



kasneb

ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 27 November 2017.

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) Highlight four source documents used in accounting. (4 marks)

(b) Describe three external users of accounting information indicating the information needs for each user. (6 marks)

(c) Discuss five disadvantages of a sole proprietorship as a form of business. (10 marks)

(Total: 20 marks)

QUESTION TWO

The accountant of Twende Kazi Ltd. discovered that the statement of financial position for the company did not balance. He put the difference in a suspense account. The following is the statement of financial position of Twende Kazi Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"	Sh. "000"
Non-current assets:			Net book value
Premises			36,000
Equipment			15,600
Motor vehicles			<u>12,540</u>
			64,140
Current assets:			
Inventory (30 September 2017)		26,826	
Accounts receivable	14,277		
Allowance for doubtful debts	(1,392)	12,885	
Prepayments		858	
Bank and cash balance		<u>6,540</u>	47,109
Current liabilities:			
Accounts payable		15,048	
Accruals		<u>768</u>	(15,816)
			95,433
Suspense account			<u>(9,789)</u>
			<u>85,644</u>
Financed by:			
Ordinary share capital			84,000
Revenue reserve			<u>1,644</u>
			<u>85,644</u>

After thorough scrutiny of the books of account, the following errors were discovered:

- Discounts received of Sh.792,000 had been debited to the discounts allowed account.
- The sales account had been undercast by Sh.6,000,000.
- The purchase returns daybook had been correctly entered and totalled at Sh.3,696,000 but had not been posted to the ledger.
- A credit sale of Sh.882,000 had been debited to a customer's account as Sh.1,287,000.
- A motor vehicle bought at a cost of Sh.4,200,000 four years ago has been sold at Sh.1,800,000. No entries other than in the bank account had been passed through the books. The motor vehicle was depreciated at a rate of 20% per annum on a straight-line basis on a residual value of Sh.600,000.

6. Accrued electricity expenses of Sh.336,000 had been omitted.
 7. A bad debt of Sh.936,000 had not been written off and allowance for doubtful debts is to be maintained at a rate of 10% of the accounts receivable.

Required:

- (a) Suspense account duly balanced. (3 marks)
 (b) Statement of adjustments to show the correct net profit for the year ended 30 September 2017. (9 marks)
 (c) Corrected statement of financial position as at 30 September 2017. (8 marks)
(Total: 20 marks)

QUESTION THREE

Alex, Brian and Charles are in partnership sharing profit and losses in the ratio 3:2:1 respectively. Their partnership agreement provides as follows:

- Charles is entitled to an annual salary of Sh.2,700,000.
- Interest is to be allowed on capital at the rate of 10% per annum.
- Alex and Brian guaranteed that the total income of Charles from the firm shall not be less than Sh.15,000,000.

The partnership's trial balance as at 30 June 2017 is as follows:

	Sh. "000"	Sh. "000"
Capital accounts:		
Alex		90,000
Brian		60,000
Charles		30,000
Current accounts:		
Alex		9,000
Brian		6,000
Charles	1,500	
Drawings:		
Alex	22,320	
Brian	14,880	
Charles	6,000	
Inventory as at 30 June 2017	36,000	
Gross profit		288,000
Premises at cost ✓	63,000	
Motor vehicles at cost ✓	60,000	
Equipment at cost ✓	90,000	
Accumulated depreciation (1 July 2016):		
Motor vehicles		12,000
Equipment		9,000
Rent	39,000	
Salaries and wages	72,000	
Water and electricity	9,900	
Office expenses	12,000	
Distribution expenses	58,500	
Bad debts	3,000	
Allowance for doubtful debts		1,350
Accounts receivable and accounts payable	33,000	27,150
Cash and bank balances	11,400	
	<u>532,500</u>	<u>532,500</u>

Additional information:

- As at 30 June 2017, accrued distribution expenses amounted to Sh.1,500,000 while rent paid in advance was Sh.3,000,000.
- Depreciation is provided as follows:

Asset	Rate per annum	Method
Motor vehicles	20%	Straight line ✓
Equipment	10%	Reducing balance ✓
- Allowance for doubtful debts is to be increased to 5% of the accounts receivable.

Required:

- (a) Income statement and appropriation account for the year ended 30 June 2017. (9 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 30 June 2017. (7 marks)

(Total: 20 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Jenga Taifa Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"
Purchases and sales	516,000	955,000
Carriage inwards	14,500	
Carriage outwards	34,000	
Discounts allowed and discounts received	14,000	36,500
Salaries and wages	73,000	
General expenses	22,000	
Rent and rates	45,000	
Electricity and water	23,500	
Insurance	10,500	
Selling expenses	21,250	
Director's fees	52,500	
Repairs and maintenance	8,750	
Interim dividend paid	15,000	
Fixtures and fittings at cost	102,000	
Motor vehicles at cost	61,000	
Accumulated depreciation (1 October 2016)		
Fixtures and fittings		16,500
Motor vehicles		25,500
Ordinary shares (Sh.10 par value)		150,000
Share premium		37,500
Revenue reserve (1 October 2016)		53,500
General reserve		25,000
Inventory (1 October 2016)	157,500	
Trade receivables and trade payables	230,000	80,000
Bank overdraft		21,000
	<u>1,400,500</u>	<u>1,400,500</u>

Additional information:

1. Inventory as at 30 September 2017 was valued at Sh.182,000,000.
2. An allowance for doubtful debts is to be made at a rate of 2.5% of the trade receivables balance.
3. Prepayments and accruals as at 30 September 2017 were as follows:

	Prepayment Sh. "000"	Accrual Sh. "000"
Salaries and wages		3,000
Insurance	2,000	
Selling expenses		500
Auditor's fees		7,000

4. Depreciation is to be charged as follows:

Asset	Rate per annum	Method
Fixtures and fittings	10%	Straight line
Motor vehicles	25%	Reducing balance

5. Corporation tax is to be charged at a rate of 30% of the reported profit for the year.
6. The directors have proposed the following:

- A final dividend of Sh.3 per share be paid.
- A transfer of Sh. 12,500,000 to the general reserve.

$\frac{16500}{10} = 1650$
 $\frac{25,500}{25} = 1020$

(12 marks)

Required:

- (a) Income statement for the year ended 30 September 2017. (8 marks)
- (b) Statement of financial position as at 30 September 2017.

(Total: 20 marks)
AD11 Page 3
Out of 4

QUESTION FIVE

(a) The following transactions relate to the business of Jayden Kibe for the month of October 2017:

Date	Details	Sh. "000"
October 1	Balance brought forward	
	- Cash	400
	- Bank overdraft	20,650
3	Introduced additional capital by cheque	15,000
8	Bought equipment by cheque	3,000
10	Cash sales	17,500
14	Withdrew cash from bank for office use	5,000
16	Paid salaries by cash	4,500
18	Bought a motor vehicle by cheque	25,000
25	Receipt from customers by cheques. The accounts have a 5% cash discount:	
	- Bilha Ltd.	19,000 - 1,100 = 17,900
	- R and R Merchants Ltd.	850 - 42.50 = 807.50
	- Cool Baby Ltd.	18,000 - 900 = 17,100
28	Payment to creditors by cheques, having deducted 10% cash discounts:	
	- Zuri Ltd.	27,000 - 3,000 = 24,000
	- Pamba Ltd.	1,350 - 150 = 1,200
30	Paid rent in cash	300
30	Banked all cash in hand except Sh.250,000	

Required:

Three column cash book duly balanced on 31 October 2017.

(10 marks)

(b) Dora Johari started her transport business on 1 July 2015. She purchased the following vehicles on the same day:

- KZ 414A - Pickup at Sh.4,500,000.
- KB 410C - Lorry at Sh.6,000,000.
- KD 300B - Lorry at Sh.15,000,000.

Year 2016:

- 1 January - KL 330A - Pickup at Sh.3,600,000.
- 30 June - KE 111B - Lorry at Sh.12,000,000.
- 30 September - KG 200A - Lorry at Sh.18,000,000.

Year 2017:

- Disposed KZ 414A for Sh.3,600,000 cash on 1 March.
- Disposed KL 330A for Sh.2,250,000 cash on 1 July.
- Traded-in KB 410C with KH 275D costing Sh.7,500,000. The dealer requested Dora Johari to pay an additional Sh.3,000,000 in cash. The trade-in transaction was completed on 30 June 2017.
- Dora Johari provides depreciation at the rate of 20% per annum on cost on a pro-rata basis.

Required:

For each of the years ending 30 June 2016 and 30 June 2017, prepare:

(i) Motor vehicles provision for depreciation account.

$$\frac{3,600,000}{20} \times 2 = 360,000$$

(6 marks)

(ii) Motor vehicles disposal account.

$$\frac{6,000,000}{20} \times 2 = 600,000$$

(4 marks)

(Total: 20 marks)