

EXAMINATION NO. _____



2015 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC6: ACCOUNTING/2

MONDAY 7 DECEMBER 2015

**TIME ALLOWED : 3 HOURS
9.00 AM - 12.00 NOON**

INSTRUCTIONS

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you are **not** allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. This paper is divided into two sections.
3. Section A – This **ONE** question is compulsory and **MUST** be attempted. The question carries 40 marks.
4. Section B – Has **FOUR** questions each carrying 20 marks. Candidates should attempt any **THREE** questions from this section.
5. Marks will be awarded for neat presentation and layout.
6. All workings must be shown.
7. Begin each answer on a fresh page.
8. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 9 pages

This question paper must **not** be removed from the examination hall.

SECTION A

This question is compulsory and MUST be attempted

1. (a) The following trial balance has been extracted from the books of accounts of Mwanza, Chidude and Chezi partnership as at 31 December 2014. The partners shared profits in the ratio 4:3:1.

	K	K
Revenue		2,022,500
Purchases	1,125,000	
Carriage inwards	20,000	
Carriage outwards	60,000	
Discount received		22,650
Interest received		3,750
Discount allowed	50,000	
Office expenses	152,000	
Rent and utilities	44,000	
Capital accounts		
Mwanza		400,000
Chidude		75,000
Chezi		25,000
Current accounts		
Mwanza	5,000	
Chidude	2,500	
Chezi	2,000	
Drawings		
Mwanza	125,000	
Chidude	110,000	
Chezi	75,000	
Motor vehicles at cost	400,000	
Motor vehicles accumulated depreciation		100,000
Plant and equipment at cost	500,000	
Plant and equipment accumulated depreciation		183,000
Inventories	150,000	
Accounts receivable	71,500	
Cash and bank balance	24,500	
Accounts payable		82,500
Allowance for bad and doubtful debts		2,100
	<u>2,916,500</u>	<u>2,916,500</u>

Additional information

- (1) The partnership agreement provided for a salary to Chezi of K65,000 per year but has not yet been paid.
- (2) Partners were charged interest on drawing accounts: Mwanza K5,000; Chidude K4,500 and Chezi K3,600.
- (3) Each partner was allowed interest on his capital account at the rate of 20% per year and the interest has not been credited to the partners' accounts.

- (4) Office expenses amounting to K2,025 are still outstanding.
- (5) Rentals amounting to K7,500 were paid in advance.
- (6) Allowance for bad and doubtful debts should be made at 2½% of accounts receivable.
- (7) Depreciation on non-current assets is charged as follows: motor vehicles at 25% on reduced balance and plant and equipment at 20% on straight line basis.
- (8) The closing figure for inventories at 31 December 2014 was K175,000.

Required:

Prepare the partnership income and appropriation statements for the year ended 31 December 2014. **15 Marks**

- (b) The partners agreed to sell the business to Chipfazi Ltd on the following terms:
 - (1) As a consideration for the transaction, the partners were paid K317,500 in cash, and were issued 375,000 K1 ordinary shares in the company which were allocated equally to the partners.
 - (2) The accounts receivable were not taken over by the company and the partners collected K64,925 as total settlement from the debtors.
 - (3) The partners settled in full the accounts payable of K80,000.
 - (4) One vehicle was taken over by Mwanza for K25,000.
 - (5) Offices expenses owing were not taken over by the company.
 - (6) Rentals paid in advance were refunded to the partners by cheque.

Required:

- (i) Prepare the partnership realization account to record the sale of the partnership to Chipfazi Ltd. **8½ Marks**
- (ii) Prepare the partners' combined current and capital accounts to reflect the sale transactions. **12¼ Marks**
- (iii) Prepare the partners' bank accounts to reflect the sale transactions. **4¼ Marks**

(TOTAL : 40 MARKS)

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SECTION B

THREE questions ONLY to be attempted from this section

2. (a) Set out below are the statements of financial position of Timve limited and its subsidiary undertaking, Luson Limited, as at 31 December 2014:

Statements of financial position as at 31 December 2014

	Timve Ltd K'000	Luson Ltd K'000
Tangible non-current assets	6,273	1,633
Investment in Luson Ltd	<u>2,100</u>	<u>1,633</u>
	<u>8,373</u>	<u>1,633</u>
Current assets		
Inventories	1,901	865
Accounts receivable	1,555	547
Cash and cash equivalents	<u>184</u>	<u>104</u>
	<u>3,640</u>	<u>1,516</u>
Total Assets	<u>12,013</u>	<u>3,149</u>
Equity		
Called up share capital	2,000	500
Share premium	950	120
Retained earnings	<u>4,246</u>	<u>1,484</u>
Total equity	<u>7,196</u>	<u>2,104</u>
Non-current loan	2,870	400
Current liabilities		
Accounts payable	1,516	457
Taxation	<u>431</u>	<u>188</u>
	<u>1,947</u>	<u>645</u>
Total liabilities	<u>4,817</u>	<u>1,045</u>
Total equity and liabilities	<u>12,013</u>	<u>3,149</u>

Additional information

- (1) The share capital for both companies consists of ordinary shares of K1.00 each.
- (2) Timve Limited acquired 375,000 shares in Luson Limited on 31 December 2014.
- (3) The fair value of the non-current assets of Luson Limited at 31 December 2014 was K2,033,000.

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Required:

Prepare a consolidated statement of financial position for Timve Group as at 31 December 2014. **16½ Marks**

- (b) Explain the concept behind the rights issue of ordinary shares in a subsidiary company. **3½ Marks**
(TOTAL : 20 MARKS)

NOT FOR SALE

Continued/.....

3. The statements of financial position for the past two years of Chimwanza Ltd and the income statement for the year ended 31 March 2015 are as follows:

Chimwanza Ltd statements of financial position	2015 K'000	2014 K'000
Non-current assets		
Property, plant and equipment	50,342	48,200
Current assets		
Inventories	7,392	4,928
Trade and other receivables	6,720	4,928
Cash and bank balance	<u>0</u>	<u>258</u>
	<u>14,112</u>	<u>10,114</u>
Total assets	<u>64,454</u>	<u>58,314</u>
Current liabilities		
Trade and other payables	2,464	3,696
Taxation	2,688	1,888
Bank overdraft	<u>722</u>	<u>0</u>
	<u>5,874</u>	<u>5,584</u>
Non-current liabilities		
Bank loans	2,600	1,600
Equity		
Share capital	4,400	4,000
Share premium	1,600	1,000
Retained earnings	<u>49,980</u>	<u>46,130</u>
	<u>55,980</u>	<u>51,130</u>
Total assets	<u>64,454</u>	<u>58,314</u>
Income statement for Chimwanza Ltd for the year ended 31/03/15		
Revenue	44,800	
Cost of sales	<u>(24,640)</u>	
Gross profit	20,160	
Gain on disposal of non-current asset	448	
Distribution costs	<u>(9,408)</u>	
Administration expenses	<u>(4,480)</u>	
Profit from operations	6,720	
Interest	<u>(182)</u>	
Profit before taxation	6,538	
Taxation	<u>(2,688)</u>	
Retained profit for the year	<u>3,850</u>	

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Additional information

- (1) All sales and purchases were on credit basis and other expenses were on cash basis.
- (2) Property, plant and equipment originally purchased for K1,952,000 with accumulated depreciation of K710,000 was sold during the year at a profit of K448,000.
- (3) Total depreciation charge for the year in the income statement was K7,090,000.

Required:

Prepare a statement of cash flows for Chimwanza Ltd for the year ended 31 March 2015 in accordance with IAS 7.

20 Marks

(TOTAL : 20 MARKS)

Continued/.....

4. (a) You are part of the external audit team working on accounts for Zomwezi Ltd. You have been given the following information for the year ended 31 December 2014:

ZOMWEZI LTD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share Capital K'000	Share premium K'000	Revaluation Reserve K'000	Accumulated Loss K'000	Total K'000
Balance at 1 January 2013					
At beginning of the year	500	560	3,043	(800)	3,303
Profit for year				200	200
31 December 2013	<u>500</u>	<u>560</u>	<u>3,043</u>	<u>(600)</u>	<u>3,503</u>

Additional information

- (1) The issued share capital of Zomwezi Ltd is made up of 500,000 K1 ordinary shares.
- (2) Zomwezi Ltd sold property whose revaluation reserve amounted to K750,000.
- (3) A bonus issue of shares of K1 share for each outstanding share was made on 31 December 2014.
- (4) Profit for year amounted to K1,500,000.
- (5) Dividends of 50 tambala per share were paid out.
- (6) The opening figure for the revaluation reserve was overstated by K93,000.

Required:

Prepare a statement of changes in equity for the year ended 31 December 2014.

7¼ Marks

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- (b) The following is the statement of financial position of Rhino Co. Ltd as at 31 March 2015:

<u>Equity and Liabilities</u>	K	<u>Assets</u>	K
40,000 ordinary shares of K10 each fully paid	400,000	Non-current assets	700,000
18,000, 8% Preference shares of K10 each fully paid	180,000	Current assets	400,000
Profit & Loss Account	480,000		
	<u>1,060,000</u>		<u>1,100,000</u>
Sundry creditors	40,000		
	<u>1,100,000</u>		<u>1,100,000</u>

The preference shares were redeemed on 1 April 2015 at a premium of K5.00 per share. The redemption was financed by a bank loan.

Required:

- (i) Prepare journal entries to record the redemption of the preference shares.
7¼ Marks
- (ii) Prepare a revised statement of financial position for Rhino Ltd as at 1 April 2015.
5 Marks
(TOTAL : 20 MARKS)

5. (a) Explain the difference between “ordinary shares” and “preference shares” in respect of ownership, control and distribution of profits.
6 Marks
- (b) Most not-for-profit organisations adopt cash basis accounting rather than accrual basis accounting.

Required:

Explain the difference between cash and accrual basis accounting with respect to how an organization would account for a purchase of a motor vehicle in its books.
4 Marks

- (c) According to IAS 16, property, plant and equipment, an item that qualifies for recognition as an asset shall be measured at its cost.

Required:

List **three** cost items that may comprise the qualifying cost of an asset as per IAS 16.
6 Marks

- (d) (i) What is GAAP?
2 Marks
- (ii) Briefly explain why companies need to apply GAAP in preparation of financial statements.
2 Marks
(TOTAL : 20 MARKS)

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