

Additional information:

1. It is assumed that gross profit and general expenses accrued evenly throughout the year except that Sh.200,000 of the general expenses relate to a bad debt that arose in the period after James's admission. The balance of the general expenses accrued evenly.
2. Depreciation is to be charged on equipment and motor vehicles at the rate of 20% per annum on the book value. No depreciation is to be charged on land and buildings.

Required:

- (a) Profit or loss and appropriation account for the year ended 31 December 2020. (10 marks)
 - (b) Partner's capital accounts as at 31 December 2020. (4 marks)
 - (c) Partner's current accounts as at 31 December 2020. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the meaning of the following accounting concepts.
 - (i) Going concern concept. (2 marks)
 - (ii) Business entity concept. (2 marks)
 - (iii) Materiality. (2 marks)
- (b) Simba Ltd is a company incorporated to sell Motorcycle spares. The following is a trial balance of the company as at 31 October 2021:

	Sh. "000"	Sh. "000"
Ordinary shares of Sh.50 each		40,000
10% Preference shares of Sh.100 each		36,000
10% Debentures		32,000
Land and buildings (net book value)	100,000	
Plant and machinery (net book value)	32,000	
Motor vehicles (net book value)	8,000	
Inventory	24,000	
Accounts receivable and payable	80,000	76,000
Cash at bank	16,400	
Capital redemption reserve		24,000
Share premium		16,000
Retained profits as at 1 November 2020		12,000
Debenture interest	1,600	
Preference dividend	1,800	
Gross profit		100,000
Other operating income		16,000
Administrative expenses	52,000	
Distribution costs	24,000	
Other operating expenses	6,200	
Interim ordinary dividend paid	8,000	
Corporation tax	<u>2,000</u>	
	<u>354,000</u>	<u>354,000</u>

Additional information:

1. A building whose net book value is currently Sh.20 million is to be revalued to Sh.36 million
2. The directors have proposed to pay final ordinary dividend of Sh.8 million.
3. The corporation tax for the current year is estimated at Sh.12 million.

Required:

- (i) Income statement for the year ended 31 October 2021. (6 marks)
 - (ii) Balance sheet as at 31 October 2021. (8 marks)
- (Total 20 Marks)**

QUESTION FOUR

Wageni Olympic Sports Club is an amateur baseball club which have been in existence for several years. The following draft accounts have been prepared by the treasurer of the Club. The treasurer had little accounting knowledge and some figures appearing in the draft accounts were incorrect.

Income and expenditure account (extract) for the year ended 31 December 2020

	Sh. "000"	Sh. "000"
Sundry income		96,508
Expenditure		
Use of premises	19,248	
Printing, postage and stationery	3,132	
Overdue members subscriptions written off	480	
Members welfare	2,080	
Bar purchases	30,880	
Wages	8,320	
Reference books purchased	<u>9,324</u>	<u>(73,464)</u>
Surplus for the year		<u>23,044</u>

Statement of financial position (extract) as at 31 December 2020

	Sh. '000
Assets: Minibus (Cost: 1 January 2018)	24,000
Library and furniture	5,520
Members subscriptions due	21,600
Cash in hand	480
Bank: Fixed deposit account	6,000
Current account	11,240
10% Treasury bond (Sh.10 million nominal value)	<u>40,000</u>
	108,840
Less: Owing for bar purchases	<u>7,468</u>
Club funds as at 31 December 2020	<u>101,372</u>

Additional information:

- The club's policy on outstanding subscriptions was to write off amounts outstanding for a period exceeding five years. As at 1 January 2020, subscriptions outstanding from members were Sh.12,480,000
- The club's premises were purchased on 1 October 2020 for Sh.16 million. This amount was posted to the use of premises account in the draft accounts.
- The Treasury bond was purchased for Sh.37.2 million on 1 January 2016 by utilizing donations earmarked for a member's welfare fund. Up to 31 December 2019, the income received from this investment had been distributed to members. The income for the year ended 31 December 2020 was included under sundry income as resolved at the annual general meeting held on 10 April 2020.
- The club runs a bar for the benefit of members. This bar sells stock at a mark-up of 30%. The income from bar sales amounting to Sh.39,708,000 was included under sundry income. There was no opening inventory as at 1 January 2020 and the club owed suppliers Sh.6,500,000 as at 1 January 2020. Bar closing inventory as at 31 December 2020 was not ascertained.
- The balance of the fixed deposit account as at 1 January 2020 amounted to Sh.6,000,000 reflected in the statement of financial position as at 31 December 2020. No account was taken of interest amounting to Sh.400,000 which had been credited to the fixed deposit during the year.
- As at 1 January 2020, cash in hand was Sh.400,000 and the bank current account was overdrawn by Sh.3,572,000.
- The reference e-books purchased during the year are to be capitalized as part of the library. Library and furniture are to be revalued to Sh.20,000,000
- Depreciation is to be provided based on the cost of the assets as follows:
Club premises - 2% per annum
Minibus - 20% per annum

Required:

- (a) Income and expenditure account for the year ended 31 December 2020. (10 marks)
- (b) Statement of financial position as at 31 December 2020. (10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) A bookkeeper extracted a trial balance on 31 December 2020 that failed to agree by Sh.330,000, a shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2021, the following errors made in 2020 were found:

- Sales daybook had been undercast by Sh.100,000.
- Sales of Sh.250,000 to J Church had been debited in error to J Chane account.
- Rent account had been undercast by Sh.70,000.
- Discounts received account had been undercast by Sh.300,000.
- The sale of a motor vehicle at book value had been credited in error to Sales account for Sh.360,000.

Required:

- (i) Show the journal entries necessary to correct the errors. (3 marks)
- (ii) Draw up the suspense account after the errors described have been corrected. (5 marks)
- (iii) If the net profit had previously been calculated at Sh.7,900,000 for the year ended 31 December 2020, show the calculations of the corrected net profit. (4 marks)
- (b) With specific reference to government sector accounting, briefly explain the following concepts:
- (i) Budgetary accounting. (4 marks)
- (ii) Cash accounting. (4 marks)

(Total: 20 marks)

.....

www.masomomsingi.com