

KASNEB

DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF 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

The following trial balance was extracted from the books of James Rui, a sole trader as at 31 March 2017:

	Sh. "000"	Sh. "000"
Purchases and sales	15,400	26,000
Capital		4,500
Premises at cost	4,000	
Motor vehicle (cost Sh.6 million)	4,200	
Machinery (cost Sh.4 million)	2,400	
Trade receivables and trade payables	4,600	2,200
Salaries and wages	2,420	
Postage and stationery	180	
Carriage inwards	200	
Carriage outwards	120	
Inventory (1 April 2016)	1,800	
Revenue reserves		1,400
Cash at bank	460	
Cash in hand	50	
10% bank loan		2,000
Loan interest paid	200	
Allowance for doubtful debts (1 April 2016)		60
Office general expenses	<u>130</u>	
	<u>36,160</u>	<u>36,160</u>

Additional information:

- Inventory as at 31 March 2017 was valued at Sh.2,100,000.
- James Rui took goods worth Sh.150,000 per month for personal use. No records were made to this effect.
- During the year, a debtor who owed Sh.100,000 was declared bankrupt.
- Allowance for doubtful debts is to be adjusted to 3% of trade receivables.
- Depreciation is to be provided as follows:

Asset	Rate per annum
Motor vehicle	20% on straight line
Machinery	10% on reducing balance

- Salaries amounting to Sh.80,000 were in arrears as at 31 March 2017.

Required:

- Income statement for the year ended 31 March 2017. (12 marks)
 - Statement of financial position as at 31 March 2017. (8 marks)
- (Total: 20 marks)

QUESTION TWO

- Explain three purposes for which control accounts are prepared. (6 marks)
- The following are the balances and transactions affecting Malingo Ltd.'s control accounts for the month of March 2017:

	Sh. "000"
Opening balance (1 March 2017):	
Sales ledger:	9,123 (Debit)
	211 (Credit)
Purchases ledger:	4,490 (Credit)
	88 (Debit)

	Sh. "000"
Closing balance (31 March 2017):	
Sales ledger	136 (Credit)
Purchases ledger	67 (Debit)
Transactions during the month of March 2017:	
Discounts allowed	732
Refunds to customers for overpaid accounts	53
Cash receipts from credit customers	4,201
Customers' cheques dishonoured	489
Bills of exchange receivable	6,506
Allowances to customers	1,720
Contra settlements	3,046
Payments to creditors by cheque	15,413
Discounts received	1,105
Sales on credit	36,755
Receipts from customers by cheque	27,370
Purchases on credit	18,135
Allowances from suppliers	629

Required:

- (i) Sales ledger control account. (8 marks)
- (ii) Purchases ledger control account. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

(a) Explain the following accounting concepts:

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

(b) The following information was extracted from the books of Hosana Social Club for the year ended 31 December 2016:

	Sh.
Bank balance as at 1 January 2016	68,000
Subscriptions received during the year	344,000
Receipts from the canteen	552,000
Donations received	46,720
Unpaid subscriptions as at 31 December 2016	50,000
Sales of dinner tickets	18,400
Catering charges paid for the dinner	26,000
Payments to the canteen's suppliers	368,000
Payments for the rates and insurance	15,200
Accrued rates and insurance as at 31 December 2016	3,800
Payments for decorations and repairs	36,400
Payments for stationery and printing	9,920
Administrator's salaries paid	188,000
Provision for depreciation for equipment	20,000

Out of the subscription received, Sh.44,000 relates to the year 2017.

Required:

Receipts and payments account for the year ended 31 December 2016.

(12 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) The accounts assistant of Twashinda Enterprises prepared a trial balance from the accounting records as at 30 April 2017 which did not balance.

Advise the accountant on four areas that should be checked in identifying the cause of the imbalance. (4 marks)

- (b) Describe the following types of ratios:

- (i) Return on capital employed (ROCE). (2 marks)
- (ii) Return on owner's equity (ROOE). (2 marks)
- (iii) Leverage ratio. (2 marks)

- (c) The following information relates to Pan Ltd. and Cake Ltd. in respect of the year ended 31 December 2016:

Income statement extracts:

	Pan Ltd. Sh."000"	Cake Ltd. Sh."000"
Turnover	497,000	371,000
Cost of sales	258,000	153,000
Operating profit	138,000	79,000
Finance costs	19,000	-

Extracts from statements of financial position:

	Pan Ltd. Sh."000"	Cake Ltd. Sh."000"
Non-current assets	142,000	92,000
Current assets:		
Inventory	100,000	87,000
Receivables	46,000	42,000
Bank balance	40,000	44,000
Current liabilities	98,000	108,000
Term loan	33,000	-
Shareholders funds	197,000	157,000

Note: All sales were on credit.

Required:

For each company, calculate the following ratios:

- (i) Debt-equity ratio. (2 marks)
- (ii) Return on capital employed. (2 marks)
- (iii) Acid test ratio. (2 marks)
- (iv) Inventory turnover. (2 marks)
- (v) Average collection period. (2 marks)

(Total: 20 marks)

QUESTION FIVE

The following trial balance was extracted from the books of Maxim Ltd. as at 31 March 2017.

	Sh."000"	Sh."000"
Ordinary shares of Sh.10 each.		10,000
Share premium		5,000
General reserves		2,600
Retained earnings		1,500
10% Debentures		5,000
Purchases and sales	16,000	30,900

	Sh. "000"	Sh. "000"
Freehold land and buildings at cost	11,000	
Equipment: Cost	2,000	
Accumulated depreciation (1 April 2016)		200
Motor vehicles: Cost	9,600	
Accumulated depreciation (1 April 2016)		2,400
Discount allowed and discount received	400	300
Carriage inwards	200	
Salaries and wages	3,400	
Sales and distribution cost	1,400	
Rates and insurance	1,100	
Electricity and water	900	
Directors fees	2,100	
Inventory (1 April 2016)	5,000	
Trade receivables and trade payables	7,000	4,000
Bank balance	1,700	
Interest on debentures	100	
	61,900	61,900

Additional information on 31 March 2017:

	Sh. "000"	
1. Inventory was valued at	5,600	
2. Corporation tax is estimated at	600	
3. Audit fees owing	1,500	
4. Directors fees outstanding	400	
5. Insurance prepaid	100	
6. Depreciation is to be provided as follows:		
Asset	Rate per annum	Method
Equipment	10%	Straight line
Motor vehicle	25%	Reducing balance
7. Directors have proposed a dividend of Sh.2 per share after transfer of Sh.400,000 to general reserves.		

Required:

- (a) Income statement for the year ended 31 March 2017. (12 marks)
- (b) Statement of financial position as at 31 March 2017. (8 marks)
- (Total: 20 marks)**

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