

QUESTION FOUR

(a) In relation to public sector accounting, explain the following terms:

(i) Recurrent expenditure. (2 marks)

(ii) Development expenditure. (2 marks)

(b) The following are the summarised financial statements of Chora Ltd. as at 30 June 2021 and 30 June 2022:

Chora Ltd.

Statement of profit or loss for the year ended 30 June 2022:

	Sh. "000"
Revenue	44,280
Cost of sales	<u>(28,860)</u>
Gross profit	15,420
Operating expenses	<u>(4,710)</u>
Interest expenses	<u>(450)</u>
Profit before tax	10,260
Tax expenses	<u>(4,860)</u>
Profit for the year	5,400
Other incomes:	
Gain on revaluation of property, plant and equipment	<u>3,000</u>
Total income	<u>8,400</u>

Statement of financial position as at 30 June:

	2022	2021
	Sh. "000"	Sh. "000"
Non-current assets:		
Property, plant and equipment	27,750	22,110
Intangible assets	<u>8,700</u>	<u>4,800</u>
	<u>36,450</u>	<u>26,910</u>
Current assets:		
Inventories	10,800	6,810
Trade receivables	8,220	9,720
Treasury bills	4,290	1,380
Cash and cash equivalents	<u>870</u>	<u>3,510</u>
	<u>24,180</u>	<u>21,420</u>
Total assets	<u>60,630</u>	<u>48,330</u>
Equity and liabilities:		
Equity:		
Share capital (Sh.100 ordinary shares)	15,000	12,000
Share premium	10,500	3,000
Revaluation surplus	4,800	1,800
Retained earnings	<u>6,870</u>	<u>7,650</u>
	37,170	24,450
Non current liabilities:		
10% debentures	4,500	3,000
Bank loan	<u>4,440</u>	<u>3,750</u>
	8,940	6,750
Current liabilities	<u>14,520</u>	<u>17,130</u>
	<u>60,630</u>	<u>48,330</u>

Additional information:

1. During the year ended 30 June 2022, impairment loss of Sh.180,000 was charged on intangible assets.
2. Current liabilities comprise of the following:

	30 June 2022	30 June 2021
	Sh. "000"	Sh. "000"
Accounts payable	8,220	10,560
Bank interest payable	510	360
Current tax payable	1,680	4,590
Interest on debentures	150	-
Bank overdraft	<u>3,960</u>	<u>1,620</u>
	<u>14,520</u>	<u>17,130</u>

3. During the year ended 30 June 2022, items of property, plant and equipment with a carrying amount of Sh.3,090,000 were sold for Sh.3,300,000. Profits on these sales were offset against operating expenses.
4. During the year ended 30 June 2022, depreciation charged on property, plant and equipment amounted to Sh.1,710,000. Property, plant and equipment of Sh.1,680,000 was acquired through a bank loan during the year.
5. During the year ended 30 June 2022, Chora Ltd. made a 1 for 8 bonus issue, capitalising its retained earnings followed by a rights issue.

Required:

Statement of cash flows in accordance with the requirement of International Accounting Standard (IAS) 7, "Statement of cash flows" for the year ended 30 June 2022.

(16 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline four criteria that an asset should satisfy for it to be classified as a current asset. (4 marks)
- (b) Discuss three guiding ethics for professional accountants. (6 marks)
- (c) Explain the following terms:
 - (i) Bonus issue of shares. (2 marks)
 - (ii) Rights issue of shares. (2 marks)
- (d) Explain the significance of the following:
 - (i) Return on investment (ROI). (2 marks)
 - (ii) Gross profit to sales. (2 marks)
 - (iii) Price earnings ratio (P/E ratios). (2 marks)

(Total: 20 marks)

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