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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:

- 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.
- The stock take carried out on 30 April 2020 resulted in the valuation of inventory at Sh.648,000.
- 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
		<u>1,255,200</u>	<u>1,255,200</u>

**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”
<b>Non-current assets:</b>		
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)		<u>600</u>
		5,040
<b>Current assets:</b>		
Inventory	3,000	
Receivables	1,200	
Investments	<u>360</u>	4,560
		<u>9,600</u>
<b>Capital and liabilities:</b>		
Ordinary share capital of Sh.5 each		1,200
Capital reserves		600
Revenue reserves		<u>2,400</u>
		4,200
<b>Non-Current liabilities:</b>		
10% debentures		1,200
<b>Current liabilities:</b>		
Trade payables	715.2	
Bank overdraft	2,635.2	
Corporation tax	528	
Dividends payable	<u>321.6</u>	4,200
		<u>9,600</u>

**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	<u>(3,000)</u>	9,000
Gross profit		3,000
Administrative expenses	1,080	
Distribution expenses	<u>600</u>	1,680
Profit before interest and tax (EBIT)		1,320
Less: Finance costs (debenture interest)		<u>120</u>
Profit before tax		1,200
Less: Corporation tax		<u>528</u>
Profit after tax		672
Proposed dividends		<u>(321.6)</u>
		<u>350.4</u>

**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:

<b>Assets and liabilities:</b>	<b>1 April 2019</b>	<b>31 March 2020</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
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

  

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

**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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