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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 1 September 2021.

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 why freehold land is not regarded as a depreciable asset. (2 marks)
- (b) Highlight four objectives of public sector accounting. (4 marks)
- (c) Discuss four limitations of computerised accounting systems. (8 marks)
- (d) According to the cash book of TJ Ltd., the firm had a credit balance at the bank of Sh.8,600,000 on 30 June 2021, but the bank statement revealed an overdraft of Sh.100,000.

An investigation into the difference revealed the following information:

1. A standing order for a charitable subscription of Sh.900,000 had been effected by the bank on 29 June 2021, but no entry had been made in the cash book.
2. A cheque paid for sales promotion on 15 June 2021 for Sh.2,790,000 had been entered in the cashbook as Sh.2,970,000.
3. Cheques for Sh.21,740,000 sent to suppliers on 30 June 2021 were not paid by the bank until 5 July 2021.
4. Cheques received from the customers amounting to Sh.34,600,000 were paid into the bank on 30 June 2021, but were not credited by the bank until 2 July 2021.
5. On 25 June 2021, a cheque for Sh.3,280,000 was received from a customer on settlement of an invoice for Sh.3,400,000. An entry of Sh.3,400,000 had been made in the cash book.

Required:

Bank reconciliation statement as at 30 June 2021.

(6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following terms as used in accounting for companies:
 - (i) Share premium. (2 marks)
 - (ii) Oversubscription of shares. (2 marks)
 - (iii) Forfeiture of shares. (2 marks)
- (b) The following receipts and payments account was extracted from the books of Jijenge Club for the year ended 31 December 2020:

Receipts		Payments	
	Sh. "000"		Sh. "000"
Balance brought forward	400	Electricity	252
Subscriptions	7,948	Administrative expenses	400
Sales of competition tickets	1,748	Rates	3,608
Donations	708	Visiting speaker's expenses	5,100
Balance carried forward	492	Donations to charities	140
		Prize for competitions	1,080
		Stationery	716
	<u>11,296</u>		<u>11,296</u>

As at 31 December, the following balances were also provided:

	2020 Sh."000"	2019 Sh."000"
Equipment (Cost – Sh,4,500,000)	3,120	3,900
Subscriptions in arrears	340	260
Subscriptions in advance	148	40
Owing to suppliers of competition	272	232
Inventory of competition prizes	184	152

Required:

- (i) Income and expenditure account for the year ended 31 December 2020. (7 marks)
- (ii) Statement of financial position as at 31 December 2020. (7 marks)
- (Total: 20 marks)**

QUESTION THREE

Kate and Grace operate a manufacturing business under the trade name Kare Manufacturers.

The following trial balance was extracted from the books of Kare Manufacturers as at 30 June 2021:

	Sh.	Sh.
Capital accounts: Kate		482,000
Grace		507,600
Drawings: Kate	96,000	
Grace	87,400	
Workshop building (Land cost Sh.300,000)	708,800	
Workshop equipment	326,400	
Motor vehicle	82,000	
Allowance for depreciation:		
• Workshop building		307,640
• Workshop equipment		110,160
• Motor vehicle		38,400
Inventory:		
• Raw materials	42,000	
• Work-in-progress	40,200	
• Finished goods	536,800	
Sales		1,237,600
Sales returns	13,600	
Purchase of raw materials	291,600	
Accrued taxes		8,800
Workshop wages	165,400	
Office salaries	48,000	
Expenses: Workshop	126,800	
Office	143,400	
Allowance for unrealised profit (1 July 2020)		48,800
Allowance for doubtful debts (1 July 2020)		19,200
Accounts receivable	217,600	
Accounts payable		109,200
Bank overdraft		57,200
	<u>2,926,000</u>	<u>2,926,000</u>

Additional information:

- Manufactured goods were transferred to the finished goods warehouse with a manufacturing profit of Sh.205,184.
- As at 30 June 2021, inventories were valued as follows:

	Sh.
• Raw materials	35,000
• Work-in-progress	54,600
• Finished goods	582,500
- Allowance for depreciation is to be provided on cost at the following rates:

Workshop building	- 2% per annum
Workshop equipment	- 10% per annum
Motor vehicles	- 25% per annum
- As at 30 June 2021, accrued expenses were as follows:

	Sh.
Office expenses	33,800
Workshop expenses	29,600

5. As at 30 June 2021, pre-paid expenses were as follows:
- | | Sh. |
|-----------------|-------|
| Office expenses | 2,200 |
| Workshop | 2,000 |
6. As at 30 June 2021, there was an allowance for unrealised profit of 15% of the closing inventory of finished goods.
7. The allowance for doubtful debt is to be maintained at 10% of the accounts receivable.
8. Kate is responsible for the workshop and Grace for sales. Their salaries are computed as follows:
- | | |
|-------|-----------------------------------|
| Kate | - 25% of the manufacturing profit |
| Grace | - 10% of the trading gross profit |
9. Kate and Grace share the balance of the net profit equally.
10. Capital accounts and drawings do not attract any interest charges.

Required:

- (a) Manufacturing account for the year ended 30 June 2021. (7 marks)
- (b) Statement of profit or loss for the year ended 30 June 2021. (7 marks)
- (c) Statement of financial position as at 30 June 2021. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

Joseph Moto is a sole trader. He does not maintain records on a double entry system. He has provided the following balances as at 31 December:

	2019 Sh."000"	2020 Sh."000"
Premises	17,500	17,500
Furniture	3,000	2,650
Motor vehicles	900	?
Inventory	3,140	3,715
Accounts receivable	1,975	2,035
Accounts payable	3,980	4,650
Bank loan	6,000	?
Salaries and wages accrued	460	375
Pre-paid rates	125	180
Rent received in advance	200	340
Capital	18,190	?

Additional information:

- Joseph Moto maintains a cashbook with discount columns and a file of invoices issued and received.
- Discounts allowed during the year ended 31 December 2020 amounted to Sh.615,000 and discounts received amounted to Sh.680,000.
- During the year ended 31 December 2020, Joseph Moto took goods costing Sh.250,000 for his personal use.
- Depreciation on motor vehicles is charged at 20% per annum on book value. A full year's depreciation is charged in the year of purchase and no depreciation is charged in the year of disposal.
- The motor vehicle was purchased on 1 October 2020.
- Joseph Moto's bank balance is provided below:

Bank account			
	Sh."000"		Sh."000"
Balance brought forward	2,190	Accounts payable	25,130
Accounts receivable	30,655	Cash purchases	4,070
Cash sales	10,680	Salaries and wages	4,160
Rent received	3,100	Rates and insurance	820
Additional capital	2,500	Transport costs	1,410
		Bank charges	75
		General expenses	3,635
		Loan interest	300
		Loan repayment	5,000
		Motor vehicle	1,500
		Drawings	1,800
		Balance carried forward	1,225
	<u>49,125</u>		<u>49,125</u>

Required:

- (a) Statement of profit or loss for the year ended 31 December 2020. (12 marks)
- (b) Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain two ways in which share premium might be used in a company. (4 marks)
- (b) The financial statements of Left Ltd. for the years ended 30 June 2020 and 30 June 2021 were as provided below:

Statement of financial position as at 30 June:

	2020	2021
	Sh."000"	Sh."000"
Non-current assets:		
Property, plant and equipment at book value	24,000	30,000
Current assets:		
Inventory	4,000	5,000
Accounts receivables	6,000	7,200
Bank balance	-	800
	<u>10,000</u>	<u>13,000</u>
Total assets	<u>34,000</u>	<u>43,000</u>
Equity and liabilities:		
Capital:		
2,000,000 ordinary shares of Sh.10 each	20,000	20,000
Revenue reserve	<u>8,000</u>	<u>12,000</u>
	28,000	32,000
Non-current liabilities:		
10% debenture	-	8,000
Current liabilities:		
Accounts payable	4,000	3,000
Bank overdraft	<u>2,000</u>	<u>-</u>
Total capital employed	<u>34,000</u>	<u>43,000</u>

Income statement for year ended 30 June:

	2020	2021
	Sh."000"	Sh."000"
Sales	40,000	55,000
Cost of sales	<u>30,000</u>	<u>41,250</u>
Gross profit	10,000	13,750
Administrative expenses	(4,000)	(5,000)
Distribution expenses	(3,500)	(3,750)
Finance cost	-	(800)
Net profit before tax	2,500	4,200
Taxation at 30%	<u>(750)</u>	<u>(1,260)</u>
Profit after tax	<u>1,750</u>	<u>2,940</u>

Inventory as at 1 July 2020 was valued at Sh.4,400,000.

Required:

For the years ended 30 June 2020 and 30 June 2021, compute the following ratios:

- (i) Gross profit margin. (2 marks)
- (ii) Inventory turnover ratio. (2 marks)
- (iii) Acid test ratio. (2 marks)
- (iv) Current ratio. (2 marks)
- (v) Return on assets. (2 marks)
- (vi) Return on equity. (2 marks)
- (vii) Earnings per share (EPS). (2 marks)
- (viii) Return on capital employed (ROCE). (2 marks)

(Total: 20 marks)