,000	
Distribution costs	44,000	
Administrative expenses	93,500	
Revenue		1,123,500
Trade receivables and trade payables	74,500	68,800
Bank balance		15,500
Deferred tax		32,400
Current tax	2,600	
Bank interest	2,400	

	<b>Sh.‘000’</b>	<b>Sh.‘000’</b>
Ordinary share capital (Sh.10 par value)		200,000
Share premium		50,000
Retained profit (1 January 2022)		223,640
Interim dividend paid	10,000	
Suspense account		<u>60,000</u>
	<u>2,022,000</u>	<u>2,022,000</u>

**Additional information:**

1. During the year ended 31 December 2022, Bidii Limited disposed of an item of plant for cash proceeds of Sh.20,000,000 which were credited to the revenue account. No other accounting entry was made. The plant had cost Sh.39,700,000 and had an accumulated depreciation of Sh.15,860,000.  
Any gain/loss on disposal of plant should be included within the cost of sales.  
It is the company’s policy to provide for full year’s depreciation in the year of asset purchase and none in the year of disposal.
2. Depreciation on property, plant and equipment is to be provided and allocated as follows:

Asset	Rate per annum	Basis	Allocation
• Building	2.5%	Straight-line	Administrative
• Plant	10%	Reducing balance	Cost of sales
• Motor vehicles	20%	Straight-line	Distribution
• Office equipment	12.5%	Straight-line	Administrative
3. It has been discovered that the former financial controller of Bidii Limited engaged in fraudulent financial reporting. Sh.12,000,000 of trade receivables are non-existent and need to be written off. Of this amount, Sh.7,000,000 relates to the year ended 31 December 2022, with the balance relating to prior periods.
4. The existing debit balance on the current tax in the trial balance represents the under/over provision for previous year’s tax. A provision for current tax for the year ended 31 December 2022 of Sh.52,000,000 is required, together with a decrease to the deferred tax provision of Sh.3,000,000.
5. Inventory count on 31 December 2022 revealed the value of inventory at a cost of Sh.85,000,000.
6. On 30 December 2022, the company directors invited the current shareholders to subscribe for a rights issue on the basis of one new share for every five shares held at an exercise price of Sh.15 each. The cum rights price on the last day of trading was Sh.20 per share.  
The proceeds from the fully subscribed rights issue were credited to the suspense account.

**Required:**

The following financial statements presented in a suitable format for publication:

- (a) Statement of profit or loss for the year ended 31 December 2022. (6 marks)
  - (b) Statement of changes in equity for the year ended 31 December 2022. (4 marks)
  - (c) Statement of financial position as at 31 December 2022. (10 marks)
- (Total: 20 marks)**
- .....



**CPA INTERMEDIATE LEVEL**

**FINANCIAL REPORTING AND ANALYSIS**

**WEDNESDAY: 26 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) Revenue from rendering of services should be recognised by reference to the stage of completion of the transaction at the balance sheet date.  
Describe **THREE** conditions to be met before the above treatment can be applied. (3 marks)
- (b) International Public Sector Accounting Standard (IPSAS) 1 – Presentation of Financial Statements, provides that the presentation and classification of items in the financial statements shall be retained from one period to the next. The standard however, provides exceptions to this principle.  
Discuss **TWO** exceptions to the above principle. (4 marks)
- (c) Summarise **FIVE** limitations of ratios in analysing financial performance. (5 marks)
- (d) With reference to International Financial Reporting Standard (IFRS) – 5, Non-Current Assets Held for Sale and Discontinued Operations, describe the conditions that must be met for an asset to be classified as held for sale. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

Riva Limited operates in a fast moving goods sub-sector. During the year ended 31 March 2023, Riva Limited expanded its operations by acquiring a controlling interest in Sai Limited and a significant influence over the activities of Tutu Limited. The following draft financial statements for the year ended 31 March 2023 relate to the three companies:

**Statements of profit or loss for the year ended 31 March 2023:**

	<b>Riva Limited</b> Sh. "million"	<b>Sai Limited</b> Sh. "million"	<b>Tutu Limited</b> Sh. "million"
Revenue	4,190	2,600	1,960
Cost of sales	<u>(2,730)</u>	<u>(1,400)</u>	<u>(1,370)</u>
Gross profit	1,460	1,200	590
Distribution costs	(300)	(200)	(190)
Administrative expenses	<u>(500)</u>	<u>(400)</u>	<u>(160)</u>
Profit from operations	660	600	240
Investment income	40	20	30
Finance costs	<u>(80)</u>	<u>(60)</u>	<u>-</u>
Profit before tax	620	560	270
Income tax expense	<u>(180)</u>	<u>(160)</u>	<u>(70)</u>
Profit for the year	<u>440</u>	<u>400</u>	<u>200</u>

**Statements of financial position as at 31 March 2023:**

	<b>Riva Limited</b> <b>Sh.“million”</b>	<b>Sai Limited</b> <b>Sh.“million”</b>	<b>Tutu Limited</b> <b>Sh.“million”</b>
<b>Assets:</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	2,070	1,290	950
Investments	<u>1,600</u>	<u>-</u>	<u>-</u>
	3,670	1,290	950
<b>Current assets:</b>			
Inventory	530	390	240
Trade receivables	640	470	270
Financial assets at fair value through profit or loss	300	150	220
Cash and bank balances	<u>360</u>	<u>200</u>	<u>320</u>
Total current assets	<u>1,830</u>	<u>1,210</u>	<u>1,050</u>
Total assets	<u>5,500</u>	<u>2,500</u>	<u>2,000</u>
<b>Equity and liabilities:</b>			
<b>Equity:</b>			
Ordinary share capital	2,500	500	500
Share premium	500	200	200
Retained profit	<u>1,020</u>	<u>800</u>	<u>500</u>
Total equity	4,020	1,500	1,200
<b>Non-current liabilities:</b>			
12.5% loan notes	640	480	-
Deferred tax	<u>260</u>	<u>100</u>	<u>200</u>
	<u>900</u>	<u>580</u>	<u>200</u>
<b>Current liabilities:</b>			
Trade payables	420	330	520
Current tax	<u>160</u>	<u>90</u>	<u>80</u>
	<u>580</u>	<u>420</u>	<u>600</u>
Total equity and liabilities	<u>5,500</u>	<u>2,500</u>	<u>2,000</u>

**Additional information:**

- On 1 July 2022, Riva Limited acquired an 80% ordinary shareholding in Sai Limited for a cash consideration of Sh.1,100 million. The fair value of assets and liabilities of Sai Limited were equal to their carrying amounts at the date of acquisition.
- The group policy is to measure the non-controlling interests at their proportionate share of net assets of the subsidiary at the date of acquisition.
- On 1 January 2023, Riva Limited acquired a 40% ordinary shareholding in Tutu Limited for a cash consideration of Sh.500 million.
- During the post-acquisition period, Riva Limited sold goods to Sai Limited for Sh.300 million. Riva Limited reported a 20% profit margin on this sale. Half of these goods remained in the ending inventory of Sai Limited at the year end of 31 March 2023.
- Included in the trade receivables of Riva Limited was Sh.80 million due from Sai Limited. In the books of Sai Limited, the amount due to Riva Limited was shown at Sh.60 million because Sai Limited had remitted Sh.20 million but Riva Limited had not recorded the remittance.
- On 1 October 2022, Riva Limited sold an assembly plant to Sai Limited for Sh.400 million reporting a 25% profit margin on the selling price and netted off the profit against its cost of sales.  
The group charges depreciation on plant at the rate of 20% per annum on cost on full year basis in the year of asset purchase and none in the year of disposal.
- Impairment tests carried out on 31 March 2023 revealed that neither the goodwill on acquisition nor the investment in associate had been impaired during the year.
- None of the group companies paid dividends during the year to 31 March 2023.

**Required:**

- Consolidated statement of profit or loss for the year ended 31 March 2023. (8 marks)
- Consolidated statement of financial position as at 31 March 2023. (12 marks)

**(Total: 20 marks)**

### QUESTION THREE

The following trial balance was prepared by Salama Ltd. as at 31 December 2022:

	Sh. "000"	Sh. "000"
Ordinary share capital (Sh.10 each)		20,000
8% redeemable preference shares		12,000
6% debentures		10,000
Revaluation reserve		3,400
Retained earnings (1 January 2022)		14,160
Revenue		283,460
Inventory (1 January 2022)	12,400	
Purchases	147,200	
Distribution costs	22,300	
Administrative expenses	34,440	
Interest paid on debentures	300	
Interim dividends paid: - Ordinary	2,000	
- Preference	480	
Investment income		1,500
Leasehold building	56,250	
Plant and equipment at cost	55,000	
Furniture and fittings at cost	35,000	
Investment	34,500	
Accumulated depreciation:		
Leasehold 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 inventory as at 31 December 2022 was valued at Sh.16 million. However, there were some goods which were considered obsolete with a net realisable value of Sh.400,000 and a cost of Sh.450,000 with a net replacement value of Sh.350,000.
- The 6% debentures were issued on 1 July 2022. Interest on debentures is payable semi-annually.
- The policy of the company in relation to the depreciation of its assets is as follows:

Asset	Rate per annum	Method
• Leasehold building	4%	On straight line basis
• Plant and equipment	20%	On straight line basis
• Furniture and fittings	4%	On reducing balance basis

The plant and equipment had a residual value of Sh.5 million.

Depreciation is classified as cost of sales expense except for the depreciation on furniture and fittings which is classified as administrative expense.

- The taxable timing differences were Sh.24 million while the deductible timing differences were Sh.10.5 million during the year.
- The corporation tax of Sh.21.4 million is to be provided for the year.
- The suspense account represents two components:
  - Proceeds from sale of plant of Sh.16 million whose cost was Sh.20 million and an accumulated depreciation of Sh.2.5 million.
  - Sh.10 million being a bonus issue of shares.
- The directors propose to pay a final dividend of Sh.1.50 per share on the outstanding shares at the year end.
- The tax rate was 30%.

#### Required:

- Statement of profit or loss for the year ended 31 December 2022. (8 marks)
- Statement of changes in equity for the year ended 31 December 2022. (4 marks)
- Statement of financial position as at 31 December 2022. (8 marks)

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

Baraka and Faulu were in partnership sharing profits and losses equally until 30 September 2021 when they decided to convert the partnership into a limited company; Bafa Ltd. The conversion of the books of account was however not completed.

The following trial balance was extracted from the books of account as at 30 September 2022:

	Sh. "000"	Sh. "000"
Revenue		780,000
Production costs	450,000	
Distribution costs	42,000	
Administrative expenses	156,000	
Inventory – 30 September 2021	109,200	
Interest paid on loan stock	18,000	
Income tax		1,200
Dividends paid	12,000	
Property, plant and equipment	342,000	
Accumulated depreciation – 30 September 2021		93,540
Suspense account		7,200
Trade receivables	296,000	
Cash and cash equivalents	80,740	
Trade payables		72,000
Provisions (Legal claim)		24,000
Loan stock		240,000
Lease rentals	48,000	
Deferred tax		36,000
Net profit to 30 September 2021		40,000
Current account - Baraka		16,000
- Faulu		4,000
Drawings to 30 September 2021 - Baraka	28,000	
- Faulu	12,000	
Capital accounts - Baraka		160,000
- Faulu		120,000
	<u>1,593,940</u>	<u>1,593,940</u>

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#### Additional information:

- Closing inventory as at 30 September 2022 was valued at Sh.132 million.
- On 1 October 2021, the company leased some equipment to boost production. The lease was for five years. The lease rental payments were Sh.24 million payable semi-annually in arrears. The fair value of the equipment was Sh.186 million. Depreciation is to be charged on straight line basis and allocated to cost of sales. The interest rate implicit in the lease is at 5% per half year.
- The suspense account represents sales proceeds from some items of plant and equipment which had cost Sh.36 million and which were disposed of during the year. The accumulated depreciation for the disposed items as at 30 September 2021 was Sh.27 million. Any gain or loss on disposal was to be adjusted in the depreciation expense account.
- The income tax amount of Sh.1.2 million included in the trial balance was the estimated tax as at 30 September 2021. The current year's tax is estimated at Sh.9 million. In addition, a deferred tax liability of Sh.36 million was provided for as at 1 October 2021. As at 30 September 2022, temporary differences were Sh.168 million. The tax rate is 30%.
- A legal claim of Sh.60 million was lodged against the company during the year by a customer.

The directors estimated that there was a 40% possibility of the claim being successful and had made a provision of Sh.24 million which was included in the administrative expenses.

- Property, plant and equipment as at 30 September 2022 comprised:

	Land Sh. "000"	Building Sh. "000"	Plant, equipment and furniture Sh. "000"
Cost	72,000	108,000	162,000
Accumulated depreciation	-	27,000	66,540

Useful life (in years) - 50 4

- Depreciation is to be provided on a straight-line basis and apportioned as follows:

Cost	Percentage (%)
Cost of sales	80
Distribution cost	10
Administrative expenses	10

8. No entries were made to record the conversion of the partnership into a limited company. The assets were taken over by the company on 1 October 2021 at their book values except land which was revalued to Sh.80 million. The company issued to the partners 32 million shares of Sh.10 each in settlement of their outstanding capital account balances.

**Required:**

- (a) Statement of profit or loss for the year ended 30 September 2022. (8 marks)
- (b) Statement of financial position as at 30 September 2022. (12 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) In the context of International Accounting Standard (IAS) 12, Income Taxes:
- (i) Explain the difference between “taxable temporary differences” and “deductible temporary differences”. (2 marks)
- (ii) Suggest how the tax base for “assets”, “revenue received in advance” and “other liabilities” can be determined. (6 marks)
- (iii) A deferred tax liability is generally recognised for all taxable differences. There are however exceptions to this rule.
- Summarise **TWO** exceptions to the above rule. (4 marks)
- (b) BXL Manufacturers Ltd., a small firm engaged in the production of fertilizer, purchased an item of equipment for Sh.12 million on 1 July 2018. The company provides depreciation on equipment on a straight-line basis at the rate of 25% per annum. During the four years from 1 July 2018 to 30 June 2022, the profit after tax and allowed wear and tear charges for tax purposes were as follows:

Period	Profit after tax Sh. “000”	Allowable wear and tear charges
1 July 2018 – 30 June 2019	2,400	40% on cost
1 July 2019 – 30 June 2020	2,700	30% on cost
1 July 2020 – 30 June 2021	2,850	20% on cost
1 July 2021 – 30 June 2022	2,550	10% on cost

Corporation tax for the period of four years remained at the rate of 30%.

**Required:**

Compute for each of the years ended 30 June 2019, 2020, 2021 and 2022:

- (i) Taxable profit. (4 marks)
- (ii) Deferred tax. (4 marks)
- (Total: 20 marks)**
- .....



CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

WEDNESDAY: 7 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) In the context of financial assets and financial liabilities:
- (i) Provide an overview of what comprises a “financial asset” and a “financial liability”. (2 marks)
  - (ii) With reference to the measurement and recognition of financial assets, recommend guidance to preparers of financial statements who reclassify financial assets under the following categories:
    - Reclassification of a financial asset out of the amortised cost measurement category and into the face value through profit or loss measurement category. (2 marks)
    - Reclassification of a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category. (4 marks)
- (b) With reference to International Financial Reporting Standard (IFRS) 11 – Joint Arrangements:
- (i) Summarise **TWO** characteristics of a joint arrangement. (2 marks)
  - (ii) Describe the **TWO** types of joint arrangements. (2 marks)
  - (iii) Explain the salient provisions on what a joint operator recognises in relation to its interest in a joint operation. (2 marks)
- (c) With reference to International Public Sector Accounting Standard (IPSAS) 19 – Provisions, Contingent Liabilities and Contingent Assets:
- (i) Distinguish between “provisions” and “contingent liabilities”. (2 marks)
  - (ii) Summarise the circumstances for recognition of a provision. (2 marks)
  - (iii) Indicate the accounting treatment for “contingent liabilities” and “contingent assets”. (2 marks)
- (Total: 20 marks)**

QUESTION TWO

Marula Farmers Cooperative Society Ltd. deals in the marketing of two brands of coffee; Safi and Mzuri on behalf of the members. As per the society’s bylaws, the society is allowed to retain 20% of sales from Safi and Mzuri for operations and pay the balance to the members.

The following trial balance was extracted from the books of the society as at 31 December 2021:

	Sh. “000”	Sh. “000”
Safi - Marketing expenses	640	
- Processing materials	860	
- Processing wages	900	
Mzuri - Marketing expenses	150	
- Processing materials	320	
- Processing wages	30	
Loans to members	972,340	

	Sh. "000"	Sh. "000"
Dividends from investments		470
Accrued rent		4,950
Sundry provision		8,930
Appropriation account		6,050
Revaluation reserve		750
Statutory reserve fund		13,740
Entrance fee		300
Share capital		900,000
Members' deposits		64,650
Sundry creditors		3,410
Bank overdraft		6,150
Interest on loans to members		35,890
Travelling expenses - Staff	80	
- Committee members	100	
Bank charges	200	
Bank interest	810	
Salaries and wages	2,290	
Committee education	1,000	
Committee sitting allowance	1,110	
Printing and stationery	2,050	
General meeting expenses	500	
Members' education	1,500	
Entertainment	50	
Legal fees	400	
Cash in hand	540	
Wakulima Bank Ltd. savings	6,780	
Investment in Wakulima Bank Ltd.	26,550	
Receivables - Members	2,690	
Receivables - Non-members	22,500	
Office equipment	900	
	<u>1,045,290</u>	<u>1,045,290</u>

**Additional information:**

1. Bora Limited markets Safi and Mzuri brands for Marula Society. On 31 December 2021, Bora Limited sold Safi and Mzuri brands for 175,000 United States (US) dollars and 115,300 US dollars respectively. Bora Limited remitted the above amounts to Marula Farmers' Wakulima Bank account on 15 January 2022. Marula Farmers Cooperative Society does not maintain a US dollar account in Wakulima Bank.
2. The exchange rates for the two currencies were as shown below on the respective dates:

**Sh./1 US dollar**

31 December 2021	105
15 January 2022	100

3. Audit fee of Sh.6,000,000 is to be provided for.
4. Staff salaries and wages amounting to Sh.3,200,000 had not been paid as at 31 December 2021.
5. Interest on members deposits is to be provided at Sh.6,086,000.
6. As per the relevant Ministry regulations, cooperative societies are required to transfer 20% of their net earnings to a statutory reserve.

**Required:**

Prepare the following financial statements for Marula Cooperative Society Ltd. for the year ended 31 December 2021:

- (a) Safi brand marketing account, showing the profit or loss. (3 marks)
- (b) Mzuri brand marketing account, showing the profit or loss. (3 marks)
- (c) Statement of profit or loss for the year ended 31 December 2021. (6 marks)
- (d) Statement of financial position as at 31 December 2021. (8 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) On 1 January 2022, H Limited acquired 80% of the 4 million, Sh.10 ordinary shares of S Limited issued at par value.

The acquisition consideration comprised of three new ordinary shares issued by H Limited in exchange for every five shares acquired in S Limited.

Additionally, H Limited will pay further consideration on 31 December 2022 of Sh.11 per share acquired. H Limited's cost of capital is 10% per annum and the discount factor at 10% for one year is 0.9091.

At the date of acquisition, the fair values of ordinary shares in H Limited and S Limited were Sh.15 and Sh.12 respectively.

The following statements of profit or loss for the year ended 30 September 2022, relate to the two companies:

	<b>H Limited</b> <b>Sh. "000"</b>	<b>S Limited</b> <b>Sh. "000"</b>
Revenue	546,000	420,000
Cost of sales	<u>(378,000)</u>	<u>(300,000)</u>
Gross profit	168,000	120,000
Distribution costs	(36,000)	(24,000)
Administrative expenses	<u>(42,000)</u>	<u>(28,000)</u>
Profit from operations	90,000	68,000
Investment income	6,000	-
Finance costs	<u>(4,000)</u>	<u>(2,000)</u>
Profit before tax	92,000	66,000
Income tax expense	<u>(30,000)</u>	<u>(24,000)</u>
Profit for the year	<u><u>62,000</u></u>	<u><u>42,000</u></u>

#### Additional information:

- At the date of acquisition, the fair value of S Limited's net assets approximated their carrying values with the exception of an item of plant and equipment which had a fair value of Sh.24 million above its carrying amount. The remaining economic useful life of the plant and equipment at the date of acquisition was six years. Depreciation is charged to cost of sales.
- Sales from S Limited to H Limited in the post-acquisition period amounted to Sh.30 million. S Limited reported a gross profit margin of 25% on these sales. H Limited's inventory includes one fifth ( $\frac{1}{5}$ ) of these goods as at 30 September 2022.
- H Limited's policy is to value the non-controlling interests at fair value at the date of acquisition. For this purpose, S Limited's share price at acquisition date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
- H Limited's investment income is dividend received from its investment in a 40% owned associate which it has held for several years. The associate reported a profit after tax of Sh.30 million for the year ended 30 September 2022.
- As at 30 September 2022, no impairment of goodwill was considered necessary.
- Assume that profits and losses accrued evenly throughout the year.
- As at 1 October 2021, the retained earnings of S Limited were Sh.16 million.

#### Required:

- Calculate the goodwill arising on the acquisition of S Limited. (4 marks)
- Consolidated statement of profit or loss for H Group for the year ended 30 September 2022. (8 marks)

Note: All workings should be done to the nearest Sh. "000".

- (b) Sayari Limited obtained a 10% loan note amounting to Sh.24 million on 1 January 2021 to finance the construction of a new factory.

As the funds were not all required immediately, Sayari Limited invested Sh.10 million in 6% bonds until 31 May 2021. Construction of the factory began on 1 March 2021. However, due to an unexpected shortage of skilled labour, the project ceased during the months of July and August 2021.

By 31 December 2021, the project was not complete.

#### Required:

Explain, with suitable calculations, the accounting treatment of interest on costs on the loan note in the financial statements of Sayari Limited for the year ended 31 December 2021 in accordance with International Accounting Standard (IAS) 23 "Borrowing Costs". (8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Ratio analysis has over time proven to be a useful financial tool for decision making. However, reliance on ratios for decision making has inherent limitations.

**Required:**

Citing **SIX** limitations, justify the above statement.

(6 marks)

- (b) The following draft financial statements were extracted from the books of Mrima Limited as at 31 December:

**Statement of profit or loss for the year ended 31 December:**

	<b>2021</b>	<b>2020</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Sales	<u>1,167,800</u>	<u>972,600</u>
Operating profit	41,340	34,476
Finance cost	<u>(3,968)</u>	<u>(3,968)</u>
Profit before tax	37,372	30,508
Taxation	<u>(14,052)</u>	<u>(11,468)</u>
Profit for the period	23,320	19,040
Dividends paid	<u>(4,800)</u>	<u>(4,480)</u>
Retained profit for the year	18,520	14,560
Retained profit brought forward	<u>61,640</u>	<u>47,080</u>
Retained profit brought forward	<u>80,160</u>	<u>61,640</u>

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

	<b>2021</b>	<b>2020</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Non-current assets:</b>		
Equipment	<u>25,400</u>	<u>9,990</u>
<b>Current assets:</b>		
Inventory	100,910	80,290
Trade receivables	86,740	80,420
Bank balances	<u>11,580</u>	<u>24,184</u>
	<u>199,230</u>	<u>184,894</u>
Total assets	<u>224,630</u>	<u>194,884</u>
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Shares of Sh.20 each	19,840	19,840
Retained earnings	<u>80,160</u>	<u>61,640</u>
	<u>100,000</u>	<u>81,480</u>
<b>Non-current liabilities:</b>		
10% debentures	<u>39,680</u>	<u>39,680</u>
<b>Current liabilities:</b>		
Trade payables	74,460	65,208
Taxation	6,520	4,946
Accruals	<u>3,970</u>	<u>3,570</u>
	<u>84,950</u>	<u>73,724</u>
Total equity and liabilities	<u>224,630</u>	<u>194,884</u>

**Required:**

Calculate for each year, **TWO** ratios for each of the following user groups, which are of particular significance to them:

- (i) Shareholders. (4 marks)
- (ii) Trade payables. (2 marks)
- (iii) Internal management. (2 marks)
- (c) Comment on the changes between the two years as reflected in the ratios calculated in (b) above. (6 marks)

**(Total: 20 marks)**

### QUESTION FIVE

The following draft financial statements were extracted from the financial records of Maalum Limited, a public limited entity, as at 30 April 2022 with comparatives for the year ended 30 April 2021.

#### Statements of financial position as at 30 April:

	2022 Sh. "000"	2021 Sh. "000"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	36,300	27,450
Intangible assets	<u>6,750</u>	<u>6,150</u>
	43,050	33,600
<b>Current assets:</b>		
Inventory	13,300	11,445
Trade receivables	9,230	7,080
Cash and cash equivalents	<u>900</u>	<u>510</u>
Total assets	<u>66,480</u>	<u>52,635</u>
<b>Equity and liabilities:</b>		
<b>Share capital and reserves:</b>		
Ordinary share capital (Sh.10 par value)	7,500	6,000
Share premium	1,350	1,050
Revaluation surplus	2,550	-
Retained earnings	<u>28,065</u>	<u>25,980</u>
Total equity	39,465	33,030
<b>Non-current liabilities:</b>		
10% loan notes (2025)	8,250	5,250
Government grants	3,150	2,400
Deferred tax	1,920	810
<b>Current liabilities:</b>		
Trade payables	10,200	7,770
Current tax	2,685	2,775
Government grants	<u>810</u>	<u>600</u>
Total equity and liabilities	<u>66,480</u>	<u>52,635</u>

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#### Statement of profit or loss and other comprehensive income for the year ended 30 April 2022:

	Sh. "000"
Revenue	54,975
Cost of sales	<u>(43,860)</u>
Gross profit	11,115
Other operating income – government grant	<u>750</u>
	11,865
Other operating expenses	<u>(2,970)</u>
Profit from operations	8,895
Finance costs	<u>(705)</u>
Profit before tax	8,190
Income tax expense	<u>(2,655)</u>
Profit for the year	5,535
Other comprehensive income:	
Gain on property revaluation	<u>2,550</u>
Total comprehensive income for the year	<u>8,085</u>

#### Additional information:

- Maalum Limited acquired some new plant during the year to 30 April 2022 at a cost of Sh.1,800,000 from a finance company. An arrangement was made at the date of acquisition for the liability for the plant to be settled by Maalum Limited issuing at par a 10% loan note dated 2025 to the finance company. The value by which the loan note exceeded the liability for the plant was received from the finance company in cash.
- The company's motor vehicle haulage fleet with a cost of Sh.2,630,000 and accumulated depreciation of Sh.1,165,000 was disposed of during the year for cash proceeds of Sh.1,810,000. The profit on disposal has been included in the other operating expenses.
- Depreciation charged on property, plant and equipment during the year was Sh.5,490,000 and was included in the cost of sales.
- Intangible assets were amortised during the year and amortisation charged to profit or loss amounted to Sh.540,000.

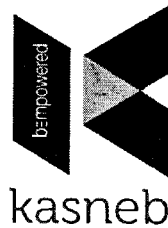
5. During the year ended 30 April 2022, Maalum Limited made a bonus issue of ordinary shares of one new share for every ten shares held utilising the share premium account.

**Required:**

A statement of cash flows for Maalum Limited for the year ended 30 April 2022 using the indirect method in accordance with International Accounting Standard (IAS) 7 “Statement of Cash Flows”. **(Total: 20 marks)**

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CPA PART II SECTION 3

FINANCIAL REPORTING

THURSDAY: 20 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**

International Public Sector Accounting Standards (IPSAS) prescribe the accounting treatment of various items of revenue, expenditure, assets and liabilities in the books of public sector entities.

**Required:**

With reference to the above statement:

- (a) Describe three constraints that affect the relevance and reliability of financial information presented by public entities. (6 marks)
- (b) Summarise the key provisions of IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors with regard to changes in accounting policies. (6 marks)
- (c) Discuss four challenges facing the adoption of IPSAS in your country. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) In the context of International Financial Reporting Standard (IFRS) 9 “Financial Instruments: Recognition and Measurement”, explain the accounting treatment of financial instruments that are equity instruments, both on initial recognition and subsequent measurement. (8 marks)
- (b) The following balances were extracted from the financial records of Savanna Commercial Bank PLC for the year ended 31 December 2020:

	Sh.“000”
Intangible assets	857,140
Property, plant and equipment	1,494,190
Interest on loans and advances	1,329,750
Interest on customers’ deposits	750,135
Loan loss reserve	578,345
Customers’ deposits	3,444,990
Deposits and placements due from other banks	389,190
Interest received on deposits and placements with other banks	19,780
Interest paid on deposits and placements from other banks	26,320
Income tax credit	28,720
Ordinary share capital	1,900,000
Revaluation surplus	300,000
Depreciation on property, plant and equipment	62,355
Other interest income	7,760
Equity investments	225,000
Loans and advances	3,675,230
Retained earnings (1 January 2020)	193,200
Deposits and placements due to other banks	484,490
Long-term borrowings	1,720,000
Other interest expenses	33,700

	Sh. "000"
Fees and commission income	13,150
Dividend income	2,250
Share premium	270,000
Staff remuneration expenses	478,710
Pension costs	85,930
Directors' salaries	38,260
Printing and stationery	52,500
Deferred tax asset	37,500
Tax refundable	27,750
Cash in hand and with central bank	2,055,125
Miscellaneous expenses	3,400

**Required:**

Prepare for Savanna Commercial Bank PLC:

(i) Statement of profit or loss for the year ended 31 December 2020. (6 marks)

(ii) Statement of financial position as at 31 December 2020. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance relates to Baraka Ltd. as at 30 September 2020:

	Sh. "000"	Sh. "000"
Revenue		380,000
Cost of sales	246,800	
Distribution cost	17,400	
Administrative expenses	50,500	
Interest on loan paid	1,000	
Investment income		1,300
Profit on sale of investments		2,200
Current tax	2,100	
Freehold property at cost (1 October 2019)	63,000	
Plant and equipment at cost	42,200	
Brand at cost (1 October 2016)	30,000	
Accumulated depreciation (1 October 2019):		
Building		8,000
Plant and equipment		19,700
Accumulated amortisation (1 October 2019)		9,000
Investment in equity instruments	26,500	
Inventory (30 September 2020)	38,000	
Trade receivables	44,500	
Bank	8,000	
Trade payables		42,900
Ordinary share capital		52,000
Retained earnings (1 October 2019)		26,060
Other reserves (1 October 2019)		5,000
5% convertible loan notes 2022		18,440
Deferred tax		5,400
	<u>570,000</u>	<u>570,000</u>

**Additional information:**

- Baraka Ltd. revenue include Sh.16 million for goods sold to Chaka Ltd. on 1 October 2019 on sale or return basis. Baraka Ltd. normally makes a profit margin of 40% on such sales. Chaka Ltd. is yet to confirm the sales.
- Administrative expenses include an equity dividend of Sh.1,200,000 paid during the year.
- The 5% convertible loan note was issued for proceeds of Sh.20 million on 1 October 2018. It has an effective interest rate of 8% due to the value of its conversion option.
- During the year, Baraka Ltd. sold an equity investment for Sh.11 million. At the date of sale, it had a carrying value of Sh.8 million and had originally cost Sh.7 million. Baraka Ltd. has recorded the disposal of the investment. The remaining equity investment (the Sh.26.5 million in the trial balance) have a fair value of Sh.29 million as at 30 September 2020. The other reserve in the trial balance represents the net increase in the value of the equity investments as at 1 October 2019. Baraka Ltd. made an irrevocable decision at initial recognition of these

instruments to recognise all changes in fair value through other comprehensive income and makes a transfer of realised profit from the other reserves to income surplus on disposal of the investments.

Ignore deferred tax on these transactions.

5. The balance on the current tax represents the under/over provision of the tax liability for the year ended 30 September 2019. The income tax expense for the year ended 30 September 2020 is estimated at Sh.16.2 million. As at 30 September 2020, the carrying amount of Baraka Ltd. net assets were Sh.13 million in excess of their tax base. The income tax rate of Baraka Ltd. is 30%.
6. Non current assets:  
The freehold property has a land element of Sh.13 million. The building element is being depreciated on a straight line basis. Plant and equipment is depreciated at a rate of 40% per annum on reducing balance method. Baraka Ltd.'s brand in the trial balance relates to a product line that received bad publicity during the year which led to falling sales revenues. An impairment review was conducted on 1 April 2020 which concluded that based on estimated future sales, the brand had a value in use of Sh.12 million and a remaining useful life of only three years. However, on the same date as the impairment review, Baraka Ltd. received an offer to purchase the brand for Sh.15 million.

Prior to the impairment review of the brand, it was being depreciated using the straight line method over a 10 year life. No depreciation/amortisation has yet been charged on any non current asset for the year ended 30 September 2020. Depreciation, amortisation and impairment charges are all charged to cost of sales.

**Required:**

- (a) Statement of comprehensive income for the year ended 30 September 2020. (10 marks)
  - (b) Statement of financial position as at 30 September 2020. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

Abel, Benta and Chale have been trading in a partnership business under the name ABC Enterprises. They decided to convert the partnership into a limited company, Abele Ltd. as at 30 November 2019. The partnership's financial year ends on 31 May and the company will continue using the same year end date.

The trial balance below showed the financial position of the partnership as at 31 May 2020 before making adjustment for the conversion to the company:

	Sh. "000"	Sh. "000"
Capital:		
Abel		32,000
Benta		16,000
Chale		10,000
Current account:		
Abel		2,000
Benta		2,000
Chale	1,000	
Drawings in cash:		
Abel	2,000	
Benta	1,200	
Chale	1,200	
Freehold property at cost	51,600	
Motor vehicles at cost	24,000	
Furniture and fittings at cost	12,000	
Accumulated depreciation		
- Motor vehicle		7,200
- Furniture and fittings		7,200
Inventory (31 May 2020)	28,800	
Cost of sales	60,800	
Sales		120,000
Administrative expenses	12,000	
Selling and distribution expenses	6,000	
Accounting and audit expenses	2,400	
Incorporation expenses	1,200	
Trade receivables and trade payables	18,000	12,200
Prepayments and accruals	1,000	600
Loan from Benta (10% interest per annum)		12,000
Bank balance		2,000
	<u>223,200</u>	<u>223,200</u>

**Additional information:**

1. The partners were sharing profits and losses equally after allowing for annual salaries of Sh.3 million for Abel and Sh.2.2 million each for Benta and Chale.
2. The partners agreed on the following conditions for conversion to a company:
  - Assets to be revalued as follows:
 

	Sh. "million"
Freehold property	54
Furniture and fittings	4.8
Motor vehicles	24
  - Goodwill to be valued at Sh.27 million.
  - Each partner to become a director of the company at the same salary as that previously allowed in the partnership.
  - Benta's loan is to be converted into share capital at par.
  - Shares are to be issued to each partner at par in respect of the amounts of their equity holding as at 30 November 2019.
3. The sales during the second half of the year after conversion were 50% above that of first half. However, the gross profit percentage remained the same throughout the year.
4. The selling and distribution expenses were proportional to the sales for each period. All the expenses were incurred evenly throughout the year.
5. Salary drawings were made evenly. Drawings made after incorporation were to be treated as directors' salaries.
6. There were no purchases or sales of non-current assets during the year.  
Depreciation is to be provided on cost per annum as follows:
 

Motor vehicles	-	20%
Furniture and fittings	-	10%
7. No dividends are paid or proposed but it is decided to write off the incorporation expenses and also Sh.7 million of goodwill. Goodwill is treated as having arisen from purchase of a business.

**Required:**

- (a) Statement of profit or loss in columnar form showing separately for ABC Enterprises and Abele Ltd. for the year ended 31 May 2020. (8 marks)
  - (b) Calculations showing the value of shares to be issued to each partner. (4 marks)
  - (c) Statement of financial position for Abele Ltd. as at 31 May 2020. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

On 1 April 2018, Ambaza Ltd. acquired the following investments:

- 1,320,000 equity shares in Rudisha Ltd. at a cost of Sh.27,300,000 when the retained earnings of Rudisha Ltd. were Sh.12,500,000.
- 50% of Rudisha Ltd's 12% debentures at par.

The statement of financial position of the two companies as at 31 March 2020 were as follows:

	Ambaza Sh. "000"	Rudisha Sh. "000"
<b>Non-current assets:</b>		
Property, plant and equipment	37,300	24,060
Investments	<u>52,600</u>	<u>4,800</u>
	<u>89,900</u>	<u>28,860</u>
<b>Current assets:</b>		
Inventories	6,350	5,200
Accounts receivable	4,360	1,950
Bank	<u>1,390</u>	<u>-</u>
	<u>12,100</u>	<u>7,150</u>
Total assets	<u>102,000</u>	<u>36,010</u>
<b>Equity and liabilities:</b>		
Equity and reserves:		
Ordinary share capital (Sh.10 each)	43,000	16,500
Retained earnings	<u>34,560</u>	<u>8,190</u>
	<u>77,560</u>	<u>24,690</u>

	Ambaza Sh. "000"	Rudisha Sh. "000"
<b>Non current liabilities:</b>		
12% debentures	8,200	2,800
Deferred tax	<u>3,900</u>	<u>1,200</u>
	<u>12,100</u>	<u>4,000</u>
<b>Current liabilities:</b>		
Accounts payable	5,710	1,760
Taxation	5,330	2,410
Dividends	1,300	1,200
Bank overdraft	-	<u>1,950</u>
	<u>12,340</u>	<u>7,320</u>
	<u>102,000</u>	<u>36,010</u>

**Additional information:**

- The fair value of Rudisha Ltd.'s assets at the date of acquisition was equal to their carrying value except for an item of plant which had a fair value of Sh.1,600,000 in excess of its carrying value. The plant had a remaining useful life of 4 years.
- On 15 March 2020, Rudisha Ltd. sold goods to Ambaza Ltd for Sh.700,000, all on credit terms. The goods had not been received by the company as at 31 March 2020 and were not included in closing inventory. No entry had been made in the books of Ambaza Ltd. in respect of this transaction. Rudisha Ltd. sells goods to all customers at a standard mark up of 16 $\frac{2}{3}$ %.
- As at 31 March 2020, the account payable of Ambaza Ltd. included Sh.750,000 due to Rudisha Ltd. before taking into account the above transaction.
- Ambaza Ltd. had not accounted for dividend receivable from Rudisha Ltd.
- Goodwill arising on acquisition of Rudisha Ltd. was considered impaired by 20% as at 31 March 2020.
- The fair value attributable to non controlling interest amounted to Sh.6,800,000.

**Required:**

Consolidated statement of financial position as at 31 March 2020.

(Total: 20 marks)

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**CPA PART II SECTION 3**  
**FINANCIAL REPORTING**

**THURSDAY: 30 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) In the context of International Public Sector Accounting Standard (IPSAS) 3 – Accounting Policies, Changes in Accounting Estimates and Errors:

- (i) Explain the meaning of “prior period errors”, citing two examples of such errors. (4 marks)
- (ii) Summarise the accounting treatment of material prior period errors. (4 marks)

(b) IPSAS 8 – Financial Reporting of Interests in Joint Ventures identifies three forms of joint ventures:

**Required:**

- (i) Highlight the three forms of joint ventures referred to above. (6 marks)
- (ii) Describe the accounting treatment of each of the three forms of joint ventures. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

(a) The new International Financial Reporting Standard (IFRS) 9 - Financial Instruments which was issued on 24 July 2014 and which will take effect from 1 January 2018, has generated significant discussions in your country, particularly within the banking sector.

**Required:**

Explain how IFRS 9 is likely to impact on the provisions for bad and doubtful debts by banks and by extension, the ease of accessing bank loans. (6 marks)

(b) Mwanzo Ltd., Safari Ltd. and Upya Ltd. operate in the clothing industry.

The following information relates to the financial position of the three companies as at 30 September 2017:

	Mwanzo Ltd. Sh.“000”	Safari Ltd. Sh.“000”	Upya Ltd. Sh.“000”
<b>Non-current assets:</b>			
Property, plant and equipment	7,960	4,600	2,680
Patents	500	840	-
Investments in: Safari Ltd.	5,000		
Upya Ltd.	1,600		
Others	<u>300</u>	<u>400</u>	<u>120</u>
	<u>15,360</u>	<u>5,840</u>	<u>2,800</u>
<b>Current assets:</b>			
Inventories	1,140	800	600
Trade receivables	840	760	800
Bank	-	<u>300</u>	<u>240</u>
	<u>1,980</u>	<u>1,860</u>	<u>1,640</u>
Total assets	<u>17,340</u>	<u>7,700</u>	<u>4,440</u>
<b>Equity and liabilities:</b>			
<b>Equity and reserves:</b>			
Ordinary shares of Sh.20 each	4,000	2,000	1,000
Reserves: Share premium	2,000	1,000	200
Revenue reserves	<u>9,000</u>	<u>3,800</u>	<u>2,400</u>
	<u>15,000</u>	<u>6,800</u>	<u>3,600</u>

	Sh. "000"	Sh. "000"	Sh. "000"
<b>Non-current liabilities:</b>			
Deferred tax	<u>400</u>	-	<u>160</u>
<b>Current liabilities:</b>			
Trade payables	1,500	900	560
Current tax	280	-	120
Bank overdraft	<u>160</u>	-	-
	<u>1,940</u>	<u>900</u>	<u>680</u>
Total equity and liabilities	<u>17,340</u>	<u>7,700</u>	<u>4,440</u>

**Additional information:**

1. Mwanzo Ltd. acquired its investments as shown below:

Company	Number of shares acquired	Cost of investment Sh. "000"	Retained earnings Sh. "000"	Date of acquisition
Safari Ltd.	80,000	5,000	2,400	1 October 2015
Upya Ltd.	20,000	1,600	1,600	1 October 2016

2. At the date of its acquisition, the fair value of Safari Ltd.'s net assets were equal to their book values, with the exception of land that had a fair value of Sh.400,000 in excess of its book value.

3. On 1 September 2017, Mwanzo Ltd. processed an invoice for Sh.100,000 in respect of an agreed allocation of management fee to Safari Ltd. As at 30 September 2017, Safari Ltd. had not accounted for this transaction. Prior to this, the current accounts between the two companies had been agreed at Safari Ltd. owing Sh.140,000 to Mwanzo Ltd. (included in trade receivables and trade payables respectively).

4. During the year ended 30 September 2017, Upya Ltd. sold goods to Mwanzo Ltd. at a selling price of Sh.280,000, which gave Upya Ltd. a profit of 40% on cost. Mwanzo Ltd. had half of these goods in inventory as at 30 September 2017.

5. The fair value of the non-controlling interest (NCI) in Safari Ltd. was Sh.1,500,000.

**Required:**

Group statement of financial position as at 30 September 2017.

(14 marks)

(Total: 20 marks)

**QUESTION THREE**

Tenda, Mema and Nenda have been in partnership for many years as TMN Enterprises, sharing profits and losses in the ratio of 3:2:1 respectively. Due to the hard economic times, the partners made a resolution to dissolve the partnership.

The partnership's statement of financial position as at 31 August 2017, just prior to the dissolution was as follows:

<b>TMN Enterprises</b>		
<b>Statement of financial position as at 31 August 2017</b>		
	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Premises	10,500	
Motor vehicles	4,580	
Furniture and fittings	1,880	
Equipment	<u>2,340</u>	19,300
<b>Current assets:</b>		
Inventories	3,000	
Trade receivables	4,000	
Cash and bank	<u>200</u>	<u>7,200</u>
		<u>26,500</u>
Capital account : Tenda	12,000	
: Mema	8,000	
: Nenda	<u>4,000</u>	24,000
Current account : Tenda	(2,000)	
: Mema	(3,000)	
: Nenda	<u>(6,000)</u>	(11,000)
<b>Non-current liabilities:</b>		
Loan account - Mema	2,000	
Loan from microfinance bank	<u>4,000</u>	6,000
<b>Current liabilities:</b>		
Trade payables and accruals		<u>7,500</u>
		<u>26,500</u>

The terms of dissolution were as follows:

1. The partners to take over the following assets:  
Equipment to be taken over by Tenda at an agreed valuation of Sh.2,000,000.  
Furniture to be taken over by Mema at a valuation of Sh.920,000.
2. The remaining assets were realised on installment basis as follows:  
1<sup>st</sup> installment Sh.12,000,000  
2<sup>nd</sup> installment Sh.3,600,000  
3<sup>rd</sup> installment Sh.2,610,000
3. Nenda was adjudicated bankrupt before the dissolution and liquidation of the partnership was completed.
4. Liquidation expenses amounted to Sh.450,000.
5. Trade payables were settled net of a discount of Sh.700,000.

**Required:**

- (a) A statement of cash distribution. (10 marks)
  - (b) Realisation account. (5 marks)
  - (c) Partners capital accounts. (5 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

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

	Sh. "000"	Sh. "000"
Land	20,100	
Buildings	42,600	
Plant and machinery	216,600	
Accumulated depreciation: Buildings		6,390
Plant and machinery		127,710
Revenue		180,030
Cost of sales	65,670	
Inventory (30 September 2017)	6,450	
Distribution costs	6,690	
Administrative expenses	11,340	
Income tax	8,580	
Investment property at fair value (1 October 2016)	20,340	
Finance cost	7,020	
8% redeemable preference shares		15,000
10% debentures		30,000
Intangible assets	34,200	
Trade receivables and trade payables	8,700	5,340
Ordinary shares (each share Sh.20 par value)		90,000
Share premium		6,000
Retained profit (1 October 2016)		7,620
Deferred tax		8,490
Bank and cash balances	1,350	
Investment at fair value	<u>26,940</u>	
	<u>476,580</u>	<u>476,580</u>

**Additional information:**

1. The fair value of the investment property on 30 September 2017 was Sh.20,790,000.
2. Information relating to intangible assets was as follows:
  - The intangible assets include:

	Cost	Accumulated amortisation
	Sh. "000"	Sh. "000"
Development cost on software (it is to be amortised over 5 years)	25,800	15,480
Patent	15,600	-
Research costs	8,280	-

- The patent was acquired on 1 November 2014. It was determined that the patent had an indefinite useful life when it was acquired. However, on 1 October 2016, due to a new competitor gaining ground on the company's technology, the patent's estimated fair value was established to be Sh.13,500,000 with an estimated useful life of 3 years.
- The research costs were incurred during the year in developing new software which was not successful.

3. The following details are relevant to the property, plant and equipment:
- Buildings are depreciated at 2½% per annum on straight line basis.
  - Plant and machinery are depreciated on a straight line basis over 10 years.
  - Depreciation for the current year has been provided.
  - On 30 September 2017, the land and buildings were revalued to Sh.25,500,000 and Sh.45,600,000 respectively. The new values are to be included in the accounts for the financial year ended 30 September 2017.
4. Savanna Ltd. is also a sales agent for Majani Ltd. and is entitled to a sales commission of 10% on the sales made on behalf of Majani Ltd. The net proceeds obtained from the sales (after deducting the commission) are remitted to Majani Ltd. During the financial year ended 30 September 2017, Savanna Ltd. sold goods worth Sh.20,700,000 on behalf of Majani Ltd. This amount was included in the sales revenue disclosed in the above trial balance. Savanna Ltd. had not remitted the net sales proceeds to Majani Ltd.
5. Inventory as at 30 September 2017 included partially damaged and slow moving goods. The cost of these goods was Sh.450,000 and they were eventually sold in October 2017 for Sh.128,400.
6. Finance costs comprised:
- |  | Sh. "000"      |
|--|----------------|
| Interest on debentures                         | 3,000          |
| Interim dividends paid on ordinary shares      | 4,440          |
| Dividends paid on redeemable preference shares | 1,200          |
| Investment income from tax exempt companies    | <u>(1,620)</u> |
|  | <u>7,020</u>   |
7. The corporation tax rate is 30%.
8. The balance on the income tax in the trial balance represents the amount paid for the year. The tax expense for the year is estimated to be Sh.7,770,000 inclusive of an increase in deferred tax liability of Sh.1,020,000.

**Required:**

The following statements in a format suitable for publication:

- (a) Comprehensive income statement for the year ended 30 September 2017. (8 marks)
- (b) Statement of changes in equity for the year ended 30 September 2017. (4 marks)
- (c) Statement of financial position as at 30 September 2017. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain two key features of a sale and leaseback transaction, citing two advantages of such transactions. (6 marks)
- (b) Rejareja Ltd. is a mid-size firm selling electronic keyboards both on cash and hire purchase terms. The following information has been extracted from the firm's books of account as at 30 September 2017:

	Sh. "000"	Sh. "000"
Share capital		37,500
General operating expenses	65,000	
Cash balance	3,104	
Cash recovered from hire purchase customers		157,734
Cash sales		36,000
Hire purchase trade receivables (1 October 2016)	1,134	
Property, plant and equipment	50,000	
Accumulated depreciation (1 October 2016)		22,500
Retained earnings (1 October 2016)		3,500
Provision for unrealised profit (1 October 2016)		504
Purchases	171,000	
Trade payables		40,000
Inventory (1 October 2016)	<u>7,500</u>	
	<u>297,738</u>	<u>297,738</u>

**Additional information:**

- The company's policy is to take credit for gross profit including interest for hire purchase sales in proportion to the cash collected. It does this by raising a provision against the profit included in the hire purchase trade receivables not yet due.
- The cash selling price is fixed at 50% and the hire purchase selling price at 80% respectively against the cost of goods purchased.

3. The hire purchase contract requires an initial deposit of 20% of the hire purchase selling price, the balance to be paid in four installments at quarterly intervals. The first installment is due three months after the agreement is signed.
4. Hire purchase sales for the year amounted to Sh.270,000,000 (including interest).
5. Depreciation is charged on property, plant and equipment at the rate of 15% per annum on cost. One third of the depreciation relates to cash sales.
6. Operating expenses are to be apportioned on the basis of cash and hire purchase sales.

**Required:**

Prepare for Rejareja Ltd.:

- (i) Income statement for the year ended 30 September 2017 showing separate columns for cash, hire purchase and combined sales. (8 marks)
- (ii) Statement of financial position as at 30 September 2017. (6 marks)

**(Total: 20 marks)**

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Other assets and liabilities (except cash) were taken over by the company at the following values:

	Sh. "000"
Premises	50,000
Motor vehicles	18,000
Equipment	10,000
Trade payables	80,000
Accruals	10,000
Inventory net of 10% for obsolete stock	
Receivables net of provision for doubtful debts of 5%	
Prepayments were valueless	

3. Additional costs incurred by the partnership in arranging the sale of the business amounted to Sh.3 million.
4. The company agreed to issue 15 million shares of Sh.10 each at a premium of 24%. The shares were to be divided between Dida and Vuma in the ratio of 3:2 respectively.
5. The partners' drawings were made in the following months:  
     Dida : November 2016  
     Vuma : February 2017
6. The rule of Garner Vs Murray is to apply.

**Required:**

- (a) Realisation account. (8 marks)
- (b) Partners' capital accounts. (5 marks)
- (c) Statement of financial position of Fariji Ltd. as at 2 May 2017. (7 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance relates to Apple Ltd. as at 31 March 2017:

	Sh. "000"	Sh. "000"
Ordinary shares of Sh.10 par value		100,000
Share premium		40,000
Retained earnings (1 April 2016)		22,400
Land and buildings at cost (Land Sh.40 million)	120,000	
Plant and equipment at cost	189,000	
Accumulated depreciation: 1 April 2016:		
Buildings		40,000
Plant and equipment		49,000
Inventories (31 March 2017)	87,400	
Trade receivables	84,400	
Bank balance		13,600
Deferred tax		12,400
Trade payables		70,200
Revenue		1,100,000
Cost of sales	823,000	
Distribution costs	43,000	
Administrative expenses	61,800	
Dividends paid	40,000	
Bank interest	1,400	
Current tax		2,400
	1,450,000	1,450,000

**Additional information:**

1. On 1 April 2016, the company's directors decided that land and buildings should be revalued at their market values. At that date, an independent expert valued land at Sh.24 million and buildings at Sh.70 million and these valuations were accepted by the directors. The remaining useful life of buildings on that date was 14 years. The company does not make a transfer to retained earnings for excess depreciation.
2. Plant and equipment is depreciated at 20% per annum using the reducing balance method and time apportioned as appropriate. Depreciation for the year is yet to be accounted for.
3. Directors' remuneration amounting to Sh.11 million should be provided for and is classified as administrative cost.
4. Income tax provision of Sh.54.4 million is required for the year ended 31 March 2017. As at that date, deferred tax liability amounted to Sh.18.8 million. The movement in deferred tax should be taken to profit or loss. The balance on the current tax in the trial balance represents over/under provision of tax liability for the year ended 31 March 2016.
5. On 1 July 2016, the company made a rights issue of 1 share for every 4 shares at Sh.24 each. Immediately before this issue, the stock market value of the shares was Sh.40 each.

**Required:**

- (a) Statement of comprehensive income for the year ended 31 March 2017. (8 marks)
- (b) Statement of changes in equity as at 31 March 2017. (4 marks)
- (c) Statement of financial position as at 31 March 2017. (8 marks)

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

The following financial statements relate to Hema Ltd. and its investment companies Shuka Ltd. and Ajabu Ltd. for the year ended 30 April 2017:

**Income statement for the year ended 30 April 2017**

	Hema Ltd. Sh. "million"	Shuka Ltd. Sh. "million"	Ajabu Ltd. Sh. "million"
Revenue	1,200	600	300
Cost of sales	(650)	(250)	(100)
Gross profit	550	350	200
Investment income	70	-	1
Distribution cost	(100)	(40)	(30)
Administrative expense	(130)	(90)	(50)
Finance cost	(40)	(20)	(20)
Profit before tax	350	200	101
Income tax expense	(70)	(50)	(31)
Profit for the year	280	150	70
Dividends paid	(50)	(50)	(30)
Retained profit for the year	230	100	40
Retained profit brought forward	480	275	160
Retained profit carried forward	710	375	200

**Statement of financial position as at 30 April 2017**

	Hema Ltd. Sh. "million"	Shuka Ltd. Sh. "million"	Ajabu Ltd. Sh. "million"
<b>Assets:</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	1,250	800	650
Intangible assets	200	70	80
Investments	850	50	20
	<u>2,300</u>	<u>920</u>	<u>750</u>
<b>Current assets:</b>			
Inventory	200	75	60
Trade and other receivables	300	90	80
Financial assets at fair value	30	20	10
Cash and cash equivalents	150	40	40
	<u>680</u>	<u>225</u>	<u>190</u>
<b>Total assets</b>	<u>2,980</u>	<u>1,145</u>	<u>940</u>
<b>Equity and liabilities:</b>			
<b>Equity:</b>			
Ordinary share capital	1,000	200	200
Share premium	300	50	50
Revaluation reserve	200	50	50
Retained profits	710	375	200
	<u>2,210</u>	<u>675</u>	<u>500</u>
<b>Non-current liabilities:</b>			
10% loan stock	500	200	200
<b>Current liabilities:</b>			
Trade and other payables	250	250	220
Current tax	20	20	20
	<u>270</u>	<u>270</u>	<u>240</u>
<b>Total equity and liabilities</b>	<u>2,980</u>	<u>1,145</u>	<u>940</u>

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**Additional information:**

1. Hema Ltd. acquired the investments in other companies as follows:

Company	Date	Shareholding	Cost of purchase Sh. "million"	Revaluation reserve Sh. "million"	Retained profits Sh. "million"
Shuka Ltd.	1 May 2014	80%	300	20	80
Ajabu Ltd.	1 May 2015	40%	200	25	150

Hema Ltd. also invested in half of the 10% loan stock in Shuka Ltd.

2. The fair value of the non-controlling interest in Shuka Ltd. was Sh.75 million on 1 May 2014.  
3. During the year ended 30 April 2017, Hema Ltd. sold goods to Shuka Ltd. and Ajabu Ltd. as follows:

	Selling price Sh. "million"	Mark up %	% of goods held in stock
Shuka Ltd.	100	25	50
Ajabu Ltd.	50	25	Nil

4. On 1 May 2016, Hema Ltd. sold Shuka Ltd. an item of plant for Sh.200 million reporting a 25% profit on cost of the plant. The group charges depreciation at 20% per annum on cost of plant.  
5. All the goodwill of the two companies in which Hema Ltd. has invested are estimated to be impaired by 60% to the year ended 30 April 2017. 20% of the impairment relates to the current year.  
6. Trade receivables and trade payables included Sh.50 million due from Shuka Ltd. to Hema Ltd. and Sh.10 million due from Ajabu Ltd. to Hema Ltd.  
7. All dividends and interest had been paid by the end of the year.

**Required:**

- (a) Consolidated income statement for the year ended 30 April 2017. (10 marks)  
(b) Statement of changes in equity for the year ended 30 April 2017. (2 marks)  
(c) Consolidated statement of financial position as at 30 April 2017. (8 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Distinguish between "value based" and "cost based" method in determining the stage of completion of a construction contract. (6 marks)  
(b) The following trial balance was extracted from the books of Malipo Insurance Company Ltd. which specialises in general insurance as at 31 March 2017:

	Sh. "million"	Sh. "million"
Freehold property	5,040	
Motor vehicle (net book value)	4,200	
Machinery and equipment (net book value)	1,800	
Furniture (net book value)	1,560	
Audit fees paid	288	
Directors fees	594	
Depreciation on non-current assets	1,086	
Management expenses: Marine	780	
Fire	696	
Accounts receivable and accounts payable	876	396
Investment income		336
Ordinary share capital		3,600
Share premium		1,200
Retained profit as at 1 April 2016		540
Premiums outstanding as at 1 April 2016: Marine	1,080	
Fire	840	
Unearned premiums as at 1 April 2016: Marine		5,760
Fire		3,000
Claims outstanding as at 1 April 2016: Marine		960
Fire		648
Claims paid: Marine	2,964	
Fire	2,160	

	Sh. "million"	Sh. "million"
Legal costs: Marine	216	
Fire	156	
Expenses relating to claims (Marine)	384	
Bad debts written off: Marine	204	
Fire	144	
Investment in shares	1,680	
Direct premiums received: Marine		5,400
Fire		4,200
Re-insurance premiums received: Marine		1,440
Fire		960
Re-insurance premiums paid: Marine	960	
Fire	600	
Bank balance and cash in hand	<u>132</u>	
	<u>28,440</u>	<u>28,440</u>

**Additional information:**

1. Unearned premiums reserve for unexpired risk is to be maintained at 100% and 50% of the premiums for marine insurance and fire insurance respectively.
2. Commission on both insurance ceded and re-insurance accepted is at a rate of 5% of the premiums.
3. The directors have proposed a dividend of 5% on the outstanding share capital as at 31 March 2017.
4. The tax rate applicable is 30%.
5. Premiums outstanding as at 31 March 2017 amounted to Sh.1,800 million and Sh.840 million for marine insurance and fire insurance respectively.
6. Claims intimated and outstanding as at 31 March 2017 amounted to Sh.900 million for marine insurance and Sh.576 million for fire insurance.

**Required:**

- (i) Revenue account for both marine insurance and fire insurance for the year ended 31 March 2017. (5 marks)
  - (ii) Statement of comprehensive income for the year ended 31 March 2017. (3 marks)
  - (iii) Statement of financial position as at 31 March 2017. (6 marks)
- (Total: 20 marks)**
- .....

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# KASNEB

## CPA PART II SECTION 3

### FINANCIAL REPORTING

THURSDAY: 24 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

- (a) (i) "The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole". [Extract from International Public Sector Accounting Standard (IPSAS) 1 – Presentation of Financial Statements].

**Required:**

In the context of the above statement, outline four factors to be considered in determining whether a public sector entity is a going concern. (4 marks)

- (ii) With reference to IPSAS 11 – Construction Contracts, summarise four disclosure requirements for public sector entities with regard to construction contracts. (4 marks)

- (b) Digital Limited is a dealer in locally manufactured desktop computers. The following trial balance has been prepared for the company as at 31 August 2016:

	Sh. "000"	Sh. "000"
Ordinary share capital (Sh.10 par value)		5,000
Share premium		2,500
Retained profits as at 1 July 2015		500
Sales		27,200
Opening inventory	1,440	
Purchases	20,160	
Account receivables	5,030	
Account payables		576
Distribution costs	800	
Administrative expenses	1,000	
Dividends paid	1,400	
Furniture and fittings	3,200	
Motor vehicles	1,800	
Cash at bank	810	
Cash at hand	136	
	<u>35,776</u>	<u>35,776</u>

**Additional information:**

- The company buys one computer at Sh.72,000 and sells it on normal cash or credit terms at Sh.100,000.
- Beginning June 2016, the company started selling computers on hire purchase terms that required a deposit of Sh.34,000 and 15 monthly instalments of Sh.6,000 each with the first instalment being received in the month of sale. The following units were sold on hire purchase:

Month	Units
June 2016	12
July 2016	20
August 2016	30

Two of the units sold in June 2016 were repossessed in early August 2016 after the customer failed to pay the instalment for July 2016. The two units were valued at Sh.98,000 in total and were still unsold by the year end. No adjustments have been made for the repossessions.

- Depreciation is charged on reducing balance as follows:

Asset	Rate per annum
Furniture	10%
Motor vehicles	20%

4. The sales price presented in the trial balance represents all units sold at cash price. Any hire purchase interest is to be accrued using the sum of digits method.
5. Assume a tax liability of Sh.1,500,000 for the year.

**Required:**

- (i) Income statement for the year ended 31 August 2016. (7 marks)
  - (ii) Statement of financial position as at 31 August 2016. (5 marks)
- (Total: 20 marks)**

**QUESTION TWO**

The following trial balance was extracted from the books of Peak Ltd. as at 31 October 2016:

	Sh. "million"	Sh. "million"
Land (cost)	400	
Buildings (cost)	1,200	
Plant (cost)	936	
Purchases	469.2	
Distribution expenses	60	
Administrative expenses	33	
Loan interest paid	12	
Leased plant rental	132	
Inventory (1 November 2015)	226.8	
Account receivables	327.2	
Long-term investment	540	
Revenue		1,670.4
Ordinary share capital (Sh.20 par value)		900
Income from investment		27
Retained earnings		717
8% debentures		300
Dividend paid	90	
Account payables		202.4
Cash in hand	2	
Deferred tax		75
Bank overdraft		20.4
Accumulated depreciation: Buildings		360
Plant		156
	4,428.2	4,428.2

**Additional information:**

1. The 8% debentures were issued on 1 January 2016. Interest is payable six months in arrears.
2. Inventory was valued at Sh.259.2 million as at 31 October 2016.
3. On 1 November 2015, Peak Ltd. entered into a five year lease agreement for an item of plant. This item had an estimated useful life of five years. The annual rental which was payable in advance with effect from 1 November 2015 was Sh.132 million. The fair value of the plant is Sh.552 million and the implicit interest rate is 10% per annum.
4. Plant is depreciated at a rate of 15% per annum using the reducing balance method. Depreciation expense is to be included under cost of sales in the income statement.
5. Land and buildings were revalued on 1 November 2015 at Sh.600 million and Sh.1,050 million respectively. After revaluation, the buildings were estimated to have a useful life of 35 years with nil book value at the end of their economic lives.
6. The corporate tax for the year ended 31 October 2016 was estimated at Sh.169.8 million. The deferred tax provision as at 31 October 2016 was increased to Sh.84.6 million.

**Required:**

- (a) Income statement for Peak Ltd. in a form suitable for publication for the year ended 31 October 2016. (8 marks)
  - (b) Statement of changes in equity for the period ended 31 October 2016. (4 marks)
  - (c) Statement of financial position as at 31 October 2016. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

(a) With reference to International Financial Reporting Standard (IFRS) 9 - Financial Instruments:

- (i) Describe the provisions governing the initial measurement and subsequent measurement of financial instruments. (4 marks)
- (ii) Explain the requirements for derecognition of financial instruments. (4 marks)

(b) Magari Insurance Company Limited specialises in motor vehicle insurance business. The following trial balance was extracted from the books of the company as at 31 October 2016:

	Sh. "000"	Sh. "000"
Ordinary share capital (Sh.100 par value)		200,000
Retained earnings		65,000
Investment income		89,564
Receivables arising out of direct insurance business	8,940	
Payables arising from reinsurance arrangements		6,000
Bank balances		6,000
Investment	79,846	
Property, plant and equipment (net book value)	495,600	
Premium acquisition costs	12,000	
Other operating expenses	101,424	
Depreciation expenses for the year	40,000	
Legal fees on claim settlements	81,690	
Reinsurance share of claims outstanding as at 1 November 2015	16,000	
Gross claims outstanding as at 1 November 2015		240,000
Reinsurance share of sale of salvaged motor vehicles	4,000	
Sale of salvaged motor vehicles		26,000
Gross claims paid	381,784	
Reinsurance share of claims paid		200,000
Unearned premium reserves as at 1 November 2015		40,000
Gross premiums: From brokers		139,124
From direct clients		400,000
Reinsurance premiums ceded to: Reinsurance companies	92,000	
Reinsurance brokers	88,000	
Commissions payable	30,404	
Reinsurance commissions receivable from: Reinsurance companies		4,000
Reinsurance brokers		16,000
	<u>1,431,688</u>	<u>1,431,688</u>

**Additional information:**

1. The following valuations were made as at 31 October 2016:

**Sh. "000"**

- Claims outstanding 90,000
- Claims incurred but not reported 158,000

2. Income tax on current year's profit is estimated at Sh.28,000,000.

**Required:**

- (i) Income statement for the year ended 31 October 2016. (8 marks)
- (ii) Statement of financial position as at 31 October 2016. (4 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

The following information was extracted from the financial statements of A Ltd., B Ltd and C Ltd. for the year ended 30 September 2016:

#### Statement of financial position as at 30 September 2016:

	A Ltd. Sh. "million"	B Ltd. Sh. "million"	C Ltd. Sh. "million"
<b>Non-current assets:</b>			
Property, plant and equipment	950	750	450
Investments	700	-	-
Intangible assets	200	150	100
<b>Current assets:</b>			
Inventories	250	200	120
Trade receivables	220	170	80
Financial assets at fair value	180	130	120
Cash and bank balances	100	50	80
Total assets	<u>2,600</u>	<u>1,450</u>	<u>950</u>
<b>Equity and liabilities:</b>			
<b>Equity and reserves</b>			
Ordinary share capital (Sh.10 par value)	500	200	100
Share premium	200	100	50
Retained earnings	<u>400</u>	<u>350</u>	<u>250</u>
Shareholders funds	1100	650	400
<b>Non-current liabilities:</b>			
10% debentures	600	200	200
Deferred tax	250	100	50
<b>Current liabilities:</b>			
Trade payables	300	250	150
Current tax	250	150	100
Proposed dividends	<u>100</u>	<u>100</u>	<u>50</u>
Total equity and liabilities	2,600	1,450	950

#### Additional information:

1. A Ltd. acquired its investments as shown below:

Company	Number of shares acquired	Cost of investment Sh. "million"	Retained earnings Sh. "million"	Date of acquisition
B Ltd.	16 million	480	150	1 October 2014
C Ltd.	3 million	120	100	1 October 2015

A Ltd. also invested in half of the 10% debentures of B Ltd. The fair value of the non-controlling interest in B Ltd. amounted to Sh.120 million.

2. Immediately prior to the date of its acquisition, B Ltd. revalued its non-current assets in readiness for the acquisition as shown below:

Item	Carrying amount Sh. "million"	Fair value Sh. "million"	Remaining life (years)
Equipment	250	290	10
Patents	150	160	5

Equipment and patents are depreciated or amortised on a straight-line basis over their remaining useful lives respectively.

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3. During the year, A Ltd. sold a non-current asset to B Ltd. for Sh.180 million. A Ltd. marked up the equipment at 20% on cost. B Ltd. included the equipment in its non-current assets and charged depreciation at the rate of 20% per annum on cost.
4. B Ltd. sold inventories to A Ltd. during the year for Sh.150 million. B Ltd. marked up these goods at 50% on cost. Half of these goods were still held by A Ltd. as at the year end.
5. A Ltd. owed B Ltd. Sh.100 million as at the year end with regard to the transaction in note 4 above. The books of A Ltd. however showed that it owed B Ltd. only Sh.80 million. A Ltd. had sent a cheque to B Ltd. on 25 September 2016 which was not received by B Ltd. until 5 October 2016.
6. The group uses the full goodwill method. However, it does not amortise goodwill, instead goodwill is assessed for impairment annually. Impairment test for the year ended 30 September 2016 revealed that none of the goodwill had suffered any impairment since acquisition.

**Required:**

Group statement of financial position as at 30 September 2016.

**(20 marks)**

**QUESTION FIVE**

Ali, Baba and Chake have been partners sharing profits and losses in the ratio of 2:2:1 respectively. Accounts have been prepared on an annual basis to 31 December of each year. Ali, the only active partner died on 31 May 2016 and the remaining partners decided to dissolve the business from that date. The assets are to be realised, outstanding debts paid and any remaining cash is to be shared by the partners (including the executors of Ali's estate) in an equitable manner, distribution of cash being made as soon as possible.

The statement of financial position as at 31 May 2016 revealed the following:

**Ali, Baba and Chake**

**Statement of financial position as at 31 May 2016:**

	“Sh.000”	“Sh.000”	“Sh.000”
<b>Non-current assets:</b>			
Freehold land and buildings			75,000
Plant and machinery			38,600
Fixtures and fittings			8,500
Motor vehicles			4,000
Intangible assets (goodwill)			<u>50,000</u>
			176,100
<b>Current assets:</b>			
Inventory		32,000	
Trade receivables	32,500		
Less: Allowance for doubtful debts	<u>(3,000)</u>	29,500	
Cash		<u>80</u>	<u>61,580</u>
			<u>237,680</u>
<b>Capital and liabilities:</b>			
Capital accounts:			
Ali		50,000	
Baba		30,000	
Chake		<u>20,000</u>	100,000
Current accounts:			
Ali		20,000	
Baba		<u>15,000</u>	35,000
<b>Long-term liabilities:</b>			
Loan - Ali			10,000
<b>Current liabilities:</b>			
Trade payables		28,500	
Bank overdraft		<u>64,180</u>	<u>92,680</u>
			<u>237,680</u>

**Additional information:**

1. Provision was to be made for dissolution expenses of Sh.1,200,000.
2. Premiums have been paid on life assurance policies for each partner to provide the firm with cash on death. The premiums have been charged to insurance expenses and the cash payable on death of any partner is Sh.20,000,000.

3. The assets were duly sold or settled and the monies received as follows:

	<b>“Sh.000”</b>
20 June 2016: Life policy on Ali’s life	20,000
Life policy on the lives of Baba and Chake surrendered	10,000
21 July 2016: Freehold land and buildings	100,000
Trade receivables (part)	15,000
Inventory (part)	10,000
18 August 2016: Plant and machinery	25,500
Fixtures and fittings	6,000
Motor vehicles	2,500
25 October 2016: Inventory (remainder)	18,000
Trades receivables (remainder)	21,000

4. Dissolution expenses amounted to Sh.1,000,000 and these were paid on 31 October 2016.

5. As soon as sufficient money was available to pay all outstanding creditors, this was done, discounts being received amounting to Sh.500,000.

**Required:**

- (a) Statement showing how the proceeds of the dissolution would be shared among the partners using maximum possible loss method. (12 marks)
  - (b) Realisation account. (5 marks)
  - (c) Capital accounts. (3 marks)
- (Total: 20 marks)**
- .....

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# KASNEB

## CPA PART II SECTION 3

### FINANCIAL REPORTING

THURSDAY: 26 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

- (a) For public sector entities with limited internally generated funds, external borrowings may constitute a viable alternative source of finance. Such borrowings are usually accessed at a cost.

**Required:**

In the context of International Public Sector Accounting Standard (IPSAS) 5 - Borrowing Costs:

- (i) Identify three items that could be considered as borrowing costs. (3 marks)
- (ii) Describe the two alternative accounting treatments for borrowing costs. (4 marks)
- (b) Government grants are a common source of finance in developing economies.

**Required:**

- (i) Explain the term "government grants" in the context of International Financial Reporting Standards (IFRSs). (3 marks)
- (ii) Government grants may be accounted for using either the "income" approach or the "capital" approach. Discuss the arguments for each of the two approaches above. (6 marks)
- (c) Evaluate four criteria for consideration of a lease as a capital lease. (4 marks)

**(Total: 20 marks)**

#### QUESTION TWO

The following trial balance relates to Dodoma Ltd. as at 30 April 2016:

	Sh."000"	Sh."000"
Revenue		315,000
Inventory	32,000	
Raw materials purchased	150,000	
Production cost	60,000	
Distribution cost	12,000	
Administrative expenses	22,000	
Lease rentals paid	23,000	
Property, plant and equipment:		
- Cost	180,000	
- Accumulated depreciation (1 May 2015)		35,000
Income tax account	400	
Deferred tax		7,200
Trade receivables	50,000	
Cash and cash equivalents	24,800	
Trade payables		30,000
Ordinary share capital		154,000
Ordinary dividend paid	30,000	
Retained earnings		<u>43,000</u>
	<u>584,200</u>	<u>584,200</u>

**Additional information:**

1. On 20 April 2016, Dodoma Ltd. agreed with a customer to supply goods in the month of June 2016. The customer paid a deposit of Sh.5,000,000 which Dodoma Ltd. credited to its revenue account. Dodoma Ltd. has not made any adjustments to inventory on account of the deposit.
2. A stock take was done on 30 April 2016 that showed closing inventory at a cost of Sh.40,000,000. However, there were some damaged goods with a cost of Sh.4,000,000 that required to be repaired at a cost of Sh.400,000 and then sold for Sh.3,500,000.
3. On 1 May 2015, Dodoma Ltd. entered into two leasing contracts as explained below:

**Contract A**

The contract was to lease motor vehicles for a two year period. The estimated useful life of the vehicles at the start of the lease was 5 years. It was the responsibility of the lessor to repair and insure the vehicles. The lease stated that Dodoma Ltd. should pay a deposit of Sh.600,000 at the start of the lease followed by monthly payments of Sh.200,000 in arrears. The lease rentals figure for the year ended 30 April 2016 includes Sh.3,000,000 in respect of this lease. The vehicles were to be used by office staff.

**Contract B**

The contract was to lease a number of machines. The lease was for a four year period which was the estimated useful life of the machines. Dodoma Ltd. was required to repair and insure the machines which would have no residual value at the end of the lease. The lease rentals were set at Sh.10,000,000 every six months payable in advance. The lease rental figure for the year includes Sh.20,000,000 in respect of this lease. The rate of interest implicit in this lease was 5% per six months period. The fair value of the machines at inception of the lease was estimated at Sh.70,000,000.

4. Property, plant and equipment included:

	Cost Sh.‘000’	Accumulated depreciation Sh.‘000’
Property	90,000	5,000
Plant and equipment	90,000	30,000
	<u>180,000</u>	<u>35,000</u>

- The plant and equipment is being depreciated on a straight line basis at a rate of 25% per annum.
- The depreciable element of the property has an allocated carrying value of Sh.50,000,000 and is being depreciated on a straight line basis over 50 years from the date of original purchase. On 1 May 2015, the directors of Dodoma Ltd. revalued this property for the first time. The property had an estimated market value of Sh.100,000,000 as at 1 May 2015. It is further estimated that Sh.54,000,000 of this value relates to the depreciable element.

The directors have decided not to make a transfer of excess depreciation on the revalued asset to retained earnings. Depreciation on all property, plant and equipment should be charged to cost of sales.

5. The estimated income tax liability for the year ended 30 April 2016 is Sh.5,000,000. The balance on the income tax account in the trial balance is the residue of the previous year after making the payment for that year.
6. A transfer of Sh.600,000 needs to be made to the deferred tax account for the period.
7. Trade receivables include an amount of Sh.10,000,000 owed by a customer who experienced cash flow problems prior to the year end. Dodoma Ltd. agreed to accept a payment of Sh.8,000,000 in full and final settlement of the debt and to defer the payment until April 2017. The expected return on sums invested for one year is 10%.

**Required:**

- (a) Statement of comprehensive income for the year ended 30 April 2016. (10 marks)
  - (b) Statement of financial position as at 30 April 2016. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Faith and Hope were partners in a business of manufacturing and distributing construction materials, sharing profits and losses equally. The partners agreed that with effect from 1 January 2016, the business be split off and transferred to two separate companies; Mabati Ltd. and Nyumba Ltd. Mabati Ltd. took over the manufacturing business while Nyumba Ltd. took over the distribution business.

The partnership's statement of financial position as at 31 December 2015 was as follows:

<b>Non-current assets</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Land and building (at cost)		200,000
Motor vehicles (net book value)		150,000
Equipment (net book value)		<u>33,000</u>
		383,000
<b>Current assets</b>		
Cash in hand	1,000	
Account receivables: Manufacturing	128,000	
Distribution	216,000	
Inventory: Manufacturing	460,000	
Distribution	<u>225,000</u>	<u>1,030,000</u>
		<u>1,413,000</u>
<b>Capital and liabilities</b>		
Capital: Faith	526,000	
Hope	<u>324,000</u>	850,000
<b>Non-current liability</b>		
Bank loan		24,000
<b>Current liabilities</b>		
Bank overdraft	179,000	
Account payables: Manufacturing	308,000	
Distribution	<u>52,000</u>	<u>539,000</u>
		<u>1,413,000</u>

**Additional information:**

1. Mabati Ltd. took over all the non-current assets, cash, bank overdraft and its share of account receivables, inventory and account payables. Nyumba Ltd. took its share of account receivables, inventory and account payables. The assets and liabilities were transferred at book values and the partners were paid Sh.100 million being goodwill for the distribution business and Sh.80 million being goodwill for the manufacturing business.
2. The bank that had provided the loan agreed to accept Sh.14.4 million 10% debentures in Mabati Ltd. and Sh.9.6 million 10% debentures in Nyumba Ltd.
3. On 1 January 2016, the purchase consideration was settled by the allotment of fully paid ordinary shares of Sh.20 each in the respective companies as follows:
 

Faith: 23,750,000 shares in Mabati Ltd. and the balance in shares in Nyumba Ltd.

Hope: 15,920,000 shares in Nyumba Ltd. and the balance in shares in Mabati Ltd.
4. Mabati Ltd. also raised a 12% debenture of Sh.200 million on 1 January 2016 and paid-off the bank overdraft. The expenses incurred in raising the 12% debenture amounted to Sh.7 million.
5. Mabati Ltd. and Nyumba Ltd. also issued 1,000,000 and 1,500,000 fully paid ordinary shares of Sh.20 each respectively to two corporate investors, A Ltd. and B Ltd. on 1 January 2016.
6. None of the companies has amortised the goodwill.
7. The formation expenses were paid by the respective companies as follows:
 

<b>Sh. "million"</b>	
Mabati Ltd.	13
Nyumba Ltd.	8

**Required:**

Prepare the following accounts in a columnar format where applicable:

- |     |   |           |
|-----|---|-----------|
| (a) | Business purchases accounts.  | (6 marks) |
| (b) | Partners' capital accounts.   | (2 marks) |
| (c) | Bank account.   | (2 marks) |
| (d) | Vendor's account.   | (2 marks) |
| (e) | Statements of financial position for the two companies after formation. | (8 marks) |

**(Total: 20 marks)**

#### QUESTION FOUR

Jamii Ltd is a listed company operating in the service industry. During the year ended 30 April 2016, the company acquired two companies, Bora Ltd. and Njema Ltd. as part of its expansion plan. The following statements of comprehensive income relate to Jamii Ltd. and its investee companies Bora Ltd. and Njema Ltd. for the year ended 30 April 2016:

	Jamii Ltd. Sh. "million"	Bora Ltd. Sh. "million"	Njema Ltd. Sh. "million"
Revenue	102,180	52,800	33,150
Cost of sales	(76,635)	(36,990)	(26,520)
Gross profit	<u>25,545</u>	<u>15,810</u>	<u>6,630</u>
Investment income	<u>584</u>	<u>60</u>	<u>-</u>
	<u>26,129</u>	<u>15,870</u>	<u>6,630</u>
Operating expenses:			
Distribution expenses	(12,810)	(7,260)	(2,880)
Administrative expenses	(7,779)	(4,815)	(1,695)
Finance costs	<u>(720)</u>	<u>(600)</u>	<u>(45)</u>
Profit before taxation	<u>4,820</u>	<u>3,195</u>	<u>2,010</u>
Income tax expense	<u>(1,530)</u>	<u>(1,125)</u>	<u>(645)</u>
Profit after tax	<u>3,290</u>	<u>2,070</u>	<u>1,365</u>
Other comprehensive income:			
Revaluation of intangible asset	<u>-</u>	<u>530</u>	<u>-</u>
Total comprehensive income	<u>3,290</u>	<u>2,600</u>	<u>1,365</u>

#### Additional information:

- On 1 May 2015, Jamii Ltd. acquired 80% of 1,125 million ordinary shares of Sh.10 each in Bora Ltd. for Sh.18,000 million. As at that date, the share premium account of Bora Ltd. had a balance of Sh.3,750 million while retained profit was Sh.3,705 million.
- On 1 November 2015, Jamii Ltd. acquired 50% of 600 million ordinary shares of Sh.10 each of Njema Ltd. for Sh.6,300 million. As at that date, the share premium account of Njema Ltd. had a balance of Sh.1,500 million. The retained profit as at 1 May 2015 was Sh.2,085 million. The profit of Njema Ltd. accrued evenly throughout the year. The investment should be accounted for using the equity method.
- On the date of acquisition of Bora Ltd., the property, plant and equipment of the company had a fair value which was in excess of book value by Sh.390 million, with a remaining useful life of 5 years.
- The fair value of net assets acquired in Njema Ltd. approximated the book value as at the date of acquisition.
- During the year ended 30 April 2016, Bora Ltd. sold goods worth Sh.6,000 million to Jamii Ltd. Bora Ltd. had marked up the goods by 25% above the cost. One quarter of these goods were included in the closing inventory of Jamii Ltd.
- The goodwill arising on acquisition of the investee companies had suffered impairment losses to the extent of 25% during the year ended 30 April 2016. The group's policy is to apply the partial goodwill method.

#### Required:

- Computation of goodwill on each investment. (4 marks)
  - Group statement of comprehensive income for the year ended 30 April 2016. (12 marks)
  - Group statement of changes in equity for the year ended 30 April 2016. (4 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- With reference to International Accounting Standard (IAS) 10 "Events After the Reporting Period", explain the following terms:
  - Events after the reporting period. (2 marks)
  - Adjusting events. (2 marks)
  - Non-adjusting events. (2 marks)

(b) The following trial balance was extracted from the books of Maendeleo Bank Ltd. as at 31 March 2016:

	Sh. "000"	Sh. "000"
Property, plant and equipment	28,854	
Interest on loans and advances		16,790
Interest on customers deposits	10,616	
Customers deposits		164,460
Share capital		20,000
Revaluation reserve		4,960
Salaries and wages	4,368	
Borrowed funds		7,040
Directors emoluments	1,290	
Depreciation on plant and equipment	1,630	
Other interest income		860
Specific provisions for doubtful debts		5,500
Interest on government securities		9,536
Other operating expenses	3,260	
Repairs and maintenance	420	
Printing and stationery	556	
Deposits and placements due from other banks	17,120	
Loans and advances to customers	135,310	
Deposits and placements due to other banks		12,820
Interest received on deposits and placements with other banks		7,600
Other interest expense	628	
Interest paid on deposits and placements from other banks	2,560	
Cash and balances with Central Bank	7,260	
Interim dividends paid	800	
Bad debts written off	558	
Share premium		6,000
Fees and commission income		1,528
Dividend income		816
Investment in securities	10,920	
Miscellaneous accruals		280
Government securities	26,400	
Retained earnings (1 April 2015)		4,960
Other assets	<u>10,600</u>	
	<u>263,150</u>	<u>263,150</u>

**Additional information:**

1. Analysis of debtors balances at the end of the year revealed that an additional provision of Sh3,700,000 for non performing loans should be made.
2. A provision of Sh.2,100,000 should be made for tax on the profit for the year ended 31 March 2016.
3. Interest accrued and not accounted for in the books as at 31 March 2016 was as follows:
 

	Sh."000"
Interest on loans and advances	1,284
Interest on customers deposits	896
4. Directors of the bank have proposed a final dividend at a rate of 5%.

**Required:**

Prepare for Maendeleo Bank Ltd.:

- (i) Income statement for the year ended 31 March 2016. (8 marks)
- (ii) Statement of financial position as at 31 March 2016. (6 marks)

**(Total: 20 marks)**

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# KASNEB

## CPA PART II SECTION 3

### FINANCIAL REPORTING

#### 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) On 1 October 2014, P Ltd. acquired 60% of the equity share capital of S Ltd. in a share exchange of two shares of P Ltd. for three shares of S Ltd. On this date, shares of P Ltd. were trading at Sh.8 each.

Below are the financial statements for the two companies for the year ended 31 March 2015.

Income statements for the year ended 31 March 2015:

	P Ltd. Sh."000"	S Ltd. Sh."000"
Revenue	170,000	84,000
Cost of sales	(126,000)	(64,000)
Gross profit	44,000	20,000
Distribution costs	(4,000)	(4,000)
Administrative expenses	(12,000)	(6,400)
Finance costs	(600)	(800)
Profit before tax	27,400	8,800
Income tax expense	(9,400)	(2,800)
Profit for year	<u>18,000</u>	<u>6,000</u>

Statements of financial position as at 31 March 2015:

	Sh."000"	Sh."000"
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	60,900	18,900
Investment property	20,300	6,300
	<u>81,200</u>	<u>25,200</u>
<b>Current assets</b>		
Inventory	12,080	5,000
Receivables	11,920	4,900
Bank	8,000	3,300
	<u>32,000</u>	<u>13,200</u>
	<u>113,200</u>	<u>38,400</u>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Ordinary share capital (Sh.1 each)	20,000	8,000
Retained earnings	70,800	13,000
	<u>90,800</u>	<u>21,000</u>
<b>Non-current liabilities</b>		
10% loan notes	6,000	8,000
<b>Current liabilities</b>		
Trade payables	12,300	7,050
Accruals	4,100	2,350
	<u>16,400</u>	<u>9,400</u>
	<u>113,200</u>	<u>38,400</u>

#### Additional information:

- The issue of shares on acquisition of S Ltd. has not yet been recorded by P Ltd.

2. As at the acquisition date, fair values of S Ltd.'s assets were equal to their carrying amount except for an item of plant, which had a fair value of Sh.2 million in excess of the carrying amount. The plant had a remaining useful life 5 years as at the acquisition date. S Ltd. has not revalued its assets.
3. Sales from S Ltd. to Patterson Ltd. in the post acquisition period amounted to Sh.8 million. S Ltd. made a mark up of 40%. Sh.2.8 million of these goods at cost to P Ltd. were still included in inventory on 31 March 2015.
4. S Ltd.'s trade receivables include Sh.800,000 due from P Ltd. which did not agree with the corresponding payables. This was due to cash paid by P Ltd. which was yet to be received by S Ltd.
5. P Ltd. has a policy of accounting for any non controlling interest at fair value. Fair value of goodwill attributable to non controlling interest in S Ltd. was Sh.2.4 million.
6. Neither of the company declared dividends in the year ended 31 March 2015.

**Required:**

- (i) Consolidated statement of comprehensive income for the year ended 31 March 2015. (10 marks)
  - (ii) Consolidated statement of financial position as at 31 March 2015. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

The following trial balance relates to B Ltd. as at 30 June 2015:

	Sh. "000"	Sh. "000"
Leasehold property at valuation 1 July 2014	75,000	
Plant and equipment at cost	114,900	
Accumulated depreciation - plant and equipment		36,900
Capitalised development expenditure 1 July 2014	30,000	
Inventory	30,000	
Trade receivables	64,650	
Trade payables and provisions		35,700
Revenue		450,000
Cost of sales	306,000	
Distribution costs	21,750	
Administrative expenses	33,300	
Preference dividend paid	1,200	
Interest on bank borrowings	300	
Ordinary dividend paid	9,000	
Research and development costs	12,900	
Ordinary shares Sh.1 each		75,000
8% redeemable preference shares		30,000
Retained earnings		36,750
Deferred tax		8,700
Leasehold property revaluation reserve		15,000
Accumulated amortisation 1 July 2014		9,000
Bank		1,950
	<u>699,000</u>	<u>699,000</u>

**Additional information:**

1. Leasehold property had a remaining useful life of 30 years as at 1 July 2014. The company's policy is to revalue its property at each year end. As at 30 June 2015 the leasehold property was valued at Sh.64.5 million. On 1 July 2014, an item of plant was disposed of for Sh.3.75 million cash. The proceeds were treated as sales revenue. The plant was still included in the trial balance at cost of Sh.12 million with the accumulated depreciation of Sh.6 million. All plant is depreciated at 20% per annum using the reducing balance method. Depreciation and amortisation on all non-current assets is charged to cost of sales and amounts for the year had not been provided.
2. Ignore deferred tax on revaluation charges.
3. In addition to capitalised development expenditure in the year amounting to Sh.30 million, further research and development costs were incurred in the year on a project that commenced on 1 July 2014. The research stage of the new project lasted until 30 September 2014 taking up Sh.2.1 million of the costs. From 1 October 2014, the project's development cost Sh.1.2 million per month. On 1 January 2015 the directors established the project's technical and commercial feasibility and committed to completion of the project. The project was still under development as at 30 June 2015.
4. Capitalised development is amortised at 20% per annum on a straight line basis and expensed research is charged to cost of sales.

5. B Ltd. is being sued by a customer for Sh.3 million for breach of contract. The company has obtained legal opinion that there is a 20% chance of losing the case. Accordingly the company has provided Sh.600,000 (20% of Sh.3 million) included in administrative expenses. The irrecoverable legal costs of defending the action are estimated at Sh.150,000 and these costs have not been provided for as the legal action is not expected in court until the next financial year.
6. The redeemable preference shares were issued on 1 January 2015 and have an effective interest rate of 12%.
7. Income tax should be provided for the year at Sh.17.1 million and the required deferred tax liability is Sh.9 million.

**Required:**

Prepare in a format suitable for publication:

- (a) Statement of comprehensive income for the year ended 30 June 2015. (12 marks)
  - (b) Statement of financial position as at 30 June 2015. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Enumerate four enhancing qualitative characteristics of good financial information. (4 marks)
- (b) Fulcon Ltd. deals in Italian shoes. It has a head office in Westlands, Nairobi and branches in several parts of the city. Accounts of all branches are maintained in the head office books. The following information relates to transactions carried out by the Eastlands branch for the year ended 31 December 2014. The amounts are stated at selling price.

	<b>Sh. "000"</b>
Opening inventory	31,680
Goods received from head office	700,368
Goods received from Southlands branch	3,360
Goods sent to Northlands branch from Eastlands branch	4,320
Goods returned to Eastlands branch by credit customers	5,280
Goods returned to Northlands branch by an Eastlands branch customer	1,932
Goods returned to head office	8,160
Goods stolen from Eastlands branch	5,760
Cash sales	316,800
Credit sales	370,116

**Additional information:**

1. Goods were marked at a normal markup of  $\frac{3}{5}$ .
2. To clear some old stocks, goods with a normal selling price of Sh.3 million were marked down by 20%. Two thirds of these goods had been sold as at 31 December 2014.
3. Other than the goods stolen there were no shortages or surpluses of goods in the year.

**Required:**

- (i) Eastlands branch inventory account for year ended 31 December 2014. (6 marks)
  - (ii) Eastlands branch markup account for year ended 31 December 2014. (6 marks)
  - (iii) Goods sent to Eastlands branch account for the year ended 31 December 2014. (4 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Bien Ltd. has provided the following schedule of its long-term loans for the year ended 31 March 2015:

	<b>1 April 2014</b>	<b>31 March 2015</b>
	<b>Sh. "million"</b>	<b>Sh. "million"</b>
10% bank loan 2021	120	120
24% bank loan 2030	80	80
8% debentures	0	60

**Additional information:**

1. The 8% debenture was used to finance production of a mining equipment which commenced on 1 October 2014.
2. On 1 April 2014, the company had commenced construction of a power plant using existing borrowings. Expenditure for the construction was drawn with Sh.40 million being drawn on 1 April 2014 and Sh.30 million on 1 November 2014.

**Required:**

In line with provisions of IAS 23 (borrowing costs):

- (i) Compute the borrowing costs to be capitalised. (4 marks)
- (ii) Determine the cost of the assets constructed in the year. (4 marks)

- (b) Madwang Ltd. leased out its plant to Kasheshe Hauliers Ltd. under a finance lease on 1 January 2010. The fair value of the plant on 1 January 2010 was Sh.870,000. The lease provided for 6 annual rentals of Sh.200,000 each receivable at the end of each year.

The interest rate implicit in the lease is 10%.

**Required:**

Using the actuarial method, show in the books of Madwang Ltd:

- (i) Income statement extracts over the lease term. (6 marks)
- (ii) Statement of financial position extracts suitably classified. (6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain the fair value model of accounting for investment property as per IAS 40 (Investment Property). (4 marks)

- (b) The following information was extracted from the books of the Ministry of Tourism for the fiscal year ended 30 June 2015:

	<b>Sh. "000"</b>
Accumulated fund	562,500
Cash and cash equivalents	375,000
Receivables	150,000
Inventory of consumables	75,000
Transfers from exchequer	1,875,000
Fees fines and licences	375,000
Liability for long term benefits	150,000
Long term borrowing	750,000
Finance costs	75,000
Supplies and consumables used	300,000
Wages and salaries	750,000
Other expenses	900,000
Transfers from other ministries	37,500
Transfers to other ministries	375,000
Computer equipment	200,000
Vehicles	175,000
Land and buildings	2,625,000
Revenue from exchange transactions	75,000
Other revenue	450,000
Payables	375,000
Reserves	1,350,000

**Required:**

- (i) Statement of financial performance for the year ended 30 June 2015. (8 marks)
- (ii) Statement of financial position as at 30 June 2015. (8 marks)

**(Total: 20 marks)**

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# KASNEB

## CPA PART II SECTION 3

### FINANCIAL REPORTING

THURSDAY: 26 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

Dola Ltd., a quoted company dealing in household goods has prepared the following trial balance as at 31 December 2014:

	Sh. "million"	Sh. "million"
Revenue		2,648
Loan interest paid	3	
Purchases	1,669	
Distribution costs	514	
Administrative expenses	345	
Interim dividends paid	6	
Inventory as at 1 January 2014	444	
Trade receivables and trade payables	545	434
Cash and cash equivalents	28	
Ordinary shares (Sh.10 each)		100
Share premium		244
General reserve		570
Retained earnings as at 1 January 2014		349
4% loan (payable 2024)		150
Land and buildings: Cost (Land Sh.60 million)	380	
Accumulated depreciation		64
Plant and equipment: Cost	258	
Accumulated depreciation		126
Investment property as at 1 January 2014	548	
Rental income		48
Proceeds from sale of equipment		7
	<u>4,740</u>	<u>4,740</u>

#### Additional information:

- Closing inventory (as at 31 December 2014) amounted to Sh.388 million at cost. However, shortly after the year end, some inventory with a cost of Sh.15 million were sold for Sh.8 million.
- Land and buildings were revalued on 1 January 2014 to Sh.800 million (including land at Sh.100 million). The buildings have a remaining useful life of 40 years.
- The income tax liability in the year was estimated at Sh.20 million. Deferred tax was to be provided at Sh.7 million.
- During the year, the company sold some equipment which had cost Sh.15 million with accumulated depreciation as at 1 January 2014 of Sh.3 million. An item of plant was also estimated to be impaired by Sh.4 million during the year.
- Depreciation rates as per the company's policy are as follows:  
Buildings - over the useful life period.  
Plant and equipment - 20% reducing balance  
The company's accounting policy is to charge a full year's depreciation in the year of an asset's purchase and none in the year of disposal.  
The company treats depreciation of plant and equipment as a cost of sale and on land and buildings as an administrative expense.
- Dola Ltd. values investment property at fair value. The fair value of the investment property as at 31 December 2014 was Sh.586 million.
- During the year, the company made a one for three bonus issue capitalising its general reserves. This transaction has not been accounted for.

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**Required:**

Prepare in a format suitable for publication the following financial statements for Dola Ltd. for the year ended 31 December 2014:

- (a) Income statement. (6 marks)  
 (b) Statement of changes in equity. (6 marks)  
 (c) Statement of financial position. (8 marks)

(Total: 20 marks)

Note: Notes to the financial statements are not required. Round your figures to the nearest Sh. million.

**QUESTION TWO**

- (a) With reference to International Financial Reporting Standards (IFRSs), discuss the accounting treatment of government grants, including the disclosure requirements. (6 marks)
- (b) The following financial information was extracted from the books of Bondeni Commercial Bank Ltd. as at 30 September 2015:

	Sh. "million"
Interest income- Loans and advances to customers	5,014
- Finance leases	4,680
- Government bonds	2,410
- Deposits with other banks	1,008
Interest expenses on customer deposits	2,500
Interest paid on deposits with other banks	56
Fees and commissions received	1,864
Foreign exchange commission receivable	110
Other operating incomes	1,500
Fees and other expenses	150
Impairment of loans and advances	840
Administrative costs	3,860
General operating expenses	3,140
Income tax expenses	2,100
Retained profits (1 October 2014)	16,640
Cash and balances with Central Bank	12,800
Deposits and balances due from other banks	19,200
Government bonds and other securities	15,410
Loans and advances to customers	132,270
Other assets	715
Deferred tax assets	60
Other investments	156
Property, plant and equipment	2,250
Intangible assets	2,150
Ordinary shares (Sh.10 each)	5,085
Share premium	90
Revaluation reserves	460
Statutory reserves	1,910
Customer deposits	150,995
Deposits from other banks	2,200
Current tax liabilities	1,145
Other liabilities	1,100
Deferred tax liabilities	1,446

**Additional information:**

- Property, plant and equipment is to be revalued to Sh.4,250 million.
- An allowance for unserviced loans is to be created at 2% of the outstanding loans and advances to customers.
- Intangible assets were impaired by 20% as at the end of the year.

**Required:**

Prepare the following for Bondeni Commercial Bank Ltd.:

- (i) Income statement for the year ended 30 September 2015. (8 marks)  
 (ii) Statement of financial position as at 30 September 2015. (6 marks)

(Total: 20 marks)

### QUESTION THREE

Amu and Bala are equal partners in a firm that buys and sells jewellery. The financial year end of the business is 31 December.

On 1 April 2014, they converted the partnership into a company, Ambala Ltd. The trial balance as at 31 December 2014 was given as follows:

	Sh."000"	Sh."000"
Sales		77,025
Purchases	57,000	
Discounts allowed	1,600	
Bad debts	800	
Rent	1,800	
Salaries	5,400	
Distribution expenses	600	
Formation expenses (company)	240	
Sundry expenses	950	
Capital: Amu		18,000
Bala		13,000
Trade payables		9,300
Furniture and fittings	2,400	
Motor vehicles	2,800	
Inventory as at 1 January 2014	25,000	
Trade receivables	8,100	
Cash at bank	5,635	
Drawings: Amu	2,700	
Bala	2,300	
	<u>117,325</u>	<u>117,325</u>

#### Additional information:

- The partners have not made any changes to reflect the conversion of the partnership into a company.
- Sales and purchases accrued in the ratio of 20% and 80% for the partnership and company respectively during the year.
- Discounts allowed are to be apportioned in accordance with sales. Other expenses accrued evenly unless stated otherwise.
- All the bad debts were written off in the last nine months of the year.
- Depreciation per annum is to be provided using the reducing balance method as follows:

	Partnership	Company
Furniture and fittings	10%	12%
Motor vehicles	20%	18%

Included in the motor vehicles balance in the trial balance is a purchase of a motor vehicle for Sh.700,000 on 1 May 2014.

- Inventory as at 31 December 2014 was valued at Sh.20,825,000.
- Amu and Bala withdrew Sh.600,000 and Sh.1,300,000 respectively in the quarter ended 31 March 2014. They are entitled to director's salary of Sh.1,800,000 each per annum.
- The company issued 200,000 ordinary shares of Sh.150 each in settlement of the purchase of the assets and liabilities of the partnership.

#### Required:

- Income statement in columnar format for the partnership and company for the year ended 31 December 2014. (10 marks)
  - Statement of financial position for the company as at 31 December 2014. (10 marks)
- (Total: 20 marks)

### QUESTION FOUR

- In the context of International Public Sector Accounting Standard (IPSAS) 19 - Provisions, Contingent Liabilities and Contingent Assets:
  - Distinguish between an "executory contract" and an "onerous contract". (2 marks)
  - Summarise four disclosure requirements in relation to provisions. (4 marks)

- (b) The following data has been collected from the Ministry of Commerce and Industrialisation for the fiscal year ended 30 June 2015:

	Sh. "million"
Reserves	22,500
Long-term borrowings	7,500
Accumulated surplus (1 July 2014)	9,375
Cash and cash equivalents	6,250
Receivable from exchange transactions	2,500
Inventory	1,250
Employee benefits obligation	5,000
Transfer from exchequer	31,250
Fines, penalties and levies	6,250
Revenue from exchange transactions	1,250
Property taxes revenue	7,500
Transfer from other ministries	625
Property, plant and equipment	43,750
Trade and other payables	6,250
Investment property	6,250
Employee costs	12,500
Transfers to other ministries	6,250
Impairment losses	1,250
Supplies and consumables used	5,000
Other expenses	15,000
Payments received in advance	2,500

**Required:**

Statement of financial position for the Ministry of Commerce and Industrialisation as at 30 June 2015 in accordance with IPSAS 1 - Presentation of Financial Statements. (6 marks)

- (c) Europa Ltd., a manufacturing company, leased a plant from Smart Equipments Ltd. on a finance lease.

The details of the lease agreement are as follows:

Date of commencement of the lease	1 January 2015
Fair value of the plant on 1 January 2015	Sh.120 million
Expected useful life of plant	3 years
Annual lease payment (paid in advance)	Sh. 50 million
Interest rate implicit in lease	12% per annum
Lease period	3 years
Residual value of plant	Sh.6 million

**Required:**

Show by way of extracts, how the above transaction would be reflected by Europa Ltd. in the following:

- (i) Income statements for the years ending 31 December 2015 and 31 December 2016. (3 marks)
- (ii) Statements of financial position as at 31 December 2015 and 31 December 2016. (3 marks)
- (d) Outline the main benefit of a sale and leaseback transaction to the vendor. (2 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

The following is an extract of the financial statements of A Ltd., B Ltd. and C Ltd. for the year ended 30 September 2015:

**Income statement for the year ended 30 September 2015**

	A Ltd. Sh. "million"	B. Ltd. Sh. "million"	C. Ltd. Sh. "million"
Revenue	9,120	4,940	4,560
Cost of sales	(3,610)	(1,092)	(1,064)
Gross profit	5,510	3,848	3,496
Distribution cost	(665)	(428)	(380)
Administrative expenses	(695)	(170)	(380)

Finance cost	(65)	(20)	-
	Sh."million"	Sh."million"	Sh."million"
Profit before tax	4,085	3,230	2,736
Income tax expense	(1,660)	(1,078)	(848)
Profit for the period	<u>2,425</u>	<u>2,152</u>	<u>1,888</u>
Retained profit brought forward	<u>7,612</u>	<u>1,452</u>	<u>1,250</u>

**Statement of financial position as at 30 September 2015**

	A Ltd. Sh."million"	B. Ltd. Sh."million"	C. Ltd. Sh."million"
<b>Non-current assets:</b>			
Property, plant and equipment	6,096	4,855	2,612
Investments	<u>4,350</u>	<u>50</u>	<u>-</u>
	<u>10,446</u>	<u>4,905</u>	<u>2,612</u>
<b>Current assets:</b>			
Inventory	1,460	853	737
Accounts receivable	1,880	765	573
Cash and bank balances	<u>1,224</u>	<u>187</u>	<u>468</u>
	<u>4,564</u>	<u>1,805</u>	<u>1,778</u>
Total assets	<u>15,010</u>	<u>6,710</u>	<u>4,390</u>
<b>Equity and liabilities:</b>			
<b>Capital and reserves:</b>			
Ordinary share capital	2,600	1,600	400
Share premium	1,500	300	-
Retained profit	<u>8,237</u>	<u>3,604</u>	<u>3,138</u>
	<u>12,337</u>	<u>5,504</u>	<u>3,538</u>
<b>Non-current liability:</b>			
Loan from bank	650	200	-
<b>Current liabilities:</b>			
Trade payables	1,463	646	382
Current tax	560	360	220
Bank overdraft	<u>-</u>	<u>-</u>	<u>250</u>
	<u>2,023</u>	<u>1,006</u>	<u>852</u>
Total equity and liabilities	<u>15,010</u>	<u>6,710</u>	<u>4,390</u>

**Additional information:**

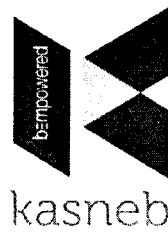
- A Ltd. acquired 40% of C Ltd. on 1 October 2014 for Sh.700 million.
- A Ltd. also acquired 80% of the ordinary shares of B Ltd. on 1 January 2015 at a cost of Sh.3,430 million. The fair value of non-controlling interest as at this date amounted to Sh.800 million.
- The fair value of B Ltd.'s property, plant and equipment on the date of acquisition was Sh.210 million above the book value with exactly 5 years remaining on the useful life of this property.
- During the year ended 30 September 2015, B Ltd. sold goods to A Ltd. for Sh.140 million. B Ltd. marked up the goods at 16 <sup>2</sup>/<sub>3</sub>% on cost. Half of the goods remained in the stock of A Ltd. as at the year end.
- As at 30 September 2015, A Ltd. owed B Ltd. Sh.80 million while C Ltd. owed A Ltd. Sh.15 million.
- Goodwill was impaired as follows:  
B Ltd. 25%.  
C Ltd. 10%.

**Required:**

Prepare the following financial statements in the books of A Ltd. for the year ended 30 September 2015:

- Consolidated statement of comprehensive income. (7 marks)
  - Statement of changes in equity. (3 marks)
  - Statement of financial position. (10 marks)
- (Total: 20 marks)**

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**CPA PART II SECTION 3  
FINANCIAL REPORTING**

**THURSDAY: 29 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) The objective of International Accounting Standard (IAS) 2 “Inventories” is to prescribe the accounting treatment for inventories. IAS 2 provides useful guidance particularly in economies which are dependent on agriculture.

**Required:**

Summarise the key requirements of IAS 2 under the following headings:

- (i) Scope of the term “inventories”. (2 marks)
- (ii) Measurement of inventories. (3 marks)
- (iii) Disclosure requirements. (4 marks)

(b) The following trial balance relates to Marine Insurance Company Ltd. for the year ended 30 June 2018:

	Sh.“000”	Sh.“000”
Ordinary shares of Sh.10 each		50,000
9% cumulative preference shares		20,000
Statutory reserve		4,200
Retained earnings		15,800
Freehold land	18,000	
Building: Cost	60,000	
Accumulated depreciation		5,000
Equipment: Cost	60,000	
Accumulated depreciation		13,000
Government securities	28,500	
Investment in shares	12,500	
Claims paid	28,400	
Gross premiums earned		86,000
Re-insurance premiums ceded	10,700	
Legal expenses	3,800	
Commissions earned		450
Commissions payable	700	
Unearned premiums		47,500
Operating expenses	14,250	
Accrued preference dividends payable		5,400
Fees received		4,400
Repairs and maintenance	8,500	
Trade receivables	15,350	
Trade payables		8,500
Investment income		1,800
Claims outstanding		4,100
Bank balances		3,900
Receivables arising out of re-insurance arrangements	1,550	
	266,150	266,150

**Additional information:**

1. The freehold land was revalued upwards by Sh.2 million but the revaluation had not been incorporated in the accounts.
2. Dividends on preference shares were in arrears for four years. The board has decided to pay the dividends for only three years.

3. Depreciation is to be charged per annum using the straight line method as follows:
 

Asset	Rate per annum
Building	2%
Equipment	15%
4. Claims amounting to Sh.2,850,000 were estimated to be outstanding as at 30 June 2018.
5. Current year's estimated tax is Sh.5,000,000.
6. Out of the total legal expenses incurred in the year ended 30 June 2018, Sh.2,450,000 was on claims paid.
7. The directors have recommended a first and final dividend of 20% on ordinary shares.

**Required:**

- (i) Statement of comprehensive income for the year ended 30 June 2018. (6 marks)
- (ii) Statement of financial position as at 30 June 2018. (5 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Safina Ltd., a manufacturing company, presented the following trial balance as at 31 October 2018:

	Sh. "000"	Sh. "000"
Revenue		8,700
Purchases	1,500	
Production cost	1,200	
Administrative expenses	980	
Distribution cost	370	
Interest on loan	50	
Research and development	470	
Land and buildings at valuation (1 November 2017)	1,700	
Equipment at cost	4,500	
Investment property at valuation (1 November 2017)	2,200	
Accumulated depreciation (1 November 2017):		
Buildings		400
Equipment		450
Intangible asset at cost	500	
Accumulated amortisation (1 November 2017)		50
Inventory (1 November 2017)	50	
Bank balances	400	
Trade receivables	350	
10% bank loan		1,000
Interim dividend paid	350	
Trade payables		400
Corporation tax		35
Ordinary share capital		1,250
Share premium		250
Revaluation reserve (1 November 2017)		300
Retained earnings (1 November 2017)		<u>1,785</u>
	<u>14,620</u>	<u>14,620</u>

**Additional information:**

1. Included in the revenue is a government grant of Sh.150,000 that Safina Ltd. received. The grant relates to the employment of additional staff that is expected during the next financial year.
2. Research and development expenditure comprises the following:
  - Sh.80,000 on general research.
  - Sh.67,000 on developing new technology. At the year end, the directors do not think that the development will be successful.
  - Sh.323,000 on development of new production technology. The development is almost complete and the directors are highly confident that the technology will result in significant cost savings.
3. Intangible asset at cost relates to a development that was being amortised over a useful life of 10 years. As at 1 November 2017, this was reviewed and the development was then assessed as having a remaining useful life of six years.
4. The Sh.1,700,000 relating to land and buildings is based on last year's revaluation and includes land at a valuation of Sh.1,000,000. Land has an indefinite useful life. The buildings should be depreciated on the value at the start of the year and the remaining useful life was 20 years as at 1 November 2017.
5. As at the year end, the directors obtained the following valuations:
  - Land Sh.1,250,000
  - Buildings Sh.570,000

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6. Equipment is depreciated on a straight line basis over 5 years. Safina Ltd. estimates that the equipment is used in the business on the following basis:
  - 50% in production
  - 25% in the administration functions
  - 25% in distribution functions
7. The year end valuation of the investment property was Sh.2,500,000 and Safina Ltd.'s accounting policy is to use the fair value model for investment properties.
8. The year end inventory was valued at Sh.65,000 but it was subsequently discovered that goods included within this value with a cost of Sh.7,000 were sold for Sh.2,000.
9. Safina Ltd. took out the bank loan of Sh.1,000,000 on 1 November 2017 which is repayable in four equal annual instalments. The interest rate on the loan is 10% per annum payable semi-annually.
10. The corporation tax for the previous year was settled in July 2018 and the estimate for corporation tax for the year ended 31 October 2018 is Sh.625,000.
11. The directors have also discovered that a customer who owed Sh.125,000 as at the year end was declared bankrupt.

**Required:**

- (a) A statement of comprehensive income for the year ended 31 October 2018. (10 marks)
  - (b) A statement of financial position as at 31 October 2018. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) International Financial Reporting Standard (IFRS) 9 "Financial Instruments" establishes principles of derecognising financial assets and financial liabilities. Derecognition is the removal of a previously recognised financial instrument from an entity's statement of financial position.

**Required:**

With reference to the principles of IFRS 9, describe the criteria for derecognition of financial assets and financial liabilities of an entity. (6 marks)

- (b) The following financial statements relate to Sasumua Ltd. and its investment companies for the year ended 30 September 2018:

**Consolidated statement of comprehensive income for the year ended 30 September 2018:**

	Sh."million"
Revenue	4,805
Cost of sales	<u>(3,844)</u>
Gross profit	961
Other income	21
Selling and distribution costs	(283)
Administrative expenses	(304)
Finance costs	(85)
Share of profit of joint venture	<u>85</u>
Profit before tax	395
Income tax expense	<u>(80)</u>
Profit for the year	315
<b>Other comprehensive income:</b>	
Revaluation gain on property, plant and equipment (net of deferred tax)	<u>105</u>
Total comprehensive income	<u>420</u>
<b>Profit for the year:</b>	
Attributable to the owners of the parent	290
Attributable to the non-controlling interests	<u>25</u>
	<u>315</u>

**Consolidated statement of financial position as at 30 September:**

	2018	2017
	Sh."million"	Sh."million"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	2,831	2,345
Interest in joint venture	427	380
Goodwill on acquisition	<u>432</u>	<u>455</u>
	<u>3,690</u>	<u>3,180</u>
<b>Current assets:</b>		
Inventory	170	128
Accounts receivable	238	214
Cash and cash equivalents	<u>78</u>	<u>63</u>
	<u>486</u>	<u>405</u>
<b>Total assets</b>	<u>4,176</u>	<u>3,585</u>

	Sh. "million"	Sh. "million"
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	1,320	1,000
Share premium	460	400
Revaluation surplus	284	200
Retained profit	<u>570</u>	<u>360</u>
Owner's equity	2,634	1,960
Non-controlling interests	<u>186</u>	<u>180</u>
	<u>2,820</u>	<u>2,140</u>
<b>Non-current liabilities:</b>		
10% convertible loan stock	780	960
Deferred tax	150	185
<b>Current liabilities:</b>		
Accounts payable	234	175
Current tax	92	94
Interest payable	<u>100</u>	<u>31</u>
Total equity and liabilities	<u>4,176</u>	<u>3,585</u>

**Consolidated statement of changes in equity for the year ended 30 September 2018**

	Ordinary share capital Sh. "million"	Share premium Sh. "million"	Revaluation surplus Sh. "million"	Retained profit Sh. "million"	Total Sh. "million"
As at 1 October 2017	1,000	400	200	360	1,960
New share issue	320	60			380
Revaluation of property, plant and equipment			84		84
Profit for the year				290	290
Dividend paid				(80)	(80)
As at 30 September 2018	1,320	460	284	570	2,634

**Additional information:**

- The property, plant and equipment account comprised the following:

	30 September 2018 Sh. "million"	30 September 2017 Sh. "million"
Cost	3,765	2,970
Accumulated depreciation	<u>(934)</u>	<u>(625)</u>
Carrying amount	<u>2,831</u>	<u>2,345</u>

During the year ended 30 September 2018, an 80% owned subsidiary revalued its property upwards by Sh.150 million. The holding company disposed of an item of plant which had cost Sh.290 million and had accumulated depreciation of Sh.96 million. The disposal proceeds amounted to Sh.215 million.

- The 10% convertible loan stock was convertible at any time at the holders' option into 20 ordinary shares of Sh.10 each for every Sh.200 of the loan stock. During the year ended 30 September 2018, holders of Sh.180 million of 10% convertible loan stock exercised their conversion option.
- Impairment loss on goodwill and depreciation for the year ended 30 September 2018 have been charged to profit or loss for the year.
- Assume a corporation tax rate of 30%.

**Required:**

Consolidated statement of cash flows for the year ended 30 September 2018 using the indirect method in conformity with the requirements of International Accounting Standard (IAS) 7 "Statement of Cash Flows". (14 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Miaka Nenda Ltd.'s current year end is 30 June 2018. The company's financial statements were authorised for issue by its directors on 10 July 2018.

The following matters have been brought to your attention:

- On 11 July 2018, a fire completely destroyed the company's largest warehouse and the inventory it contained. The carrying amounts of the warehouse and the inventory were Sh.80,000,000 and Sh.50,000,000 respectively. It appears that the company has not updated the value of its insurance cover and only expects to be able to recover a maximum of Sh.70,000,000 from its insurers. Miaka Nenda Ltd's trading operations have been severely disrupted since the fire and it expects significant trading losses for some time to come.
- A single class of inventory held at another warehouse was valued at its cost of Sh.9,200,000 as at 30 June 2018. In July 2018, 70% of this inventory was sold for Sh.5,600,000 on which the company's staff earned a commission of 15% of the selling price.
- On 10 August 2018, the government announced tax changes which had the effect of increasing the company's deferred tax liability by Sh.7,000,000 as at 30 June 2018.

**Required:**

With reference to International Accounting Standard (IAS) 10 "Events After the Balance Sheet Date", explain the required treatment of each of the above items in the financial statements of Miaka Nenda Ltd. for the year ended 30 June 2018. (6 marks)

- (b) A, B and C have been in partnership sharing profits and losses in the ratio of 2:2:1 respectively. Their financial year end is 30 September. A decided to quit the partnership with effect from 10 May 2018. The remaining two partners, B and C, decided to dissolve the partnership from that date. The terms of dissolution were that the assets were to be realised, outstanding debts paid and the remainder to be shared by the partners. A was to be paid in an equitable manner, distribution of cash being made as soon as possible.

The following is the statement of financial position of the partnership as at 10 May 2018:

**A, B and C**  
**Statement of financial position as at 10 May 2018**

<b>Assets:</b>	<b>Sh."000"</b>	<b>Sh."000"</b>
<b>Non-current assets (net book value):</b>		
Land and building		182,000
Plant and machinery		73,600
Fixtures and fittings		20,800
Motor vehicle		7,200
Intangible asset (goodwill)		<u>89,200</u>
		372,800
<b>Current assets:</b>		
Inventory	68,000	
Trade receivables	62,000	
Bank balance	9,200	
Cash balance	<u>3,200</u>	
		<u>142,400</u>
		515,200
<b>Capital and liabilities:</b>		
Capital accounts:		
A		100,000
B		64,000
C		<u>40,000</u>
		204,000
Current accounts:		
A	32,000	
B	<u>22,000</u>	
		<u>54,000</u>
		258,000
<b>Long-term liability:</b>		
Bank loan		160,000
<b>Current liabilities:</b>		
Trade payables	33,200	
Bank overdraft	<u>64,000</u>	
		<u>97,200</u>
		515,200

**Additional information:**

- The partnership had an insurance policy which entitled the firm to Sh.40,000,000 immediately a partner left.
- Dissolution expenses amounted to Sh.1,800,000 and were paid on 30 August 2018.
- As soon as sufficient money was available, all the outstanding payables were paid after the discount received which amounted to Sh.1,000,000.

4. Assets were sold and the monies received on piecemeal basis as follows:

Date	Particulars	Amount
		Sh. "000"
30 May 2018:	Insurance policy	40,000
	Insurance benefit received (interest)	16,000
	Land and building	180,000
25 June 2018:	Plant and machinery	41,200
	Trade receivables	26,000
20 July 2018:	Motor vehicle	6,400
	Fixtures and fittings	8,800
15 August 2018:	Plant and machinery	32,400
	Fixtures and fittings	8,000
20 September 2018:	Inventory	68,000
	Trade receivables	40,000

**Required:**

- (i) Statement showing how the proceeds of the dissolution will be shared between the partners. (8 marks)
  - (ii) Realisation account. (3 marks)
  - (iii) Partners' capital accounts. (3 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Citing relevant examples, summarise the accounting treatment of government grants received by an entity. (6 marks)
- (b) The following trial balance was extracted from the books of DD Associates, a firm of advocates, as at 30 September 2018:

	Sh. "000"	Sh. "000"
Costs charged to clients on:		
Civil cases		4,250
Criminal cases		2,450
Oaths		260
Conveyance fees		340
Preparation of wills		200
Cases in progress as at 1 October 2017	1,104	
Clients account (money held on behalf of clients)		744
Accounts payable		816
Accounts receivable	2,440	
General office expenses	255	
Furniture, fittings and library books	1,350	
Cash at bank: Clients' account	744	
Office	1,671	
Capital		6,220
Disbursements on behalf of clients	360	
Drawings	1,800	
Salaries to office staff	2,160	
Rent and rates	1,800	
Postage and telephone	546	
Printing and stationery	1,050	
	<u>15,280</u>	<u>15,280</u>

**Additional information:**

1. It is estimated that debts amounting to Sh.165,000 might not be collected and should be written off.
2. Depreciation should be provided at the rate of 20% per annum on the book value of furniture, fittings and library books.
3. Cases in progress as at 30 September 2018 were valued at Sh.705,000.

**Required:**

- (i) Statement of comprehensive income for the year ended 30 September 2018. (8 marks)
  - (ii) Statement of financial position as at 30 September 2018. (6 marks)
- (Total: 20 marks)**



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CPA PART II SECTION 3

FINANCIAL REPORTING

FRIDAY: 27 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) Citing two examples, explain the accounting treatment of contingent assets. (4 marks)
- (b) With reference to International Accounting Standard (IAS) – 16: Property, Plant and Equipment:
- (i) Describe two conditions under which property, plant and equipment should be recognised. (4 marks)
- (ii) Outline the provisions with regard to derecognition of property, plant and equipment. (4 marks)
- (c) The objective of IFRS 15 – Revenue from Contracts with Customers, is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue from a contract with a customer.

In context of the above statement:

- (i) Discuss how contracts with customers will be presented in the financial statements in line with IFRS 15 requirements. (4 marks)
- (ii) Summarise the disclosure requirements under IFRS 15. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

The following trial balance relates to Tamutamu Ltd. as at 30 September 2019:

	Sh. "000"	Sh. "000"
Revenue		68,865
Inventory	3,150	
Cost of sales	35,500	
Selling and distribution expenses	5,600	
Administrative expenses	8,540	
Interest on loan note	110	
Investment income		360
Bank interest	85	
Leasehold building at valuation (1 October 2018)	14,000	
Plant and equipment – cost/depreciation	13,750	3,200
Computer equipment – cost/depreciation	7,200	2,000
Motor vehicles – cost/depreciation	1,500	400
Available for sale investments	8,700	
Trade receivables	9,200	
Bank balance		910
Trade payables		3,400
Deferred tax (1 October 2018)		2,300
Ordinary shares of Sh.29 each		14,500
8% loan note (2017 – 2021)		2,500
10% preference shares (redeemable)		3,000

	Sh. "000"	Sh. "000"
Revaluation surplus		800
General reserve		1,500
Retained earnings (1 October 2018)		<u>3,600</u>
	<u>107,335</u>	<u>107,335</u>

**Additional information:**

- On 31 March 2019, the company made a bonus issue from retained earnings of one new share for every four shares in issue at Sh.10 each. This transaction is yet to be recorded in the books.

The company paid ordinary dividends of Sh.2.20 per share on 31 January 2019 and Sh.2.60 per share on 30 June 2019. The dividend payments are included in administrative expenses in the trial balance.

- Interest on loan notes and dividend on preference shares have not yet been accounted for.
- Revenue includes Sh.8 million for credit sales made on a "sale or return basis". As at 30 September 2019, customers who had not paid for the goods, had the right to return Sh.2.6 million of them. Tamutamu Industries Ltd. applied a mark up of 30% on all sales. In the past, the company's customers have sometimes returned goods under this type of agreement.
- Depreciation on property, plant and equipment is to be provided on the following basis; Plant and equipment – 10% on cost charged to cost of sales, computer equipment – 25% on cost charged to administrative expenses, motor vehicles – 20% on reducing balance charged to selling and distribution expenses.
- Tamutamu Ltd. revalues its building at the end of each accounting year. At 30 September 2019, the relevant value to be incorporated into the financial statements was Sh.14,100,000.

The building's remaining useful life at the beginning of the current year (1 October 2018) was 25 years. Tamutamu Ltd. does not make an annual transfer from the revaluation reserve to retained earnings in respect of the realisation of the revaluation surplus.

Depreciation on building is an administrative expense. Ignore deferred tax on the revaluation surplus.

- The available for sale investments held at 30 September 2019 had a fair value of Sh.8,400,000. There were no acquisitions or disposals of these investments during the year.
- In February 2019, Tamutamu Ltd.'s internal audit unit discovered a fraud committed by the company's credit manager who did not return from a foreign business trip. The outcome of the fraud is that Sh.500,000 of the company's trade receivables have been stolen and are not recoverable. Of this amount, Sh.200,000 relates to the year ended 30 September 2018 and the remainder to the current year. Tamutamu Ltd. is not insured against this fraud.
- Income tax payable on the profit for the year ended 30 September 2019 is estimated to be Sh.3,500,000. An amount of Sh.1,200,000 is to be transferred to the deferred tax account.

**Required:**

- A statement of comprehensive income for the year ended 30 September 2019. (10 marks)
- A statement of changes in equity for the year ended 30 September 2019. (2 marks)
- A statement of financial position as at 30 September 2019. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- With regard to International Public Sector Accounting Standard (IPSAS) 29 "Financial Instruments: Recognition and Measurement", describe the subsequent measurement of financial assets held by a public sector entity, indicating how this measurement differs from the requirements of International Financial Reporting Standard (IFRS) 9 "Financial Instruments: Recognition and measurement". (6 marks)
- The following are the draft statements of financial position of Aby Limited and Benta Limited as at 30 April 2020:

	Aby Limited Sh. "million"	Benta Limited Sh. "million"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	25,290	5,420
Investments	<u>8,120</u>	<u>NIL</u>
	33,410	5,420
<b>Current assets:</b>		
Inventory	2,750	1,295
Trade receivables	2,135	1,010

	Sh. "million"	Sh. "million"
Cash and bank balances	<u>1,220</u>	<u>575</u>
Total assets	<u>39,515</u>	<u>8,300</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary shares of Sh.10 each	12,500	3,800
Revaluation surplus	2,700	260
Retained profit	<u>13,600</u>	<u>2,350</u>
	28,800	6,410
<b>Non-current liabilities:</b>		
Deferred consideration	1,800	NIL
10% debentures	2,450	500
Deferred tax	1,920	375
<b>Current liabilities:</b>		
Trade payables	3,200	655
Current tax	<u>1,345</u>	<u>360</u>
Total equity and liabilities	<u>39,515</u>	<u>8,300</u>

**Additional information:**

- On 1 May 2019, Aby Limited acquired 80% of the share capital of Benta Limited. At this date, the retained profit of Benta Limited amounted to Sh.2,200 million and the revaluation surplus stood at Sh.260 million. Aby Limited paid an initial cash consideration of Sh.5,940 million and agreed to pay the owners of Benta Limited a further Sh.1,800 million on 1 May 2021. The accountant of Aby Limited has recorded the full amounts of both elements of the consideration in investments. Aby Limited has a cost of capital of 8% and the appropriated discount factor is 0.857.
- On 1 May 2019, the fair values of Benta Limited's net assets were equal to their carrying amounts with the exception of some inventory which had cost Sh.193 million but had a fair value of Sh.233 million. On 30 April 2020, 10% of these goods remained in the inventory of Benta Limited.
- During the year, Aby Limited sold goods worth Sh.515 million to Benta Limited at a profit mark up of 25% above the cost. At 30 April 2020, Benta Limited still held Sh.75 million of these goods in its inventory.
- On 1 May 2019, Aby Limited also acquired an investment of 30% of the ordinary shares in Ceda Limited which cost Sh.380 million. Ceda Limited reported a profit of Sh.850 million during the year ended 30 April 2020.
- Aby Limited has a policy of valuing non-controlling interests at fair value. On 1 May 2019, the non-controlling interest in Benta Limited had a fair value of Sh.1,317 million.
- Impairment tests carried out on 30 April 2020 concluded that the value of the investment in Ceda Limited was impaired by Sh.85 million while the consolidated goodwill was impaired by Sh.100 million.

**Required:**

- Calculate the carrying amount of the investment in Ceda Limited to be included within the consolidated statement of financial position using the equity method. (2 marks)
  - The consolidated statement of financial position for the Aby Group as at 30 April 2020. (12 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

Mika and Nira had been operating as sole traders. On 30 September 2018, they amalgamated and traded as partners under the name Minira Traders sharing profits and losses in the ratio of 4:1 respectively. One year later on 30 September 2019, they converted the partnership into a limited liability company trading as MN Ltd.

No adjustments have been made to record the amalgamation and conversion but the statements of financial position for the sole traders as at 30 September 2018 and the partnership as at 30 September 2019 were as follows:

	Sole Traders		Minira Traders
	Statement of financial position as at 30 September 2018		Statement of financial position as at 30 September 2019
	Mika	Nira	
Assets:	Sh. "000"	Sh. "000"	Sh. "000"
Freehold property	3,000	2,000	8,000
Plant and equipment	13,600	11,200	26,000
Fixtures and fittings	3,200	3,100	6,000
Inventory	3,600	700	6,700

	Sh. "000"	Sh. "000"	Sh. "000"
Accounts receivable	3,800	2,000	12,840
Balance at bank	<u>600</u>	<u>300</u>	<u>250</u>
	27,800	19,300	59,790
<b>Liabilities:</b>			
Accounts payable	(13,600)	(8,000)	(19,840)
Bank overdraft	<u>-</u>	<u>-</u>	<u>(11,250)</u>
	<u>14,200</u>	<u>11,300</u>	<u>28,700</u>

**Additional information:**

1. On 1 October 2018, the partners agreed to take up the assets and liabilities of the individual traders at book values except for freehold property, plant and equipment and fixtures and fittings which were to be revalued as follows:

	Mika Sh. "000"	Nira Sh. "000"
Freehold property	4,000	3,000
Plant and equipment	13,000	11,000
Fixtures and fittings	3,000	3,000

2. During the year ended 30 September 2019, Mika made drawings of Sh.4,780,000 while Nira drew Sh.1,220,000.
3. The partnership was converted into a limited company, MN Ltd., on the following terms:
- The freehold property and accounts receivable were revalued to Sh.12,000,000 and Sh.11,340,000 respectively.
  - Mika and Nira were to receive 15% unsecured debentures at par so as to provide each partner with income equivalent to a 6% return on capital employed based on capital balances as at 30 September 2019 (that is after accounting for the profits, drawings and revaluation in note (i) above).
  - MN Ltd.'s authorised share capital was made up of 150,000 ordinary shares of Sh.100 each out of which 130,000 shares were to be issued to the partners in their profit sharing ratio.
  - Any balances in the partners' capital accounts were to be settled in cash.

**Required:**

- A computation showing the value of debentures and ordinary shares to be issued to the partners. (12 marks)
- Partners capital accounts as at 30 September 2019. (3 marks)
- Statement of financial position of MN Ltd. as at 30 September 2019. (5 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) The following trial balance was extracted from the books of David Wekesa, a farmer as at 31 October 2019:

	Sh. "000"	Sh. "000"
Inventory (1 November 2018):		
Dairy cattle	54,900	
Maize (growing)	3,600	
Dairy cattle feeds	2,520	
Fertilisers (for maize)	1,980	
Land and buildings	90,000	
Tractors (net book value)	32,400	
Other cattle (bulls)	6,000	
Carts (net book value)	3,000	
Purchases:		
Dairy cattle	10,440	
Fertilizers (for maize)	2,160	
(for napier grass)	4,000	
Maize seeds	1,080	
Dairy cattle feeds	6,120	
Sales:		
Milk		27,360
Dry maize		36,000
Green maize		11,340
Dairy cattle		8,100
Manure		3,000
Crop expenses:		
Labour	6,480	
Other expenses	720	
Napier grass (labour)	1,000	
General expenses	10,800	

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Trade payables		15,620
Capital (1 November 2018)		163,080
Cash at bank	15,300	
Dairy cattle expenses: Medicine	1,080	
Labour	9,480	
Other expenses	<u>1,440</u>	
	<u>264,500</u>	<u>264,500</u>

**Additional information:**

1. Inventories as at 31 October 2019 were valued as follows:

	<b>Sh. "000"</b>
Dairy cattle	54,000
Maize (growing)	2,700
Other cattle (bulls)	5,400
Dairy cattle feeds	1,620
Fertilizers for planting maize	1,080

2. During the financial year ended 31 October 2019, the following distributions of farm produce were made:

	<b>Value</b>
	<b>Sh. "000"</b>
Maize consumed by family members	1,080
Milk delivered to relative's hotel	<u>4,320</u>
	<u>5,400</u>

3. Manure valued at Sh.600,000 was removed from the cow shed and used in the maize plantation.  
 4. Maize stocks valued at Sh.1,500,000 were used as dairy cattle feed.  
 5. Cattle bulls are used for pulling carts.  
 6. Depreciation is to be provided on tractors and carts on the reducing balance method at the rate of 25% and 12% per annum respectively.  
 7. Income tax is estimated at Sh.3,600,000.

**Required:**

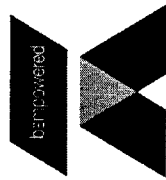
- (i) Revenue accounts for the year ended 31 October 2019. (6 marks)  
 (ii) Income statement for the year ended 31 October 2019. (3 marks)  
 (iii) Statement of financial position as at 31 October 2019. (3 marks)

- (b) In the co-operative sector, a standardised accounting system is the use of similar accounting procedures in recording transactions. It means that similar documents and books of account are used in all societies of the same type.

**Required:**

- Discuss four objectives of a standardised accounting system for co-operative societies. (8 marks)  
**(Total: 20 marks)**

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CPA PART II SECTION 3

FINANCIAL REPORTING

WEDNESDAY: 27 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) International Accounting Standard (IAS) 10 defines events after the reporting date as those events which could be favourable or unfavourable, that occur between the end of the reporting period and the date that the financial statements are authorised for issue.

**Required:**

With reference to IAS 10:

- (i) Distinguish between “adjusting” and “non-adjusting” events. (2 marks)
- (ii) Describe the accounting treatment of events after the reporting period. (4 marks)
- (b) Chanda, Pete and Tenda have been partners in a business for many years, sharing profits and losses in the ratio of 2:2:1 respectively.

On 30 June 2019, the partners agreed to convert their business into that of a limited liability company to be named Chapete Limited.

The trial balance extracted from the records of the partnership as at 30 June 2019 was as follows:

	Sh.“000”	Sh.“000”
Property at cost (Building: Sh.50 million)	60,000	
Plant and equipment at cost	25,000	
Motor vehicles at cost	12,000	
Furniture and fixtures at cost	4,000	
Provision for depreciation (1 July 2018):		
Building		5,000
Plant and equipment		13,000
Motor vehicles		4,800
Furniture and fixtures		1,600
Net profit for the year to 30 June 2019		28,800
Trade receivables and trade payables	18,200	14,700
Inventory (30 June 2019)	25,300	
Cash at bank balances	8,120	
Fixed capital accounts:		
Chanda		30,000
Pete		20,000
Tenda		10,000
Bank loan		18,000
Current accounts:		
Chanda		4,280
Pete		3,560
Tenda		2,340
Drawings:		
Chanda	1,580	
Pete	1,170	
Tenda	710	
	<u>156,080</u>	<u>156,080</u>

**Additional information:**

1. The property, plant and equipment in the partnership were being depreciated as follows:

Asset	Rate per annum	Basis
Building	2%	Straight line
Plant and equipment	12½%	Reducing balance
Motor vehicles	20%	Straight line
Furniture and fixtures	10%	Straight line

Depreciation for the year ended 30 June 2019 had not been provided for.

2. The partners were entitled to an interest on their fixed capital balances at the rate of 10% per annum. No salaries were paid to the partners.

3. The tangible non-current assets were to be transferred to the new company at their fair values as follows:

	Sh. "000"
Property	57,000
Plant and equipment	16,000
Motor vehicles	9,500
Furniture and fixtures	3,500

4. The current assets and the liabilities were taken over by the new company at their book values.

5. The purchase consideration amounted to Sh.110 million and was settled by the new company through the issue of ordinary shares of Sh.10 each to the partners in satisfaction of the amounts due to them upon conversion.

**Required:**

- (i) Realisation account as at 30 June 2019. (6 marks)
- (ii) Partners' capital accounts as at 30 June 2019. (4 marks)
- (iii) Opening statement of financial position as at 1 July 2019 for Chapete Limited. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

The following trial balance has been extracted from the accounting records of Skytex Limited as at 30 September 2019:

	Sh. "000"	Sh. "000"
6% convertible loan notes		25,000
Ordinary shares (Sh.10 each)		61,000
Retained earnings (1 October 2018)		177,000
Revenue		216,000
Cost of sales	108,500	
Distribution costs	23,600	
Administrative expenses	44,000	
Inventory (30 September 2019)	18,750	
Trade and other receivables	27,300	
Trade and other payables		23,800
Finance costs	6,200	
Investment income		600
Current tax		650
Deferred tax		13,900
Property at cost (Land: Sh.60 million)	170,000	
Accumulated depreciation (1 October 2018)		22,000
Plant and equipment at cost	56,000	
Accumulated depreciation (1 October 2018)		18,000
Bank balance	7,600	
Investment property	120,000	
Suspense account		24,000
	<u>581,950</u>	<u>581,950</u>

**Additional information:**

1. Skytex Limited entered into a contract with a customer where performance obligation is satisfied over time. The total contract price is Sh.45 million, with total expected contract costs of Sh.25 million.

Progress towards completion was measured at 50% on 30 September 2018 and at 80% on 30 September 2019. The correct entries were made in the year ended 30 September 2018, but no entries have been made for the year ended 30 September 2019.

2. On 1 April 2019, Skytex Limited was notified that an ex-employee had initiated court proceedings against them for unfair termination. Legal advice was that there was an 80% chance that Skytex Limited would lose the case and would be required to pay an estimated amount of Sh.5.06 million in damages on 1 April 2020.

Based on this advice, Skytex Limited recorded a provision of Sh.4 million on 1 April 2019 and has made no further adjustments.

The provision was recorded in administrative expenses and in trade and other payables.

Skytex Limited's cost of capital is 10% per annum and the discount factor at 10% for one year is 0.9091.

3. The company's policy on depreciation is to charge depreciation on building on straight line basis to a nil residual value at the rate of 2% per annum.

The plant and equipment should be depreciated on reducing balance basis at the rate of 12.5% per annum. All depreciation should be charged to cost of sales.

4. The company issued Sh.25 million 6% convertible loan notes on 1 October 2018. Interest is payable annually in arrears. The loan notes can be converted into one share for every Sh.2 of the loan note on 30 September 2020. Similar loan notes, without conversion rights, incur interest at the rate of 8%.

Skytex Limited recorded the full amount in liabilities and has recorded the annual interest payment made on 30 September 2019 of Sh.1.5 million in finance costs.

Relevant discount factors are as follows:

Present value of Sh.1 in:	6%	8%
1 year	0.943	0.926
2 years	0.890	0.857

5. The balance of current tax in the trial balance relates to an under/overprovision from the prior period. The tax estimate for the year ended 30 September 2019 is Sh.10.5 million. In addition, there has been a decrease in taxable temporary differences of Sh.10 million during the year. Skytex Limited pays tax at the rate of 30% and movements in deferred tax are to be taken to the statement of profit or loss.
6. On 1 February 2019, Skytex Limited issued 1.5 million ordinary shares at their full market price of Sh.16 per share. The proceeds were credited to a suspense account.
7. The investment property in the trial balance is stated at fair value as at 30 September 2018. The fair value as at 30 September 2019 amounted to Sh.121.5 million.

**Required:**

Prepare the following financial statements in a suitable format for publication:

- (a) A statement of profit or loss for the year ended 30 September 2019. (8 marks)
- (b) A statement of changes in equity for the year ended 30 September 2019. (4 marks)
- (c) A statement of financial position as at 30 September 2019. (8 marks)

**Note:** All workings should be done to the nearest Sh. "000".

**(Total: 20 marks)**

**QUESTION THREE**

- (a) International Financial Reporting Standard (IFRS) 15 – Revenue from Contracts with Customers, specifies how and when an entity will recognise revenue.

The standard provides a single principle based five step model to be applied to all contracts with customers.

**Required:**

Describe the five-step model as specified under IFRS 15.

(10 marks)

- (b) The following trial balance was extracted from the books of Maweo Insurance Company Limited as at 30 September 2019:

	Sh. "000"	Sh. "000"
Property, plant and equipment	10,500	
Depreciation of non-current assets	905	
Investment in government bonds and other securities	1,400	
Gross premiums received from agents	-	3,000
- Marine		
- Fire		2,500
Gross premiums received from brokers	-	1,500
- Marine		
- Fire		600
Gross premiums received from direct clients	-	500
- Marine		
- Fire		1,000
Reinsurance premiums accepted	-	600
- Marine		
Reinsurance premiums ceded	-	
- Marine	700	
- Fire	300	
Sundry receivables	750	
Bank	90	
Directors fees	495	
Audit fee	240	
Unearned premiums as at 1 October 2018	-	4,800
- Marine		
- Fire		2,500
Claims outstanding as at 1 October 2018	-	1,100
- Marine		
- Fire		840
Claims paid	-	
- Marine	2,770	
- Fire	2,100	
Legal cost on claims	-	
- Marine	280	
- Fire	130	
Survey expenses on marine claims	220	
Bad debts	-	
- Marine	370	
- Fire	320	
Management expenses	-	
- Marine	450	
- Fire	380	
Trade payables		230
Investment income		280
Ordinary shares of Sh.1,000 each		4,000
Retained profits (1 October 2018)		450
Premiums outstanding (1 October 2018)	-	
- Marine	800	
- Fire	700	
	<u>23,900</u>	<u>23,900</u>

**Additional information:**

1. Premiums outstanding as at 30 September 2019 amounted to Sh.1,970,000 and Sh.1,200,000 for Marine Insurance and Fire Insurance respectively.
2. Claims intimated and outstanding as at 30 September 2019 amounted to Sh.750,000 for Marine Insurance and Sh.480,000 for Fire Insurance.
3. Unearned premium is maintained at 100% and 50% of the premiums received for marine insurance and fire insurance respectively.
4. The tax rate applicable is 30%.

**Required:**

- (i) Revenue accounts for both marine and fire insurance for the year ended 30 September 2019. (6 marks)
- (ii) Statement of financial position as at 30 September 2019. (4 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) With reference to International Public Sector Accounting Standard (IPSAS) 5: "Borrowing Costs", explain the accounting treatment of borrowing costs in the financial statements of a public sector entity and indicate how this treatment differs from the requirements of International Accounting Standard (IAS) 23: "Borrowing Costs". (4 marks)
- (b) On 1 July 2018, Beyond Ltd. held a number of insignificant investments in equity instruments that do not have a quoted price and are therefore carried at cost. During the year ended 30 June 2019, Beyond Ltd. acquired a subsidiary company, Horizon Ltd. and an associate company, Sky Ltd.

The draft summarised statements of financial position of Beyond Ltd. and its subsidiary company as at 30 June 2019 are shown below:

	Beyond Ltd.	Horizon Ltd.
<b>Assets:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Non-current assets:		
Property, plant and equipment	1,162,800	321,390
Investments	<u>774,500</u>	<u>-</u>
	<u>1,937,300</u>	<u>321,390</u>
<b>Current assets:</b>		
Inventories	523,600	398,500
Trade and other receivables	401,860	203,650
Cash and cash equivalents	<u>52,600</u>	<u>1,100</u>
	<u>978,060</u>	<u>603,250</u>
<b>Total assets</b>	<b><u>2,915,360</u></b>	<b><u>924,640</u></b>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 each)	600,000	200,000
Share premium	100,000	50,000
Retained earnings	<u>1,776,260</u>	<u>502,540</u>
	<u>2,476,260</u>	<u>752,540</u>
<b>Current liabilities:</b>		
Trade and other payables	385,200	148,500
Income tax	<u>53,900</u>	<u>23,600</u>
	<u>439,100</u>	<u>172,100</u>
<b>Total equity and liabilities</b>	<b><u>2,915,360</u></b>	<b><u>924,640</u></b>

#### Additional information:

- Beyond Ltd. acquired 80% of the ordinary shares of Horizon Ltd. on 1 January 2019. The purchase consideration was made up of cash of Sh.650 million paid on 1 January 2019 and a further cash payment of Sh.147 million deferred until 1 January 2020. No accounting entries have been made in respect of the deferred cash payment. An appropriate discount rate is 5% per annum. Beyond Ltd. recognises goodwill on non controlling interest using the fair value method.
- The fair value of the assets, liabilities and contingent liabilities as at 1 January 2019 were equal to their carrying value with the exception of a machine which had a fair value of Sh.60 million in excess of its carrying amount. This machine had a 6 years remaining useful life on 1 January 2019.
- The fair value of the non controlling interest in Horizon Ltd. on 1 January 2019 was estimated at Sh.150 million.
- In June 2019, Horizon Ltd. sold goods to Beyond Ltd. for Sh.16 million. Half of these goods were still held in the stock of Beyond Ltd. on 30 June 2019. Horizon Ltd. marks up all goods by 20%.
- On 30 June 2019, Horizon Ltd.'s trade receivables still included the Sh.16 million due from Beyond Ltd. However, Beyond Ltd.'s trade payables only included Sh.11 million in respect of this transaction as it had made a payment of Sh. 5 million to Horizon Ltd. on 30 June 2019.
- On 1 July 2018, Beyond Ltd. acquired 30% of the ordinary shares in Sky Ltd. for cash payment of Sh.120.5 million which gave Beyond Ltd. significant influence over Sky Ltd. At that date, a property owned by Sky Ltd. had a fair value of Sh.50 million in excess of its carrying amount. This property had a remaining useful life of 20 years on 1 July 2018.
- In the year ended 30 June 2019, Horizon Ltd. made a profit of Sh.56.8 million out of which it paid a dividend of Sh.20 million on 30 April 2019. Beyond Ltd. debited the dividend received to cash and credited it to investments.

#### Required:

Consolidated statement of financial position as at 30 June 2019.

(16 marks)  
(Total: 20 marks)

**QUESTION FIVE**

- (a) With reference to International Accounting Standard (IAS) 41 – Agriculture, discuss the accounting treatment of a biological asset. (4 marks)

(Note: Do not discuss the disclosure requirements).

- (b) The following financial statements relate to Orlando Bank Ltd. for the year ended 31 October 2019:

**Statement of comprehensive income for the year ended 31 October 2019:**

	<b>Sh. "000"</b>
Interest income	364,524
Interest expense	<u>(107,571)</u>
Net interest income	<u>256,953</u>
Fees and commission income	132,374
Fees and commission expense	<u>(24,183)</u>
	<u>108,191</u>
Other income	<u>9,727</u>
Operating income	374,871
Impairment charge on loans and advances	<u>(93,492)</u>
Operating expenses	<u>(169,317)</u>
Profit before tax	112,062
Income tax expense	<u>(33,617)</u>
Profit for the year	<u><u>78,445</u></u>

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

	<b>2019</b>	<b>2018</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Assets:</b>		
Cash and cash equivalents	577,767	752,303
Government securities	2,037,292	1,851,337
Advances to banks	214,875	107,407
Loans and advances to customers	1,190,782	1,145,133
Property and equipment	139,889	123,936
Intangible assets	18,131	12,162
Income tax assets	<u>6,626</u>	<u>5,778</u>
<b>Equity and liabilities</b>	<b><u>4,185,362</u></b>	<b><u>4,004,056</u></b>
<b>Equity and liabilities:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Share capital	100,000	100,000
Retained earnings	<u>545,238</u>	<u>466,793</u>
	<u>645,238</u>	<u>566,793</u>
<b>Liabilities:</b>		
Deposits from customers	3,368,406	3,078,071
Other liabilities and provisions	<u>171,718</u>	<u>359,192</u>
	<u>3,540,124</u>	<u>3,437,263</u>
<b>Total equity and liabilities</b>	<b><u>4,185,362</u></b>	<b><u>4,004,056</u></b>

**Additional information:**

1. Interest income comprised:	<b>Sh. "000"</b>
Cash and short term funds	37,652
Loans and advances	<u>326,872</u>
	<u>364,524</u>

During the year, interest received amounted to Sh.131,292,000 while interest paid amounted to Sh.94,578,000.

2. Interest expense comprised:	<b>Sh. "000"</b>
Current and savings account	57,253
Time and other deposits	38,828
Borrowings	<u>11,490</u>
	<u>107,571</u>

3. Other income comprised:	<b>Sh. "000"</b>
Dividends	9,685
Profit on sale of property and equipment	<u>42</u>
	<u>9,727</u>

Dividends paid during the year amounted to Sh.4,800,000.

4.	Operating expense comprised:	<b>Sh. "000"</b>	
	Staff salaries	125,160	
	Advertising and marketing expenses	498	
	Training cost	4,241	
	Audit fees	696	
	Directors fees	1,957	
	Depreciation of property and equipment	30,688	
	Amortisation of software	<u>6,077</u>	
		<u>169,317</u>	
5.	<b>Property, plant and equipment movement schedule:</b>	<b>2019</b>	<b>2018</b>
	<b>Cost:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
	Balance brought forward	228,657	165,128
	Additions	46,641	63,672
	Disposal	<u>(120)</u>	<u>(143)</u>
	Balance carried down	<u>275,178</u>	<u>228,657</u>
	<b>Depreciation:</b>		
	Balance brought forward	104,721	83,729
	Charge for the year	30,688	21,135
	Released on disposal	<u>(120)</u>	<u>(143)</u>
	Balance carried down	<u>135,289</u>	<u>104,721</u>
	Net book value	<u>139,889</u>	<u>123,936</u>
6.	<b>Intangible assets:</b>	<b>2019</b>	<b>2018</b>
	<b>Cost</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
	Balance bought forward	24,241	13,077
	Additions	<u>12,046</u>	<u>11,164</u>
	Balance carried down	<u>36,287</u>	<u>24,241</u>
	<b>Amortisation:</b>		
	Balance brought forward	12,079	9,123
	Charge for the year	<u>6,077</u>	<u>2,956</u>
	Balance carried down	<u>18,156</u>	<u>12,079</u>
	Net book value	<u>18,131</u>	<u>12,162</u>

**Required:**

Using the indirect method, prepare a statement of cash flows for the year ended 31 October 2019 in accordance with International Accounting Standard (IAS 7): Cash Flow Statement.

(16 marks)

(Total: 20 marks)

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**CPA PART II SECTION 3  
FINANCIAL REPORTING**

**THURSDAY: 23 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**

The following trial balance was extracted from the books of Sombea Ltd. as at 31 March 2019:

	Sh.“000”	Sh.“000”
Land and buildings at valuation (1 April 2018)	468,000	
Plant at cost	460,800	
Accumulated depreciation (1 April 2018)		115,200
Available for sale investments	95,400	
Investment income		7,920
Cost of sales	321,120	
Distribution costs	39,600	
Administrative expenses	45,000	
Debenture interest paid	2,880	
Inventory (31 March 2019)	136,440	
Income tax liability		41,760
Trade receivables	126,360	
Revenue		649,440
Ordinary shares of Sh.50 (at par value)		216,000
Retained earnings (1 April 2018)		91,800
4% debentures		288,000
Trade payables		124,920
Revaluation surplus (Land and buildings)		50,400
Suspense account		86,400
Bank		23,760
	<u>1,695,600</u>	<u>1,695,600</u>

**Additional information:**

- The 4% debentures were issued on 1 October 2018 under terms that provided for a large premium on redemption in year 2021. The finance officer has calculated that the effect of this is that the debenture has an effective interest rate of 6% per annum.
- A provision of Sh.61,560,000 should be made for tax on the profit for the year ended 31 March 2019.
- The suspense account contains the corresponding credit entry for the proceeds of a rights issue of shares made on 1 January 2019. The terms of the issue were one share for every four shares held at Sh.80 per share. Sombea Ltd.'s share price immediately before the issue was Sh.100. The issue was fully subscribed.
- The fair value of available for sale investments as at 31 March 2019 was Sh.97,560,000.
- Sombea Ltd. has a policy of revaluing its land and buildings at each year end. The valuation in the trial balance includes land element of Sh.108,000,000. The estimated remaining life of the buildings as at that date (1 April 2018) was 20 years. On 31 March 2019, a professional valuer valued the buildings at Sh.331,200,000 with no change in the value of the land. Depreciation on buildings is charged 60% to cost of sales and 20% each to distribution costs and administrative expenses.
- During the year, Sombea Ltd. manufactured an item of plant which it was using as part of its own operating capacity. The details of the plant's cost which is included in the cost of sales in the trial balance, are:

	“Sh.000”
Material cost	21,600
Direct labour cost	14,400
Machine time cost	28,800
Directly attributable overheads	21,600

The manufacture of the plant was completed on 30 September 2018 and the plant was brought into immediate use, but its cost has not yet been capitalised. All plant is depreciated at a rate of 12.5% per annum (time apportioned where relevant) using the reducing balance method and charged to cost of sales. No non-current assets were sold during the year.

**Required:**

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

**QUESTION TWO**

Fanaka Ltd. acquired 90% of the ordinary shares of Sh.10 par value in Mali Ltd. on 1 January 2015 when Mali Ltd. had revenue reserves of Sh.1,500 million.

Mali Ltd. acquired 160 million ordinary shares of Sh.10 par value in Kwetu Ltd. on 1 January 2016 when Kwetu Ltd. had revenue reserves of Sh.500 million.

The financial statements of the three companies for the year ended 31 December 2018 are provided below.

	<b>Income statement</b>		
	<b>Fanaka Ltd.</b>	<b>Mali Ltd.</b>	<b>Kwetu Ltd.</b>
	<b>Sh. "million"</b>	<b>Sh. "million"</b>	<b>Sh. "million"</b>
Revenue	7,200	4,700	2,450
Cost of sales	<u>(5,400)</u>	<u>(3,760)</u>	<u>(1,715)</u>
Gross profit	1,800	940	735
Investment income	218	40	-
	<u>2,018</u>	<u>980</u>	<u>735</u>
Operating expenses	<u>(740)</u>	<u>(390)</u>	<u>(295)</u>
Profit before tax	1,278	590	440
Income tax expense	<u>(420)</u>	<u>(230)</u>	<u>(176)</u>
Profit after tax	858	360	264
Dividend - Paid	<u>(200)</u>	<u>(120)</u>	<u>(100)</u>
- Proposed	<u>(300)</u>	<u>(120)</u>	<u>(100)</u>
Retained profit	<u><u>358</u></u>	<u><u>120</u></u>	<u><u>64</u></u>

	<b>Statements of financial position as at December 2018:</b>		
	<b>Fanaka Ltd.</b>	<b>Mali Ltd.</b>	<b>Kwetu Ltd.</b>
	<b>Sh. "million"</b>	<b>Sh. "million"</b>	<b>Sh. "million"</b>
<b>Non-current assets:</b>			
Property, plant and equipment	15,500	9,700	6,500
Goodwill	-	-	500
Investment in - Mali Ltd.	8,400	-	-
- Kwetu Ltd.	-	3,500	-
Current assets	<u>4,400</u>	<u>2,800</u>	<u>1,700</u>
	<u><u>28,300</u></u>	<u><u>16,000</u></u>	<u><u>8,700</u></u>
<b>Equity and liabilities:</b>			
Ordinary share capital	10,000	6,000	4,000
Share premium	4,000	2,500	2,500
Revenue reserves	<u>3,800</u>	<u>2,720</u>	<u>1,354</u>
	<u><u>17,800</u></u>	<u><u>11,220</u></u>	<u><u>7,854</u></u>
<b>Non-current liabilities:</b>			
Bank loan	8,000	3,000	-
Current liabilities	<u>2,500</u>	<u>1,780</u>	<u>846</u>
	<u><u>10,500</u></u>	<u><u>4,780</u></u>	<u><u>846</u></u>
	<u><u>28,300</u></u>	<u><u>16,000</u></u>	<u><u>8,700</u></u>

**Additional information:**

- On 31 December 2017, Mali Ltd. held stock bought from Fanaka Ltd. for Sh.120 million and on which Fanaka Ltd. had made a profit of  $33\frac{1}{3}\%$  on cost.
- In the year ended 31 December 2018, Fanaka Ltd. made sales of Sh.400 million to Mali Ltd. at a profit of 20% on selling price. One quarter of the goods purchased by Mali Ltd. from Fanaka Ltd. in the year remained unsold as at 31 December 2018.

3. All the three companies paid the interim dividend on 15 June 2018. No company has accrued its share of proposed dividend from either its subsidiary or associate company.
4. The inter-company outstanding balances as a result of trading were as follows:
  - Due from Fanaka Ltd. to Mali Ltd. Sh.45 million.
  - Due from Mali Ltd. to Kwetu Ltd. Sh.20 million.
5. Any goodwill on acquisition of the subsidiary or associate is considered impaired by 20%.
6. Fair value of tangible assets were not materially different from their book values on the date Fanaka Ltd. acquired its control in Mali Ltd. and on the date Mali Ltd. acquired its holding in Kwetu Ltd.

**Required:**

- (a) Consolidated income statement for the year ended 31 December 2018. (8 marks)
  - (b) Consolidated statement of changes in equity. (2 marks)
  - (c) Consolidated statement of financial position as at 31 December 2018. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Describe the two types of post-employment benefit plans in accordance with International Accounting Standard (IAS) 19 "Employee Benefits". (6 marks)
- (b) Exe, Wye and Zed have been partners for several years in a partnership business under the name, Eweza Holdings. Due to successive trading losses that the business has been posting in recent years, the partners agreed to dissolve their business with effect from 1 July 2018.

The latest statement of financial position of the firm as at 30 June 2018 showed:

		Sh. "000"
Non-current assets:	Land and building	18,400
	Motor vehicles	8,200
	Furniture and fixtures	3,100
	Investment in shares	<u>4,600</u>
		34,300
Current Assets:	Inventories	4,750
	Trade receivables	<u>3,200</u>
Total assets		<u>42,250</u>
Capital and liabilities:		
Capital accounts:	Exe	14,400
	Wye	7,200
	Zed	3,600
Current accounts:	Exe	2,700
	Wye	1,900
	Zed	600
Loan from a Sacco		4,000
Current liabilities:	Trade payables	6,400
	Bank overdraft	<u>1,450</u>
		<u>42,250</u>

**Additional information:**

1. The partners shared profits and losses in the ratio of 2:2:1 for Exe, Wye and Zed respectively.
2. Partner Wye agreed to settle the unsecured loan from the Sacco while Zed took over some of the inventory valued at Sh.2 million.
3. The trade payables accepted Sh.5.8 million in full settlement of the amounts due to them.
4. The assets of the partnership were auctioned and realised in stages on piece-meal basis as follows:

Date	Assets realised	Amount Sh."000"
20 July 2018:	Trade receivables (part)	2,200
	Inventory (part)	1,750
	Investment in shares	4,400
	Motor vehicles (part)	7,000
31 July 2018:	Trade receivables (balance)	1,000
	Furniture and fixtures	2,900
25 August 2018:	Inventory (balance)	700
	Motor vehicles (balance)	2,000
10 September 2018:	Land and building	18,000

5. The auctioneers fees were agreed at Sh.3.5 million and were to be paid upfront immediately there was an available bank balance.
6. The rule in Garner vs. Murray applies where necessary.

**Required:**

- (i) A schedule of payments to the partners using the maximum possible loss method. (8 marks)
  - (ii) Realisation account. (3 marks)
  - (iii) Partners capital accounts. (3 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

(a) Distinguish between the following terminologies as used in construction contracts:

- (i) "Lumpsum contract" and "percentage rate contract". (4 marks)
- (ii) "Indemnity clause" and "retention clause". (4 marks)

(b) Discuss two methods of determining the stage of completion of a construction contract. (4 marks)

(c) Mijengo Construction Ltd. carried out work on four construction contracts during the financial year ended 30 April 2019.

The details of the contracts are set out below:

	AO1 Sh."million"	BO2 Sh."million"	CO3 Sh."million"	DO4 Sh."million"
Contract price	780	1,200	1,020	948
Costs to date	180	480	963.6	33.6
Estimated total cost	720	768	1,069.2	840
Payment on account	156	780	918	24
Revenue recognised in previous periods	78	180	504	-
Cost recognised in previous periods	60	72	480	-
Administrative expenses	1.5	15	2.5	-
Date of commencement	1 May 2017	1 February 2017	1 March 2017	1 March 2019

**Additional information:**

1. The company does not recognise profits until the contract is at least 5% complete.
2. The company's policy is to calculate the percentage of completion on cost basis.
3. The company prepares separate trading accounts for each contract.

**Required:**

- (i) Trading account for each of the contracts showing clearly the revenue to be recognised for the year ended 30 April 2019. (3 marks)
  - (ii) An income statement extract for the year ended 30 April 2019. (3 marks)
  - (iii) An extract of the statement of financial position showing the combined totals for all the contracts. (2 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

(a) In the context of International Accounting Standard (IAS) 16 "Property, Plant and Equipment", explain four disclosure requirements for items of property, plant and equipment which are stated at revalued amounts. (8 marks)

- (b) Baraka Ltd. is a manufacturing firm with its head office in Kisumu, Kenya and a branch in Entebbe, Uganda. The branch carries out the final assembly of the products before selling them. The currency in Kenya is the Kenya shilling (Ksh.) while the currency in Uganda is the Uganda shilling (Ush.). The trial balances for both the head office and the branch in their respective currencies as at 31 March 2019 were as follows:

	Head office (Ksh.)		Branch (Ush.)	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Sales		416,000		1,728,000
Freehold building at cost	56,000		252,000	
Trade receivables and trade payables	35,600	38,000	144,000	6,240
Share capital		160,000		
Goods sent to branch		140,000		
Head office/Branch account	240,400			2,017,040
Cost of sales (branch)			1,440,000	
Provision for depreciation on machinery		6,000		226,800
Head office cost of sales (including goods sent to branch)	236,000			
Administrative cost	60,800		72,000	
Inventory - 31 March 2019	115,600		46,080	
Profit and loss account - 1 April 2018		8,000		
Machinery at cost	24,000		504,000	
Remittances		112,000	1,088,000	
Bank balance	18,400		316,800	
Selling and distribution costs	<u>93,200</u>		<u>115,200</u>	
	<u>880,000</u>	<u>880,000</u>	<u>3,978,080</u>	<u>3,978,080</u>

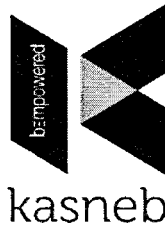
**Additional information:**

- The branch remitted Ush.64,000,000 on 30 March 2019 which was not received by the head office until 3 April 2019. The amount realised was Ksh.7,960,000.
- In the month of February 2019, a customer of the branch paid the head office for goods supplied by the branch. The amount due from him was Ush.1,280,000 which realised Ksh.144,000. It has been correctly dealt with by the head office but not yet entered in the branch accounts.
- Commission which is payable to the branch manager, is to be provided at a rate of 5% of the net profits of the branch after charging such commission.
- The cost of sales figure includes a depreciation charge of 10% par annum on the cost of machinery.
- A provision of Ksh.1,200,000 for unrealised profit in the branch inventory is to be made.
- The relevant exchange rates were as follows:

	Ksh.	To	Ush.
On 1 April 2018	1		20
On 31 March 2019	1		16
Average rate for the year ended 31 March 2019	1		18
On date of purchase of freehold building and machinery	1		14

**Required:**

- Branch trial balance (after the necessary adjustments) in Kenya shillings. (4 marks)
  - Income statement for the head office, the branch and the combined business for the year ended 31 March 2019. (4 marks)
  - Combined statement of financial position as at 31 March 2019 (ignore the effects of taxation). (4 marks)
- (Total: 20 marks)**



**CPA PART II SECTION 3**  
**FINANCIAL REPORTING**

**THURSDAY: 24 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**

- (a) In the context of International Public Sector Accounting Standard (IPSAS) 19 – Provisions, Contingent Liabilities and Contingent Assets:
- (i) Distinguish between a “provision” and a “contingent liability”. (4 marks)
  - (ii) Summarise the recognition requirements for provisions, contingent liabilities and contingent assets. (6 marks)
- (b) With reference to International Accounting Standard (IAS) 12 – Income Taxes:
- (i) Differentiate between a “deferred tax liability” and a “deferred tax asset”. (2 marks)
  - (ii) Explain the two types of temporary differences. (4 marks)
  - (iii) Describe the basis of measurement for current tax liabilities and deferred tax liabilities. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

The following trial balance relates to Zambezi Ltd. as at 31 October 2017:

	Sh.“000”	Sh.“000”
Turnover		213,800
Cost of sales	143,800	
Trade receivables	13,500	
Bank balance		900
Distribution expenses	9,800	
Inventories (31 October 2017)	10,500	
Interest expenses	5,000	
Administrative expenses	12,600	
Rental income from investment property		1,200
Plant and equipment - cost	36,000	
Land and building - at valuation	63,000	
Accumulated depreciation - plant and equipment		16,800
Investment property - valuation (1 November 2016)	16,000	
Trade payables		11,800
Joint arrangement	8,000	
Deferred tax		5,200
Ordinary shares (Sh.25 each)		20,000
10% redeemable preference shares (Sh.1 each)		10,000
Retained earnings - 1 November 2016		17,500
Revaluation surplus		21,000
	<u>318,200</u>	<u>318,200</u>

**Additional information:**

1. An inventory count on 31 October 2017 listed goods with a cost of Sh.10.5 million. These included some damaged goods that had cost Sh.800,000. These goods would require repair works costing Sh.450,000 after which they could be sold for an estimated price of Sh.950,000.
2. Non-current assets:
  - o **Plant**  
All plant, including that of the joint operation is depreciated at the rate of 12.5% per annum on reducing balance basis.
  - o **Land and building**  
The land and building were revalued at Sh.15 million and Sh.48 million respectively on 1 November 2016 creating a Sh.21 million revaluation surplus. At this date, the building had a remaining useful life of 15 years.

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Depreciation is on a straight line basis. Zambezi Ltd. does not make a transfer to realised profits in respect of excess depreciation.

Depreciation on both the building and the plant should be charged to the cost of sales.

• **Investment property**

On 31 October 2017, a qualified surveyor valued the investment property at Sh.13.5 million. The company uses the fair value model as per IAS 40 – Investment Property, to value its investment property.

3. Interest expenses include overdraft charges, the full year's preference dividend and an ordinary dividend of Sh.4 per share that was paid in April 2017.
4. The directors have estimated the provision for income tax for the year ended 31 October 2017 at Sh.8 million. The deferred tax provision as at 31 October 2017 is to be adjusted (through the profit and loss statement) to reflect that the tax base of the company's net assets is Sh.12 million less than their carrying amounts. The tax rate is 30%.
5. On 1 November 2016, Zambezi Ltd. entered into a joint arrangement with two other entities. Each venturer contributes their own assets and is responsible for their own expenses including depreciation on assets of the joint arrangement. Zambezi Ltd. is entitled to 40% of the joint venture's total turnover. The joint arrangement is not a separate entity and is regarded as a joint operation.

Details of Zambezi Ltd.'s joint venture transactions are as follows:

	<b>Sh."000"</b>
Plant and equipment (at cost)	12,000
Share of joint venture turnover (40% of total turnover)	(8,000)
Related joint venture cost of sales (excluding depreciation)	5,000
Trade receivables	1,500
Trade payables	<u>(2,500)</u>
Balance as per trial balance	<u>8,000</u>

**Required:**

- (a) Statement of comprehensive income for the year ended 31 October 2017. (10 marks)
  - (b) Statement of financial position as at 31 October 2017. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Outline three circumstances under which a partnership might be dissolved by operation of law. (3 marks)
- (b) Chanda, Pete and Kidole are partners in a partnership business sharing profits and losses in the ratio of 2:2:1 respectively after allowing for a 10% per annum interest on fixed capital balances and commission entitled to a partner.

The trial balance extracted from the financial records of the partnership as at 30 September 2017 is as set out below:

	<b>Sh."000"</b>	<b>Sh."000"</b>
Land and buildings at cost	123,500	
Motor vehicles at cost	80,600	
Office equipment at cost	70,200	
Furniture and fixtures at cost	52,000	
Provision for depreciation:		
Buildings		20,150
Motor vehicles		54,600
Office equipment		24,400
Furniture and fixtures		18,500
Investments	44,800	
Goodwill	26,000	
Inventories (30 September 2017)	31,200	
Accounts receivable	25,400	
Accounts payable		62,400
Bank overdraft		17,550
Accrued expenses		4,000
Capital accounts:		
Chanda		58,500
Pete		37,000
Kidole		31,500
Net profit for the year to 30 September 2017		91,000
Drawings:		
Chanda	7,800	
Pete	6,500	
Kidole	3,900	
Current accounts:		
Chanda		20,800
Pete		18,200
Kidole		<u>13,300</u>
	<u>471,900</u>	<u>471,900</u>

**Additional information:**

1. Kidole was the only active partner and was entitled to a commission of 15% based on the annual sales revenue which averaged Sh.20 million.
2. The partners resolved to convert their business into that of a company to be named Chapeki Limited with effect from 1 October 2017 under the following terms:
  - Investments comprised equity investments which partners had acquired jointly. Each partner was to take over a portion of the investments equivalent to the profit share. The investments had a market value of Sh.50 million on 30 September 2017.
  - Other assets and liabilities were transferred to the new company at the following agreed values:
 

	<b>Sh.“000”</b>
Land and buildings	115,000
Motor vehicles	25,500
Office equipment	43,500
Furniture and fixtures	29,550
Inventories at book value less 5%	
Accounts receivable at book value less 2½%	
Current liabilities at book values	
Goodwill was considered valueless and therefore was written off.	
  - The purchase consideration on business purchase was agreed at Sh.250 million.
  - The partners were to become shareholders. The company issued ordinary shares at a par value of Sh.10 each to the partners to satisfy the balances due to them as at 30 September 2017.
3. Upon incorporation, the new company issued new debentures at par, carrying interest at 14% per annum. The cash proceeds from the issue amounting to Sh.50 million were used to purchase additional stock of raw materials worth Sh.15 million. Accrued expenses were settled in full.

**Required:**

- (i) A realisation account, partners' capital accounts and Chapeki Limited's account to close off the partnership's books. (10 marks)
- (ii) Opening statement of financial position of Chapeki Limited. (7 marks)

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

- (a) The following information was extracted from the books of Maendeleo Commercial Bank Ltd. as at 31 December 2017:

	<b>Sh.“million”</b>
Property, plant and equipment	6,750
Intangible assets	6,450
Ordinary shares (Sh.20 each)	15,255
Share premium	270
Revaluation reserves	1,380
Statutory reserves	5,730
Interest income: Loan advances to customers	15,042
Finance lease	14,040
Deposits with other banks	3,024
Government bonds	7,230
Interest expenses: On customer deposits	7,500
On deposits with other banks	168
Fees and commissions received	5,592
Forex commission receivable	330
Other operating incomes	4,500
Fees and other expenses	450
Impairment of loans and advances	2,520
Administrative costs	11,580
General operating expenses	9,420
Income tax expenses	6,300
Retained revenue (1 January 2017)	49,920
Deposits with Central Bank	38,400
Deposits due from other banks	57,600
Government bonds and other securities	46,230
Loans and advances to customers	396,810
Other assets	2,145
Deferred tax assets	180

	Sh. "million"
Other investments	468
Deferred tax liabilities	4,338
Other liabilities	3,300
Current tax liability	3,435
Deposits from other banks	6,600
Customer deposits	452,985

**Additional information:**

1. Intangible assets were impaired by 20% as at the end of the year.
2. Property, plant and equipment is to be revalued to Sh.12,750 million.
3. An allowance for unserviced loans is to be created at 2% of the outstanding loans and advances to customers.

**Required:**

- (i) Income statement for the year ended 31 December 2017. (6 marks)
  - (ii) Statement of financial position as at 31 December 2017. (6 marks)
- (b) Royal Contractors Ltd. owns an item of plant used for construction with a carrying value of Sh.14 million as at 31 December 2015. The firm won a construction contract and decided to sell and lease back the machine on that date under the following conditions.
- Selling price Sh.40 million. This was also the fair value of the plant.
  - Lease rentals payable annually in arrears amounted to Sh.15,521,200.
  - Lease duration for the machine was to be 3 years. The economic life of the machine was also 3 years.
  - The implicit interest rate was 8% per annum.

**Required:**

The journal entries to record the necessary transactions in the books of Royal Contractors Ltd. for the three years, including the expected entries at the end of year 2018. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) On 1 April 2017, H Ltd. acquired four million of the ordinary shares of S Ltd., paying Sh.4.50 per share. At the same time, H Ltd. purchased Sh.500,000 of S Ltd.'s 10% redeemable preference shares. At the acquisition date, the retained earnings of S Ltd. were Sh.400,000.

The following are the draft statements of financial position of the two companies as at 31 March 2018:

	H Ltd. Sh. "000"	S Ltd. Sh. "000"
<b>Non-current assets:</b>		
Land and buildings	22,000	12,000
Plant and equipment	20,450	10,220
<b>Investments in S Ltd.:</b>		
Equity	18,000	-
Preference shares	500	-
	<u>60,950</u>	<u>22,220</u>
<b>Current assets:</b>		
Inventories	9,850	6,590
Trade receivables	11,420	3,830
Cash and bank	490	-
	<u>21,760</u>	<u>10,420</u>
	<u>82,710</u>	<u>32,640</u>
<b>Equity:</b>		
Ordinary shares (Sh.1 each)	10,000	5,000
10% preference shares	-	2,000
Retained earnings	51,840	14,580
	<u>61,840</u>	<u>21,580</u>
<b>Non-current liabilities:</b>		
10% Debentures 2022	12,000	4,000
<b>Current liabilities:</b>		
Trade payables	6,400	4,510
Bank overdraft	-	570
Taxation	2,470	1,980
	<u>8,870</u>	<u>7,060</u>
Total equity and liabilities	<u>82,710</u>	<u>32,640</u>

Extracts from the income statement of S Ltd. before intra group adjustments for the year to 31 March 2018 were as follows:

	<b>Sh. "000"</b>
Profit before tax	5,400
Taxation expenses	<u>(1,600)</u>
	<u>3,800</u>

**Additional information:**

1. Included in the land and buildings of S Ltd. is a large piece of development land at a cost of Sh.5 million. The fair value of the land on the date S Ltd. was acquired was Sh.7 million and by 31 March 2018, this value had risen to Sh.8.5 million. The group's valuation policy for development land is that it should be carried at fair value and not depreciated.
2. On the date of acquisition of S Ltd., the company's plant and equipment included plant that had a fair value of Sh.4 million in excess of its carrying value. This plant had a remaining useful life of 5 years. The group calculates depreciation on a straight-line basis. The fair value of the other net assets of S Ltd. approximated their carrying values.
3. During the year, S Ltd. sold goods to H Ltd. for Sh.1.8 million. S Ltd. adds a 20% mark up on cost to all its sales. Goods with a transfer price of Sh.450,000 were included in the inventory of H Ltd. as at 31 March 2018. The balance of the current accounts of H Ltd. and S Ltd. was Sh.240,000 on 31 March 2018.
4. An impairment test carried out on 31 March 2018 showed that the consolidated goodwill was impaired by Sh.1,488,000.
5. S Ltd. had paid its preference dividend in full and ordinary dividends of Sh.500,000.

**Required:**

Consolidated statement of financial position of H Ltd. and its subsidiary S Ltd. as at 31 March 2018. (14 marks)

- (b) Discuss the impact of International Financial Reporting Standard (IFRS) 9 on the tax expenses of commercial banks. (6 marks)
- (Total: 20 marks)**
- .....

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**CPA INTERMEDIATE LEVEL**  
**PIOT PAPER**  
**FINANCIAL REPORTING AND ANALYSIS**

**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**

Vista Limited has prepared the following trial balance as at 30 September 2021:

	<b>Debit</b>	<b>Credit</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Land at valuation	140,000	
Buildings at cost	300,000	
Furniture and equipment at cost	131,250	
Motor vehicles	120,000	
Accumulated depreciation at 30 September 2020:		
Buildings		48,200
Furniture and equipment		87,050
Motor vehicles		22,000
Investment property	24,600	
Rental income received		2,400
Sales		473,250
Cost of sales	179,550	
Loan stock interest paid	5,000	
Trade receivables	42,600	
Distribution costs	15,700	
Administrative expenses	30,750	
Other operating expenses	45,000	
Dividends paid	80,000	
Installment tax paid	22,500	
Bank and cash	7,950	
Inventories as at 30 September 2021	41,100	
Trade payables		19,800
Ordinary shares of Sh.50 each, fully paid		200,000
Share premium		119,400
Land Revaluation Reserve		21,000
Retained earnings as at 30 September 2020		130,100
10% Loan stock (Maturity date of 2025)		50,000
Deferred tax liability		12,800
	1,186,000	1,186,000

The following additional information is relevant:

1. Land is to be valued upwards by Sh.3 million.
2. Depreciation rates are as follows, with their respective classifications:

Asset	Rate on Cost	Category
Buildings	2%	Administration cost
Furniture & Equipment	20%	Administration cost
Motor vehicles	25%	20% Cost of Sales 80% Distribution

3. The investment property is being accounted for using the fair value model as per IAS 40, with the fair value being Sh.25 million as at 30th September 2021.
4. The company has assessed the expected credit loss on trade receivables and has summarized the following details:

Amount Sh."000"	Probability of default
26,600	5%
12,600	20%
3,400	50%

The expected credit loss is classified as an administrative expense.

5. Included in other operating expenses is a payment of Sh.10 million made on 30 September 2021. This is the annual lease rental of computer and network equipment, being paid in arrears. The lease is for 5 years beginning this year, although the company is treating the lease as an operating lease. The implicit interest rate is 10%. Any depreciation expense is classified as an administration expense.
6. The company is yet to account for redundancy costs estimated at Sh.25 million. The management made a proposal to the board in August to lay off staff beginning of October 2021. The board is yet to approve, and no announcement has been made yet although the directors feel, the amount should be provided on prudence grounds.
7. After computing the cost of sales, the management was made aware about an error with the inventory module in the accounting software, which understated the opening inventory by Sh.10 million and the closing inventory by Sh.15 million. The amounts are considered material based on the company's policies.
8. The par value of the loan stock will be settled on 30 September 2025. The effective interest rate is 10% and the company has classified the loan stock at amortized cost.
9. The corporate tax rate for the year is estimated at Sh.35 million. The taxable temporary differences as at 30 September 2021 are given as follows:

	Sh. "000"
For adjustment to Profit or Loss	47,000.00
For adjustment in revaluation reserve	3,000.00
	50,000.00

The corporation tax rate is 30%.

**Required:**

Prepare the following financial statements for publication for the year ended 30 September 2021:

- (a) The statement of profit or loss and other comprehensive incomes. (8 marks)
- (b) The statement of changes in equity. (6 marks)
- (c) The statement of financial position. (6 marks)

**(Total: 20 marks)**

## QUESTION TWO

- (a) Explain briefly, how an accounting firm should recognize revenue from providing various accounting services to one client as per IFRS 15 'Revenue from Contract with customers' (5 marks)
- (b) Dr. Jacinta Mochari has been working as a resident dentist for the Afya Hospital for the past five years. On 1 January 2020, she began her private practice and leased a clinic in City Hospital Doctors' Plaza. However, she was to continue as a visiting dentist on request at Afya Hospital.

The following transactions took place during the year:

1. She opened a separate bank account for the practice and deposited Sh.5 million as capital. In addition, she obtained a loan from the bank of Sh.5 million at interest rate of 12% annually. The loan will be paid over 5 years at Sh.1 million, together with interest due at the end of each year.
2. She imported three dental equipment, at a price of Sh.600, 000 each, though she incurred freight, insurance and port clearance costs of Sh.200,000. The equipment is depreciated over five years.
3. She also bought other equipment for Sh.1 million, furniture and fixtures of Sh.2 million and dental books worth Sh.500,000. Both the equipment and furniture were to be depreciated over 8 years, while the dental books have a useful life of 5 years for the purpose of amortization.
4. Dr. Jacinta hired a dental aid, who also doubled as the clinic administrator at Sh.60,000 per month, a receptionist, carrying out other clerical duties at Sh.30,000 per month and a cleaner/casual at Sh.15,000 per month. They all began employment immediately.
5. Dr. Jacinta also hired the services of two other dentists to meet increased number of patients or when she was visiting Afya. During the year, the dentists carried were paid for professional services at a cost of Sh.2 million. In addition, Dr. Jacinta offered some interns learning opportunities and paid them total stipend of Sh.300,000.
6. During the year, patients paid Sh. 6 million in cash, while those on various insurance and medical covers were treated at a total of Sh.4 million. By the end of the year, the corporates and insurance companies had paid Sh.2.8 million directly into the business bank. Dr. Jacinta also noted that a client owing Sh.200,000 will likely not pay.
7. The cash that was received was banked but after paying the following items:
  - Surgical and prescription medicine Sh.500,000
  - Stationary Sh.40,000
  - Cleaning consumables Sh.20,000
  - Other office expenses such as telephone, internet and transport Sh.40,000

Cash drawings for personal use by Dr. Jacinta averaged Sh.40,000 per month. By the end of the year only Sh.120,000 was available in the office safe.

8. Majority of transactions took place in the bank, except for the one highlighted in note 7. Initially, Dr. Jacinta fixed some amount and earned interest of Sh.120,000. Other expenses were mainly salaries to staff, interest on loan, rent of Sh. 100,000 per month, electricity and water worth Sh.60,000. She also paid Sh.30,000 as subscriptions to the dental association.
9. Dr. Jacinta had paid 3 months deposit on rent, which was refundable upon the termination of the lease. Dr. Jacinta also drew Sh.60,000 every month for personal expenses from the bank. Meanwhile the electricity and water bills for December had not been paid, but were subsequently received and settled in January 2021 at Sh.4,500.
10. Dr. Jacinta bought surgical and prescription medicine worth Sh.1.5 million on credit. By the end of the year, she had already paid Sh.800,000 while surgical and medicine worth Sh.400,000 was available by end of the year.

### Required:

Prepared for the year ended 31 December 2020

- (i) The statement of profit or loss. (9 marks)
- (ii) The statement of changes in capital (3 marks)
- (iii) The statement of financial position. (8 marks)

**(Total: 20 marks)**

### QUESTION THREE

The following statements of financial position relate to Hop Limited, Skip Limited and Amp Limited as at 30 September 2021.

	<b>Hop Ltd</b>	<b>Skip Ltd</b>	<b>Amp Ltd</b>
	<b>Sh.000</b>	<b>Sh.000</b>	<b>Sh.000</b>
Property, plant and equipment	271,000	215,500	104,940
Investments - Skip (Shares)	178,000		
Skip (Loan Stock)	20,000		
Amp	114,000		
Others	25,000		
	608,000	215,500	104,940
Current assets			
Inventories	48,500	29,100	72,720
Trade receivables	70,000	53,000	39,920
Cash	35,000	19,220	54,020
	153,500	101,320	166,660
<b>Total Assets</b>	<b>761,500</b>	<b>316,820</b>	<b>271,600</b>
Equity			
Share capital - Sh.100 par	300,000	150,000	200,000
Retained earnings	275,300	122,200	34,080
	575,300	272,200	234,080
Noncurrent liabilities			
10% Loan Stock	120,000	40,000	-
Current liabilities			
Trade payables	66,200	4,620	37,520
<b>Total Capital and Liabilities</b>	<b>761,500</b>	<b>316,820</b>	<b>271,600</b>

#### Additional information:

- Hop Limited acquired 80% of Skip Limited on 1 October 2019 at a cost of Sh.178 million and half of the Loan stock in Skip Limited. At 1 October 2019, Skip Limited had a credit balance on its retained earnings of Sh.18 million. It is the group's policy to use full goodwill, which can be fairly estimated using the proportions of the parent and the non-controlling interest.
- During the year ended 30 September 2021 Skip Limited sold goods to Hop Limited for Sh.24 million. On 30 September 2021 half of these goods remained unsold. Skip Limited sells goods at a markup of 25%.
- On 30th April 2020, Hop Co Limited acquired 25% of Amp Limited at a cost of Sh.114 million. Amp Limited had a retained earnings credit balance of Sh.32 million at this time.
- The fair values of Skip Limited and Amp Limited were not materially different from their book values at the time of acquisition, with the following exceptions:
  - Skip Limited held inventories with a fair value which was Sh.4 million greater than book value. All of these inventories had been sold by 30 September.
  - Items of plant and equipment belonging to Skip Limited had a fair value of Sh.10 million in excess of book value. By 30 September 2021, the items of plant had 50% depreciation applied.

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5. An impairment test conducted as at 30 September 2021 indicated that half of the recognized goodwill relating to the investment in Skip Limited was impaired, which only applies at group level. No impairment loss is reported on the investment in Amp Limited.
6. Both Skip Limited and Amp Limited are listed companies. In preparing its statement of financial position, Hop Limited is yet to reflect the following accounting treatments as required by IAS 27 for separate financial statements:

Investment	Fair Value	Basis
	Sh. "000"	
Investments - Skip Limited (Shares)	170,000	At Fair Value through other comprehensive incomes under IFRS 9
Skip Limited (Loan Stock)*	20,000	At amortized cost
Amp Limited	124,000	At Fair Value through other comprehensive incomes
Others	27,000	At Fair value through Profit or Loss

\*This is at amortized cost.

Required

Prepare the consolidated and separate (Parent) statement of financial position as at 30<sup>th</sup> September 2021 (20 Marks).

#### QUESTION FOUR

ElimuMingi University is a public university based in the coastal parts of the country. The University has summarized the following information for the purpose of preparing the budget information according to IPSAS 24 for the financial year ended 30 June 2021.

	Original Budget	Adjustments	Final budget	Actual
Revenue	Sh. "million"	Sh. "million"	Sh. "million"	Sh. "million"
Government Grants and Subsidies	856.00	(24.00)	832.00	810.00
Internally generated	1,230.00	140.00	1,370.00	1,220.00
<b>Expenditure</b>				
Personnel Costs	1,480.00	(110.00)	1,370.00	1,520.00
Management and Council expenses	55.00	(5.00)	50.00	56.00
Administration Expenses	395.00	(8.00)	387.00	420.00
Students Welfare	19.00	8.00	27.00	25.00
Repair and Maintenance costs	86.00	(6.00)	80.00	102.00
Audit Fees	2.00	0.00	2.00	2.00

Required:

- (a) Prepare the statement of comparison of budget and actual information as per IAS 24. (10 marks)
- (b) Provide a rationale explanation where the difference between the actual and final budget exceeds the 10% threshold as per IAS 24. (8 marks)
- (c) The University is considering various sources of revenue, being a public entity, in order to improve its financial performance. IPSAS 23 provides potential revenues for public sector entities, more specifically those arising from nonexchange transactions.

Briefly explain the meaning of revenue from nonexchange transactions, providing two possible sources of revenue from nonexchange transactions that the university can use. (2 marks)

(Total: 20 marks)

## QUESTION FIVE

The management board of Zico Limited is reviewing the performance of the company for the year ended 30 June 2021 relative to 30 June 2020. The company is engaged in buying and selling various agricultural products and despite challenges in the operating environment due to Covid, the results for 2021 are better than those of 2020.

The company has presented the following financial statements for the two years:

### Zico Limited

#### Statement of profit or loss for the years ended 30 June:

	2020	2021
	Sh. "000"	Sh. "000"
Revenue	2,027,310	4,306,533
Cost of sales	<u>(1,503,999)</u>	<u>(3,289,702)</u>
Gross profit	523,311	1,016,831
Administrative expenses	(225,600)	(328,250)
Distribution Costs	<u>(167,630)</u>	<u>(267,800)</u>
Profit Before Interest	130,081	420,781
Finance Costs	<u>(44,600)</u>	<u>(108,399)</u>
Profit before tax	85,481	312,382
Income tax expense	<u>(26,400)</u>	<u>(52,500)</u>
Profit for the period	59,081	259,882
Dividends Paid	<u>(30,500)</u>	<u>(65,300)</u>
Retained Profit for the year	28,581	194,582
Retained Profit b/f	329,769	358,350
Retained Profit c/f	358,350	552,932

#### Statement of Financial Position as at 30 June:

	2020	2021
	Sh. "000"	Sh. "000"
Non-current assets		
Property, plant and equipment	259,610	571,570
Current assets		
Inventories	382,078	654,980
Trade and other receivables	647,356	1,802,286
Bank and Cash	<u>68,600</u>	<u>81,000</u>
	<u>1,098,034</u>	<u>2,538,266</u>
Total Assets	<u>1,357,644</u>	<u>3,109,836</u>
Capital		
Share capital	80,000	80,000
Retained earnings	<u>358,350</u>	<u>552,932</u>
	<u>438,350</u>	<u>632,932</u>
Non-current liabilities	104,972	998,050
Current liabilities	814,322	1,478,854
Total Liabilities	<u>919,294</u>	<u>2,476,904</u>
Total Capital and Liabilities	<u>1,357,644</u>	<u>3,109,836</u>

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**Required:**

- (a) Prepare the following common size reports:
- (i) Vertical analysis for years 2020 and 2021 using revenue as the common base for profit or loss and total asset as the common base for the statement of financial statements (4 marks)
  - (ii) Horizontal analysis, using year 2020 as the common base for analyzing year 2021 (2 marks)
- (b) Compute the following ratios for each of the two years:
- (i) Net Profit Margin. (1 mark)
  - (ii) Return on equity. (1 mark)
  - (iii) Current ratio. (1 mark)
  - (iv) Quick ratio. (1 mark)
  - (v) Debt ratio. (1 mark)
  - (vi) Debt equity ratio. (1 mark)
  - (vii) Inventory turnover ratio. (1 mark)
  - (viii) Total assets turnover ratio. (1 mark)
- (c) Using the financial statements and the various ratios, comment on the performance of year 2021 compared to year 2020, with respect to profitability, liquidity and solvency. (6 marks)

**(Total: 20 marks)**

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**CPA INTERMEDIATE LEVEL**

**FINANCIAL REPORTING AND ANALYSIS**

**WEDNESDAY: 3 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) A number of developing countries are engaged in exploration of minerals to boost their economic empowerment.

Your company, an international mineral exploration firm has been contracted by one of the developing countries on a mineral exploration and evaluation engagement.

**Required:**

Advise the Board of Management of the company on the following:

- (i) The relevant International Financial Reporting Standard (IFRS) for accounting for exploration of mineral resources and the scope of the standard. (4 marks)
  - (ii) The key provisions of the IFRS in (a) (i) above on impairments of assets used in exploration activities. (3 marks)
  - (iii) Disclosure requirements in the financial statements under the IFRS. (3 marks)
- (b) International Public Sector Accounting Standard (IPSAS) 1 - Presentation of Financial Statements provides that “financial statements shall present fairly the financial position, financial performance and cash flows of an entity”.

In the context of the above statement:

- (i) Describe what “fair presentation of financial statements” entails. (5 marks)
- (ii) Explain the disclosure requirements where an entity departs from a requirement of the IPSAS. (5 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Kuja Limited has owned 70% of Twende Limited’s equity share capital since 1 April 2017.

The acquisition consideration consisted of cash amounting to Sh.3,600 million paid on 1 April 2017. The retained earnings balance of Twende Limited at the date of acquisition stood at Sh.870 million and had no other reserves.

The draft financial statements for the two group companies for the year ended 31 March 2022 were as set out below:

**Statement of profit or loss and other comprehensive income for the year ended 31 March 2022:**

	<b>Kuja Limited</b> <b>Sh. “million”</b>	<b>Twende Limited</b> <b>Sh. “million”</b>
Revenue	5,100	1,920
Cost of sales	<u>(4,050)</u>	<u>(1,110)</u>
Gross profit	1,050	810
Distribution costs	(240)	(210)
Administrative expenses	<u>(480)</u>	<u>(230)</u>
Operating profit	330	370

	Sh. "million"	Sh. "million"
Investment income	160	-
Finance costs	<u>(85)</u>	<u>(125)</u>
Profit before tax	405	245
Income tax expense	<u>(175)</u>	<u>(125)</u>
Profit for the year	230	120
Other comprehensive income:		
Gain on property revaluation	<u>180</u>	<u>100</u>
Total comprehensive income for the year	<u>410</u>	<u>220</u>

**Statement of financial position as at 31 March 2022:**

	Kuja Limited Sh. "million"	Twende Limited Sh. "million"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	5,300	5,050
Investment	<u>4,500</u>	<u>-</u>
	9,800	5,050
<b>Current assets:</b>		
Inventory	2,840	1,560
Trade receivables	2,480	1,860
Cash and cash equivalents	<u>1,780</u>	<u>1,030</u>
Total assets	<u>16,900</u>	<u>9,500</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital	5,000	3,000
Share premium	1,000	-
Revaluation surplus	1,550	700
Retained earnings	<u>4,170</u>	<u>2,530</u>
Total equity	11,720	6,230
<b>Non-current liabilities:</b>		
10% loan notes	1,700	1,050
Deferred tax	740	570
<b>Current liabilities:</b>		
Trade payables	2,340	1,300
Current tax	<u>400</u>	<u>350</u>
Total equity and liabilities	<u>16,900</u>	<u>9,500</u>

**Additional information:**

1. A fair value exercise carried out on 1 April 2017 concluded that the carrying amounts of Twende Limited's net assets approximated their fair values with the exception of an item of plant and equipment which had a carrying amount of Sh.100 million below its fair value. At 1 April 2017, the plant and equipment had a remaining economic useful life of ten years. Depreciation is charged to cost of sales.
2. It is the group's policy to measure the non-controlling interests at fair value at the date of acquisition. The fair value of the non-controlling interest in Twende Limited on 1 April 2017 was estimated at Sh.1,370 million.
3. Kuja group adopts revaluation model to measure its property, plant and equipment as permitted by International Accounting Standard (IAS) 16 "Property, Plant and Equipment". Revaluation surplus reported by Twende Limited relates to the revaluations conducted in the post-acquisition period.
4. During the year ended 31 March 2022, Twende Limited sold goods worth Sh.200 million to Kuja Limited. Twende Limited reports a gross profit markup of 25% on all its sales. Kuja Limited still had 25% of these goods in its inventory as at 31 March 2022.
5. At 31 March 2022, Twende Limited's records showed a receivable due from Kuja Limited of Sh.140 million which corresponded with the balance in Kuja Limited's trade payables.
6. An impairment review conducted on 31 March 2022 revealed that goodwill arising on acquisition of Twende Limited was impaired by 10%. No impairment loss had been reported in prior years.

**Required:**

- (a) Group statement of profit or loss and other comprehensive income for the year ended 31 March 2022. (8 marks)
- (b) Group statement of financial position as at 31 March 2022. (12 marks)

**(Total: 20 marks)**

### QUESTION THREE

The income statement of Coaster Limited, a company operating in the small and medium enterprises (SME) sector for the year ended 31 December 2021 together with the comparative statements of financial position as at 31 December 2021 and 31 December 2020 are shown below:

#### Income statement for the year ended 31 December 2021:

	Sh. "000"	Sh. "000"
Revenue		6,500
Cost of sales		<u>(3,100)</u>
Gross profit		3,400
Other income		<u>8,000</u>
		11,400
<b>Expenses:</b>		
Distribution costs	5,200	
Administrative costs	<u>5,660</u>	<u>(10,860)</u>
Operating profit		540
Interest receivable		80
Interest payable		<u>(520)</u>
Profit before tax		100
Net income tax credit		<u>100</u>
Profit for the year after tax		<u><u>200</u></u>

#### Statement of financial position as at 31 December:

Assets:	2021	2020
Non-current assets:	Sh. "000"	Sh. "000"
Property, plant and equipment at cost	42,000	50,400
Less accumulated depreciation	<u>(20,800)</u>	<u>(18,800)</u>
	<u>21,200</u>	<u>31,600</u>
<b>Current assets:</b>		
Inventory	7,100	5,700
Trade receivables	7,200	6,200
Insurance claim	2,000	1,400
Cash at bank	<u>1,700</u>	<u>-</u>
	<u>18,000</u>	<u>13,300</u>
Total assets	<u>39,200</u>	<u>44,900</u>
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Ordinary shares of Sh.10 each	12,000	12,000
Retained profit	5,100	3,200
Revaluation reserve	<u>-</u>	<u>1,700</u>
	<u>17,100</u>	<u>16,900</u>
<b>Non-current liabilities:</b>		
Finance lease obligations	4,000	3,400
10% debentures	1,600	-
12% bank loan	-	8,000
Deferred tax	400	1,000
Government grants	<u>2,800</u>	<u>1,800</u>
	<u>8,800</u>	<u>14,200</u>
<b>Current liabilities:</b>		
Trade payables	10,100	7,900
Government grants	1,200	800
Finance lease obligations	1,800	1,600
Current tax	200	2,400
Bank overdraft	<u>-</u>	<u>1,100</u>
	<u>13,300</u>	<u>13,800</u>
Total capital and liabilities	<u>39,200</u>	<u>44,900</u>

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**QUESTION FIVE**

- (a) Discuss the business concept of “triple bottom line” as applied in financial reporting. (8 marks)
- (b) Dragon Limited is a public entity which has grown in recent years by acquiring established business entities. The directors of Dragon Limited have identified two potential entities targeted for a takeover. The directors believe that the shareholders of the two target companies would be receptive to a takeover.

As a pre-requisite to the takeover decision, the directors have tasked a firm of consultants to carry out a cross-sectional analysis of the financial statements of the two potential target companies which operate in the same industry sector.

The financial statements of the two entities as at 30 April 2022 are shown below:

**Statement of profit or loss for the year ended 30 April 2022:**

	<b>Able Limited</b> <b>Sh.“000”</b>	<b>Ceda Limited</b> <b>Sh.“000”</b>
Revenue	87,500	140,000
Cost of sales	<u>(66,500)</u>	<u>(114,800)</u>
Gross profit	21,000	25,200
Distribution costs	(1,495)	(2,710)
Administrative expenses	<u>(2,880)</u>	<u>(5,340)</u>
Operating profit	16,625	17,150
Finance costs	<u>(875)</u>	<u>(3,150)</u>
Profit before tax	15,750	14,000
Income tax expense	<u>(3,150)</u>	<u>(3,500)</u>
Profit for the year	<u>12,600</u>	<u>10,500</u>

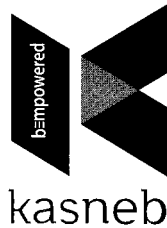
**Statement of financial position as at 30 April 2022:**

	<b>Able Limited</b> <b>Sh.“000”</b>	<b>Ceda Limited</b> <b>Sh.“000”</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property	9,800	10,500
Owned plant	7,000	8,050
Right-of-use asset	<u>-</u>	<u>17,500</u>
	16,800	36,050
<b>Current assets:</b>		
Inventory	5,600	11,900
Trade receivables	7,350	17,850
Bank	<u>3,850</u>	<u>700</u>
Total assets	<u>33,600</u>	<u>66,500</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 par value)	3,500	7,000
Revaluation surplus	1,750	3,150
Retained earnings	<u>5,600</u>	<u>9,450</u>
Total equity	10,850	19,600
<b>Non-current liabilities:</b>		
Lease liability	-	14,700
10% loan notes	15,750	17,500
<b>Current liabilities:</b>		
Trade payables	4,375	7,350
Lease liability	-	2,450
Current tax	<u>2,625</u>	<u>4,900</u>
Total equity and liabilities	<u>33,600</u>	<u>66,500</u>

**Required:**

- (i) Common size statements of profit or loss for the two entities for the year ended 30 April 2022. (5 marks)
- (ii) Common size statements of financial position as at 30 April 2022. (5 marks)
- (iii) Advise the directors of Dragon Limited on the best company for take over. (2 marks)

**(Total: 20 marks)**



CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

TUESDAY: 5 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) International Public Sector Accounting Standards (IPSAS) 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers) prescribes requirements for the financial reporting of revenue arising from non-exchange transactions other than non-exchange transactions that give rise to an entity combination.

**Required:**

In the context of the IPSAS 23, describe the following:

- (i) The measurement and recognition of revenue from non-exchange transactions. (4 marks)
  - (ii) The measurement of assets on initial recognition. (2 marks)
  - (iii) Conditions for recognition of a present obligation as a liability. (2 marks)
- (b) Lipa, Maisha and Bora have been in partnership business sharing profits and losses in the ratio of 2:2:1 respectively.

The draft statement of financial position of the partnership extracted as at 30 June 2021 revealed the following:

**Lipa, Maisha and Bora Partnership**

**Statement of financial position as at 30 June 2021**

	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Premises		57,450
Plant and machinery		25,130
Motor vehicles		16,400
Office equipment		<u>22,900</u>
		121,880
<b>Current assets:</b>		
Investments	10,270	
Trade receivables	<u>12,800</u>	<u>23,070</u>
Total assets		<u>144,950</u>
<b>Capital and liabilities:</b>		
Capital accounts: Lipa		40,000
Maisha		30,000
Bora		<u>20,000</u>
		90,000
<b>Current accounts:</b> Lipa	4,000	
Maisha	3,000	
Bora	<u>2,000</u>	9,000
<b>Non-current liabilities:</b>		
Loan from Maisha		9,400
<b>Current liabilities:</b>		
Trade payables	31,040	
Bank overdraft	<u>5,510</u>	<u>36,550</u>
Total capital and liabilities		<u>144,950</u>

Due to irreconcilable differences, the partners dissolved their business with effect from 1 July 2021, under the following terms:

1. Partner Maisha took over the loan he had advanced to the partnership while Lipa took over one of the motor vehicles at a valuation of Sh.5 million.
2. The rest of the assets were realised in three stages of piecemeal realisation as follows:

	Sh. "000"
First realisation	42,310
Second realisation	24,890
Third realisation	71,000

3. Realisation expenses amounting to Sh.1,140,000 were settled in cash.
4. The trade payables accepted Sh.28 million in full settlement of their claims.
5. The rule in Garner Vs. Murray applies where applicable.

**Required:**

- (i) A schedule of cash distribution to the partners. (6 marks)
- (ii) Realisation account. (3 marks)
- (iii) Partners' capital accounts. (3 marks)

**(Total: 20 marks)**

**QUESTION TWO**

Super Cars Limited deals in car accessories. Roughly 75% of sales are on credit while the balance are on cash sales.

Super Cars Limited engaged an analyst who extracted the following summary of industry ratios:

Return on year end capital employed	28.1%
Net asset (equal to capital employed) turnover	4 times
Gross profit margin	17%
Net profit (before tax) margin	6.30%
Current ratio	1.6:1
Closing inventory holding period	46 days
Trade receivables collection period	45 days
Trade payables' payment period	55 days
Dividend yield	3.75%
Dividend cover	2 times

Super Cars Limited summarised financial statements for the year ended 31 December 2021 are as provided below:

**Statement of profit or loss for the year ended 31 December 2021**

	Sh. "000"	Sh. "000"
Revenue		20,000
Cost of sales		<u>(17,250)</u>
Gross profit		2,750
Operating expenses		<u>(1,850)</u>
		900
Profit on disposal of plant		200
Finance cost		<u>(100)</u>
Profit before tax		1,000
Income tax expense		<u>(250)</u>
Profit for the period		<u>750</u>

**Statement of financial position as at 30 December 2021**

	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Property, plant and equipment		2,750
<b>Current assets:</b>		
Inventory	1,250	
Trade receivables	<u>1,800</u>	<u>3,050</u>
Total assets		<u>5,800</u>

	Sh. "000"	Sh. "000"
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Ordinary shares of Sh.100 each		500
Retained earnings		<u>1,900</u>
		2,400
<b>Non-current liabilities:</b>		
8% debentures		1,000
<b>Current liabilities:</b>		
Trade payables	2,150	
Current tax	200	
Bank overdraft	<u>50</u>	<u>2,400</u>
Total equity and liabilities		<u>5,800</u>

**Additional information:**

1. Super Cars Limited received Sh.600,000 from the sale of plant that had a carrying amount of Sh.400,000 at the date of its sale.
2. The market price of Super Cars Limited's shares throughout the year averaged Sh.375 each.
3. There were no issues or redemption of shares or loans during the year.
4. Dividends paid during the year ended 31 December 2021 amounted to Sh.450,000, maintaining the same dividend paid in the year ended 31 December 2020.

**Required:**

- (a) With reference to the industry ratios, compute the equivalent ratios for Super Cars Limited for the year ended 31 December 2021. (12 marks)
- (b) Using the ratios computed in (a) above, analyse the financial performance and position of Super Cars Limited for the year ended 31 December 2021 compared to the industry. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance was prepared by Millennium Ltd. as at 30 June 2021:

	Sh. "000"	Sh. "000"
Ordinary share capital (Sh.10 each)		40,000
8% Redeemable preference shares		12,000
6% Debentures		10,000
Revaluation surplus		3,400
Retained earnings (1 July 2020)		14,100
Revenue		283,460
Inventory (1 July 2020)	12,400	
Purchases	147,200	
Distribution costs	22,300	
Administrative expenses	34,440	
Interest on debentures	300	
Interim dividends - Preference	480	
- Ordinary	2,000	
Investment income		1,500
Land and building (land Sh.16 million)	56,000	
Plant and equipment (cost)	55,000	
Furniture and fittings (cost)	35,000	
Investments at fair value	34,500	
Accumulated depreciation:		
- Building		8,000
- Plant and equipment		12,800
- Furniture and fittings		9,600
Accounts receivable	35,950	
Bank		10,740
Accounts payable		17,770
Deferred tax		5,200
Share premium		<u>7,000</u>
	<u>435,570</u>	<u>435,570</u>

**Additional Information:**

1. The sales proceeds include customers' deposits of Sh.4,200,000 which Millennium Ltd. accounted for by debiting bank and crediting sales.
2. The cost of inventory as at 30 June 2021 was valued at Sh.16,000,000. This included goods whose cost was Sh.450,000, replacement value Sh.400,000, fair value of Sh.500,000 with a selling cost of Sh.80,000.
3. The 6% debentures were issued on 1 October 2020 at par. Interest on debenture is payable semi-annually.
4. Land and building are carried under the revaluation model as permitted by IFRSs. The most recent valuation took place on 30 June 2019 resulting in the value included in the trial balance above. The revaluation surplus of Sh.3,400,000 resulted solely from the land and building. The building was estimated to have a useful economic life of 50 years as at that date. On 30 June 2021, land was revalued at Sh.18,500,000 and the building at Sh.34,000,000.  
There was no change in the useful life estimates of the building.  
Depreciation on building is recognised on a straight line basis.
5. Other assets are being depreciated as follows:
  - Plant and equipment at 20% per annum on straight line basis.
  - Furniture and fittings at 25% per annum on reducing balance method.
 Depreciation is classified as cost of sales except for depreciation on furniture and fittings which is classified as administrative expense.
6. A provision for corporation tax of Sh.24,500,000 for the year ended 30 June 2021 is required.
7. The taxable timing differences for the year amounted to Sh.45,000,000 while the deductible timing differences were Sh.24,000,000.
8. The directors proposed to pay a final ordinary dividend of 10% on 28 June 2021.

**Required:**

- (a) Statement of comprehensive income for the year ended 30 June 2021. (8 marks)
  - (b) Statement of financial position as at 30 June 2021. (12 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) With reference to International Accounting Standard (IAS) 21 - The Effects of Changes in Foreign Exchange Rates:
  - (i) Explain the accounting treatment of exchange differences arising on monetary items. (3 marks)
  - (ii) Describe the disclosures required in the financial statements of the reporting entity. (3 marks)
- (b) On 1 April 2021, Riziki Limited acquired 75% of the equity shares of Salama Limited when the retained earnings of Salama Limited stood at Sh.234 million. The acquisition consideration consisted of cash amounting to Sh.510 million and share exchange on the basis of 2 ordinary shares of Riziki Limited for every 3 ordinary shares acquired in Salama Limited. The market value of Riziki Limited's shares as at 1 April 2021 was Sh.16 per share. No accounting entries have been made in respect of the share exchange consideration.

The draft statements of financial position of the two companies as at 31 March 2022 are as presented below:

	<b>Riziki Limited</b> Sh."000"	<b>Salama Limited</b> Sh."000"
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	1,595,300	636,400
Investment	<u>575,000</u>	<u>-</u>
	<u>2,170,300</u>	<u>636,400</u>
<b>Current assets:</b>		
Inventory	165,000	160,000
Trade receivables	247,100	107,800
Bank	<u>21,000</u>	<u>13,800</u>
	<u>433,100</u>	<u>281,600</u>
Total assets	<u>2,603,400</u>	<u>918,000</u>
<b>Equity and liabilities:</b>		
Ordinary share capital (Sh.10 par value)	850,000	300,000
Retained earnings	<u>743,400</u>	<u>358,000</u>
	1,593,400	658,000

	<b>Riziki Limited</b> <b>Sh. "000"</b>	<b>Salama Limited</b> <b>Sh. "000"</b>
<b>Non-current liabilities:</b>		
8% debentures	460,000	40,000
<b>Current liabilities:</b>		
Trade payables	442,000	167,200
Current tax payable	<u>108,000</u>	<u>52,800</u>
Total equity and liabilities	<u>2,603,400</u>	<u>918,000</u>

**Additional Information:**

- The fair values of Salama Limited's net assets approximated their carrying amounts with the exception of a specialised piece of equipment which had a fair value of Sh.120 million in excess of its carrying amount. This equipment had a ten-year remaining useful life on 1 April 2021.
- It is the group's policy to value the non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest in Salama Limited on 1 April 2021 was estimated at Sh.144 million.
- During the year to 31 March 2022, Salama Limited sold goods to Riziki Limited for Sh.64 million earning a gross margin of 25% on the sale. Riziki Limited still held Sh.48 million worth of these goods in the inventory at 31 March 2022.  
Salama Limited still had the full invoice value of Sh.64 million in its trade receivables at 31 March 2022, however, Riziki Limited's trade payables only showed Sh.34 million as it made a payment of Sh.30 million on 31 March 2022.
- On 1 April 2021, Riziki Limited also acquired a 30% equity interest in Amua Ltd. for Sh.65 million in cash.  
Amua Limited sustained heavy losses over the last few years and Riziki Limited hoped it would turn it around through its significant influence over Amua Limited.  
In the year ended 31 March 2022, Amua Limited made a loss of Sh.150 million.
- Impairment tests performed on 31 March 2022, revealed that the investment in Amua Limited had been impaired by Sh.5 million due to sustained trading losses. However, no impairment was required in respect of goodwill arising on acquisition of Salama Limited.

**Required:**

- Determine the value of investment in Amua Limited as at 31 March 2022. (3 marks)
  - Calculate the value of goodwill arising on acquisition of Salama Limited. (3 marks)
  - Consolidated statement of financial position for Riziki Group as at 31 March 2022. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- With reference to International Accounting Standards (IAS) 41 - Agriculture:
  - Describe the key provisions on measurement of agricultural produce. (5 marks)
  - Highlight six disclosure requirements where fair value of the farm produce cannot be measured reliably. (6 marks)
- Zeon Limited, a public limited entity is in the process of finalising its financial statements for the year ended 31 October 2021.

The following information has been extracted from its accounting records for the purpose of estimating the deferred tax balance:

- Inventory is stated in the financial statements at the lower of cost and net realisable value. The company wrote down its inventory by Sh.120 million to a net realisable value of Sh.1,130 million. The reduction in value is ignored for tax purposes until the inventory is sold.
- Trade receivables had a carrying amount of Sh.450 million after making a general provision for doubtful debts of Sh.30 million. The provision is not allowed for tax purposes.
- Property, plant and equipment has a carrying amount of Sh.3,050 million and a tax base of Sh.2,750 million. During the year ended 31 October 2021, property was revalued upwards by Sh.150 million.

4. During the year to 31 October 2021, development expenditure amounting to Sh.480 million was capitalised. Amortisation of Sh.20 million was charged to profit or loss for the year. This development expenditure was allowed for tax purposes in full during the year.
5. Trade and other payables are carried at Sh.600 million. Included in the other payables are accrued expenses of Sh.100 million whose related expenses are deductible for tax purposes on cash paid basis.
6. Deferred tax liability as at 1 November 2020 amounted to Sh.272 million.
7. The income tax rate of 30% is applicable.

**Required:**

(i) Compute the relevant temporary differences.

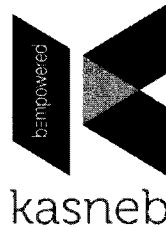
(5 marks)

(ii) Deferred tax account as at 31 October 2021.

(4 marks)

**(Total: 20 marks)**

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CPA INTERMEDIATE LEVEL

FINANCIAL REPORTING AND ANALYSIS

THURSDAY: 16 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) Accounting in general and financial reporting in particular are undergoing a dynamic transformation both in function and practice. Global forces are continuously reshaping accountancy as a profession.

**Required:**

In the context of the above statement, describe how the following forces are transforming the future of accounting:

- (i) Cloud based accounting solutions. (2 marks)
  - (ii) Automation of the accounting function. (2 marks)
  - (iii) Outsourcing of accounting services. (2 marks)
  - (iv) Data analytics. (2 marks)
- (b) In the context of International Public Sector Accounting Standard (IPSAS) 24 – Presentation of Budget Information in Financial Statements:
- (i) Explain the salient feature that differentiates an “original budget” from a “final budget”. (2 marks)
  - (ii) Summarise the key provisions of the IPSAS with regard to presentation of a comparison of budget and actual amounts. (4 marks)
- (c) Describe two methods for translating foreign currencies into the local currency. (6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

K and L were sole traders manufacturing solar equipment. On 31 October 2020, they amalgamated and traded as partners sharing profits and losses in the ratio of 3:2 respectively. One year later, on 31 October 2021, they converted the partnership into a limited liability company called Kilo Ltd.

No adjustments have been made to record the amalgamation and conversion but the summarised statements of financial position for the sole traders as at 31 October 2020 and the partnership as at 31 October 2021 were as follows:

	Sole traders statements of financial position as at 31 October 2020		Partnership statement of financial position as at 31 October 2021
	K Sh.“000”	L Sh.“000”	Sh.“000”
<b>Assets:</b>			
Freehold property	6,000	4,000	16,000
Plant and equipment	27,200	22,400	52,000
Fixtures and fittings	6,400	6,200	12,000
Inventory	7,200	1,400	13,400
Accounts receivable	7,600	4,000	25,680
Balance at bank	<u>1,200</u>	<u>600</u>	<u>500</u>
	55,600	38,600	119,580
<b>Liabilities:</b>			
Accounts payable	(27,200)	(16,000)	(39,680)
Bank overdraft	<u>-</u>	<u>-</u>	<u>(22,500)</u>
	<u>28,400</u>	<u>22,600</u>	<u>57,400</u>

**Additional Information:**

1. On 1 April 2020, the partners agreed to take up the assets and liabilities of the individual traders at book values except for freehold property, plant and equipment and fixtures and fittings which were to be revalued as follows:

	<b>K</b> Sh. "000"	<b>L</b> Sh. "000"
Freehold property	8,000	6,000
Plant and equipment	26,000	22,000
Fixtures and fittings	6,000	6,000

2. During the year ended 31 October 2021, K made drawings of Sh.9,560,000 while L withdrew Sh.2,440,000.
3. The partnership was converted into a limited company on the following terms:
- The freehold property and accounts receivable were revalued to Sh.24,000,000 and Sh.22,680,000 respectively.
  - K and L were to receive 15% unsecured debentures at par so as to provide each partner with income equivalent to a 6% return on capital employed based on capital balances as at 31 October 2021 (that is after accounting for the profit, drawings and revaluation in bullet (i) above).
  - Kilo Ltd's. authorised share capital was made up of 600,000 ordinary shares of Sh.50 each, out of which 520,000 shares were to be issued to the partners in their profit sharing ratio.
  - Any balances in the partners' capital accounts were to be settled in cash.

**Required:**

- (a) A computation showing the value of debentures and ordinary shares to be issued to the partners. (10 marks)
- (b) Partners capital accounts as at 31 October 2021. (4 marks)
- (c) Statement of financial position of Kilo Ltd. as at 31 October 2021 after completing the above transactions on conversion. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Various analytical tools are today utilised in financial statements analysis. Some of these tools include:
- Ratio analysis.
  - Trend analysis.
  - Common size financial statements.

**Required:**

- In the context of the statement above, describe how each of the above tools is utilised in practice. (6 marks)
- (b) Summarise four attributes of good financial statement analysis. (4 marks)
- (c) The following are extracts of financial statements from the books of Zawadi Ltd.:

**Extracts of the income statement for the year ended 30 April:**

	<b>2020</b> Sh. "000"	<b>2021</b> Sh. "000"
Sales revenue	476,200	701,800
Cost of sales (approximates purchases)	<u>(372,388)</u>	<u>(583,898)</u>
Gross profit	103,812	117,902
Administrative expenses	(21,962)	(30,692)
Distribution costs	(23,800)	(33,450)
Finance costs	<u>(7,200)</u>	<u>(10,800)</u>
Profit before tax	<u>50,850</u>	<u>42,960</u>

**Extracts of the statement of financial position as at 30 April:**

	<b>2020</b> Sh. "000"	<b>2021</b> Sh. "000"
<b>Non-current assets:</b>		
Property, plant and equipment	888,140	1,777,500
Intangible assets	<u>130,000</u>	<u>104,000</u>
	<b><u>1,018,140</u></b>	<b><u>1,881,500</u></b>

	Sh. "000"	Sh. "000"
<b>Current assets:</b>		
Inventories	81,000	81,400
Trade receivables	95,240	175,450
Cash and cash equivalents	<u>60,455</u>	<u>78,650</u>
	<b><u>236,695</u></b>	<b><u>335,500</u></b>
<b>Current liabilities:</b>		
Trade payables	111,715	204,365
Current tax payable	<u>68,120</u>	<u>92,635</u>
	<b><u>179,835</u></b>	<b><u>297,000</u></b>

Assume a 365-day financial year.

**Required:**

Analyse and interpret the performance and efficiency of the company for the two years ended 30 April 2020 and 2021 using:

- |       |                                      |           |
|-------|--------------------------------------|-----------|
| (i)   | Gross profit margin.                 | (2 marks) |
| (ii)  | Return on capital employed.          | (2 marks) |
| (iii) | Inventory turnover period.           | (2 marks) |
| (iv)  | Trade receivables collection period. | (2 marks) |
| (v)   | Trade payables payment period.       | (2 marks) |

**(Total: 20 marks)**

**QUESTION FOUR**

On 1 January 2021, Rangi Ltd. acquired the following in Nzuri Ltd.:

- 80% of the ordinary share capital of Nzuri Ltd. for Sh.20,560,000
- Half of the 10% debentures in Nzuri Ltd.

The summarised financial statements of Rangi Ltd. and Nzuri Ltd. for the year ended 30 September 2021 were as follows:

**Income statements for the year ended 30 September 2021:**

	Rangi Ltd. Sh. "000"	Nzuri Ltd. Sh. "000"
Revenue	130,000	48,000
Cost of sales	<u>(90,000)</u>	<u>(40,000)</u>
Gross profit	40,000	8,000
Other income: Interest received	150	-
Dividend received	<u>800</u>	<u>-</u>
	<u>40,950</u>	<u>8,000</u>
Expenses:		
Distribution costs	(9,000)	(200)
Administrative expenses	(7,000)	(200)
Finance costs	<u>-</u>	<u>(400)</u>
Profit before tax	24,950	7,200
Income tax expense	<u>(6,000)</u>	<u>(1,200)</u>
Profit after tax	<u>18,950</u>	<u>6,000</u>

**Statement of financial position as at 30 September 2021:**

	Rangi Ltd. Sh. "000"	Nzuri Ltd. Sh. "000"
<b>Non-current assets:</b>		
Property, plant and equipment	38,640	16,000
Investments	<u>22,560</u>	<u>-</u>
	<u>61,200</u>	<u>16,000</u>

	Sh."000"	Sh."000"
<b>Current assets:</b>		
Inventories	12,000	6,000
Accounts receivable	8,400	6,800
Cash at bank	<u>13,600</u>	<u>3,200</u>
	<u>34,000</u>	<u>16,000</u>
Total assets	<u>95,200</u>	<u>32,000</u>
<b>Equity and liabilities:</b>		
<b>Capital and reserves:</b>		
Ordinary shares of Sh.10 each	24,000	4,000
Retained earnings	<u>51,200</u>	<u>16,800</u>
	<u>75,200</u>	<u>20,800</u>
<b>Non-current liability:</b>		
10% debentures		4,000
<b>Current liabilities:</b>		
Accounts payable	15,000	6,400
Current tax	<u>5,000</u>	<u>800</u>
	<u>20,000</u>	<u>7,200</u>
Total equity and liabilities	<u>95,200</u>	<u>32,000</u>

**Additional information:**

- The fair value of the assets of Nzuri Ltd. at the date of acquisition were the same as their book values except for an item of plant whose fair value was more by Sh.6.4 million. As at 1 January 2021, the plant had a remaining useful life of four years. Nzuri Ltd. depreciates plant on straight line basis on cost.
- During the post acquisition period, inter-company trading that occurred included:
  - Rangi Ltd. sold goods to Nzuri Ltd. for Sh.12 million. These goods had cost Rangi Ltd. Sh.18 million.
  - Nzuri Ltd. sold some of the goods purchased from Rangi Ltd. at Sh.20 million for Sh.30 million.
- On 30 June 2021, Rangi Ltd. and Nzuri Ltd. paid dividends of Sh.2 million and Sh.1 million respectively.
- Included in the accounts receivable and account payable is Sh.1.5 million being the amount Nzuri Ltd. owed Rangi Ltd.
- Goodwill is considered to be impaired by 25% as at 30 September 2021. Goodwill impaired is classified as an administrative expense by the group companies.

**Required:**

- Group income statement for the year ended 30 September 2021. (10 marks)
- Group statement of financial position as at 30 September 2021. (10 marks)

**(Total 20 marks)**

**QUESTION FIVE**

The following trial balance relates to Bawabu Limited as at 31 March 2021:

	Sh."000"	Sh."000"
Ordinary share capital (Sh.10 par value)		560,000
Share premium		160,000
Retained earnings as at 1 April 2020		241,560
Property at cost (land Sh.146 million)	732,000	
Plant and equipment at cost	427,000	
Accumulated depreciation as at 1 April 2020: Buildings		122,000
Plant and equipment		85,400
Inventory as at 31 March 2021	324,500	
Trade receivables	469,700	
Bank overdraft		43,100
Deferred tax		97,600
Trade payables		259,860
Current tax		12,800
Revenue		2,779,160
Cost of sales	2,006,900	
Distribution costs	164,700	
Administrative expenses	201,300	
Dividends paid	24,400	
Bank interest	<u>10,980</u>	
	<u>4,361,480</u>	<u>4,361,480</u>

**Additional information:**

1. On 1 April 2020, the directors of Bawabu Limited resolved that the financial statements would show an improved position if the property was revalued to market value. At that date, an independent valuer valued the land at Sh.160 million and the buildings at Sh. 485 million. The remaining life of the buildings as at that date was 25 years. Bawabu Limited does not make a transfer to retained earnings for excess depreciation. Ignore deferred tax on the revaluation surplus.
2. Plant and equipment is depreciated at a rate of 15% per annum using the reducing balance method. All depreciation is charged to cost of sales, but none has yet been charged on any non-current assets for the year ended 31 March 2021.
3. Bawabu Limited estimated that an income tax provision of Sh.113.8 million is required for the year ended 31 March 2021.

The balance on the current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2020.

As at 31 March 2021, the tax base of Bawabu Limited's net assets was Sh.292 million less than the carrying amounts. The income tax rate of Bawabu Limited is 30%.

4. Bawabu Limited made a 1 for 5 bonus issue on 31 March 2021, which has not yet been recorded in the books of account. The company intends to utilise the share premium as far as possible in providing for the bonus issue.

**Required:**

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

**(Total: 20 marks)**

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**CPA PART II SECTION 3  
FINANCIAL REPORTING**

**THURSDAY: 2 September 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) In the context of International Accounting Standard (IAS) 10 – Events after the Reporting Period, justify your classification of the following events as either adjusting or non-adjusting events:

- |       |   |          |
|-------|---|----------|
| (i)   | Major business combination after the reporting period.      | (1 mark) |
| (ii)  | Major dealings in the company's shares.                     | (1 mark) |
| (iii) | Resolution of a court case against the company for damages. | (1 mark) |
| (iv)  | Destruction of a major asset by fire.                       | (1 mark) |
| (v)   | Bankruptcy of a major customer.                             | (1 mark) |
| (vi)  | Expropriation of assets by the county government.           | (1 mark) |

(b) The following trial balance relates to Samoa Ltd., a company in the small and medium size sector as at 30 September 2020:

	Sh. "000"	Sh. "000"
Investment at fair value	5,000	
Land and building (cost)	12,600	
Leased plant	10,000	
Motor vehicles (cost)	18,400	
Accumulated depreciation		
- Building (1 October 2019)		2,700
- Leased plant (1 October 2019)		2,500
- Motor vehicles (1 October 2019)		6,400
Revenue		156,000
Cost of sales	117,250	
Inventory (30 September 2020)	20,200	
Distribution cost	9,750	
Administrative expenses	13,750	
Retained earnings (1 October 2019)		2,100
Finance lease payment	2,650	
10% loan stock		20,600
Loan stock interest paid	206	
Receivables and payables	16,400	16,700
Equity dividend paid (1 October 2019)	3,794	
Obligation under finance lease		5,500
Bank	2,750	
Ordinary share capital (Sh.50 each)		20,200
Income tax		8
Database costs	308	
Investment income		350
	<u>233,058</u>	<u>233,058</u>

**Additional information:**

1. The company had paid a maintenance contract of Sh.12,000,000 for 3 months from 1 September 2020. The invoice was posted on 1 September 2020 and included in cost of sales.
2. The leased plant was acquired on 1 October 2018. The rental payments are Sh.2,650,000 per annum for four years payable in arrears on 28 September each year. The interest rate implicit in the lease is 10%.
3. On checking the inventory figure, it was discovered that an item of inventory with the following valuations was omitted from the inventory valuation that had been used in the trial balance:
  - Net replacement cost Sh.40,000.
  - Net realisable value Sh.48,000.
  - Cost Sh.45,000.
4. The database costs relate to the development of a new database for the company, which the management consider should be included as an intangible asset.
5. Included in the trial balance under land and buildings is Sh.4,000,000 for the cost of land which is not being depreciated. The land has a market value of Sh.4,800,000.
6. Depreciation is to be calculated on a yearly basis as follows:
 

Asset	Basis	Inclusion
Building	5% straight line	Administrative expenses
Motor vehicles	25% reducing balance	Distribution costs
7. Current year tax was estimated at Sh.3,800,000. The Sh.8,000 in the trial balance relates to an overprovision for the previous year.
8. The loan notes were issued on 1 April 2019 under an agreement that provides for repayment in 2022 at a substantial premium. The loan notes effective interest rate is 8.5% per annum.
9. Some years back, Samoa Limited gave a guarantee securing Miradi Ltd.'s overdraft. It has recently been reported that Miradi Ltd. is in financial difficulties and at the company's year end, the overdraft stood at Sh.100,000.

**Required:**

- (i) Statement of comprehensive income for the year ended 30 September 2020. (6 marks)
  - (ii) Statement of financial position as at 30 September 2020. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

Chanda Ltd. acquired 75% of the ordinary share capital of Pete Ltd. on 1 May 2020 through a share exchange of three shares of Chanda Ltd. for four shares acquired in Pete Ltd. On this date, the ordinary shares of Chanda Ltd. and Pete Ltd. were fair valued at Sh.40 and Sh.20 per share respectively.

The share exchange has not yet been recorded by Chanda Ltd.

Below are the draft financial statements for the two companies for the year ended 31 October 2020:

**Statements of comprehensive income for the year ended 31 October 2020:**

	Chanda Ltd. Sh. "Million"	Pete Ltd. Sh. "Million"
Revenue	28,200	8,720
Cost of sales	<u>(12,800)</u>	<u>(3,240)</u>
Gross profit	15,400	5,480
Distribution costs	(2,320)	(640)
Administrative expenses	(3,680)	(1,120)
Investment income	1,840	80
Finance costs	<u>(480)</u>	<u>(560)</u>
Profit before tax	10,760	3,240
Income tax expense	<u>(2,060)</u>	<u>(600)</u>
Profit for the year	8,700	2,640
<b>Other comprehensive income:</b>		
Gain on revaluation of land	<u>112</u>	<u>120</u>
Total comprehensive income	<u>8,812</u>	<u>2,760</u>

**Statements of financial position as at 31 October 2020:**

	<b>Chanda Ltd. Sh. "Million"</b>	<b>Pete Ltd. Sh. "Million"</b>
<b>Assets:</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	24,360	7,560
Financial assets	<u>8,120</u>	<u>2,520</u>
	<u>32,480</u>	<u>10,080</u>
<b>Current assets:</b>		
Inventory	4,832	2,000
Trade receivables	4,768	1,960
Bank	<u>3,200</u>	<u>1,320</u>
	<u>12,800</u>	<u>5,280</u>
<b>Total assets</b>	<u>45,280</u>	<u>15,360</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 par value)	8,000	3,200
Revaluation surplus	2,260	420
Retained earnings	<u>26,060</u>	<u>4,780</u>
	<u>36,320</u>	<u>8,400</u>
<b>Non-current liabilities:</b>		
10% loan stocks	<u>2,400</u>	<u>3,200</u>
<b>Current liabilities:</b>		
Trade payables	4,920	2,820
Current tax payable	<u>1,640</u>	<u>940</u>
	<u>6,560</u>	<u>3,760</u>
<b>Total equity and liabilities</b>	<u>45,280</u>	<u>15,360</u>

**Additional information:**

- A fair value exercise conducted on 1 May 2020 concluded that the carrying amounts of Pete Ltd.'s net assets approximated their fair values with the exception of an item of plant and equipment which had a fair value of Sh.320 million in excess of its carrying amount.  
As at 1 May 2020, the item of plant and equipment had a remaining life of four years. Depreciation is being charged on straight-line basis to cost of sales.
- In the post-acquisition period, Chanda Ltd. sold goods worth Sh.1,560 million to Pete Ltd. Pete Ltd. had one quarter of these goods in inventory as at 31 October 2020. All of these goods had a mark-up on cost of 30%.
- Chanda Ltd.'s trade receivables include Sh.320 million due from Pete Ltd. which did not reconcile with the corresponding trade payables. This was due to cash paid by Pete Ltd. which had not been received by Chanda Ltd. as at 31 October 2020.
- Chanda Ltd. has a policy of measuring the non-controlling interests at fair value. As at 1 May 2020, the non-controlling interest in Pete Ltd. were fair valued on the basis of the market price of Pete Ltd.'s ordinary shares.
- Goodwill arising on acquisition of Pete Ltd was impairment tested on 31 October 2020 and no impairment was deemed necessary.
- All other comprehensive income occurred after 1 May 2020. Unless otherwise indicated, all other items of incomes and expenses are deemed to accrue evenly over the year.

**Required:**

- Goodwill arising on acquisition of investment in Pete Ltd. (4 marks)
  - Consolidated statement of comprehensive income for the year ended 31 October 2020. (8 marks)
  - Consolidated statement of financial position as at 31 October 2020. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- Discuss three main differences between hire-purchase and instalment sales. (6 marks)
- Ali, Baba and Chali are partners sharing profits and losses in the ratio of 3:2:1 respectively. The partners prepare their accounts annually to 31 December.

The statement of financial position of the partnership as at 31 December 2020 was as follows:

<b>Assets:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Non-current assets:</b>		
Land and building (land Sh.4,500,000)		6,000
Plant and machinery: Cost	4,500	
Accumulated depreciation	<u>(1,200)</u>	3,300
Motor vehicles: Cost	4,800	
Accumulated depreciated	<u>(1,800)</u>	3,000
Joint life policy		<u>600</u>
		12,900
<b>Current assets:</b>		
Inventory	3,000	
Accounts receivable	825	
Cash at bank	<u>920</u>	<u>4,745</u>
Total assets		17,645
<b>Capital and liabilities:</b>		
Capital accounts: Ali		4,500
Baba		3,000
Chali		<u>3,000</u>
		10,500
Current accounts: Ali	1,950	
Baba	(375)	
Chali	<u>2,175</u>	3,750
Bank loan		2,270
Accounts payable		<u>1,125</u>
		17,645

**Additional information:**

- On 30 June 2021, the partners decided to dissolve the partnership following persistent disagreement. No drawings have been done by the partners to 30 June 2021, however, in arriving at the profit for the period ended 30 June 2021, depreciation was to be charged on a prorata basis on costs as follows:

<b>Asset</b>	<b>Rate per annum</b>
Building	2%
Plant and machinery	20%
Motor vehicles	25%

The book values of other assets and liabilities as at 30 June 2021 were as shown below:

	<b>Sh. "000"</b>
Land	4,800
Joint life policy	600
Inventory	3,600
Accounts receivable	3,000
Cash at bank	920
Accounts payable	2,700
2. Dissolution expenses amounted to Sh.360,000 and the accounts payable were settled net of a discount of 10%.	
3. Ali was to take over the only vehicle at an agreed valuation of Sh.1,520,000.	
4. Other assets were realised on instalments basis as follows:	
	<b>Sh. "000"</b>
First instalment	850
Second instalment	5,000
Third instalment	6,130
Fourth instalment	4,900

**Required:**

- Statement of cash distribution. (5 marks)
- Realisation account. (3 marks)
- Bank account. (3 marks)
- Partners' capital accounts. (3 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) Darubini Ltd. has provided the following schedule of its long term loans for the year ended 31 December 2020:

	1 January 2020	31 December 2020
	Sh."000"	Sh."000"
10% loan note (2025)	300,000	300,000
12% bonds (2028)	200,000	200,000
6% debenture (2024)	60,000	60,000

**Additional information:**

- The 10% loan note and 12% bonds were used to finance the construction of a power plant which commenced on 1 January 2020. Expenditure for the construction was drawn with Sh.100 million being drawn on 1 January 2020 and Sh.75 million on 1 July 2020.
- The 6% debenture was used to finance the construction of a new storage facility. The construction commenced on 1 January 2020 but no construction took place between 1 March 2020 to 31 May 2020 due to Covid-19 restrictions. The facility was available for use on 31 December 2020 having incurred a construction cost of Sh.60 million.

**Required:**

In line with provisions of International Accounting Standard (IAS) 23-Borrowing Costs, determine:

- Borrowing costs to be capitalised for each of the projects as at 31 December 2020. (3 marks)
- The value of the assets in the books of Darubini Ltd. as at 31 December 2020. (3 marks)

(b) The following trial balance was extracted from the books of Riba Insurance Ltd. as at 31 July 2021:

		Sh."000"	Sh."000"
Premiums outstanding (1 August 2020) - Marine		8,640	
- Fire		6,720	
Retained profits (1 August 2020)			4,320
Share premium			9,600
Ordinary share capital			28,800
Investment income			2,688
Accounts payable			3,168
Management expenses: - Marine		6,240	
- Fire		5,568	
Depreciation on non-current assets		8,688	
Directors remuneration		4,752	
Audit fees		2,304	
Freehold property		40,320	
Motor vehicles (net book value)		33,600	
Equipment and computers (net book value)		14,400	
Furniture and fittings (net book value)		12,480	
Financial assets		13,440	
Bad debts written off: - Marine		1,632	
- Fire		1,152	
Survey expenses on claims: - Marine		1,845	
- Fire		1,227	
Legal cost: - Marine		1,728	
- Fire		1,248	
Claims paid: Marine		23,712	
Fire		17,280	
Claims outstanding (1 August 2020) - Marine			7,680
- Fire			5,184
Unexpired premiums (1 August 2020) - Marine			46,080
- Fire			24,000
Cash and bank balances		1,056	
Accounts receivable		7,008	
Direct premiums received: - Marine			43,200
- Fire			33,600
Re-insurance premiums received: - Marine			11,520
- Fire			7,680
Re-insurance premiums paid: - Marine		7,680	
- Fire		4,800	
		227,520	227,520

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**Additional information:**

1. Premium outstanding as at 31 July 2021 amounted to Sh.14,400,000 and Sh.6,400,000 for marine and fire insurance respectively.
2. Reserve for unexpected premiums should be maintained at 100% and 50% of the net premium for marine and fire insurance respectively.
3. Claims intimated and outstanding as at 31 July 2021 amounted to Sh.7,200,000 for marine and Sh.4,608,000 for fire insurance.
4. Commission on both re-insurance ceded and re-insurance accepted is at the rate of 5% of the premiums.
5. Provisions are to be made for the following:
  - Taxation Sh.4,152,000
  - Ordinary dividend of 5%
6. Depreciation comprise of:
  - Motor vehicles Sh.4,120,000
  - Equipment and computers Sh.2,168,000
  - Furniture and fittings Sh.2,400,000

**Required:**

- (i) Marine and fire insurance revenue accounts for the year ended 31 July 2021. (5 marks)
- (ii) Statement of comprehensive income for the year ended 31 July 2021. (5 marks)
- (iii) Statement of financial position as at 31 July 2021. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) The International Financial Reporting Standard (IFRS) 9 – Financial Instruments, specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items.

**Required:**

Describe the requirements of IFRS – 9 as they relate to:

- (i) Initial measurement of financial assets. (2 marks)
- (ii) Subsequent measurement of financial assets. (4 marks)
- (iii) Debt instruments. (4 marks)
- (iv) Equity instruments. (2 marks)

- (b) With reference to International Public Sector Accounting Standard (IPSAS) 1 – Presentation of Financial Statements, explain the criteria for classifying an item as either:

- (i) Current asset. (4 marks)
- (ii) Current liability. (4 marks)

**(Total: 20 marks)**