



**CCP FOUNDATION LEVEL**  
**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 4 December 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Describe the functions of the following source documents:
- (i) Debit note. (2 marks)
  - (ii) Credit note. (2 marks)
  - (iii) Statement of account. (2 marks)
- (b) With reference to social and environmental accounting, explain the following terms:
- (i) Transparency. (2 marks)
  - (ii) Accountability. (2 marks)
  - (iii) Sustainability. (2 marks)
- (c) The following information was extracted from the books of Wendani Social Club for the year ended 31 December 2023:

|  | <b>Sh.</b> |
|--|------------|
| Sale of dinner tickets                             | 36,800     |
| Catering charges paid for dinner                   | 52,000     |
| Payment to canteen suppliers                       | 736,000    |
| Payment for rates and insurance                    | 30,400     |
| Accrued rates and insurance as at 31 December 2023 | 7,600      |
| Payments for decorations and repairs               | 72,800     |
| Payments for stationery and printing               | 19,840     |
| Administrator's salaries paid                      | 376,000    |
| Provision for depreciation on equipment            | 40,000     |
| Bank balance as at 1 January 2023                  | 136,000    |
| Subscription received during the year              | 688,000    |
| Receipts from the canteen                          | 1,104,000  |
| Donations received                                 | 93,440     |
| Unpaid subscriptions as at 31 December 2023        | 100,000    |

**Additional information:**

1. The equipment as at 31 December 2023 were valued at Sh.480,000.
2. Out of the subscription received Sh.88,000 relates to the year 2024.
3. Inventory as at 31 December 2023 was valued at Sh.32,000.

**Required:**

Prepare receipts and payments account for the year ended 31 December 2023.

(8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain **THREE** objectives of public sector accounting. (6 marks)
- (b) In the context of computerised accounting system, explain the purpose of the following controls:
- (i) Data back-up recovery. (2 marks)
- (ii) Access control. (2 marks)
- (c) Mapal Traders is a manufacturing enterprise, dealing in motor cycle components. The following trial balance was extracted from the books of the enterprise as at 30 June 2024:

|  | <b>Sh. "000"</b> | <b>Sh. "000"</b> |
|--|------------------|------------------|
| Sales  |                  | 41,150           |
| Factory wages                                  | 7,500            |                  |
| Other factory direct expenses                  | 1,850            |                  |
| Rent and rates                                 | 1,200            |                  |
| General expenses                               | 7,800            |                  |
| Administrative expenses                        | 3,900            |                  |
| Motor vehicle expenses                         | 370              |                  |
| Advertising expenses                           | 650              |                  |
| Plant at cost                                  | 10,650           |                  |
| Motor vehicle at cost                          | 3,800            |                  |
| Accumulated depreciation - 1 July 2023 - Plant |                  | 760              |
| - Motor vehicle                                |                  | 180              |
| Trade receivables and trade payables           | 4,200            | 3,850            |
| Capital  |                  | 13,120           |
| Purchases of raw material                      | 12,200           |                  |
| Inventory (1 July 2023) - Raw material         | 1,380            |                  |
| - Work-in-progress                             | 1,930            |                  |
| - Finished goods                               | <u>1,630</u>     |                  |
|  | <u>59,060</u>    | <u>59,060</u>    |

**Additional information:**

1. Inventory as at 30 June 2024 was as follows:
- |                  | <b>Sh. "000"</b> |
|------------------|------------------|
| Raw material     | 1,540            |
| Work-in-progress | 1,980            |
| Finished goods   | 1,480            |
2. Accrued advertising expenses as at 30 June 2024 was Sh.740,000
3. Depreciation is to be provided as follows:
- | <b>Non-current assets</b> |   | <b>Rate per annum</b> |
|---------------------------|---|-----------------------|
| • Plant                   | - | 10% on cost           |
| • Motor vehicle           | - | 15% on cost           |
4. Rent and rates, and general expenses are to be apportioned as follows:
- |                  |   |     |
|------------------|---|-----|
| • Factory        | - | 75% |
| • Administration | - | 25% |

**Required:**

- (i) Manufacturing account for the year ended 30 June 2004. (5 marks)
- (ii) Income statement for the year ended 30 June 2004. (5 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Summarise **FOUR** uses of a trial balance in the preparation of financial statements of a business entity. (4 marks)
- (b) The following is the statement of financial position of Mwenda Pole as at 31 March 2023 and 2024:

|                                 | 31 March 2023      |                    | 31 March 2024      |                    |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | Sh.                | Sh.                | Sh.                | Sh.                |
| <b>Non-current assets:</b>      |                    |                    |                    |                    |
| Equipment                       | 6,840,000          |                    | 6,264,000          |                    |
| Less: Depreciation              | <u>(2,748,000)</u> | 4,092,000          | <u>(3,122,400)</u> | 3,141,600          |
| <b>Current assets:</b>          |                    |                    |                    |                    |
| Inventory                       |                    | 4,456,800          |                    | 3,900,000          |
| Trade receivables               | 2,032,800          |                    | 3,405,600          |                    |
| Doubtful debts                  | <u>(100,800)</u>   | 1,932,000          | <u>(192,000)</u>   | 3,213,600          |
| Bank                            |                    | <u>974,400</u>     |                    | <u>888,000</u>     |
|                                 |                    | <u>11,455,200</u>  |                    | <u>11,143,200</u>  |
| <b>Capital and liabilities:</b> |                    |                    |                    |                    |
| Capital                         |                    | 8,582,400          |                    | 8,061,600          |
| Net profit                      |                    | 2,457,600          |                    | 2,656,800          |
| Cash introduced                 |                    | -                  |                    | <u>144,000</u>     |
|                                 |                    | <u>11,040,000</u>  |                    | <u>10,862,400</u>  |
| Drawings                        |                    | <u>(2,978,400)</u> |                    | <u>(2,054,400)</u> |
|                                 |                    | 8,061,600          |                    | 8,808,000          |
| <b>Non-current liabilities:</b> |                    |                    |                    |                    |
| Loan from bank                  |                    | <u>2,400,000</u>   |                    | <u>960,000</u>     |
|                                 |                    | 10,461,600         |                    | 9,768,000          |
| <b>Current liabilities:</b>     |                    |                    |                    |                    |
| Trade payables                  |                    | <u>993,600</u>     |                    | <u>1,375,200</u>   |
|                                 |                    | <u>11,455,200</u>  |                    | <u>11,143,200</u>  |

**Additional information:**

- Equipment with a net book value of Sh.324,000 was sold for Sh.216,000. Depreciation written off on the equipment during the year was Sh.626,400.
- Dividend paid during the year amounted to Sh.270,000.

**Required:**

Statement of cash flows in accordance with international accounting standard (IAS) 7 "Statement of cash flows" for the year ended 31 March 2024.

(16 marks)

**(Total: 20 marks)****QUESTION FOUR**

- (a) Differentiate between "straight line method of depreciation" and "reducing balance method of depreciation". (4 marks)
- (b) The following trial balance was extracted from the books of Mboka Traders, a sole trader as at 31 May 2024:

|                             | Sh. "000" | Sh. "000" |
|-----------------------------|-----------|-----------|
| Capital at 1 June 2023      |           | 12,500    |
| Drawings                    | 1,760     |           |
| Sales turnover              |           | 82,470    |
| Purchases                   | 58,750    |           |
| Inventory as at 1 June 2023 | 5,330     |           |
| Sales returns               | 440       |           |
| Purchases returns           |           | 410       |
| Carriage inwards            | 520       |           |
| Wages and salaries          | 10,700    |           |
| Rent                        | 4,200     |           |
| Electricity and water       | 1,110     |           |
| Telephone and postage       | 300       |           |
| Stationery and packaging    | 290       |           |
| Carriage outwards           | 350       |           |

|   | Sh. "000"      | Sh "000"       |
|---|----------------|----------------|
| Office equipment at cost                | 6,400          |                |
| Motor vehicles at cost                  | 4,000          |                |
| Fixtures and fittings at cost           | 2,500          |                |
| Accumulated depreciation – 1 June 2023: |                |                |
| • Office equipment                      |                | 2,400          |
| • Motor vehicles                        |                | 1,600          |
| • Fixtures and fittings                 |                | 1,000          |
| Accounts receivable                     | 7,590          |                |
| Bank balance                            | 1,960          |                |
| Accounts payable                        |                | <u>5,820</u>   |
|   | <u>106,200</u> | <u>106,200</u> |

**Additional information:**

- Inventory count as at 31 May 2024 revealed the value of inventory at Sh.4,060,000.
- As at 31 May 2024, outstanding electricity and water bills amounted to Sh.370,000.
- Depreciation on property, plant and equipment is provided on a straight-line basis at the following rates:

| Asset                 | Rate per annum |
|-----------------------|----------------|
| Office equipment      | 12.5%          |
| Motor vehicles        | 20%            |
| Fixtures and fittings | 10%            |

**Required:**

- Statement of profit or loss for Mboka Traders for the year ended 31 May 2024. (10 marks)
- Statement of financial position as at 31 May 2024. (6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- Identify **FOUR** errors that are not disclosed by the trial balance. (4 marks)
- List **FOUR** causes of the difference between cash book (bank column) balance and the bank statement balance. (4 marks)
- The following statement of financial position relates to X, Y and Z partners as at 31 December 2023 immediately before dissolution of the partnership:

|                     | Sh. "000"    | Assets              | Sh. "000"    |
|---------------------|--------------|---------------------|--------------|
| Capital accounts    |              |                     |              |
| X                   | 1,000        | Premises            | 900          |
| Y                   | 600          | Furniture           | 500          |
| Z                   | 400          | Motor vehicles      | 800          |
| Current accounts    |              | Goodwill            | 300          |
| X                   | 400          | Inventory           | 400          |
| Y                   | 200          | Accounts receivable | 300          |
| Z (debit)           | (400)        | Bank                | 100          |
| Accounts payable    | 1,050        |                     |              |
| Loan from partner X | <u>50</u>    |                     |              |
|                     | <u>3,300</u> |                     | <u>3,300</u> |

**Additional information:**

- The partners were sharing profits and losses in the ratio 3:2:1 between X, Y and Z respectively.
- The partners agreed to dissolve their business on mutual understanding on 1 January 2023.
- Upon dissolution, dissolution expenses of Ksh.60,000 were incurred and paid in full.
- Assets were disposed of as follows:
  - Premises - Sh.1,000,000
  - Motor vehicles - Sh.600,000
  - Inventory - Sh.300,000
  - Furniture - Taken over by X at an agreed value of Sh.150,000
  - Accounts receivable - Taken over by Y at an agreed value of Sh.200,000
- Partner X's loan was paid immediately. Creditors were also paid in full and in return allowed a discount of Sh.20,000.
- All partners were solvent at the time of dissolution.

**Required:**

Prepare the following ledgers to effect the dissolution:

- (i) Realisation account. (4 marks)
- (ii) Bank account. (4 marks)
- (iii) Partners capital account. (4 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**  
**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 21 August 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

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

- (i) Contingent liability. (2 marks)
- (ii) Contingent assets. (2 marks)
- (iii) Social benefits. (2 marks)

(b) Omega Limited offered 200,000 ordinary shares for subscription on 1 July 2023 at Sh.20 par value. Shares were payable as follows as per the scheduled dates:

| <b>Payment</b>        | <b>Sh.</b> | <b>Dates due</b>  |
|-----------------------|------------|-------------------|
| On application        | 4          | 31 July 2023      |
| On allotment          | 6          | 31 August 2023    |
| First call            | 5          | 30 September 2023 |
| Second and final call | 5          | 31 October 2023   |

Applications were received for 280,000 shares. The directors allotted the 200,000 shares as follows:

- 160,000 shares – full allotment
- 80,000 shares – allotted 40,000 shares
- 40,000 shares – rejected

The money paid on application by unsuccessful applicants was refunded. However, it is the company's policy to retain excess application money for the partially successful applicants. The excess application money is used to reduce the allotment money due.

All the monies on both calls were received except for 5,000 shares. These shares were forfeited and later re-issued as fully paid at Sh.18 each on 15 November 2023.

**Required:**

Prepare ledger accounts to record the above transactions.

(14 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Outline **FOUR** elements of financial statements. (4 marks)
- (b) Explain **TWO** factors that an organisation should consider when sourcing for an accounting software. (4 marks)

- (c) The following is Tala traders statement of financial position as at 31 March 2024. The statement failed to balance and the difference was posted to the suspense account.

**Tala Traders**  
**Statement of financial position**  
**As at 31 March 2024**

| <b>Non-current assets:</b>      | <b>Sh.</b>     | <b>Sh.</b>       |
|---------------------------------|----------------|------------------|
| Motor vehicles                  |                | 3,024,000        |
| Furniture and fittings          |                | <u>124,080</u>   |
|                                 |                | 3,148,080        |
| <b>Current assets:</b>          |                |                  |
| Inventories                     | 945,600        |                  |
| Trade receivables               | 120,000        |                  |
| Bank                            | <u>408,000</u> | <u>1,473,600</u> |
|                                 |                | <u>4,621,680</u> |
| <b>Capital and liabilities:</b> |                |                  |
| Capital                         |                | 3,210,480        |
| Add: Retained earnings          |                | <u>339,360</u>   |
|                                 |                | <u>3,549,840</u> |
| <b>Current liabilities:</b>     |                |                  |
| Trade payables                  | 403,440        |                  |
| Suspense                        | <u>668,400</u> | <u>1,071,840</u> |
|                                 |                | <u>4,621,680</u> |

**Additional information:**

1. A loan obtained from a friend amounting to Sh.1,080,000 was recorded in the cash book only.
2. Repairs of motor vehicles amounting to Sh.324,000 had been recorded in motor vehicles account.
3. Trade payables amounting to Sh.110,000 had been omitted from the list of trade payables.
4. Sales had been overcasted by Sh.278,000.
5. Amount received from a debtor amounting to Sh.121,800 had been recorded as a payment in the cash book.
6. Goods sold to a customer worth Sh.288,000 had not been recorded in the books.
7. Depreciation on motor vehicle and furniture and fitting amounting to Sh.134,400 had not been recorded in the books.

**Required:**

- (i) Journal entries to correct the above errors. (No narrations is required) (7 marks)
  - (ii) Suspense account duly balanced. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) With reference to accounting for not-for-profit organisation, highlight **THREE** differences between a “receipt and payment account” and “income and expenditure account”. (6 marks)
- (b) Explain **TWO** cost elements in a manufacturing entity. (4 marks)
- (c) The following information relates to Klub Limited which operates a wholesale store as at 30 June 2024.

| <b>Year</b> | <b>Sales</b>     | <b>Inventory</b> | <b>Profit before tax</b> |
|-------------|------------------|------------------|--------------------------|
|             | <b>Sh. ‘000’</b> | <b>Sh. ‘000’</b> | <b>Sh. ‘000’</b>         |
| 2019        | 18,000           | 8,400            | 3,600                    |
| 2020        | 25,680           | 9,360            | 5,400                    |
| 2021        | 28,380           | 9,840            | 5,760                    |
| 2022        | 36,240           | 11,160           | 6,360                    |
| 2023        | 42,000           | 13,920           | 7,920                    |
| 2024        | 48,000           | 14,400           | 8,400                    |

**Required:**

- (i) Calculate the trend analysis percentage for the company using 2019 as the base year. (8 marks)
  - (ii) Comment on the trend analysis of the company for the six years computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Under accrual accounting basis, governments recognise all assets and liabilities and therefore present the true balance of funds. The assets and liabilities are presented at their carrying value, current market value or their value in use so as to present the true financial position at a given period in time.

Explain **TWO** advantages of accrual basis of accounting as used in public sector. (4 marks)

- (b) Howthone Manufacturing Company maintains an account with First Unity Bank. The bank account statement as at 31 March 2024 is summarised as follows:

|                                  | <b>Sh. '000'</b> |
|----------------------------------|------------------|
| Balance as at 1 March 2024       | 32,120           |
| Deposits                         | 82,140           |
| Cheque payments                  | (78,433)         |
| Bank charges                     | (80)             |
| Insurance premium standing order | (2,187)          |
| Direct credits                   | <u>1,120</u>     |
| Balance as at 31 March 2024      | <u>34,680</u>    |

The company's cashbook showed a balance of Sh.35,276,000 at the end of March 2024. A review of the company accounts revealed the following;

1. Cash receipts not yet deposited amounted to Sh.2,965,000.
2. A deposit of Sh.1,020,000 made on 31 March 2024 was not credited by the bank until 2 April 2024.
3. A cheque written for Sh.1,790,000 to a supplier was incorrectly recorded by the company as Sh.790,000.
4. Cheques written in March totaling Sh.5,536,000 for material purchase had not been cleared by the bank.

#### Required:

- (i) Updated cashbook. (4 marks)
- (ii) Bank reconciliation statement as at 31 March 2024. (4 marks)
- (c) Karai Works Ltd. purchased a plant for Sh.240,000 on 1 January 2022. On 1 July 2022 the company purchased another plant costing Sh.96,000 and spent Sh.24,000 on installation of the plant. On 1 July 2023 the company disposed of the plant purchased on 1 January 2022 for Sh.150,000. On 1 October 2024, the company purchased another plant for Sh.336,000 and disposed of the plant purchased on 1 July 2022 for Sh.72,000 on the same day. The company provides depreciation using the straight line method during the year of purchase and none in the year of disposal at the rate of 10% per annum. The financial year of the company ends on 31 December.

#### Required:

- (i) Plant account. (2 marks)
- (ii) Provision for depreciation account. (4 marks)
- (iii) Plant disposal account. (2 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

The following is the trial balance of Kahawa Limited as at 31 March 2024:

|  | <b>Sh. '000'</b> | <b>Sh. '000'</b> |
|--|------------------|------------------|
| Ordinary share capital (Sh.10 par value) |                  | 20,000           |
| Share premium                            |                  | 4,000            |
| Retained profit as at 1 April 2023       |                  | 8,130            |
| 12.5% bank loan                          |                  | 8,000            |
| Turnover                                 |                  | 217,000          |
| Purchases                                | 136,800          |                  |
| Carriage inwards                         | 2,750            |                  |
| Inventory as at 1 April 2023             | 9,750            |                  |
| Staff wages                              | 11,340           |                  |
| Office rent                              | 10,530           |                  |



|   | Sh. '000'      | Sh. '000'      |
|---|----------------|----------------|
| Electricity and water                       | 5,100          |                |
| Telephone, postage and stationery           | 4,050          |                |
| Carriage outwards                           | 1,260          |                |
| Return inwards and return outwards          | 5,600          | 4,200          |
| Land at cost                                | 42,600         |                |
| Premises at cost                            | 20,000         |                |
| Plant and equipment at cost                 | 8,000          |                |
| Motor vehicles at cost                      | 3,600          |                |
| Provision for depreciation – 1 April 2023:  |                |                |
| • Premises                                  |                | 7,000          |
| • Plant and equipment                       |                | 3,280          |
| • Motor vehicles                            |                | 1,440          |
| Accounts receivable                         | 40,600         |                |
| Accounts payable                            |                | 36,700         |
| Allowance for doubtful debts – 1 April 2023 |                | 1,470          |
| Bank balance                                | 8,740          |                |
| Interest paid                               | <u>500</u>     |                |
|   | <u>311,220</u> | <u>311,220</u> |

**Additional information:**

- Inventory as at 31 March 2024 was valued at a cost of Sh.7,500,000.
- As at 31 March 2024, office rent owing amounted to Sh.5,000,000.
- Depreciation on non-current assets is provided as follows:

| Asset               | Rate per annum | Basis            |
|---------------------|----------------|------------------|
| Premises            | 2.5%           | Straight line    |
| Plant and equipment | 12.5%          | Reducing balance |
| Motor vehicles      | 20%            | Straight line    |

- Allowance for doubtful debts is to be maintained at the rate of 5% of the accounts receivable balance.
- The 12.5% bank loan was obtained on 1 July 2023. Interest on the loan is payable semi-annually on 31 December and 30 June each year.
- The current tax provision for the year ended 31 March 2024 is Sh.10,500,000.

**Required:**

- Statement of profit or loss for the year ended 31 March 2024. (10 marks)
- Statement of financial position as at 31 March 2024. (10 marks)

**(Total: 20 marks)**

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CCP FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 24 April 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

- (a) In the context of not-for-profit organisations, explain the following terms:
- (i) Subscription. (2 marks)
  - (ii) Honorarium. (2 marks)
- (b) Describe the following tools and techniques used in the analysis of financial statements:
- (i) Ratio analysis. (1 mark)
  - (ii) Trend analysis. (1 mark)
  - (iii) Common size statements. (1 mark)
  - (iv) Cash flow analysis. (1 mark)
- (c) The following financial statements relate to Butterfly Ltd. for the years ended 31 December 2023 and 31 December 2022:

**Butterfly Ltd.**

**Statement of financial position as at 31 December:**

|                                       | 2023           | 2022           |
|---------------------------------------|----------------|----------------|
|                                       | Sh. "000"      | Sh. "000"      |
| <b>Non-current assets:</b>            |                |                |
| Property, plant and equipment         | 20,000         | 10,300         |
| <b>Current assets:</b>                |                |                |
| Inventories                           | 65,550         | 52,575         |
| Trade receivables                     | 54,640         | 50,660         |
| Bank and cash balances                | <u>7,310</u>   | <u>15,215</u>  |
| Total assets                          | <u>147,500</u> | <u>128,750</u> |
| <b>Capital and liabilities:</b>       |                |                |
| Share capital (Sh.20 ordinary shares) | 14,000         | 14,000         |
| Share premium                         | 2,500          | 2,500          |
| Revenue reserves                      | <u>36,910</u>  | <u>30,660</u>  |
|                                       | <u>53,410</u>  | <u>47,160</u>  |
| <b>Non-current liabilities:</b>       |                |                |
| 10% loan stock (maturity 2029)        | 27,000         | 27,000         |
| Deferred tax                          | <u>13,580</u>  | <u>8,165</u>   |
|                                       | <u>40,580</u>  | <u>35,165</u>  |
| <b>Current liabilities:</b>           |                |                |
| Trade payables                        | 46,905         | 41,075         |
| Taxation payable                      | 4,105          | 3,100          |
| Proposed dividends                    | <u>2,500</u>   | <u>2,250</u>   |
|                                       | <u>53,510</u>  | <u>46,425</u>  |
| Total equity and liabilities          | <u>147,500</u> | <u>128,750</u> |

**Butterfly Ltd.****Statement of profit or loss for the period ending 31 December:**

|                              | <b>2023</b>         | <b>2022</b>         |
|------------------------------|---------------------|---------------------|
|                              | <b>Sh.“000”</b>     | <b>Sh.“000”</b>     |
| Sales                        | <u>661,765</u>      | <u>551,180</u>      |
| Operating profit             | 23,450              | 20,905              |
| Interest expenses            | <u>(2,700)</u>      | <u>(2,700)</u>      |
| Profit before tax            | 20,750              | 18,205              |
| Taxation                     | <u>(10,950)</u>     | <u>(9,105)</u>      |
|                              | 9,800               | 9,100               |
| Less dividends               | <u>(3,750)</u>      | <u>(3,500)</u>      |
| Retained profit for the year | <u><u>6,050</u></u> | <u><u>5,600</u></u> |

**Additional information:**

1. Cost of sales for the year ended 31 December 2023 was Sh.450,000,000 while that for the year ended 31 December 2022 was Sh.370,000,000.
2. The market price of the company's ordinary shares on 31 December 2022 was Sh.100 and on 31 December 2023 was Sh.83.70.
3. Credit sales contributed 80% of the total sales in both years.
4. Assume balances at the statement of financial position date represent average for the period.
5. All purchases were on credit for both years.
6. Assume a 365 days year.

**Required:**

Calculate the following for each financial year:

- (i) Quick ratio. (2 marks)
- (ii) Current ratio. (2 marks)
- (iii) Average collection period. (2 marks)
- (iv) Inventory turnover ratio. (2 marks)
- (v) Earnings per share. (2 marks)
- (vi) Price earnings (P/E) ratio. (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) While the trial balance provides a useful control mechanism for detecting errors, a balanced trial balance does not guarantee the accuracy of the doubly entry concept of accounting.

**Required:**

In light of the above statement, highlight **FOUR** errors that will not affect the balancing of the trial balance. (4 marks)

- (b) Explain the term “professional ethics”. (2 marks)
- (c) Distinguish between “prime cost” and “factory cost” giving appropriate example in each case. (4 marks)
- (d) Porto Limited, a sporting equipment manufacturing entity has provided the following information relating to its non-current assets as at 1 November 2022:

|                               | <b>Cost</b>     | <b>Accumulated depreciation</b> |
|-------------------------------|-----------------|---------------------------------|
|                               | <b>Sh.“000”</b> | <b>Sh.“000”</b>                 |
| Property (land Sh.50 million) | 110,000         | 21,600                          |
| Plant and equipment           | 36,000          | 12,800                          |
| Motor vehicles                | 27,000          | 10,800                          |

**Additional information:**

- Depreciation on non-current assets is provided as follows:
 

| Asset               | Rate per annum | Basis            |
|---------------------|----------------|------------------|
| Building            | 2%             | Straight line    |
| Plant and equipment | 12.5%          | Reducing balance |
| Motor vehicles      | 20%            | Straight line    |
- During the year to 31 October 2023, the company constructed new factory premises at a cost of Sh.10,000,000.
- An old motor vehicle which had cost Sh.5,000,000 and had an accumulated depreciation of Sh.3,000,000 at 1 November 2022 was disposed of during the year for cash proceeds of Sh.1,800,000.
- During the year ended 31 October 2023, new motor vehicles with a cost of Sh.6,000,000 were acquired for cash.
- It is the company's policy to provide full year depreciation in the year of asset purchase and none in the year of disposal.

**Required:**

Prepare a property, plant and equipment movement schedule for Porto Limited for the year ended 31 October 2023.

(10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

X and Y have been partners in a business sharing profit and losses in the ratio of 3:2 respectively after allowing for interest on capital at the rate of 10% per annum.

On 1 September 2023, they admitted Z into the partnership. Z paid his capital and share of goodwill contributions of Sh.800,000 and Sh.400,000 respectively in cash. The partnership agreement to allow interest on capital at the rate of 10% per annum and to write off the goodwill paid on admission of Z. Z was to share  $\frac{1}{4}$  of the profit and losses of the partnership.

X and Y were to share the balance of the profits and losses in the ratio of 3:2 respectively.

For the purpose of admission of Z into the partnership, land and building were valued at Sh.4,000,000 on 1 September 2023.

The following trial balance was extracted from the books of the partnership as at 31 March 2024:

|                                 | Sh."000"      | Sh."000"      |
|---------------------------------|---------------|---------------|
| Land and building               | 2,800         |               |
| Equipment at cost               | 4,000         |               |
| Accumulated depreciation        |               | 1,600         |
| Bank balance                    | 1,820         |               |
| <b>Capital accounts:</b> X      |               | 1,800         |
| Y                               |               | 1,200         |
| Capital introduced by Z         |               | 800           |
| Cash premium paid by Z          |               | 400           |
| <b>Current account:</b> X       |               | 600           |
| Y                               |               | 400           |
| <b>Drawings:</b> X              | 200           |               |
| Y                               | 160           |               |
| Z                               | 120           |               |
| Inventory (1 April 2023)        | 400           |               |
| Purchases/sales                 | 10,000        | 18,000        |
| Administrative expenses         | 3,200         |               |
| Selling and distribution costs  | 2,100         |               |
| Allowance for doubtful debts    |               | 200           |
| Trade receivable/trade payables | <u>1,200</u>  | <u>1,000</u>  |
|                                 | <u>26,000</u> | <u>26,000</u> |

**Additional information:**

- Assume sales, gross profit and expenses accrue evenly throughout the year.
- Inventory as at 31 March 2024 was valued at Sh.800,000.
- As at 31 March 2024 accrued administrative expenses amounted to Sh.300,000 while prepaid selling and distribution costs amounted to Sh.100,000.
- Depreciation is to be provided on equipment at the rate of 20% per annum on cost.

5. Allowance for doubtful debts is to be increased to Sh.300,000 of which Sh.60,000 relates to the period 1 April 2023 to 30 September 2023.

**Required:**

- (a) Statement of profit or loss and appropriation. (10 marks)
- (b) Partners' capital account. (4 marks)
- (c) Statement of financial position as at 31 March 2024. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Highlight **FOUR** benefits of public sector accounts to their users. (4 marks)
- (b) Rhoda Elma, a sole trader dealing in cosmetic goods lost some of her accounting data due to a computer virus. Whilst the book keeper of the business managed to reconstruct some elements of the financial statements, additional elements still need to be determined. The following set of balances was obtained from the statement of financial position of the business as at 30 November 2022:

|  | Sh. "000" |
|--|-----------|
| Property, plant and equipment at carrying amount | 5,600     |
| Inventories                                      | 1,480     |
| Accounts receivable                              | 1,640     |
| Prepaid rent                                     | 370       |
| Bank balance                                     | 1,430     |
| Accounts payable                                 | 1,390     |
| Outstanding electricity                          | 190       |

Reconciliations of the cash book with the bank statements for the year to 30 November 2023 revealed the following:

|                                     | Sh. "000" |
|-------------------------------------|-----------|
| Cash received from credit customers | 15,840    |
| Cash paid to suppliers              | (11,790)  |
| Salaries paid                       | (1,980)   |
| Rent paid                           | (1,210)   |
| Electricity bills paid              | (530)     |
| Telephone and packaging paid        | (160)     |
|                                     | 170       |

Upon scrutiny of the manual data, the book keeper obtained the following further information:

1. The list of accounts receivable (the memorandum) indicated a balance of Sh.2,490,000 as at 30 November 2023.
2. Value of inventory of Sh.1,350,000 was confirmed by the inventory count conducted on 30 November 2023.
3. The memorandum of the accounts payable had a balance of Sh.1,440,000 as at 30 November 2023.
4. The electricity bill outstanding as at 30 November 2023 amounted to Sh.220,000 while prepaid rent was Sh.410,000 as at 30 November 2023.
5. During the year ended 30 November 2023, Rhoda took goods worth a Sh.120,000 for personal use.
6. Depreciation on property, plant and equipment is provided at the rate of 12.5% on reducing balance basis.

**Required:**

- (i) Statement of profit or loss for the year ended 30 November 2023. (10 marks)
- (ii) Statement of financial position as at 30 November 2023. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Outline **TWO** reasons for preparing a bank reconciliation statement. (4 marks)
- (b) List **FOUR** challenges of using computerised accounting system. (4 marks)

(c) The following is the trial balance of Gee Brown a sole trader, extracted on 31 December 2023:

|                                 | Sh. "000"      | Sh. "000"      |
|---------------------------------|----------------|----------------|
| Capital (1 January 2023)        |                | 26,094         |
| Trade receivables               | 42,737         |                |
| Cash in hand                    | 1,411          |                |
| Trade payables                  |                | 35,404         |
| Fixtures and fittings (at cost) | 42,200         |                |
| Discount allowed                | 1,304          |                |
| Discount received               |                | 1,175          |
| Inventory (1 January 2023)      | 18,460         |                |
| Purchases and sales             | 387,936        | 491,620        |
| Motor vehicles (at cost)        | 45,730         |                |
| Lighting and heating            | 6,184          |                |
| Motor vehicle expenses          | 2,862          |                |
| Rent                            | 8,841          |                |
| General expenses                | 7,413          |                |
| Balance at bank                 |                | 19,861         |
| Accumulated depreciation:       |                |                |
| Fixtures and fittings           |                | 2,200          |
| Motor vehicles                  |                | 15,292         |
| Drawings                        | <u>26,568</u>  |                |
|                                 | <u>591,646</u> | <u>591,646</u> |

**Additional information:**

1. Sh.218,000 is owing for motor vehicle expenses.
2. Sh.680,000 has been prepaid for rent.
3. Depreciation is to be provided as follows:  
    Motor vehicles      20% on cost  
    Fixtures and fittings   10% on reducing balance.
4. Inventory as at 31 December 2023 was valued at Sh.19,926,000.

**Required:**

- (i) Gee Brown's statement of profit or loss for the year ended 31 December 2023. (6 marks)
- (ii) Gee Brown's statement of financial position as at 31 December 2023. (6 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**

**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 6 December 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

The following trial balance was extracted from the financial records of Sports limited on 30 September 2022:

|   | Sh. "000"        | Sh. "000"        |
|---|------------------|------------------|
| Land and building at cost (Buildings Sh.200million) | 452,500          |                  |
| Plant and machinery at cost                         | 170,000          |                  |
| Motor vehicles at cost                              | 80,000           |                  |
| Fixtures and fittings at cost                       | 30,000           |                  |
| Accumulated depreciation (1 October 2021)           |                  |                  |
| Buildings   |                  | 24,000           |
| Plant and machinery                                 |                  | 45,600           |
| Motor vehicles                                      |                  | 32,000           |
| Fixtures and fittings                               |                  | 9,000            |
| Inventory (1 October 2021)                          | 68,000           |                  |
| Purchases and sales                                 | 978,500          | 1,300,000        |
| Wages and salaries                                  | 108,000          |                  |
| Rent and rates                                      | 66,700           |                  |
| Electricity and water                               | 42,200           |                  |
| Telephone, postage and stationery                   | 24,500           |                  |
| Bad debts   | 7,650            |                  |
| Allowance for doubtful debts (1 October 2021)       |                  | 5,800            |
| Accounts receivable and accounts payable            | 148,000          | 85,000           |
| Bank balance  | 54,950           |                  |
| Ordinary share capital (Sh.10 par value)            |                  | 400,000          |
| Share premium                                       |                  | 130,000          |
| General reserves                                    |                  | 80,000           |
| Retained profit (1 October 2021)                    |                  | 47,600           |
| 10% bank loan                                       |                  | 80,000           |
| Interest on loan paid                               | 4,000            |                  |
| Returns   | 25,000           | 21,000           |
|   | <u>2,260,000</u> | <u>2,260,000</u> |

**Additional information:**

- Closing inventory as at 30 September 2022 was valued at Sh.73,000,000.
- As at 30 September 2022, prepaid rent amounted to Sh.3,000,000 while outstanding electricity was Sh.2,300,000.
- A half year interest on bank loan is outstanding.
- Depreciation is to be provided as follows:

| Asset                 | Rate per annum | Method           |
|-----------------------|----------------|------------------|
| Buildings             | 2%             | Straight line    |
| Plant and machinery   | 12.5%          | Reducing balance |
| Motor vehicles        | 20%            | straight line    |
| Fixtures and fittings | 10%            | straight line    |
- Allowance for doubtful debts is to be maintained at a rate of 5% on accounts receivable.
- The estimated corporation tax for the year ended 30 September 2022 was Sh.7,400,000.
- The directors have agreed to transfer Sh.5,000,000 to general reserves.

**Required:**

- (a) Statement of profit or loss for the year ended 30 September 2022. (10 marks)
- (b) Statement of financial position as at 30 September 2022. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Describe **FOUR** characteristics of a good computerised accounting system. (4 marks)
- (b) Summarise **TWO** accounting techniques used in incomplete records and single-entry book-keeping. (4 marks)
- (c) Hasora Munene, a sole trader in a small retail business prepares receivables and payables ledger control accounts on a monthly basis.

As at 1 August 2022, the following balances were extracted from the financial records of the business:

|                                    | <b>Debit</b><br><b>Sh. "000"</b> | <b>Credit</b><br><b>Sh. "000"</b> |
|------------------------------------|----------------------------------|-----------------------------------|
| Receivables ledger control account | 6,000                            | 600                               |
| Payables ledger control account    | 100                              | 4,800                             |

**The following transactions occurred in the month of August 2022:**

|                                       | <b>Sh. "000"</b> |
|---------------------------------------|------------------|
| Credit sales                          | 27,800           |
| Cash sales                            | 3,700            |
| Amount received from credit customers | 26,900           |
| Cash refunds of credit balances       | 600              |
| Credit purchases                      | 10,500           |
| Cash purchases                        | 3,200            |
| Amounts paid to credit suppliers      | 8,400            |
| Cash refunds of debit balances        | 100              |
| Credit sales returns                  | 1,200            |
| Credit purchases returns              | 300              |
| Cash discounts received               | 200              |
| Bad debts written off                 | 400              |
| Decrease in allowance for receivables | 150              |
| Interest charged to customers         | 200              |
| Contra set-offs                       | 250              |
| Dishonoured cheques                   | 50               |

As at 31 August 2022, the balances in the receivables and payables ledger accounts were as follows:

|                             |                     |
|-----------------------------|---------------------|
| Receivables ledger balances | Sh.200,000 (credit) |
| Payables ledger balances    | Sh.50,000 (debit)   |

**Required:**

Prepare the following ledger control accounts in the books of Hasora Munene for the month of August 2022:

- (i) Receivables ledger control account. (6 marks)
- (ii) Payables ledger control account. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight **FOUR** contents of a partnership agreement. (4 marks)
- (b) Explain **FIVE** qualitative characteristics that make accounting information provided in financial statements useful to stakeholders. (10 marks)
- (c) The following set of balances were obtained from the accounting records of Jaba Limited as at 30 November 2023:



|   | Sh.“000” |
|---|----------|
| Inventory at 1 December 2022            | 4,035    |
| Credit purchases                        | 21,900   |
| Credit sales                            | 27,375   |
| Inventory at 30 November 2023           | 2,210    |
| Accounts receivable at 30 November 2023 | 2,400    |
| Accounts payable at 30 November 2023    | 2,160    |

Assume a 365-days financial year.

**Required:**

Calculate the cash conversion cycle for Jaba Limited for the period ended 30 November 2023

(6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Highlight **FOUR** benefits of adopting international Public Sector Accounting Standards (IPSAS) in the presentation and preparation of financial statements. (4 marks)
- (b) Distinguish between the following terms as applied in accounting:
- (i) “Capital expenditure” and “revenue expenditure”. (2 marks)
- (ii) “Revenue income” and “capital receipts”. (2 marks)
- (iii) “Statutory reserves” and “non-statutory reserves”. (2 marks)
- (iv) “Delivery notes” and “invoices”. (4 marks)
- (c) Explain **THREE** characteristics of not - for - profit entities. (6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

The following information related to Mega One Sports Club for the year ended 30 September 2023:

| Receipts and payments |          |                            |          |
|-----------------------|----------|----------------------------|----------|
|                       | Sh.“000” |                            | Sh.“000” |
| Balance b/d           | 1,600    | Restaurant payable         | 10,800   |
| Restaurant sales      | 18,000   | Electricity and water      | 920      |
| Entry fees            | 4,400    | Staff salaries             | 14,000   |
| Annual dinner sales   | 8,000    | Restaurant wages           | 3,200    |
| Subscriptions         | 15,940   | Rates and insurance        | 3,200    |
| Sale of equipment     | 1,600    | Dinner dance costs         | 3,600    |
|                       |          | Purchases of equipment     | 12,000   |
|                       |          | Cash refund to subscribers | 40       |
|                       |          | Balance c/d                | 1,780    |
|                       | 49,540   |                            | 49,540   |

The balances of assets and liabilities as at 30 September were as follows:

|                               | 2022     | 2023     |
|-------------------------------|----------|----------|
|                               | Sh.“000” | Sh.“000” |
| Insurance prepaid             | 600      | 500      |
| Subscriptions in advance      | 760      | 960      |
| Subscriptions in arrears      | 600      | 800      |
| Restaurant inventory          | 700      | 900      |
| Restaurant payables           | 1,000    | 1,200    |
| Land and building             | 10,000   | 10,000   |
| Sports equipment              | 14,000   | 22,800   |
| Accrued electricity and water | 20       | 100      |

**Additional information:**

1. Subscriptions received during the year included Sh.500,000 being arrears of the last financial year.
2. It is the policy of the club to write off any subscriptions in arrears for more than twelve months.
3. During the year, an equipment with a net book value of Sh.1,200,000 was sold for Sh.1,600,000.

**Required:**

- (a) Restaurant income statement for the year ended 30 September 2023. (4 marks)
- (b) Subscriptions account. (4 marks)
- (c) Income and expenditure account for year ended 30 September 2023. (6 marks)
- (d) Statement of financial position as at 30 September 2023. (6 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**

**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 23 August 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

The following trial balance relates to Antony Holdings, a sole trader, as at 30 June 2023:

|   | Sh.‘‘000’’     | Sh.‘‘000’’     |
|---|----------------|----------------|
| Capital as at 1 July 2022                     |                | 70,000         |
| Inventory as at 1 July 2022                   | 44,000         |                |
| Purchases                                     | 220,000        |                |
| Turnover                                      |                | 370,000        |
| Returns outwards                              |                | 4,500          |
| Returns inwards                               | 5,200          |                |
| Carriage inwards                              | 4,200          |                |
| Carriage outwards                             | 2,000          |                |
| Staff wages                                   | 52,200         |                |
| Insurance expenses                            | 2,600          |                |
| Shop rent                                     | 6,800          |                |
| Electricity and water                         | 2,300          |                |
| Telephone and postage                         | 1,800          |                |
| Accounts receivable                           | 31,000         |                |
| Accounts payable                              |                | 20,700         |
| Cash and bank balances                        | 6,400          |                |
| Drawings                                      | 4,500          |                |
| Land at cost                                  | 15,000         |                |
| Buildings at cost                             | 60,000         |                |
| Motor vehicles at cost                        | 30,000         |                |
| Equipment at cost                             | 12,000         |                |
| Allowance for depreciation as at 1 July 2022: |                |                |
| • Buildings                                   |                | 18,000         |
| • Motor vehicles                              |                | 12,000         |
| • Equipment                                   |                | 4,800          |
|   | <u>500,000</u> | <u>500,000</u> |

**Additional information:**

- Inventories as at 30 June 2023 were valued at Sh.56 million being the lower of the cost and the net realisable value.
- Depreciation on property, plant and equipment is to be provided on straight line basis at the following rates:

| Asset          | Rate per annum |
|----------------|----------------|
| Buildings      | 2%             |
| Motor vehicles | 20%            |
| Equipment      | 10%            |

- At 30 June 2023, prepaid insurance amounted to Sh.400,000 while accrued rent was Sh.1,400,000.

**Required:**

- (a) Statement of profit or loss for the year ended 30 June 2023. (12 marks)
- (b) Statement of financial position as at 30 June 2023. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Describe **TWO** roles that ledger accounts play towards the preparation of financial statements of a business entity. (4 marks)
- (b) Nexton Ltd. manufactures sports equipment. The following balances were extracted from the books of account of the company as at 31 December 2022:

|   | <b>Sh. "000"</b> |
|---|------------------|
| Purchases of raw material                     | 18,307           |
| Inventory as at 1 January 2022 - Raw material | 5,080            |
| - Work in progress                            | 6,220            |
| - Finished goods                              | 4,652            |
| Carriage of raw materials                     | 392              |
| Direct labour                                 | 16,841.6         |
| Office salaries                               | 6,683.8          |
| Rent  | 1,040            |
| Electricity (office)                          | 884              |
| Depreciation - Machinery                      | 2,040            |
| - Equipment (office)                          | 460              |
| Electricity (factory)                         | 1,624            |
| Sales   | 63,724.4         |

**Additional information:**

1. Inventory as at 31 December 2022 was valued as follows:
 

|                  | <b>Sh. "000"</b> |
|------------------|------------------|
| Raw material     | 5,780            |
| Work in progress | 4,920            |
| Finished goods   | 5,768            |
2. The values of opening and closing inventory are given at the transfer price.
3. Finished goods are transferred from factory to sales at a mark-up of 20%
4. Rent is to be apportioned between the factory and office in the ratio of 3:1.

**Required:**

- (i) Manufacturing account for the year ended 31 December 2022. (8 marks)
- (ii) Statement of profit or loss for the year ended 31 December 2022. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Sussie, Tracie and Eunnie have been partners in a casual wear business for many years sharing profits and losses in the ratio 2:2:1 respectively, after allowing for 10% per annum interest on their capital balances.

The latest trial balance as at 31 December 2022 extracted from the accounting records of the partnership showed the following position:

|   | <b>Sh. "000"</b> | <b>Sh. "000"</b> |
|---|------------------|------------------|
| Laundry equipment at carrying amount      | 193,500          |                  |
| Motor vehicles at carrying amount         | 47,800           |                  |
| Furniture and fixtures at carrying amount | 55,900           |                  |
| Inventory                                 | 138,200          |                  |
| Trade receivables                         | 70,000           |                  |
| Cash at bank                              | 25,100           |                  |
| Capital accounts: Sussie                  |                  | 150,000          |
| Tracie                                    |                  | 120,000          |
| Eunnie                                    |                  | 80,000           |
| Current accounts: Sussie                  |                  | 29,600           |
| Tracie                                    |                  | 21,700           |
| Eunnie                                    |                  | 15,400           |
| Trade payables                            |                  | 48,000           |

|                         | Sh. "000"      | Sh. "000"      |
|-------------------------|----------------|----------------|
| Net profit for the year |                | 110,000        |
| Drawings:               |                |                |
| Sussie                  | 18,100         |                |
| Tracie                  | 14,200         |                |
| Eunnie                  | <u>11,900</u>  |                |
|                         | <u>574,700</u> | <u>574,700</u> |

Following serious disagreements among the partners on the running of the business, the partnership was dissolved with effect from 1 January 2023.

**Additional information:**

- Each partner took over a portion of inventory in the profit sharing ratios to set up individual businesses. The inventory had a value of Sh.120,000,000.
- Tangible non-current assets were sold at a public auction and realised the following amounts:

|                        | Sh. "000" |
|------------------------|-----------|
| Laundry equipment      | 116,000   |
| Motor vehicles         | 39,500    |
| Furniture and fixtures | 53,600    |
- Trade receivables and trade payables were settled net of discounts at the rates of 5% and 10% respectively.
- The auctioneer's fees which amounted to Sh.5,000,000 were paid in cash.

**Required:**

Prepare the following ledger accounts to close off the books of the partnership upon dissolution:

- Realisation account. (6 marks)
  - Cash at bank account. (6 marks)
  - Partners current accounts. (4 marks)
  - Partners capital accounts. (4 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- With regards to public sector accounting, explain the following accounting techniques as used by the public sector entities:
  - Commitment accounting. (2 marks)
  - Budget accounting. (2 marks)
- The following financial information was extracted from the accounting records of Focus Limited, a medium-sized, private limited liability entity:

**Statement of profit or loss for the year ended 30 April 2022:**

|                          | Sh. "000"        |
|--------------------------|------------------|
| Sales revenue            | 855,830          |
| Cost of sales            | <u>(495,000)</u> |
| Gross profit             | 360,830          |
| Salaries and wages       | (105,500)        |
| Other operating expenses | (115,280)        |
| Interest expense         | <u>(7,300)</u>   |
| Profit before tax        | 132,750          |
| Income tax charge        | <u>(36,060)</u>  |
| Profit for the year      | <u>96,690</u>    |

**Statement of financial position as at 30 April:**

|                               | 2022          | 2021          |
|-------------------------------|---------------|---------------|
|                               | Sh. "000"     | Sh. "000"     |
| <b>Non-current assets:</b>    |               |               |
| Property, plant and equipment | 188,760       | 138,600       |
| Intangible assets             | <u>19,300</u> | <u>12,200</u> |
|                               | 208,060       | 150,800       |
| <b>Current assets:</b>        |               |               |
| Inventory                     | 41,560        | 53,100        |

|                                 | Sh. "000"      | Sh. "000"      |
|---------------------------------|----------------|----------------|
| Trade receivables               | 62,500         | 71,260         |
| Cash at bank                    | <u>21,780</u>  | <u>14,940</u>  |
| Total assets                    | <u>333,900</u> | <u>290,100</u> |
| <b>Equity and liabilities:</b>  |                |                |
| <b>Equity:</b>                  |                |                |
| Ordinary shares of Sh.10 each   | 160,000        | 140,000        |
| Share premium                   | 35,000         | 25,000         |
| Retained earnings               | <u>51,600</u>  | <u>44,760</u>  |
| Total equity                    | 246,600        | 209,760        |
| <b>Non-current liabilities:</b> |                |                |
| 10% bonds                       | 20,000         | 15,000         |
| <b>Current liabilities:</b>     |                |                |
| Trade payables                  | 42,600         | 41,100         |
| Accrued wages                   | 8,000          | 7,340          |
| Interest payable                | 7,700          | 6,600          |
| Income tax payable              | <u>9,000</u>   | <u>10,300</u>  |
| Total equity and liabilities    | <u>333,900</u> | <u>290,100</u> |

**Additional information:**

- During the year ended 30 April 2022, an item of plant with a carrying amount of Sh.25 million was disposed of at a loss of Sh.4 million which had been included in the other operating expenses.
- Depreciation charged to other operating expenses amounted to Sh.37.7 million.
- Focus Limited renewed its trade licences at a cost of Sh.10 million on 1 July 2021.
- Assume that all sales and purchases were made on credit basis.

**Required:**

Prepare a statement of cash flows for Focus Limited for the year ended 30 April 2022 using the direct method as per International Accounting Standard (IAS) 7 "Statements of Cash Flows".

(16 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a) Identify the accounting information needs for the following users of financial statements:

- |                  |           |
|------------------|-----------|
| (i) Investors.   | (2 marks) |
| (ii) Employees.  | (2 marks) |
| (iii) Lenders.   | (2 marks) |
| (iv) Government. | (2 marks) |

(b) Differentiate between the following set of financial statements:

- |  |           |
|--|-----------|
| (i) "Statement of financial position" and "statement of profit or loss". | (4 marks) |
| (ii) "Statement of change in equity" and "the statement of cash flows".  | (4 marks) |

(c) Explain **FIVE** uses of control accounts in an organisation.

(4 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**

**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 26 April 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Citing examples, describe the intangible heritage assets with reference to International Public Sector Accounting Standard (IPSAS) 31 “Intangible Assets”. (4 marks)
- (b) Differentiate between “not-for-profit entities” and “profit-driven entities”. (4 marks)
- (c) Outline **FOUR** disadvantages of a sole proprietorship business. (4 marks)
- (d) With reference to double entry book-keeping, explain the concept of the “accounting equation”. (4 marks)
- (e) In the context of manufacturing accounts, differentiate between the following elements of costs:
- (i) “Variable costs” and “fixed costs”. (2 marks)
- (ii) “Direct costs” and “indirect costs”. (2 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Japheth Willis, a sole trader had an opening balance as at 1 May 2021 on his trade receivables account of Sh.253,000.

During the year ended 30 April 2022, the business made credit sales of Sh.1,317,000 and received cash from credit customers amounting to Sh.1,265,000. Outstanding debts of Sh.5,000 were considered irrecoverable and therefore were written off.

Japheth Willis makes a provision for doubtful debts at the rate of 5% of the outstanding receivables balances.

**Required:**

Prepare the following for the year ended 30 April 2022:

- (i) Trade receivables account. (2 marks)
- (ii) Allowance for doubtful debts account. (2 marks)
- (iii) Irrecoverable debts expense account. (2 marks)
- (b) Keikei Limited, a public limited entity has been in manufacturing and distribution business for several years and owns a wide range of property, plant and equipment.

Its property, plant and equipment as at 1 November 2021 comprised of:

|  | <b>Cost</b>     | <b>Accumulated depreciation</b> |
|--|-----------------|---------------------------------|
|  | <b>Sh.“000”</b> | <b>Sh.“000”</b>                 |
| Land and buildings (Land: Sh.75 million) | 425,000         | 70,000                          |
| Plant and equipment                      | 150,000         | 50,600                          |
| Motor vehicles                           | 135,000         | 67,000                          |
| Fixtures and fittings                    | 42,000          | 16,800                          |

**Additional information:**

1. On 1 November 2021, Keikei Limited adopted revaluation model for its property and revalued it to a fair value of Sh.105,000,000 million for land and Sh.360,000,000 million for buildings.  
The property was acquired on 1 November 2011 and buildings were being depreciated at the rate of 2% per annum on straight line basis.
2. The company disposed of a fleet of old distribution vehicles during the year for cash proceeds of Sh.45,000,000 million. These vehicles had cost Sh.100,000,000 million and had an accumulated depreciation of Sh.60,000,000 million as at 1 November 2021.  
During the year to 31 October 2022, the company acquired new motor vehicles at a cost of Sh.75,000,000 million. Motor vehicles are depreciated at the rate of 20% per annum on straight line basis.
3. On 1 May 2022, the company entered into a lease contract for the right-of-use of an item of plant whose economic useful life was 10 years. The term of the lease was agreed at 5 years and the asset would revert to the lessor at the end of the lease term. The initial cost of the right-of-use asset was Sh.20,000,000 million.  
Plant and equipment, other than the leased plant, are depreciated at the rate of 15% per annum on reducing balance basis.
4. New fittings were acquired at a cost of Sh.10,000,000 million during the year ended 31 October 2022.  
Fixtures and fittings are depreciated at the rate of 10% per annum on a straight line basis.
5. The company's policy is to provide full year depreciation in the year of asset acquisition and non in the year of disposal.

**Required:**

A non-current asset movement schedule for Keikei Limited as at 31 October 2022.

(14 marks)

**(Total: 20 marks)****QUESTION THREE**

- (a) Summarise the rationale of control accounts and control account reconciliations. (6 marks)
- (b) The following balances of assets and liabilities were obtained from the accounting records of Stars Sports Club as at 31 May:

|                         | <b>2021</b>          | <b>2022</b>      |
|-------------------------|----------------------|------------------|
|                         | <b>Sh. "000"</b>     | <b>Sh. "000"</b> |
| Equipment               | 22,500               | 20,000           |
| Fixtures and fittings   | 1,500                | ?                |
| Motor vehicles          | 4,000                | ?                |
| Subscription in arrears | 535                  | 125              |
| Subscription in advance | (750)                | (625)            |
| Inventory of stationery | 20                   | 5                |
| Bar inventory           | 4,375                | 5,200            |
| Cash at bank            | 1,250                | 8,700            |
| Petty cash              | 30                   | 20               |
| Bar payables            | (875)                | (1,250)          |
| Accrued rent            | <u>(35)</u>          | <u>(50)</u>      |
|                         | <u><u>32,550</u></u> | <u><u>?</u></u>  |

The summary of receipts and payments for the year ended 31 May 2022 was as follows:

| <b>Receipts</b>       | <b>Sh. "000"</b> | <b>Payments</b>         | <b>Sh. "000"</b> |
|-----------------------|------------------|-------------------------|------------------|
| Members entry fees    | 490              | Bar payables            | 17,125           |
| Members subscriptions | 5,500            | Petty cash              | 225              |
| Bar takings           | 25,000           | New equipment           | 2,500            |
|                       |                  | Electricity and water   | 350              |
|                       |                  | Rent                    | 765              |
|                       |                  | Barman's wages          | 2,000            |
|                       |                  | Repairs and maintenance | 375              |
|                       |                  | Rates and insurance     | 200              |



**Additional information:**

1. Depreciation on non-current assets is to be provided based on the book values at the following rates:

| <b>Asset</b>          | <b>Rate per annum</b> |
|-----------------------|-----------------------|
| Equipment             | 20%                   |
| Fixtures and fittings | 10%                   |
| Motor vehicles        | 25%                   |

Depreciation is provided on a full year basis in the year of asset acquisition.

2. Petty cash balance relates to bar activities.

**Required:**

- (i) Bar statement of profit or loss for the year ended 31 May 2022. (4 marks)
- (ii) Income and expenditure account for the year ended 31 May 2022. (4 marks)
- (iii) Statement of financial position as at 31 May 2022. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following trial balance extracted as at 31 March 2023 relates to United Limited:

|   | <b>Sh. "000"</b> | <b>Sh. "000"</b> |
|---|------------------|------------------|
| Property at cost (land: Sh.6,800,000)         | 30,800           |                  |
| Plant at cost                                 | 9,000            |                  |
| Motor vehicles at cost                        | 5,000            |                  |
| Office equipment at cost                      | 4,000            |                  |
| Accumulated depreciation (1 April 2022):      |                  |                  |
| • Building                                    |                  | 10,500           |
| • Plant                                       |                  | 4,200            |
| • Motor vehicles                              |                  | 2,500            |
| • Office equipment                            |                  | 1,500            |
| Sales   |                  | 68,000           |
| Inventory at 1 April 2022                     | 3,700            |                  |
| Purchases                                     | 42,000           |                  |
| Staff remuneration                            | 9,000            |                  |
| Office rent                                   | 4,200            |                  |
| Insurance premiums                            | 2,250            |                  |
| Electricity and power                         | 1,400            |                  |
| Telephone, postage and fax                    | 650              |                  |
| Carriage inwards                              | 1,050            |                  |
| Returns                                       | 2,000            | 850              |
| Ordinary share capital (Sh.10 par value)      |                  | 20,000           |
| Share premium                                 |                  | 6,000            |
| Retained profit (1 April 2022)                |                  | 4,490            |
| Accounts receivables and accounts payable     | 5,800            | 5,900            |
| Bank balance                                  | 3,150            |                  |
| 12.5% bank loan                               |                  | 2,240            |
| Loan interest                                 | 280              |                  |
| Investment in government securities (T-bills) | 2,200            |                  |
| Investment income                             |                  | 300              |
|   | <u>126,480</u>   | <u>126,480</u>   |

**Additional information:**

1. Inventory as at 31 March 2023 had a value of Sh.4,000,000.
2. The company paid insurance premiums on 1 April 2022 to cover a period of 15 months at a monthly rate of Sh.150,000.
3. Depreciation on property, plant and equipment is to be provided as follows:

| <b>Asset</b>     | <b>Rate per annum</b> | <b>Basis</b>     |
|------------------|-----------------------|------------------|
| Building         | 2.5%                  | Straight line    |
| Plant            | 15%                   | Reducing balance |
| Motor vehicles   | 25%                   | Straight line    |
| Office equipment | 12.5%                 | Straight line    |

4. A provision for current tax of Sh.1,350,000 for the year ended 31 March 2023 is required.

**Required:**

- (a) Statement of profit or loss for the year ended 31 March 2023. (12 marks)
- (b) Statement of financial position as at 31 March 2023. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Describe **THREE** benefits of preparing bank reconciliation statements. (6 marks)
- (b)
  - (i) Explain the term “ratio analysis”. (2 marks)
  - (ii) List **FOUR** limitations of ratio analysis. (4 marks)
- (c) Harmony Limited extracted its trial balance as at 30 November 2022 which did not balance and the difference was posted to a suspense account.

Upon investigations, the book-keeper discovered the following errors and omissions in the preparation of the ledger accounts:

1. Accrued operating expenses of Sh.340,000 had been omitted from the books.
2. Cash of Sh.500,000 paid for plant repairs and maintenance was correctly accounted for in the cash book, but was erroneously credited to the plant cost account.
3. A cheque for Sh.2,300,000 paid for the purchase of equipment was posted to the relevant ledger accounts as Sh.3,200,000.
4. During the year ended 30 November 2022, a motor vehicle which had cost Sh.1,200,000 and had an accumulated depreciation of Sh.480,000 was disposed of for cash proceeds of Sh.680,000. The only accounting entries passed were to debit the cash proceeds to the cashbook and crediting the suspense account.
5. A cash receipt of Sh.450,000 from a credit customer had been correctly entered in the cashbook, but no corresponding entry was made in the books of accounts.
6. Interest revenue of Sh.25,200 was erroneously recorded on the credit side of interest expense account.

**Required:**

Prepare the relevant journal entries to correct the above errors and omissions. (8 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**

**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 7 December 2022. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) Explain the term “credit note”. (2 marks)
- (b) The following trial balance relates to Kilifi Traders as at 31 March 2022:

|   | Sh.“000”       | Sh.“000”       |
|---|----------------|----------------|
| Inventory (as at 1 April 2021)            | 17,000         |                |
| Sales                                     |                | 141,400        |
| Purchases                                 | 59,750         |                |
| Accounts receivable                       | 24,000         |                |
| Accounts payable                          |                | 18,200         |
| 10% Loan                                  |                | 21,000         |
| Bank overdraft                            |                | 8,000          |
| Loan interest                             | 1,050          |                |
| Cash                                      | 300            |                |
| Plant and machinery at cost               | 85,000         |                |
| Motor vehicles at cost                    | 42,000         |                |
| Furniture and fittings at cost            | 20,000         |                |
| Capital (as at 1 April 2021)              |                | 88,200         |
| Salaries and wages                        | 12,000         |                |
| Discounts allowed                         | 250            |                |
| Discounts received                        |                | 600            |
| Repairs and maintenance                   | 8,000          |                |
| Selling and distribution expenses         | 6,000          |                |
| Water and electricity                     | 5,000          |                |
| Rent and rates                            | 3,000          |                |
| Office expenses                           | 2,950          |                |
| Insurance                                 | 7,100          |                |
| Allowance for depreciation (1 April 2021) |                |                |
| Plant and machinery                       |                | 8,000          |
| Motor vehicles                            |                | 6,000          |
| Furniture and fittings                    |                | 2,000          |
|   | <u>293,400</u> | <u>293,400</u> |

**Additional information:**

1. Closing inventory as at 31 March 2022 was valued at Sh.16,000,000.
2. As at 31 March 2022, accrued water and electricity expenses amounted to Sh.680,000.
3. As at 31 March 2022, prepaid insurance amounted to Sh.300,000.
4. Interest on loan is charged at 10% per annum.
5. Depreciation on non-current assets is provided on cost per annum as follows:

| Asset                  | Rate (%) |
|------------------------|----------|
| Plant and machinery    | 10       |
| Motor vehicles         | 20       |
| Furniture and fittings | 10       |

**Required:**

- (i) Statement of profit or loss for the year ended 31 March 2022. (10 marks)
- (ii) Statement of financial position as at 31 March 2022. (8 marks)
- (Total 20 marks)**

**QUESTION TWO**

Abigail and Bianca are partners in a partnership sharing profits and losses in the ratio of 3:2 respectively after allowing for interest on partners' capital at the rate of 10% per annum. The trial balance below was extracted from the books of the partnership as at 30 June 2022:

|   | Sh. "000"     | Sh. "000"     |
|---|---------------|---------------|
| Capital accounts: Abigail                 |               | 6,000         |
| Bianca                                    |               | 5,000         |
| Capital introduced: Cynthia               |               | 3,000         |
| Current accounts: Abigail                 |               | 1,920         |
| Bianca                                    |               | 1,600         |
| Drawings: Abigail                         | 2,200         |               |
| Bianca                                    | 1,540         |               |
| Cynthia                                   | 1,100         |               |
| Gross profit for the year to 30 June 2022 |               | 36,960        |
| Non-current assets at cost                | 44,000        |               |
| Allowance for depreciation (1 July 2021)  |               | 17,600        |
| Inventory at 30 June 2022                 | 9,480         |               |
| Accounts receivable                       | 10,580        |               |
| Accounts payable                          |               | 8,240         |
| Operating expenses                        | 7,060         |               |
| Bank balance                              | <u>4,360</u>  |               |
|   | <u>80,320</u> | <u>80,320</u> |

**Additional information:**

- On 1 January 2022, Cynthia was admitted to the partnership under the following agreement:
  - Cynthia was to introduce capital of Sh.3,000,000.
  - For the purpose of admission of the new partner, goodwill was valued at Sh.6,000,000 and no account for goodwill was to be maintained.
  - From 1 January 2022, the partners were entitled to annual salaries as follows:
 

|         | Sh. (per annum) |
|---------|-----------------|
| Bianca  | 1,620,000       |
| Cynthia | 880,000         |
- The new profit and loss sharing ratio is 3:2:1 for Abigail, Bianca and Cynthia respectively after allowing for interest on capital at the rate of 10% per annum.
- The income and expenses accrued evenly throughout the year.
- Non-current assets are to be depreciated at the rate of 25% per annum based on cost.

**Required:**

- (a) Statement of profit or loss and appropriation account for the year ended 30 June 2022. (6 marks)
- (b) Partners' capital accounts as at 30 June 2022. (4 marks)
- (c) Partners' current accounts as at 30 June 2022. (4 marks)
- (d) Statement of financial position as at 30 June 2022. (6 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Describe the following accounting concepts as used in the preparation of financial statements:
- Materiality. (2 marks)
  - Substance over form. (2 marks)
- (b) Highlight **FOUR** challenges of a computerised system in accounting for business transactions. (4 marks)

- (c) The following are summarised financial statements of Sereka Kenya Ltd. for the years ended 31 December 2020 and 31 December 2021:

**Statement of Financial Position at as 31 December:**

|                                | 2020             |                | 2021            |                |
|--------------------------------|------------------|----------------|-----------------|----------------|
|                                | Sh. "000"        | Sh. "000"      | Sh. "000"       | Sh. "000"      |
| <b>Equity and liabilities:</b> |                  |                |                 |                |
| <b>Equity:</b>                 |                  |                |                 |                |
| Ordinary share capital         |                  | 465,000        |                 | 315,000        |
| Revenue reserve                |                  | 140,000        |                 | 132,000        |
| <b>Long-term liabilities:</b>  |                  |                |                 |                |
| Bonds                          |                  | 295,000        |                 | 245,000        |
| <b>Current liabilities:</b>    |                  |                |                 |                |
| Accounts payable               | 50,000           |                | 43,000          |                |
| Accrued liabilities            | 12,000           |                | 9,000           |                |
| Taxation                       | <u>3,000</u>     | <u>65,000</u>  | <u>5,000</u>    | <u>57,000</u>  |
| Total equity and liabilities   |                  | <u>965,000</u> |                 | <u>749,000</u> |
| <b>Assets:</b>                 |                  |                |                 |                |
| <b>Non-current assets:</b>     |                  |                |                 |                |
| Plant and machinery (cost)     | 715,000          |                | 505,000         |                |
| Accumulated depreciation       | <u>(103,000)</u> | 612,000        | <u>(68,000)</u> | 437,000        |
| Investment (long-term)         |                  | 115,000        |                 | 127,000        |
| <b>Current assets:</b>         |                  |                |                 |                |
| Inventory                      | 144,000          |                | 110,000         |                |
| Accounts receivable            | 47,000           |                | 55,000          |                |
| Cash at bank                   | 46,000           |                | 15,000          |                |
| Prepaid expenses               | <u>1,000</u>     | <u>238,000</u> | <u>5,000</u>    | <u>185,000</u> |
| Total assets                   |                  | <u>965,000</u> |                 | <u>749,000</u> |

**Statement of profit or loss for the year ended 31 December 2021:**

|   | Sh. "000"      | Sh. "000"        |
|---|----------------|------------------|
| Sales   |                | 698,000          |
| Cost of goods sold  |                | <u>(520,000)</u> |
| Gross profit  |                | 178,000          |
| Operating expenses (including depreciation expenses of Sh.37,000,000) |                | <u>(147,000)</u> |
|   |                | 31,000           |
| <b>Other income/(expenses):</b>                                       |                |                  |
| Interest expense paid   | (23,000)       |                  |
| Interest income received  | 6,000          |                  |
| Gain on sale of investments   | 12,000         |                  |
| Loss on sale of plant   | <u>(3,000)</u> | <u>(8,000)</u>   |
| Profit before tax   |                | 23,000           |
| Corporation tax   |                | <u>(7,000)</u>   |
| Profit after tax  |                | <u>16,000</u>    |

**Additional information:**

During the year ended 31 December 2021, Sereka Kenya Ltd.:

1. Purchased investments for Sh.78,000,000.
2. Sold investments for Sh.102,000,000. These investments had cost Sh.90,000,000.
3. Purchased plant and machinery for Sh.120,000,000.
4. Sold two plants that had a total cost of Sh.10,000,000 and an accumulated depreciation of Sh.2,000,000 for Sh.5,000,000.
5. Issued Sh.100,000,000 of bonds at face value in exchange for plant and machinery on 31 December 2021.
6. Repaid Sh.50,000,000 of bonds at face value at maturity.
7. Issued 15,000,000 shares of Sh.10 each for cash.
8. Paid cash dividends of Sh.8,000,000.

**Required:**

Statement of cash flows in compliance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 31 December 2021.

(12 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Describe **FOUR** users of public sector financial statements. (4 marks)
- (b) Explain **THREE** errors that may be committed in the recording of accounting transactions where the trial balance does not agree. (6 marks)
- (c) The bank column in the cash book for June 2022 and the bank statement for that month for Abbas Traders are as follows:

| <b>Bank statement</b> |                         |           |           |           |
|-----------------------|-------------------------|-----------|-----------|-----------|
| Date                  | Particulars             | Dr        | Cr        | Balance   |
| 2022                  |                         | Sh. "000" | Sh. "000" | Sh. "000" |
| 1 June                | Balance brought forward |           |           | 1,692.0   |
| 2 June                | Cheque                  |           | 74.4      | 1,766.4   |
| 8 June                | L. Mbogo                | 16.0      |           | 1,550.4   |
| 15 June               | Cheque                  |           | 90.0      | 1,640.4   |
| 17 June               | R. Maina                | 22.8      |           | 1,017.6   |
| 18 June               | J. Rono                 | 49.2      |           | 968.4     |
| 28 June               | Cheque                  |           | 268.8     | 1,237.2   |
| 29 June               | Standing order          | 62.4      |           | 1,174.8   |
| 30 June               | Felister                |           | 80.4      | 1,255.2   |
| 30 June               | Bank charges            | 51.6      |           | 1,203.6   |

| <b>Cash book</b> |                         |               |         |                         |               |
|------------------|-------------------------|---------------|---------|-------------------------|---------------|
| 2022             | Particulars             | Sh. "000"     | 2022    | Particulars             | Sh. "000"     |
| 1 June           | Balance brought forward | 1692          | 5 June  | L. Mbogo                | 216           |
| 2 June           | M. Philis               | 74.4          | 12 June | R. Maina                | 622.8         |
| 16 June          | P. Wilson               | 90            | 16 June | J. Rono                 | 49.2          |
| 28 June          | S. Francis              | 268.8         | 29 June | D. Kamau                | 26.4          |
| 30 June          | G. Ouma                 | 698.4         | 30 June | Balance carried forward | 1,909.2       |
|                  |                         | <u>2823.6</u> |         |                         | <u>2823.6</u> |

**Required:**

- (i) Updated cash book. (6 marks)
- (ii) Bank reconciliation statement as at 30 June 2022. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) The financial year of Jamii Ltd. ended on 31 December 2021. At 1 January 2021, the company had in use equipment with a total accumulated cost of Sh.13,562,000 which had been depreciated by a total of Sh.8,137,400. During the year ended 31 December 2021, Jamii Ltd. purchased new equipment costing Sh.4,780,000 and sold off equipment which had originally cost Sh.3,600,000 and which had been depreciated by Sh.2,822,400 for Sh.570,000. No further purchase or sale of equipment had been planned for December. It is the policy of the company to depreciate equipment at 40% using the reducing balance method. A full year's depreciation is provided for on all equipment in use by the company at the end of each year.

**Required:**

- (i) The equipment account. (2 marks)
- (ii) Allowance for depreciation on equipment account. (4 marks)
- (iii) Equipment disposal account. (4 marks)
- (b) Highlight **FOUR** conditions that a company must fulfill when issuing shares at a discount. (4 marks)
- (c) In one of the seminars you attended, one of the speakers stated that many companies are changing from manual recording to computerised accounting system.

With reference to the above statement, explain **THREE** differences between a manual accounting system and a computerised accounting system. (6 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**  
**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 3 August 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

- (a) List five features of a computerised accounting system. (5 marks)
- (b) The following trial balance relates to Semasema, a sole trader as at 30 June 2022:

|                              | Sh. "000"      | Sh. "000"      |
|------------------------------|----------------|----------------|
| Inventory as at 1 July 2021  | 50,000         |                |
| Freehold premises            | 240,000        |                |
| Sundry receivables           | 30,000         |                |
| Purchases                    | 280,000        |                |
| Salaries and wages           | 35,000         |                |
| Sales                        |                | 520,000        |
| Furniture and fittings       | 25,000         |                |
| Discounts allowed            | 7,500          |                |
| Discounts received           |                | 4,500          |
| Plant and machinery          | 140,000        |                |
| Rates                        | 5,600          |                |
| Advertising expenses         | 10,400         |                |
| Insurance expenses           | 3,800          |                |
| General expenses             | 7,200          |                |
| Allowance for doubtful debts |                | 1,800          |
| Accounts receivable          | 60,000         |                |
| Other payables               |                | 15,000         |
| Accounts payable             |                | 43,000         |
| Cash in hand                 | 2,400          |                |
| Bank balance                 |                | 18,600         |
| Drawings                     | 6,000          |                |
| Capital                      |                | <u>300,000</u> |
|                              | <u>902,900</u> | <u>902,900</u> |

**Additional information:**

1. Depreciation on non-current assets is provided as follows:

| Asset                  | Rate per annum | Basis |
|------------------------|----------------|-------|
| Furniture and fittings | 15%            | Cost  |
| Plant and machinery    | 10%            | Cost  |
2. Allowance for doubtful debts was increased to 4% of the accounts receivable.
3. As at 30 June 2022, prepaid insurance amounted to Sh.500,000 while rates accrued amounted to Sh.400,000.
4. As at 30 June 2022, inventory was valued at Sh.60,000,000.
5. During the year, Semasema took goods costing Sh.2,000,000 for his personal use.

**Required:**

- (i) Statement of profit or loss for the year ended 30 June 2022. (7 marks)
- (ii) Statement of financial position as at 30 June 2022. (8 marks)

**(Total: 20 marks)**

## QUESTION TWO

Stark Limited is a company that manufactures and sells water tanks. The trial balance extracted from the books of Stark Limited as at 30 June 2022 was as follows:

|  | Sh. "000"        | Sh. "000"        |
|--|------------------|------------------|
| Inventories at 1 July 2021:                      |                  |                  |
| Raw materials                                    | 33,000           |                  |
| Work-in-progress                                 | 38,500           |                  |
| Finished goods                                   | 44,000           |                  |
| Purchase of raw materials                        | 451,000          |                  |
| Revenue  |                  | 1,015,850        |
| Purchases returns and sales returns              | 11,550           | 8,800            |
| Carriage inwards                                 | 16,500           |                  |
| Direct labour                                    | 88,000           |                  |
| Other direct expenses                            | 27,500           |                  |
| Distribution costs                               | 38,400           |                  |
| Administrative expenses                          | 52,800           |                  |
| Land and building at cost (Land: Sh.135 million) | 935,000          |                  |
| Plant and equipment at cost                      | 110,000          |                  |
| Motor vehicles at cost                           | 88,000           |                  |
| Accumulated depreciation at 1 July 2021:         |                  |                  |
| Buildings  |                  | 120,000          |
| Plant and equipment                              |                  | 34,500           |
| Motor vehicles                                   |                  | 22,000           |
| 12% debentures                                   |                  | 35,000           |
| Interest on debentures paid                      | 2,100            |                  |
| Ordinary share capital (Sh.20 par value)         |                  | 550,000          |
| Share premium                                    |                  | 55,000           |
| Retained earnings at 1 July 2021                 |                  | 140,300          |
| Accounts receivable and accounts payable         | 49,500           | 33,000           |
| Bank balance                                     | <u>28,600</u>    |                  |
|  | <u>2,014,450</u> | <u>2,014,450</u> |

### Additional information:

1. Inventories as at 30 June 2022 were valued at their cost as follows:

|                  | Sh. "000" |
|------------------|-----------|
| Raw materials    | 39,600    |
| Work-in-progress | 11,000    |
| Finished goods   | 52,250    |

2. The 12% debentures were issued on 1 October 2021 and are redeemable after five years. Interest on debentures is paid semi-annually on 31 March and 30 September each year.
3. Stark Limited's policy is to transfer finished goods from production to trading at their production costs.
4. Depreciation on non-current assets is charged and allocated as follows:

| Asset               | Rate per annum | Basis            | Allocation |              |        |
|---------------------|----------------|------------------|------------|--------------|--------|
|                     |                |                  | Factory    | Distribution | Office |
| Building            | 2.5%           | Straight line    | 75%        | -            | 25%    |
| Plant and equipment | 10%            | Reducing balance | 100%       | -            | -      |
| Motor vehicles      | 25%            | Straight line    | 65%        | 35%          | -      |

5. The corporation tax for the year ended 30 June 2022 was estimated at Sh.70,000,000.

### Required:

- (a) Manufacturing account for the year ended 30 June 2022. (6 marks)
- (b) Statement of profit or loss for the year ended 30 June 2022. (6 marks)
- (c) Statement of financial position as at 30 June 2022. (8 marks)

**(Total: 20 marks)**

## QUESTION THREE

- (a) Citing examples of entities in the public sector, briefly evaluate the structure of the public sector. (8 marks)
- (b) Analyse three possible reasons for maintaining incomplete records and single-entry book-keeping. (6 marks)



- (c) The following balances were extracted from the books of Jamii Limited as at 30 June 2022:

|                                     | <b>Sh.</b> |
|-------------------------------------|------------|
| Inventory at 1 July 2021            | 1,331,400  |
| Purchases (all credit)              | 8,964,400  |
| Sales turnover (all credit)         | 9,568,475  |
| Accounts receivable at 30 June 2022 | 1,048,600  |
| Accounts payable at 30 June 2022    | 859,600    |
| Inventory at 30 June 2022           | 1,041,000  |

Assume a 365-day financial year.

**Required:**

The cash conversion cycle (CCC) for Jamii Limited for the period ended 30 June 2022.

(6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Distinguish between the “straight-line” and the “reducing balance” methods of providing for depreciation. (4 marks)
- (b) In the context of the financial statements of not-for-profit organisations, explain two differences between “receipts and payments accounts” and “income and expenditure accounts”. (4 marks)
- (c) Jersey Limited, a private limited company prepares monthly reconciliations of its trade receivables and trade payables.

As at 1 June 2022, the following balances were extracted from the accounting records of the company:

|                  | <b>Debit<br/>Sh. “000”</b> | <b>Credit<br/>Sh. “000”</b> |
|------------------|----------------------------|-----------------------------|
| Sales ledger     | 45,550                     | 770                         |
| Purchases ledger | 210                        | 36,700                      |

Below are summarised transactions for the month of June 2022:

|                                       | <b>Sh. “000”</b> |
|---------------------------------------|------------------|
| Credit sales                          | 215,600          |
| Cash received from credit customers   | 208,700          |
| Cash sales                            | 29,700           |
| Credit sales returns                  | 8,630            |
| Dishonoured cheques                   | 440              |
| Irrecoverable debts written off       | 3,300            |
| Increase in allowance for receivables | 950              |
| Bad debts recoverable                 | 400              |
| Interest charged to customers         | 1,260            |
| Credit purchases                      | 69,400           |
| Cash paid to credit suppliers         | 63,800           |
| Cash discount received                | 1,600            |
| Credit purchases returns              | 2,690            |
| Cash purchases                        | 25,300           |
| Contra settlements                    | 1,100            |

At 30 June 2022, the balances in the sales and purchases accounts were as follows:

|                  | <b>Debit<br/>Sh. “000”</b> | <b>Credit<br/>Sh. “000”</b> |
|------------------|----------------------------|-----------------------------|
| Sales ledger     | ?                          | 1,500                       |
| Purchases ledger | 300                        | ?                           |

**Required:**

- (i) Sales ledger control account as at 30 June 2022. (6 marks)
- (ii) Purchases ledger control account as at 30 June 2022. (6 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) (i) Explain the meaning of the term “International Financial Reporting Standards” (IFRSs). (2 marks)
- (ii) Highlight four benefits of adopting (IFRS). (4 marks)
- (b) Explain the following types of errors:
  - (i) Error of omission. (2 marks)
  - (ii) Error of commission. (2 marks)
  - (iii) Error of principle. (2 marks)
- (c) Distinguish between the following terms:
  - (i) “Share capital” and “reserve”. (4 marks)
  - (ii) “Shares issued at a premium” and “shares issued at a discount”. (4 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL  
PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 6 April 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

**QUESTION ONE**

Ezekiel Mbogi, a sole trader operates a retail business dealing in school outfits.

A trial balance as at 31 December 2021 extracted from the accounting records of his business was as shown below:

|   | Sh."000"       | Sh."000"       |
|---|----------------|----------------|
| Land and building at cost (Land: Sh.15 million) | 40,000         |                |
| Motor vehicles at cost                          | 9,600          |                |
| Fixtures and fittings at cost                   | 11,200         |                |
| Accumulated depreciation - 1 January 2021       |                |                |
| • Building                                      |                | 1,500          |
| • Motor vehicles                                |                | 3,840          |
| • Fixtures and fittings                         |                | 4,880          |
| Sales and purchases                             | 106,700        | 146,000        |
| Inventory at 1 January 2021                     | 9,500          |                |
| Returns inward                                  | 480            |                |
| Returns outward                                 |                | 640            |
| Wages   | 18,060         |                |
| Shop rent                                       | 6,000          |                |
| Repairs and maintenance                         | 1,080          |                |
| Electricity and water                           | 390            |                |
| Telephone and postage                           | 300            |                |
| Carriage inwards                                | 100            |                |
| Carriage outwards                               | 170            |                |
| Capital at 1 January 2021                       |                | 42,200         |
| Drawings  | 1,060          |                |
| Trade receivables                               | 7,000          |                |
| Allowance for doubtful debts - 1 January 2021   |                | 240            |
| Trade payables                                  |                | 9,200          |
| Bank  |                | 3,140          |
|   | <u>211,640</u> | <u>211,640</u> |

**Additional information:**

1. Inventory as at 31 December 2021 was valued at Sh.11,400,000.
2. On 1 January 2021, Ezekiel Mbogi paid shop rent for 15 months at a monthly rate of Sh.400,000.
3. On 31 December 2021, outstanding electricity bills amounted to Sh.60,000.
4. An allowance for doubtful debts is to be maintained at the rate of 5% of the trade receivables.
5. Depreciation on property, plant and equipment is provided per annum as follows:
  - Building - 2% annually, straight-line basis.
  - Motor vehicles - Straight-line, assuming a useful economic life of five years with no residual value.
  - Fixtures and fittings - 12.5% annually on a reducing balance basis.

**Required:**

- (a) Statement of profit or loss for the year ended 31 December 2021. (12 marks)
- (b) Statement of financial position as at 31 December 2021. (8 marks)

**(Total: 20 marks)**

## QUESTION TWO

- (a) Explain the following elements of financial statements:
- (i) Asset. (2 marks)
  - (ii) Liability. (2 marks)
  - (iii) Income. (2 marks)
  - (iv) Expense. (2 marks)
- (b) The trial balance of Tausi Limited extracted as at 31 October 2021 failed to balance and the accountant posted the discrepancy to the suspense account.

Upon investigations, the accountant discovered the following errors made in the preparation of the ledger accounts:

1. Credit sales amounting to Sh.630,000 made during the year ended 31 October 2021 were altogether omitted from the books of accounts.
2. Purchases returns of Sh.12,000 were recorded on the debit side of the sales returns ledger account.
3. A cash payment of Sh.185,000 to a credit supplier had been correctly recorded in the cashbook, but no corresponding entry was made in the payables' control account.
4. Cash purchases of Sh.84,000 had been posted in the relevant ledger accounts as Sh.8,400.
5. A credit balance of Sh.64,800 in the commission income account had erroneously been extracted on the list of balances as a debit balance.
6. A debit balance of Sh.56,000 on the electricity expense account had been incorrectly extracted on the list of balances as Sh.65,000.
7. The book keeper recorded the purchase of a motor vehicle at a cost of Sh.850,000 in the motor expenses account.
8. A cheque of Sh.160,000 received from a credit customer had been entered correctly in the cash book, but posted to the wrong side of the receivable's ledger control account.

### Required:

Prepare the relevant journal entries to correct the above errors. (Narrations required).

(12 marks)

**(Total: 20 marks)**

## QUESTION THREE

- (a) Highlight four benefits of preparing a cash book. (4 marks)
- (b) The cash book of Gotab Sanik Traders as at 31 March 2022 showed a debit balance of Sh.8,200. The bank statement issued on the same day showed a credit balance of Sh.23,700. The bank statement and cash book are shown below:

### Gotab Sanik Traders - Bank Statement for March 2022:

|  | (Dr)   | (Cr)   | (Bal)  |
|--|--------|--------|--------|
| 1 March Balance brought forward            |        |        | 20,000 |
| 5 March Deposit by cashier                 |        | 12,200 | 32,200 |
| 8 March Cheque deposit -1721               |        | 25,000 | 57,200 |
| 8 March Bank charges                       | 200    |        | 57,000 |
| 10 March Samko Traders - Cheque 6202       | 11,000 |        | 46,000 |
| 15 March Standing order - Kenya Power      | 1,250  |        | 44,750 |
| 15 March Direct Credit - Rent by tenant    |        | 3,000  | 47,750 |
| 22 March Dividends - Safaricom Ltd.        |        | 4,500  | 52,250 |
| 22 March Bank commission                   | 450    |        | 51,800 |
| 23 March Withdrawal - Cashier              | 22,000 |        | 29,800 |
| 23 March Bank charges                      | 100    |        | 29,700 |
| 24 March Mali Mbilil Traders - Cheque 1604 | 6,000  |        | 23,700 |
| 31 March Balance carried forward           |        |        | 23,700 |

### Gotab Sanik Traders cash book (March 2022)

|                                 | Sh.           | Sh.           |
|---------------------------------|---------------|---------------|
| 1 March Balance brought forward | 20,000        | 11,000        |
| 5 March Deposit                 | 12,200        | 22,000        |
| 6 March Cheque deposit (1721)   | 25,000        | 6,000         |
| 30 March Cheque deposit (8102)  | 2,000         | 23,000        |
| 31 March Cheque deposit (1722)  | 13,500        | 8,800         |
| 31 March Cheque deposit (1725)  | 6,300         | 8,200         |
|                                 | <u>79,000</u> | <u>79,000</u> |

The cheque deposited on 30 March of Sh.2,000 (Cheque number 8102) was dishonoured by the bank.

**Required:**

- (i) Updated cash book for the month of March 2022. (9 marks)
- (ii) Bank reconciliation statement. (7 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

The following trial balance relates to Nyota Limited, a public limited entity as at 31 March 2022:

|  | Sh."000"         | Sh."000"         |
|--|------------------|------------------|
| Ordinary share capital (Sh.10 par value)         |                  | 215,000          |
| Retained earnings at 1 April 2021                |                  | 75,000           |
| 10% loan notes                                   |                  | 100,000          |
| Sales  |                  | 625,000          |
| Purchases  | 250,000          |                  |
| Inventory at 1 April 2021                        | 100,000          |                  |
| Land and buildings at cost (Land: Sh.50 million) | 200,000          |                  |
| Plant and equipment at cost                      | 250,000          |                  |
| Motor vehicles at cost                           | 80,000           |                  |
| Fixtures and fittings at cost                    | 70,000           |                  |
| Allowance for depreciation - 1 April 2021:       |                  |                  |
| • Buildings                                      |                  | 36,000           |
| • Plant and equipment                            |                  | 112,000          |
| • Motor vehicles                                 |                  | 40,000           |
| • Fixtures and fittings                          |                  | 21,000           |
| Salaries and wages                               | 181,400          |                  |
| Rent and rates                                   | 97,800           |                  |
| Electricity and water                            | 4,200            |                  |
| Telephone, postage and stationery                | 3,400            |                  |
| Returns inward and returns outward               | 2,000            | 4,000            |
| Carriage inwards                                 | 3,000            |                  |
| Carriage outwards                                | 2,000            |                  |
| Loan interest paid                               | 10,000           |                  |
| Dividend paid                                    | 11,500           |                  |
| Cash at bank                                     | 90,700           |                  |
| Trade receivables                                | 130,000          |                  |
| Trade payables                                   |                  | 250,000          |
| Suspense account                                 |                  | 8,000            |
|  | <u>1,486,000</u> | <u>1,486,000</u> |

**Additional information:**

- As at 31 March 2022, inventory was valued at Sh.96,000,000.
- Accrued rent as at 31 March 2022 amounted to Sh.2,200,000.
- Depreciation on non-current assets is provided as follows:

| Asset                 | Rate per annum | Basis            |
|-----------------------|----------------|------------------|
| Building              | 2%             | Straight-line    |
| Plant and equipment   | 15%            | Reducing balance |
| Motor vehicles        | 25%            | Straight-line    |
| Fixtures and fittings | 10%            | Straight-line    |
- Current tax for the year to 31 March 2022 is estimated at Sh.5,000,000.
- The balance on the suspense account represents the proceeds from the issue of 500,000 ordinary shares at a price of Sh.16 per share.

**Required:**

- (a) Statement of profit or loss for the year ended 31 March 2022. (10 marks)
- (b) Statement of financial position as at 31 March 2022. (10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Highlight six source documents maintained by entities for the measurement and recording of transactions. (6 marks)
- (b) Describe three challenges of using computerised accounting systems. (6 marks)
- (c) List four contents of a partnership agreement. (4 marks)
- (d) Explain the following terms as used in accounting:
- (i) Share capital. (2 marks)
- (ii) Forfeiture of shares. (2 marks)
- (Total: 20 marks)**
- .....



**CCP FOUNDATION LEVEL  
PILOT PAPER  
PRINCIPLES OF ACCOUNTING**

**December 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 the following concepts:

- (i) Going concern concept. (2 marks)
- (ii) Consistency concept. (2 marks)
- (iii) Materiality concept. (2 marks)

(b) Describe the following types of errors:

- (i) Error of Omission. (2 marks)
- (ii) Error of Commission. (2 marks)
- (iii) Error of principle. (2 marks)

(c) Explain four functions of accounting.

(8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

The following trial balance was extracted from the books of Jacob Barasa, a sole proprietor as at 31 March 2021:

|   | Sh. "000"      | Sh. "000"      |
|---|----------------|----------------|
| Bank balance  | 32,728         |                |
| Inventory (1 April 2017)                                  | 32,193         |                |
| Trade receivables and trade payables                      | 20,911         | 13,006         |
| Drawings  | 18,000         |                |
| Allowance for doubtful debts (1 April 2017)               |                | 876            |
| Bad debts written off                                     | 693            |                |
| Wages   | 26,649         |                |
| General expenses  | 7,263          |                |
| Rent and rates  | 3,000          |                |
| Purchases and sales                                       | 164,770        | 234,481        |
| Capital account   | 193,894        |                |
| Freehold land and buildings at cost                       | 114,000        |                |
| Motor vehicles at cost                                    | 37,500         |                |
| Accumulated depreciation on motor vehicles (1 April 2017) |                | <u>15,450</u>  |
|   | <u>457,707</u> | <u>457,707</u> |

**Additional Information;**

- Rent and rates amounting to Sh 300,000 were prepaid as at 31 March 2021.
- During the year, Barasa took goods costing Sh 1,250,000 for his own use. No entry has been made in the books in respect of this.
- The allowance for doubtful debts is to be increased by Sh. 104,000.
- The wages outstanding as at 31 March 2021 amounted to Sh. 271,000.
- Inventory as at 31 March 2021 was valued at Sh. 34,671,000.
- During the year, a vehicle which had cost Sh. 2,500,000 and had a net book value of Sh. 1,000,000 was sold for 1,500,000. No entry had been made in the books to record this, other than to credit the sales proceeds to the motor vehicles account.
- The depreciation on motor vehicles for the year amounted to Sh.7,000,000.

**Required:**

(a) Statement of profit or loss for the year ended 31 March 2021. (12 marks)

(b) Statement of financial position as at 31 March 2021. (8 marks)

**(Total: 20 marks)****QUESTION THREE**

(a) Explain two reasons why it is necessary to prepare a bank reconciliation statement. (4 Marks)

(b) On 2 May 2021, Mapato Ltd. received their monthly bank statement which showed an overdraft of Sh. 212,900. This amount did not agree with the credit balance of Sh.607,600 shown in the bank column of the cashbook. Upon investigation the following was revealed:

1. The bank statement recorded that a cheque for Sh.18,500 paid into the bank had been subsequently dishonoured. The company was unaware of this.
2. Bank charges for the month of April 2021 amounting to Sh. 4,800 had been omitted from the cash book.
3. A page in the cashbook of debits entries had been undercast by Sh. 52,100 and the incorrect total carried forward in the next page.
4. A hire purchase agreement for equipment had been entered into by the company that required Sh. 12,000 to be paid every month for the two years. The first payment was due on 20 February 2021. These amounts were correctly entered by the company, but the bank had inadvertently debited another company.
5. A dividend cheque received for Sh. 34,000 had been entered twice in the cashbook.
6. The company's agent had deposited a cheque of Sh. 155,000 into Mapato Ltd bank account, but this was not indicated on the bank statement.
7. A standing order of Sh. 11,000 had been duly paid by the bank, but there was no record in the cashbook.
8. A cheque totaling Sh. 492,000 had been delivered to suppliers on 30 April 2021 but none of these had been presented to the bank.
9. A cheque for Sh. 15,400 had been received from a customer on 25 April 2021 had been entered in the cash book as at Sh. 14,500.

**Required:**

(i) An updated cash book as at 30 April 2021. (10 marks)

(ii) Bank reconciliation statement as at 30 April 2021. (6 marks)

**(Total: 20 marks)****QUESTION FOUR**

A and B are partners sharing profits and losses in the ratio of 3:2 respectively. The partnership agreement provides for B to receive a salary of Sh. 8 million per annum. Interest on capital allowed at the rate of 5% per annum.

Their statement of financial position as at 31 July 2020 was as follows:

|                                | <b>Cost</b>     | <b>Depreciation</b> | <b>Net book value</b> |
|--------------------------------|-----------------|---------------------|-----------------------|
| <b>Non-current assets:</b>     | <b>Sh."000"</b> | <b>Sh."000"</b>     | <b>Sh."000"</b>       |
| Premises                       | 48,000          | 6,400               | 41,600                |
| Equipment                      | <u>16,000</u>   | <u>9,600</u>        | <u>6,400</u>          |
|                                | <u>64,000</u>   | <u>16,000</u>       | 48,000                |
| <b>Current assets</b>          |                 |                     |                       |
| Inventory                      |                 | 11,200              |                       |
| Accounts receivable            |                 | 4,400               |                       |
| Cash                           |                 | <u>800</u>          | <u>16,400</u>         |
|                                |                 |                     | <u>64,400</u>         |
| <b>Capital and liabilities</b> |                 |                     |                       |
| Capital accounts               |                 |                     |                       |
| A                              |                 | 32,000              |                       |
| B                              |                 | <u>20,000</u>       | 52,000                |
| Current accounts               |                 |                     |                       |
| A                              |                 | 6400                |                       |
| B                              |                 | <u>(600)</u>        | 5,800                 |
| <b>Current liabilities</b>     |                 |                     |                       |
| Accounts payable               |                 |                     | <u>6,600</u>          |
|                                |                 |                     | <u>64,400</u>         |



**Additional Information:**

- On 1 November 2020, C was admitted to the partnership. The terms of her admission were as follows:
  - Interest on capital was raised from 5% per annum to 6% per annum for all partners.
  - C introduced Sh. 24 million in cash as capital into the partnership.
  - C received a salary of Sh. 12million per annum. Lucy's salary was raised to Sh.12million per annum.
  - The profit-sharing ratio for A, B and C was adjusted to 4:2:1 respectively.
- The profit for the year ended 31 July 2021 was Sh.111,570,000
- As at 31 July 2021, the working capital of the partnership was as follows:

|                              | <b>Sh. "000"</b> |
|------------------------------|------------------|
| Inventory                    | 25,110           |
| Accounts receivable          | 7,000            |
| Cash                         | 17,260           |
| Accounts payable and accrual | 6,960            |

- Partners drawings for the year ended 31 July 2021 were as follows:

|   | <b>Sh. "000"</b> |
|---|------------------|
| A | 51,410           |
| B | 39,050           |
| C | 16,500           |

- The non-current assets are to be depreciated as follows:

| <b>Asset</b> | <b>Rate per annum</b> |
|--------------|-----------------------|
| Premises     | 5% on cost            |
| Equipment    | 10% on cost           |

**Required:**

- Statement of profit or loss and appropriation account for the year ended 31 July 2021. (10 marks)
- Partners current accounts. (4 marks)
- Statement of financial position as at 31 July 2021. (6 marks)

**(Total: 20 marks)****QUESTION FIVE**

The following balances were extracted from the books of Red Sports Club for the year ended 30 June 2020:

|  | <b>Sh. "000"</b> |
|--|------------------|
| Land at cost                               | 90,000           |
| Equipment (cost Sh. 25,000,000)            | 20,000           |
| Furniture and fittings Cost Sh. 80,000,000 | 46,000           |
| Bar inventory                              | 18,400           |
| Subscriptions in arrears                   | 5,000            |
| Bank balance                               | 4,500            |
| Long term balance bank deposits            | 12,000           |
| Long term loan                             | 96,000           |
| Bar creditors                              | 16,800           |
| Subscriptions in advance                   | 1,600            |
| Accrued barwages                           | 2,300            |

The Clubs receipts and payments account for the year ended 30 June 2021 was aa follows:

**Receipts and payments**

|                         | <b>Sh. "000"</b> |                                       | <b>Sh. "000"</b> |
|-------------------------|------------------|---------------------------------------|------------------|
| Balance brought forward | 4,500            | Bar wages                             | 151,200          |
| Subscription received   | 136,000          | Rates                                 | 20,000           |
| Competition entries     | 29,600           | Loan repayments                       | 39,200           |
| Bar sales               | 332,000          | Bar expenses                          | 58,400           |
|                         |                  | Competition ticket cost               | 20,800           |
|                         |                  | Bar purchases                         | 149,400          |
|                         |                  | Equipment purchases                   | 14,000           |
|                         |                  | Transfer to long term deposit account | 20,000           |
|                         |                  | Balance carried forward               | 29,100           |
|                         | 502,100          |                                       | 502,100          |

**Additional Information:**

1. The following information relates to the club as 30 June 2021:

|                          | <b>Sh“000”</b> |
|--------------------------|----------------|
| Subscriptions in arrears | 4,000          |
| Bar creditors            | 16,000         |
| Bar Inventory            | 19,800         |
| Subscription in advance  | 2,400          |
| Bar wages due            | 3,200          |

2. Interest receivable on long term deposits amounted Sh.2,200,000

3. The long-term loan repaid in annual instalments of Sh.30,000,000 excluding interest. The interest for the year ended 30 June 2021 was Sh.9,200,000.

Depreciation is provided as follows:

| <b>Asset</b>           | <b>Rate per annum</b> | <b>Method</b>    |
|------------------------|-----------------------|------------------|
| Equipment              | 10%                   | Straight line    |
| Furniture and fittings | 15%                   | Reducing balance |

It is the policy of the club to charge a full years' depreciation on assets in the year of purchase and no depreciation in the year of disposal.

**Required:**

- (a) Bar statement of profit or loss for the year ended 30 June 2021. (4 marks)
- (b) Statement of income and expenditure for the year ended 30 June 2021. (8 marks)
- (c) Statement of financial position as at 30 June 2021. (8 marks)

**(Total: 20 marks)**

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**CCP FOUNDATION LEVEL**  
**PRINCIPLES OF ACCOUNTING**

**FRIDAY: 17 December 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 the following accounting concepts:

- (i) Consistency concept. (2 marks)
- (ii) Going concern concept. (2 marks)
- (iii) Prudence concept. (2 marks)

(b) The property, plant and equipment balances of Bahati Ltd. as at 1 January 2020 were as follows:

|                     | Cost<br>Sh."000" | Depreciation<br>Sh."000" | Net book value<br>Sh."000" |
|---------------------|------------------|--------------------------|----------------------------|
| Freehold land       | 37,500           | -                        | 37,500                     |
| Buildings           | 48,150           | -                        | 48,150                     |
| Plant and machinery | 87,750           | 47,265                   | 40,485                     |
| Motor vehicles      | 47,250           | 28,800                   | 18,450                     |

The company uses the straight line method of depreciation on assets as follows:

- 10% per annum for plant and machinery.
- 20% per annum for motor vehicles.

**Additional information:**

1. It is the company's policy to make a depreciation charge proportionate to the period of usage of the asset.
2. An item of machinery bought on 1 July 2015 for Sh.12,600,000 was sold on 1 January 2020 at Sh.7,500,000.
3. From the year ended 31 December 2020, the management of the company decided to charge depreciation on buildings at a rate of 2.5% per annum. The buildings were all completed on 1 July 2016.
4. On 1 January 2020, a vehicle purchased on 1 May 2017 for Sh.15,750,000 was traded in at a value of Sh.9,150,000 in part exchange for a new vehicle costing Sh.22,500,000.
5. Included in machinery is an old machine which originally cost Sh.16,875,000 and which was already fully depreciated and not expected to yield any material amount on either use or resale.
6. On 30 June 2020, a machine costing Sh.16,875,000 was purchased, from a vendor who had used it for three years. The vendor had bought the machine at Sh.22,500,000. Another machine costing Sh.13,125,000 was purchased on 31 August 2020.

**Required:**

Non-current asset movement schedule for the year ended 31 December 2020.

(14 marks)  
**(Total: 20 marks)**

**QUESTION TWO**

- (a) Summarise the five steps in the accounting process. (5 marks)
- (b) Highlight five benefits of preparing manufacturing accounts. (5 marks)

- (c) The following are the summarised accounts for ABC partnership for the years ended 31 December 2019 and 31 December 2020:

**Statement of financial position as 31 December:**

|                             | 2019          |               | 2020          |               |
|-----------------------------|---------------|---------------|---------------|---------------|
|                             | Sh. "000"     |               | Sh. "000"     |               |
| <b>Non-current assets:</b>  |               |               |               |               |
| Freehold land               |               | 23,100        |               | 23,100        |
| Plant and machinery         |               | 12,600        |               | 12,100        |
| Motor vehicles              |               | <u>8,300</u>  |               | <u>10,800</u> |
|                             |               | 44,000        |               | 46,000        |
| Investment                  |               | 4,300         |               | 4,300         |
| <b>Current assets:</b>      |               |               |               |               |
| Inventory                   |               | 1,900         |               | 2,100         |
| Accounts receivable         |               | 1,790         |               | 1,990         |
| Bank                        |               | <u>1,260</u>  |               | <u>190</u>    |
|                             |               | <u>53,250</u> |               | <u>54,580</u> |
| <b>Financed by:</b>         |               |               |               |               |
| <b>Capital accounts:</b>    |               |               |               |               |
| Alice                       | 15,000        |               | 15,000        |               |
| Beth                        | 15,000        |               | 15,000        |               |
| Charity                     | <u>10,000</u> | 40,000        | <u>10,000</u> | 40,000        |
| <b>Current accounts:</b>    |               |               |               |               |
| Alice                       | 4,000         |               | 5,000         |               |
| Beth                        | 3,800         |               | 4,200         |               |
| Charity                     | <u>3,500</u>  | <u>11,300</u> | <u>3,030</u>  | <u>12,230</u> |
|                             |               | 51,300        |               | 52,230        |
| <b>Current liabilities:</b> |               |               |               |               |
| Accounts payable            |               | <u>1,950</u>  |               | <u>2,350</u>  |
|                             |               | <u>53,250</u> |               | <u>54,580</u> |

**Income statement for the year ended 31 December:**

|                        | 2019       |                | 2020       |                |
|------------------------|------------|----------------|------------|----------------|
|                        | Sh. "000"  |                | Sh. "000"  |                |
| Sales                  |            | 5,200          |            | 7,500          |
| Cost of sales          |            | <u>(2,800)</u> |            | <u>(3,400)</u> |
|                        |            | 2,400          |            | 4,100          |
| Expenses               |            | <u>(800)</u>   |            | <u>(1,700)</u> |
| Net profit             |            | 1,600          |            | 2,400          |
| <b>Share of profit</b> |            |                |            |                |
| Alice                  | 600        |                | 900        |                |
| Beth                   | 600        |                | 900        |                |
| Charity                | <u>400</u> | <u>1,600</u>   | <u>600</u> | <u>2,400</u>   |

Assume all sales were on credit.

**Required:**

The following ratios for the years ended 31 December 2019 and 31 December 2020:

- Return on capital employed. (2 marks)
- Debtors turnover. (2 marks)
- Current ratio. (2 marks)
- Quick ratio. (2 marks)
- Gross profit margin. (2 marks)

**(Total: 20 marks)**

### QUESTION THREE

Daisy and Ian are in partnership sharing profits and losses in the ratio 60% to 40% respectively after charging annual salaries of Sh.3,000,000 each. On 1 July 2020, they admitted Milly as a partner and agreed to share profits in the ratio 2:2:1 for Daisy, Ian and Milly respectively. They also agreed to change the interest on capital from 10% per annum to 5% per annum. The salaries credited to Daisy and Ian ceased from 1 July 2020.

The following trial balance as at 31 December 2020 relate to the partnership:

|   | Sh. *000*      | Sh. *000*      |
|---|----------------|----------------|
| Purchases and sales                           | 140,000        | 200,000        |
| Capital accounts: Daisy                       |                | 28,000         |
| Ian   |                | 21,000         |
| Capital accounts (Milly)                      |                | 14,000         |
| Current accounts: Daisy                       |                | 700            |
| Ian   |                | 600            |
| Salaries                                      | 12,000         |                |
| Drawings: Daisy                               | 2,800          |                |
| Ian   | 2,400          |                |
| Milly   | 1,500          |                |
| Loan from Daisy                               | 5,000          |                |
| Inventory (1 January 2020)                    | 18,000         |                |
| Sundry expenses                               | 22,800         |                |
| Allowance for doubtful debts (1 January 2020) |                | 2,000          |
| Freehold land at cost                         | 20,000         |                |
| Building at cost                              | 25,000         |                |
| Plant and equipment at cost                   | 24,000         |                |
| Accumulated depreciation (1 January 2020):    |                |                |
| Building                                      |                | 3,000          |
| Plant and equipment                           |                | 5,000          |
| Account receivables and account payables      | 42,000         | 35,000         |
| Cash in hand                                  | 3,800          |                |
|   | <u>314,300</u> | <u>314,300</u> |

#### Additional information:

1. Closing inventory as at 31 December 2020 was valued at Sh.20,000,000.
2. Debts amounting to Sh.1,600,000 are to be written off and the allowance for doubtful debts increased by Sh.1,000,000.
3. Provision is to be made for staff bonuses totalling to Sh.1,200,000.
4. Milly introduced Sh.10,000,000 as capital and Sh.4,000,000 paid for a 20% share of goodwill of the partnership. The goodwill payment was to be treated in the capital accounts of the partners concerned. No goodwill is to be maintained in the accounts.
5. It was agreed that the freehold land should be revalued upwards on 30 June 2020 prior to the admission of Milly from Sh.20,000,000 to Sh.28,000,000.
6. Daisy's loan carries an interest at the rate of 10% per annum and was advanced to the partnership some years ago.
7. Depreciation is provided as follows:  
    Building                   2% on cost  
    Plant and equipment   10% on cost
8. Profits are accrued evenly throughout the year.

#### Required:

- (a) Statement of profit or loss and appropriation account 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 FOUR

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

- (i) Budgetary accounting. (2 marks)
- (ii) Accrual accounting. (2 marks)

- (b) Richard Dua retired from employment and started a business. He has not employed an accountant. He prepared a trial balance for the year ended 31 December 2020 which failed to balance. The difference was transferred to a suspense account. He went on to prepare the following statement of financial position as at 31 December 2020:

**Statement of financial position as at 31 December 2020:**

|                                 | Sh.              | Sh.                |
|---------------------------------|------------------|--------------------|
| <b>Non-current assets:</b>      |                  |                    |
| Premises                        |                  | 8,560,000          |
| Machinery at cost               | 2,140,000        |                    |
| Accumulated depreciation        | <u>(428,000)</u> | <u>1,712,000</u>   |
|                                 |                  | 10,272,000         |
| <b>Current assets:</b>          |                  |                    |
| Inventory                       | 1,947,400        |                    |
| Accounts receivable             | 2,675,000        |                    |
| Balance at bank                 | <u>883,820</u>   | <u>5,506,220</u>   |
|                                 |                  | <u>15,778,220</u>  |
| <b>Capital and liabilities:</b> |                  |                    |
| Capital                         |                  | 12,840,000         |
| Net profit                      |                  | 2,687,840          |
| Drawings                        |                  | <u>(1,848,960)</u> |
|                                 |                  | 13,678,880         |
| <b>Current liabilities:</b>     |                  |                    |
| Accounts payable                | 2,062,960        |                    |
| Suspense account                | <u>36,380</u>    | <u>2,099,340</u>   |
|                                 |                  | <u>15,778,220</u>  |

Richard Dua engaged an accountant to prepare his final accounts. The accountant's investigations revealed the following:

1. Purchase of machinery during the year at Sh.1,000,000 by cheque was recorded correctly in the cash book, but was entered in the purchases account. Richard Dua provides depreciation on machinery at 20% per annum on cost.
2. A payment made to John, a creditor for Sh.14,980 had been entered in the cash book only.
3. Sale of goods on credit to Susan for Sh.19,260 had been entered in both accounts as Sh.23,112.
4. Rent expense account was overcast by Sh.8,560.
5. Sales account was undercast by Sh.42,800.

**Required:**

- (i) Journal entries to correct the above errors. (6 marks)
  - (ii) Suspense account duly balanced. (2 marks)
  - (iii) Statement of corrected net profit for year ended 31 December 2020. (3 marks)
  - (iv) Corrected statement of financial position as at 31 December 2020. (5 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Highlight four accounting software packages. (4 marks)
- (b) Distinguish between "direct costs" and "indirect costs" in manufacturing accounts. (4 marks)
- (c) The following information relates to Morning Star Football Club for the year ended 30 April 2021:

| Receipts and payments account     |               |                               |               |
|-----------------------------------|---------------|-------------------------------|---------------|
|                                   | Sh "000"      | Sh. "000"                     |               |
| Donations received                | 1,200         | Balance brought forward       | 180           |
| Subscriptions for the year ended: |               | Investment acquired           | 2,000         |
| 30 April 2020                     | 480           | Operation expenses            | 710           |
| 30 April 2021                     | 10,100        | Upgrading of fields           | 4,000         |
| 30 April 2022                     | 720           | Purchases of sports equipment | 2,000         |
| Investment income                 | 320           | Salaries to staff             | 1,360         |
| Sale of refreshments              | 650           | Maintenance of building       | 240           |
|                                   |               | Purchase of refreshments      | 380           |
|                                   |               | Allowances to players         | 1,200         |
|                                   |               | Balance carried forward       | <u>1,400</u>  |
|                                   | <u>13,470</u> |                               | <u>13,470</u> |

**Additional information:**

1. As at 30 April 2021, the subscriptions in arrears amounted to Sh.480,000 while those outstanding as at 1 May 2020 amounted to Sh.600,000. The policy of the club is to write-off any subscription outstanding after 12 months.
2. The committee agreed to capitalise the cost of upgrading the field.
3. As at 30 April 2021, outstanding operating expenses amounted to Sh.290,000.
4. The following balances were extracted from the books of the club as at 1 May 2020:

|                           | Sh. '000' |
|---------------------------|-----------|
| Field                     | 8,000     |
| Buildings                 | 4,000     |
| Furniture and fittings    | 1,800     |
| Sports equipment          | 4,800     |
| Subscriptions in arrears  | 600       |
| Refreshments at hand      | 80        |
| Accumulated depreciation: |           |
| - Buildings               | 400       |
| - Furniture and fittings  | 600       |
| - Sports equipment        | 1,200     |
| Bank balance              | (180)     |
5. Sports equipment which had cost Sh.1,200,000 with an accumulated depreciation of Sh.600,000 was disposed of for Sh.800,000 cash, during the year.
6. Depreciation is provided for as follows:
  - Building 5% per annum on reducing balance
  - Furniture and fittings 10% per annum on cost
  - Sports equipment 15% per annum on cost.
7. The committee agreed to capitalise the donations received in order to purchase a club bus.

**Required:**

- (i) Income and expenditure account for the year ended 30 April 2021. (6 marks)
- (ii) Statement of financial position as at 30 April 2021. (6 marks)

**(Total: 20 marks)**

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**CS PART I SECTION 2**

**CICT PART I SECTION 2**

**CCP PART I SECTION 2**

**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 23 May 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 the following concepts:

- (i) Going concern concept. (2 marks)
- (ii) Consistency concept. (2 marks)
- (iii) Materiality concept. (2 marks)

(b) Describe the following types of errors:

- (i) Error of omission. (2 marks)
- (ii) Error of commission. (2 marks)
- (iii) Error of principle. (2 marks)

(c) Explain four reasons why consolidated financial statements are useful to the users of financial statements as opposed to just the parent company's separate financial statements. (8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

The following trial balance was extracted from the books of Jacob Barasa, a sole proprietor, as at 31 March 2018:

|   | Sh. "000"      | Sh. "000"      |
|---|----------------|----------------|
| Bank balance  | 32,728         |                |
| Inventory (1 April 2017)                                  | 32,193         |                |
| Trade receivables and trade payables                      | 20,911         | 13,006         |
| Drawings  | 18,000         |                |
| Allowance for doubtful debts (1 April 2017)               |                | 876            |
| Bad debts written off                                     | 693            |                |
| Wages   | 26,649         |                |
| General expenses  | 7,263          |                |
| Rent and rates  | 3,000          |                |
| Purchases and sales                                       | 164,770        | 234,481        |
| Capital account   |                | 193,894        |
| Freehold land and buildings at cost                       | 114,000        |                |
| Motor vehicles at cost                                    | 37,500         |                |
| Accumulated depreciation on motor vehicles (1 April 2017) |                | 15,450         |
|   | <u>457,707</u> | <u>457,707</u> |

**Additional information:**

- Rent and rates amounting to Sh.300,000 were prepaid as at 31 March 2018.
- During the year, Barasa took goods costing Sh.1,250,000 for his own use. No entry has been made in the books in respect of this.



3. The allowance for doubtful debts is to be increased by Sh.104,000.
4. The wages outstanding as at 31 March 2018 amounted to Sh.271,000.
5. Inventory as at 31 March 2018 was valued at Sh.34,671,000.
6. During the year, a vehicle which had cost Sh.2,500,000 and had a written-down value of Sh.1,000,000 was sold for Sh.1,500,000. No entry had been made in the books to record this, other than to credit the sales proceeds to the motor vehicles account.
7. The depreciation on motor vehicles for the year amounted to Sh.7,000,000.

**Required:**

- (a) Income statement for the year ended 31 March 2018. (12 marks)
  - (b) Statement of financial position as at 31 March 2018. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Explain two reasons why it is necessary to prepare a bank reconciliation statement. (4 marks)
- (b) On 2 May 2018, Mapato Ltd. received their monthly bank statement which showed an overdraft of Sh.212,900. This amount did not agree with the credit balance of Sh.607,600 shown in the bank column of the cash book.

Upon investigation, the following was revealed:

1. The bank statement recorded that a cheque for Sh.18,500 paid into the bank had been subsequently dishonoured. The company was unaware of this.
2. The bank statement revealed a credit transfer received of Sh.29,100. After inquiries, it was discovered that this related to another company.
3. Bank charges for the month of April 2018 amounting to Sh.4,800 had been omitted from the cash book.
4. A page in the cash book of debit entries had been undercast by Sh.60,000 and the incorrect total carried forward to the next page.
5. A hire purchase agreement for equipment had been entered into by the company that required Sh.12,000 to be paid every month for two years. The first payment was due on 20 February 2018. These amounts were correctly entered by the company, but the bank had inadvertently debited another company.
6. A dividend cheque received for Sh.34,000 had been entered twice in the cash book.
7. The company's agent had deposited a cheque of Sh.155,000 into Mapato Ltd.'s bank account, but this was not indicated on the bank statement.
8. A standing order of Sh.11,000 had been duly paid by the bank, but there was no record in the cash book.
9. Cheques totalling Sh.492,000 had been delivered to suppliers on 30 April 2018 but none of these had been presented to the bank.
10. A cheque for Sh.15,400 had been received from a customer on 25 April 2018 but had been entered in the cash book as Sh.14,500.

**Required:**

- (i) An updated cash book as at 30 April 2018. (10 marks)
  - (ii) Bank reconciliation statement as at 30 April 2018. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

The following assets and liabilities were extracted from the books of Westwood Sports Club as at 30 September:

|                         | 2016<br>Sh."000" | 2017<br>Sh."000" |
|-------------------------|------------------|------------------|
| Club house              | 52,000           | 52,000           |
| Sports equipment        | 23,000           | 29,600           |
| Stock of prizes         | 500              | 700              |
| Bar payables            | 12,000           | 13,000           |
| Bar inventory           | 2,000            | 3,000            |
| Accrued rates           | 800              | 900              |
| Insurance prepaid       | 300              | 600              |
| Subscription in arrears | 17,000           | 19,000           |
| Subscription in advance | 8,000            | 5,000            |

The summary of receipts and payments account for the year ended 30 September 2017:

| Receipts                 | Sh."000"       | Payments                  | Sh."000"       |
|--------------------------|----------------|---------------------------|----------------|
| Balance brought forward: |                | Bar payables              | 97,000         |
| - Bank                   | 22,000         | Prizes                    | 3,000          |
| Subscriptions            | 44,000         | Rates                     | 4,000          |
| Donations                | 8,000          | Insurance                 | 8,000          |
| Bar takings              | 120,000        | Barman's wages            | 3,000          |
| Entry fees               | 3,000          | Ground maintenance        | 9,000          |
| Annual dinner sales      | 15,000         | Annual dinner cost        | 13,000         |
|                          |                | Staff salaries            | 17,000         |
|                          |                | Cash refund to subscriber | 1,000          |
|                          |                | New equipment             | 7,000          |
|                          |                | Balance carried forward:  |                |
|                          |                | - Bank                    | <u>50,000</u>  |
|                          | <u>212,000</u> |                           | <u>212,000</u> |

**Additional information:**

1. Subscriptions received during the year include Sh.15 million being arrears for the year ended 30 September 2016.
2. It is the policy of the club to write-off any subscriptions in arrears for more than one year.

**Required:**

- (a) Bar income statement for the year ended 30 September 2017. (6 marks)
  - (b) Income and expenditure account for the year ended 30 September 2017. (7 marks)
  - (c) Statement of financial position as at 30 September 2017. (7 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Describe three advantages of accrual accounting in relation to public sector accounting. (6 marks)
- (b) The following financial statements were extracted from the books of Zeta Ltd. as at 30 September:

| Income statement                      | 2016<br>Sh."000" | 2017<br>Sh."000" |
|---------------------------------------|------------------|------------------|
| Sales                                 | 96,000           | 120,000          |
| Cost of sales                         | <u>(67,200)</u>  | <u>(81,600)</u>  |
| Gross profit                          | 28,800           | 38,400           |
| Administrative expenses               | (10,000)         | (8,000)          |
| Sales and distribution costs          | (2,400)          | (6,800)          |
| Debt interest                         | <u>(2,000)</u>   | <u>(2,000)</u>   |
| Profit before tax                     | 14,400           | 21,600           |
| Corporation tax                       | <u>(4,320)</u>   | <u>(6,480)</u>   |
| Profit after tax                      | 10,080           | 15,120           |
| Dividends                             | <u>(5,000)</u>   | <u>(6,000)</u>   |
| Retained profit for the current year  | 5,080            | 9,120            |
| Retained profit brought forward       | <u>4,920</u>     | <u>10,000</u>    |
| Retained profit carried forward       | 10,000           | 19,120           |
| <br>                                  |                  |                  |
| Statement of financial position       | 2016<br>Sh."000" | 2017<br>Sh."000" |
| Non-current assets                    | 74,500           | 76,240           |
| <b>Current assets:</b>                |                  |                  |
| Inventory                             | 10,000           | 12,000           |
| Accounts receivable                   | 15,500           | 19,000           |
| Bank balance                          | —                | <u>4,760</u>     |
| Total assets employed                 | <u>100,000</u>   | <u>112,000</u>   |
| <br>                                  |                  |                  |
| Equity and liabilities:               |                  |                  |
| <b>Issued and fully paid capital:</b> |                  |                  |
| Ordinary shares of Sh.100 each        | 50,000           | 50,000           |
| Share premium                         | 5,000            | 5,000            |
| Retained earnings                     | <u>10,000</u>    | <u>19,120</u>    |
| Owners equity                         | 65,000           | 74,120           |

|                               | 2016<br>Sh."000" | 2017<br>Sh."000" |
|-------------------------------|------------------|------------------|
| <b>Long-term liabilities:</b> |                  |                  |
| 10% debentures                | 20,000           | 20,000           |
| <b>Current liabilities:</b>   |                  |                  |
| Accounts payable              | 5,180            | 5,400            |
| Corporation tax               | 4,320            | 6,480            |
| Dividends                     | 5,000            | 6,000            |
| Bank overdraft                | <u>500</u>       | <u>-</u>         |
|                               | <u>100,000</u>   | <u>112,000</u>   |

**Additional information:**

1. Inventory as at 1 October 2015 was valued at Sh.9 million.
2. All sales were on credit.

**Required:**

For each year, calculate the following accounting ratios:

- |       |                                    |                          |
|-------|------------------------------------|--------------------------|
| (i)   | Gross profit margin.               | (2 marks)                |
| (ii)  | Net profit margin.                 | (2 marks)                |
| (iii) | Return on capital employed (ROCE). | (2 marks)                |
| (iv)  | Return on equity (ROE).            | (2 marks)                |
| (v)   | Current ratio.                     | (2 marks)                |
| (vi)  | Acid test ratio.                   | (2 marks)                |
| (vii) | Inventory turnover in days         | (2 marks)                |
|       |                                    | <b>(Total: 20 marks)</b> |
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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 29 November 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 was extracted from the books of Imani Linda as at 31 October 2017:

|   | Sh. "000" | Sh. "000" |
|---|-----------|-----------|
| Capital (1 November 2016)                   |           | 30,000    |
| Purchases and sales                         | 55,000    | 96,000    |
| Accounts receivable and accounts payable    | 14,000    | 16,000    |
| Inventory (1 November 2016)                 | 6,500     |           |
| Returns inward and returns outward          | 850       | 750       |
| Furniture and fittings at cost              | 12,000    |           |
| Motor vehicles at cost                      | 12,000    |           |
| Equipment at cost                           | 12,500    |           |
| Accumulated depreciation (1 November 2016): |           |           |
| Furniture and fittings                      |           | 1,200     |
| Motor vehicles                              |           | 3,000     |
| Equipment                                   |           | 2,500     |
| Salaries and wages                          | 6,800     |           |
| Rent expenses                               | 7,370     |           |
| Sundry expense                              | 1,600     |           |
| Discount allowed and discount received      | 450       | 950       |
| Bad debts written off                       | 1,000     |           |
| Motor vehicle running expenses              | 7,150     |           |
| Allowances for doubtful debts               |           | 800       |
| Drawings                                    | 10,000    |           |
| Bank balance                                | 3,980     |           |
|   | 151,200   | 151,200   |

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Additional information as at 31 October 2017:

|  | Sh. "000"      |                  |
|--|----------------|------------------|
| 1. Closing inventory was valued at         | 11,000         |                  |
| 2. Allowance for doubtful debts to be      | 700            |                  |
| 3. Accrued salaries were                   | 1,600          |                  |
| 4. Depreciation to be provided as follows: |                |                  |
| Asset                                      | Rate per annum | Method           |
| Furniture and fittings                     | 10%            | Reducing balance |
| Equipment                                  | 20%            | Reducing balance |
| Motor vehicles                             | 25%            | Straight line    |

Required:

- (a) Income statement for the year ended 31 October 2017. (12 marks)
- (b) Statement of financial position as at 31 October 2017. (8 marks)

(Total: 20 marks)

## QUESTION TWO

- (a) Explain four characteristics that distinguish public sector organisations from private business organisations. (8 marks)
- (b) The following information has been extracted from the books of Zikudi Ltd. as at 1 November 2016:

|   | Sh. "000" |
|---|-----------|
| Land and building at cost (land Sh.5 million) | 10,600    |
| Plant and machinery at cost                   | 5,250     |
| Motor vehicles at cost                        | 6,200     |
| Accumulated depreciation:                     |           |
| Building                                      | 2,600     |
| Plant and machinery                           | 960       |
| Motor vehicles                                | 2,800     |

### Additional information:

1. A plant that had cost Sh.750,000 on 1 November 2014 was sold for Sh.550,000 on 2 November 2016.
2. A piece of land was acquired for Sh.1,100,000 during the year.
3. During the year, a motor vehicle that had cost Sh.1,200,000 and on which depreciation of Sh.400,000 had been charged was traded-in for a new vehicle costing Sh.3,000,000. Zikudi Ltd. paid the trade-in balance in cash.
4. Depreciation is provided on cost as follows:

| Asset               | Rate per annum |
|---------------------|----------------|
| Plant and machinery | 10%            |
| Motor vehicles      | 25%            |
| Building            | 5%             |

### Required:

Non-current asset movement schedule for the year ended 31 October 2017.

(12 marks)

(Total: 20 marks)

## QUESTION THREE

- (a) Explain the meaning of the following terms as per International Accounting Standard (IAS) 7 "statement of cash flows":
- (i) Statement of cash flow. (2 marks)
  - (ii) Cash equivalents. (2 marks)
  - (iii) Operating activities. (2 marks)
  - (iv) Investing activities. (2 marks)
  - (v) Financing activities. (2 marks)
- (b) At the end of the financial year, the trial balance of Segana Enterprises failed to agree and the difference was entered in a suspense account. Subsequently, the following errors were discovered:

1. The sales day book had been undercast by Sh.200,000.
2. A customer's personal account had been correctly credited with Sh.25,000 discount, but no corresponding entry was made in the discount column of the cash book.
3. Discount allowed amounting to Sh.12,000 was credited instead of being debited to the discount allowed account.
4. A debit balance on the account of North African Handlers, a customer, was undercast by Sh.100,000.
5. A credit balance of Sh.250,000 on a customer's account had been omitted when extracting the balances.

### Required:

Journal entries to correct the above errors. (Narrations not required)

(10 marks)

(Total: 20 marks)

## QUESTION FOUR

Sagana Ltd. is a manufacturing company with its factory and offices at the same site. The following balances were extracted from the books for the year ended 30 September 2017:

|                           | Sh. "000" |
|---------------------------|-----------|
| Sales                     | 179,000   |
| Purchases                 | 60,000    |
| Telephone expenses        | 2,000     |
| Electricity               | 3,000     |
| Manufacturing overheads   | 2,300     |
| Depreciation on equipment | 10,000    |
| Direct labour             | 70,000    |
| Rates                     | 5,000     |

|                          | Sh. "000" |
|--------------------------|-----------|
| Selling expenses         | 1,150     |
| Administrative expenses  | 2,550     |
| Depreciation on building | 2,000     |

Overhead costs are to be apportioned as follows:

|                           | Manufacturing | Administration | Selling |
|---------------------------|---------------|----------------|---------|
| Telephone                 | -             | 40%            | 60%     |
| Rates                     | 50%           | 30%            | 20%     |
| Electricity               | 40%           | 35%            | 25%     |
| Depreciation on building  | 50%           | 30%            | 20%     |
| Depreciation on equipment | 80%           | 5%             | 15%     |

| Inventories:     | Opening<br>Sh. "000" | Closing<br>Sh. "000" |
|------------------|----------------------|----------------------|
| Raw materials    | 5,000                | 3,000                |
| Work-in-progress | 4,000                | 3,000                |
| Finished goods   | 16,000               | 18,000               |

Required:

- (a) Manufacturing account for the year ended 30 September 2017. (10 marks)
- (b) Income statement for the year ended 30 September 2017. (10 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Justify why shareholders need to read and understand published accounts of companies in which they own shares. (3 marks)
- (b) The following are statements of financial position of HT Ltd. and ST Ltd. as at 31 October 2017:

| Assets:                                   | HT Ltd.<br>Sh. "000" | ST Ltd.<br>Sh. "000" |
|---|----------------------|----------------------|
| <b>Non-current assets:</b>                |                      |                      |
| Tangible assets                           | 150,000              | 106,000              |
| <b>Investments:</b>                       |                      |                      |
| 3,000,000 shares of Sh.20 each in ST Ltd. | 100,000              |                      |
| 12% debentures in ST Ltd.                 | <u>20,000</u>        |                      |
|   | 270,000              | <u>106,000</u>       |
| <b>Current assets:</b>                    |                      |                      |
| Inventory                                 | 30,000               | 25,000               |
| Trade receivables                         | 40,000               | 40,000               |
| Cash at bank                              | <u>16,000</u>        | <u>8,000</u>         |
|   | <u>86,000</u>        | <u>73,000</u>        |
| Total assets                              | 356,000              | <u>179,000</u>       |
| <b>Equity and liabilities:</b>            |                      |                      |
| <b>Capital and reserves:</b>              |                      |                      |
| Ordinary shares of Sh.20 each             | 230,000              | 80,000               |
| Revenue reserves                          | <u>89,500</u>        | <u>50,000</u>        |
|   | <u>319,500</u>       | <u>130,000</u>       |
| <b>Non-current liabilities:</b>           |                      |                      |
| 12% debentures                            |                      | <u>24,000</u>        |
| <b>Current liabilities:</b>               |                      |                      |
| Trade payables                            | <u>36,500</u>        | <u>25,000</u>        |
| Total equity and liabilities              | <u>356,000</u>       | <u>179,000</u>       |

#### Additional information:

- HT Ltd. acquired its investment in ST Ltd. on 1 August 2017 when the revenue reserves of ST Ltd. were Sh.44,000,000.
- HT Ltd. bought ordinary shares with a par value of Sh.60,000,000 for Sh.100,000,000.
- As at 31 October 2017, trade receivables of HT Ltd. include Sh.20,000,000 receivable from ST Ltd. The trade payables in ST Ltd. included Sh.13,000,000 payable to HT Ltd.
- It is the policy of HT Ltd. to value non-controlling interest (NCI) at fair value on the acquisition date. The fair value of the non-controlling interest of 25% was estimated to be Sh.36,000,000 at the acquisition date.

Required:

Group consolidated statement of financial position as at 31 October 2017.

(17 marks)  
**(Total: 20 marks)**

# 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 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:

|  | <b>2016</b>          | <b>2017</b>          |
|--|----------------------|----------------------|
|  | <b>Sh. "000"</b>     | <b>Sh. "000"</b>     |
| <b>Income statement</b>                |                      |                      |
| 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                     | <u>(2,700)</u>       | <u>(3,680)</u>       |
| 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>           |
|  | <b>2016</b>          | <b>2017</b>          |
|  | <b>Sh. "000"</b>     | <b>Sh. "000"</b>     |
| <b>Statement of financial position</b> |                      |                      |
| <b>Non-current assets:</b>             |                      |                      |
| Land and buildings                     | 4,000                | 4,000                |
| Motor vehicles                         | 3,000                | 5,000                |
| Equipment                              | 2,470                | 4,317                |
| <b>Current assets:</b>                 |                      |                      |
| Inventory                              | 3,800                | 4,000                |
| Accounts receivable                    | 2,800                | 3,400                |
| Bank balance                           | <u>1,800</u>         | <u>2,673</u>         |
| <b>Total assets</b>                    | <b><u>17,870</u></b> | <b><u>23,390</u></b> |
| <b>Equity and liabilities:</b>         |                      |                      |
| 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                |
| <b>Current liabilities:</b>            |                      |                      |
| Accounts payable                       | 3,000                | 4,000                |
| Corporation tax                        | 300                  | 396                  |
| Interest                               | 300                  | 400                  |
| Dividend                               | <u>600</u>           | <u>800</u>           |
| <b>Total equity and liabilities</b>    | <b><u>17,870</u></b> | <b><u>23,390</u></b> |

**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.<br>Sh."000"   | S Ltd.<br>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>        | -                    |
|                                 | 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.590,000.
- 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)

# KASNEB

## CS PART I SECTION 2

## CICT PART I SECTION 2

## CCP PART I SECTION 2

### PRINCIPLES OF ACCOUNTING

TUESDAY: 24 November 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

(a) Explain the following types of errors:

- (i) Errors of omission. (2 marks)
- (ii) Compensating errors. (2 marks)
- (iii) Errors of principle. (2 marks)
- (iv) Errors of commission. (2 marks)

(b) Ngugi Enterprise's draft accounts for the year ended 31 October 2015 showed a gross profit of Sh.10,500,000 and a net profit of Sh.2,120,000.

A thorough scrutiny by the auditors reveals the following errors:

1. Discount allowed to a customer of Sh.100,000 in November 2014 was debited to his account and credited in discounts allowed account.
2. Purchases day book had been overcast by Sh.1,000,000.
3. A receipt of a bad debt amounting to Sh.200,000 in May 2015 has been credited to sales account.
4. Machinery worth Sh.5,400,000 was purchased in August 2015 on credit but a journal entry was passed for Sh.4,500,000.
5. No adjustment has been made for an amount of Sh.200,000 relating to outstanding salaries as at 31 October 2015.
6. Wages of Sh.63,000 paid in July 2015 have not been posted from the cash book.
7. A payment by Julius Gichuru of Sh.94,000 in January 2015 had been posted to the credit of Julius Gichuki's account.
8. The stock sheets as at 31 October 2015 were recorded at selling price of Sh.2,400,000. One stock sheet totalling Sh.15,000 was omitted in the final tally. Ngugi Enterprise's marked up stock costs by 50%.
9. A purchase from a supplier of Sh.341,000 in May 2015 was recorded in the books as Sh.143,000.
10. Discounts received of Sh.324,000 in May 2015 have been posted to the debit side of the discounts allowed account.

#### Required:

- (i) Statement of corrected gross profit for the year ended 31 October 2015. (6 marks)
- (ii) Statement of corrected net profit for the year ended 31 October 2015. (6 marks)

(Total: 20 marks)

#### QUESTION TWO

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

- (i) Commitment accounting. (3 marks)
- (ii) Revolving funds. (3 marks)
- (iii) Budget cycle. (3 marks)

- (b) Phala Ltd., a mobile phone accessories manufacturer, has obtained accounting ratios relating to averages for similar organisations in the industry.

The industry average ratios for the period 1 July 2014 to 30 June 2015 are as follows:

|                                     |           |
|-------------------------------------|-----------|
| Return on capital employed          | 21.6%     |
| Net assets turnover                 | 1.6 times |
| Gross profit margin                 | 25%       |
| Net profit (before tax) margin      | 10.5%     |
| Current ratio                       | 1.5:1     |
| Quick ratio                         | 0.8:1     |
| Inventory holding period            | 42 days   |
| Trade receivables collection period | 41 days   |
| Trade payables payment period       | 59 days   |
| Debt to equity                      | 35%       |
| Dividend cover                      | 4 times   |

The summarised financial statements of Phala Ltd. for the year ended 30 June 2015 are as follows:

|                                    |                 |
|------------------------------------|-----------------|
| <b>Income statement</b>            | <b>Sh."000"</b> |
| Sales revenue                      | 4,850           |
| Cost of sales                      | (3,740)         |
| Gross profit                       | 1,110           |
| Other operating expenses           | (430)           |
| Operating profit                   | 680             |
| Interest payable                   | (68)            |
| Loss on sale of obsolete inventory | (240)           |
| Profit before tax                  | 372             |
| Tax expense                        | (180)           |
| Profit after tax                   | 192             |

|                                |                 |
|--------------------------------|-----------------|
| <b>Changes in equity</b>       | <b>Sh."000"</b> |
| Retained profits (1 July 2014) | 358             |
| Net profit for the year        | 192             |
| Dividends paid                 | (180)           |
|                                | <u>370</u>      |

**Statement of financial position as at 30 June 2015:**

|                                |                 |                 |
|--------------------------------|-----------------|-----------------|
|                                | <b>Sh."000"</b> | <b>Sh."000"</b> |
| Non-current assets (net)       |                 | 1,080           |
| <b>Current assets:</b>         |                 |                 |
| Inventory                      | 550             |                 |
| Trade receivables              | <u>640</u>      | <u>1,190</u>    |
|                                |                 | <u>2,270</u>    |
| <b>Equity and liabilities:</b> |                 |                 |
| <b>Equity:</b>                 |                 |                 |
| Ordinary shares of Sh.0.5 each |                 | 300             |
| Retained profits               |                 | 370             |
| <b>Non-current liability:</b>  |                 |                 |
| 7% debentures                  |                 | 600             |
| <b>Current liabilities:</b>    |                 |                 |
| Trade payables                 | 700             |                 |
| Tax expense                    | 170             |                 |
| Bank overdraft                 | <u>130</u>      | <u>1,000</u>    |
|                                |                 | <u>2,270</u>    |

**Additional information:**

- The accumulated depreciation for non-current assets as at 30 June 2015 amounted to Sh.6,120,000.
- Phala Ltd.'s ordinary shares averaged a market price of Sh.12 throughout the year.
- Assume a 365 day year.

**Required:**

Compute the ratios for Phala Ltd. corresponding to those for the industry averages.

(11 marks)

(Total: 20 marks)

**QUESTION THREE**

(a) Describe the following terms:

(i) Fundamental accounting concepts. (3 marks)

(ii) Accounting bases. (3 marks)

(b) On 30 September 2015, a fire broke out at the premises of Revolution Chemicals Ltd. and destroyed its contents. Fortunately, certain accounting records had been kept in another building and the following information was retrieved for the period from 31 May 2015 to 30 September 2015:

|                                | Sh.        |
|--------------------------------|------------|
| Raw materials purchased        | 170,000    |
| Work-in-progress (31 May 2015) | 34,000,000 |
| Raw materials (31 May 2015)    | 16,000,000 |
| Finished goods (31 May 2015)   | 30,000,000 |

**Additional information:**

1. Sales of finished goods amounted to Sh.500,000,000.
2. Prime costs average 70% of the cost of goods manufactured.
3. Gross profit percentage based on net sales is 20%.
4. Cost of goods available for sale amounted to Sh.460,000,000.
5. Factory overheads are 40% of the cost of goods manufactured.
6. Direct labour amounted to Sh.180,000,000.
7. The loss was fully covered by an insurance policy.

**Required:**

Manufacturing and trading account for the 4-month period ended 30 September 2015.

(14 marks)

(Total: 20 marks)

**QUESTION FOUR**

The Nairobi Investment Society Club operates a professional club for its members to promote, among other things, sports and networking

The treasurer of the club has prepared the following receipts and payments account as at 31 October 2015.

| <b>Receipts and payments account</b> |                  |                         |                  |
|--------------------------------------|------------------|-------------------------|------------------|
|                                      | Sh. "000"        |                         | Sh. "000"        |
| Balance brought forward              | 748,000          | Club extension          | 650,000          |
| Subscriptions: 2013/2014             | 158,000          | Dinner dance expenses   | 350,000          |
| 2014/2015                            | 2,540,000        | New equipment           | 300,000          |
| 2015/2016                            | 67,000           | Bar purchases           | 726,000          |
| Dinner dance                         | 598,000          | Salaries and wages      | 454,000          |
| Bar sales                            | 932,000          | Other staff expenses    | 129,000          |
| Donations                            | 529,000          | Coach fees              | 260,000          |
| Rental income                        | 158,000          | Life saver fees         | 184,000          |
| Investment income                    | 247,000          | Investment purchases    | 450,000          |
| Sale of old equipment                | 62,000           | General expenses        | 158,000          |
|                                      |                  | Repairs and maintenance | 296,000          |
|                                      |                  | Balance carried down    | <u>2,082,000</u> |
|                                      | <u>6,039,000</u> |                         | <u>6,039,000</u> |

**Additional information:**

1. The following balances were available at the beginning and at the end of the year:

|                                     | 31 October 2014 | 31 October 2015 |
|-------------------------------------|-----------------|-----------------|
|                                     | Sh. "000"       | Sh. "000"       |
| Clubhouse (building)                | 2,450,000       | ?               |
| Equipment: Cost                     | 325,000         | ?               |
| Accumulated depreciation            | 95,000          | ?               |
| Furniture and fittings: Cost        | 340,000         | ?               |
| Accumulated depreciation            | 125,000         | ?               |
| Subscriptions in arrears: 2013/2014 | 185,000         |                 |
| 2014/2015                           |                 | 324,000         |

|                             |           |           |         |
|-----------------------------|-----------|-----------|---------|
| Subscriptions prepaid:      | 2014/2015 | 124,000   |         |
|                             | 2015/2016 | 54,000    | ?       |
| Inventory                   |           | 254,000   | 329,000 |
| Accrued salaries and wages  |           | 23,000    | 28,000  |
| Unpaid dinner dance tickets |           |           | 29,000  |
| Creditors for bar supplies  |           | 168,000   | 234,000 |
| Investments                 |           | 2,550,000 |         |
| Unpaid buildings extension  |           |           | 85,000  |
| Club extension fund         |           | 250,000   | ?       |

2. The donations were for the extension of the club. The funds will remain in the club extension fund until the works are completed when the balance will be transferred to the accumulated fund.
3. Equipment which had cost Sh.25 million and had a book value of Sh.18 million was sold on credit for Sh.14 million to a member who had not paid by the year end. Other equipment which had been bought for Sh.60 million and on which depreciation of Sh.19 million had been provided was also sold during the year.
4. Accounting and audit fees of Sh.50 million should be provided for.
5. Depreciation is to be provided on cost as follows:

|                        |                       |
|------------------------|-----------------------|
| <b>Asset</b>           | <b>Rate per annum</b> |
| Furniture and fittings | 10%                   |
| Equipment              | 15%                   |
6. Subscriptions in arrears are written off after 12 months.

**Required:**

- (a) Income and expenditure account for the year ended 31 October 2015. (10 marks)
- (b) Statement of financial position as at 31 October 2015. (10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain four roles played by accounting regulatory bodies. (8 marks)

- (b) H Ltd. acquired 80% of the ordinary shares of S Ltd. on 1 February 2015. As at 31 October 2014, the balance on S Ltd.'s share premium account was Sh.4,000,000 and retained earnings was Sh.15,000,000. The statement of financial position of the two companies as at 31 October 2015 are as shown below:

|   | H Ltd.<br>Sh. "000" | S Ltd.<br>Sh. "000" |
|---|---------------------|---------------------|
| <b>Assets:</b>                                  |                     |                     |
| Property, plant and equipment                   | 32,000              | 30,000              |
| 16,000 ordinary shares of Sh.0.5 each in S Ltd. | 50,000              | -                   |
|   | 82,000              | 30,000              |
| Current assets                                  | 85,000              | 43,000              |
| Total assets                                    | 167,000             | 73,000              |
| <b>Financed by:</b>                             |                     |                     |
| <b>Equity</b>                                   |                     |                     |
| Ordinary shares of Sh.10 each                   | 100,000             | -                   |
| Ordinary shares of Sh.0.5 each                  |                     | 10,000              |
| Share premium account                           | 7,000               | 4,000               |
| Retained earnings                               | 40,000              | 39,000              |
|   | 147,000             | 53,000              |
| Current liabilities                             | 20,000              | 20,000              |
|   | 167,000             | 73,000              |

**Additional information**

1. None of the companies paid dividends during the year ended 31 October 2015.
2. Non-controlling interest should be valued at full value.
3. The goodwill attributable to the non-controlling interest is valued at Sh.3,000,000.
4. The profits of S Ltd. were assumed to accrue evenly throughout the year.

**Required:**

Group consolidated statement of financial position as at 31 October 2015.

(12 marks)

**(Total: 20 marks)**

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# KASNEB

CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

## PRINCIPLES OF ACCOUNTING

WEDNESDAY: 25 May 2016.

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 Judi Ltd. as at 31 March 2016:

|   | Sh."000"         | Sh."000"         |
|---|------------------|------------------|
| Ordinary shares of Sh.20 each.              |                  | 80,000           |
| 10% preference shares of Sh.10 each.        |                  | 20,000           |
| 10% debentures                              |                  | 20,000           |
| Share premium                               |                  | 8,000            |
| Trade receivables and trade payables        | 70,000           | 40,000           |
| Purchases and sales                         | 850,000          | 1,032,400        |
| Discounts allowed and discounts received    | 1,200            | 2,500            |
| Buildings at cost                           | 100,000          |                  |
| Accumulated depreciation (1 April 2015)     |                  | 10,000           |
| Motor vehicles at cost                      | 60,000           |                  |
| Accumulated depreciation (1 April 2015)     |                  | 15,000           |
| Fixtures and fittings at cost               | 80,000           |                  |
| Accumulated depreciation (1 April 2015)     |                  | 20,000           |
| Inventory (1 April 2015)                    | 40,000           |                  |
| Returns outward                             |                  | 8,000            |
| Selling and distribution expenses           | 32,500           |                  |
| Salaries and wages                          | 22,500           |                  |
| Administrative expenses                     | 12,800           |                  |
| Bad debts written off                       | 1,400            |                  |
| Allowance for doubtful debts (1 April 2015) |                  | 3,200            |
| Cash in hand                                | 28,000           |                  |
| Bank overdraft                              |                  | 5,800            |
| Retained earnings (1 April 2015)            |                  | 35,500           |
| Debentures interest                         | 2,000            |                  |
|   | <u>1,300,400</u> | <u>1,300,400</u> |

### Additional information:

- Inventory as at 31 March 2016 was valued at Sh.85,000,000.
- Selling and distribution expenses prepaid as at 31 March 2016 amounted to Sh.2,500,000.
- The company's directors proposed the following:
  - Preference share dividend be paid.
  - A dividend of 10% on the ordinary shares be paid.
  - Auditors to be paid Sh.5,200,000.
  - Transfer of Sh.27,000,000 to the general reserve.
- Depreciation per annum is to be provided on cost as follows:

|                       |      |
|-----------------------|------|
| Buildings             | 2½ % |
| Fixtures and fittings | 10%  |
| Motor vehicles        | 15%  |
- Administrative expenses accrued as at 31 March 2016 amounted to Sh.2,200,000.
- The trade receivables include Sh.5,000,000 owed by a customer who has been declared insolvent. It has been decided to write off the debt.
- The allowance for doubtful debts is to be adjusted to 3% of trade receivables as at 31 March 2016.

**Required:**

- (a) Income statement for the year ended 31 March 2016. (10 marks)
- (b) Statement of financial position as at 31 March 2016. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) John Mango operates a sole proprietorship business and makes most of his payments and receipts through the bank. The summary of the cash book bank column for the month of April 2016 was provided by the accountant as follows:

| Bank account   |          |                |          |
|----------------|----------|----------------|----------|
|                | Sh."000" |                | Sh."000" |
| Balance b/d    | 1,050    | Total payments | 33,480   |
| Total receipts | 26,820   |                |          |
| Balance c/f    | 5,610    |                |          |
|                | 33,480   |                | 33,480   |

A thorough scrutiny of the records revealed the following:

1. A dividend cheque of Sh.113,400 paid into the business had not been entered in the cash book.
2. Cheque payments totalling to Sh.2,940,000 had been entered in the cash book but the cheques had not been presented at the bank by 30 April 2016.
3. The balance on the bank statement as at 30 April 2016 was Sh.5,871,000 less than the balance shown in the bank account above.
4. A cheque payment to a supplier for Sh.751,200 was incorrectly entered into the accounting record as a receipt.
5. Bank charges of Sh.105,000 were included in the bank statement but were not recorded in the cash book.
6. A standing order of Sh.267,000 in respect of a hire purchase agreement was processed through the bank on 25 April 2016 but had not been entered in the accounting record.
7. Cheques totalling Sh.7,050,000 had been entered in the cash book on 29 April 2016 and paid into the bank on the same day but had not been credited as a receipt in the bank statement.

**Required:**

- (i) An updated cash book as at 30 April 2016. (6 marks)
- (ii) A bank reconciliation statement as at 30 April 2016. (4 marks)
- (b) The following information relate to Hegi group of companies for the year ended 30 April 2016:

|                                   | Hegi Ltd.<br>Sh."000" | Segi Ltd.<br>Sh."000" |
|-----------------------------------|-----------------------|-----------------------|
| Revenue                           | 2,200                 | 1,000                 |
| Cost of sales                     | 1,260                 | 600                   |
| Gross profit                      | 940                   | 400                   |
| Administrative expenses           | (110)                 | (50)                  |
| Distribution expenses             | (100)                 | (250)                 |
| Dividends received from Segi Ltd. | 48                    | -                     |
| Profit before tax                 | 778                   | 100                   |
| Taxation expense                  | (130)                 | (20)                  |
| Profit for the year               | 648                   | 80                    |

**Additional information:**

1. The issued share capital of the group was as follows:  
 Hegi Ltd: 5,000,000 ordinary shares of Sh.10 each.  
 Segi Ltd: 1,000,000 ordinary shares of Sh.10 each.
2. Hegi Ltd. purchased 80% of the issued share capital of Segi Ltd. in the year 2009. At that time, the retained profits of Segi Ltd. amounted to Sh.56,000.

**Required:**

- Group consolidated income statement for the year ended 30 April 2016. (10 marks)
- (Total: 20 marks)**





Statement of financial position as at 31 December:

|                                 | 2015<br>Sh."000" | 2014<br>Sh."000" |
|---------------------------------|------------------|------------------|
| <b>Non-current assets:</b>      |                  |                  |
| Cost                            | 1,596            | 1,560            |
| Depreciation                    | (318)            | (224)            |
|                                 | <u>1,278</u>     | <u>1,336</u>     |
| <b>Current assets:</b>          |                  |                  |
| Inventory                       | 24               | 20               |
| Trade receivables               | 76               | 58               |
| Bank                            | <u>48</u>        | <u>56</u>        |
|                                 | <u>148</u>       | <u>134</u>       |
|                                 | <u>1,426</u>     | <u>1,470</u>     |
| <b>Financed by:</b>             |                  |                  |
| <b>Equity:</b>                  |                  |                  |
| Share capital                   | 360              | 340              |
| Share premium                   | 36               | 24               |
| Retained earnings               | <u>716</u>       | <u>514</u>       |
|                                 | <u>1,112</u>     | <u>878</u>       |
| <b>Non-current liabilities:</b> |                  |                  |
| Long-term loans                 | 200              | 500              |
| <b>Current liabilities:</b>     |                  |                  |
| Trade payables                  | 12               | 6                |
| Taxation                        | <u>102</u>       | <u>86</u>        |
|                                 | <u>114</u>       | <u>92</u>        |
|                                 | <u>1,426</u>     | <u>1,470</u>     |

During the year, the company paid Sh.90,000 for a new piece of machinery and paid dividends amounting to Sh.66,000.

**Required:**

Statement of cash flow in accordance with the requirements of International Accounting Standards (IAS) "Statement of cash flows" for the year ended 31 December 2015. (12 marks)

(Total 20 marks)

**QUESTION FIVE**

(a) Distinguish the following accounting concepts:

(i) Prudence and realisation. (4 marks)

(ii) Historical cost and money measurement. (4 marks)

(b) Explain three benefits of operating a computerised accounting system. (6 marks)

(c) Explain the role of the following in the context of public sector accounting:

(i) The Public Accounts Committee. (3 marks)

(ii) The Auditor General. (3 marks)

(Total: 20 marks)

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# KASNEB

## CS PART 1 SECTION 2

## CICT PART 1 SECTION 2

## CCP PART 1 SECTION 2

### PRINCIPLES OF ACCOUNTING

WEDNESDAY: 23 November 2016.

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) Describe four functions of a general journal as a book of prime entry. (4 marks)
- (b) Grace Mwendu prepared her end of year trial balance which did not agree. She posted the difference to a suspense account and prepared her income statement which reflected a net profit of Sh.1,451,520,000.

Upon investigation, she discovered the following errors:

- Returns outward had been overcast by Sh.16,800,000.
- A cheque for Sh.13,104,000 received from a debtor had been debited in the cash book but no other entry had been made.
- Motor vehicle repairs amounting to Sh.25,536,000 had been posted to the motor vehicle account.
- The total of discount allowed column on the debit side of the cash book amounting to Sh.6,720,000 had been posted to the credit side of discount received account.
- The total of purchases day book had been undercast by Sh.33,600,000.

#### Required:

- (i) Journal entries to correct the errors. (5 marks)  
(Narrations not required)
- (ii) Suspense account duly balanced. (5 marks)
- (iii) Statement of corrected net profit. (6 marks)

(Total: 20 marks)

#### QUESTION TWO

- (a) Describe three qualitative characteristics of accounting information. (6 marks)
- (b) The following trial balance was extracted from the books of Motomoto Golf Club as at 31 October 2016:

|                                    | Sh."000"      | Sh."000"      |
|------------------------------------|---------------|---------------|
| Accumulated fund (1 November 2015) |               | 18,175        |
| Bank balance                       | 1,570         |               |
| Club house                         | 21,000        |               |
| Equipment                          | 6,809         |               |
| General expenses                   | 580           |               |
| Golf professionals' salary         | 6,000         |               |
| Ground keeper's wages              | 7,698         |               |
| Bar purchases and sales            | 11,658        | 17,973        |
| Wages of bar staff                 | 2,809         |               |
| Bar inventory (1 November 2015)    | 1,764         |               |
| Subscriptions received             |               | 18,760        |
| Profits from raffle tickets        |               | 4,980         |
|                                    | <u>59,888</u> | <u>59,888</u> |

**Additional information:**

1. Bar inventory as at 31 October 2016 amounted to Sh.989,000.
2. As at 31 October 2016, subscriptions were as follows:
  - Prepaid Sh.180,000
  - Outstanding Sh.230,000
3. Provision for depreciation on equipment and club house amounted to Sh.760,000 and Sh.500,000 respectively.

**Required:**

- (i) Bar trading account for the year ended 31 October 2016. (4 marks)
  - (ii) Income statement for the year ended 31 October 2016. (5 marks)
  - (iii) Statement of financial position as at 31 October 2016. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Queenter and Rachel are in partnership sharing profits and losses in the ratio of 3:2 respectively.

The partnership agreement also provides the following:

- Interest shall be charged on cash drawings at 10% per annum.
- Queenter is entitled to an annual salary of Sh.1,200,000.
- Interest shall be allowed on their fixed capital at the rate of 10% per annum.

The trial balance as at 31 October 2016 is as follows:

|   | Sh. "000"     | Sh. "000"     |
|---|---------------|---------------|
| Sales                                       |               | 48,800        |
| Capital accounts: Queenter                  |               | 12,000        |
| Rachel                                      |               | 9,000         |
| Current accounts: Queenter                  |               | 4,000         |
| Rachel                                      |               | 3,000         |
| Cash drawings: Queenter                     | 2,000         |               |
| Rachel                                      | 1,000         |               |
| Returns inward                              | 800           |               |
| Inventory (1 November 2015)                 | 4,000         |               |
| Purchases                                   | 33,300        |               |
| Administrative expenses                     | 4,420         |               |
| Sales and distribution costs                | 2,780         |               |
| Land and buildings at cost                  | 20,000        |               |
| Motor vehicle at cost                       | 4,000         |               |
| Equipment at cost                           | 3,000         |               |
| Accumulated depreciation (1 November 2015): |               |               |
| • Motor vehicles                            |               | 1,000         |
| • Equipment                                 |               | 600           |
| Accounts receivable and accounts payable    | 5,000         | 3,000         |
| Bank balance                                | <u>1,100</u>  |               |
|   | <u>81,400</u> | <u>81,400</u> |

**Additional information:**

1. Inventory as at 31 October 2016 was valued at Sh.5,000,000.
2. The accrued administrative expenses as at 31 October 2016 amounted to Sh.100,000.
3. The sales and distribution expenses prepaid as at 31 October 2016 amounted to Sh.80,000.
4. During the year, goods taken by the partners at cost were as follows:
  - Queenter Sh.1,200,000
  - Rachel Sh.800,000
 These goods were never recorded.
5. Goods worth Sh.1,500,000 were destroyed by a fire during the year. The insurance company has accepted to pay Sh.1,000,000.
6. Depreciation is to be provided as follows:
 

| Asset          | Rate per annum | Method           |
|----------------|----------------|------------------|
| Motor vehicles | 25%            | Straight line    |
| Equipment      | 20%            | Reducing balance |

**Required:**

- (a) Income statement and appropriation for the year ended 31 October 2016. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 October 2016. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

The statements of financial position of Pamoja Ltd. as at 30 September are as follows:

|                                     | 2015          | 2016          |
|-------------------------------------|---------------|---------------|
|                                     | Sh."000"      | Sh."000"      |
| <b>Non-current assets:</b>          |               |               |
| Property, plant and equipment (net) | 38,400        | 52,808        |
| <b>Current assets:</b>              |               |               |
| Inventory                           | 15,000        | 13,000        |
| Accounts receivable                 | 25,000        | 6,000         |
| Bank balance                        | -             | 4,512         |
| Cash in hand                        | <u>1,000</u>  | <u>1,000</u>  |
|                                     | <u>79,400</u> | <u>77,320</u> |
| <b>Equity and liabilities:</b>      |               |               |
| Ordinary shares of Sh.10 each       | 40,000        | 40,000        |
| Share premium                       | 8,000         | 8,000         |
| General reserves                    | 1,000         | 4,000         |
| Retained earnings                   | 4,000         | 5,064         |
| 10% debentures                      | <u>10,000</u> | <u>8,000</u>  |
|                                     | <u>63,000</u> | <u>65,064</u> |
| <b>Current liabilities:</b>         |               |               |
| Accounts payable                    | 5,000         | 4,000         |
| Corporation tax                     | 2,400         | 3,456         |
| Accrued interest on debentures      | 1,000         | 800           |
| Proposed dividend                   | 4,000         | 4,000         |
| Bank overdraft                      | <u>4,000</u>  | <u>-</u>      |
|                                     | <u>16,400</u> | <u>12,256</u> |
|                                     | <u>79,400</u> | <u>77,320</u> |

**Additional information:**

- During the year, Pamoja Ltd. purchased plant and machinery at a cost of Sh.17,208,000.
- Debentures were redeemed at par.
- During the year, an old equipment with a book value of Sh.2,000,000 was sold for cash Sh.1,900,000.

**Required:**

Statement of cash flow in accordance with the requirements of International Accounting Standards (IAS) 7: "Statement of Cash Flows" for the year ended 30 September 2016. (20 marks)

**QUESTION FIVE**

- (a) Explain five purposes of public sector accounting. (5 marks)
- (b) HF Ltd. acquired 75% of the ordinary shares of SL Ltd. on 1 September 2015. As at that date, the fair value of SL Ltd's non-current assets was Sh.23,000,000 greater than their net book value. The balance of its revenue reserves was Sh.21,000,000. SL Ltd. had not incorporated the revaluation in its books of account.

The statements of financial position as at 31 August 2016 were as follows:

|                                 | HF Ltd.        | SL Ltd.       |
|---------------------------------|----------------|---------------|
|                                 | Sh."000"       | Sh."000"      |
| <b>Assets</b>                   |                |               |
| Non-current assets              | 63,000         | 28,000        |
| Investment in SL Ltd. (at cost) | <u>51,000</u>  | <u>-</u>      |
|                                 | 114,000        | 28,000        |
| Current assets                  | <u>82,000</u>  | <u>43,000</u> |
|                                 | <u>196,000</u> | <u>71,000</u> |

**Capital and liabilities**

|                               |                |               |
|-------------------------------|----------------|---------------|
| Ordinary shares of Sh.10 each | 80,000         | 20,000        |
| Revenue reserves              | <u>96,000</u>  | <u>11,000</u> |
|                               | 176,000        | 61,000        |
| Current liabilities           | <u>20,000</u>  | <u>10,000</u> |
|                               | <u>196,000</u> | <u>71,000</u> |

If SL Ltd. had revalued its non-current assets at 1 September 2015, an addition of Sh.3,000,000 would have been made to the depreciation charged in the income statement for the financial year ended 31 August 2016.

**Required:**

Group consolidated statement of financial position as at 31 August 2016.

(15 marks)

**(Total: 20 marks)**

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# 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.<br>Sh."000" | Silver Ltd.<br>Sh."000" |
|---------------------------------|-----------------------|-------------------------|
| <b>Assets:</b>                  |                       |                         |
| <b>Non-current assets:</b>      |                       |                         |
| Property plant and equipment    | 8,700                 | 3,300                   |
| Patents and copyrights          | 150                   | 390                     |
| Investment in Silver Ltd.       | <u>3,090</u>          |                         |
|                                 | <u>11,940</u>         | <u>3,690</u>            |
| <b>Current assets:</b>          |                       |                         |
| 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>            |
| <b>Equity and liabilities:</b>  |                       |                         |
| <b>Equity:</b>                  |                       |                         |
| 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>            |
| <b>Liabilities:</b>             |                       |                         |
| <b>Non-current liabilities:</b> |                       |                         |
| 10% debentures                  | 180                   | 240                     |
| Current liabilities             | <u>1,614</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<br>Sh."000" | 2014<br>Sh."000" |
|---------------------------------|------------------|------------------|
| <b>Assets</b>                   |                  |                  |
| <b>Non-current assets</b>       |                  |                  |
| Property plant and equipment    | 232,000          | 164,000          |
| <b>Current assets:</b>          |                  |                  |
| 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>    |
| <b>Total assets</b>             | <u>303,210</u>   | <u>236,954</u>   |
| <b>Equity and liabilities:</b>  |                  |                  |
| <b>Equity:</b>                  |                  |                  |
| 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>   |
| <b>Non-current liabilities:</b> |                  |                  |
| 10% debentures                  | 52,500           | 41,800           |
| <b>Current liabilities:</b>     |                  |                  |
| 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:**

1. Profit before tax is stated after charging depreciation of Sh.14,000,000.
2. During the year, the company sold an item of equipment for Sh.9,800,000 realising a profit of Sh.2,872,000.
3. 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:
- |                             |           |
|-----------------------------|-----------|
| (i) Donations and bequests. | (2 marks) |
| (ii) Entrance fees.         | (2 marks) |
| (iii) Honorarium.           | (1 mark)  |

- (b) The accountant of Appollo 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.

1. 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.
2. An item of machinery purchased for Sh.360,000 had been written off to repairs. Machinery is depreciated at 10% on cost.
3. The receipts side of the bank column of the cash book had been undercast by Sh.216,000.
4. A credit note for Sh.53,700 from a supplier had been posted to the wrong side of her account.
5. 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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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:

|                     | <b>Sh. "000"</b> |
|---------------------|------------------|
| 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:

|                                      | <b>Sh. "000"</b> |
|--------------------------------------|------------------|
| 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> |

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**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> |
|------------------------------|------------------|------------------|
|                              | <b>Sh. "000"</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              |
|                              |                  | 1,172            |
|                              |                  | <u>4,700</u>     |

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**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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**CS PART I SECTION 2**

**CICT PART I SECTION 2**

**CCP PART I SECTION 2**

**PRINCIPLES OF ACCOUNTING**

**THURSDAY: 28 November 2019.**

**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) Describe four advantages of using the imprest system of accounting. (8 marks)
- (b) The bank statement of Mubango Traders showed a balance of Sh.264,300 while the bank column of the cash book showed a balance of Sh.247,500 as at 30 September 2019.

Upon re-evaluation of the records, the following was discovered:

1. A cheque of Sh.74,000 drawn by Mubango Traders had been posted as Sh.47,000 in the cash book.
2. A standing order of Sh.25,000 had been paid by the bank but was not posted in the cash book.
3. Bank charges amounting to Sh.12,500 had not been posted in the cash book.
4. A cheque of Sh.18,500 banked on 28 September 2019 was dishonoured but the advice on dishonour was received on 3 October 2019.
5. Instructions to transfer Sh.150,000 from the savings account to the current account was not effected in the cash book.
6. Cheques drawn by Mubango Traders amounting to Sh.114,400 had not been presented to the bank.
7. Cheques and cash amounting to Sh.155,600 banked on 30 September 2019 had not been credited by the bank.
8. A cheque payment to suppliers amounting to Sh.69,000 was posted as Sh.60,000 in the cash book.

**Required:**

- (i) Adjusted cash book as at 30 September 2019. (8 marks)
- (ii) Bank reconciliation statement as at 30 September 2019. (4 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Explain four fundamental principles of professional ethics. (4 marks)
- (b) Daughton Ltd. is a large manufacturing firm with a wide range of products. It offers distribution of products to customers with its large fleet of distribution vehicles.

The following information relating to property, plant and equipment was extracted from the financial records of the company as at 1 November 2018:

|                                  | <b>Cost</b>      | <b>Accumulated depreciation</b> |
|----------------------------------|------------------|---------------------------------|
|                                  | <b>Sh. "000"</b> | <b>Sh. "000"</b>                |
| Land                             | 22,500           | -                               |
| Building                         | 45,000           | 12,600                          |
| Plant and equipment              | 16,000           | 7,400                           |
| Furniture, fixtures and fittings | 8,250            | 3,300                           |
| Motor vehicles                   | 30,000           | 12,000                          |

**Additional information:**

1. The property, plant and equipment were being depreciated as follows:

| Asset                            | Rate per annum | Basis            |
|----------------------------------|----------------|------------------|
| Building                         | 2%             | Straight line    |
| Plant and equipment              | 12.5%          | Reducing balance |
| Furniture, fixtures and fittings | 10%            | Straight line    |
| Motor vehicles                   | 20%            | Straight line    |

2. On 1 November 2018, the company revalued its property to its fair value of Sh.60 million (Land: Sh.24 million). However, the remaining economic useful life of the building remained as per the original estimate.
3. During the year ended 31 October 2019, some motor vehicles which had cost Sh.10 million and had an accumulated depreciation of Sh.5 million were disposed of for Sh.6.7 million cash.
4. On 1 May 2019, new items of plant and equipment were acquired at a cost of Sh.2.4 million. On the same date, old items of furniture and fixtures which had originally cost Sh.2.25 million and had an accumulated depreciation of Sh.0.9 million were traded-in for a new item of furniture and fixtures with a total cost of Sh.3 million. The company paid an additional Sh.1.8 million in cash to finance the trade-in agreement.
5. New fleet of distribution vehicles were acquired on 1 August 2019 at a cost of Sh.4 million.
6. Depreciation is charged on pro rata basis but it is not provided in the year of asset disposal.

**Required:**

- (i) Property, plant and equipment movement schedule for Daigton Ltd. for the year ended 31 October 2019. (12 marks)
- (ii) Assets disposal account as at 31 October 2019. (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

The following draft financial statements were extracted from the records of Leshaq Ltd. for the year ended 30 September 2019:

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

|                                 | 2019<br>Sh. "000" | 2018<br>Sh. "000" |
|---------------------------------|-------------------|-------------------|
| <b>Non-current assets:</b>      |                   |                   |
| Land and building (cost)        | 4,180             | 2,775             |
| Less accumulated depreciation   | (700)             | (450)             |
| Plant and equipment (cost)      | 1,060             | 975               |
| Less accumulated depreciation   | <u>(250)</u>      | <u>(150)</u>      |
|                                 | <u>4,290</u>      | <u>3,150</u>      |
| <b>Current assets:</b>          |                   |                   |
| Inventory                       | 490               | 525               |
| Trade receivables               | 510               | 430               |
| Cash and bank balances          | <u>495</u>        | <u>340</u>        |
|                                 | <u>1,495</u>      | <u>1,295</u>      |
| Total assets                    | <u>5,785</u>      | <u>4,445</u>      |
| <b>Equity and liabilities:</b>  |                   |                   |
| Ordinary share capital          | 1,000             | 600               |
| Share premium                   | 530               | 400               |
| Revaluation reserve             | 1,060             | 60                |
| Retained profits                | <u>1,415</u>      | <u>1,130</u>      |
| Total equity                    | <u>4,005</u>      | <u>2,190</u>      |
| <b>Non-Current liabilities:</b> |                   |                   |
| Bank loan                       | <u>1,000</u>      | <u>1,500</u>      |
| <b>Current liabilities:</b>     |                   |                   |
| Trade payables                  | 385               | 395               |
| Accrued interest                | 15                | 25                |
| Tax payable                     | <u>380</u>        | <u>335</u>        |
|                                 | <u>780</u>        | <u>755</u>        |
| Total equity and liabilities    | <u>5,785</u>      | <u>4,445</u>      |



**Income statement for the year ended 30 September 2019:**

|                     | Sh."000"       |
|---------------------|----------------|
| Sales               | 5,500          |
| Cost of sales       | <u>(3,390)</u> |
| Gross profit        | 2,110          |
| Operating expenses  | <u>(1,545)</u> |
| Operating profit    | 565            |
| Investment income   | 360            |
| Finance costs       | <u>(110)</u>   |
| Profit before tax   | 815            |
| Income tax expense  | <u>(355)</u>   |
| Profit for the year | <u>460</u>     |

**Additional information:**

- Operating expenses include loss on disposal of plant and depreciation for the year.
- During the year ended 30 September 2019, an item of plant was disposed of for Sh.300,000. The plant originally cost Sh.400,000 and had an accumulated depreciation to the date of disposal of Sh.75,000.
- On 30 September 2019, the company revalued its land and building.

**Required:**

- Statement of cash flows for the year ended 30 September 2019 in accordance with International Accounting Standards (IAS) 7 "Statement of Cash Flows". (16 marks)
  - For the years ended 30 September 2018 and 2019, calculate the following liquidity ratios:
    - Current ratio. (2 marks)
    - Quick ratio (acid test ratio). (2 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- The objective of International Public Sector Accounting Standard (IPSAS) 31: "Intangible Assets" is to prescribe the accounting treatment for intangible assets in the financial statements of a public sector entity.

**Required:**

With reference to IPSAS 31, explain the recognition criteria for intangible assets. (4 marks)

- Summarise six sources of income for not-for-profit making organisations (6 marks)
- Ali, Bakari and Charo are in partnership sharing profit and losses as follows:
  - Upto Sh.10 million, in the ratio of 4:3:3 respectively.
  - Above Sh.10 million they share equally.

The agreement also provides the following:

- Ali is entitled to an annual salary of Sh.5 million.
- Bakari and Charo are entitled to a commission of 10% each on net profit.
- Interest shall be charged on cash drawings at the rate of 5% per annum.
- Interest shall be allowed on fixed capital at rate of 10% per annum.

Their trial balance after income statement on 31 March 2018:

|   | Sh."000"       | Sh."000"       |
|---|----------------|----------------|
| Capital accounts: Ali                     |                | 50,000         |
| Bakari                                    |                | 40,000         |
| Charo                                     |                | 20,000         |
| Current accounts: Ali                     |                | 3,000          |
| Bakari                                    |                | 3,000          |
| Charo                                     |                | 2,000          |
| Cash drawings: Ali                        | 8,000          |                |
| Bakari                                    | 2,500          |                |
| Charo                                     | 1,500          |                |
| Property, plant and equipment (cost)      | 100,000        |                |
| Accumulated depreciation (31 March 2019)  |                | 4,000          |
| Inventory (31 March 2019)                 | 20,000         |                |
| Accounts receivables and accounts payable | 26,200         | 4,000          |
| Net profit for the year                   |                | 40,200         |
| Bank balance                              | <u>8,000</u>   |                |
|   | <u>166,200</u> | <u>166,200</u> |

**Additional information:**

Cash drawings by Ali include his annual salary of Sh.5 million.

**Required:**

Appropriation account for the year ended 31 March 2019.

(10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

The following balances were extracted from the books of Fine Ltd. as at 30 September 2019:

|  | Sh.       |
|--|-----------|
| Equipment at cost                          | 4,805,000 |
| Motor vehicles at cost                     | 3,900,000 |
| Bank                                       | 1,006,430 |
| Cash                                       | 73,500    |
| Sales                                      | 6,404,900 |
| Purchases                                  | 1,400,000 |
| Returns inwards                            | 139,640   |
| Carriage outward                           | 37,000    |
| Salaries and wages                         | 640,000   |
| Rent, rates and insurance                  | 303,000   |
| Discounts allowed                          | 146,400   |
| Directors remuneration                     | 320,000   |
| Accumulated depreciation (1 October 2018): |           |
| Equipment                                  | 102,000   |
| Motor vehicles                             | 1,278,000 |
| Share capital                              | 7,000,000 |
| Inventories (1 October 2018)               | 4,100,000 |
| Trade receivables                          | 3,617,800 |
| Trade payables                             | 1,554,270 |
| 10% debentures                             | 2,000,000 |
| Fixed asset replacement reserve            | 1,000,000 |
| General reserves                           | 500,000   |
| Revenue reserves                           | 749,600   |

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**Additional information:**

1. The share capital consists of 500,000 ordinary shares of Sh.10 each and 200,000 10% preference shares of Sh.10 each.
2. Rent of Sh.60,000 was outstanding as at 30 September 2019.
3. Directors remuneration amounting to Sh.205,000 were accrued as at 30 September 2019.
4. The dividend on the preference shares was proposed to be paid as well as a dividend of 20% on the ordinary shares.
5. Debenture interest for the last half of the year was owing as at 30 September 2019.
6. Inventories as at the year end were valued at Sh.4,603,100.
7. The directors have recommend the transfer of Sh.300,000 to the general reserves and Sh.120,000 to the fixed assets replacement reserve.
8. Depreciation is to be charged on cost as follows:

| Asset          | Rate per annum |
|----------------|----------------|
| Equipment      | 10%            |
| Motor vehicles | 20%            |
9. Corporation tax is to be ignored:

**Required:**

- (a) Income statement for the year ended 30 September 2019.
- (b) Statement of financial position as at 30 September 2019.

(12 marks)

(8 marks)

**(Total: 20 marks)**



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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 22 May 2019.

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 four distinctions between “receipts and payments account” and “income and expenditure account”. (8 marks)
- (b) Describe four objectives of the Institute of Certified Public Accountants of Kenya (ICPAK) as a regulatory body of the accounting profession. (8 marks)
- (c) Justify the use of a petty cash book in business transactions. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the following terms as used in the context of company accounts:

- (i) Rights issue. (2 marks)
- (ii) Bonus issue. (2 marks)

- (b) The following trial balance was extracted from the books of Samaki Ltd. as at 31 March 2019:

|  | Sh. “000”        | Sh. “000”        |
|--|------------------|------------------|
| Issued share capital (Sh.20 each)        |                  | 400,000          |
| 8% preference shares (Sh.20 each)        |                  | 200,000          |
| Inventory (1 April 2018)                 | 120,000          |                  |
| Accounts receivable and accounts payable | 230,000          | 110,000          |
| Bank balance                             |                  | 80,500           |
| General reserves                         |                  | 140,400          |
| Bad debts written off                    | 4,500            |                  |
| Purchases and sales                      | 1,000,000        | 1,947,800        |
| Wages and salaries                       | 240,000          |                  |
| Rates and insurance                      | 12,400           |                  |
| Postage and telephone                    | 8,800            |                  |
| Electricity expenses                     | 5,200            |                  |
| 12% debentures                           |                  | 120,000          |
| Directors remuneration                   | 45,000           |                  |
| General expenses                         | 7,200            |                  |
| Motor vehicles at cost                   | 230,000          |                  |
| Freehold land                            | 850,000          |                  |
| Equipment and furniture at cost          | 440,000          |                  |
| Debenture interest paid                  | 7,200            |                  |
| Revenue reserves                         |                  | 42,400           |
| Accumulated depreciation (1 April 2018): |                  |                  |
| Motor vehicles                           |                  | 92,000           |
| Equipment and furniture                  |                  | 132,000          |
| Cash account (current account in bank)   | 64,800           |                  |
|  | <u>3,265,100</u> | <u>3,265,100</u> |

**Additional information:**

1. Freehold land was revalued to Sh.1,000,000,000 on 1 April 2018.
2. Inventory as at 31 March 2019 was valued at Sh.142,000,000
3. The directors proposed a payment of dividend of Sh.2 per ordinary share in addition to preference dividends.
4. Outstanding debenture interest is to be provided for.
5. Corporation tax of Sh.120,000,000 is to be provided for.
6. Depreciation is provided on straight line basis as follows:
 

| Asset                   | Rate per annum |
|-------------------------|----------------|
| Motor vehicles          | 20% on cost    |
| Equipment and furniture | 15% on cost    |

**Required:**

- (i) Income statement for the year ended 31 March 2019. (8 marks)
  - (ii) Statement of financial position as at 31 March 2019. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) The following receivables control account has been prepared by an inexperienced bookkeeper for the period ended 31 March 2019:

| <b>Receivables control account</b>                                  |           |                           |                |
|---|-----------|---------------------------|----------------|
|   | Sh. "000" |                           | Sh. "000"      |
| Allowance for receivables   | 6,100     | Balance brought forward - |                |
| Sales: Cash   | 15,750    | 1 April 2018              | 25,100(debit)  |
| Credit  | 52,100    | Contra with payables      | 700            |
| Sales returns   | 1,200     | Discounts received        | 150            |
| Discounts allowed   | 170       |                           |                |
| Total cash receipts (Cash sales and receipts from credit customers) | 68,000    | Balance carried down -    |                |
|   |           | 31 March 2019             | 4,500 (credit) |

**Required:**

- Corrected receivable control account for the year ended 31 March 2019. (8 marks)

- (b) The following bank reconciliation statement has been prepared by a trainee bookkeeper for the period ended 31 December 2018:

|  | Sh. "000"     |
|--|---------------|
| Balance as per bank statement (overdrawn)  | 41,250        |
| Less: Cheques written but not presented to the bank for payment                                      | (17,120)      |
| Lodgements not credited  | (3,310)       |
| Add: Banking error (the bank credited account in error with monies which belong to another customer) | <u>1,110</u>  |
| Balance as per cash book   | <u>21,930</u> |

**Required:**

- Corrected bank reconciliation statement. (6 marks)

- (c) On 1 January 2017, Lakes Golf Course offered a life membership subscription for Sh.15,000 per member to cover membership of the golf club for 10 years starting from January 2017. Fifty members of the club took up the offer and paid in full during the year 2017.

**Required:**

- Journal entries to record the life membership transactions during the years 2017 and 2018. (6 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

Jim Brothers, a manufacturing company, provided the following balances from its books as at 30 April 2019:

|   | Sh."000" |
|---|----------|
| Inventories (1 May 2018):                             |          |
| Raw materials   | 7,450    |
| Work-in-progress                                      | 5,380    |
| Finished goods (transfer price)                       | 12,098   |
| Purchase of raw materials                             | 128,740  |
| Purchases returns                                     | 310      |
| Direct expenses                                       | 3,280    |
| Returns inwards                                       | 1,215    |
| Carriage inwards                                      | 1,055    |
| Rates   | 5,250    |
| Light, heat and power                                 | 3,270    |
| Direct wages  | 187,240  |
| Indirect wages  | 14,320   |
| Telephone   | 890      |
| Factory repairs                                       | 2,220    |
| Insurance   | 1,420    |
| Factory salaries                                      | 62,075   |
| Office salaries                                       | 24,000   |
| Sales salaries  | 27,435   |
| Plant and machinery at cost                           | 160,000  |
| Provision for depreciation (plant and machinery)      | 64,000   |
| Bad debts written off                                 | 325      |
| Sales   | 721,560  |
| Furniture and equipment (cost):                       |          |
| Factory   | 42,000   |
| Office  | 48,000   |
| Provision for depreciation (furniture and equipment): |          |
| Factory   | 8,400    |
| Office  | 9,600    |

#### Additional information:

1. Closing inventories as at 30 April 2019 were as follows:

|                                 | Sh."000" |
|---------------------------------|----------|
| Raw materials                   | 6,325    |
| Work-in-progress (factory cost) | 6,200    |
| Finished goods (transfer price) | 15,226   |

2. Prepayments as at 30 April 2019:

|           | Sh."000" |
|-----------|----------|
| Rates     | 450      |
| Insurance | 220      |

3. Accruals as at 30 April 2019:

|                       | Sh."000" |
|-----------------------|----------|
| Direct wages          | 1,220    |
| Telephone             | 70       |
| Light, heat and power | 210      |

4. Depreciation is to be provided as follows:

| Asset                   | Rate per annum          |
|-------------------------|-------------------------|
| Plant and machinery     | 20% on cost             |
| Furniture and equipment | 10% on reducing balance |

5. Expenses are to be apportioned to the factory as follows:

|                       |               |
|-----------------------|---------------|
| Rates                 | $\frac{4}{5}$ |
| Insurance             | $\frac{3}{4}$ |
| Telephone             | $\frac{2}{3}$ |
| Light, heat and power | $\frac{3}{4}$ |

6. It is the policy of the company to transfer goods manufactured to the warehouse at a mark-up of 15%.

#### Required:

- (a) Manufacturing account for the year ended 30 April 2019. (8 marks)
- (b) Income statement for the year ended 30 April 2019. (12 marks)

(Total: 20 marks)

**QUESTION FIVE**

The following is Paul Mwangi's summary of statements of financial position as at 31 March:

|                                | 2018<br>Sh. "000" | 2019<br>Sh. "000" |
|--------------------------------|-------------------|-------------------|
| <b>Non-current assets:</b>     |                   |                   |
| Equipment (net book value)     | 320               | 450               |
| Furniture (net book value)     | <u>480</u>        | <u>515</u>        |
|                                | 800               | 965               |
| <b>Current assets:</b>         |                   |                   |
| Inventory                      | 110               | 140               |
| Accounts receivable            | 190               | 160               |
| Bank balances                  | -                 | 85                |
| Cash in hand                   | <u>50</u>         | <u>50</u>         |
| Total assets                   | <u>1,150</u>      | <u>1,400</u>      |
| <b>Equity and liabilities:</b> |                   |                   |
| Capital                        | 800               | 900               |
| Net profit                     | 300               | 600               |
| Drawings                       | <u>(200)</u>      | <u>(300)</u>      |
| Owner's equity                 | 900               | 1,200             |
| 10% loan                       | 100               | 80                |
| <b>Current liabilities:</b>    |                   |                   |
| Accounts payables              | 85                | 120               |
| Bank overdraft                 | <u>65</u>         | <u>-</u>          |
|                                | <u>1,150</u>      | <u>1,400</u>      |

**Additional information:**

1. On 1 April 2018:
  - An item of equipment was sold for cash Sh.12,000. It had been bought at a cost of Sh.25,000. It had accumulated depreciation of Sh.15,000.
  - Furniture was sold for cash Sh.17,000. It had been purchased at a cost of Sh.100,000. It had accumulated depreciation of Sh.80,000.
2. 10% loan was repaid on 30 September 2018.
3. Depreciation charged to the income statement for the year ended 31 March 2019 was:

|             | Sh. "000" |
|-------------|-----------|
| • Equipment | 90        |
| • Furniture | 100       |

**Required:**

Statement of cash flows for the year ended 31 March 2019 as per the International Accounting Standard (IAS) 7 (Statement of Cash Flows). (20 marks)

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**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> |

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**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<br>Sh."million" | 2017<br>Sh."million" |
|---------------------------------|----------------------|----------------------|
| <b>Assets:</b>                  |                      |                      |
| <b>Non-current assets</b>       | 450                  | 520                  |
| <b>Current assets:</b>          |                      |                      |
| Inventory                       | 65                   | 50                   |
| Receivables                     | 80                   | 30                   |
| Cash and bank balances          | <u>30</u>            | <u>15</u>            |
| Total assets                    | <u>625</u>           | <u>615</u>           |
| <b>Capital and liabilities:</b> |                      |                      |
| <b>Capital:</b>                 |                      |                      |
| Share capital                   | 400                  | 400                  |
| Revenue reserves                | <u>95</u>            | <u>60</u>            |
|                                 | 495                  | 460                  |
| Proposed dividends              | 50                   | 35                   |
| <b>Non-current liability:</b>   |                      |                      |
| Term loan                       | 20                   | 100                  |
| <b>Current liabilities:</b>     |                      |                      |
| Payables                        | <u>60</u>            | <u>20</u>            |
| 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                           |              | <u>(410)</u> |
| Gross profit                            |              | 190          |
| Profit on disposal of non-current asset |              | <u>10</u>    |
|   |              | 200          |

|                                    | 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:

- Provision for unrealised profit. (2 marks)
- 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:**

- Income statement for the year ended 31 October 2018. (6 marks)
  - Statement of changes in equity as at 31 October 2018. (4 marks)
  - Statement of financial position as at 31 October 2018. (6 marks)
- (Total: 20 marks)