



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	<u>50,000</u>
	<u>212,000</u>		<u>212,000</u>

Additional information:

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

Required:

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

QUESTION FIVE

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

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

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

Additional information:

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

Required:

For each year, calculate the following accounting ratios:

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