



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 30 August 2021.

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) Citing an example in each case, explain the following terms:

- (i) Prepayment. (2 marks)
- (ii) Accrual. (2 marks)

(b) Celia Atieno lost her job after her employer closed shop due to effects of COVID-19 pandemic. With her savings amounting to Sh.950,000 she started a general supplies shop in January 2021. Her transactions for the month were as follows:

- January:
- 1 Started business with Sh.950,000 in cash.
 - 2 Bought goods on credit from Joncy Traders Sh.180,000.
 - 3 Credit sales: Bidii Ltd. Sh.66,000, Swaju Investment Sh.25,000, Swan Ltd. Sh.43,000.
 - 4 Purchased goods in cash Sh.230,000.
 - 5 Bought second-hand motor van for Sh.256,000 paying by cheque.
 - 7 Paid motor expenses Sh.12,000 cash.
 - 9 Credit sales: Paris Traders, Sh.24,000, Calvary Group, Sh.26,000, Finly Ltd. Sh.68,000.
 - 11 Purchased goods on credit: Joncy Traders Sh.240,000, Davincy Ltd. Sh.62,000.
 - 13 Purchases returned to Joncy Traders Sh.25,000.
 - 19 Sales returns from Swaju Investments Sh.11,000.
 - 20 Cash drawings by the proprietor Sh.44,000.
 - 21 Payments made to Davincy Ltd. Sh.62,000 cash.
 - 23 Received payment from Bidii Ltd. Sh.66,000 through a cheque.
 - 25 Received payments from Swan Ltd. Sh.43,000 through a cheque.
 - 28 Purchases returned to Joncy Traders Sh.42,000.
 - 29 Purchased stationery Sh.4,000 paying cash.
 - 30 Credit sales: Swaju Investments Sh.42,000, Calvary Group Sh.54,000.

Required:

- (i) The relevant ledger accounts and close them as at 31 January 2021. (12 marks)
- (ii) Trial balance as at 31 January 2021. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the following terms as used in presentation of accounting information:

- (i) Dual aspect. (2 marks)
- (ii) Materiality. (2 marks)
- (iii) Going concern. (2 marks)

- (b) The following information was extracted from the books of Mworira Traders for the month of June 2021:

Balance as at 1 June 2021	Sh. "000"
Purchases ledger	800 (Credit)
Sales ledger	560 (Debit)

Transactions during the month of April 2021 were as follows:

	Sh. "000"
Payment to suppliers	6,400
Total receipts from customers	12,100
Discount received	520
Discount allowed	490
Purchases: Cash	8,410
Credit	15,200
Sales: Cash	1,300
Credit	17,500
Cash refunded from credit suppliers	60
Returns outward	310
Returns inward	250
Increase in allowance for doubtful debts	35
Bad debts written off	30
Contra settlement	850
Dishonoured cheques (included in receipts)	210
Interest on overdue debts charged to debtors	140
Refund to cash customers	120
Bills receivable	330

Required:

(i) Sales ledger control account as at 30 June 2021. (7 marks)

(ii) Purchases ledger control accounts as at 30 June 2021. (7 marks)

(Total: 20 marks)

QUESTION THREE

The trial balance of Mamboleo Enterprises as at 31 December 2020 failed to balance. The debit balance was Sh.1,724,300 while the total of credit balance was Sh.1,713,200. A suspense account was opened with the difference.

Further investigation revealed the following errors:

1. Computers costing Sh.40,000 had been recorded as a debit entry in the repairs and maintenance account.
2. Total purchases in the period were understated by Sh.20,000 although the total value of creditors was correctly recorded.
3. Bank charges of Sh.400 had been omitted entirely from the ledger.
4. Total telephone expenses were overstated by Sh.28,000.
5. Purchase returns of Sh.1,100 were recorded as a debit entry in the sales returns account, but the correct entry had been made in the trade payables control account.
6. Rental expenses of Sh.10,980 were entered incorrectly as Sh.11,880 in the expense account, but were entered correctly in bank account in the ledger.
7. Credit purchases amounting to Sh.35,000 had been omitted from the books of accounts.

Required:

(i) Journal entries to correct the above errors. (14 marks)

(ii) Suspense account duly balanced. (6 marks)

(Total: 20 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Kamwea Ltd. as at 30 September 2020:

	Sh. "000"	Sh. "000"
Bank balance	800	
Trade receivables	32,100	
Trade payables		23,800
Inventory (1 October 2019)	29,000	
Land and buildings at cost	80,000	
Accumulated depreciation (1 October 2019)		8,000
Equipment at cost	32,000	
Accumulated depreciation (1 October 2019)		9,600
Retained earnings		13,600
General reserves		12,000
Ordinary shares of Sh.100 each		70,000
10% debentures		12,000
Purchases	82,100	
Sales		161,600
Carriage inwards	300	
Carriage outwards	700	
Debenture interest paid	600	
Salaries	38,500	
Business rates	1,500	
Office expenses	900	
Sundry expenses	200	
Directors' remuneration	11,900	
	<u>310,600</u>	<u>310,600</u>

Additional information:

- Inventory as at 30 September 2020 was valued at Sh.31,700,000.
- A half year interest on 10% debentures was outstanding as at 30 September 2020.
- The following information relates to the company as at 30 September 2020:

	Sh. "000"
Accruals: Business rates	200
Office expenses	25

- Depreciation charge should be provided as follows:

Asset	Rate per annum	Method
Land and buildings	5%	Straight-line
Equipment	15%	Straight-line

- The directors have proposed that the ordinary shareholders be paid Sh.5 per share after transferring Sh.1,000,000 to general reserves.
- The tax charged for the year amounted to Sh.10 million. This was outstanding as at 30 September 2020.

Required:

- Statement of profit or loss for the year ended 30 September 2020. (10 marks)
 - Statement of financial position as at 30 September 2020. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Citing five users of accounting information, highlight their interests in such information. (10 marks)
- State five benefits that a firm could derive from acquiring an accounting software. (5 marks)
- Distinguish between "rights issues" and "bonus issues". (2 marks)
- Explain three types of reserves associated with company accounts. (3 marks)

(Total: 20 marks)

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