kasneb

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 25 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) Highlight four types of external accounting information users and their respective information needs. (8 marks)

(b) Summarise four features of public sector entities that distinguish them from commercial sector entities. (4 marks)

(c) Explain the meaning of the following terms as used in issuance of shares by a company:

(i) Called up share capital. (2 marks)

(ii) Rights issue of shares. (2 marks)

(iii) Dividends. (2 marks)

(iv) Share premium. (2 marks)

(Total: 20 marks)

QUESTION TWO

Dan Ruka is a sole trader. His accountant is in the process of preparing final accounts for the year ended 30 April 2020. Unfortunately, the financial records of the business were lost due to a computer virus. Although the accountant managed to reconstruct some elements of the financial statements from manual data, there is need for more adjustments.

The following balances were obtained from the statement of financial position of Dan Ruka as at 1 May 2019:

	Sh."000"
Non-current assets	4,800
Inventories	734
Trade receivables	490
Bank balance	408
10% bank loan	1,000
Trade payables	856
Electricity accrued	120
Rent prepaid	144

Bank reconciliation of the cashbook with the bank statement for the year ended 30 April 2020 revealed the following transactions:

	Sh."000"
Cash collected from credit customers	8,560
Cash payments for salaries	2,400
Electricity paid	320
Rent paid	960
Cash paid to suppliers	3,820
Loan interest paid	50

After discussions with Dan Ruka, the accountant obtained the following further information:

1. As at 30 April 2020, the list of trade receivables showed a balance of Sh.513,000 while trade receivables amounting to Sh.72,000 was written off as irrecoverable.
2. The stock take carried out on 30 April 2020 resulted in the valuation of inventory at Sh.648,000.
3. The list of the trade payables showed a balance of Sh.586,000 at 30 April 2020.

4. As at 30 April 2020, the electricity bill outstanding amounted to Sh.84,000, while prepaid rent amounted to Sh.225,000.
5. During the year ended 30 April 2020, Dan took goods worth Sh.140,000 for personal use.
6. Dan provides for depreciation on his non-current assets at the rate of 15% per annum on reducing balance basis.

Required:

(a) Statement of profit or loss for the year ended 30 April 2020. (10 marks)

(b) Statement of financial position as at 30 April 2020. (10 marks)

(Total: 20 marks)

QUESTION THREE

Leo and Kesho are in partnership sharing profits and losses in the ratio of 2:3 respectively.

The following is their trial balance as at 31 December 2019:

		Sh."000"	Sh. "000"
Capital:	Leo		250,000
	Kesho		200,000
Current account:	Leo	25,000	
	Kesho		50,000
Cash drawings:	Leo	40,000	
	Kesho	60,000	
Land		180,000	
Building (Cost Sh.400,000,000)		300,000	
Furniture and fittings: At cost		36,000	
Accumulated depreciation (1 January 2019)			14,400
Accounts receivable and accounts payable		48,000	16,600
Cash at bank		5,200	
Inventory (1 January 2019)		86,000	
Purchases and sales		382,800	620,800
Carriage outwards		4,200	
Discounts allowed		800	
12% bank loan			100,000
Discounts received			1,400
Loan interest		12,000	
Office expenses		6,200	
Salaries and wages		65,400	
Bad debts written off		3,600	
Allowance for doubtful debts (1 January 2019)			2,000
		1,255,200	1,255,200

Additional information:

1. Inventory on 31 December 2019 was valued at Sh.92,000,000.
2. Wages and salaries outstanding as at 31 December 2019 amounted to Sh.1,600,000.
3. Depreciation per annum is to be provided as follows:

Asset	**Rate**	**Method**
Building	5%	Straight line method
Furniture and fittings	10%	Reducing balance method

4. Allowance for doubtful debts is to be adjusted to 5% of the accounts receivable.
5. The partnership agreement provided as follows:
   - To provide interest on capital at 10% per annum.
   - Leo to receive a salary of Sh.12,000,000 per annum.
   - Cash drawings to be charged interest at 10% in the year of drawing.
6. Kesho had taken goods worth Sh.2,800,000 for personal use during the year.

Required:

(a) Statement of profit or loss for the year ended 31 December 2019. (10 marks)

(b) Partners' current accounts. (4 marks)

(c) Statement of financial position as at 31 December 2019. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) With reference to International Accounting Standard (IAS) 7 (Statement of Cash Flows), distinguish between the "direct" and "indirect" methods of presentation of a statement of cash flows. (4 marks)

(b) The following is the summary of financial statements of Fupi Ltd. for the year ended 31 March 2020:

Statement of financial position as at 31 March 2020:

	Sh."000"	Sh."000"
Non-current assets:		
Freehold property (net book value)		1,440
Plant and machinery (net book value)		2,400
Motor vehicle (net book value)		600
Furniture and fittings (net book value)		600
		5,040
Current assets:		
Inventory	3,000	
Receivables	1,200	
Investments	360	4,560
		9,600
Capital and liabilities:		
Ordinary share capital of Sh.5 each		1,200
Capital reserves		600
Revenue reserves		2,400
		4,200
Non-Current liabilities:		
10% debentures		1,200
Current liabilities:		
Trade payables	715.2	
Bank overdraft	2,635.2	
Corporation tax	528	
Dividends payable	321.6	4,200
		9,600

Income statement for the year ended 31 March 2020:

	Sh."000"	Sh."000"
Sales (All on credit)		12,000
Opening inventory	5,520	
Purchases	6,480	
Closing inventory	(3,000)	9,000
Gross profit		3,000
Administrative expenses	1,080	
Distribution expenses	600	1,680
Profit before interest and tax (EBIT)		1,320
Less: Finance costs (debenture interest)		120
Profit before tax		1,200
Less: Corporation tax		528
Profit after tax		672
Proposed dividends		(321.6)
		350.4

Note:

1. Assume a 360-day year.
2. The company shares are trading at a market price of Sh.20 per share.

Required:

(i) Return on capital employed. (2 marks)

(ii) Gross profit margin. (2 marks)

(iii) Turnover on capital employed. (2 marks)

(iv) Acid test ratio. (2 marks)

(v) Average collection period. (2 marks)

(vi) Stock turnover ratio. (2 marks)

(vii) Dividend yield ratio. (2 marks)

(viii) Price earnings ratio. (2 marks)
(Total: 20 marks)

QUESTION FIVE

(a) Discuss two items that may cause differences between the cash book and bank statement during reconciliation. (4 marks)

(b) All accounting transactions are initially recorded in a daily book referred to as a book of original entry which summarises transactions each time they occur.

Required:
Highlight six books of original entry and the type of transactions they record. (6 marks)

(c) The following information relates to Pamoja Sports Club for the year ended 31 March 2020:

Assets and liabilities:	**1 April 2019**	**31 March 2020**
	Sh. "000"	**Sh. "000"**
Subscriptions in arrears	448	480
Subscriptions paid in advance	336	384
Inventory of stationery	288	216
Motor vehicle expenses owing	144	160
Sports equipment (book value)	1,720	2,400
Motor vehicles (book value)	3,000	2,720

Receipts and payments

	Sh. "000"		**Sh. "000"**
Balance brought forward	1,520	Stationery	480
Registration	560	Motor vehicle expenses	700
Subscriptions	1,740	Purchase of equipment	1,000
Sale of raffle tickets	360	Competition prize	180
Donations	520	Wages	720
		Rent	448
		Balance carried forward	1,172
	4,700		4,700

Required:

(i) Subscription account. (2 marks)

(ii) Income and expenditure account for the year ended 31 December 2019. (8 marks)
(Total: 20 marks)

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CS PART I SECTION 2

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PRINCIPLES OF ACCOUNTING

THURSDAY: 28 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) Describe four advantages of using the imprest system of accounting. (8 marks)

(b) The bank statement of Mubango Traders showed a balance of Sh.264,300 while the bank column of the cash book showed a balance of Sh.247,500 as at 30 September 2019.

Upon re-evaluation of the records, the following was discovered:

1. A cheque of Sh.74,000 drawn by Mubango Traders had been posted as Sh.47,000 in the cash book.
2. A standing order of Sh.25,000 had been paid by the bank but was not posted in the cash book.
3. Bank charges amounting to Sh.12,500 had not been posted in the cash book.
4. A cheque of Sh.18,500 banked on 28 September 2019 was dishonoured but the advice on dishonour was received on 3 October 2019.
5. Instructions to transfer Sh.150,000 from the savings account to the current account was not effected in the cash book.
6. Cheques drawn by Mubango Traders amounting to Sh.114,400 had not been presented to the bank.
7. Cheques and cash amounting to Sh.155,600 banked on 30 September 2019 had not been credited by the bank.
8. A cheque payment to suppliers amounting to Sh.69,000 was posted as Sh.60,000 in the cash book.

Required:

(i) Adjusted cash book as at 30 September 2019. (8 marks)

(ii) Bank reconciliation statement as at 30 September 2019. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain four fundamental principles of professional ethics. (4 marks)

(b) Daighton Ltd. is a large manufacturing firm with a wide range of products. It offers distribution of products to customers with its large fleet of distribution vehicles.

The following information relating to property, plant and equipment was extracted from the financial records of the company as at 1 November 2018:

	Cost Sh."000"	Accumulated depreciation Sh."000"
Land	22,500	-
Building	45,000	12,600
Plant and equipment	16,000	7,400
Furniture, fixtures and fittings	8,250	3,300
Motor vehicles	30,000	12,000

Additional information:

1. The property, plant and equipment were being depreciated as follows:

Asset	Rate per annum	Basis
Building	2%	Straight line
Plant and equipment	12.5%	Reducing balance
Furniture, fixtures and fittings	10%	Straight line
Motor vehicles	20%	Straight line

2. On 1 November 2018, the company revalued its property to its fair value of Sh.60 million (Land: Sh.24 million). However, the remaining economic useful life of the building remained as per the original estimate.
3. During the year ended 31 October 2019, some motor vehicles which had cost Sh.10 million and had an accumulated depreciation of Sh.5 million were disposed of for Sh.6.7 million cash.
4. On 1 May 2019, new items of plant and equipment were acquired at a cost of Sh.2.4 million. On the same date, old items of furniture and fixtures which had originally cost Sh.2.25 million and had an accumulated depreciation of Sh.0.9 million were traded-in for a new item of furniture and fixtures with a total cost of Sh.3 million. The company paid an additional Sh.1.8 million in cash to finance the trade-in agreement.
5. New fleet of distribution vehicles were acquired on 1 August 2019 at a cost of Sh.4 million.
6. Depreciation is charged on pro rata basis but it is not provided in the year of asset disposal.

Required:

(i) Property, plant and equipment movement schedule for Daighton Ltd. for the year ended 31 October 2019. (12 marks)

(ii) Assets disposal account as at 31 October 2019. (4 marks)

(Total: 20 marks)

QUESTION THREE

The following draft financial statements were extracted from the records of Leshaq Ltd. for the year ended 30 September 2019:

Statement of financial position as at 30 September:

	2019 Sh."000"	2018 Sh."000"
Non-current assets:		
Land and building (cost)	4,180	2,775
Less accumulated depreciation	(700)	(450)
Plant and equipment (cost)	1,060	975
Less accumulated depreciation	(250)	(150)
	4,290	3,150
Current assets:		
Inventory	490	525
Trade receivables	510	430
Cash and bank balances	495	340
	1,495	1,295
Total assets	5,785	4,445
Equity and liabilities:		
Ordinary share capital	1,000	600
Share premium	530	400
Revaluation reserve	1,060	60
Retained profits	1,415	1,130
Total equity	4,005	2,190
Non-Current liabilities:		
Bank loan	1,000	1,500
Current liabilities:		
Trade payables	385	395
Accrued interest	15	25
Tax payable	380	335
	780	755
Total equity and liabilities	5,785	4,445

Income statement for the year ended 30 September 2019:

	Sh."000"
Sales	5,500
Cost of sales	(3,390)
Gross profit	2,110
Operating expenses	(1,545)
Operating profit	565
Investment income	360
Finance costs	(110)
Profit before tax	815
Income tax expense	(355)
Profit for the year	460

Additional information:

1. Operating expenses include loss on disposal of plant and depreciation for the year.
2. During the year ended 30 September 2019, an item of plant was disposed of for Sh.300,000. The plant originally cost Sh.400,000 and had an accumulated depreciation to the date of disposal of Sh.75,000.
3. On 30 September 2019, the company revalued its land and building.

Required:

(a) Statement of cash flows for the year ended 30 September 2019 in accordance with International Accounting Standards (IAS) 7 "Statement of Cash Flows". (16 marks)

(b) For the years ended 30 September 2018 and 2019, calculate the following liquidity ratios:

(i) Current ratio. (2 marks)

(ii) Quick ratio (acid test ratio). (2 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The objective of International Public Sector Accounting Standard (IPSAS) 31: "Intangible Assets" is to prescribe the accounting treatment for intangible assets in the financial statements of a public sector entity.

Required:

With reference to IPSAS 31, explain the recognition criteria for intangible assets. (4 marks)

(b) Summarise six sources of income for not-for-profit making organisations (6 marks)

(c) Ali, Bakari and Charo are in partnership sharing profit and losses as follows:

- Upto Sh.10 million, in the ratio of 4:3:3 respectively.
- Above Sh.10 million they share equally.

The agreement also provides the following:

1. Ali is entitled to an annual salary of Sh.5 million.
2. Bakari and Charo are entitled to a commission of 10% each on net profit.
3. Interest shall be charged on cash drawings at the rate of 5% per annum.
4. Interest shall be allowed on fixed capital at rate of 10% per annum.

Their trial balance after income statement on 31 March 2018:

		Sh."000"	Sh."000"
Capital accounts:	Ali		50,000
	Bakari		40,000
	Charo		20,000
Current accounts:	Ali		3,000
	Bakari		3,000
	Charo		2,000
Cash drawings:	Ali	8,000	
	Bakari	2,500	
	Charo	1,500	
Property, plant and equipment (cost)		100,000	
Accumulated depreciation (31 March 2019)			4,000
Inventory (31 March 2019)		20,000	
Accounts receivables and accounts payable		26,200	4,000
Net profit for the year			40,200
Bank balance		8,000	
		166,200	166,200

Additional information:
Cash drawings by Ali include his annual salary of Sh.5 million.

Required:
Appropriation account for the year ended 31 March 2019. (10 marks)
(Total: 20 marks)

QUESTION FIVE

The following balances were extracted from the books of Fine Ltd. as at 30 September 2019:

	Sh.
Equipment at cost	4,805,000
Motor vehicles at cost	3,900,000
Bank	1,006,430
Cash	73,500
Sales	6,404,900
Purchases	1,400,000
Returns inwards	139,640
Carriage outward	37,000
Salaries and wages	640,000
Rent, rates and insurance	303,000
Discounts allowed	146,400
Directors remuneration	320,000
Accumulated depreciation (1October 2018):	
Equipment	102,000
Motor vehicles	1,278,000
Share capital	7,000,000
Inventories (1 October 2018)	4,100,000
Trade receivables	3,617,800
Trade payables	1,554,270
10% debentures	2,000,000
Fixed asset replacement reserve	1,000,000
General reserves	500,000
Revenue reserves	749,600

Additional information:
1. The share capital consists of 500,000 ordinary shares of Sh.10 each and 200,000 10% preference shares of Sh.10 each.
2. Rent of Sh.60,000 was outstanding as at 30 September 2019.
3. Directors remuneration amounting to Sh.205,000 were accrued as at 30 September 2019.
4. The dividend on the preference shares was proposed to be paid as well as a dividend of 20% on the ordinary shares.
5. Debenture interest for the last half of the year was owing as at 30 September 2019.
6. Inventories as at the year end were valued at Sh.4,603,100.
7. The directors have recommend the transfer of Sh.300,000 to the general reserves and Sh.120,000 to the fixed assets replacement reserve.
8. Depreciation is to be charged on cost as follows:

Asset	Rate per annum
Equipment	10%
Motor vehicles	20%

9. Corporation tax is to be ignored:

Required:
(a) Income statement for the year ended 30 September 2019. (12 marks)

(b) Statement of financial position as at 30 September 2019. (8 marks)
(Total: 20 marks)

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CS PART I SECTION 2

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PRINCIPLES OF ACCOUNTING

WEDNESDAY: 22 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

(a) Explain four distinctions between "receipts and payments account" and "income and expenditure account". (8 marks)

(b) Describe four objectives of the Institute of Certified Public Accountants of Kenya (ICPAK) as a regulatory body of the accounting profession. (8 marks)

(c) Justify the use of a petty cash book in business transactions. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the following terms as used in the context of company accounts:

(i) Rights issue. (2 marks)

(ii) Bonus issue. (2 marks)

(b) The following trial balance was extracted from the books of Samaki Ltd. as at 31 March 2019:

	Sh."000"	Sh."000"
Issued share capital (Sh.20 each)		400,000
8% preference shares (Sh.20 each)		200,000
Inventory (1 April 2018)	120,000	
Accounts receivable and accounts payable	230,000	110,000
Bank balance		80,500
General reserves		140,400
Bad debts written off	4,500	
Purchases and sales	1,000,000	1,947,800
Wages and salaries	240,000	
Rates and insurance	12,400	
Postage and telephone	8,800	
Electricity expenses	5,200	
12% debentures		120,000
Directors remuneration	45,000	
General expenses	7,200	
Motor vehicles at cost	230,000	
Freehold land	850,000	
Equipment and furniture at cost	440,000	
Debenture interest paid	7,200	
Revenue reserves		42,400
Accumulated depreciation (1 April 2018):		
Motor vehicles		92,000
Equipment and furniture		132,000
Cash account (current account in bank)	64,800	
	3,265,100	3,265,100

Additional information:
1. Freehold land was revalued to Sh.1,000,000,000 on 1 April 2018.
2. Inventory as at 31 March 2019 was valued at Sh.142,000,000
3. The directors proposed a payment of dividend of Sh.2 per ordinary share in addition to preference dividends.
4. Outstanding debenture interest is to be provided for.
5. Corporation tax of Sh.120,000,000 is to be provided for.
6. Depreciation is provided on straight line basis as follows:

Asset	**Rate per annum**
Motor vehicles	20% on cost
Equipment and furniture	15% on cost

Required:

(i) Income statement for the year ended 31 March 2019. (8 marks)

(ii) Statement of financial position as at 31 March 2019. (8 marks)

(Total: 20 marks)

QUESTION THREE

(a) The following receivables control account has been prepared by an inexperienced bookkeeper for the period ended 31 March 2019:

Receivables control account

	Sh.“000”		**Sh.“000”**
Allowance for receivables	6,100	Balance brought forward - 1 April 2018	25,100(debit)
Sales: Cash	15,750	Contra with payables	700
Credit	52,100	Discounts received	150
Sales returns	1,200		
Discounts allowed	170		
Total cash receipts (Cash sales and receipts from credit customers)	68,000	Balance carried down - 31 March 2019	4,500 (credit)

Required:

Corrected receivable control account for the year ended 31 March 2019. (8 marks)

(b) The following bank reconciliation statement has been prepared by a trainee bookkeeper for the period ended 31 December 2018:

	Sh. “000”
Balance as per bank statement (overdrawn)	41,250
Less: Cheques written but not presented to the bank for payment	(17,120)
Lodgements not credited	(3,310)
Add: Banking error (the bank credited account in error with monies which belong to another customer)	1,110
Balance as per cash book	21,930

Required:

Corrected bank reconciliation statement. (6 marks)

(c) On 1 January 2017, Lakes Golf Course offered a life membership subscription for Sh.15,000 per member to cover membership of the golf club for 10 years starting from January 2017. Fifty members of the club took up the offer and paid in full during the year 2017.

Required:

Journal entries to record the life membership transactions during the years 2017 and 2018. (6 marks)

(Total: 20 marks)

QUESTION FOUR

Jim Brothers, a manufacturing company, provided the following balances from its books as at 30 April 2019:

	Sh."000"
Inventories (1 May 2018):	
Raw materials	7,450
Work-in-progress	5,380
Finished goods (transfer price)	12,098
Purchase of raw materials	128,740
Purchases returns	310
Direct expenses	3,280
Returns inwards	1,215
Carriage inwards	1,055
Rates	5,250
Light, heat and power	3,270
Direct wages	187,240
Indirect wages	14,320
Telephone	890
Factory repairs	2,220
Insurance	1,420
Factory salaries	62,075
Office salaries	24,000
Sales salaries	27,435
Plant and machinery at cost	160,000
Provision for depreciation (plant and machinery)	64,000
Bad debts written off	325
Sales	721,560
Furniture and equipment (cost):	
Factory	42,000
Office	48,000
Provision for depreciation (furniture and equipment):	
Factory	8,400
Office	9,600

Additional information:

1. Closing inventories as at 30 April 2019 were as follows:

	Sh."000"
Raw materials	6,325
Work-in-progress (factory cost)	6,200
Finished goods (transfer price)	15,226

2. Prepayments as at 30 April 2019:

	Sh."000"
Rates	450
Insurance	220

3. Accruals as at 30 April 2019:

	Sh."000"
Direct wages	1,220
Telephone	70
Light, heat and power	210

4. Depreciation is to be provided as follows:

Asset	**Rate per annum**
Plant and machinery	20% on cost
Furniture and equipment	10% on reducing balance

5. Expenses are to be apportioned to the factory as follows:

Rates	$^4/_5$
Insurance	$^3/_4$
Telephone	$^2/_3$
Light, heat and power	$^3/_4$

6. It is the policy of the company to transfer goods manufactured to the warehouse at a mark-up of 15%.

Required:

(a) Manufacturing account for the year ended 30 April 2019. (8 marks)

(b) Income statement for the year ended 30 April 2019. (12 marks)

(Total: 20 marks)

QUESTION FIVE

The following is Paul Mwangi's summary of statements of financial position as at 31 March:

	2018 Sh."000"	2019 Sh."000"
Non-current assets:		
Equipment (net book value)	320	450
Furniture (net book value)	480	515
	800	965
Current assets:		
Inventory	110	140
Accounts receivable	190	160
Bank balances	-	85
Cash in hand	50	50
Total assets	1,150	1,400
Equity and liabilities:		
Capital	800	900
Net profit	300	600
Drawings	(200)	(300)
Owner's equity	900	1,200
10% loan	100	80
Current liabilities:		
Accounts payables	85	120
Bank overdraft	65	-
	1,150	1,400

Additional information:

1. On 1 April 2018:
   - An item of equipment was sold for cash Sh.12,000.
     It had been bought at a cost of Sh.25,000.
     It had accumulated depreciation of Sh.15,000.
   - Furniture was sold for cash Sh.17,000.
     It had been purchased at a cost of Sh.100,000.
     It had accumulated depreciation of Sh.80,000.
2. 10% loan was repaid on 30 September 2018.
3. Depreciation charged to the income statement for the year ended 31 March 2019 was:

	Sh."000"
• Equipment	90
• Furniture	100

Required:

Statement of cash flows for the year ended 31 March 2019 as per the International Accounting Standard (IAS) 7 (Statement of Cash Flows). **(20 marks)**

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CS PART I SECTION 2

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PRINCIPLES OF ACCOUNTING

WEDNESDAY: 28 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) Explain two fundamental accounting concepts. (4 marks)

(b) Describe the following terms as used in accounting:

(i) Depreciation. (2 marks)

(ii) Depreciable amount. (2 marks)

(iii) Useful life. (2 marks)

(c) The trial balance of ABC Ltd., which was prepared on 31 October 2018, did not agree and the difference was posted in the suspense account. Upon further scrutiny, the following errors were detected:

1. Prepaid insurance of Sh.22,000 had been included in the income statement.
2. Goods destroyed by fire amounting to Sh.1,200,000 were written off in the income statement. The insurance company, however, had agreed to compensate ABC Ltd. for the loss.
3. A cheque for Sh.400,000 for rent received was not entered in the cash book.
4. Closing inventory was overvalued by Sh.150,000 while the opening inventory was understated by Sh.320,000.
5. A bank loan of Sh.1,000,000 was entered correctly in the cashbook but was not posted to the ledger.
6. Discount allowed of Sh.50,000 was entered in the discounts received account.

Required:

(i) Journal entries to correct the above errors. (6 marks)

(ii) Suspense account clearly indicating the opening balance. (4 marks)
(Total: 20 marks)

QUESTION TWO

(a) Highlight four components of a computerised accounting system. (4 marks)

(b) The following information was extracted from the books of Kanini Traders for the month of September 2018:

Balances as at 1 September 2018:

		Sh. "000"
Sales ledger:	Debit	350,000
	Credit	20,000
Purchases Ledger:	Debit	15,000
	Credit	420,000

Transactions during the month of September 2018:

		Sh. "000"
Sales:	Cash	520,000
	Credit	6,880,000
Purchases:	Cash	2,240,000
	Credit	6,250,000
Returns inwards		180,000
Returns outwards		120,000
Cash refunds from credit suppliers		20,000
Dishonoured cheque (received from debtor)		85,000
Total receipts from credit customers		5,100,000
Total payments to credit suppliers		4,820,000
Discount allowed to credit customers		250,000
Discount received from credit suppliers		280,000
Refunds to cash customers		60,000
Contra settlement		320,000
Bad debts written off		35,000
Interest on overdue debts		25,000
Bad debts previously written off recovered		40,000
Goods taken for personal use by the owner		15,000

Required:

(i) Sales ledger control account as at 30 September 2018. (8 marks)

(ii) Purchases ledger control account as at 30 September 2018. (8 marks)

(Total: 20 marks)

QUESTION THREE

Hassan, Kamau and Otieno operate as partners where the terms of agreement are as follows:

- Hassan to receive a salary of Sh.300,000 per month.
- Interest to be charged on drawings at the rate of 4% per annum.
- Interest to be paid on capital at the rate of 5% per annum.
- Hassan, Kamau and Otieno to share profits and losses in the ratio of 3:2:1 respectively.

The trial balance of the partners as at 31 October 2018 was as follows:

	Sh."000"	Sh."000"
Land and buildings (cost)	58,000	
Furniture	21,000	
Motor vehicles	15,000	
Accumulated depreciation as at 1 November 2017:		
Buildings		3,000
Furniture		4,800
Motor vehicles		7,200
Purchases	124,500	
Allowance for doubtful debts (1 November 2017)		800
Current accounts: Hassan	1,310	
Kamau		900
Otieno		800
Salaries	12,700	
Rent	1,000	
Loan from Otieno		5,000
Advertising	1,860	
Sundry expenses	2,820	
Sales		182,225
Administrative expenses	12,700	
Inventory (1 November 2017)	19,800	
Trade receivables and trade payables	26,390	12,140
Bank overdraft		215
Capital accounts: Hassan		30,000
Kamau		30,000
Otieno		20,000
	297,080	297,080

Additional information:

1. Premises have been rented from Kamau at Sh.100,000 per month.
2. The cost of goods remaining unsold as at 31 October 2018 were valued at Sh.24,800,000. However, Sh.3,000,000 of these goods were damaged and could only be sold for Sh.2,100,000 after repairs costing Sh.500,000.
3. Salaries include amounts paid to the partners as follows:
   - Sh.3,000,000 paid to Hassan.
   - Sh.1,500,000 drawings by Kamau on 1 February 2018.
   - Sh.1,000,000 drawings by Otieno on 1 August 2018.
4. The loan of Sh.5,000,000 was obtained several years back and carries no interest.
5. Trade receivables of Sh.390,000 was to be written off as bad debts while an amount estimated at 4% of the remaining receivables was considered doubtful.
6. The cost of land is estimated at Sh.20,000,000. Buildings, furniture and motor vehicles were to be depreciated at the rate of 2%, 10% and 20% per annum respectively on cost.

Required:

(a) Income statement for the year ended 31 October 2018. (10 marks)

(b) Partners' current accounts as at 31 October 2018. (4 marks)

(c) Statement of financial position as at 31 October 2018. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Describe three sources of income for not-for-profit organisations. (6 marks)

(b) The following are the financial statements of MG Ltd.

1. **Statement of financial position as at 30 September:**

	2018 Sh."million"	2017 Sh."million"
Assets:		
Non-current assets	450	520
Current assets:		
Inventory	65	50
Receivables	80	30
Cash and bank balances	30	15
Total assets	625	615
Capital and liabilities:		
Capital:		
Share capital	400	400
Revenue reserves	95	60
	495	460
Proposed dividends	50	35
Non-current liability:		
Term loan	20	100
Current liabilities:		
Payables	60	20
Total capital and liabilities	625	615

2. **Income statement for the year ended 30 September 2018:**

	Sh."million"	Sh."million"
Sales		600
Cost of sales		(410)
Gross profit		190
Profit on disposal of non-current asset		10
		200

	Sh."million"	Sh."million"
Operating expenses	70	
Depreciation on non-current assets	30	
Interest expenses	15	(115)
Profit for the year		85

Additional information:

1. The directors of MG Ltd. proposed a final dividend of Sh.50 million for the year ended 30 September 2018.
2. During the year to 30 September 2018, MG Ltd. purchased non-current assets worth Sh.40 million.

Required:

Statement of cash flows for the year ended 30 September 2018 as per International Accounting Standard (IAS) 7 (Statement of Cash Flows). (14 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain the following terms with reference to manufacturing entities:

(i) Provision for unrealised profit. (2 marks)

(ii) Prime cost. (2 marks)

(b) Moonlight Ltd. deals in the distribution of electrical equipment.

The following is the company's trial balance as at 31 October 2018:

	Sh."000"	Sh."000"
Land and building (Net book value)	50,000	
Plant and machinery (Net book value)	16,000	
Motor vehicle (Net book value)	4,000	
Inventory	12,000	
Accounts receivable and accounts payable	40,000	38,000
Cash at bank	8,200	
Capital redemption reserve fund		12,000
Share premium		8,000
Retained profit (1 November 2017)		6,000
Debenture interest paid	800	
Preference dividend paid	900	
Gross profit		50,000
Other operating income		8,000
Administrative expenses	26,000	
Distribution costs	12,000	
General operating expenses	3,100	
Interim ordinary dividend paid	4,000	
Corporation tax (1 November 2017)		1,000
Ordinary share capital (Sh.50 par value)		20,000
10% Preference share capital (Sh.100 par value)		18,000
10% Debentures		16,000
	177,000	177,000

Additional information:

1. The corporation tax for the year is estimated at Sh.5 million.
2. The directors have proposed a final dividend of 20% on par value per ordinary share.
3. A building whose net book value was Sh.10 million as at 31 October 2018 was to be revalued to Sh.18 million.

Required:

(i) Income statement for the year ended 31 October 2018. (6 marks)

(ii) Statement of changes in equity as at 31 October 2018. (4 marks)

(iii) Statement of financial position as at 31 October 2018. (6 marks)

(Total: 20 marks)

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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 23 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) Explain the following concepts:

(i) Going concern concept. (2 marks)

(ii) Consistency concept. (2 marks)

(iii) Materiality concept. (2 marks)

(b) Describe the following types of errors:

(i) Error of omission. (2 marks)

(ii) Error of commission. (2 marks)

(iii) Error of principle. (2 marks)

(c) Explain four reasons why consolidated financial statements are useful to the users of financial statements as opposed to just the parent company's separate financial statements. (8 marks)

(Total: 20 marks)

QUESTION TWO

The following trial balance was extracted from the books of Jacob Barasa, a sole proprietor, as at 31 March 2018:

	Sh. "000"	Sh. "000"
Bank balance	32,728	
Inventory (1 April 2017)	32,193	
Trade receivables and trade payables	20,911	13,006
Drawings	18,000	
Allowance for doubtful debts (1 April 2017)		876
Bad debts written off	693	
Wages	26,649	
General expenses	7,263	
Rent and rates	3,000	
Purchases and sales	164,770	234,481
Capital account		193,894
Freehold land and buildings at cost	114,000	
Motor vehicles at cost	37,500	
Accumulated depreciation on motor vehicles (1 April 2017)		15,450
	457,707	457,707

Additional information:

1. Rent and rates amounting to Sh.300,000 were prepaid as at 31 March 2018.
2. During the year, Barasa took goods costing Sh.1,250,000 for his own use. No entry has been made in the books in respect of this.

3. The allowance for doubtful debts is to be increased by Sh.104,000.
4. The wages outstanding as at 31 March 2018 amounted to Sh.271,000.
5. Inventory as at 31 March 2018 was valued at Sh.34,671,000.
6. During the year, a vehicle which had cost Sh.2,500,000 and had a written-down value of Sh.1,000,000 was sold for Sh.1,500,000. No entry had been made in the books to record this, other than to credit the sales proceeds to the motor vehicles account.
7. The depreciation on motor vehicles for the year amounted to Sh.7,000,000.

Required:

(a) Income statement for the year ended 31 March 2018. (12 marks)

(b) Statement of financial position as at 31 March 2018. (8 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain two reasons why it is necessary to prepare a bank reconciliation statement. (4 marks)

(b) On 2 May 2018, Mapato Ltd. received their monthly bank statement which showed an overdraft of Sh.212,900. This amount did not agree with the credit balance of Sh.607,600 shown in the bank column of the cash book.

Upon investigation, the following was revealed:

1. The bank statement recorded that a cheque for Sh.18,500 paid into the bank had been subsequently dishonoured. The company was unaware of this.
2. The bank statement revealed a credit transfer received of Sh.29,100. After inquiries, it was discovered that this related to another company.
3. Bank charges for the month of April 2018 amounting to Sh.4,800 had been omitted from the cash book.
4. A page in the cash book of debit entries had been undercast by Sh.60,000 and the incorrect total carried forward to the next page.
5. A hire purchase agreement for equipment had been entered into by the company that required Sh.12,000 to be paid every month for two years. The first payment was due on 20 February 2018. These amounts were correctly entered by the company, but the bank had inadvertently debited another company.
6. A dividend cheque received for Sh.34,000 had been entered twice in the cash book.
7. The company's agent had deposited a cheque of Sh.155,000 into Mapato Ltd.'s bank account, but this was not indicated on the bank statement.
8. A standing order of Sh.11,000 had been duly paid by the bank, but there was no record in the cash book.
9. Cheques totalling Sh.492,000 had been delivered to suppliers on 30 April 2018 but none of these had been presented to the bank.
10. A cheque for Sh.15,400 had been received from a customer on 25 April 2018 but had been entered in the cash book as Sh.14,500.

Required:

(i) An updated cash book as at 30 April 2018. (10 marks)

(ii) Bank reconciliation statement as at 30 April 2018. (6 marks)

(Total: 20 marks)

QUESTION FOUR

The following assets and liabilities were extracted from the books of Westwood Sports Club as at 30 September:

	2016	**2017**
	Sh."000"	**Sh."000"**
Club house	52,000	52,000
Sports equipment	23,000	29,600
Stock of prizes	500	700
Bar payables	12,000	13,000
Bar inventory	2,000	3,000
Accrued rates	800	900
Insurance prepaid	300	600
Subscription in arrears	17,000	19,000
Subscription in advance	8,000	5,000

The summary of receipts and payments account for the year ended 30 September 2017:

Receipts	Sh."000"	Payments	Sh."000"
Balance brought forward:		Bar payables	97,000
- Bank	22,000	Prizes	3,000
Subscriptions	44,000	Rates	4,000
Donations	8,000	Insurance	8,000
Bar takings	120,000	Barman's wages	3,000
Entry fees	3,000	Ground maintenance	9,000
Annual dinner sales	15,000	Annual dinner cost	13,000
		Staff salaries	17,000
		Cash refund to subscriber	1,000
		New equipment	7,000
		Balance carried forward:	
		- Bank	50,000
	212,000		212,000

Additional information:

1. Subscriptions received during the year include Sh.15 million being arrears for the year ended 30 September 2016.
2. It is the policy of the club to write-off any subscriptions in arrears for more than one year.

Required:

(a) Bar income statement for the year ended 30 September 2017. (6 marks)

(b) Income and expenditure account for the year ended 30 September 2017. (7 marks)

(c) Statement of financial position as at 30 September 2017. (7 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Describe three advantages of accrual accounting in relation to public sector accounting. (6 marks)

(b) The following financial statements were extracted from the books of Zeta Ltd. as at 30 September:

Income statement	**2016** Sh."000"	**2017** Sh."000"
Sales	96,000	120,000
Cost of sales	(67,200)	(81,600)
Gross profit	28,800	38,400
Administrative expenses	(10,000)	(8,000)
Sales and distribution costs	(2,400)	(6,800)
Debenture interest	(2,000)	(2,000)
Profit before tax	14,400	21,600
Corporation tax	(4,320)	(6,480)
Profit after tax	10,080	15,120
Dividends	(5,000)	(6,000)
Retained profit for the current year	5,080	9,120
Retained profit brought forward	4,920	10,000
Retained profit carried forward	10,000	19,120

Statement of financial position	**2016** Sh."000"	**2017** Sh."000"
Non-current assets	74,500	76,240
Current assets:		
Inventory	10,000	12,000
Accounts receivable	15,500	19,000
Bank balance	—	4,760
Total assets employed	100,000	112,000
Equity and liabilities:		
Issued and fully paid capital:		
Ordinary shares of Sh.100 each	50,000	50,000
Share premium	5,000	5,000
Retained earnings	10,000	19,120
Owners equity	65,000	74,120

	2016 Sh."000"	2017 Sh."000"
Long-term liabilities:		
10% debentures	20,000	20,000
Current liabilities:		
Accounts payable	5,180	5,400
Corporation tax	4,320	6,480
Dividends	5,000	6,000
Bank overdraft	500	–
	100,000	112,000

Additional information:

1. Inventory as at 1 October 2015 was valued at Sh.9 million.
2. All sales were on credit.

Required:

For each year, calculate the following accounting ratios:

(i) Gross profit margin. (2 marks)

(ii) Net profit margin. (2 marks)

(iii) Return on capital employed (ROCE). (2 marks)

(iv) Return on equity (ROE). (2 marks)

(v) Current ratio. (2 marks)

(vi) Acid test ratio. (2 marks)

(vii) Inventory turnover in days (2 marks)

(Total: 20 marks)

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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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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 24 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

The following trial balance has been extracted from the books of GT Ltd. as at 31 March 2017:

	Sh."000"	Sh."000"
Inventory as at 1 April 2016:		
Raw materials	60,000	
Work-in-progress	40,000	
Finished goods	140,000	
Sales		1,440,000
Purchases of raw materials	700,000	
Factory wages	8,200	
Electricity	18,000	
Factory fuel	10,000	
Insurance	24,000	
Water	6,000	
Office salaries	42,000	
Allowance for doubtful debts		8,000
Trade receivables and trade payables	210,000	84,000
Bank balance	122,000	
Cash balance	5,000	
Computer equipment	420,000	
Land (at cost)	810,000	
Factory building (at cost)	240,000	
Factory plant (at cost)	100,000	
Motor vehicles (at cost)	72,000	
Accumulated depreciation (1 April 2016):		
Computer equipment		70,000
Factory building		24,000
Factory plant		25,000
Motor vehicles		18,000
14% loan stock		400,000
Loan stock interest paid	26,000	
Discount received		45,000
Investment	48,000	
Investment income		7,200
Ordinary share of Sh.100 each		400,000
10% preference shares of Sh.50 each		200,000
Retained profit (1 April 2016)		380,000
	3,101,200	3,101,200

Additional information:

1. Inventory as at 31 March 2017:

	Sh."000"
Raw materials	30,000
Work-in-progress	50,000
Finished goods	160,000

2. Electricity accruing as at 31 March 2017 amounted to Sh.4,000,000 while prepaid insurance amounted to Sh.6,000,000 at the same date.

3. Allowance for doubtful debts is to be maintained at 5% of the trade receivables.
4. Depreciation is to be provided on cost as follows:

Asset	**Rate per annum (%)**
Factory building	4
Factory plant	10
Motor vehicle	20
Computer equipment	30

5. Expenses are to be apportioned as follows:

		Factory	**Office**
Electricity		80%	20%
Insurance		⅔	⅓
Depreciation:	Motor vehicles	-	100%
	Computer equipment	75%	25%
Water		80%	20%

6. Corporation tax to be provided at Sh.130 million.
7. The company's directors proposed the following:
   - Preference share dividend be paid.
   - A dividend of Sh.10 per share on ordinary shares be paid.
8. With effect from 1 April 2016, finished goods were transferred to the warehouse at a mark-up of 20%.

Required:

(a) Manufacturing account for the year ended 31 March 2017. (10 marks)

(b) Income statement for the year ended 31 March 2017. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Describe four users of accounting information and their needs. (8 marks)

(b) On 31 March 2017, 2gether Ltd. received their bank statement for the month of March 2017. The statement showed a credit balance of Sh.713,100 while the cash book (bank column) had a credit balance of Sh.76,800.

The following discrepancies between the cash book and bank statement were observed:

1. Standing order for loan repayment amounting to Sh.65,100 was effected by the bank and not in the cash book.
2. The bank had erroneously credited 2gether Ltd.'s account with Sh.210,000 that belonged to another bank customer.
3. One of the cheques issued to a supplier by 2gether Ltd. for Sh.40,200 was not honoured by the bank.
4. A cheque for Sh.150,000 issued to an agent to develop a website for the company was not collected as the agent was not licensed to develop websites.
5. 2gether Ltd. received dividends amounting to Sh.52,500 directly to its bank account.
6. A cheque received from a debtor for Sh.31,500 and deposited in the account was dishonoured as the debtor had been declared bankrupt.
7. It was noted that the accounts clerk had entered a receipt of Sh.127,500 as a prepayment.
8. As at 31 March 2017, the unpresented cheques amounted to Sh.402,000 while cheques not credited amounted to Sh.172,500.
9. Direct deposits made to 2gether Ltd.'s bank account via electronic fund transfer amounted to Sh. 31,500.
10. The bank charges amounted to Sh.22,200.
11. It was discovered that the closing balance on 31 March 2017 in the cash book was understated by Sh.60,000.

Required:

(i) Adjusted cash book as at 31 March 2017. (8 marks)

(ii) Bank reconciliation statement as at 31 March 2017. (4 marks)

(Total: 20 marks)

QUESTION THREE

(a) Describe the two acceptable methods of inventory valuation. (4 marks)

(b) The following financial statements were extracted from the books of Prudence Ltd. on 31 March:

	2016	2017
Income statement	**Sh."000"**	**Sh."000"**
Sales (all on credit)	10,000	12,000
Cost of sales	(6,000)	(6,600)
Gross profit	4,000	5,400
Operating expenses	(2,700)	(3,680)
Interest	(300)	(400)
Profit before tax	1,000	1,320
Corporation tax	(300)	(396)
Profit after tax	700	924

	2016	2017
Statement of financial position	**Sh."000"**	**Sh."000"**
Non-current assets:		
Land and buildings	4,000	4,000
Motor vehicles	3,000	5,000
Equipment	2,470	4,317
Current assets:		
Inventory	3,800	4,000
Accounts receivable	2,800	3,400
Bank balance	1,800	2,673
Total assets	**17,870**	**23,390**
Equity and liabilities:		
Ordinary shares of Sh.100 each	6,000	8,000
Share premium	3,000	4,000
General reserves	1,000	1,100
Retained earnings	670	694
10% Loan stock	3,000	4,000
Current liabilities:		
Accounts payable	3,000	4,000
Corporation tax	300	396
Interest	300	400
Dividend	600	800
Total equity and liabilities	**17,870**	**23,390**

Additional information:

1. As at 31 March 2015, closing inventory was valued at Sh.3,600,000.
2. Assume a year has 360 days.

Required:

Compute the following ratios for the year ended 31 March 2016 and 31 March 2017:

(i) Gross profit margin. (2 marks)

(ii) Net profit margin. (2 marks)

(iii) Return on capital employed. (2 marks)

(iv) Current ratio. (2 marks)

(v) Quick (acid test) ratio. (2 marks)

(vi) Inventory turnover. (2 marks)

(c) Using the ratios calculated in (b) (i) to (b) (vi) above, comment on the trend of profitability and liquidity. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) In the context of public sector accounting, explain the following terms:

(i) Public sector utilities. (2 marks)

(ii) Appropriation-in-Aid. (2 marks)

(iii) Fund accounting. (2 marks)

(iv) Capital project fund. (2 marks)

(b) P Ltd. acquired 80% of the ordinary shares of S Ltd. on 1 July 2016. The following are the statements of comprehensive income for the year ended 31 December 2016:

	P Ltd. Sh."000"	S Ltd. Sh."000"
Revenue	350,000	235,000
Cost of sales	(222,500)	(162,600)
Gross profit	127,500	72,400
Investment income (from S Ltd.)	16,500	-
	144,000	72,400
Expenses	(64,300)	(50,400)
	79,700	22,000
Income tax expenses	(21,900)	(5,600)
Net profit for the year	57,800	16,400

Additional information:

1. On 30 December 2016, P Ltd. sold goods to S Ltd. at Sh.5,500,000. The goods had cost P Ltd. Sh.4,200,000. S Ltd. received and recorded the goods on 3 January 2017.
2. On 31 December 2016, P Ltd.'s property, plant and equipment was revalued from Sh.380 million to Sh.400 million.
3. All items in the above income statements except investment income are deemed to accrue evenly over the year.

Required:

Group consolidated statement of comprehensive income for the year ended 31 December 2016. (12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain three errors which could be disclosed by a trial balance. (6 marks)

(b) The following is the receipts and payments account for Sefi Welfare Club as at 30 April 2017:

Receipts	Sh."000"	Payments	Sh."000"
Cash in bank	1,250	Salaries	1,350
Subscriptions	5,250	Office expenses	125
Annual dinner receipts	2,680	Annual dinner expenses	150
Donations	2,250	Other expenses	200
Dividends on shares	250	Telephone expenses	150
		Shares purchased	7,500
		Postage	220
		Plant maintenance	634
		Cash in bank	1,351
	11,680		11,680

Additional information:

1. As at 1 May 2016, no subscriptions had been received in advance.
2. Subscriptions in arrears amounted to Sh.100,000 as at 30 April 2016 and Sh.150,000 as at 30 April 2017.
3. Telephone services paid for in advance as at 30 April 2017 amounted to Sh.30,000.
4. Postage stamps in the custody of the club's secretary as at 1 May 2016 and 30 April 2017 were valued at Sh.25,000 and Sh.15,000 respectively.
5. The cost of the building owned by the club was Sh.50,000,000 as at 1 May 2016. Depreciation for the building is to be provided at the rate of 2% per annum on cost.
6. Sh.25,000 in respect of annual dinner receipts was outstanding at the year end.
7. The investment in shares as at 1 May 2016 was Sh.500,000.
8. As at 30 April 2017, Sh.250,000 for the hire of the hall where the dinner was hosted is still outstanding.

Required:

(i) Income and expenditure account for the year ended 30 April 2017. (7 marks)

(ii) Statement of financial position as at 30 April 2017. (7 marks)

(Total: 20 marks)

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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:

1. Returns outward had been overcast by Sh.16,800,000.
2. 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.
3. Motor vehicle repairs amounting to Sh.25,536,000 had been posted to the motor vehicle account.
4. 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.
5. The total of purchases day book had been undercast by Sh.33,600,000.

Required:

(i) Journal entries to correct the errors. (Narrations not required) (5 marks)

(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
	59,888	59,888

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		1,100	
		81,400	81,400

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
Non-current assets:	**Sh."000"**	**Sh."000"**
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	1,000	1,000
	79,400	77,320
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	10,000	8,000
	63,000	65,064
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	4,000	-
	16,400	12,256
	79,400	77,320

Additional information:

1. During the year, Pamoja Ltd. purchased plant and machinery at a cost of Sh.17,208,000.
2. Debentures were redeemed at par.
3. 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. Sh."000"	SL Ltd. Sh."000"
Assets		
Non-current assets	63,000	28,000
Investment in SL Ltd. (at cost)	51,000	-
	114,000	28,000
Current assets	82,000	43,000
	196,000	71,000

Capital and liabilities		
Ordinary shares of Sh.10 each	80,000	20,000
Revenue reserves	96,000	41,000
	176,000	61,000
Current liabilities	20,000	10,000
	196,000	71,000

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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KASNEB

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 25 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

The following trial balance was extracted from the books of Judi Ltd. as at 31 March 2016:

	Sh."000"	Sh."000"
Ordinary shares of Sh.20 each.		80,000
10% preference shares of Sh.10 each.		20,000
10% debentures		20,000
Share premium		8,000
Trade receivables and trade payables	70,000	40,000
Purchases and sales	850,000	1,032,400
Discounts allowed and discounts received	1,200	2,500
Buildings at cost	100,000	
Accumulated depreciation (1 April 2015)		10,000
Motor vehicles at cost	60,000	
Accumulated depreciation (1 April 2015)		15,000
Fixtures and fittings at cost	80,000	
Accumulated depreciation (1 April 2015)		20,000
Inventory (1 April 2015)	40,000	
Returns outward		8,000
Selling and distribution expenses	32,500	
Salaries and wages	22,500	
Administrative expenses	12,800	
Bad debts written off	1,400	
Allowance for doubtful debts (1 April 2015)		3,200
Cash in hand	28,000	
Bank overdraft		5,800
Retained earnings (1 April 2015)		35,500
Debentures interest	2,000	
	1,300,400	1,300,400

Additional information:

1. Inventory as at 31 March 2016 was valued at Sh.85,000,000.
2. Selling and distribution expenses prepaid as at 31 March 2016 amounted to Sh.2,500,000.
3. The company's directors proposed the following:
   - Preference share dividend be paid.
   - A dividend of 10% on the ordinary shares be paid.
   - Auditors to be paid Sh.5,200,000.
   - Transfer of Sh.27,000,000 to the general reserve.
4. Depreciation per annum is to be provided on cost as follows:

Buildings	2½ %
Fixtures and fittings	10%
Motor vehicles	15%

5. Administrative expenses accrued as at 31 March 2016 amounted to Sh.2,200,000.
6. The trade receivables include Sh.5,000,000 owed by a customer who has been declared insolvent. It has been decided to write off the debt.
7. The allowance for doubtful debts is to be adjusted to 3% of trade receivables as at 31 March 2016.

Required:

(a) Income statement for the year ended 31 March 2016. (10 marks)

(b) Statement of financial position as at 31 March 2016. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) John Mango operates a sole proprietorship business and makes most of his payments and receipts through the bank. The summary of the cash book bank column for the month of April 2016 was provided by the accountant as follows:

Bank account

	Sh."000"		Sh."000"
Balance b/d	1,050	Total payments	33,480
Total receipts	26,820		
Balance c/f	5,610		
	33,480		33,480

A thorough scrutiny of the records revealed the following:

1. A dividend cheque of Sh.113,400 paid into the business had not been entered in the cash book.
2. Cheque payments totalling to Sh.2,940,000 had been entered in the cash book but the cheques had not been presented at the bank by 30 April 2016.
3. The balance on the bank statement as at 30 April 2016 was Sh.5,871,000 less than the balance shown in the bank account above.
4. A cheque payment to a supplier for Sh.751,200 was incorrectly entered into the accounting record as a receipt.
5. Bank charges of Sh.105,000 were included in the bank statement but were not recorded in the cash book.
6. A standing order of Sh.267,000 in respect of a hire purchase agreement was processed through the bank on 25 April 2016 but had not been entered in the accounting record.
7. Cheques totalling Sh.7,050,000 had been entered in the cash book on 29 April 2016 and paid into the bank on the same day but had not been credited as a receipt in the bank statement.

Required:

(i) An updated cash book as at 30 April 2016. (6 marks)

(ii) A bank reconciliation statement as at 30 April 2016. (4 marks)

(b) The following information relate to Hegi group of companies for the year ended 30 April 2016:

	Hegi Ltd. Sh."000"	Segi Ltd. Sh."000"
Revenue	2,200	1,000
Cost of sales	1,260	600
Gross profit	940	400
Administrative expenses	(110)	(50)
Distribution expenses	(100)	(250)
Dividends received from Segi Ltd.	48	-
Profit before tax	778	100
Taxation expense	(130)	(20)
Profit for the year	648	80

Additional information:

1. The issued share capital of the group was as follows:
   Hegi Ltd: 5,000,000 ordinary shares of Sh.10 each.
   Segi Ltd: 1,000,000 ordinary shares of Sh.10 each.
2. Hegi Ltd. purchased 80% of the issued share capital of Segi Ltd. in the year 2009. At that time, the retained profits of Segi Ltd. amounted to Sh.56,000.

Required:

Group consolidated income statement for the year ended 30 April 2016. (10 marks)

(Total: 20 marks)

QUESTION THREE

The following balances were extracted from the books of Lenga Ltd. for the year ended 31 March 2016.

	Sh."000"
Land and buildings	1,100,000
Plant at cost	500,000
Office equipment at cost	150,000
Inventories (1 April 2015):	
Raw materials	50,000
Work-in-progress	65,200
Finished goods	46,520
Purchases of raw materials	180,878
Carriage of raw materials	8,920
Production wages	168,416
Office salaries	66,838
Direct expenses	2,000
Rent expense	10,400
Office electricity	8,840
Sales	637,244
Factory electricity	16,240
Depreciation expenses for the year:	
Plant	20,400
Office equipment	4,600

Additional information:

1. Rent is to be apportioned as follows: Factory 75%
   Office 25%
2. Inventories were valued on 31 March 2016 as follows:

	Sh."000"
Raw materials	59,800
Work-in-progress	52,200
Finished goods	57,680

Required:

Manufacturing account and income statement for the year ended 31 March 2016. **(20 marks)**

QUESTION FOUR

(a) (i) Explain the term "accounting standards". (2 marks)

(ii) Justify three reasons why professional accounting bodies issue accounting standards. (6 marks)

(b) The income statement for Jikaze Ltd. for the year ended 31 December 2015 and statements of financial position as at 31 December 2014 and 31 December 2015 were as follows:

Income statement for the year ended 31 December 2015:

	Sh."000"	Sh."000"
Sales		720
Raw materials consumed	70	
Staff costs	94	
Depreciation	118	
Loss on disposal of non-current asset	18	300
Operating profit		420
Interest payable		28
Profit before tax		392
Taxation		124
Profit for the year		268

Statement of financial position as at 31 December:

	2015	2014
	Sh."000"	Sh."000"
Non-current assets:		
Cost	1,596	1,560
Depreciation	(318)	(224)
	1,278	1,336
Current assets:		
Inventory	24	20
Trade receivables	76	58
Bank	48	56
	148	134
	1,426	1,470
Financed by:		
Equity:		
Share capital	360	340
Share premium	36	24
Retained earnings	716	514
	1,112	878
Non-current liabilities:		
Long-term loans	200	500
Current liabilities:		
Trade payables	12	6
Taxation	102	86
	114	92
	1,426	1,470

During the year. the company paid Sh.90,000 for a new piece of machinery and paid dividends amounting to Sh.66,000.

Required:

Statement of cash flow in accordance with the requirements of International Accounting Standards (IAS) 7: "Statement of cash flows" for the year ended 31 December 2015. (12 marks)

(Total 20 marks)

QUESTION FIVE

(a) Distinguish the following accounting concepts:

(i) Prudence and realisation. (4 marks)

(ii) Historical cost and money measurement. (4 marks)

(b) Explain three benefits of operating a computerised accounting system. (6 marks)

(c) Explain the role of the following in the context of public sector accounting:

(i) The Public Accounts Committee. (3 marks)

(ii) The Auditor General. (3 marks)

(Total: 20 marks)

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KASNEB

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

TUESDAY: 24 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

(a) Explain the following types of errors:

(i) Errors of omission. (2 marks)

(ii) Compensating errors. (2 marks)

(iii) Errors of principle. (2 marks)

(iv) Errors of commission. (2 marks)

(b) Ngugi Enterprise's draft accounts for the year ended 31 October 2015 showed a gross profit of Sh.10,500,000 and a net profit of Sh.2,120,000.

A thorough scrutiny by the auditors reveals the following errors:

1. Discount allowed to a customer of Sh.100,000 in November 2014 was debited to his account and credited in discounts allowed account.
2. Purchases day book had been overcast by Sh.1,000,000.
3. A receipt of a bad debt amounting to Sh.200,000 in May 2015 has been credited to sales account.
4. Machinery worth Sh.5,400,000 was purchased in August 2015 on credit but a journal entry was passed for Sh.4,500,000.
5. No adjustment has been made for an amount of Sh.200,000 relating to outstanding salaries as at 31 October 2015.
6. Wages of Sh.63,000 paid in July 2015 have not been posted from the cash book.
7. A payment by Julius Gichuru of Sh.94,000 in January 2015 had been posted to the credit of Julius Gichuki's account.
8. The stock sheets as at 31 October 2015 were recorded at selling price of Sh.2,400,000. One stock sheet totalling Sh.15,000 was omitted in the final tally. Ngugi Enterprise's marked up stock costs by 50%.
9. A purchase from a supplier of Sh.341,000 in May 2015 was recorded in the books as Sh.143,000.
10. Discounts received of Sh.324,000 in May 2015 have been posted to the debit side of the discounts allowed account.

Required:

(i) Statement of corrected gross profit for the year ended 31 October 2015. (6 marks)

(ii) Statement of corrected net profit for the year ended 31 October 2015. (6 marks)

(Total: 20 marks)

QUESTION TWO

(a) In the context of public sector accounting, explain the following terms:

(i) Commitment accounting. (3 marks)

(ii) Revolving funds. (3 marks)

(iii) Budget cycle. (3 marks)

(b) Phala Ltd., a mobile phone accessories manufacturer, has obtained accounting ratios relating to averages for similar organisations in the industry.

The industry average ratios for the period 1 July 2014 to 30 June 2015 are as follows:

Return on capital employed	21.6%
Net assets turnover	1.6 times
Gross profit margin	25%
Net profit (before tax) margin	10.5%
Current ratio	1.5:1
Quick ratio	0.8:1
Inventory holding period	42 days
Trade receivables collection period	41 days
Trade payables payment period	59 days
Debt to equity	35%
Dividend cover	4 times

The summarised financial statements of Phala Ltd. for the year ended 30 June 2015 are as follows:

Income statement	**Sh."000"**
Sales revenue	4,850
Cost of sales	(3,740)
Gross profit	1,110
Other operating expenses	(430)
Operating profit	680
Interest payable	(68)
Loss on sale of obsolete inventory	(240)
Profit before tax	372
Tax expense	(180)
Profit after tax	192

Changes in equity	**Sh."000"**
Retained profits (1 July 2014)	358
Net profit for the year	192
Dividends paid	(180)
	370

Statement of financial position as at 30 June 2015:

	Sh."000"	**Sh."000"**
Non-current assets (net)		1,080
Current assets:		
Inventory	550	
Trade receivables	640	1,190
		2,270
Equity and liabilities:		
Equity:		
Ordinary shares of Sh.0.5 each		300
Retained profits		370
Non-current liability:		
7% debentures		600
Current liabilities:		
Trade payables	700	
Tax expense	170	
Bank overdraft	130	1,000
		2,270

Additional information:

1. The accumulated depreciation for non-current assets as at 30 June 2015 amounted to Sh.6,120,000.
2. Phala Ltd.'s ordinary shares averaged a market price of Sh.12 throughout the year.
3. Assume a 365 day year.

Required:

Compute the ratios for Phala Ltd. corresponding to those for the industry averages. (11 marks)

(Total: 20 marks)

QUESTION THREE

(a) Describe the following terms:

(i) Fundamental accounting concepts. (3 marks)

(ii) Accounting bases. (3 marks)

(b) On 30 September 2015, a fire broke out at the premises of Revolution Chemicals Ltd. and destroyed its contents. Fortunately, certain accounting records had been kept in another building and the following information was retrieved for the period from 31 May 2015 to 30 September 2015:

	Sh.
Raw materials purchased	170,000
Work-in-progress (31 May 2015)	34,000,000
Raw materials (31 May 2015)	16,000,000
Finished goods (31 May 2015)	30,000,000

Additional information:

1. Sales of finished goods amounted to Sh.500,000,000.
2. Prime costs average 70% of the cost of goods manufactured.
3. Gross profit percentage based on net sales is 20%.
4. Cost of goods available for sale amounted to Sh.460,000,000.
5. Factory overheads are 40% of the cost of goods manufactured.
6. Direct labour amounted to Sh.180,000,000.
7. The loss was fully covered by an insurance policy.

Required:

Manufacturing and trading account for the 4-month period ended 30 September 2015. (14 marks)

(Total: 20 marks)

QUESTION FOUR

The Nairoh Investment Society Club operates a professional club for its members to promote, among other things, sports and networking.

The treasurer of the club has prepared the following receipts and payments account as at 31 October 2015:

Receipts and payments account

	Sh."000"		Sh."000"
Balance brought forward	748,000	Club extension	650,000
Subscriptions: 2013/2014	158,000	Dinner dance expenses	350,000
2014/2015	2,540,000	New equipment	300,000
2015/2016	67,000	Bar purchases	726,000
Dinner dance	598,000	Salaries and wages	454,000
Bar sales	932,000	Other staff expenses	129,000
Donations	529,000	Coach fees	260,000
Rental income	158,000	Life saver fees	184,000
Investment income	247,000	Investment purchases	450,000
Sale of old equipment	62,000	General expenses	158,000
		Repairs and maintenance	296,000
		Balance carried down	2,082,000
	6,039,000		6,039,000

Additional information:

1. The following balances were available at the beginning and at the end of the year:

	31 October 2014 Sh."000"	31 October 2015 Sh."000"
Clubhouse (building)	2,450,000	?
Equipment: Cost	325,000	?
Accumulated depreciation	95,000	?
Furniture and fittings: Cost	340,000	?
Accumulated depreciation	125,000	?
Subscriptions in arrears: 2013/2014	185,000	
2014/2015		324,000

Subscriptions prepaid:	2014/2015	124,000	
	2015/2016	54,000	?
Inventory		254,000	329,000
Accrued salaries and wages		23,000	28,000
Unpaid dinner dance tickets			29,000
Creditors for bar supplies		168,000	234,000
Investments		2,550,000	
Unpaid buildings extension			85,000
Club extension fund		250,000	?

2. The donations were for the extension of the club. The funds will remain in the club extension fund until the works are completed when the balance will be transferred to the accumulated fund.
3. Equipment which had cost Sh.25 million and had a book value of Sh.18 million was sold on credit for Sh.14 million to a member who had not paid by the year end. Other equipment which had been bought for Sh.60 million and on which depreciation of Sh.19 million had been provided was also sold during the year.
4. Accounting and audit fees of Sh.50 million should be provided for.
5. Depreciation is to be provided on cost as follows:

Asset	**Rate per annum**
Furniture and fittings	10%
Equipment	15%

6. Subscriptions in arrears are written off after 12 months.

Required:

(a) Income and expenditure account for the year ended 31 October 2015. (10 marks)

(b) Statement of financial position as at 31 October 2015. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain four roles played by accounting regulatory bodies. (8 marks)

(b) H Ltd. acquired 80% of the ordinary shares of S Ltd. on 1 February 2015. As at 31 October 2014, the balance on S Ltd.'s share premium account was Sh.4,000,000 and retained earnings was Sh.15,000,000. The statement of financial position of the two companies as at 31 October 2015 are as shown below:

	H Ltd. Sh."000"	**S Ltd.** Sh."000"
Assets:		
Property, plant and equipment	32,000	30,000
16,000 ordinary shares of Sh.0.5 each in S Ltd.	50,000	-
	82,000	30,000
Current assets	85,000	43,000
Total assets	167,000	73,000
Financed by:		
Equity		
Ordinary shares of Sh.10 each	100,000	-
Ordinary shares of Sh.0.5 each		10,000
Share premium account	7,000	4,000
Retained earnings	40,000	39,000
	147,000	53,000
Current liabilities	20,000	20,000
	167,000	73,000

Additional information

1. None of the companies paid dividends during the year ended 31 October 2015.
2. Non-controlling interest should be valued at full value.
3. The goodwill attributable to the non-controlling interest is valued at Sh.3,000,000.
4. The profits of S Ltd. were assumed to accrue evenly throughout the year.

Required:

Group consolidated statement of financial position as at 31 October 2015. (12 marks)

(Total: 20 marks)

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KASNEB

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

PILOT PAPER

September 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

The following trial balance was extracted from the books of Marineteam Ltd. as at 30 June 2015:

	Sh."000"	Sh."000"
Revenue		13,132
Purchases	8,630	
Inventory 1 July 2014	930	
Selling and distribution costs	1,230	
Administrative costs	765	
Land and buildings	8,630	
Plant and machinery	1,280	
Furniture and fittings	350	
Accumulated depreciation (1 July 2014)		
Buildings		2,130
Plant and machinery		710
Furniture and fittings		150
Trade receivables	2,120	
Trade payables		1,580
Bank	1,340	
Ordinary shares of Sh.100 each		5,000
Dividend paid	500	
Retained earnings 1 July 2014		1,073
7% debentures		2,000
	25,775	25,775

Additional information:

1. Inventory as at 30 June 2015 was valued at Sh.1,100,000.
2. The interest on the debentures has not been paid for the year ended 30 June 2015.
3. Tax charge for the year ended 30 June 2015 was estimated at Sh.550,000.
4. Prepaid selling and distribution expenses amounted to Sh.60,000.
5. Included in land and buildings is the cost of land Sh.800,000.
6. Depreciation is to be calculated for the year ended 30 June 2015 as follows:
   Buildings 5% per annum on cost.
   Plant and equipment 15% per annum on cost.
   Furniture and fittings 10% per annum on reducing balance basis.
7. A dividend of Sh.1,000,000 has been declared by the directors for the year ended 30 June 2015.

Required:

(a) Income statement for the year ended 30 June 2015. (10 marks)

(b) Statement of financial position as at 30 June 2015. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Differentiate between capital expenditure and revenue expenditure. (6 marks)

(b) Several years ago, Gold Ltd. acquired a 70% share in Silver Ltd. The draft statements of financial position of Gold Ltd. and Silver Ltd. as at 31 August 2015 were as follows:

	Gold Ltd. Sh."000"	Silver Ltd. Sh."000"
Assets:		
Non-current assets:		
Property plant and equipment	8,700	3,300
Patents and copyrights	150	390
Investment in Silver Ltd.	3,090	
	11,940	3,690
Current assets:		
Inventory	2,256	1,107
Trade receivables	1,368	789
Bank	330	-
	3,954	1,896
Total assets	15,894	5,586
Equity and liabilities:		
Equity:		
Ordinary shares of Sh.2.5 each	9,600	
Ordinary shares of Sh.5 each		2,880
Share premium	3,600	1,050
Retained earnings	900	600
	14,100	4,530
Liabilities:		
Non-current liabilities:		
10% debentures	180	240
Current liabilities	1,614	816
Total equity and liabilities	15,894	5,586

Additional information:

1. The retained earnings of Silver Ltd. at the acquisition date were Sh.180,000. The profits have not been distributed since the date of acquisition.
2. As at the date of acquisition, the fair value of the property, plant and equipment of Silver Ltd. was Sh.300,000 more than their book value. This revaluation has not been included in Silver Ltd.'s financial statements.

Required:

Group consolidated statement of financial position as at 31 August 2015. (14 marks)

(Total: 20 marks)

QUESTION THREE

The following financial statements relate to WL Ltd. for the year ended 30 June 2015.

Income statement for the year ending 30 June 2015

	Sh."000"
Revenue	156,000
Cost of sales	(84,000)
Gross profit	72,000
Distribution costs	(24,000)
Administrative costs	(16,800)
Interest expense	(3,200)
Profit before tax	28,000
Tax expense	(7,500)
Profit after tax	20,500

Statement of financial position as at 30 June

	2015 Sh."000"	2014 Sh."000"
Assets		
Non-current assets		
Property plant and equipment	232,000	164,000
Current assets:		
Inventories	45,000	42,450
Trade receivables	21,000	28,000
Cash and bank balances	5,210	2,504
	71,210	72,954
Total assets	303,210	236,954
Equity and liabilities:		
Equity:		
Ordinary share capital	50,000	44,000
Share premium account	24,000	20,000
Revaluation reserve	32,000	10,400
Retained earnings	86,450	75,128
	192,450	149,528
Non-current liabilities:		
10% debentures	52,500	41,800
Current liabilities:		
Trade and other payables	45,440	34,346
Current tax payable	6,200	5,600
Proposed dividends	6,620	5,680
	303,210	236,954

Additional information:

1. Profit before tax is stated after charging depreciation of Sh.14,000,000.
2. During the year, the company sold an item of equipment for Sh.9,800,000 realising a profit of Sh.2,872,000.
3. Part of the property was revalued upwards by Sh.21,600,000.

Required:

Statement of cash flows for the year ended 30 June 2015 in accordance with the requirements of International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(20 marks)

QUESTION FOUR

(a) Explain how the following items should be accounted for by not-for-profit organisations:

(i) Donations and bequests. (2 marks)
(ii) Entrance fees. (2 marks)
(iii) Honorarium. (1 mark)

(b) The accountant of Appollo Traders prepared the trial balance for the month of August 2015 which did not balance, the credits exceeding the debits by Sh.460,800.

After inspection of the ledgers, the following errors were discovered.

1. A balance of Sh.26,100 on a debtors account was omitted from the schedule of debtors, the total of which was entered as debtors in the trial balance.
2. An item of machinery purchased for Sh.360,000 had been written off to repairs. Machinery is depreciated at 10% on cost.
3. The receipts side of the bank column of the cash book had been undercast by Sh.216,000.
4. A credit note for Sh.53,700 from a supplier had been posted to the wrong side of her account.
5. The total on one page of the sales daybook had been undercast by Sh.108,000.

6. The accountant collected Sh.219,300 form customers, this was credited to the sales accounts but the receipts were never entered in the cash book.

7. Closing inventory was undervalued by Sh.180,000.

Required:

(i) Journal entries to correct the above errors. (8 marks)

(ii) Suspense account to clear the trial balance difference. (3 marks)

(iii) Statement of corrected net profit given the reported net profit was Sh.518,500. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Describe four qualities of useful accounting information. (8 marks)

(b) Explain the importance of Accounting Standards in the accounting profession. (6 marks)

(c) Highlight three differences between accounting for the public sector and accounting for the private sector. (6 marks)

(Total: 20 marks)

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