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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

WEDNESDAY: 22 May 2019. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) Explain four distinctions between "receipts and payments account" and "income and expenditure account". (8 marks)

(b) Describe four objectives of the Institute of Certified Public Accountants of Kenya (ICPAK) as a regulatory body of the accounting profession. (8 marks)

(c) Justify the use of a petty cash book in business transactions. (4 marks)

(Total: 20 marks)

QUESTION TWO

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

(i) Rights issue. (2 marks)

(ii) Bonus issue. (2 marks)

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

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

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:

Receivables control account

	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		Balance carried down -	
receipts from credit customers)	68,000	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)	1,110
Balance as per cash book	21,930

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	$^4/_5$
Insurance	$^3/_4$
Telephone	$^2/_3$
Light, heat and power	$^3/_4$

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

Additional information:

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

	Sh."000"
• Equipment	90
• Furniture	100

Required:

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

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