



CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 28 November 2018.

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) Explain two fundamental accounting concepts. (4 marks)
- (b) Describe the following terms as used in accounting:
- (i) Depreciation. (2 marks)
 - (ii) Depreciable amount. (2 marks)
 - (iii) Useful life. (2 marks)
- (c) The trial balance of ABC Ltd., which was prepared on 31 October 2018, did not agree and the difference was posted in the suspense account. Upon further scrutiny, the following errors were detected:
1. Prepaid insurance of Sh.22,000 had been included in the income statement.
 2. Goods destroyed by fire amounting to Sh.1,200,000 were written off in the income statement. The insurance company, however, had agreed to compensate ABC Ltd. for the loss.
 3. A cheque for Sh.400,000 for rent received was not entered in the cash book.
 4. Closing inventory was overvalued by Sh.150,000 while the opening inventory was understated by Sh.320,000.
 5. A bank loan of Sh.1,000,000 was entered correctly in the cashbook but was not posted to the ledger.
 6. Discount allowed of Sh.50,000 was entered in the discounts received account.

Required:

- (i) Journal entries to correct the above errors. (6 marks)
- (ii) Suspense account clearly indicating the opening balance. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Highlight four components of a computerised accounting system. (4 marks)
- (b) The following information was extracted from the books of Kanini Traders for the month of September 2018:

Balances as at 1 September 2018:

		Sh. "000"
Sales ledger:	Debit	350,000
	Credit	20,000
Purchases Ledger:	Debit	15,000
	Credit	420,000

Transactions during the month of September 2018:

	Sh. "000"
Sales: Cash	520,000
Credit	6,880,000
Purchases: Cash	2,240,000
Credit	6,250,000
Returns inwards	180,000
Returns outwards	120,000
Cash refunds from credit suppliers	20,000
Dishonoured cheque (received from debtor)	85,000
Total receipts from credit customers	5,100,000
Total payments to credit suppliers	4,820,000
Discount allowed to credit customers	250,000
Discount received from credit suppliers	280,000
Refunds to cash customers	60,000
Contra settlement	320,000
Bad debts written off	35,000
Interest on overdue debts	25,000
Bad debts previously written off recovered	40,000
Goods taken for personal use by the owner	15,000

Required:

(i) Sales ledger control account as at 30 September 2018. (8 marks)

(ii) Purchases ledger control account as at 30 September 2018. (8 marks)

(Total: 20 marks)

QUESTION THREE

Hassan, Kamau and Otieno operate as partners where the terms of agreement are as follows:

- Hassan to receive a salary of Sh.300,000 per month.
- Interest to be charged on drawings at the rate of 4% per annum.
- Interest to be paid on capital at the rate of 5% per annum.
- Hassan, Kamau and Otieno to share profits and losses in the ratio of 3:2:1 respectively.

The trial balance of the partners as at 31 October 2018 was as follows:

	Sh. "000"	Sh. "000"
Land and buildings (cost)	58,000	
Furniture	21,000	
Motor vehicles	15,000	
Accumulated depreciation as at 1 November 2017:		
Buildings		3,000
Furniture		4,800
Motor vehicles		7,200
Purchases	124,500	
Allowance for doubtful debts (1 November 2017)		800
Current accounts: Hassan	1,310	
Kamau		900
Otieno		800
Salaries	12,700	
Rent	1,000	
Loan from Otieno		5,000
Advertising	1,860	
Sundry expenses	2,820	
Sales		182,225
Administrative expenses	12,700	
Inventory (1 November 2017)	19,800	
Trade receivables and trade payables	26,390	12,140
Bank overdraft		215
Capital accounts: Hassan		30,000
Kamau		30,000
Otieno		20,000
	<u>297,080</u>	<u>297,080</u>

Additional information:

1. Premises have been rented from Kamau at Sh.100,000 per month.
2. The cost of goods remaining unsold as at 31 October 2018 were valued at Sh.24,800,000. However, Sh.3,000,000 of these goods were damaged and could only be sold for Sh.2,100,000 after repairs costing Sh.500,000.
3. Salaries include amounts paid to the partners as follows:
 - Sh.3,000,000 paid to Hassan.
 - Sh.1,500,000 drawings by Kamau on 1 February 2018.
 - Sh.1,000,000 drawings by Otieno on 1 August 2018.
4. The loan of Sh.5,000,000 was obtained several years back and carries no interest.
5. Trade receivables of Sh.390,000 was to be written off as bad debts while an amount estimated at 4% of the remaining receivables was considered doubtful.
6. The cost of land is estimated at Sh.20,000,000. Buildings, furniture and motor vehicles were to be depreciated at the rate of 2%, 10% and 20% per annum respectively on cost.

Required:

- (a) Income statement for the year ended 31 October 2018. (10 marks)
 - (b) Partners' current accounts as at 31 October 2018. (4 marks)
 - (c) Statement of financial position as at 31 October 2018. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Describe three sources of income for not-for-profit organisations. (6 marks)
- (b) The following are the financial statements of MG Ltd.

1. **Statement of financial position as at 30 September:**

	2018 Sh."million"	2017 Sh."million"
Assets:		
Non-current assets	450	520
Current assets:		
Inventory	65	50
Receivables	80	30
Cash and bank balances	30	15
Total assets	<u>625</u>	<u>615</u>
Capital and liabilities:		
Capital:		
Share capital	400	400
Revenue reserves	95	60
	495	460
Proposed dividends	50	35
Non-current liability:		
Term loan	20	100
Current liabilities:		
Payables	60	20
Total capital and liabilities	<u>625</u>	<u>615</u>

2. **Income statement for the year ended 30 September 2018:**

	Sh."million"	Sh."million"
Sales		600
Cost of sales		(410)
Gross profit		190
Profit on disposal of non-current asset		10
		<u>200</u>

	Sh. "million"	Sh. "million"
Operating expenses	70	
Depreciation on non-current assets	30	
Interest expenses	<u>15</u>	(115)
Profit for the year		<u>85</u>

Additional information:

- The directors of MG Ltd. proposed a final dividend of Sh.50 million for the year ended 30 September 2018.
- During the year to 30 September 2018, MG Ltd. purchased non-current assets worth Sh.40 million.

Required:

Statement of cash flows for the year ended 30 September 2018 as per International Accounting Standard (IAS) 7 (Statement of Cash Flows).

(14 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain the following terms with reference to manufacturing entities:

(i) Provision for unrealised profit. (2 marks)

(ii) Prime cost. (2 marks)

- (b) Moonlight Ltd. deals in the distribution of electrical equipment.

The following is the company's trial balance as at 31 October 2018:

	Sh. "000"	Sh. "000"
Land and building (Net book value)	50,000	
Plant and machinery (Net book value)	16,000	
Motor vehicle (Net book value)	4,000	
Inventory	12,000	
Accounts receivable and accounts payable	40,000	38,000
Cash at bank	8,200	
Capital redemption reserve fund		12,000
Share premium		8,000
Retained profit (1 November 2017)		6,000
Debenture interest paid	800	
Preference dividend paid	900	
Gross profit		50,000
Other operating income		8,000
Administrative expenses	26,000	
Distribution costs	12,000	
General operating expenses	3,100	
Interim ordinary dividend paid	4,000	
Corporation tax (1 November 2017)		1,000
Ordinary share capital (Sh.50 par value)		20,000
10% Preference share capital (Sh.100 par value)		18,000
10% Debentures		<u>16,000</u>
	<u>177,000</u>	<u>177,000</u>

Additional information:

- The corporation tax for the year is estimated at Sh.5 million.
- The directors have proposed a final dividend of 20% on par value per ordinary share.
- A building whose net book value was Sh.10 million as at 31 October 2018 was to be revalued to Sh.18 million.

Required:

(i) Income statement for the year ended 31 October 2018. (6 marks)

(ii) Statement of changes in equity as at 31 October 2018. (4 marks)

(iii) Statement of financial position as at 31 October 2018. (6 marks)

(Total: 20 marks)