

KASNEB

DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 23 May 2016.

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 Jack Omido, a sole trader on 31 March 2016:

	Sh."000"	Sh."000"
Land and buildings at cost	12,000	
Equipment at cost	11,250	
Motor vehicles at cost	8,000	
Accumulated depreciation (1 April 2015)		
- Equipment		2,250
- Motor vehicles		2,000
Inventory (1 April 2015)	3,600	
Purchases and sales	52,800	70,800
Carriage inwards	1,750	
Carriage outwards	360	
Wages and salaries	3,200	
Returns inwards and returns outwards	1,400	1,200
Accounts receivable and accounts payable	3,400	2,830
Electricity and water	1,300	
Rates and insurance	480	
Bad debts written off	200	
Discount allowed	180	
Rent income received		6,200
Allowance for doubtful debts (1 April 2015)		140
10% long term loan		8,000
Bank balance	1,100	
Drawings	1,800	
Interest on loan paid	400	
Capital (1 April 2015)		9,800
	<u>103,220</u>	<u>103,220</u>

Additional information on 31 March 2016:

	Sh."000"	
1. Closing inventory was valued at	4,300	
2. Accrued electricity	100	
3. Insurance prepaid	80	
4. Rent income owing	1,000	
5. Interest on loan outstanding	400	
6. Goods taken by Jack Omido for personal use unrecorded	600	
7. No adjustment had been made in the books of accounts in respect of an unconfirmed goods sent to customers on sale or return basis for Sh.400,000. Goods are sent to customers at cost plus a mark-up of $33\frac{1}{3}\%$.		
8. Allowance for doubtful debts to be maintained at 5% on accounts receivable.		
9. Depreciation is to be provided as follows:		
Asset	Rate	Method
Equipment	20%	Reducing balance
Motor vehicles	25%	Straight line

Required:

(a) Income statement for the year ended 31 March 2016.

(12 marks)

(b) Statement of financial position as at 31 March 2016.

(8 marks)

(Total: 20 marks)

QUESTION TWO

(a) Citing a relevant example in each case, explain the following terms as used in accounting:

- (i) Real accounts. (2 marks)
- (ii) Personal accounts. (2 marks)
- (iii) Nominal accounts. (2 marks)

(b) The following information was extracted from the books of DAT Traders for the month of April 2016:

Balances as at 1 April 2016:	Sh. "million"
Sales ledger	250 (Debit)
Purchases ledger	390 (Credit)

Transactions during the month of April 2016:

Purchases	- Cash	4,120
	- Credit	7,000
Sales	- Cash	600
	- Credit	8,100
Cash refunded from credit suppliers		24
Returns outwards		150
Returns inwards		100
Increase in allowance for doubtful debt		18
Bad debts written off		14
Contra settlement		350
Refund to cash customers		50
Discounts received		260
Discounts allowed		240
Total payments to suppliers		3,300
Total receipts from customers		5,900

Required:

- (i) Sales ledger control account as at 30 April 2016. (7 marks)
- (ii) Purchases ledger control account as at 30 April 2016. (7 marks)

(Total: 20 marks)

QUESTION THREE

The following information relates to Delta Hockey Club for the year ended 31 March 2016:

Receipts and payments account

	Sh.		Sh.
Cash in bank	1,625,000	Salaries and wages	325,000
Subscriptions	6,825,000	Office expenses	1,033,500
Annual dinner receipts	3,484,000	Annual dinner expenses	1,495,000
Investment income	3,250,000	Investment	9,750,000
		Building maintenance	824,200
		Cash in bank	<u>1,756,300</u>
	<u>15,184,000</u>		<u>15,184,000</u>

The following balances were available as at 31 March:

	2015 Sh.	2016 Sh.
Building	6,500,000	
Subscriptions due from members	130,000	
Subscriptions received in advance		195,000
Office expenses prepaid	32,500	58,500
Investment	650,000	
Salaries and wages outstanding		325,000

Required:

(a) Income and expenditure account for the year ended 31 March 2016.

(10 marks)

(b) Statement of financial position as at 31 March 2016.

(10 marks)

(Total: 20 marks)**QUESTION FOUR**

The statements of financial position of Epoch Ltd. as at 31 March are as follows:

	2015 Sh. "million"	2016 Sh. "million"
Non-current assets:		
Property, plant and equipment (cost)	160	180
Accumulated depreciation	<u>(59)</u>	<u>(60)</u>
	101	120
Current assets:		
Inventory	38	40
Accounts receivable	20	15
Bank and cash	<u>-</u>	<u>15</u>
	<u>159</u>	<u>190</u>
Equity and liabilities:		
Ordinary shares of Sh.100 each	40	60
Share premium	10	15
Retained earnings	60	76
15% debentures	20	10
Current liabilities:		
Accounts payable	12	20
Corporation tax	8	6
Bank overdraft	5	-
Dividend	3	2
Accrued interest	<u>1</u>	<u>1</u>
	<u>159</u>	<u>190</u>

Income statement for the year ended 31 March 2016:

	Sh. "million"
Sales	200
Cost of sales	<u>(111)</u>
Gross profit	89
Profit from sale of equipment	<u>1</u>
	90
Administrative expenses	<u>(26)</u>
Sales and distribution costs	<u>(22.5)</u>
Financial costs	<u>(1.5)</u>
Profit before tax	40
Corporation tax	<u>(12)</u>
Profit after tax	28
Proposed dividend	<u>(12)</u>
Retained earnings	<u>16</u>

Additional information:

- During the year, an equipment costing Sh.10 million (net book value Sh.4 million) was sold for Sh.5 million.
- 15% debentures were redeemed at par on 1 April 2015.

Required:Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flow" for the year ended 31 March 2016. (20 marks)

QUESTION FIVE

- (a) Describe four purposes of accounting information. (4 marks)
- (b) Distinguish between the following terms:
- (i) "Rights issues" and "bonus issues". (4 marks)
 - (ii) "Compensating error" and "transposition error". (4 marks)
- (c) Outline eight contents of a partnership deed. (8 marks)

(Total: 20 marks)

.....