



**CERTIFIED CREDIT PROFESSIONALS (CCP)**

**FOUNDATION LEVEL**

**PRINCIPLES OF ACCOUNTING**

**WEDNESDAY: 3 December 2025. Morning Paper.**

**Time Allowed: 3 hours.**

**This paper consists of five (5) questions. 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 accounting records of Form Limited, a public limited entity as at 31 October 2025:

	<b>Sh.“000”</b>	<b>Sh.“000”</b>
Inventory as at 1 November 2024	8,290	
Purchases	23,460	
Carriage inwards	560	
Returns	290	530
Sales revenue		61,170
Property at cost (Land: Sh.6 million)	24,000	
Plant and equipment at cost	16,900	
Motor vehicles at cost	9,280	
Fixtures and fittings at cost	5,000	
Provision for depreciation as at 1 November 2024:		
• Building		6,300
• Plant and equipment		6,500
• Motor vehicles		3,480
• Fixtures and fittings		1,750
Wages and salaries	15,540	
Rent and rates	8,700	
Electricity and water	720	
Telephone and internet	460	
Carriage outwards	220	
Trade receivables	11,470	
Bank balance	7,450	
Trade payables		13,340
Ordinary share capital (Sh.10 par value)		20,000
Share premium		4,000
Retained profit as at 1 November 2024		5,505
14% bank loan		10,500
Loan interest paid	735	
	<u>133,075</u>	<u>133,075</u>

**Additional information:**

- Inventory count as at 31 October 2025 revealed the value of inventory at a cost of Sh.7,900,000.
- Accrued rent as at 31 October 2025 amounted to Sh.300,000.
- Depreciation on property, plant and equipment is provided as follows:

<b>Asset</b>	<b>Rate per annum (%)</b>	<b>Basis</b>
Building	2.5	Straight-line
Plant and equipment	15	Reducing balance
Motor vehicles	25	Straight-line
Fixtures and fittings	10	Straight-line

- The 14% bank loan was obtained on 1 March 2025. Interest is payable semi-annually on 1 September and 1 March each year.
- The income tax for the year ended 31 October 2025 is estimated at Sh.1,575,000.

**Required:**

- (a) Statement of profit or loss for the year ended 31 October 2025. (10 marks)
- (b) Statement of financial position as at 31 October 2025. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) The following transactions relate to the books of James Mdoe, a sole proprietor for the month of September 2025:

- 1 September: The owner transferred Sh.10,940,000 from his personal bank account to the business account.  
3 September: Made purchases worth Sh.6,000,000 from Mayo on credit.  
4 September: Made cash sales worth Sh.802,000.  
8 September: Banked Sh.600,000 into business bank account from cash till.  
16 September: Paid Mayo Sh.400,000 using a cheque.  
20 September: Paid rent of Sh.200,000 using a cheque.  
21 September: Withdrew Sh.20,000 to pay his son's school fees from the business bank account.  
22 September: Banked all the cash to the business bank account and left with Sh.25,000 in the cash till.

**Required:**

- Prepare James Mdoe's business cashbook for the month of September 2025. (10 marks)
- (b) Karikor Jones started a business on 1 January 2024 with Sh.40,000,000 in the bank account. Unfortunately, he has not been keeping proper books of accounts. The tax man has approached him in order for him to pay taxes but he could not tell how much he owes the government. Nevertheless, he has provided you with the following information as at 31 December 2024:

1. Inventory was valued at Sh.8,000,000.
2. Motor vehicles Sh.9,000,000 at cost and had been depreciated by Sh.2,000,000 during the year.
3. Accounts receivable of Sh.16,000,000.
4. Expenses prepaid Sh.400,000.
5. Bank balance: Sh.34,000,000.
6. Cash balance: Sh.300,000.
7. Trade payables: Sh.8,000,000.
8. Expenses owing: Sh.800,000.
9. Drawings: Sh.25,000,000.
10. Cheque payments to his house landlord of Sh.1,000,000.

**Required:**

- Karikor Jones statement of affairs as at 31 December 2024. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Discuss **THREE** reasons for providing for depreciation on non-current assets of a business entity. (6 marks)
- (b) With reference to financial statements of not-for-profit entities, differentiate between "receipts and payments accounts" and "income and expenditure accounts". (4 marks)
- (c) Describe **THREE** fundamental principles of ethics as contained in the accountants' professional code of conduct. (6 marks)
- (d) Explain **TWO** roles of internal control systems in prevention and detection of errors and fraud. (4 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Outline **FOUR** reasons for preparing manufacturing accounts. (4 marks)
- (b) Explain **FOUR** roles of financial ratios analysis. (8 marks)
- (c) Discuss **FOUR** challenges that public sector accountants might face when measuring and reporting assets and liabilities of an entity. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Enumerate **FOUR** advantages of operating a sole proprietorship business. (4 marks)
- (b) Summarise **FOUR** challenges of a computerised accounting system. (4 marks)
- (c) Distinguish between “control accounts” and “control account reconciliation”. (4 marks)
- (d) The following balances were extracted from the books of Boni Traders as at 31 December 2024:

	Dr. “Sh.”	Cr. “Sh.”
Cash	170,000	
Accounts receivable	300,000	
Supplies	96,000	
Equipment	600,000	
Accounts payable		124,000
Unearned revenue		80,000
Capital		700,000
Service revenue		822,000
Salaries expense	360,000	
Rent expense	200,000	
	<u>1,726,000</u>	<u>1,726,000</u>

**Additional information:**

1. A physical count of supplies on 31 December 2024 showed Sh.24,000 of supplies remaining.
2. The equipment was acquired on 1 January 2024 and is expected to have a useful life of 5 years with no salvage value.
3. The company has earned Sh.50,000 of the unearned revenue by year end.
4. Salaries of Sh.30,000 for the last week of December are unpaid and are unrecorded as of 31 December 2024.

**Required:**

Prepare the adjusted trial balance for Boni Traders as at 31 December 2024.

(8 marks)  
(Total: 20 marks)

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

**WEDNESDAY: 20 August 2025. 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) The Financial Accounting Standards Board (FASB) has adopted a number of accounting concepts.

Identify the accounting concepts in the following transactions:

- (i) A company XYZ has been sued for its debts by creditors but the directors have not been sued. (1 mark)
  - (ii) The accountant of Hazina Traders has recognised a sale of Sh.200,000 although the money has not been recorded. (1 mark)
  - (iii) The shares of XYZ Ltd. have been valued at Sh.45,000,000 shillings. (1 mark)
  - (iv) According to the books of Salama Hardware, the owners expect to have the business run for 400 years and beyond. (1 mark)
  - (v) Wakurugenzi Ltd. prepares their books of accounts every three months and presents them to stakeholders. (1 mark)
  - (vi) The accountant of Hossanah partnership business has recorded the purchase of stock in purchases account and cash book. (1 mark)
- (b) The following are summarised accounts of Akiba Ltd. for the years ending 31 December 2023 and 31 December 2024:

**Statement of profit or loss:**

	2023		2024	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Sales		200		280
Less cost of sales		(150)		(210)
Gross profit		50		70
Less expenses:				
Administrative expenses		(38)	46	
Loan interest		-	4	(50)
Net profit		<u>12</u>		<u>20</u>

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

	2023		2024	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
<b>Non-current assets:</b>		110		140
<b>Current assets:</b>				
Inventories	20		30	
Accounts receivable	25		28	
Bank	-	45	5	63
		<u>155</u>		<u>203</u>
<b>Equity and liabilities:</b>				
<b>Equity:</b>				
Ordinary share capital		100		100
Retained profits		<u>30</u>		<u>41</u>
		130		141

	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
<b>Non-current liabilities:</b>				
8% loan		-		50
<b>Current liabilities:</b>				
Accounts payable	15		12	
Bank	<u>10</u>	<u>25</u>	<u>-</u>	<u>12</u>
		<u>155</u>		<u>203</u>

**Additional information:**

Inventory as at 1 January 2023 was Sh.50,000.

**Required:**

Calculate the following ratios for year 2023 and 2024:

- (i) Gross profit ratio. (2 marks)
- (ii) Inventory turnover. (2 marks)
- (iii) Net profit margin. (2 marks)
- (iv) Quick ratio (2 marks)
- (v) Working capital ratio. (2 marks)
- (vi) Comment on the ratios calculated above. (4 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Summarise the functions of the following committees in the management of government finances:

- (i) Public Investment Committee. (3 marks)
- (ii) Committee of Ways and Means. (3 marks)

- (b) Explain the meaning of the following accounting concepts:

- (i) Money measurement. (2 marks)
- (ii) Substance over form. (2 marks)

- (c) The following information was extracted from the books of CBC Ltd. for the year ended 30 June 2025:

	Sh. "000"
Credit balance on 1 July 2024 - Receivables ledger control	342
- Payables ledger control	37,410
Debit balance on 1 July 2024 - Receivables ledger control	48,144
- Payables ledger control	630
Credit balance on 30 June 2025 - Receivables ledger control	342
During the year the following transaction took place:	
Discount received	8,850
Discount allowed	13,968
Returns inwards	6,012
Returns outwards	3,210
Irrecoverable debts written off	1,956
Cash received in respect of debit balance in payables ledger	630
Contra entry	2,604
Allowances to customers on goods damaged in transit	1,272
Credit sales	382,368
Credit purchases	239,844
Cash from trade debtors	331,272
Cash to trade creditors	223,842

**Required:**

- (i) Receivables ledger control account for the year ended 30 June 2025. (6 marks)
- (ii) Payables ledger control account for the year ended 30 June 2025. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Outline **FOUR** reasons for preparing financial statements. (4 marks)
- (b) In manufacturing accounting, costs are usually apportioned to factory and the administrative units.

**Required:**

Explain **THREE** basis of apportioning factory overheads. (6 marks)

- (c) The following is a summary of Mary Paul's cash transactions for the year ended 30 June 2025:

	<b>Sh.</b>
Cash balance as at 1 July 2024	1,094,400
Cash sales	4,309,200
10% bank loan	1,710,000
Receipts from credit customers	4,104,000
Amount paid to suppliers	2,137,500
Fittings purchased	478,800
Rent and rates paid	684,000
Salaries and wages	2,821,500
General expenses	265,050
Withdrawal of cash for private use	2,223,000

**Additional information:**

- Inventories as at 30 June 2025 were valued at Sh.205,200.
- Mary Paul had no other assets or liabilities at the beginning of the year except the cash balance.
- As at 30 June 2025, Mary Paul owed her suppliers Sh.157,320 whereas her customers owed her Sh.247,950.
- As at 30 June 2025 the following expenses were outstanding:
 

	<b>Sh.</b>
• Stationery	27,360
• Wages	54,720
- Insurance paid in advance and included in general expenses as at 30 June 2025 amounted to Sh.30,760.
- Interest on loan had not been paid by 30 June 2025.

**Required:**

- (i) Cash account as at 30 June 2025. (6 marks)
- (ii) Trial balance as at 30 June 2025. (4 marks)

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

- (a) Outline **FOUR** errors that are not disclosed by the trial balance. (4 marks)
- (b) The following is a cash book summary of Opiyo Traders who maintains books of account without following the double entry system:

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Receipts</b>		
Bank balance b/f		8,000
Cash balance b/f		<u>300</u>
		8,300
Trade receivables	26,000	
Cash banked	4,100	
Cash sales	14,000	
Other receivables	<u>400</u>	<u>44,500</u>
		52,800
<b>Payments</b>		
Trade payables	18,500	
Rent	1,400	
Machinery	7,500	
Wages	6,100	
Insurance	1,450	
Dishonoured cheques	250	
Loan interest	300	
Drawings	500	
Repairs and maintenance	300	
Electricity	<u>750</u>	<u>(37,050)</u>
Balance c/f (bank and cash)		<u>15,750</u>

**Additional information:**

- During the year the following transactions took place:
  - Bad debts written off Sh.400,000
  - Goods taken by Opiyo for own use Sh.350,000
  - Discount received Sh.350,000
  - Credit notes issued Sh.1,200,000
- Depreciation on machinery to be provided at the rate of 10% per annum on cost.
- The following balances have been provided as at:

	1 January 2024	31 December 2024
	Sh."000"	Sh."000"
Inventories	4,100	3,200
Machinery	12,600	-
Rent owing	-	250
Rent prepaid	200	-
Trade receivables	6,300	5,000
Trade payables	2,400	2,500
12% bank loan	5,000	5,000

**Required:**

- Calculate the value of Opiyo's traders capital on 1 January 2024. (8 marks)
  - Prepare Opiyo traders statement of profit or loss for the year ended 31 December 2024. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- Describe **TWO** characteristics of not-for-profit organisations. (2 marks)
- Josmak Limited is a leading manufacturer of mobile phones. As part of its modernisation programme. The company decided to replace its old machinery with a state-of-the-art machine imported from Denmark. The following expenses were incurred for the purpose in the year ended 30 September 2024:

	Sh."000"
Catalogue price less cash discount at 10% of the cost price	90,000
Freight and insurance	21,000
Custom and excise duty	21,900
Value added tax (VAT)	21,300
Installation costs	6,000
Pre-production testing	2,100
Training cost (machine attendants)	150
Insurance (annual)	2,100
Salary to machine attendant (annual)	300

**Additional information:**

- The old machinery disposed of in the year ended 30 September 2024 for Sh.4,500,000 had cost the company Sh.6,000,000 on 1 October 2021. An air conditioner equipment purchased for Sh.1,635,000 on 1 October 2021 was scrapped during the year since it was no longer required.
- The furniture used by the company was acquired on 1 October 2022 at a cost of Sh.2,400,000.
- The VAT incurred by the company in respect of the machinery was recovered from the tax authority against output VAT.
- Depreciation per annum is provided at the following rates:
  - Machinery at 25% on net book value.
  - Equipment at 20% on cost (Air conditioner).
  - Furniture at 15% on cost.
- Full years' depreciation is provided in the year of acquisition and none in the year of disposal.

**Required:**

- A property, plant and equipment movement schedule for the year ended 30 September 2024. (10 marks)
- Kitabu and Masomo are in partnership trading under the name Kima Traders. The partnership deed provides as follows:
  - Profit and losses to be shared equally.
  - Interest is charged on cash drawings at 10% per annum.
  - To allow interest on capital account balance at 5% per annum.
  - Masomo is entitled to a salary of Sh.150,000 per month.
  - During the year ended 31 March 2025 the net profit made by the partnership amounted to Sh.3,832,000.

- Drawings made by the partners during the year were as follows:  
 Kitabu Sh.2,400,000  
 Masomo Sh.2,800,000
- Any debit balance on current account is charged interest at 10% per annum.
- Capital account balance on 1 October 2022; Kitabu Sh.1,800,000 and Masomo Sh.1,200,000.

**Required:**

(i) Appropriation account for the year ended 31 March 2025. (4 marks)

(ii) Partners current account. (4 marks)

**(Total: 20 marks)**

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

**THURSDAY: 24 April 2025. 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) Discuss **FOUR** objectives of social and environmental accounting. (8 marks)
- (b) Distinguish between the “direct method” and the “indirect method” of presentation of cash flows from operating activities in preparing a statement of cash flows. (6 marks)
- (c) On 1 January 2024, Top Traders, a sole business had trade receivables with a balance of Sh.354,000. During the year ended 31 December 2024, credit sales amounting to Sh.1,843,000 were made and cash received from credit customers was Sh.1,779,000.

Outstanding debts of Sh.7,800 were considered irrecoverable and were to be written off. The business makes an allowance for doubtful debts at the rate of 5% of the outstanding trade receivables balances.

**Required:**

Prepare the following ledger accounts for Top Traders for the year ended 31 December 2024:

- (i) Trade receivables account. (2 marks)
- (ii) Allowance for doubtful debts account. (2 marks)
- (iii) Irrecoverable debts expense account. (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Discuss **THREE** roles of financial statements analysis in providing information for decision making. (6 marks)
- (b) Explain **THREE** roles of ledger accounts in double-entry book-keeping. (6 marks)
- (c) The following transactions relating to scale Traders took place during the month of November 2024:
1. On 1 November 2024, the cash balance at bank was Sh.441,000 while the cash float maintained in the business was Sh. 67,500.
  2. On 2 November 2024, Sh.264,300 was withdrawn from the bank account.
  3. On 6 November 2024, a cheque of Sh.427,500 was collected from a credit customer.
  4. On 9 November 2024, a cheque of Sh.310,000 was drawn in favour of a credit supplier.
  5. On 14 November 2024, the business made cash sales amounting to Sh.144,200.
  6. Office expenses of Sh.65,700 were paid for in cash on 19 November 2024.
  7. Cash purchases amounting to Sh.197,900 were made on 21 November 2024.
  8. On 25 November 2024, selling expenses amounting to Sh.60,000 were paid in cash.
  9. On 27 November 2024, cash in the office was banked, maintaining a cash float of Sh.30,000.
  10. On 30 November 2024, bank transfers of Sh.380,000 for the payment of rent and salaries were made.

**Required:**

Prepare a two-column cash book for scale traders for the month of November 2024.

(8 marks)

**(Total: 20 marks)**

**QUESTION THREE**

(a) Explain the concept of incomplete records and single entry book keeping. (4 marks)

(b) The following trial balance was extracted from the books of Brenda Chumo on 31 March 2025:

	<b>Debit Sh. "000"</b>	<b>Credit Sh. "000"</b>
Capital		24,239
Equipment (net)	1,440	
Drawings	4,888	
Inventory 1 April 2024	14,972	
Purchases and sales	167,760	203,845
Rent	1,350	
Electricity and water	475	
Insurance	304	
Salaries and wages	6,352	
General expenses	3,298	
Travellers commission and expenses	9,925	
Discount allowed and discount received	517	955
Bad debts written-off	331	
Accounts receivable and accounts payable	19,145	8,162
Bank balance	6,558	
Cash in hand	29	
Allowance for doubtful debts		143
	<u>237,344</u>	<u>237,344</u>

**Additional information on 31 March 2025:**

1. Closing inventory Sh. "000"  
19,596
2. General expenses prepaid 18
3. Accrued rent 150
4. A debtor had returned goods worth Sh.845,000 at selling price on 28 March 2025. Brenda Chumo sells her goods at a uniform margin of 20%; no record was made for this.
5. During the year, Brenda Chumo took goods costing Sh.60,000 for personal use. No record for this transaction had been made in the books of accounts.
6. Depreciation should be provided on equipment at the rate of 20% percent on net book value.

**Required:**

(i) Statement of profit or loss for the year ended 31 March 2025. (8 marks)

(ii) Statement of financial position as at 31 March 2025. (8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) Highlight **FOUR** characteristics of not -for-profit organisations. (4 marks)

(b) The trial balance extracted from the books of Mali Traders showed a total debit of Sh.11,260,800 while the credit side amounted to Sh.11,187,600. The accountant later discovered the following errors:

1. Rent received of Sh.26,400 had been credited to the premises account.
2. Sales day book was undercast by Sh.112,800.
3. A credit note for Sh.16,800 issued to a debtor had been entered correctly in the returns account but had not been posted to the relevant personal account.
4. A credit note for Sh.27,600 received from the supplier had not been recorded in any book.
5. A cheque for Sh.72,400 received from a debtor was entered in all the books as Sh.40,000.
6. Discounts allowed worth Sh.28,200 were credited to the discount received account in the ledger.

**Required:**

(i) Journal entries to correct the above errors. (6 marks)

(ii) Suspense account duly balanced. (4 marks)

- (c) The following balances were extracted from the accounting records of Brooks Ltd.:

	Sh.
Credit Sales	27,375,000
Credit Purchases	18,250,000
Inventory at 1 January 2024	6,050,000
Inventory at 31 December 2024	2,400,000
Trade receivables at 31 December 2024	2,925,000
Trade payable at 31 December 2024	2,100,000

Assume a 365-day financial year.

**Required:**

Compute the following working capital ratios for the year ended 31 December 2024:

- (i) Inventory holding period. (2 marks)
- (ii) Trade receivables collection period. (2 marks)
- (iii) Trade payables payment period. (2 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

The following trial balance was extracted from the books of Club Limited, a manufacturing entity as at 31 March 2025:

	Sh.“000”	Sh.“000”
Property at cost (land Sh.487 million)	1,047,000	
Plant and equipment at cost	123,200	
Motor vehicles at cost	48,000	
<b>Accumulated depreciation as at 1 April 2024:</b>		
Buildings		238,000
Plant and equipment		53,600
Motor vehicles		19,200
Revenue		1,140,500
<b>Inventories as at 1 April 2024:</b>		
Raw materials	28,900	
Work-in-progress	33,800	
Finished goods	36,300	
Purchases of raw materials	518,700	
Purchases and sales returns	8,400	6,000
Carriage inwards	10,300	
Direct labour	98,600	
Other direct expenses	30,800	
Distribution costs	46,200	
Administrative expenses	48,000	
Ordinary share capital (Sh.10 per value)		500,000
Share premium		50,000
Retained earnings as at 1 April 2024		64,700
14% loan notes		45,000
Interest paid	6,300	
Trade receivables	35,800	
Bank balance	17,900	
Trade payables		21,200
	<u>2,138,200</u>	<u>2,138,200</u>

**Additional Information:**

1. Inventories as at 31 March 2025 were valued at their cost as follows:

	Sh.“000”
Raw materials	34,700
Work-in-progress	35,500
Finished goods	39,100

2. Finished products are transferred from factory to trading at their manufacturing costs.

3. Depreciation on non-current assets is charged and allocated as follows:

Assets	Rates per annum (%)	Basis	Allocation		
			Factory (%)	Distribution (%)	Administration (%)
Building	2.5	Straight line	80	-	20
Plant and equipment	12.5	Reducing balance	100	-	-
Motor vehicles	20	Straight line	75	25	-

4. The income tax for the year ended 31 March 2025 was estimated at Sh.108,000,000.

**Required:**

- (a) Manufacturing account for the year ended 31 March 2025. (6 marks)
- (b) Statement of profit or loss for the year ended 31 March 2025. (6 marks)
- (c) Statement of financial position as at 31 March 2025. (8 marks)

**(Total: 20 marks)**

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**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:

	Sh.
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:

	Sh. "000"	Sh. "000"
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:
- |                  |           |
|------------------|-----------|
|                  | Sh. "000" |
| 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:

Payment	Sh.	Dates due
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.

Year	Sales	Inventory	Profit before tax
	Sh. ‘000’	Sh. ‘000’	Sh. ‘000’
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:

	Sh. '000'
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:

	Sh. '000'	Sh. '000'
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	7,310	15,215
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:**

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

	Cost Sh.“000”	Accumulated depreciation Sh.“000”
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	1,200	1,000
	<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:

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

	<b>Sh."000"</b>
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)
	<u>170</u>

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

- The list of accounts receivable (the memorandum) indicated a balance of Sh.2,490,000 as at 30 November 2023.
- Value of inventory of Sh.1,350,000 was confirmed by the inventory count conducted on 30 November 2023.
- The memorandum of the accounts payable had a balance of Sh.1,440,000 as at 30 November 2023.
- 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.
- During the year ended 30 November 2023, Rhoda took goods worth a Sh.120,000 for personal use.
- 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:**

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

**Required:**

- Gee Brown’s statement of profit or loss for the year ended 31 December 2023.
- Gee Brown’s statement of financial position as at 31 December 2023.

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(6 marks)

(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> <b>Sh. "000"</b>	<b>Credit</b> <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
	<u>49,540</u>		<u>49,540</u>

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

	2022 Sh.“000”	2023 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:

	Sh. "000"
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:**

- Inventory as at 31 December 2022 was valued as follows:  

	Sh. "000"
Raw material	5,780
Work in progress	4,920
Finished goods	5,768
- The values of opening and closing inventory are given at the transfer price.
- Finished goods are transferred from factory to sales at a mark-up of 20%
- 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:

	Sh. "000"	Sh. "000"
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:

	Cost Sh.“000”	Accumulated depreciation Sh.“000”
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:

	2021 Sh."000"	2022 Sh."000"
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>32,550</u>	<u>?</u>

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

Receipts	Sh."000"	Payments	Sh."000"
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:**

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

Asset	Rate per annum
Equipment	20%
Fixtures and fittings	10%
Motor vehicles	25%

Depreciation is provided on a full year basis in the year of asset acquisition.
- Petty cash balance relates to bar activities.

**Required:**

- Bar statement of profit or loss for the year ended 31 May 2022. (4 marks)
- Income and expenditure account for the year ended 31 May 2022. (4 marks)
- 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:

	Sh. "000"	Sh. "000"
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:**

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

Asset	Rate per annum	Basis
Building	2.5%	Straight line
Plant	15%	Reducing balance
Motor vehicles	25%	Straight line
Office equipment	12.5%	Straight line

- 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:

- Closing inventory as at 31 March 2022 was valued at Sh.16,000,000.
- As at 31 March 2022, accrued water and electricity expenses amounted to Sh.680,000.
- As at 31 March 2022, prepaid insurance amounted to Sh.300,000.
- Interest on loan is charged at 10% per annum.
- 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:
 

	<b>Sh. (per annum)</b>
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”
<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>5,000</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>	<u>(68,000)</u>
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>5,000</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
Other income/(expenses):		
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:

Bank statement				
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

Cash book					
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	<u>698.4</u>	30 June	Balance carried forward	<u>1,909.2</u>
		<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		300,000
	<u>902,900</u>	<u>902,900</u>

**Additional information:**

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

Asset	Rate per annum	Basis
Furniture and fittings	15%	Cost
Plant and machinery	10%	Cost
- Allowance for doubtful debts was increased to 4% of the accounts receivable.
- As at 30 June 2022, prepaid insurance amounted to Sh.500,000 while rates accrued amounted to Sh.400,000.
- As at 30 June 2022, inventory was valued at Sh.60,000,000.
- 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:

- 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

- 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.
- Stark Limited's policy is to transfer finished goods from production to trading at their production costs.
- 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%	-

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

### Required:

- Manufacturing account for the year ended 30 June 2022. (6 marks)
  - Statement of profit or loss for the year ended 30 June 2022. (6 marks)
  - Statement of financial position as at 30 June 2022. (8 marks)
- (Total: 20 marks)**

## QUESTION THREE

- Citing examples of entities in the public sector, briefly evaluate the structure of the public sector. (8 marks)
- 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:

	Sh.
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:

	Debit Sh. “000”	Credit Sh. “000”
Sales ledger	45,550	770
Purchases ledger	210	36,700

Below are summarised transactions for the month of June 2022:

	Sh. “000”
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:

	Debit Sh. “000”	Credit Sh. “000”
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:**

- Inventory as at 31 December 2021 was valued at Sh.11,400,000.
- On 1 January 2021, Ezekiel Mbogi paid shop rent for 15 months at a monthly rate of Sh.400,000.
- On 31 December 2021, outstanding electricity bills amounted to Sh.60,000.
- An allowance for doubtful debts is to be maintained at the rate of 5% of the trade receivables.
- 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:**

- Statement of profit or loss for the year ended 31 December 2021. (12 marks)
- 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 Mbili 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	10 March Samco Traders Cheque - 6202	11,000
5 March Deposit	12,200	23 March Withdraw (Cash)	22,000
6 March Cheque deposit (1721)	25,000	30 March Mali Mbili Traders	6,000
30 March Cheque deposit (8102)	2,000	31 March Baraka Stores (6205)	23,000
31 March Cheque deposit (1722)	13,500	31 March Ziada Traders Cheque (6208)	8,800
31 March Cheque deposit (1725)	6,300	31 March Balance carried forward	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)**
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**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)		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 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:

**Sh."000"**

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:

**Sh."000"**

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:

**Sh."000"**

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**

Receipts and payments		
	Sh.“000”	
Balance brought forward	4,500	
Subscription received	136,000	
Competition entries	29,600	
Bar sales	332,000	
	Bar wages	151,200
	Rates	20,000
	Loan repayments	39,200
	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:

	Sh“000”
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:

Asset	Rate per annum	Method
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 Sh."000"	Depreciation Sh."000"	Net book value 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	15,000
Beth	15,000	15,000	15,000
Charity	<u>10,000</u>	<u>40,000</u>	<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>12,230</u>
			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>
			2,400

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:**

Non-current assets:	Sh.	Sh.
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:

- 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.
- A payment made to John, a creditor for Sh.14,980 had been entered in the cash book only.
- Sale of goods on credit to Susan for Sh.19,260 had been entered in both accounts as Sh.23,112.
- Rent expense account was overcast by Sh.8,560.
- Sales account was undercast by Sh.42,800.

**Required:**

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

**(Total: 20 marks)**

**QUESTION FIVE**

- Highlight four accounting software packages. (4 marks)
- Distinguish between "direct costs" and "indirect costs" in manufacturing accounts. (4 marks)
- 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 Sh."000"	2017 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	50,000
	<u>212,000</u>		<u>212,000</u>

**Additional information:**

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

**Required:**

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

**QUESTION FIVE**

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

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

	2016 Sh."000"	2017 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	500	-
	<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

**Additional information as at 31 October 2017:**

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:		
	<b>Asset</b>	<b>Rate per annum</b>	<b>Method</b>
	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 Sh. "000"	Closing 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:

	HT Ltd. Sh. "000"	ST Ltd. Sh. "000"
<b>Assets:</b>		
<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	106,000
<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>
	86,000	73,000
Total assets	356,000	179,000
<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>
	319,500	130,000
<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	356,000	179,000

#### 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 a credit balance of Sh.713,100 while the cash book (bank column) had a credit balance of Sh.76,800.

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

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

**Required:**

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

**QUESTION THREE**

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

	2016	2017
	Sh."000"	Sh."000"
<b>Income statement</b>		
Sales (all on credit)	10,000	12,000
Cost of sales	(6,000)	(6,600)
Gross profit	4,000	5,400
Operating expenses	(2,700)	(3,680)
Interest	(300)	(400)
Profit before tax	1,000	1,320
Corporation tax	(300)	(396)
Profit after tax	700	924
	<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	1,800	2,673
<b>Total assets</b>	<b>17,870</b>	<b>23,390</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	600	800
<b>Total equity and liabilities</b>	<b>17,870</b>	<b>23,390</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.	S Ltd.
	Sh."000"	Sh."000"
Revenue	350,000	235,000
Cost of sales	(222,500)	(162,600)
Gross profit	127,500	72,400
Investment income (from S Ltd.)	16,500	-
	144,000	72,400
Expenses	(64,300)	(50,400)
	79,700	22,000
Income tax expenses	(21,900)	(5,600)
Net profit for the year	57,800	16,400

**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	1,351
	11,680		11,680

**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:**

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

Receipts and payments account			
	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. Sh."000"	S Ltd. 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)**

# 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	<u>5,610</u>		
	<u>33,480</u>		<u>33,480</u>

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

**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)**

### QUESTION THREE

The following balances were extracted from the books of Lenga Ltd. for the year ended 31 March 2016.

	Sh."000"
Land and buildings	1,100,000
Plant at cost	500,000
Office equipment at cost	150,000
Inventories (1 April 2015):	
Raw materials	50,000
Work-in-progress	65,200
Finished goods	46,520
Purchases of raw materials	180,878
Carriage of raw materials	8,920
Production wages	168,416
Office salaries	66,838
Direct expenses	2,000
Rent expense	10,400
Office electricity	8,840
Sales	637,244
Factory electricity	16,240
Depreciation expenses for the year:	
Plant	20,400
Office equipment	4,600

**Additional information:**

- i. Rent is to be apportioned as follows : Factory 75%  
Office 25%
2. Inventories were valued on 31 March 2016 as follows:

	<b>Sh. “000”</b>
Raw materials	59,800
Work-in-progress	52,200
Finished goods	57,680

**Required:**

Manufacturing account and income statement for the year ended 31 March 2016.

**(20 marks)**

## QUESTION FOUR

- (a) (i) Explain the term “accounting standards”. (2 marks)
- (ii) Justify three reasons why professional accounting bodies issue accounting standards. (6 marks)
- (b) The income statement for Jikaze Ltd. for the year ended 31 December 2015 and statements of financial position as at 31 December 2014 and 31 December 2015 were as follows:

**Income statement for the year ended 31 December 2015:**

	Sh."000"	Sh."000"
Sales		720
Raw materials consumed	70	
Staff costs	94	
Depreciation	118	
Loss on disposal of non-current asset	<u>18</u>	<u>300</u>
Operating profit		420
Interest payable		<u>28</u>
Profit before tax		392
Taxation		<u>124</u>
Profit for the year		<u>268</u>

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

	2015 Sh."000"	2014 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 I SECTION 2

## CICT PART I SECTION 2

## CCP PART I 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 Mwende 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:**

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

**Required:**

- Bar trading account for the year ended 31 October 2016. (4 marks)
  - Income statement for the year ended 31 October 2016. (5 marks)
  - 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	1,100	
	<u>81,400</u>	<u>81,400</u>

**Additional information:**

- Inventory as at 31 October 2016 was valued at Sh.5,000,000.
- The accrued administrative expenses as at 31 October 2016 amounted to Sh.100,000.
- The sales and distribution expenses prepaid as at 31 October 2016 amounted to Sh.80,000.
- 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.
- 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.
- 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 Sh."000"	2016 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	1,000	1,000
	<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. Sh."000"	SL Ltd. 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
<b>Current assets</b>	<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>41,000</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:

1. Inventory as at 30 June 2015 was valued at Sh.1,100,000.
2. The interest on the debentures has not been paid for the year ended 30 June 2015.
3. Tax charge for the year ended 30 June 2015 was estimated at Sh.550,000.
4. Prepaid selling and distribution expenses amounted to Sh.60,000.
5. Included in land and buildings is the cost of land Sh.800,000.
6. 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.
7. A dividend of Sh.1,000,000 has been declared by the directors for the year ended 30 June 2015.

#### Required:

- (a) Income statement for the year ended 30 June 2015. (10 marks)
  - (b) 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. Sh."000"	Silver Ltd. 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
<b>Current liabilities</b>	<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**

	<b>2015</b>	<b>2014</b>
	<b>Sh."000"</b>	<b>Sh."000"</b>
<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:**

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

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

	Sh. "000"
Non-current assets	4,800
Inventories	734
Trade receivables	490
Bank balance	408
10% bank loan	1,000
Trade payables	856
Electricity accrued	120
Rent prepaid	144

Bank reconciliation of the cashbook with the bank statement for the year ended 30 April 2020 revealed the following transactions:

	Sh. "000"
Cash collected from credit customers	8,560
Cash payments for salaries	2,400
Electricity paid	320
Rent paid	960
Cash paid to suppliers	3,820
Loan interest paid	50

After discussions with Dan Ruka, the accountant obtained the following further information:

- As at 30 April 2020, the list of trade receivables showed a balance of Sh.513,000 while trade receivables amounting to Sh.72,000 was written off as irrecoverable.
- The stock take carried out on 30 April 2020 resulted in the valuation of inventory at Sh.648,000.
- The list of the trade payables showed a balance of Sh.586,000 at 30 April 2020.



4. As at 30 April 2020, the electricity bill outstanding amounted to Sh.84,000, while prepaid rent amounted to Sh.225,000.
5. During the year ended 30 April 2020, Dan took goods worth Sh.140,000 for personal use.
6. Dan provides for depreciation on his non-current assets at the rate of 15% per annum on reducing balance basis.

**Required:**

- (a) Statement of profit or loss for the year ended 30 April 2020. (10 marks)
  - (b) Statement of financial position as at 30 April 2020. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

Leo and Kesho are in partnership sharing profits and losses in the ratio of 2:3 respectively.

The following is their trial balance as at 31 December 2019:

		Sh. "000"	Sh. "000"
Capital:	Leo		250,000
	Kesho		200,000
Current account:	Leo	25,000	
	Kesho		50,000
Cash drawings:	Leo	40,000	
	Kesho		60,000
Land		180,000	
Building (Cost Sh.400,000,000)		300,000	
Furniture and fittings: At cost		36,000	
Accumulated depreciation (1 January 2019)			14,400
Accounts receivable and accounts payable		48,000	16,600
Cash at bank		5,200	
Inventory (1 January 2019)		86,000	
Purchases and sales		382,800	620,800
Carriage outwards		4,200	
Discounts allowed		800	
12% bank loan			100,000
Discounts received			1,400
Loan interest		12,000	
Office expenses		6,200	
Salaries and wages		65,400	
Bad debts written off		3,600	
Allowance for doubtful debts (1 January 2019)			2,000
		<u>1,255,200</u>	<u>1,255,200</u>

**Additional information:**

1. Inventory on 31 December 2019 was valued at Sh.92,000,000.
2. Wages and salaries outstanding as at 31 December 2019 amounted to Sh.1,600,000.
3. Depreciation per annum is to be provided as follows:

Asset	Rate	Method
Building	5%	Straight line method
Furniture and fittings	10%	Reducing balance method

4. Allowance for doubtful debts is to be adjusted to 5% of the accounts receivable.
5. The partnership agreement provided as follows:
  - To provide interest on capital at 10% per annum.
  - Leo to receive a salary of Sh.12,000,000 per annum.
  - Cash drawings to be charged interest at 10% in the year of drawing.
6. Kesho had taken goods worth Sh.2,800,000 for personal use during the year.

**Required:**

- (a) Statement of profit or loss for the year ended 31 December 2019. (10 marks)
  - (b) Partners' current accounts. (4 marks)
  - (c) Statement of financial position as at 31 December 2019. (6 marks)
- (Total: 20 marks)**



#### QUESTION FOUR

- (a) With reference to International Accounting Standard (IAS) 7 (Statement of Cash Flows), distinguish between the "direct" and "indirect" methods of presentation of a statement of cash flows. (4 marks)
- (b) The following is the summary of financial statements of Fupi Ltd. for the year ended 31 March 2020:

##### Statement of financial position as at 31 March 2020:

	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Freehold property (net book value)		1,440
Plant and machinery (net book value)		2,400
Motor vehicle (net book value)		600
Furniture and fittings (net book value)		<u>600</u>
		5,040
<b>Current assets:</b>		
Inventory	3,000	
Receivables	1,200	
Investments	<u>360</u>	<u>4,560</u>
		9,600
<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>	<u>4,200</u>
		9,600

##### 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>	<u>9,000</u>
Gross profit		3,000
Administrative expenses	1,080	
Distribution expenses	<u>600</u>	<u>1,680</u>
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:

- Assume a 360-day year.
- The company shares are trading at a market price of Sh.20 per share.

##### Required:

- Return on capital employed. (2 marks)
- Gross profit margin. (2 marks)
- Turnover on capital employed. (2 marks)
- Acid test ratio. (2 marks)
- 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:

Assets and liabilities:	1 April 2019	31 March 2020
	Sh. "000"	Sh. "000"
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

  

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

#### Required:

- (i) Subscription account. (2 marks)
- (ii) Income and expenditure account for the year ended 31 December 2019. (8 marks)
- (Total: 20 marks)**





**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:

	Cost Sh."000"	Accumulated depreciation Sh."000"
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 Sh."000"	2018 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	(250)	(150)
	<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>

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**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:**

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

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

**Required:**

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

(12 marks)

(8 marks)

**(Total: 20 marks)**



**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 Sh."000"	2019 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:

- 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.
- 10% loan was repaid on 30 September 2018.
- 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>

**Additional information:**

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

**Required:**

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

**QUESTION FOUR**

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

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

	2018 Sh."million"	2017 Sh."million"
<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>	<u>(115)</u>
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)