

# 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	<u>(3,740)</u>
Gross profit	1,110
Other operating expenses	<u>(430)</u>
Operating profit	680
Interest payable	<u>(68)</u>
Loss on sale of obsolete inventory	<u>(240)</u>
Profit before tax	372
Tax expense	<u>(180)</u>
Profit after tax	<u>192</u>

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

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

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

**Additional information:**

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

**Required:**

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

(11 marks)

(Total: 20 marks)

### QUESTION THREE

(a) Describe the following terms:

(i) Fundamental accounting concepts. (3 marks)

(ii) Accounting bases. (3 marks)

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

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

#### Additional information:

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

#### Required:

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

(14 marks)

**(Total: 20 marks)**

### QUESTION FOUR

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

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

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)**