

KASNEB

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 23 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) Describe four functions of a general journal as a book of prime entry. (4 marks)
- (b) Grace Mwende prepared her end of year trial balance which did not agree. She posted the difference to a suspense account and prepared her income statement which reflected a net profit of Sh.1,451,520,000.

Upon investigation, she discovered the following errors:

- Returns outward had been overcast by Sh.16,800,000.
- A cheque for Sh.13,104,000 received from a debtor had been debited in the cash book but no other entry had been made.
- Motor vehicle repairs amounting to Sh.25,536,000 had been posted to the motor vehicle account.
- The total of discount allowed column on the debit side of the cash book amounting to Sh.6,720,000 had been posted to the credit side of discount received account.
- The total of purchases day book had been undercast by Sh.33,600,000.

Required:

- (i) Journal entries to correct the errors. (5 marks)
(Narrations not required)
- (ii) Suspense account duly balanced. (5 marks)
- (iii) Statement of corrected net profit. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Describe three qualitative characteristics of accounting information. (6 marks)
- (b) The following trial balance was extracted from the books of Motomoto Golf Club as at 31 October 2016:

	Sh. "000"	Sh. "000"
Accumulated fund (1 November 2015)		18,175
Bank balance	1,570	
Club house	21,000	
Equipment	6,809	
General expenses	580	
Golf professionals' salary	6,000	
Ground keeper's wages	7,698	
Bar purchases and sales	11,658	17,973
Wages of bar staff	2,809	
Bar inventory (1 November 2015)	1,764	
Subscriptions received		18,760
Profits from raffle tickets		4,980
	<u>59,888</u>	<u>59,888</u>

Additional information:

1. Bar inventory as at 31 October 2016 amounted to Sh.989,000.
2. As at 31 October 2016, subscriptions were as follows:
 - Prepaid Sh.180,000
 - Outstanding Sh.230,000
3. Provision for depreciation on equipment and club house amounted to Sh.760,000 and Sh.500,000 respectively.

Required:

- (i) Bar trading account for the year ended 31 October 2016. (4 marks)
- (ii) Income statement for the year ended 31 October 2016. (5 marks)
- (iii) Statement of financial position as at 31 October 2016. (5 marks)

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

Queenter and Rachel are in partnership sharing profits and losses in the ratio of 3:2 respectively.

The partnership agreement also provides the following:

- Interest shall be charged on cash drawings at 10% per annum.
- Queenter is entitled to an annual salary of Sh.1,200,000.
- Interest shall be allowed on their fixed capital at the rate of 10% per annum.

The trial balance as at 31 October 2016 is as follows:

	Sh. "000"	Sh. "000"
Sales		48,800
Capital accounts: Queenter		12,000
Rachel		9,000
Current accounts: Queenter		4,000
Rachel		3,000
Cash drawings: Queenter	2,000	
Rachel	1,000	
Returns inward	800	
Inventory (1 November 2015)	4,000	
Purchases	33,300	
Administrative expenses	4,420	
Sales and distribution costs	2,780	
Land and buildings at cost	20,000	
Motor vehicle at cost	4,000	
Equipment at cost	3,000	
Accumulated depreciation (1 November 2015):		
• Motor vehicles		1,000
• Equipment		600
Accounts receivable and accounts payable	5,000	3,000
Bank balance	<u>1,100</u>	
	<u>81,400</u>	<u>81,400</u>

Additional information:

1. Inventory as at 31 October 2016 was valued at Sh.5,000,000.
2. The accrued administrative expenses as at 31 October 2016 amounted to Sh.100,000.
3. The sales and distribution expenses prepaid as at 31 October 2016 amounted to Sh.80,000.
4. During the year, goods taken by the partners at cost were as follows:
 - Queenter Sh.1,200,000
 - Rachel Sh.800,000
 These goods were never recorded.
5. Goods worth Sh.1,500,000 were destroyed by a fire during the year. The insurance company has accepted to pay Sh.1,000,000.
6. Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Motor vehicles	25%	Straight line
Equipment	20%	Reducing balance

Required:

- (a) Income statement and appropriation for the year ended 31 October 2016. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 October 2016. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

The statements of financial position of Pamoja Ltd. as at 30 September are as follows:

	2015	2016
	Sh."000"	Sh."000"
Non-current assets:		
Property, plant and equipment (net)	38,400	52,808
Current assets:		
Inventory	15,000	13,000
Accounts receivable	25,000	6,000
Bank balance	-	4,512
Cash in hand	<u>1,000</u>	<u>1,000</u>
	<u>79,400</u>	<u>77,320</u>
Equity and liabilities:		
Ordinary shares of Sh.10 each	40,000	40,000
Share premium	8,000	8,000
General reserves	1,000	4,000
Retained earnings	4,000	5,064
10% debentures	<u>10,000</u>	<u>8,000</u>
	<u>63,000</u>	<u>65,064</u>
Current liabilities:		
Accounts payable	5,000	4,000
Corporation tax	2,400	3,456
Accrued interest on debentures	1,000	800
Proposed dividend	4,000	4,000
Bank overdraft	<u>4,000</u>	<u>-</u>
	<u>16,400</u>	<u>12,256</u>
	<u>79,400</u>	<u>77,320</u>

Additional information:

- During the year, Pamoja Ltd. purchased plant and machinery at a cost of Sh.17,208,000.
- Debentures were redeemed at par.
- During the year, an old equipment with a book value of Sh.2,000,000 was sold for cash Sh.1,900,000.

Required:

Statement of cash flow in accordance with the requirements of International Accounting Standards (IAS) 7: "Statement of Cash Flows" for the year ended 30 September 2016. (20 marks)

QUESTION FIVE

- (a) Explain five purposes of public sector accounting. (5 marks)
- (b) HF Ltd. acquired 75% of the ordinary shares of SL Ltd. on 1 September 2015. As at that date, the fair value of SL Ltd's non-current assets was Sh.23,000,000 greater than their net book value. The balance of its revenue reserves was Sh.21,000,000. SL Ltd. had not incorporated the revaluation in its books of account.

The statements of financial position as at 31 August 2016 were as follows:

	HF Ltd.	SL Ltd.
	Sh."000"	Sh."000"
Assets		
Non-current assets	63,000	28,000
Investment in SL Ltd. (at cost)	<u>51,000</u>	<u>-</u>
	114,000	28,000
Current assets	<u>82,000</u>	<u>43,000</u>
	<u>196,000</u>	<u>71,000</u>

Capital and liabilities

Ordinary shares of Sh.10 each	80,000	20,000
Revenue reserves	<u>96,000</u>	<u>41,000</u>
	176,000	61,000
Current liabilities	<u>20,000</u>	<u>10,000</u>
	<u>196,000</u>	<u>71,000</u>

If SL Ltd. had revalued its non-current assets at 1 September 2015, an addition of Sh.3,000,000 would have been made to the depreciation charged in the income statement for the financial year ended 31 August 2016.

Required:

Group consolidated statement of financial position as at 31 August 2016.

(15 marks)

(Total: 20 marks)

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