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DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 20 May 2019.

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

Von and Winn are in partnership sharing profits and losses in the ratio of 3:2 respectively after allowing interest on fixed capital at the rate of 5% per annum.

The following trial balance was extracted from the books of the partnership for the year ended 31 December 2018:

	Sh. "000"	Sh. "000"
Building at cost	200,000	
Equipment at cost	80,000	
Accumulated depreciation (1 January 2018):		
Building		10,000
Equipment		16,000
Sales		421,000
Purchases	300,000	
Salaries and wages	40,000	
Discounts allowed	10,000	
Office expenses	15,000	
Insurance and rates	12,500	
Bank balance	36,000	
Discounts received		15,000
Accounts receivable and accounts payable	40,000	24,000
Capital accounts: Von		120,000
Winn		120,000
Current accounts: Von		15,500
Winn		12,000
Inventory (1 January 2018)	<u>20,000</u>	
	<u>753,500</u>	<u>753,500</u>

Additional information:

1. The inventory as at 31 December 2018 was valued at Sh.24,000,000.
2. Depreciation is charged on cost as follows:

Asset	Rate per annum
Building	5%
Equipment	20%
3. Insurance prepaid as at 31 December 2018 amounted to Sh.2,500,000.
4. Salaries outstanding as at 31 December 2018 amounted to Sh.4,000,000.
5. Annual salaries to each partner amounts to Sh.1,000,000.

Required:

- (a) Income statement and appropriation account for the year ended 31 December 2018. (10 marks)
- (b) Partners' current accounts as at 31 December 2018. (4 marks)
- (c) Statement of financial position as at 31 December 2018. (6 marks)

(Total: 20 marks)

QUESTION TWO

The following is the trial balance of Mwanzo Traders as at 30 April 2019:

	Debit	Credit
	Sh.	Sh.
Motor vehicle (cost)	2,650,000	
Fixture and fittings (cost)	80,000	
Purchases/sales	4,820,000	7,430,000
Carriage inwards	32,900	
Discounts allowed/discounts received	45,000	69,000
Returns inwards/returns outwards	20,000	32,400
Inventory (1 May 2018)	500,000	
Carriage outwards	62,000	
Salaries and wages	28,000	
18% bank loan		960,000
Drawings	80,000	
Advertising	48,000	
Rent and rates	39,600	
Interest on loan	87,000	
Accounts receivable	720,000	
Land and buildings (cost)	1,280,000	
Cash in hand	35,000	
Bad debts written off	23,000	
Accounts payable		1,642,000
General expenses	18,500	
Allowance for bad debts		25,000
Accumulated depreciation:		
Motor vehicle		150,000
Fixtures and fittings		10,000
Capital		1,596,600
Cash at bank	<u>1,346,000</u>	
	<u>11,915,000</u>	<u>11,915,000</u>

Additional information:

- Inventory as at 30 April 2019 was valued at Sh.640,000.
- Included in the general expenses was Sh.3,000 which was taken by the owner's sons to pay for a football match.
- Advertising costs for Sh.12,900 was still due as at 30 April 2019.
- A further amount of Sh.13,000 are to be written off as bad debts.
- Allowance for bad debts for the year is to be increased by Sh.10,350.
- Depreciation on fixed assets is to be provided for as follows:

Asset	Rate per annum
Fixtures and fittings	12% on straight-line basis.
Motor vehicles	20% on reducing balance.

Required:

- Income statement for the year ended 30 April 2019. (10 marks)
 - Statement of financial position as at 30 April 2019. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- Discuss four ethical issues that guide accountants while executing their professional duties. (8 marks)
- Zidisha Traders bought the following vehicles on 1 January 2016: KBB, KBC and KBD at a cost of Sh.2,000,000 each. KBD was sold on 30 September 2017 for Sh.1,500,000 while KBC was sold on 31 March 2018 for Sh.1,200,000.

The policy of the business is to charge depreciation at the rate of 20% on a reducing balance method and on a pro-rata basis during the year of purchase and disposal.

Required:

- Motor vehicle account as at 31 December 2018. (4 marks)
- Accumulated depreciation on motor vehicle account for the year ended 31 December 2018. (4 marks)
- Motor vehicle disposal account. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain three features of not-for-profit organisations. (6 marks)
- (b) The trial balance of Kioko Traders as at 31 December 2018 failed to balance and the difference in totals was placed in a suspense account.

The following errors were later discovered and when corrected, the suspense account was eliminated.

1. Purchases day book was overcast by Sh.3,000.
2. A credit note for Sh.27,000 received from J. Mutio was not recorded anywhere in the books.
3. Interest received from the bank of Sh.1,000 was recorded on the credit side of the cash book but correctly recorded in the general ledger.
4. An invoice for Sh.58,900 received from Naitore Wholesalers was credited to their personal account as Sh.59,800.
5. A cheque for Sh.15,000 issued to M. Machage was correctly recorded in the cash book but posted to the wrong side of his personal account.
6. Sales day book was undercast by Sh.10,000.
7. An invoice of Sh.23,000 issued to Z. Kadija was recorded on the wrong side of the affected accounts.

Required:

- (i) Journal entries to correct the mentioned errors. (7 marks)
- (ii) A duly balanced suspense account. (7 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain three accounting tasks performed by accounting software packages. (6 marks)
- (b) The following are financial statements of Betta Ltd. for the periods ended 31 March:

Income statement:

	2018 Sh."000"	2019 Sh."000"
Sales	36,000	48,000
Cost of sales	(27,000)	(34,560)
Gross profit	9,000	13,440
Administrative expenses	(3,000)	(4,000)
Sales and distribution cost	(2,000)	(3,380)
Interest	(400)	(300)
Profit before tax	<u>3,600</u>	<u>5,760</u>

Statement of financial position:

	2018 Sh."000"	2019 Sh."000"
Non-current assets:		
Property, plant and equipment	18,000	20,000
Current assets:		
Inventory	9,000	11,000
Trade receivables	11,000	12,000
Bank	<u>4,000</u>	<u>2,000</u>
	42,000	45,000
Ordinary shares of Sh.10 each	20,000	20,000
Retained earnings	6,000	2,000
10% debentures	4,000	3,000
Current liabilities:		
Trade payables	9,600	18,500
Accrued expenses	<u>2,400</u>	<u>1,500</u>
	<u>42,000</u>	<u>45,000</u>

Inventory on 31 March 2017 was valued at Sh.6,000,000.

Required:

For each year, calculate the following accounting ratios:

- (i) Gross profit margin. (2 marks)
 - (ii) Net profit margin. (2 marks)
 - (iii) Inventory turnover in days. (2 marks)
 - (iv) Current ratio. (2 marks)
 - (v) Return on capital employed (ROCE). (2 marks)
- (c) Comment on Beta Ltd's:
- (i) Profitability. (2 marks)
 - (ii) Liquidity. (2 marks)
- (Total: 20 marks)**
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