

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 | |
| | <u>1,300,400</u> | <u>1,300,400</u> |

Additional information:

- Inventory as at 31 March 2016 was valued at Sh.85,000,000.
- Selling and distribution expenses prepaid as at 31 March 2016 amounted to Sh.2,500,000.
- 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.
- Depreciation per annum is to be provided on cost as follows:

| | |
|-----------------------|------|
| Buildings | 2½ % |
| Fixtures and fittings | 10% |
| Motor vehicles | 15% |
- Administrative expenses accrued as at 31 March 2016 amounted to Sh.2,200,000.
- 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.
- 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 | <u>5,610</u> | | |
| | <u>33,480</u> | | <u>33,480</u> |

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 | <u>1,260</u> | <u>600</u> |
| Gross profit | 940 | 400 |
| Administrative expenses | (110) | (50) |
| Distribution expenses | (100) | (250) |
| Dividends received from Segi Ltd. | <u>48</u> | <u>-</u> |
| Profit before tax | 778 | 100 |
| Taxation expense | <u>(130)</u> | <u>(20)</u> |
| Profit for the year | <u>648</u> | <u>80</u> |

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:

- Rent is to be apportioned as follows: Factory 75%
Office 25%
- 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

- Explain the term "accounting standards". (2 marks)
 - Justify three reasons why professional accounting bodies issue accounting standards. (6 marks)
- 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 Sh. "000" | 2014 Sh. "000" |
|---------------------------------|-------------------|-------------------|
| Non-current assets: | | |
| Cost | 1,596 | 1,560 |
| Depreciation | (318) | (224) |
| | <u>1,278</u> | <u>1,336</u> |
| Current assets: | | |
| Inventory | 24 | 20 |
| Trade receivables | 76 | 58 |
| Bank | <u>48</u> | <u>56</u> |
| | <u>148</u> | <u>134</u> |
| | <u>1,426</u> | <u>1,470</u> |
| Financed by: | | |
| Equity: | | |
| Share capital | 360 | 340 |
| Share premium | 36 | 24 |
| Retained earnings | <u>716</u> | <u>514</u> |
| | <u>1,112</u> | <u>878</u> |
| Non-current liabilities: | | |
| Long-term loans | 200 | 500 |
| Current liabilities: | | |
| Trade payables | 12 | 6 |
| Taxation | <u>102</u> | <u>86</u> |
| | <u>114</u> | <u>92</u> |
| | <u>1,426</u> | <u>1,470</u> |

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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