

KASNEB

ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 22 May 2017.

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) Outline four contents of a valid invoice as a source document. (4 marks)
- (b) Citing suitable examples, explain the meaning of the following terms:
- (i) Accounting concepts. (2 marks)
- (ii) Accounting bases. (2 marks)
- (c) Distinguish between First-in-First Out (FIFO) and weighted average cost as used in the accounting for inventory. (2 marks)
- (d) Double N Traders commenced trading on 1 January 2015. During the two years ended 31 December 2015 and 31 December 2016, the following debts were written off to bad debts account on the stated dates:

Sh. "000"		
31 August 2015	J. Oyaro	425
30 September 2015	S. Mwaboza	700
28 February 2016	K. Munyi	900
31 August 2016	C. Owayo	300
30 October 2016	J. Timberlake	1,250

On 31 December 2015, total debtors amounted to Sh.20,250,000. It was decided to make an allowance for doubtful debts of 5% of the debtors. On 31 December 2016, the debtors balance stood at Sh.23,650,000. Allowance for bad debts was maintained at 5% of debtors.

The accountant of Double N Traders did not provide for the bad debts nor did he recognise the bad debts expense in the two years.

Required:

- (i) Debtors account at each year end. (4 marks)
- (ii) Bad debts account. (3 marks)
- (iii) Allowance for bad debts account. (3 marks)

(Total: 20 marks)

QUESTION TWO

Nyakati Limited showed a difference on their trial balance of Sh.14,650,000. This was posted to a suspense account so that the accounts for the year ended 31 March 2017 could be prepared. The following statement of financial position was produced:

Nyakati Limited					
Statement of financial position as at 31 March 2017					
	Sh."000"		Cost Sh."000"	Depreciation Sh."000"	Net book value Sh."000"
Capital	125,000	Fixed Assets			
Profit for the year	<u>33,500</u>	Freehold premises	60,000	-	60,000
	<u>158,500</u>	Motor vehicles	25,000	11,935	13,065
		Fixtures and fittings	<u>1,500</u>	<u>750</u>	<u>750</u>
			86,500	12,685	73,815
Current liabilities		Current assets			
Creditors and accruals	41,360	Inventories		75,410	
Bank overdraft	<u>1,230</u>	Debtors		37,140	
	<u>42,590</u>	Cash in hand		<u>75</u>	<u>112,625</u>
		Suspense account			186,440
	<u>201,090</u>				<u>14,650</u>
					<u>201,090</u>

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On checking the books to eliminate the suspense account, the following errors were found:

1. The debit side of the cash book was undercast by Sh.10,000,000.
2. A credit item of Sh.5,000,000 in the cash book on account of a new building has not been posted to the nominal ledger.
3. The purchase day book has been summarised for posting to the nominal ledger but an item of purchases of Sh.100,000 has been entered in the summary as Sh.1,000,000 and a further transport charge of Sh.450,000 has been entered as Sh.45,000.
4. An item of rent received amounting to Sh. 45,000 was posted twice to the nominal ledger from the cash book.
5. The debit side of the debtors' control account was undercast by Sh.100,000.
6. On reconciling the bank statement with the cash book, it was discovered that bank charges of Sh.3,250,000 had not been entered in the cash book.
7. Depreciation of motor vehicles was undercharged by Sh.500,000.
8. Inventories were undervalued by Sh.1,250,000.
9. Suppliers' invoices totalling Sh.2,110,000 for goods included in the inventories had been omitted from the books.

Required:

- (a) Journal entries necessary to eliminate the balance on the suspense account. (6 marks)
 - (b) Suspense account duly balanced. (6 marks)
 - (c) Statement of financial position as at 31 March 2017 after correcting the errors. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) The following trial balance was extracted from the books of Chrispine Oduma, a sole trader as at 30 April 2017:

	Sh. "000"	Sh. "000"
Capital (1 May 2016)		78,282
Trade receivables	128,211	
Cash in hand	4,233	
Trade payables		106,212
Fixtures and fittings at cost	126,600	
Discount allowed	3,912	
Discount received		3,525
Inventory (1 May 2016)	55,380	
Sales		1,474,860
Purchases	1,163,808	
Motor vehicles at cost	137,190	
Lighting and heating	18,552	
Motor vehicles running expenses	8,586	
Rent payable	26,523	
General expenses	22,239	
Bank overdraft		59,583
Accumulated depreciation (1 May 2016):		
• Fixtures and fitting		6,600
• Motor vehicles		45,876
Drawings	79,704	
	1,774,938	1,774,938

Additional information:

1. The following balances were available as at 30 April 2017:

	Sh.
• Accrued motor vehicles running expenses	218,000
• Prepaid rent	680,000
2. Depreciation is to be provided as follows:

Asset	Method	Rate per annum
• Motor vehicles	Straight line	20%
• Fixtures and fittings	Reducing balance	10%
3. Inventory as at 30 April 2017 was valued at Sh.59,778,000.

Required:

- Income statement for the year ended 30 April 2017. (8 marks)

- (b) You have been preparing the accounts for your client Jane Ambani for the year ended 31 December 2016. Jane has commented that the bank balance in her account is always different from the balance shown on her bank statement.

In your working papers for Jane's accounts, you have noted the following issues:

1. The reconciled bank balance as at 31 December 2015 was Sh.2,573,000 (debit).
2. The total value of cheques recorded for the accounting period in the cheque journal was Sh.147,684,000.
3. The total value of lodgements recorded for the accounting period in the cash book was Sh.146,093,000.
4. A cheque had been incorrectly recorded in the cheque journal with a value of Sh.1,765,000. The correct value of Sh.1,675,000 had been debited on the bank statement.
5. Standing order totalling Sh.3,600,000 had been debited by the bank, but not recorded in the cheque journal.
6. During the year, Jane had a short-term surplus of cash and Sh.40,000,000 had been transferred to a deposit account for a period of 6 weeks. When the deposit matured, the original amount of Sh.40,000,000 together with the interest earned of Sh.312,000 were credited by the bank to the current account. None of those transactions had been recorded in Jane's books.
7. Bank charges of Sh.563,000 had been debited by the bank, but had not been recorded in Jane's books.
8. A lodgement of Sh.12,386,000 had been entered in the cash book on the last day of the accounting period. This had not been credited on the bank statement until the second working day of the month of January 2017.
9. The following cheques were issued during the accounting period but were not debited on the bank statement until after the end of the accounting period:

Cheque Number	Amount Sh."000"
782413	1,425
782414	824
782430	681
782456	2,643
782465	832

10. The closing balance on the bank statement was Sh.8,760,000 overdrawn.

Required:

- (i) Adjusted cash book as at 31 December 2016. (8 marks)
- (ii) Bank reconciliation statement as at 31 December 2016. (4 marks)

(Total: 20 marks)

QUESTION FOUR

Pete and Chanda have been in partnership sharing profits and losses in the ratio of 3:2 respectively. Their agreement also provides the following:

- Interest be allowed on capital at the rate of 10% per annum.
- Interest be charged on drawings and current accounts with a debit balance at the rate of 10% per annum.
- Chanda is entitled to a salary of Sh.1,200,000 per year.

Their trial balance after the preparation of trading account on 31 March 2017 was as follows:

	Sh."000"	Sh."000"
Capital accounts:		
Pete		6,000
Chanda		3,000
Current accounts:		
Pete		2,000
Chanda	1,000	
Drawings:		
Pete	3,600	
Chanda	2,400	
10% loan from Pete		4,000
12% loan from Boresha Bank Ltd.		6,000
Gross profit for the year		16,000
Inventory (31 March 2017)	3,200	
Administrative expenses	3,800	
Sales and distribution expenses	6,200	
Freehold property at cost	10,000	
Motor vehicles at cost	6,000	

	Sh. "000"	Sh. "000"
Accumulated depreciation (1 April 2016):		
- Freehold property		1,000
- Motor vehicles		2,400
Interest on bank loan paid	360	
Accounts receivable and accounts payable	4,800	3,000
Bank balance	<u>2,040</u>	
	<u>43,400</u>	<u>43,400</u>

Additional information:

1. The following balances were available as at 31 March 2017:

	Sh. "000"
• Accrued administrative expenses	200
• Sales and distribution expenses prepaid	1,200

2. A half year interest on loan from bank is owing.

3. Depreciation is provided on cost as follows:

Asset	Rate per annum
Freehold property	5%
Motor vehicles	20%

Required:

(a) Income statement and appropriation account for the year ended 31 March 2017.

(10 marks)

(b) Partners' current accounts.

(4 marks)

(c) Statement of financial position as at 31 March 2017.

(6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Summarise four objectives of accounting.

(8 marks)

(b) The following trial balance was extracted from the books of Bentum Ltd. on 31 March 2017:

	Sh. "000"	Sh. "000"
Issued and fully paid capital:		
Ordinary share capital of Sh.20 each		80,000
10% preference shares of Sh.20 each		50,000
Share premium		20,000
General reserve		4,000
Retained earnings		16,000
Inventory (1 April 2016)	18,000	
Purchases and sales	220,000	400,000
Returns inwards and returns outwards	7,000	6,000
Accounts receivable and accounts payable	24,000	18,000
Administrative expenses	42,600	
Sales and distribution expenses	64,400	
10% Debentures		40,000
Rent received		1,100
Interest on debentures paid	2,000	
Freehold property at cost	120,000	
Equipment at cost	60,000	
Motor vehicles at cost	80,000	
Accumulated depreciation (1 April 2016):		
- Equipment		6,000
- Motor vehicles		16,000
Bank balance	25,100	
Suspense account		<u>6,000</u>
	<u>663,100</u>	<u>663,100</u>

Additional information:

1. The following information relates to the firm as at 31 March 2017:
- | | Sh. "000" |
|---|------------------|
| • Inventory | 24,000 |
| • Administrative expenses owing | 100 |
| • Sales and distribution expenses prepaid | 300 |
| • Rent receivable due | 100 |
| • Corporation tax (estimated) | 18,000 |
2. A half year interest on debentures is owing.
3. Suspense account is due to the following errors:
- Total sales journal was undercast by Sh.10 million.
 - Total returns inwards of Sh. 2 million for the month of March 2017 was erroneously credited to returns outwards account.
4. Depreciation should be provided as follows:
- | Asset | Rate per annum | Method |
|----------------|-----------------------|------------------|
| Equipment | 10% | Reducing balance |
| Motor vehicles | 20% | Straight line |
5. Directors have proposed that dividend be paid on preference shares and Sh.4 per ordinary share after transfer of Sh.10 million to general reserve.

Required:

- (i) Suspense account duly balanced. (2 marks)
- (ii) Income statement for the year ended 31 March 2017. (10 marks)
- (Total: 20 marks)**
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