

KASNEB

DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

PILOT PAPER

September 2015.

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) Identify the benefits that would accrue to an organisation by changing over from manual accounting system to computerised accounting system. (6 marks)
- (b) Smith Mtwetwe opened a curio shop on 1 August 2015. For his first month of business, he made the following transactions:
- | | |
|----------------|--|
| 1 August 2015 | Introduced capital in cash Sh.700,000. |
| 2 August 2015 | Paid rent for the month in cash Sh.48,000. |
| 2 August 2015 | Transferred Sh.500,000 of the cash to a newly opened bank account. |
| 4 August 2015 | Made cash purchases Sh.125,000. |
| 5 August 2015 | Brought his household furniture worth Sh.150,000 for office use. |
| 7 August 2015 | Received a Sh.450,000 loan from Mkopo Micro-finance Ltd. and deposited the amount in the bank. |
| 8 August 2015 | Bought on credit goods worth Sh.160,000 from Kisii Soapstone. |
| 8 August 2015 | Made cash sales Sh.116,000. |
| 9 August 2015 | Paid wages in cash to shop assistants Sh.15,000. |
| 10 August 2015 | Bought office computers worth Sh.180,000 from Bell Electronics Ltd. and paid a deposit of Sh.45,000 by cheque. |
| 11 August 2015 | Sold goods on credit to R. Steward Sh.38,000, P. Edward Sh.83,000 and S. Kerry Sh.26,000. |
| 12 August 2015 | Returned goods worth Sh.28,000 to Kisii Soapstone. |
| 18 August 2015 | Bought goods on credit from Narumoru Merchants Sh.86,000 and Wamunyu Artifacts Sh.72,000. |
| 19 August 2015 | P. Edward returned goods worth Sh.1,700. |
| 23 August 2015 | Received cheques Sh.38,000 from R. Steward and Sh.9,000 from S. Kerry. |
| 25 August 2015 | Issued a cheque for Sh.135,000 to Bell Electronics. |
| 28 August 2015 | Cash purchases Sh.70,000. |
| 29 August 2015 | Bought a delivery van Sh.600,000 and paid by cheque. |
| 31 August 2015 | Paid electricity bill Sh.8,000 in cash. |

Required:

- (i) Open ledger accounts to record the above transactions. (10 marks)
- (ii) Extract a trial balance as at 31 August 2015. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) The following information relates to Tsavo Link Traders for the month of July 2015:

Cash book (bank column)

Receipts			Payments			
Date	Details	Amount	Date	Details	Cheque number	Amount
July 2015			July 2015			
		Sh. '000'				Sh. '000'
1	Balance brought forward	11,350	4	Kawasco	013	350
2	Rent income	2,000	5	County rates	014	900
15	Cash sales	6,700	7	Jake wholesalers	015	2,500
25	Cash sales	3,300	9	ABC stores	016	1,200
28	Rent income	1,800	15	Wages	017	450
			30	Power Ltd.	018	180
			30	Wages	019	450
			31	Balance carried down		19,120
		25,150				25,150

Bank statement

Details	Cheque number	Date	Debit	Credit	Balance
		July 2015	Sh. '000'	Sh. '000'	Sh. '000'
Balance brought forward		1			11,350
Deposit		2		2,000	13,350
Cheque	013	5	350		13,000
Unpaid cheque		7	200		12,800
Ruth Khan:					
Cheque	015	9	2,500		10,300
Deposit		15		6,700	17,000
Cheque	014	16	900		16,100
Cheque	017	16	450		15,650
Cheque	016	21	1,200		14,450
Deposit		26		3,300	17,750
Unpaid cheque: Silva		30	300		17,450
Interest		30		80	17,530
Deposit: Situma		30		850	18,380
Cheque	019	31	450		17,930
ABC Life Insurance		31	500		17,430
Bank charges			43		17,387

Required:

- (i) Updated cash book for the month of July 2015. (6 marks)
- (ii) Bank reconciliation statement as at 31 July 2015. (4 marks)
- (b) (i) State four advantages at the imprest system of managing petty cash. (2 marks)
- (ii) The following information relates to petty cash transactions of Matata Enterprises for the month of July 2015:

July 2015	Sh.
1 Imprest received from main cashier	15,000
2 Typing papers	900
3 Soaps and detergents	700
8 Photocopying documents	1,200
11 Mobile phone airtime	1,000
12 Office cleaning	800
14 Hire of taxi	1,400
15 Bought executive folders	1,100
16 Envelopes	400
18 Paid Oscar, a creditor	1,200
19 Fuel for office van	1,000
21 Office cleaning	1,300
23 Paid Linnet, a creditor	700
25 Office tea and snacks	1,200
30 Received reimbursement	

Required:

Enter the above transactions in a petty cash book with analysis column for stationery and printing, travelling expenses, office cleaning, sundry expenses and ledger account.

(8 marks)

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

The following trial balance was extracted from the books of Abel Wanjau as at 31 August 2015:

	Debit	Credit
	Sh. "000"	Sh. "000"
Capital		250,000
Land and buildings (at cost)	180,000	
Motor vehicles (at cost)	120,000	
Furniture and fittings (at cost)	15,000	
Inventory 1 September 2014	34,000	
Trade receivables	16,000	
Trade payables		7,000
Sales		256,000
Carriage on sales	1,200	
Commission income		4,000
Purchases	185,000	
Credit losses (bad debts)	1,500	
Insurance	2,700	
Bank loan		30,000
Bank loan interest	2,700	
Salaries and wages	12,000	
Cash at bank	6,000	
Cash in hand	1,900	
Accumulated depreciation: Motor vehicles		28,000
Furniture		3,000
	<u>578,000</u>	<u>578,000</u>

Additional information:

- Inventory as at 31 August 2015 was valued at Sh.43,000,000.
- Allowance for doubtful debts is to be created at 5% of the outstanding debtors.
- Salaries in arrears amounted to Sh.1,500,000.
- Included in the insurance expense is annual premium of Sh.480,000 paid for the company furniture until 31 December 2015.
- Sh.800,000 commission was earned on 28 August 2015. The amount is still outstanding.
- Accrued bank interest amounted to Sh.1,800,000.
- Provision for depreciation is to be made as follows:

Motor vehicles	10% on reducing balance basis
Furniture and fittings	20% on straight line basis

Required:

- Income statement for the year ended 31 August 2015. (12 marks)
- Statement of financial position as at 31 August 2015. (8 marks)

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

Wafula and Kimani are in partnership manufacturing waste cutting machines. Their agreement provides for payment of interest on capital at 10% and profits and losses to be shared in the ratio 3:2 respectively.

A trial balance extracted from the partnership as at 30 June 2015 was as follows:

	Debit	Credit
	Sh. "000"	Sh. "000"
Capital: Wafula		400,000
Kimani		300,000
Plant and machinery	400,000	
Furniture and fittings	120,000	
Raw materials 1 July 2014	140,000	

	Sh. "000"	Sh. "000"
Work in progress 1 July 2014	130,000	
Finished goods 1 July 2014	100,000	
Sales		1,500,000
Trade payables		265,500
Carriage on raw materials	28,000	
Returns outwards		45,000
Buildings	550,000	
Factory wages	310,000	
Purchases of raw materials	450,000	
General factory expenses	48,000	
Lighting	60,000	
Selling and distribution costs	27,260	
Administrative expenses	92,240	
Insurance	40,000	
Bank charges	20,500	
Trade receivables	270,000	
Cash at bank	34,200	
Bank loan		373,000
Discount allowed	15,300	
Hire of specialised machinery	48,000	
	<u>2,883,500</u>	<u>2,833,500</u>

Additional information:

1. Inventory balances as at 30 June 2015 were made up of the following:

	Sh. "000"
Raw materials	120,000
Work in progress	96,000
Finished goods	84,000
2. Depreciate assets by the following amount:

	Sh. "000"
Buildings	50,000
Plant and machinery	100,000
Furniture and fittings	15,000
3. The following expenses should be apportioned as shown:

	Factory	Administration
Lighting	75%	25%
Insurance	62.5%	37.5%
Depreciation on building	80%	20%
4. Accrued interest on the bank loan amounting to Sh.36,000,000 has not been accounted for.
5. Each of the partners withdrew waste cutters worth Sh.20,000,000 for private use.

Required:

- (a) Manufacturing account and income statement for the year ended 30 June 2015. (12 marks)
 - (b) Appropriation statement and partners current accounts. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Discuss the limitations of accounting that make it not a conclusive measure of a firm's performance. (6 marks)
- (b) In the context of not for profit organisations, explain the following terms:
 - (i) Subscriptions. (2 marks)
 - (ii) Legacy. (2 marks)
 - (iii) Accumulated fund. (2 marks)
- (c) XYZ Ltd. maintains control accounts in its business records.

The balances and transactions relating to the company's trade receivable control account for the month of July 2015 are listed below:

Balances on 1 August 2014	Sh. "000"
Receivables ledger	27,400 (debit)
	630 (credit)

Transactions for the year ended 31 July 2015	Sh. "000"
Sales on credit	110,000
Receipts from customers by cheque	82,000
Discounts allowed	2,100
Bad debts written off	5,160
Contra settlements against the payables ledger	9,000
Refunds to customers for overpayments	160
Customers cheques dishonoured	1,480
Charges for overdue accounts	2,700
Returns inwards	1,800
Balances on 31 July 2015	480 (credit)

Required:

Receivables ledger control account for the year ended 31 July 2015.

(8 marks)

(Total: 20 marks)

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