

EXAMINATION NO. _____



2016 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC6: ACCOUNTING/2

MONDAY 6 JUNE 2016

**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. The number of questions on paper – 5
3. This paper is divided into two sections.
4. Section A – This **ONE** question is compulsory and **MUST** be attempted. The question carries 40 marks.
5. Section B – Has **FOUR** questions each carrying 20 marks. Candidates should attempt any **THREE** questions from this section.
6. Marks will be awarded for neat presentation and layout.
7. All workings must be shown.
8. Begin each answer on a fresh page.
9. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.**

This question paper contains 8 pages

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

SECTION A

This question is compulsory and MUST be attempted

1. The following trial balance has been extracted from the accounting records of Maulana Ltd as at 31 March 2016:

	K'000	K'000
Goodwill	12,000	
Land and buildings at cost	345,000	
Motor vehicles at cost	250,000	
Furniture and fittings at cost	68,000	
Computer equipment at cost	80,000	
Accumulated amortisation		4,000
Accumulated depreciation- Land and buildings		49,000
Accumulated depreciation- Motor vehicles		45,000
Accumulated depreciation- Furniture and fittings		14,000
Accumulated depreciation-Computer equipment		18,500
Inventory 1 April 2015	14,233	
Receivables	36,220	
Bank and cash	2,462	
Account payables		11,332
Sales		957,000
Purchases	509,425	
Return inwards	4,472	
Carriage inwards	13,448	
Motor vehicle maintenance	37,510	
Salaries and wages	96,620	
Commission	29,275	
Printing and Stationery	23,463	
Insurance	88,400	
Advertising and marketing	9,304	
K100 Ordinary share capital		300,000
Share Premium		36,000
20% Preference shares		80,000
22% debentures		35,000
42% Bank loan		25,000
Retained earnings		45,000
	<u>1,619,832</u>	<u>1,619,832</u>

Additional information

- (1) The board of directors approved a dividend payout for the year ended 31 March 2016 of K1.50 per share.
- (2) The cost of land is K85,000,000.

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- (3) Depreciation is provided as follows:
- 5% straight line on the cost of buildings
 - 20% reducing balance on the cost of motor vehicles
 - 10% straight line on the cost of furniture and fittings
 - 30% reducing balance on the cost of computer equipment
- (4) Goodwill consists of K8,000,000 purchased during takeover in 2014 and K4,000,000 which is deemed to have been internally generated since then and recognised on 31 March 2016 using the retained earnings account. Goodwill has a useful life of 4 years.
- (5) Included in advertising and marketing is K1,930,000 for job vacancies in newspapers.
- (6) Tax charge for the year ended 31 March 2016 was computed at K6,323,000.
- (7) Motor vehicle expenses are apportioned at 30% to administration and 70% to sales and distribution expenses.
- (8) 75% of insurance expenses are for a motor vehicle policy.
- (9) Stock as at 31 March 2016 was valued at K27,466,000.
- (10) The loan was obtained on 1 January 2016.

Required:

- (a) Prepare a statement of comprehensive income for Maulana Limited, for internal use, for the year ended 31 March 2016. **23 Marks**
- (b) Prepare a statement of comprehensive income for Maulana Limited, for publication, for the year ended 31 March 2016. **4 Marks**
- (c) Prepare a statement of financial position for Maulana Limited, for publication, as at 31 March 2016. **8 Marks**
- (d) Define the following terms as used in financial records of limited companies:
- (i) Share premium **1 Mark**
 - (ii) Goodwill **1 Mark**
 - (iii) Retained earnings **1 Mark**
 - (iv) Debentures **1 Mark**
 - (v) Preference shares **1 Mark**

(TOTAL : 40 MARKS)

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SECTION B

THREE questions ONLY to be attempted from this section

2. Chowe Social Club was established on 1 April 2005 to promote the protection and preservation of the environment. The following information relates to the social club:
- (1) There was a total of 18 members as at 31 March 2016 of whom 6 held life membership and the rest paid annual subscription fees.
 - (2) Life subscription fee is K600,000 payable on admission with an expected life span of 15 years while annual subscription is K65,000 for those who are not life members.
 - (3) The six remaining life members joined the club as follows:

3 at the time that the club was being established
2 on 1 April 2009
1 on 1 April 2013
 - (4) During the year ended 31 March 2016, a raffle draw was conducted in which 2,630 tickets were sold at K1,500 each. The grand prize was a tricycle which was bought at K1,100,000 and other consolation prizes cost K350,000. Advertising the raffle draw cost K150,000.
 - (5) Two life members and one non-life member died during the year ended 31 March 2016. The life members had joined the club on 1 April 2008 and the non-life member on 1 April 2010. The non life member had been subscribing annually since joining the club.
 - (6) Various balances from the club's accounting records as at 31 March 2015 were as follows:

	Dr K	Cr K
Land and building(NBV)	7,000,000	
Motor vehicles (NBV)	4,500,000	
Equipment (NBV)	1,300,000	
Subscriptions in arrears	260,000	
Subscriptions in advance		195,000
Bank	1,450,230	

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- (7) Balances of other accounts for the year ended 31 March 2016 were as follows:

	K
Salaries and wages	1,800,000
Promotions	120,000
Rates	76,000
Maintenance	110,000
Subscription in arrears	325,000
Subscription in advance	(130,000)
Bank	4,884,230

- (8) The Club's depreciation rates on reducing balance method were as follows:

Buildings 5%

Motor vehicles 25%

Equipment 20%

- (9) The value of land is K2,000,000.

- (j) The city rates paid included K30,000 for the half year period to 30 June 2016.

Required:

- (a) Prepare an income and expenditure account for Chowe Social Club for the year ended 31 March 2016. **13 Marks**

- (b) Prepare the statement of financial position for Chowe Social Club as at 31 March 2016. **7 Marks**

(TOTAL : 20 MARKS)

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3. Mlare Limited issued 10,000 K100 ordinary shares in 2015 using the following procedure:

1 October 2015: Applications for shares at K20 each were invited and 15,000 applications for 15,000 shares were received.

31 October 2015: Allotment of shares was done and each applicant was given two thirds of their application. K25 was paid for each share allotted. Refunds were made for all unsuccessful applications. Payment for 800 shares was not received and the shares were forfeited immediately with no refund.

29 November 2015: At first call, K40 was paid for each share. Payment for 1,100 shares (including the 800 on allotment) was not received. Additional shares were forfeited immediately with no refund.

22 December 2015: At second and final call, K35 was paid for each share (*excluding the 1,100 previously not paid for*) including premium.

30 December 2015: Forfeited shares were reoffered to Fulabweka Enterprise at K105 each who made the payment the same day. Any differences on the total amount paid per share were dealt with in the share premium account.

Required:

Prepare the following ledger accounts to show the effect of the share issue:

(a)	Application account	2¼ Marks
(b)	Allotment account	2 Marks
(c)	First Call account	2 Marks
(d)	Second and Final Call account	3¾ Marks
(e)	Forfeiture account	2½ Marks
(f)	Bank account	3½ Marks
(g)	Ordinary Share Capital account	2½ Marks
(h)	Share Premium account	1½ Marks
		(TOTAL : 20 MARKS)

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4. (a) Explain **five** characteristics of a finance lease agreement. **10 Marks**
- (b) Makwana Trading acquired a fleet of 4 identical trucks from Stamfield Motors under a finance lease arrangement that saw Makwana paying K18,450,000 at the beginning of 2010 and K18,450,000 at the beginning of each of the next three years (*with the exact amount to settle outstanding balance with the fourth payment*). The implied interest rate for the finance lease is 30%. The cash selling price of each truck was K13,000,000.

Required:

- (i) Prepare a schedule showing the finance lease instalment payments, and interest obligations that will be recorded in the books of Makwana Trading. **6 Marks**
- (ii) Show the relevant extracts of statement of financial position items for Makwana in the four years of the lease, assuming an estimated economic life for the trucks of 5 years, depreciated using the straight line method. **4 Marks**

(TOTAL : 20 MARKS)

5. (a) Mkanamwano Produce is an enterprise that grows tea and breeds cattle. As at 31 May 2016, the entity had the following assets:
- (1) 3 farm houses and a block of administration offices
 - (2) 25 bulls and 650 cows
 - (3) Tea growing in 35 hectares of land
 - (4) 100 tones of tea harvest in the warehouse
 - (5) Registered patent of Mkanamwano Tea

Required:

Identify and mention the class of assets applicable to each of the above items and explain how each must be accounted for by mentioning the relevant Accounting Standard. **10 Marks**

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- (b) Wamkulu Ltd paid K30,000,000 to acquire 3,000,000 shares in Njipiti Limited as at 1 May 2013. The summarised statements of financial position for Njipiti Ltd as at 1 May 2013 and 30 April 2016 were as follows:

	2016 K'000	2013 K'000
Non-current assets	53,000	48,000
Current Assets	<u>19,000</u>	<u>13,000</u>
	<u>72,000</u>	<u>61,000</u>
Financed by:		
Ordinary K8 Share capital	32,000	32,000
18% Preference share capital	7,000	10,000
Retained earnings	18,000	5,000
Non-current liabilities	3,000	8,000
Current liabilities	<u>12,000</u>	<u>6,000</u>
	<u>72,000</u>	<u>61,000</u>

Required:

Calculate the following:

- | | |
|---|----------------|
| (i) Wamkulu's shareholding of Njipiti in percentage terms | 2 Marks |
| (ii) Goodwill on acquisition | 2 Marks |
| (iii) Wamkulu's share of pre-acquisition reserves | 2 Marks |
| (iv) Wamkulu's share of post acquisition reserves | 2 Marks |
| (v) Non Controlling Interest as at 30 April 2016 | 2 Marks |

(TOTAL : 20 MARKS)

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