

KASNEB

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 24 May 2017.

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 has been extracted from the books of GT Ltd. as at 31 March 2017:

	Sh. "000"	Sh. "000"
Inventory as at 1 April 2016:		
Raw materials	60,000	
Work-in-progress	40,000	
Finished goods	140,000	
Sales		1,440,000
Purchases of raw materials	700,000	
Factory wages	8,200	
Electricity	18,000	
Factory fuel	10,000	
Insurance	24,000	
Water	6,000	
Office salaries	42,000	
Allowance for doubtful debts		8,000
Trade receivables and trade payables	210,000	84,000
Bank balance	122,000	
Cash balance	5,000	
Computer equipment	420,000	
Land (at cost)	810,000	
Factory building (at cost)	240,000	
Factory plant (at cost)	100,000	
Motor vehicles (at cost)	72,000	
Accumulated depreciation (1 April 2016):		
Computer equipment		70,000
Factory building		24,000
Factory plant		25,000
Motor vehicles		18,000
14% loan stock		400,000
Loan stock interest paid	26,000	
Discount received		45,000
Investment	48,000	
Investment income		7,200
Ordinary share of Sh.100 each		400,000
10% preference shares of Sh.50 each		200,000
Retained profit (1 April 2016)		380,000
	<u>3,101,200</u>	<u>3,101,200</u>

Additional information:

1. Inventory as at 31 March 2017:

	Sh. "000"
Raw materials	30,000
Work-in-progress	50,000
Finished goods	160,000

2. Electricity accruing as at 31 March 2017 amounted to Sh.4,000,000 while prepaid insurance amounted to Sh.6,000,000 at the same date.

3. Allowance for doubtful debts is to be maintained at 5% of the trade receivables.
 4. Depreciation is to be provided on cost as follows:

Asset	Rate per annum (%)
Factory building	4
Factory plant	10
Motor vehicle	20
Computer equipment	30

5. Expenses are to be apportioned as follows:

	Factory	Office
Electricity	80%	20%
Insurance	$\frac{2}{3}$	$\frac{1}{3}$
Depreciation: Motor vehicles	-	100%
Computer equipment	75%	25%
Water	80%	20%

6. Corporation tax to be provided at Sh.130 million.
 7. The company's directors proposed the following:
 - Preference share dividend be paid.
 - A dividend of Sh.10 per share on ordinary shares be paid.
 8. With effect from 1 April 2016, finished goods were transferred to the warehouse at a mark-up of 20%.

Required:

- (a) Manufacturing account for the year ended 31 March 2017. (10 marks)
 (b) Income statement for the year ended 31 March 2017. (10 marks)
(Total: 20 marks)

QUESTION TWO

- (a) Describe four users of accounting information and their needs. (8 marks)
 (b) On 31 March 2017, 2gether Ltd. received their bank statement for the month of March 2017. The statement showed a credit balance of Sh.713,100 while the cash book (bank column) had a credit balance of Sh.76,800.

The following discrepancies between the cash book and bank statement were observed:

1. Standing order for loan repayment amounting to Sh.65,100 was effected by the bank and not in the cash book.
2. The bank had erroneously credited 2gether Ltd.'s account with Sh.210,000 that belonged to another bank customer.
3. One of the cheques issued to a supplier by 2gether Ltd. for Sh.40,200 was not honoured by the bank.
4. A cheque for Sh.150,000 issued to an agent to develop a website for the company was not collected as the agent was not licensed to develop websites.
5. 2gether Ltd. received dividends amounting to Sh.52,500 directly to its bank account.
6. A cheque received from a debtor for Sh.31,500 and deposited in the account was dishonoured as the debtor had been declared bankrupt.
7. It was noted that the accounts clerk had entered a receipt of Sh.127,500 as a prepayment.
8. As at 31 March 2017, the unpresented cheques amounted to Sh.402,000 while cheques not credited amounted to Sh.172,500.
9. Direct deposits made to 2gether Ltd.'s bank account via electronic fund transfer amounted to Sh. 31,500.
10. The bank charges amounted to Sh.22,200.
11. It was discovered that the closing balance on 31 March 2017 in the cash book was understated by Sh.60,000.

Required:

- (i) Adjusted cash book as at 31 March 2017. (8 marks)
 (ii) Bank reconciliation statement as at 31 March 2017. (4 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Describe the two acceptable methods of inventory valuation. (4 marks)
- (b) The following financial statements were extracted from the books of Prudence Ltd. on 31 March:

	2016	2017
Income statement	Sh. "000"	Sh. "000"
Sales (all on credit)	10,000	12,000
Cost of sales	<u>(6,000)</u>	<u>(6,600)</u>
Gross profit	4,000	5,400
Operating expenses	(2,700)	(3,680)
Interest	<u>(300)</u>	<u>(400)</u>
Profit before tax	1,000	1,320
Corporation tax	<u>(300)</u>	<u>(396)</u>
Profit after tax	<u>700</u>	<u>924</u>
	2016	2017
Statement of financial position	Sh. "000"	Sh. "000"
Non-current assets:		
Land and buildings	4,000	4,000
Motor vehicles	3,000	5,000
Equipment	2,470	4,317
Current assets:		
Inventory	3,800	4,000
Accounts receivable	2,800	3,400
Bank balance	<u>1,800</u>	<u>2,673</u>
Total assets	<u>17,870</u>	<u>23,390</u>
Equity and liabilities:		
Ordinary shares of Sh.100 each	6,000	8,000
Share premium	3,000	4,000
General reserves	1,000	1,100
Retained earnings	670	694
10% Loan stock	3,000	4,000
Current liabilities:		
Accounts payable	3,000	4,000
Corporation tax	300	396
Interest	700	400
Dividend	<u>600</u>	<u>800</u>
Total equity and liabilities	<u>17,870</u>	<u>23,390</u>

Additional information:

- As at 31 March 2015, closing inventory was valued at Sh.3,600,000.
- Assume a year has 360 days.

Required:

Compute the following ratios for the year ended 31 March 2016 and 31 March 2017:

- Gross profit margin. (2 marks)
 - Net profit margin. (2 marks)
 - Return on capital employed. (2 marks)
 - Current ratio. (2 marks)
 - Quick (acid test) ratio. (2 marks)
 - Inventory turnover. (2 marks)
- (c) Using the ratios calculated in (b) (i) to (b) (vi) above, comment on the trend of profitability and liquidity. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) In the context of public sector accounting, explain the following terms:

- Public sector utilities. (2 marks)
- Appropriation-in-Aid. (2 marks)

(iii) Fund accounting. (2 marks)

(iv) Capital project fund. (2 marks)

(b) P Ltd. acquired 80% of the ordinary shares of S Ltd. on 1 July 2016. The following are the statements of comprehensive income for the year ended 31 December 2016:

	P Ltd. Sh."000"	S Ltd. Sh."000"
Revenue	350,000	235,000
Cost of sales	<u>(222,500)</u>	<u>(162,600)</u>
Gross profit	127,500	72,400
Investment income (from S Ltd.)	<u>16,500</u>	<u>-</u>
	144,000	72,400
Expenses	<u>(64,300)</u>	<u>(50,400)</u>
	79,700	22,000
Income tax expenses	<u>(21,900)</u>	<u>(5,600)</u>
Net profit for the year	<u><u>57,800</u></u>	<u><u>16,400</u></u>

Additional information:

- On 30 December 2016, P Ltd. sold goods to S Ltd. at Sh.5,500,000. The goods had cost P Ltd. Sh.4,200,000. S Ltd. received and recorded the goods on 3 January 2017.
- On 31 December 2016, P Ltd.'s property, plant and equipment was revalued from Sh.380 million to Sh.400 million.
- All items in the above income statements except investment income are deemed to accrue evenly over the year.

Required:

Group consolidated statement of comprehensive income for the year ended 31 December 2016. (12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain three errors which could be disclosed by a trial balance. (6 marks)

(b) The following is the receipts and payments account for Sefi Welfare Club as at 30 April 2017:

Receipts	Sh."000"	Payments	Sh."000"
Cash in bank	1,250	Salaries	1,350
Subscriptions	5,250	Office expenses	125
Annual dinner receipts	2,680	Annual dinner expenses	150
Donations	2,250	Other expenses	200
Dividends on shares	250	Telephone expenses	150
		Shares purchased	7,500
		Postage	220
		Plant maintenance	634
		Cash in bank	<u>1,351</u>
	<u>11,680</u>		<u>11,680</u>

Additional information:

- As at 1 May 2016, no subscriptions had been received in advance.
- Subscriptions in arrears amounted to Sh.100,000 as at 30 April 2016 and Sh.150,000 as at 30 April 2017.
- Telephone services paid for in advance as at 30 April 2017 amounted to Sh.30,000.
- Postage stamps in the custody of the club's secretary as at 1 May 2016 and 30 April 2017 were valued at Sh.25,000 and Sh.15,000 respectively.
- The cost of the building owned by the club was Sh.50,000,000 as at 1 May 2016. Depreciation for the building is to be provided at the rate of 2% per annum on cost.
- Sh.25,000 in respect of annual dinner receipts was outstanding at the year end.
- The investment in shares as at 1 May 2016 was Sh.500,000.
- As at 30 April 2017, Sh.250,000 for the hire of the hall where the dinner was hosted is still outstanding.

Required:

(i) Income and expenditure account for the year ended 30 April 2017. (7 marks)

(ii) Statement of financial position as at 30 April 2017. (7 marks)

(Total: 20 marks)