

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
	<u>25,775</u>	<u>25,775</u>

Additional information:

- Inventory as at 30 June 2015 was valued at Sh.1,100,000.
- The interest on the debentures has not been paid for the year ended 30 June 2015.
- Tax charge for the year ended 30 June 2015 was estimated at Sh.550,000.
- Prepaid selling and distribution expenses amounted to Sh.60,000.
- Included in land and buildings is the cost of land Sh.800,000.
- 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.
- A dividend of Sh.1,000,000 has been declared by the directors for the year ended 30 June 2015.

Required:

- Income statement for the year ended 30 June 2015. (10 marks)
 - 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.	<u>3,090</u>	<u> </u>
	<u>11,940</u>	<u>3,690</u>
Current assets:		
Inventory	2,256	1,107
Trade receivables	1,368	789
Bank	330	-
	<u>3,954</u>	<u>1,896</u>
Total assets	<u>15,894</u>	<u>5,586</u>
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	<u>900</u>	<u>600</u>
	<u>14,100</u>	<u>4,530</u>
Liabilities:		
Non-current liabilities:		
10% debentures	180	240
Current liabilities	<u>1,644</u>	<u>816</u>
Total equity and liabilities	<u>15,894</u>	<u>5,586</u>

Additional information:

- 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.
- 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	<u>(84,000)</u>
Gross profit	72,000
Distribution costs	<u>(24,000)</u>
Administrative costs	<u>(16,800)</u>
Interest expense	<u>(3,200)</u>
Profit before tax	28,000
Tax expense	<u>(7,500)</u>
Profit after tax	<u>20,500</u>

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	<u>5,210</u>	<u>2,504</u>
	<u>71,210</u>	<u>72,954</u>
Total assets	<u>303,210</u>	<u>236,954</u>
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	<u>86,450</u>	<u>75,128</u>
	<u>192,450</u>	<u>149,528</u>
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	<u>6,620</u>	<u>5,680</u>
	<u>303,210</u>	<u>236,954</u>

Additional information:

- Profit before tax is stated after charging depreciation of Sh.14,000,000.
- During the year, the company sold an item of equipment for Sh.9,800,000 realising a profit of Sh.2,872,000.
- 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:
- Donations and bequests. (2 marks)
 - Entrance fees. (2 marks)
 - Honorarium. (1 mark)

- (b) The accountant of Apollo 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.

- 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.
- An item of machinery purchased for Sh.360,000 had been written off to repairs. Machinery is depreciated at 10% on cost.
- The receipts side of the bank column of the cash book had been undercast by Sh.216,000.
- A credit note for Sh.53,700 from a supplier had been posted to the wrong side of her account.
- The total on one page of the sales daybook had been undercast by Sh.108,000.

6. The accountant collected Sh.219,300 from 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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