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 Sh."000"	2014 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)