



kasneb

ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 26 November 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 accounting concepts:

- (i) Going concern. (2 marks)
- (ii) Consistency. (2 marks)
- (iii) Prudence. (2 marks)
- (iv) Accrual. (2 marks)

(b) The following transactions were extracted from the books of Hawa Traders for the month of October 2018:

October 1	Balances brought forward:	Sh.
	- Cash in hand	392,500
	- Cash at bank	635,000
	- Capital	1,027,500
October 3	Bought goods and paid by cash Sh.102,500.	
October 4	Purchased goods on credit from Kamata Traders for Sh.145,000 less 10% trade discount.	
October 7	Sold goods on credit to Muthee for Sh.222,500 less 20% trade discount.	
October 9	Withdrew Sh.12,500 cash for personal use.	
October 12	Sold goods to Kasina for Sh.160,000 and received a cheque.	
October 15	Paid Sh.125,000 by cheque to Kamata Traders in full settlement of the debt.	
October 18	Muthee returned goods worth Sh.10,000.	
October 20	Received cash amounting to Sh.100,000 from Muthee.	
October 21	Purchased goods on credit from Hello Ltd. valued at Sh.217,500.	
October 23	Issued a cheque of Sh.150,000 to Hello Ltd. and received a discount of Sh.7,500.	
October 24	Purchased furniture worth Sh.20,000 from Urembo Furniture Ltd. on credit.	
October 26	Deposited Sh.55,000 from the cash in hand to the bank account.	
October 28	Goods worth Sh.15,000 were returned to Hello Ltd.	
October 29	Paid wages in cash amounting to Sh.45,000 and issued a cheque of Sh.250,000 for advertisements.	

- October 30 Made cash sales of Sh.545,000.
- October 30 Banked Sh.500,000 from the cash in hand.
- October 31 Received Sh.47,500 in cash from Muthee and allowed a discount of Sh.2,500.
- October 31 Goods worth Sh.10,000 were taken for personal use.

Required:

A duly balanced three-column cash book.

(12 marks)
(Total: 20 marks)

QUESTION TWO

Nancy and Regina are in partnership sharing profits and losses in the ratio of 3:2.

Their partnership agreement provides as follows:

- Interest is to be allowed on capital at the rate of 10% per annum.
- Interest is to be charged on drawings at the rate of 5% per annum.
- Nancy and Regina are entitled to annual salaries of Sh.18 million and Sh.12 million respectively.
- Nancy guaranteed Regina that Regina's total income from the partnership shall not be less than Sh.23 million per annum.

The partnership's trial balance as at 30 September 2018 is as follows:

	Sh."000"	Sh."000"
Buildings at cost	200,000	
Equipment at cost	100,000	
Accumulated depreciation (1 October 2015):		
Buildings		10,000
Equipment		20,000
Capital accounts:		
Nancy		200,000
Regina		100,000
Current accounts:		
Nancy		8,200
Regina		2,800
Gross profit		390,000
Discount received		10,000
Accounts receivable and accounts payable	36,000	21,000
Allowance for doubtful debts	1,700	
Drawings:		
Nancy	40,000	
Regina	20,000	
Staff salaries and wages	100,000	
Sales and distribution costs	90,700	
Discounts allowed	12,000	
Office expenses	60,000	
Insurance and rates	42,000	
Bad debts	8,000	
Inventory (30 September 2018)	38,000	
Bank balance	16,000	
Cash in hand	1,000	
	<u>763,700</u>	<u>763,700</u>

Additional information:

1. Allowance for doubtful debts is to be increased by Sh.100,000 as at 30 September 2018.
2. As at 30 September 2018, insurance prepaid amounted to Sh.2,000,000 while accrued sales and distribution costs amounted to Sh.300,000.

3. Depreciation is provided on cost as follows:

Asset	Rate per annum (%)
Buildings	5
Equipment	20

Required:

- (a) Income statement and appropriation account for the year ended 30 September 2018. (10 marks)
- (b) Partners' current accounts as at 30 September 2018. (4 marks)
- (c) Statement of financial position as at 30 September 2018. (6 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Kona Ltd. as at 30 June 2018:

	Sh. "000"	Sh. "000"
Land and buildings	115,360	
Motor vehicles at cost	44,800	
Accumulated depreciation on motor vehicles (1 July 2017)		26,880
Directors' emoluments	29,120	
Purchases and sales	841,120	1,099,952
Inventory (1 July 2017)	76,160	
Retained earnings (1 July 2017)		45,136
General expenses	2,436	
Salaries and wages	183,680	
Electricity	3,640	
Bank balance	30,184	
Interim dividend paid	5,460	
Motor vehicles running expenses	4,816	
Insurance	4,648	
Discounts allowed and discounts received	9,408	6,384
Bad debts written off	2,016	
Allowance for doubtful debts (1 July 2017)		1,232
Accounts receivable and accounts payable	103,376	85,120
Debenture interest paid	1,680	
400,000 ordinary shares at Sh.280 each		112,000
Share premium		25,200
6% debentures		56,000
	<u>1,457,904</u>	<u>1,457,904</u>

Additional information:

- Goods worth Sh.504,000 purchased on credit on 28 June 2018 were in transit and had not been entered in the books by close of business on 30 June 2018.
- As at 30 June 2018, outstanding motor vehicles running expenses amounted to Sh.392,000 while prepaid insurance amounted to Sh.672,000.
- Inventory as at 30 June 2018 was valued at Sh.91,280,000.
- Depreciation on motor vehicles is to be provided at the rate of 20% per annum on cost.
- Allowance for doubtful debts is to be increased to Sh.1,344,000.
- Audit fees and corporation tax are to be provided for at Sh.5,600,000 and Sh.11,200,000 respectively.
- The directors have proposed a final dividend at the rate of 10% of the outstanding ordinary share capital.

Required:

- (a) Income statement for the year ended 30 June 2018. (12 marks)
- (b) Statement of financial position as at 30 June 2018. (8 marks)

(Total: 20 marks)

QUESTION FOUR

Joyce Biba operates a small retail business and has not employed an accountant. She relies on her limited accounting knowledge.

Below is the trial balance she prepared for the year ended 30 September 2018:

	Sh. "000"	Sh. "000"
Building at cost		31,000
Fixtures at cost	6,000	
Motor vehicles at cost	13,000	
Accumulated depreciation:		
• Building		2,400
• Fixtures	1,800	
• Motor vehicles	3,250	
Carriage outwards		440
Carriage inwards	310	
Returns inward		900
Returns outward		1,100
Discounts allowed		600
Discounts received	1,200	
Accounts payable	3,400	
Accounts receivable		7,050
Telephone and postage	390	
Stationery		210
Office expenses	420	
Transport		1,930
Rent receivable		1,400
Bank balance	1,640	
Insurance expenses		225
Bad debts written off		325
Inventory (1 October 2017)	4,100	
Salaries and wages		6,000
Inventory (30 September 2018)	6,080	
Capital		24,000
Purchases		35,200
Sales	74,285	
Drawings		3,095
	<u>115,875</u>	<u>115,875</u>

Additional information:

- During the year ended 30 September 2018, Joyce had taken goods worth Sh.1,200,000 for personal use. This was not recorded in the books of account.
- As at 30 September 2018, prepaid insurance amounted to Sh.75,000 while outstanding salaries and wages amounted to Sh.660,000.
- Rent receivable accruing as at 30 September 2018 amounted to Sh.600,000.
- Allowance for doubtful debts is to be maintained at the rate of 5% of the accounts receivable.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Building	5	Cost
Fixtures	10	Cost
Motor vehicles	15	Reducing balance

Required:

- The corrected trial balance as at 30 September 2018. (5 marks)
- Income statement for the year ended 30 September 2018. (9 marks)
- Statement of financial position as at 30 September 2018. (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain the use of each of the following source documents in business transactions:

- (i) VAT invoice. (2 marks)
- (ii) Credit note. (2 marks)
- (iii) Statement of account. (2 marks)
- (iv) Receipt. (2 marks)
- (v) Pay in slip/cash deposit slip. (2 marks)

(b) The trial balance extracted from the books of Jewel Traders showed a total debit of Sh.5,630,400 while the credit side amounted to Sh.5,593,800.

The accountant later discovered the following errors:

1. A cheque for Sh.36,200 received from a debtor was entered in all the books as Sh.20,000.
2. Discounts allowed worth Sh.14,100 were credited to the discounts received accounts in the ledger.
3. Rent received of Sh.13,200 had been credited to the premises account.
4. Sales day book was undercast by Sh.56,400.
5. A credit note for Sh.8,400 issued to a debtor had been entered correctly in the returns account, but had not been posted to the relevant personal account.
6. A credit note for Sh.13,800 received from a supplier had not been recorded in any book.

Required:

- (i) Journal entries to correct the above errors.
(No narrations required). (6 marks)
- (ii) Suspense account duly balanced. (4 marks)

(Total: 20 marks)

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