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CS PART I SECTION 2

CICT PART I SECTION 2

CCP PART I SECTION 2

PRINCIPLES OF ACCOUNTING

THURSDAY: 28 November 2019. **Time Allowed: 3 hours.**

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

QUESTION ONE

(a) Describe four advantages of using the imprest system of accounting. (8 marks)

(b) The bank statement of Mubango Traders showed a balance of Sh.264,300 while the bank column of the cash book showed a balance of Sh.247,500 as at 30 September 2019.

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

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

Required:

(i) Adjusted cash book as at 30 September 2019. (8 marks)

(ii) Bank reconciliation statement as at 30 September 2019. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain four fundamental principles of professional ethics. (4 marks)

(b) Daighton 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 Daighton 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"
Non-current assets:		
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)
	4,290	3,150
Current assets:		
Inventory	490	525
Trade receivables	510	430
Cash and bank balances	495	340
	1,495	1,295
Total assets	5,785	4,445
Equity and liabilities:		
Ordinary share capital	1,000	600
Share premium	530	400
Revaluation reserve	1,060	60
Retained profits	1,415	1,130
Total equity	4,005	2,190
Non-Current liabilities:		
Bank loan	1,000	1,500
Current liabilities:		
Trade payables	385	395
Accrued interest	15	25
Tax payable	380	335
	780	755
Total equity and liabilities	5,785	4,445

Income statement for the year ended 30 September 2019:

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

Additional information:

1. Operating expenses include loss on disposal of plant and depreciation for the year.
2. 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.
3. On 30 September 2019, the company revalued its land and building.

Required:

(a) 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)

(b) For the years ended 30 September 2018 and 2019, calculate the following liquidity ratios:

(i) Current ratio. (2 marks)

(ii) Quick ratio (acid test ratio). (2 marks)

(Total: 20 marks)

QUESTION FOUR

(a) 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)

(b) Summarise six sources of income for not-for-profit making organisations (6 marks)

(c) 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:

1. Ali is entitled to an annual salary of Sh.5 million.
2. Bakari and Charo are entitled to a commission of 10% each on net profit.
3. Interest shall be charged on cash drawings at the rate of 5% per annum.
4. 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		8,000	
		166,200	166,200

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 (1October 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

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

Asset	Rate per annum
Equipment	10%
Motor vehicles	20%

9. Corporation tax is to be ignored:

Required:
(a) Income statement for the year ended 30 September 2019. (12 marks)

(b) Statement of financial position as at 30 September 2019. (8 marks)
(Total: 20 marks)

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