

KASNEB REVISION KITS

0728 776 317

# FINANCIAL REPORTING REVISION KIT 2021

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2021

SAMPLE WORK

UPDATED WITH NOVEMBER 2020 PAST PAPER

# CPA

## FINANCIAL REPORTING

### PART 2

### CPA SECTION 3

## REVISION KIT

## PAST EXAMINATION PAST PAPERS WITH SUGGESTED ANSWERS

Updated with November 2020 Examination Past paper

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## INTRODUCTION

Following our continued effort to provide quality study and revision materials at an affordable price for the private students who study on their own, full time and part time students, we partnered with other team of professionals to make this possible.

This Revision kit (Questions and Answers) contains kasneb past examination past papers and their suggested answers as provided by a team of lecturers who are experts in their area of training. The book is intended to help the learner do enough practice on how to handle exam questions and this makes it easy to pass kasneb exams.

Special appreciation and recognition to the lecturers who have helped in the development of our materials. These are: FA Bramwel Omogo (B.sc Actuarial Science, CIFA, CIIA, CFA second level and ICIFA member), Johnmark Mwangi (MSc Finance, CPAK, BCom Finance), FA Kegicha William Momanyi (MBA Accounting, CPA, CISA and CCP), CPA Gregory Mailu (Bsc. Economics) CPA Dominic Rasungu and CPA Lawrence Ambunya among others.

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## PAPER NO.9 FINANCIAL REPORTING

### GENERAL OBJECTIVE

This paper is intended to equip the candidate with knowledge, skills and attitudes that will enable him/her to prepare financial statements for various entities and account for specialised transactions in both the public and private sectors.

### 9.0 LEARNING OUTCOMES

A candidate who passes this paper should be able to:

- Account for various assets and liabilities
- Prepare financial statements including published financial statements for various types of organisations
- Account for specialised transactions
- Prepare group financial statements
- Analyze and interpret financial statements
- Apply International Financial Reporting Standards (IFRSs) and International Public Sector Accounting Standards (IPSASs) in preparing non-complex financial statements.

### CONTENT

#### 9.1 Assets of financial statements

- Assets and liabilities covered in Paper No. 1: Financial Accounting still examinable (in the context of published financial statements)
- Inventories
- Borrowing costs
- Investment property
- Financial Instruments (presentation, recognition, classes, measurement, de-recognition and disclosures) (excluding impairment, hedging and embedded derivatives)
- Leases (all aspects including dealers and sale and leaseback)

#### 9.2 Liabilities of financial statements

- Employee benefits
- Provisions, contingent liabilities and contingent assets
- Income tax (current and deferred tax but not deferred tax in the case of groups)
- events after reporting date

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## 9.3 Further aspects of partnerships

- Dissolutions (including piece-meal)
- Amalgamation Conversion and sale of partnership firms
- Revenue recognition
- Contracts with customers
- Hire purchase and installment sales transactions (split of hire purchase profit into interest and gross profit and using actuarial method and sum of digits to account for interest); sale of goods, construction contracts and real estate, provision of services
- Government grants

## 9.5 Financial statements for various types of businesses

- Inventory and biological assets in agriculture
- Insurance
- Banks
- Professional firms (lawyers and accountants)
- Accounting for branches including foreign branches
- Co-operative societies

## 9.6 Published financial statements

- Presentation of financial statements (income statement, statement of comprehensive incomes, statement of changes in equity, statement of financial position and the notes to financial statements)
- Accounting policies, changes in accounting estimates and errors (prior period errors)
- Fair value measurement

## 9.7 Consolidated financial statements

- Accounting for one subsidiary (consolidated income statement, consolidated statement of financial position and a statement of cash flows – group financial statements); consolidated statement of cash flows also covers associate companies and jointly controlled entities but excludes acquisition and disposal of subsidiaries during the year
- Investments in associates and joint ventures

## 9.8 Financial statements under IPSASs

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[Provisions of the following IPSASs (emphasis on distinctions with equivalent IASs/IFRSs)]

- Presentation of financial statements
- Accounting policies, changes in accounting estimates and errors
- Borrowing costs
- Consolidated and separate financial statements
- Investments in associates
- Interests in joint ventures
- Events after the reporting date
- Construction contracts, leases and inventories
- Provisions, contingent liabilities and contingent assets

## **9.9 Emerging issues and trends**

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**Suggested Solution**

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CPA PART II SECTION 3  
FINANCIAL REPORTING

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**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:

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|  | 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     |
| Revaluation surplus                              |           | 800       |
| General reserve                                  |           | 1,500     |
| Retained earnings (1 October 2018)               | _____     | 3,600     |
|  | 107,335   | 107,335   |

### 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 as 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.

2. Interest on loan notes and dividend on preference shares have not yet been accounted for.
3. 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.
4. 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.
5. 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 \$h.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 realization of the revaluation surplus.

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

6. 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.
7. 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.
8. 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) A statement of comprehensive income for the year ended 30 September 2019. (10 marks)
- (b) A statement of changes in equity for the year ended 30 September 2019. (2 marks)
- (c) A statement of financial position as at 30 September 2019. (8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) 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)
- (b) The following are the draft statements of financial position of Aby Limited and Benta Limited as at 30 April 2020:

|                                 | <b>Aby Limited</b><br>Sh.“million” | <b>Benta Limited</b><br>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                                |
| Cash and bank balances          | <u>1,220</u>                       | <u>575</u>                           |
| Total assets                    | 39,515                             | 8,300                                |
| <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>     |                                    |                                      |

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|                              |               |              |
|------------------------------|---------------|--------------|
| 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> |

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### Additional information:

1. On 10 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.

2. 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.
3. During the year, Aby Limited sold goods worth \$h.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.
4. 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.
5. Aby Limited has a policy of valuing non-controlling interests at fair value. On 1 May 2019, the noncontrolling interest in Benta Limited had a fair value of Sh.1,317 million.
6. 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:

- i) 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)

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(ii) 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:

|                       | <b>Sole Traders</b>  |                  | <b>Minira Traders</b>  |
|-----------------------|--|------------------|--|
|                       | <b>Statement of financial position as at 30 September 2018</b> |                  | <b>Statement of financial position as at 30 September 2019</b> |
|                       | <b>Mika</b>  | <b>Nira</b>      |  |
|                       | <b>Sh. "000"</b>   | <b>Sh. "000"</b> | <b>Sh. "000"</b>   |
| <b>Assets:</b>        |  |                  |  |
| 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  |
| Accounts receivable   | 3,800  | 2,000            | 12,840   |
| Balance at bank       | <u>600</u>   | <u>300</u>       | <u>250</u>   |
|                       | <b>27,800</b>  | <b>19,300</b>    | <b>59,790</b>  |
| <b>Liabilities:</b>   |  |                  |  |
| Accounts payable      | (13,600)   | (8,000)          | (19,840)   |
| Bank overdraft        | =  | =                | <u>(11,250)</u>  |
|                       | <u>14,200</u>  | <u>11,300</u>    | <u>28,700</u>  |

**Additional information:**

- 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:

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|                       | <b>Mika</b>      | <b>Nira.</b>     |
|-----------------------|------------------|------------------|
|                       | <b>Sh. “000”</b> | <b>Sh. “000”</b> |
| 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 \$h.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:
  - (i) The freehold property and accounts receivable were revalued to Sh.12,000,000 and Sh.11,340,000 respectively.
  - (ii) 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).
  - (iii) 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.
  - (iv) 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. (12 marks)
- (b) Partners capital accounts as at 30 September 2019. (3 marks)
- (c) 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

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|   | 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         |                |
| 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> |

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### Additional information:

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

|                 | Sh. "000" |
|-----------------|-----------|
| Dairy cattle    | 54,000    |
| Maize (growing) | 2,700     |

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|                                |       |
|--------------------------------|-------|
| Other cattle (bulls)           | 5,400 |
| Dairy cattle feeds             | 1,620 |
| Fertilizers for planting maize | 1,080 |

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

| <b>Product</b>                     | <b>Value<br/>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)**



CPA PART II SECTION 3

FINANCIAL REPORTING

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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 at and equipment cost                | 25,000   |          |
| Motor at vehicles cost                     | 12,000   |          |
| Furniture and fixtures at cost             | 4,000    |          |
| Provision for depreciation (1 July 2018):  |          |          |
| Building                                   |          | 5,000    |

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|   |                |                |
|---|----------------|----------------|
| 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                                   | <u>710</u>     |                |
|   | <u>156,080</u> | <u>156,080</u> |

### Additional information:

- 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

- 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.

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

|                        | <b>Sh. "000"</b> |
|------------------------|------------------|
| 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:

|                                    | <b>Sh. "000"</b> | <b>Sh. "000"</b> |
|------------------------------------|------------------|------------------|
| 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           |                  |

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|   |                |                |
|---|----------------|----------------|
| 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                          |                | <u>24,000</u>  |
|   | <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.

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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 - Marine         |          | 3,000    |
| - Fire   |          | 2,500    |
| Gross premiums received from brokers - Marine        |          | 1,500    |
| - Fire   |          | 600      |
| Gross premiums received from direct clients - Marine |          | 500      |
| - Fire   |          | 1,000    |
| Reinsurance premiums accepted - Marine               |          | 600      |
| 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 - Marine      |          | 4,800    |
| - Fire   |          | 2,500    |
| Claims outstanding as at 1 October 2018 - Marine     |          | 1,100    |
| - Fire   |          | 840      |
| Claims paid - Marine                                 | 2,770    |          |
| - Fire   | 2,100    |          |
| Legal cost on claims - Marine                        | 280      |          |
| - Fire   | 130      |          |

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|  |               |               |
|--|---------------|---------------|
| 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   | <u>700</u>    |               |
|  | <u>23,900</u> | <u>23,900</u> |

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### 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

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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:

| <b>Assets:</b>                      | <b>Beyond Ltd.</b>      | <b>Horizon Ltd.</b>   |
|-------------------------------------|-------------------------|-----------------------|
| Non-current assets:                 | Sh."000"                | Sh."000"              |
| Property, plant and equipment       | 1,162,800               | 321,390               |
| Investments                         | <u>774,500</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           | 52,600                  | 1,100                 |
|                                     | <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                          | 53,900                  | 23,600                |
|                                     | <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:

1. 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.

2. 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.
3. The fair value of the non controlling interest in Horizon Ltd. on 1 January 2019 was estimated at Sh.150 million.
4. 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%.
5. 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.
6. 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.
7. 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)

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(Note: Do not discuss the disclosure requirements).

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

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

|   | Sh."000"             |
|---|----------------------|
| 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 | (93,492)             |
| 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:

|                                 | 2019                    | 2018                    |
|---------------------------------|-------------------------|-------------------------|
| Assets:                         | Sh."000"                | Sh."000"                |
| 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> |
| <br>                            |                         |                         |
| Equity and liabilities:         | Sh."000"                | Sh."000"                |
| Share capital                   | 100,000                 | 100,000                 |
| Retained earnings               | 545,238                 | 466,793                 |
|                                 | 645,238                 | 566,793                 |

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**Liabilities:**

|                                     |                         |                         |
|-------------------------------------|-------------------------|-------------------------|
| Deposits from customers             | 3,368,406               | 3,078,071               |
| Other liabilities and provisions    | 171,718                 | 359,192                 |
|                                     | <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             |

SAMPLE WORK

|  |                |
|--|----------------|
| Directors fees                         | 1,957          |
| Depreciation of property and equipment | 30,688         |
| Amortisation of software               | <u>6,077</u>   |
|  | <u>169,317</u> |

5. Property, plant and equipment movement schedule:

|                         | <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>123,916</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       | 6,077           | 2,956           |
| 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

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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> |

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**Additional information:**

1. 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.
2. A provision of Sh.61,560,000 should be made for tax on the profit for the year ended 31 March 2019.
3. 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.
4. The fair value of available for sale investments as at 31 March 2019 was Sh.97,560,000.
5. 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.
6. 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

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reducing balance method and charged to cost of sales. No non-current assets were sold during the year.

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**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       | <u>218</u>          | <u>40</u>           | -                   |
|                         | 2,018               | 980                 | 735                 |
| 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        | <u>858</u>          | <u>360</u>          | <u>264</u>          |
| 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>    |

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| <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>        |
|  | <b><u>28,300</u></b> | <b><u>16,000</u></b> | <b><u>8,700</u></b> |
| <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>17,800</u>        | <u>11,220</u>        | <u>7,854</u>        |
| <b>Non-current liabilities:</b>                              |                      |                      |                     |
| Bank loan  | 8,000                | 3,000                | -                   |
| Current liabilities  | 2,500                | 1,780                | 846                 |
|  | <u>10,500</u>        | <u>4,780</u>         | <u>846</u>          |
|  | <b><u>28,300</u></b> | <b><u>16,000</u></b> | <b><u>8,700</u></b> |

**Additional information:**

1. 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 331/3% on cost.
2. 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.

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- Due from Mali Ltd. to Kwetu Ltd. Sh.20
- 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)

**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:

|                            |                          | <b>Sh. "000"</b> |
|----------------------------|--------------------------|------------------|
| <b>Non-current assets:</b> | Land and building        | 18,400           |
|                            | Motor Vehicle            | 8,200            |
|                            | Furniture's and fixtures | 3,100            |
|                            | Investment in shares     | <u>4,600</u>     |
|                            |                          | 34,300           |
| <b>Current Assets:</b>     | Inventories              | 4,750            |
|                            | Trade receivables        | <u>3,200</u>     |
| Total assets               |                          | <u>42,250</u>    |

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|                                 |                |               |
|---------------------------------|----------------|---------------|
| <b>Capital and liabilities:</b> |                |               |
| <b>Capital accounts:</b>        | Exe            | 14,400        |
|                                 | Wye            | 7,200         |
|                                 | Zed            | 3,600         |
| <b>Current accounts:</b>        | Exe            | 2,700         |
|                                 | Wye            | 1,900         |
|                                 | Zed            | 600           |
| Loan from a Sacco               |                | 4,000         |
| <b>Current liabilities:</b>     | 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 realized             | Amount<br>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             |

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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:

|  | <b>AO1</b>          | <b>B02</b>          | <b>C03</b>          | <b>D04</b>          |
|--|---------------------|---------------------|---------------------|---------------------|
|  | <b>Sh."million"</b> | <b>Sh."million"</b> | <b>Sh."million"</b> | <b>Sh."million"</b> |
| 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                  | 23                  | -                   |
| Date of commencement                   | 1 May 2017          | 1 Feb 2017          | 1 March 2017        | 1 March 2019        |

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**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.) ie 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  |               |           |

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|   |                |                 |                  |                 |
|---|----------------|-----------------|------------------|-----------------|
| Head office/Branch account                                    | 240,400        |                 |                  | 2,016,040       |
| Cost of sales (branch)  |                |                 | 1,440,000        |                 |
| Provision for depreciation on machinery                       |                | 6,000           |                  | 226,800         |
| Head office cost of sales<br>(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>        </u> | <u>115,200</u>   | <u>        </u> |
|   | <u>880,000</u> | <u>880,000</u>  | <u>3,978,080</u> | <u>398,080</u>  |

### Additional information:

1. 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.
2. 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.
3. 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.
4. The cost of sales figure includes a depreciation charge of 10% par annum on the cost of machinery.
5. A provision of Ksh. 1,200,000 for unrealised profit in the branch inventory is to be made.
6. The relevant exchange rates were as follows:

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

**Required:**

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

**(Total: 20 marks)**

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CPA PART II SECTION 3

FINANCIAL REPORTING

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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   |  |          |



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|  |                |       |                |
|--|----------------|-------|----------------|
| 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 | <u>1,550</u>   |       | <u>      </u>  |
|  | <u>266,150</u> |       | <u>266,150</u> |

### Additional information:

- The freehold land was revalued upwards by Sh.2 million but the revaluation had not been incorporated in the accounts.
- Dividends on preference shares were in arrears for four years. The board has decided to pay the dividends for only three years.
- Depreciation is to be charged per annum using the straight line method as follows:

| Asset     | Rate per annum |
|-----------|----------------|
| Building  | 2%             |
| Equipment | 15%            |

- Claims amounting to Sh.2,850,000 were estimated to be outstanding as at 30 June 2018.
- 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                              | 550      |          |

|                                       |  |                   |               |
|---------------------------------------|--|-------------------|---------------|
| Trade payables                        |  |                   |               |
| Corporation tax                       |  |                   |               |
| Ordinary share capital                |  |                   | 400           |
| Share premium                         |  |                   | 35            |
| Revaluation reserve (1 November 2017) |  |                   | 1,250         |
| Retained earnings (1 November 2017)   |  |                   | 250           |
|                                       |  |                   | 300           |
|                                       |  | <u>          </u> | <u>1,785</u>  |
|                                       |  | <u>14,620</u>     | <u>14,620</u> |

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**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
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

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- 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 derecognizing 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.

- (b) The following financial statements relate to Sasumua Ltd. and its investment companies for the year ended 30 September 20 18:

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

|   | Sh."million" |
|---|--------------|
| Revenue   | 4,805        |
| Cost of sales   | (3,844)      |
| Gross profit  | 961          |
| Other income  | 21           |
| Selling and distribution costs  | (283)        |
| Administrative expenses   | (304)        |
| Finance costs   | (85)         |
| Share of profit of joint venture  | 85           |
| Profit before tax   | 395          |
| Income tax expense  | (80)         |
| Profit for the year   | 315          |
| <b>Other comprehensive income:</b>                                      |              |
| Revaluation gain on property, plant and equipment (net of deferred tax) | 105          |
| Total comprehensive income  | 420          |
| <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                |
|-------------------------------|---------------------|---------------------|
| <b>Assets:</b>                | Sh."million"        | Sh."million"        |
| <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     | 78                  | 63                  |
|                               | <u>486</u>          | <u>405</u>          |
| Total assets                  | <u><b>4,176</b></u> | <u><b>3,585</b></u> |

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### Equity and liabilities:

#### Equity:

|                           |              |              |
|---------------------------|--------------|--------------|
| Ordinary share capital    | 1,320        | 1,000        |
| Share premium             | 460          | 400          |
| Revaluation surplus       | 284          | 200          |
| Retained profit           | 570          | 360          |
| Owner's equity            | 2,634        | 1,960        |
| Non-controlling interests | 186          | 180          |
|                           | <b>2,820</b> | <b>2,140</b> |

#### Non-current liabilities:

|                            |     |     |
|----------------------------|-----|-----|
| 10% convertible loan stock | 780 | 960 |
| Deferred tax               | 150 | 185 |

#### Current liabilities:

|                              |                     |                     |
|------------------------------|---------------------|---------------------|
| Accounts payable             | 234                 | 175                 |
| Current tax                  | 92                  | 94                  |
| Interest payable             | <u>100</u>          | <u>31</u>           |
| Total equity and liabilities | <b><u>4,176</u></b> | <b><u>3,585</u></b> |

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

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

#### Additional information:

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

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|                          | 30 September 2018 | 30 September 2017 |
|--------------------------|-------------------|-------------------|
|                          | Sh."million"      | 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>      |

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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.

2. 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.
3. Impairment loss on goodwill and depreciation for the year ended 30 September 2018 have been charged to profit or loss for the year.
4. 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:

1. 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

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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 lire and it expects significant trading losses for some time to come.

2. 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.
3. 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 Alter 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> |
|--------------------------------------|-----------------|-----------------|
| Non-current assets (net book value): |                 |                 |
| 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>   |
|                                      |                 | <b>372,800</b>  |



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**Current assets:**

|                   |              |                |
|-------------------|--------------|----------------|
| Inventory         | 68,000       |                |
| Trade receivables | 62,000       |                |
| Bank balance      | 9,200        |                |
| Cash balance      | <u>3,200</u> | <u>142,400</u> |
|                   |              | 515,200        |

**Capital and liabilities:**

|                            |  |               |
|----------------------------|--|---------------|
| <b>Capital accounts: A</b> |  | 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       |

**Long-term liability:**

|           |  |         |
|-----------|--|---------|
| Bank loan |  | 160,000 |
|-----------|--|---------|

**Current liabilities:**

|                |               |                |
|----------------|---------------|----------------|
| Trade payables | 33,200        |                |
| Bank overdraft | <u>64,000</u> | <u>97,200</u>  |
|                |               | <u>515,200</u> |

**Additional information:**

1. The partnership had an insurance policy which entitled the firm to Sh.40,000,000 immediately a partner left.
2. Dissolution expenses amounted to Sh.1,800,000 and were paid on 30 August 2018.
3. 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<br>Sh. '000" |
|--------------|---------------------------------------|---------------------|
| 30 May 2018: | Insurance policy                      | 40,000              |
|              | Insurance benefit received (interest) | 16,000              |
|              | Land and building                     | 180,000             |

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|                    |                       |        |
|--------------------|-----------------------|--------|
| 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                           | 235      |          |

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|                                       |               |               |
|---------------------------------------|---------------|---------------|
| 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               | <u>1,050</u>  |               |
|                                       | <u>15,280</u> | <u>15,280</u> |

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### 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)**

SAMPLE WORK

CPA PART II SECTION 3

FINANCIAL REPORTING

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**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   |          |

## FINANCIAL REPORTING REVISION KIT 2021

|   |                       |                       |
|---|-----------------------|-----------------------|
| Rank balance                                      |                       |                       |
| 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                               |                       | <u>21,000</u>         |
|   | <u><b>318,200</b></u> | <u><b>318,200</b></u> |

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### 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:
  - **Plant**
    - All plant, including that of the joint operation is depreciated at the rate of 12.5% per annum on reducing balance basis.
  - **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
    - Depreciation is on a straight line basis. Zambezi Ltd. does not make a transfer to realised profits in respect of excess depreciation

SAMPLE WORK

- 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:

|  | Sh."000"            |
|--|---------------------|
| 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                                 | <b><u>8,000</u></b> |

**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                                       |                 | 13,300          |
|  | <b>471,900</b>  | <b>471,900</b>  |

**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: Sh."000"

|   |         |
|---|---------|
| 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 $2\frac{1}{2}\%$ |         |
| 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)

SAMPLE WORK



(ii) Opening statement of financial position of Chapeki Limited.

(7 marks)

(Total: 20 marks)

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**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                  |
| Other investments                           | 468                  |

SAMPLE WORK

|                           |         |
|---------------------------|---------|
| Deferred tax liabilities  | 4,338   |
| Other liabilities         | 3,300   |
| Current tax liability     | 3,435   |
| Deposits from other banks | 6,600   |
| Customer deposits         | 452,985 |

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**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)**

SAMPLE WORK

**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.<br>Sh."000"   | H Ltd.<br>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>        |
|                                 | <b><u>82,710</u></b> | <b><u>32,640</u></b> |
| <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    | <b><u>82,710</u></b> | <b><u>32,640</u></b> |

# FINANCIAL REPORTING REVISION KIT 2021

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Extracts from the income statement of S Ltd. before intra group adjustments for the year to 31 March 2018 were as follows:

|                   | Sh."000"       |
|-------------------|----------------|
| Profit before tax | 5,400          |
| Taxation expenses | <u>(1,600)</u> |
|                   | <u>3,800</u>   |

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## 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 II 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 11 Ltd. as at-31 March 2018. The balance of the current accounts off] 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 Ii 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)**

CPA PART II SECTION 3

FINANCIAL REPORTING

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**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. (6 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. (4 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.

SAMPLE WORK

## FINANCIAL REPORTING REVISION KIT 2021

**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.<br>Sh."000" | Safari Ltd.<br>Sh."000" | Upya Ltd.<br>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>          </u>       | <u>300</u>              | <u>240</u>            |
|                                 | <u>1,980</u>            | <u>1,860</u>            | <u>1,640</u>          |
| Total assets                    | <b><u>17,310</u></b>    | <b><u>7,700</u></b>     | <b><u>4,440</u></b>   |
| <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>3,300</u>            | <u>2,400</u>          |
|                                 | <u>15,000</u>           | <u>6,800</u>            | <u>3,600</u>          |
| <b>Non-current liabilities:</b> |                         |                         |                       |
| Deferred tax                    | 400                     | -                       | 160                   |
| <b>Current liabilities:</b>     |                         |                         |                       |
| Trade payables                  | 1,500                   | 900                     | 560                   |
| Current tax                     | 280                     | -                       | 120                   |
| Bank overdraft                  | 160                     | -                       |                       |
|                                 | <u>1,940</u>            | <u>900</u>              | <u>680</u>            |
| Total equity and liabilities    | <b><u>17,340</u></b>    | <b><u>7,700</u></b>     | <b><u>4,440</u></b>   |

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**Additional information:**

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

| <b>Company</b> | <b>Number of<br/>shares<br/>acquired</b> | <b>Cost of<br/>investment<br/><br/>Sh."000"</b> | <b>Retained<br/>earnings<br/><br/>Sh."000"</b> | <b>Date of<br/>acquisition</b> |
|----------------|--|---|--|--------------------------------|
| 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.

SAMPLE WORK

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

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

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:

SAMPLE WORK



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|                 |               |
|-----------------|---------------|
| 1st installment | Sh.12,000,000 |
| 2nd installment | Sh.3,600,000  |
| 3rd 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   |

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|  |                       |                       |
|--|-----------------------|-----------------------|
| 10% debentures                               |                       | 30,000                |
| Intangible assets                            | 34,200                |                       |
| Trade receivables and trade payables         | 8,700                 |                       |
| 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>         |                       |
|  | <b><u>476,580</u></b> | <b><u>476,580</u></b> |

### 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 511.13,500,000 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 21/2% 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 went 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:

|  | <b>Sh."000"</b> |
|--|-----------------|
| 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 300/0.
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 iii 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)**

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**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            |
| I-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>          </u> |
|  | <u>297,738</u> | <u>297,738</u>    |

**Additional information:**

1. 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.
2. 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.

SAMPLE WORK

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)**

SAMPLE WORK

CPA PART II SECTION 3

FINANCIAL REPORTING

THURSDAY: 25 May 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) With reference to International Public Sector Accounting Standard (IPSAS) 14 – Events after the Balance sheet Date:
  - i. Describe the two categories of events after the balance sheet date. (4 marks)
  - ii. Explain two disclosure requirements for each category of events identified in (a) (i) above. (4 marks)
  
- b) In the context of International Accounting Standard (IAS) 40 – Investment property:
  - i. Define an “Investment property”, citing two examples (4 marks)
  - ii. Identify two types of property that are specifically not considered as investment property. (2 marks)
  - iii. Discuss the fair value model as applied in the valuation of investment property (6 marks)

QUESTION TWO

Dida and Vuma were partners in a wholesale business. The following balances were extracted from their books of account as at 30 April 2017:

|                       | Debit<br>sh. “000” | Credit<br>Sh. “000” |
|-----------------------|--------------------|---------------------|
| Accruals              |                    | 9,000               |
| Capital account: Dida |                    | 20,000              |
| - Vuma                |                    | 30,000              |

SAMPLE WORK

|  |                |                 |
|--|----------------|-----------------|
| Equipment                                      | 20,000         |                 |
| Motor vehicles at cost                         | 55,000         |                 |
| Accumulated depreciation: Equipment            |                | 8,000           |
| Motor vehicles                                 |                | 25,000          |
| Cash and Bank balances                         | 21,000         |                 |
| Drawings: Dida                                 | 15,000         |                 |
| -Vuma  | 10,000         |                 |
| Net profit for the year ended to 30 April 2017 |                | 149,000         |
| Prepayments                                    | 3,000          |                 |
| Salary paid to Vuma                            | 20,000         |                 |
| Inventory at cost (30 April 2017)              | 70,000         |                 |
| Trade payables                                 |                | 118,000         |
| Trade receivables                              | 100,000        |                 |
| Premises                                       | <u>45,000</u>  | <u>        </u> |
|  | <u>359,000</u> | <u>359,000</u>  |

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**Additional information:**

- The partnership agreement includes the following arrangements between partners:
  - Profits and losses to be shared in the ratio of 3:1 for Dida and Vuma Respectively.
  - Interests of 15% per annum are to be paid on the partners' fixed capital.
  - Interest at the rate of 10% per annum is to be charged on partners drawings.
  - Vuma is entitled to a salary of sh. 20 million per annum.
- On 1 May 2017, a company known as Firiji Ltd was incorporated in order to make an offer for the purchase of the partnership business. The arrangements were as follows
  - Vuma to take over one of the motor vehicles at an agreed valuation of sh. 5 million

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

|                |           |
|----------------|-----------|
|                | Sh. "000" |
| Premises       | 50,000    |
| Motor vehicles | 18,000    |
| Equipment      | 10,000    |
| Trade payables | 80,000    |
| Accruals       | 10,000    |

**SAMPLE WORK**

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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 business amounted to sh. 3 million.
4. The company agreed to issue 15 million shares of sh. 10 each at the 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 Gamer Vs Murray is to apply.

**Required:**

- a) Realization 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 per value               |           | 100,000   |
| Share premium                                     |           | 40,000    |
| Retained earnings (1 April 2016)                  |           | 22,400    |
| Land and building at costs (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 |

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## FINANCIAL REPORTING REVISION KIT 2021

|                         |                         |                         |
|-------------------------|-------------------------|-------------------------|
| Cost of sales           | 823,000                 |                         |
| Distribution cost       | 43,000                  |                         |
| Administrative expenses | 61,800                  |                         |
| Dividends paid          | 40,000                  |                         |
| Bank interest           | 1,400                   |                         |
| Current tax             | _____                   | <u>2,400</u>            |
|                         | <b><u>1,450,000</u></b> | <b><u>1,450,000</u></b> |

### Additional information

1. On 1 April 2016, the company's directors decided that the land and building 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 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. Director's remuneration amounting to sh. 11 million should be provided for and 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, differed tax liability amounted to sh. 18.8 million. The movement in differed 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 one 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)**

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**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 statements for the year ended 30 April 2017**

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

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

|                               | <b>Hema Ltd</b>      | <b>Shuka Ltd</b>     | <b>Ajabu Ltd</b>     |
|-------------------------------|----------------------|----------------------|----------------------|
|                               | <b>Sh. "million"</b> | <b>Sh. "million"</b> | <b>Sh. "million"</b> |
| <b>Assets</b>                 |                      |                      |                      |
| <b>Non-current assets:</b>    |                      |                      |                      |
| Property, plant and equipment | 1,250                | 800                  | 650                  |
| Intangible assets             | 200                  | 70                   | 80                   |
| investments                   | <u>850</u>           | <u>50</u>            | <u>20</u>            |
|                               | <u>2,300</u>         | <u>920</u>           | <u>750</u>           |
| <b>Current assets:</b>        |                      |                      |                      |
| Inventory                     | 200                  | 75                   | 60                   |

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|                                     |                     |                     |                   |
|-------------------------------------|---------------------|---------------------|-------------------|
| 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>                 | <b><u>2,980</u></b> | <b><u>1,145</u></b> | <b><u>940</u></b> |
| <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                    | <u>710</u>          | <u>375</u>          | <u>200</u>        |
|                                     | <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> | <b><u>2,980</u></b> | <b><u>1,145</u></b> | <b><u>940</u></b> |

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### Additional information:

- Hema Ltd acquired the investments in other companies as follows:

| Company   | Date       | Shareholding | Cost of purchase Sh.<br>"million" | Revaluation reserve Sh.<br>"million" | Retained profits Sh.<br>"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.

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

**Selling price      Mark up %      % of goods held on in stock**

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|           | sh. "million" |    |     |
|-----------|---------------|----|-----|
| Shuka Ltd | 100           | 25 | 50  |
| Ajabu Ltd | 50            | 25 | Nil |

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- 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.
- 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.
- 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.
- All dividends and interests had been paid by the end of the year.

## Required:

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

## QUESTION FIVE

- Distinguish between "value based" method in determining the stage of completion of a constructional contract. (6 marks)
- The following trial balance was extracted from the books of Malipo Insurance Company Ltd which specializes 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                           | 204           |               |
| Depreciation on non-current assets       | 3,086         |               |

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|  |                      |  |                      |
|--|----------------------|--|----------------------|
| 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 profits as at 1 April 2016        |                      |  | 540                  |
| Premiums outstanding as at 1 April 2016: - | 1,080                |  |                      |
| marine                                     | 840                  |  |                      |
|  | -                    |  |                      |
| Fire                                       |                      |  |                      |
| Claims premiums as at 1 April 2016: -      |                      |  | 5,760                |
| Marine                                     |                      |  | 3,000                |
|  | -                    |  |                      |
| Fire                                       |                      |  |                      |
| Claims outstanding as at 1 April 2016:     |                      |  | 960                  |
| Marine                                     |                      |  |                      |
|  | -                    |  | 648                  |
| Fire                                       |                      |  |                      |
| Claims paid: -Marine                       | 2,964                |  |                      |
| -Fire                                      | 2,160                |  |                      |
| Legal Cost: Marine                         | 216                  |  |                      |
| -Fire                                      | 156                  |  |                      |
| Expenses relating to claims (Marine)       | 384                  |  |                      |
| Bad debts written off: Marine              | 204                  |  |                      |
| -Fire                                      | 144                  |  |                      |
| Investment 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              | 132                  |  |                      |
|  | <b><u>28,440</u></b> |  | <b><u>28,440</u></b> |

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### Additional information:

1. Unearned premiums reserve for unexpired risk to be maintained at 100% and 50% of the premiums for marine insurance respectively.
2. Commission on both insurance ceded and re-insurance accepted is at a rate of 5% of the premiums.

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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 at 31 March 2017 amounted to sh. 1,800 million and sh. 840 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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CPA PART II SECTION 3

FINANCIAL REPORTING

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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 of 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 summarize 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 per 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     |           |

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# FINANCIAL REPORTING REVISION KIT 2021

|                        |                      |                      |
|------------------------|----------------------|----------------------|
| Furniture and fittings | 3,200                |                      |
| Motor vehicles         | 1,800                |                      |
| Cash at bank           | 810                  |                      |
| Cash at hand           | <u>136</u>           |                      |
|                        | <b><u>35,776</u></b> | <b><u>35,776</u></b> |

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## Additional information:

1. The company buys one computer at sh. 72,000 and sells it on normal cash or credits terms at sh. 100,000.
2. Beginning June 2016, the company started selling computers on hire purchase terms that required a deposit of sh. 34,000 and 15 monthly installments of sh. 6,000 each with the first installment 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 installment 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.

3. 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 for the year ended as at 31 August 2016 (5 marks)

## QUESTION TWO

The following trial balance was extracted from the books of peak Ltd. As 31 October 2016:

|                 | Sh. "000" | Sh. "000" |
|-----------------|-----------|-----------|
| Land (cost)     | 400       |           |
| Building (cost) | 1,200     |           |
| Plant (cost)    | 936       |           |

SAMPLE WORK



## FINANCIAL REPORTING REVISION KIT 2021

|   |                |                |
|---|----------------|----------------|
| Purchases                                 | 469.2          |                |
| Distribution expenses                     | 60             |                |
| Administration 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 per value) |                | 900            |
| Income from investment                    |                | 27             |
| Retained earnings                         |                | 717            |
| 8% debentures                             |                | 300            |
| Dividend paid                             | 90             |                |
| Account payables                          |                | 202.4          |
| Cash in hand                              | 2              |                |
| Differed tax                              |                | 75             |
| Bank overdraft                            |                | 20.4           |
| Accumulated depreciation: Buildings       |                | 360            |
| Plant                                     |                | <u>156</u>     |
|   | <u>4,428.2</u> | <u>4,248.2</u> |

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### Additional information:

1. The 8% debentures were issued on 1 January 2016. Interest 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. 522 million and the implicit interests 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. 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 as sh. 169.8 million. The deferred tax provision as at 31 October 2016 was increased to sh. 84.6 million.

### Required

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# FINANCIAL REPORTING REVISION KIT 2021

- 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)

## QUESTION THREE

- a) With reference to International Financial 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 de-recognition of financial instruments: (4 marks)
- b) Magari insurance company Limited specializes in motor vehicle insurance business. The following trial balance was extracted from the books of the company as at 31 October 2016.

|  | Sh.<br>“000” |
|--|--------------|
| Ordinary share capital (sh. 100 per value)               | 200,000      |
| Retained earnings  | 65,000       |
| Investment income  | 89,564       |
| Receivables arising out of direct insurance business     | 8,940        |
| Payables arising from re-insurance 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 statements                           | 81,690       |
| Reinsurance share of claims outstanding as at 1 Nov 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    | 62,000       |
| Reinsurance brokers                                      | 88,000       |

# FINANCIAL REPORTING REVISION KIT 2021

|  |                  |                  |
|--|------------------|------------------|
| Commissions payable  | 30,404           |                  |
| Reinsurance commissions receivable from: Reinsurance companies |                  | 4,000            |
| Reinsurance brokers  |                  | <u>16,000</u>    |
|  | <u>1,431,688</u> | <u>1,431,688</u> |

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**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 as 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               | B Ltd               | C Ltd             |
|---|---------------------|---------------------|-------------------|
|   | Sh. “million”       | Sh. “million”       | Sh. “million”     |
| <b>Non-current assets:</b>                |                     |                     |                   |
| Property, plant and equipment             | 950                 | 750                 | 450               |
| Investment                                | 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                    | <u>100</u>          | <u>50</u>           | <u>80</u>         |
| Total assets                              | <b><u>2,600</u></b> | <b><u>1,450</u></b> | <b><u>950</u></b> |
| <b>Equity and liabilities:</b>            |                     |                     |                   |
| <b>Equity and reserves</b>                |                     |                     |                   |
| Ordinary share capital (sh. 10 per value) | 500                 | 200                 | 100               |
| Share premium                             | 200                 | 100                 | 50                |
| Retained earnings                         | <u>400</u>          | <u>350</u>          | <u>250</u>        |

SAMPLE WORK

## FINANCIAL REPORTING REVISION KIT 2021

|                                 |            |            |           |
|---------------------------------|------------|------------|-----------|
| 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 share acquired | Cost of investment<br>Sh. "million" | Retained earnings<br>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 is B Ltd

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<br>Sh. "million" | Fair value<br>Sh. "million" | Remaining life<br>(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

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 costs.
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 has send 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 amortize goodwill, instead goodwill is assessed for impairment annually. Impairment test for the 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 in the ratio 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 realized, outstanding debts paid and any remaining cash to be shared by partners (including the executors of Ali’s estate) in 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**

| <b>Non-current assets</b>         | <b>“sh. 000”</b> | <b>“sh. 000”</b> | <b>“sh. 000”</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>         |
|                                   |                  |                  | <b>176,100</b>        |
| <b>Current assets:</b>            |                  |                  |                       |
| Inventory                         |                  | 32,000           |                       |
| Trade receivables                 | 32,500           |                  |                       |
| Less: Allowance of doubtful debts | <u>(3,000)</u>   | 29,500           |                       |
| Cash                              |                  | <u>80</u>        | <u>61,850</u>         |
|                                   |                  |                  | <b><u>237,680</u></b> |
| <b>Capital and liabilities:</b>   |                  |                  |                       |
| Capital accounts:                 |                  |                  |                       |
|                                   | Ali              | 50,000           |                       |
|                                   | Baba             | 30,000           |                       |
| Chake                             |                  | <u>20,000</u>    | <u>100,000</u>        |

# FINANCIAL REPORTING REVISION KIT 2021

|                               |               |                       |  |
|-------------------------------|---------------|-----------------------|--|
| Current accounts:             |               |                       |  |
| Ali                           | 20,000        |                       |  |
| Baba                          | <u>15,000</u> | 35,000                |  |
| <b>Long-term liabilities:</b> |               |                       |  |
| Loan – Ali                    |               | 10,000                |  |
| Current liabilities:          |               |                       |  |
| Trade payables                | 28,500        |                       |  |
| Bank overdraft                | 64,180        | <u>92,680</u>         |  |
|                               |               | <b><u>237,680</u></b> |  |

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## 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 changed 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:

|                 |  | “Sh.<br>000” |
|-----------------|--|--------------|
| 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       |
|                 | Trade receivables                                      | 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 were 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) Realization account. (5 marks)
- c) Capital accounts. (3 marks)

SAMPLE WORK

CPA PART II SECTION 3

FINANCIAL REPORTING

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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)**

SAMPLE WORK

**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                       | _____    | 43,000   |
|   | 584,200  | 584,200  |

**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<br>Sh. “000” | Accumulated depreciation<br>Sh. “000” |
|---------------------|-------------------|---------------------------------------|
| Property            | 90,000            | 5,000                                 |
| Plant and equipment | <u>90,000</u>     | <u>30,000</u>                         |
|                     | <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.

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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.

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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)      |                 | 33,000          |
|                                 |                 | <b>383,000</b>  |
| <b>Current assets</b>           |                 |                 |
| Cash in hand                    | 1,000           |                 |

SAMPLE WORK



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:

|                   | <b>Jamii Ltd.</b>    | <b>Bora Lt</b>       | <b>Njema Ltd.</b>    |
|-------------------|----------------------|----------------------|----------------------|
|                   | <b>Sh. "million"</b> | <b>Sh. "million"</b> | <b>Sh. "million"</b> |
| Revenue           | 102,180              | 52,800               | 33,150               |
| Cost of sales     | (76,635)             | (36,990)             | (26,520)             |
| Gross profit      | 25,545               | 15,810               | 6,630                |
| Investment income | 584                  | 60                   | -                    |
|                   | <b>26,129</b>        | <b>15,870</b>        | <b>6,630</b>         |

**Operating expenses:**

|                                    |              |              |              |
|------------------------------------|--------------|--------------|--------------|
| Distribution expenses              | (12,810)     | (7,260)      | (2,880)      |
| Administrative expenses            | (7,779)      | (4,815)      | (1,695)      |
| Finance costs                      | (720)        | (600)        | (45)         |
| Profit before taxation             | 4,820        | 3,195        | 2,010        |
| Income tax expense                 | (1,530)      | (1,125)      | (645)        |
| Profit after tax                   | 3,290        | 2,070        | 1,365        |
| <b>Other comprehensive income:</b> |              |              |              |
| Revaluation of intangible asset    | =            | <u>530</u>   | =            |
| Total comprehensive income         | <u>3,290</u> | <u>2,600</u> | <u>1,365</u> |

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**Additional information:**

1. 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.
2. 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.
3. 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.
4. The fair value of net assets acquired in Njema Ltd. approximated the book value as at the date of acquisition.
5. 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.
6. 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.

SAMPLE WORK

**Required:**

- a) Computation of goodwill on each investment. (4 marks)
- b) Group statement of comprehensive income for the year ended 30 April 2016. (12 marks)
- c) Group statement of changes in equity for the year ended 30 April 2016. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- a) With reference to International Accounting Standard (IAS) 10 "Events After the Reporting Period", explain the following terms:

- (i) Events after the reporting period. (2 marks)
- (ii) Adjusting events. (2 marks)
- (iii) Non-adjusting events. (2 marks)

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

|  | <b>Sh. 000</b> | <b>Sh. 000</b> |
|--|----------------|----------------|
| 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 emolument                    | 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          |                |

## FINANCIAL REPORTING REVISION KIT 2021

|   |                       |                       |
|---|-----------------------|-----------------------|
| 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   |                       | 280                   |
| Government securities   | 26,400                |                       |
| Retained earnings (1 April 2015)                              |                       | 4,960                 |
| Other assets  | <u>10,600</u>         | <u>      </u>         |
|   | <b><u>263,150</u></b> | <b><u>263,150</u></b> |

### Additional information

1. Analysis of debtors' balances at the end of the year revealed that an additional provision Sh. 3,700,000 for non-performing loans should be made.
2. A provision of 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 march 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%

SAMPLE WORK

**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

(8 Marks)

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SAMPLE WORK



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CPA PART II SECTION 3

FINANCIAL REPORTING

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**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                                     | 1,699         |               |
| 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 building: 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           |               |

SAMPLE WORK

|                                 |              |
|---------------------------------|--------------|
| Rental income                   |              |
| Proceeds from sale of equipment | <u>4,740</u> |
|                                 | <u>4,740</u> |

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**Additional information:**

1. Closing inventory (as at 31 December 2014) amounted to sh. 388 million at cost. However, shortly after the year end. Some inventories with a cost of sh. 15 million were sold for sh. 8 million.
2. Land and buildings were revalued on 1 January 2014 to sh. 8000 million (including land at sh. 100 million). The buildings have a remaining useful life of 40 years.
3. The income tax liability in the year was estimated at sh. 20 million. Deferred tax was to be provided at sh. 6 million
4. During the year, the company sold some equipment which had cost sh. 15 million with accumulated depreciation as at 1 January 2014 at sh. 3 million. An item of plant was also estimated to be impaired by sh. 4 million during the year.
5. Depreciation rates as per the company's policy are as follows:  
Buildings – over the useful 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.
6. Dola Ltd values investment property at a fair value. The fair value of the investment property as at 31 December 2014 was sh. 586 million.
7. During the year, the company made a one for three bonus issue capitalizing its general reserves. This transaction has not been accounted for.

**Required:**

Prepare in a format suitable for publication for 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)

SAMPLE WORK

(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 December 2015:

|  | <b>Sh. "million"</b> |
|--|----------------------|
| Interest income- Loans and advances to customers | 5,014                |
| -Finance leases                                  | 4,680                |
| -Government bonds                                | 2,410                |
| -Deposit with other banks                        | 1,008                |
| Interests expenses on customer deposits          | 2,500                |
| Interests 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               |
| Land and advances to customers                   | 132,270              |
| Other assets                                     | 715                  |
| Deferred tax assets                              | 60                   |
| Other investments                                | 156                  |
| Property, plant and equipment                    | 2,250                |

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|                               |       |
|-------------------------------|-------|
| Intangible assets             | 2,150 |
| Ordinary shares (sh. 10 each) | 5,085 |
| Share premium                 | 90    |
| Revaluation reserves          | 460   |
| Customer deposits             | 1,910 |
| Deposits from other banks     | 2,200 |
| Current tax liabilities       | 1,145 |
| Other liabilities             | 1,100 |
| Deferred liabilities          | 1,446 |

### Additional information:

1. Property, plant and equipment is to be revalued to sh. 4, 250 million.
2. An allowance for unserviced loans is to be created at 2% of the outstanding loans and advances to customers.
3. Intangible assets were impaired by 20% 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 final 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     |           |

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|                                |                |                |
|--------------------------------|----------------|----------------|
| Salaries                       | 5,400          |                |
| Distribution expenses          | 600            |                |
| Formation expenses (company)   | 240            |                |
| Sundry expenses                | 950            |                |
| Capital: Amu                   |                |                |
| Bala                           |                | 18,000         |
|                                |                | 13,000         |
| Trade payables                 |                | 9,300          |
| Furniture and fittings         | 2,400          |                |
| Motor vehicles                 | 2,400          |                |
| Inventory as at 1 January 2014 | 25,000         |                |
| Trade receivables              | 8,100          |                |
| Cash at Bank                   | 5,635          |                |
| Drawings: Amu                  |                |                |
| Bala                           | 2,700          |                |
|                                | <u>2,300</u>   |                |
|                                | <u>117,325</u> | <u>117,325</u> |

### Additional information:

1. The partners have not made any changes to reflect the conversion of the partnership into a company.
2. Sales and purchase accrued in the ratio of 20% and 80% for the partnership and company respectively during the year.
3. Discounts allowed are to be apportioned in accordance with sales. Other expenses accrued evenly unless stated otherwise.
4. All the bad debts were written off in the last nine months of the year.
5. 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 motor vehicle for sh. 700,000 on 1 May 2014

SAMPLE WORK

6. Inventory as at 31 December 2014 was valued at Sh. 20,825,000.
7. 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.
8. The company issued 200,000 ordinary shares of sh. 150 each in settlement of the purchase of the assets and liabilities.

**Required:**

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

**QUESTION FOUR**

- a) In context of international Public Sector Accounting Standard (IPSAS) 19 – provisions, contingent and Liabilities and contingent assets.
- i. Distinguish between an “executory contract” and an “onerous contract”. (2 marks)
- ii. Summarize four disclosure requirements in relation to provisions. (4 marks)
- b) The following data has been collected from the ministry of commerce and industrialization 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 Equivalent              | 6,250         |
| Receivable from exchange transactions | 2,500         |
| Inventory                             | 1,250         |
| Employee benefits obligation          | 5,000         |
| Transfer from exchequer               | 31,250        |

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|                                    |        |
|------------------------------------|--------|
| Fines, penalties and levies        | 6,250  |
| Revenue from exchange transactions | 1,250  |
| Property, taxes and 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 |
| Transfer 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 industrialization 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 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 implicit in lease                | 12% per annum   |
| Lease period                              | 3 years         |
| Residential 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)

SAMPLE WORK

## FINANCIAL REPORTING REVISION KIT 2021

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 years ended 30 September 2015:

| <b>Income statement for the year ended 30 September 2015</b> |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | <b>A Ltd.</b>        | <b>B Ltd.</b>        | <b>C Ltd.</b>        |
|  | <b>Sh. "million"</b> | <b>Sh. "million"</b> | <b>Sh. "million"</b> |
| 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)                | (425)                | (380)                |
| Administrative expenses                                      | (695)                | (170)                | (380)                |
| Finance cost   | (65)                 | (20)                 |                      |
| Profit before tax  | 4,085                | 3,230                | 2,736                |
| Income tax expense   | (1,660)              | (1,078)              | (848)                |
| Profit for the period  | 2,425                | 2,152                | 1,888                |
| Retained profit brought forward                              | 7,612                | 1,452                | 1,250                |

| <b>Statement of financial position as at 30 September 2015</b> |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | <b>A Ltd.</b>        | <b>B Ltd.</b>        | <b>C Ltd.</b>        |
|  | <b>Sh. "million"</b> | <b>Sh. "million"</b> | <b>Sh. "million"</b> |
| <b>Non-current assets</b>                                      |                      |                      |                      |
| Property, plant and equipments                                 | 6,096                | 4,855                | 2,612                |
| Investments  | 4,350                | 50                   |                      |
|  | <u>10,446</u>        | <u>4,905</u>         | <u>2,612</u>         |
| <b>Current assets</b>  |                      |                      |                      |



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|                                |                      |                     |                     |
|--------------------------------|----------------------|---------------------|---------------------|
| Inventory                      | 1,460                | 853                 | 737                 |
| Accounts receivable            | 1,880                | 765                 | 573                 |
| Cash and bank balances         | 1,224                | 187                 | 468                 |
|                                | <u>4,564</u>         | <u>1,805</u>        | <u>1,778</u>        |
| Total assets                   | <b><u>15,010</u></b> | <b><u>6,710</u></b> | <b><u>4,390</u></b> |
| <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                | 8,237                | 3,604               | 3,138               |
|                                | <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>250</u>          |
|                                | <u>2,023</u>         | <u>1,006</u>        | <u>852</u>          |
| Total equity and liabilities   | <b><u>15,010</u></b> | <b><u>6,710</u></b> | <b><u>4,390</u></b> |

### Additional information:

1. A Ltd acquired 40% of C Ltd on 1 October 2014 for Sh. 700 million
2. 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 interests as at this date amounted to Sh. 800 million.
3. The fair value of B Ltd's 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.
4. 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  $16\frac{2}{3}\%$  on the cost. Half of the goods remained in the stock of A Ltd as at the year end.
5. As at 30 September 2015, A Ltd owed B Ltd sh. 80 million while C Ltd Sh. 15 million.
6. Goodwill was impaired as follows:

B Ltd 25%  
C Ltd 10%

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**Required:**

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

- a) Consolidated statement of comprehensive income. (7 marks)
- b) Statements of changes in equity. (3 marks)
- c) Statement of financial position. (10 marks)

**(Total: 20 marks)**

SAMPLE WORK

**KASNEB**

**CPA PART II SECTION 3**

**FINANCIAL REPORTING**

**PILOT PAPER**

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**September 2015**

**Time allowed: 3 hours**

**Answer all questions, marks allowed to each question are shown at the end of the question. Show all your working.**

**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 of the two companies for the year ended 31 March 2015.

Income statements for the year ended 31 March 2015:

|                         | <b>P Ltd</b>         | <b>S Ltd</b>        |
|-------------------------|----------------------|---------------------|
|                         | Sh. "000"            | 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           | <u>(600)</u>         | <u>(800)</u>        |
| Profit before tax       | 27,400               | 8,800               |
| Income tax expense      | (9,400)              | (2,800)             |
| Profit for year         | <u><b>18,000</b></u> | <u><b>6,000</b></u> |

Statement of financial position as at 31 March 2015

Sh. "000"      Sh. "000"

SAMPLE WORK

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| <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                |
|                                     | <b>32,000</b>         | <b>13,200</b>        |
|                                     | <b><u>113,200</u></b> | <b><u>38,400</u></b> |
| <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               |
|                                     | <b><u>90,800</u></b>  | <b><u>21,000</u></b> |
| <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                |
|                                     | <b>16,400</b>         | <b>9,400</b>         |
|                                     | <b><u>113,200</u></b> | <b><u>38,400</u></b> |

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### Additional information:

1. 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 asset were equal to their carrying amount except for an item of plant, which had a fair value of 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 markup 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:

SAMPLE WORK

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

**(Total: 20 marks)**

**QUESTION TWO**

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

|   | <b>Sh. "000"</b>      | <b>Sh. "000"</b>      |
|---|-----------------------|-----------------------|
| Leasehold property at valuation 1 July 2014     | 75,000                |                       |
| Plant and equipment at cost                     | 114,900               |                       |
| Accumulated depreciation- plant and equipment   |                       | 36,900                |
| Capitalized 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                        | 1200                  |                       |
| Interests on bank borrowings                    | 300                   |                       |
| Ordinary dividend paid                          | 9,000                 |                       |
| Research on development costs                   | 12,900                |                       |
| Ordinary shares Sh. 1 each                      |                       | 75,000                |
| 8% Redeemable preference shares                 |                       | 30,000                |
| Retained earnings                               |                       | 36,750                |
| Differed tax                                    |                       | 8,700                 |
| Leasehold property revaluation reserve          |                       | 15,000                |
| Accumulated amortization 1 July 2014            |                       | 9,000                 |
| Bank  |                       | 1,950                 |
|   | <b><u>699,000</u></b> | <b><u>699,000</u></b> |

**Additional information**

- Leasehold property had a remaining useful life of 30 years as at 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 reducing balance method. Depreciation and amortization 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 capitalized developments 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 projects development cost Sh. 1.2 million per month. On 1 January 2015 the directors established the projects technical and commercial feasibility and committed to completion of the project. The project was still under development as at 30 June 2015.
4. Capitalized development is amortized 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 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 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 effective interests 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 application

- (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)

## QUESTION THREE

- (a) Enumerate four enhancing qualitative characteristics of good financial information (4 marks)
- (b) Fulcon Ltd deals in Italian shoes. It has 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 by

## FINANCIAL REPORTING REVISION KIT 2021

Eastlands branch for the year ended 31 December 2014. The amounts are stated at selling price.

|   | Sh. "000" |
|---|-----------|
| Opening inventory   | 31,680    |
| Goods received from head office                                     | 700,368   |
| Goods received from southlands office                               | 3,360     |
| Goods send 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:

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

### Required:

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

### QUESTION FOUR

- Bien Ltd has provided the following schedule of its long term loans for the year ended march 2015:

|                    | 1 April 2014  | 31 March 2015 |
|--------------------|---------------|---------------|
|                    | Sh. "Million" | Sh. "Million" |
| 10% bank loan 2021 | 120           | 120           |
| 24% bank loan 2030 | 80            | 80            |
| 8% debentures      | 0             | 60            |

### Additional information:

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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 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 capitalized. (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 sh. 200,000 each receivable at the end of each year.

The interest implicit in the lease is 10%.

### Required:

Using 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 3 June 2015.

|                                  | Sh. "000" |
|----------------------------------|-----------|
| Accumulated fund                 | 562,500   |
| Cash and cash equivalents        | 375,000   |
| Receivables                      | 150,000   |
| Inventory of consumables         | 75,000    |
| Transfer from exchequer          | 1,875,000 |
| Fees fines and licenses          | 375,000   |
| Liability for long term benefits | 150,000   |
| Long term borrowing              | 750,000   |

SAMPLE WORK



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|                                    |           |
|------------------------------------|-----------|
| 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 |

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**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)**

SAMPLE WORK

**KASNEB**  
**CPA PART II SECTION 3**

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**FINANCIAL REPORTING**

**THURSDAY: 28 May 2015.**

**Time allowed: 3 hours**

**Answer all questions. Marks allocated to each question are shown at the end of the question. Show your working.**

**QUESTION ONE**

The following trial balance was extracted from the books of Max limited, a company quoted on the securities exchange, as at 31 March 2015:

|  | Sh. "million" | sh. "million" |
|--|---------------|---------------|
| Land and building                                  | 1,800         |               |
| Machinery  | 840           |               |
| Equipment  | 320           |               |
| Accumulated depreciation (1 April 2014): Buildings |               | 360           |
| Machinery  |               | 416           |
| Equipment  |               | 70            |
| Software   | 100           |               |
| Inventory (1 April 2014)                           | 349           |               |
| Administrative expenses                            | 29            |               |
| 8% loan stock                                      |               | 200           |
| Financial assets at fair value (long-term)         | 180           |               |
| Retained earnings                                  |               | 608           |
| Salaries and wages                                 | 298           |               |
| Maintenance of machinery                           | 31            |               |
| Postage and Stationery                             | 18            |               |
| 6% redeemable preference shares                    |               | 400           |
| Ordinary shares (sh. 20 per value)                 |               | 1,000         |
| Share premium                                      |               | 30            |
| Interest on 8% Loan stock                          | 8             |               |
| Disposal of machinery                              |               | 29            |

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|   |              |              |
|---|--------------|--------------|
| Rent and rates                            | 282          |              |
| Purchases and sales                       | 2, 148       | 3,739        |
| Dividends paid                            | 50           |              |
| Accounts receivable and accounts payables | 400          | 341          |
| Allowance for doubtful debts              |              | 8            |
| Bank and cash balances                    | 37           |              |
| Directors' remuneration                   | 122          |              |
| Investment income                         |              | 20           |
| Advertising                               | 149          |              |
| Carriage inwards                          | 34           |              |
| Carriage outwards                         | <u>26</u>    |              |
|   | <u>7,221</u> | <u>7,221</u> |

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### **Additional information:**

1. Inventory as at 31<sup>st</sup> march was valued at sh. 504 million while the fair value of financial assents was sh. 185 million.
2. Software acquired during the year and is being amortized over two years. Amortization is classified as a cost of sales item.
3. Accrued administrative expenses and salaries and wages as at 31 march 2015 amounted to sh. 11 million and sh. 42 million respectively while prepaid rent and rates amounted to 12 million.
4. A machine was sold on 1 April 2014 for sh. 29 million. The initial cost of the machine was sh. 60 million and the accumulated. Depreciation was sh.16 million.
5. Buildings are depreciated at 2% per annum using the straight-line method. Land comprises a third of the cost of the land and buildings. Machinery and equipment are depreciated at 30% and 20% per annum respectively, using the reducing balance method.
6. Allowance for doubtful debts is to be increased by sh. 4 million.
7. Income tax on the current years profits is estimated at sh. 58million. Administrative expenses include provision of tax relating to the previous year amounting to sh. 3 million.
8. Audit fee amounting to sh. 25 million is to be provided
9. Expenses are to be apportioned as follows:

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|                           | <b>Cost of<br/>Sales<br/>%</b> | <b>Administrative<br/>Expenses<br/>%</b> | <b>Distribution<br/>Cost<br/>%</b> |
|---------------------------|--------------------------------|--|------------------------------------|
| Salaries and wages        | 40                             | 50                                       | 10                                 |
| Depreciation of building  | 50                             | 25                                       | 25                                 |
| Depreciation of equipment | -                              | 100                                      | -                                  |
| Rent and rates            | 40                             | 30                                       | 30                                 |

## Required

- (a) A statement of comprehensive income for the year ended 31 march 2015. (10 marks)
- (b) A statement of financial position as at 31 march 2015. (10 marks)

## QUESTION TWO

- (a) With respect to international accounting standard (IAS) “Accounting for Government grants and disclosure of government assistance”, explain the following terms:
- (i) Government assistance (2 marks)
  - (ii) Government grant (2 marks)
  - (iii) Forgivable loan (2 marks)
- (b) Differentiate the bases upon which revenue from royalties and revenue from dividends should be recognized in accordance with the international accounting standards (IAS) 18, “Revenue”. (2 marks)
- (c) The following trial balance was extracted from the books of kiplimo & Onyango advocates, a firm of practicing advocates as at 31 December 2014.

|                                     | <b>Sh.</b> | <b>Sh.</b> |
|-------------------------------------|------------|------------|
| Capital                             |            | 1,530,000  |
| Disbursement on behalf of customers | 90,000     |            |
| Drawings                            | 450,000    |            |
| Salaries                            | 540,000    |            |
| Rent and rates                      | 450,000    |            |
| Postage and telephone               | 136,500    |            |
| Printing and Stationery             | 262,500    |            |
| Costs charged to clients            |            | 1,875,000  |

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|   |                  |                  |
|---|------------------|------------------|
| Work-in-progress on 1 January 2014                | 276, 000         |                  |
| Clients account (money held on behalf of clients) | 186,000          |                  |
| Accounts payable                                  | 585,000          |                  |
| Account receivable                                | 63,750           |                  |
| Sundry office expenses                            | 337,500          |                  |
| Furniture, fittings and library books             | 186, 000         |                  |
| Cash at bank: Clients account                     | <u>417,750</u>   |                  |
| Office  | <u>3,795,000</u> | <u>3,395,000</u> |

### Additional information:

1. Work-in-progress as at 31 December 2014 was values at sh. 176, 250
2. It is estimated that debts amounting to sh. 41, 250 might not be collected and should be written off.
3. Depreciation should be provided at 20% per annum on the book value of the furniture, fittings and library books.

### Required:

- (i) Statement of comprehensive income for the year ended 31 December 2014  
(6 marks)
- (ii) Statement of financial position as at 31 December 2014  
(6 marks)

### QUESTION THREE

- (a) The following information was extracted from the books of the ministry of science and technology for the fiscal year ended 30 June 2014.

|                                       | Sh. "million" |
|---------------------------------------|---------------|
| Transfer from Exchequer               | 693, 500      |
| Inventory                             | 30,000        |
| Reserves                              | 500,000       |
| Accumulated surplus as at 1 July 2013 | 160,000       |
| Receivables                           | 50,000        |
| Cash and cash equivalents             | 245,000       |
| Encumbrance payable                   | 61,500        |
| Accruals                              | 143,000       |

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|   |           |
|---|-----------|
| Liabilities for long term employee benefits | 56,000    |
| Long-term borrowings                        | 326,000   |
| Finance Costs                               | 28,000    |
| Office administrative costs                 | 355,000   |
| Consumables used                            | 112,400   |
| Transfer to other ministries                | 133,600   |
| Salaries and wages                          | 283,000   |
| Property, plant and equipment               | 1,246,000 |
| Payables                                    | 156,000   |
| Transfer from other ministries              | 12,000    |
| Other revenues                              | 203,600   |
| Forex gain                                  | 28,000    |
| Fees, Fines and licenses                    | 164,000   |
| Royalties                                   | 23,000    |
| Research expenses                           | 44,000    |

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### Required:

- (i) Statement of financial performance for the year ended 30 June 2014. (3 marks)
- (ii) Statement of financial position as at 30 June 2014. (3 marks)
- (b) Zesta limited presents its financial statements using the Kenya shilling (Ksh). On 1 November 2014, Zesta limited purchased goods worthy US dollar 30,000. From a foreign supplier and paid US dollar 20,000 on 1 December 2014. The balance due to the supplier as at 31 December 2014 was US dollar 10,000.

The exchange rates of the two currencies are as shown below:

| Date             | US dollar (\$)/Ksh. |
|------------------|---------------------|
| 1 November 2014  | 90                  |
| 1 November 2014  | 92                  |
| 31 December 2014 | 93                  |

### Required:

- (i) Differentiate between the terms “functional currency” and “presentational currency”. (2marks)

SAMPLE WORK

- (ii) Compute the exchange difference to be recognized in the financial statements of Zesta Limited (if any). (3 marks)
- (iii) Explain how the exchange difference (if any) in (b) above will be recognized in the financial statements of Zesta Limited. (1 marks)

**QUESTION FOUR**

X Ltd. Company quoted on the securities exchange, acquired sh. 960 million of the share capital of Y Ltd. On April 2011. X Ltd also acquired Sh. 165 million of the share capital of Z Ltd. On 1 September 2011. At the time of acquisitions, the retained earnings of Y Ltd. and Z Ltd. were 2,400 million and sh. 807 million respectively while the fair values of the net assets of Y Ltd. and Z Ltd. were Sh. 2400 million and Sh. 1,956 million respectively.

The financial statements of the three companies for the year ended 31 march 2015 were as follows:

| <b>Income statement for the year ended 31 march 2015</b> |                        |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | X Ltd<br>Sh. "million" | Y Ltd<br>Sh. "million" | Z ltd<br>Sh. "million" |
| Revenue  | 18,000                 | 12,600                 | 7,380                  |
|  | (8,400)                | (8,820)                | (3,198)                |
|  | 9,600                  | 3,780                  | 4,182                  |
| Investment income  | 780                    | -                      | -                      |
|  | 10,380                 | 3,780                  | 4,182                  |
| Distribution costs                                       | (1,800)                | (270)                  | (600)                  |
| Administrative expenses                                  | (900)                  | (600)                  | (588)                  |
| Finance costs  | (150)                  | (240)                  | (90)                   |
| Profit before tax  | 7,530                  | 2,670                  | 2,904                  |
| Income tax expense                                       | (1,200)                | (822)                  | (1,116)                |
| Profit for the year                                      | 6,330                  | 1,848                  | 1,788                  |
| Retained earnings brought forward                        | 1,710                  | 1,839                  | 879                    |
|  | 8,040                  | 3,687                  | 2,667                  |
| Dividends  | (750)                  | (900)                  | (240)                  |
| Retained earnings carried forward                        | <u>7,290</u>           | <u>2,787</u>           | <u>2,427</u>           |

| <b>Statements of financial position as at 31 march 2015</b> |                        |                        |                        |
|---|------------------------|------------------------|------------------------|
| <b>Non-recurrent assets</b>                                 | X Ltd<br>Sh. "million" | Y Ltd<br>Sh. "million" | Z Ltd<br>Sh. "million" |
| Property, plant and equipment                               | 4, 620                 | 2,760                  | 1,326                  |
| Intangible assets   | -                      | 1,050                  | 81                     |
| Investment in Y Ltd   | 2, 295                 | -                      | -                      |
| Investment in Z Ltd   | <u>609</u>             | -                      | -                      |
|   | <u>7,524</u>           | <u>3,810</u>           | <u>1,407</u>           |
| <b>Current assets:</b>                                      |                        |                        |                        |
| Inventory   | 2,160                  | 4,380                  | 622                    |
| Accounts receivable   | 2,850                  | 1,587                  | 990                    |
| Cash and cash equivalents                                   | <u>5,880</u>           | <u>1,530</u>           | <u>1,479</u>           |
|   | <u>10, 890</u>         | <u>7, 497</u>          | <u>3,111</u>           |
| <b>Total assets</b>   | <b><u>18,414</u></b>   | <b><u>11,307</u></b>   | <b><u>4,518</u></b>    |
| <b>Capital and liabilities</b>                              |                        |                        |                        |
| <b>Equity and reserves</b>                                  |                        |                        |                        |
| Ordinary share capital (sh 10 per value)                    | 4,500                  | 1,200                  | 660                    |
| Share premium   | 6,84                   | 420                    | 249                    |
| Retained earnings   | <u>7,290</u>           | <u>2,787</u>           | <u>2, 427</u>          |
|   | <u>12,474</u>          | <u>4,407</u>           | <u>3,336</u>           |
| <b>Current liabilities</b>                                  |                        |                        |                        |
| Trade and other payables                                    | <u>5,940</u>           | <u>6,900</u>           | <u>1,182</u>           |
|   | <b><u>18,414</u></b>   | <b><u>11,307</u></b>   | <b><u>4,518</u></b>    |

**Additional information**

1. During the year ended 31 March 2015, Y Ltd sold goods to X Ltd for Sh. 3,900 million. Y ltd made a profit of 30% on the selling price. Sh. 420 million of these goods were held by X Ltd as at 31 march 2015. On 31 march 2014, X Ltd held sh. 180 million of the goods that had been purchased from Y Ltd at the same gross profit margin
2. Annual impairment tests have indicated impairment loss of sh. 300 million relating to the goodwill of Y Ltd which included sh. 75 million of the goodwill impaired on the year ended 31 march 2015. The goodwill of Z Ltd has not been impaired.



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3. The fair value difference of the net assets of Y Ltd relates to plant being depreciated over a useful life of ten years from the acquisition date while the fair value difference of the net assets of Z Ltd relates to land.
  4. Y Ltd intangible assets include sh. 261 million being expense incurred on staff training on the use of new technology conducted during the year. The directors of Y Ltd believe that the expenditure should be capitalized since the expenses were incurred before the new business had commenced.
  5. Y Ltd has not issued new share capital since acquisition.
  6. Investment income of X Ltd relates to dividends received from Y Ltd and Z Ltd.

**Required:**

- (a) Group statement of comprehensive income for the year ended 31 march 2015. (10 marks)
- (b) Group statement of financial position as at 31 march 2015. (10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

Able, Brave and calm have been in partnership sharing profits and losses in the ratios 2:2:1 respectively. Their financial year end in 31 December. Able died on 5 June 2014 and the surviving partners decided to dissolve the partnership from that date. The terms of dissolution were that the assets were to be realized, outstanding debts paid and the remainder to be shared by the partners. (The share of Able to be paid to the executor of his estate) in an equitable manner, distribution of cash being made as soon as possible.

The following is a statement of financial position of the partnership **as at 6 June 2014:**

| <u><b>Able, Brave and Calm</b></u>                              |                      |
|---|----------------------|
| <u><b>Statement of financial position as at 6 June 2014</b></u> |                      |
|   | <b>Net Book vaue</b> |
| <b>Non-current assets</b>                                       | <b>Sh. '000'</b>     |
| Land and building   | 45,500               |
| Plant and machinery   | 18,400               |
| Fixtures and fittings   | 5,200                |

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|                                  |                       |
|----------------------------------|-----------------------|
| Motor vehicles                   | 1,800                 |
| Intangible assets (goodwill)     | 22,300                |
|                                  | <b>93,200</b>         |
| <b>Current Assets</b>            |                       |
| Inventory                        | 17,000                |
| Trade receivables                | 15,500                |
| Bank balance                     | 2,300                 |
| Cash balance                     | 800                   |
|                                  | <b>35,600</b>         |
| Total assets                     | <b>128,800</b>        |
| <b>Capital and liabilities</b>   |                       |
| Capital accounts: Able           | 25,000                |
| Brave                            | 16,000                |
| Calm                             | 10,000                |
|                                  | <b>51,000</b>         |
| Current accounts: Able           | 8,000                 |
| Brave                            | 5,500                 |
| <b>Long term liability</b>       |                       |
| Bank loan                        | 40,000                |
| <b>Current Liabilities</b>       |                       |
| Trade payables                   | 8,300                 |
| Bank overdraft                   | 16,000                |
|                                  | <b><u>24,300</u></b>  |
| <b>Total capital Liabilities</b> | <b><u>128,800</u></b> |

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### Additional information

1. Dissolution expenses amounted to sh. 450,000 and were paid on 30 November 2014.
2. As soon as sufficient money was available, all outstanding creditors were paid after the discount received which amounted to sh. 250,000.
3. The partnership had an assurance policy on the lives of partners in the event of death. The premiums had been charged to insurance expense and the cash payable on death of any partner is sh. 10,000,000.
4. The assets were sold and the monies received on piecemeal basis as follows:

| Date | Particulars | Amount |
|------|-------------|--------|
|------|-------------|--------|

SAMPLE WORK

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|                   |  | Sh. '000 |
|-------------------|--|----------|
| 30 June 2014      | Life policy on Able's life                             | 10,000   |
|                   | Life policy on the lives of Brave and Calm surrendered | 4,000    |
|                   | Land and building                                      | 45,000   |
| 25 July 2014      | Plant and machinery                                    | 10,300   |
|                   | Trade receivables                                      | 6,500    |
| 20 August 2014    | Motor vehicle  | 1,800    |
|                   | Fixtures and fittings                                  | 2,200    |
| 15 September 2014 | Plant and machinery                                    | 10,300   |
|                   | Fixtures and fittings                                  | 2,000    |
| 20 October 2014   | Inventory  | 17,000   |
|                   | Trade receivables                                      | 10,000   |

### Required:

- (a) Statement showing how proceeds of the dissolution will be shared between the partners. (12 marks)
- (b) Realization account. (5 marks)
- (c) Partners' capital accounts (3 marks)

**(Total: 20 marks)**

SAMPLE WORK

## SUGGESTED ANSWERS AND SOLUTIONS

### FINANCIAL REPORTING

NOVEMBER 2020

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#### QUESTION ONE

##### a) Accounting treatment of contingent assets

As per IAS 37, Contingent assets are not recognized but they are disclosed when it is more likely that an inflow benefit will occur.

However when the inflow of benefits is virtually certain an asset is recognized in the statement of financial position because that asset is no longer considered to be contingent

##### Examples of contingent asset

- Court cases where some compensation is expected
- Expected money to be received through a warranty
- Benefits to be received from an estate
- Anticipated mergers and acquisition.

##### b) i) Conditions under which PPE should be recognized

- PPE should be recognized when:
- The entity owns and controls the asset
- It probable economic benefit will flow to the entity
- The cost of the asset can measured reliably

##### (ii) Derecognition of PPE

- An asset should be removed from the statement of financial position on disposal
- When the asset have been scapped or abandonment.
- When the asset have been considered absolute
- when the asset have depreciated fully and there is no expected future economic benefits

SAMPLE WORK

c) a) i) **How contract with customers are presented in the financial statement as per (IFRS)**

- Contract with customers will be presented in the entity's statement of financial position as at contract liability, a contract asset or a receivable depending on the relationship between the entity's performance and the customers payment.
- A contract liability is presented in the financial statement where customer has paid an amount of consideration prior to the entity's performing the transfer of goods or services to the customer.
- Where the entity has performed by transferring goods services to customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position.
- Party to the contract have approved
- Contract has commercial substance
- Payment terms can be identified
- Probable of payment

c) ii) **Disclosure requirements**

- Significant judgement
- Revenue recognized
- Any asset recognized
- It's a contract with customer
- Payment terms

**QUESTION TWO**

**(PUBLISHED)**

**Workings**

**W1.**

**Bonus issue of shares**

$$14,500 \div 29 = 500 \text{ shares}$$
$$= \frac{1}{4} \times 500 = 125 \times 10 = 1,250 \quad \text{Dr: Retained earning}$$
$$\quad \quad \quad \text{Cr: Ordinary share capital}$$

SAMPLE WORK