kasneb

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 29 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

The following trial balance was extracted from the books of Imani Linda as at 31 October 2017:

	Sh. "000"	Sh. "000"
Capital (1 November 2016)		30,000
Purchases and sales	55,000	96,000
Accounts receivable and accounts payable	14,000	16,000
Inventory (1 November 2016)	6,500	
Returns inward and returns outward	850	750
Furniture and fittings at cost	12,000	
Motor vehicles at cost	12,000	
Equipment at cost	12,500	
Accumulated depreciation (1 November 2016):		
Furniture and fittings		1,200
Motor vehicles		3,000
Equipment		2,500
Salaries and wages	6,800	
Rent expenses	7,370	
Sundry expense	1,600	
Discount allowed and discount received	450	950
Bad debts written off	1,000	
Motor vehicle running expenses	7,150	
Allowances for doubtful debts		800
Drawings	10,000	
Bank balance	3,980	
	151,200	151,200

Additional information as at 31 October 2017:

		Sh. "000"
1.	Closing inventory was valued at	11,000
2.	Allowance for doubtful debts to be	700
3.	Accrued salaries were	1,600

4. Depreciation be provided as follows:

Asset	**Rate per annum**	**Method**
Furniture and fittings	10%	Reducing balance
Equipment	20%	Reducing balance
Motor vehicles	25%	Straight line

Required:

(a) Income statement for the year ended 31 October 2017. (12 marks)

(b) Statement of financial position as at 31 October 2017. (8 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain four characteristics that distinguish public sector organisations from private business organisations. (8 marks)

(b) The following information has been extracted from the books of Zikudi Ltd. as at 1 November 2016:

	Sh. "000"
Land and building at cost (land Sh.5 million)	10,600
Plant and machinery at cost	5,250
Motor vehicles at cost	6,200
Accumulated depreciation:	
Building	2,600
Plant and machinery	960
Motor vehicles	2,800

Additional information:

1. A plant that had cost Sh.750,000 on 1 November 2014 was sold for Sh.550,000 on 2 November 2016.
2. A piece of land was acquired for Sh.1,100,000 during the year.
3. During the year, a motor vehicle that had cost Sh.1,200,000 and on which depreciation of Sh.400,000 had been charged was traded-in for a new vehicle costing Sh.3,000,000. Zikudi Ltd. paid the trade-in balance in cash.
4. Depreciation is provided on cost as follows:

Asset	Rate per annum
Plant and machinery	10%
Motor vehicles	25%
Building	5%

Required:

Non-current asset movement schedule for the year ended 31 October 2017. (12 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain the meaning of the following terms as per International Accounting Standard (IAS) 7 "statement of cash flows":

(i) Statement of cash flow. (2 marks)

(ii) Cash equivalents. (2 marks)

(iii) Operating activities. (2 marks)

(iv) Investing activities. (2 marks)

(v) Financing activities. (2 marks)

(b) At the end of the financial year, the trial balance of Segana Enterprises failed to agree and the difference was entered in a suspense account. Subsequently, the following errors were discovered:

1. The sales day book had been undercast by Sh.200,000.
2. A customer's personal account had been correctly credited with Sh.25,000 discount, but no corresponding entry was made in the discount column of the cash book.
3. Discount allowed amounting to Sh.12,000 was credited instead of being debited to the discount allowed account.
4. A debit balance on the account of North African Handlers, a customer, was undercast by Sh.100,000.
5. A credit balance of Sh.250,000 on a customer's account had been omitted when extracting the balances.

Required:

Journal entries to correct the above errors. (Narrations not required) (10 marks)

(Total: 20 marks)

QUESTION FOUR

Sagana Ltd. is a manufacturing company with its factory and offices at the same site. The following balances were extracted from the books for the year ended 30 September 2017:

	Sh. "000"
Sales	179,000
Purchases	60,000
Telephone expenses	2,000
Electricity	3,000
Manufacturing overheads	2,300
Depreciation on equipment	10,000
Direct labour	70,000
Rates	5,000

	Sh. "000"
Selling expenses	1,150
Administrative expenses	2,550
Depreciation on building	2,000

Overhead costs are to be apportioned as follows:

	Manufacturing	Administration	Selling
Telephone	-	40%	60%
Rates	50%	30%	20%
Electricity	40%	35%	25%
Depreciation on building	50%	30%	20%
Depreciation on equipment	80%	5%	15%

Inventories:	**Opening Sh. "000"**	**Closing Sh. "000"**
Raw materials	5,000	3,000
Work-in-progress	4,000	3,000
Finished goods	16,000	18,000

Required:

(a) Manufacturing account for the year ended 30 September 2017. (10 marks)

(b) Income statement for the year ended 30 September 2017. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Justify why shareholders need to read and understand published accounts of companies in which they own shares. (3 marks)

(b) The following are statements of financial position of HT Ltd. and ST Ltd. as at 31 October 2017:

Assets:	**HT Ltd.**	**ST Ltd.**
Non-current assets:	**Sh. "000"**	**Sh. "000"**
Tangible assets	150,000	106,000
Investments:		
3,000,000 shares of Sh.20 each in ST Ltd.	100,000	
12% debentures in ST Ltd.	20,000	
	270,000	106,000
Current assets:		
Inventory	30,000	25,000
Trade receivables	40,000	40,000
Cash at bank	16,000	8,000
	86,000	73,000
Total assets	356,000	179,000
Equity and liabilities:		
Capital and reserves:		
Ordinary shares of Sh.20 each	230,000	80,000
Revenue reserves	89,500	50,000
	319,500	130,000
Non-current liabilities:		
12% debentures		24,000
Current liabilities:		
Trade payables	36,500	25,000
Total equity and liabilities	356,000	179,000

Additional information:

1. HT Ltd. acquired its investment in ST Ltd. on 1 August 2017 when the revenue reserves of ST Ltd. were Sh.44,000,000.
2. HT Ltd. bought ordinary shares with a par value of Sh.60,000,000 for Sh.100,000,000.
3. As at 31 October 2017, trade receivables of HT Ltd. include Sh.20,000,000 receivable from ST Ltd. The trade payables in ST Ltd. included Sh.13,000,000 payable to HT Ltd.
4. It is the policy of HT Ltd. to value non-controlling interest (NCI) at fair value on the acquisition date. The fair value of the non-controlling interest of 25% was estimated to be Sh.36,000,000 at the acquisition date.

Required:

Group consolidated statement of financial position as at 31 October 2017. (17 marks)

(Total: 20 marks)

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