



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 23 November 2020.

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) In the context of company's accounts, describe the following terms:

- (i) Preference shares. (2 marks)
- (ii) Ordinary shares. (2 marks)
- (iii) Share premium. (2 marks)
- (iv) Bonus issues. (2 marks)
- (v) Issued share capital. (2 marks)

(b) The following information was extracted from the books of accounts for Uwezo Ltd. during the year ended 30 April 2020:

Particulars	Opening balances	Closing balances
	1 May 2019 (Sh. "000")	30 April 2020 (Sh. "000")
Land and buildings	200,000	180,000
Furniture and fittings	75,000	70,000
Motor vehicles	120,000	100,000
Cash in hand	7,000	21,000
Cash at bank	-	87,000
Accounts receivable	42,000	96,000
Accounts payable	64,000	72,000
Inventories	28,000	18,000
Bank overdraft	78,000	-
Long term loan	50,000	40,000

Additional information:

Drawings made during the financial year amounted to Sh.14,200,000.

Required:

Ascertain the profit for the financial year ended 30 April 2020.

(10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the use of each of the following documents used in business transactions:

- (i) Local purchase order. (2 marks)
- (ii) Debit note. (2 marks)
- (iii) Catalogue. (2 marks)

(b) The following transactions were extracted from the books of Odhiambo Enterprises for month of March 2020:

March 2020:

- 1 Balance brought forward: Cash Sh.26,000, bank Sh.360,000.
- 2 Purchased goods and paid by cheque Sh.48,000.
- 2 Purchased goods on credit from the following; Tom Sh.36,000, Sanny Sh.40,000, Faith Sh.60,000 and Evans Sh.24,000.
- 3 Paid rent by cheque Sh.18,000.
- 4 Paid wages in cash Sh. 7,200,
- 4 Sold goods on credit to Ann Sh.12,000, Biden Sh.16,000, Samuel Sh.20,000 and Wetu Sh.30,000.
- 5 Sold goods in cash Sh.14,000.
- 6 Bought Stationery in Cash Sh.4,500.
- 8 Paid the following suppliers by cheque in each case deducting 5% cash discounts; Tom, Sanny, Faith and Evans.
- 9 Withdrew Sh.22,000 from the bank for business use.
- 10 Cheque received from Peter who had bought some furniture from the business in the month of February 2020 amounting to Sh.36,000 was returned by the bank, stamped insufficient funds.
- 14 The following paid their accounts in cash in each case deducting 2½% cash discount; Ann, Biden, Samuel and Wetu.
- 17 Sold goods in cash to the following: Penina Sh.18,000, Sara, Sh.12,000 and Hezron Sh.15,000.
- 24 Paid wages by cash Sh.12,000.
- 26 Banked Sh.30,000 from the cash till.

Required:

A duly balanced three-column cash book.

(14 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Moses Kivindy as at 31 December 2019:

	Sh. "000"	Sh. "000"
Purchases and sales	293,500	430,000
Carriage inwards	2,100	
Drawings	31,000	
Equipment at cost	150,000	
Accumulated depreciation for equipment (1 January 2019)		35,000
Accounts receivable and accounts payable	5,120	3,600
Bad debts written off	400	
Allowance for doubtful debts		400
Rent	5,200	
Business rates	2,600	
Insurance	550	
Postage	250	
Stationery	986	
Capital		43,353
Inventory (1 January 2019)	6,520	
Cash at bank	3,257	
Cash in hand	120	
Advertising expenses	250	
Wages	10,500	
	<u>512,353</u>	<u>512,353</u>

Additional information:

1. Depreciation on equipment is to be provided at the rate of 10% on cost.
2. The allowance for doubtful debts is to be increased to 10% of the year end balance.
3. Purchases invoices valued at Sh.12,000,000 were discovered in a desk drawer. Half of them have been paid by cheque but no record was in the cash book. The rest are outstanding.
4. Accruals as at 31 December 2019 were as follows:

	Sh. "000"
Rent	150
Business rates	200
Stationery	16

5. Prepayments as at 31 December 2019 were as follows:

	Sh. "000"
Insurance	150
Advertising	50

Required:

(a) Statement of profit or loss for the year ended 31 December 2019.

(12 marks)

(b) Statement of financial position as at 31 December 2019.

(8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Examine five purposes of control accounts.

(5 marks)

(b) The accounts clerk of Mawe Traders extracted the trial balance for the year ended 31 March 2020. It was observed that the total debits exceeded the total credits by Sh.476,000.

Investigations done by the accountant revealed the following:

1. Sh.44,000 received from Juma traders (a debtor) had been debited to his account.
2. A cash purchases of Sh.4,640 had been recorded in the cash book only.
3. A payment by Munene (a debtor) of Sh.300,000 through Electronic Funds Transfer (EFT) direct to the bank had not been entered in the debtors account.
4. Returns outward account had not been credited with an amount of Sh.122,640.
5. Sales had been overcast by Sh.30,000.
6. Credit purchases of Sh.50,000 from a creditor J. Kaka was correctly entered in the purchases account but was credited in the account of J. Kariuki another creditor.

Required:

(i) The necessary journal entries with narrations to correct the above errors.

(12 marks)

(ii) Suspense account duly balanced.

(3 marks)

(Total: 20 marks)

QUESTION FIVE

Pendo and Bora are partners running a retail business. Their partnership deed provides for the following:

- Profit and loss to be shared equally.
- Interest on capital at the rate of 5% per annum.
- Bora to get a salary of Sh.30,000 per month.
- The partners to be adding capital of Sh.500,000 to the fixed capital at the start of every year.

The following trial balance was extracted from the books of the partnership as at 31 December 2019:

	Sh. "000"	Sh. "000"
Purchases and sales	6,500	9,430
Inventory (1 January 2019)	800	
Accounts receivable and accounts payable	1,200	600
Motor vehicle at cost	2,400	
Furniture and fittings at cost	1,400	
Accumulated depreciation (1 January 2019):		
Motor vehicle		960
Furniture and fittings		400
Freehold land	1,000	
Discounts	100	180
Rent and rates	230	
Salaries and wages	1,300	
Bank balance	400	
Capital accounts: Pendo		2,500
Bora		2,000
Current accounts: Pendo		110
Bora		150
Drawings: Pendo	480	
Bora	520	
	<u>16,330</u>	<u>16,330</u>

Additional information:

1. Inventory as at 31 December 2019 was valued at Sh.1,000,000.
2. The trial balance figures above does not include the additional capitals made on 1 January 2019 as per the partnership deed.
3. As at 31 December 2019, rent and rates paid in advance amounted to Sh.30,000.
4. Salaries and wages outstanding as at 31 December 2019 amounted to Sh.200,000.
5. Depreciation was to be provided as follows:

Asset	Rate per annum	Method
Motor vehicle	20%	Straight line
Furniture and fittings	10%	Reducing balance

Required:

- (a) Statement of profit or loss and appropriation account for the year ended 31 December 2019. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 December 2019. (6 marks)

(Total: 20 marks)

.....