



kasneb

ATD LEVEL I
INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 21 May 2018.

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) Discuss four limitations of financial accounting information. (8 marks)

(b) The following balances were extracted from the books of Jembe Ltd. for the month of April 2018:

Sh. "000"

Balances as at 1 April 2018:

Trade receivables ledger	
- Debit	420,000
- Credit	1,484
Trade payables ledger	
- Credit	240,100
- Debit	1,708

Transactions during the month:

Dishonoured cheques from credit customers	13,230
Cash receipts from credit customers	205,170
Refund to customers for overpayments	1,470
Contra settlements	87,850
Discounts received	45,780
Payments to creditors by cheque	996,520
Discounts allowed	50,645
Receipts from customers by cheque	830,235
Allowance from suppliers	16,912
Credit purchases	1,085,098
Cash purchases	74,270
Credit sales	1,318,100
Cash sales	107,870

Balances as at 30 April 2018:

Trade receivables ledger (credit)	2,205
Trade payables ledger (debit)	770

Required:

(i) Trade receivables control account for the month ended 30 April 2018. (7 marks)

(ii) Trade payables control account for the month ended 30 April 2018. (5 marks)

(Total: 20 marks)

QUESTION TWO

(a) Twende Ltd. has an authorised share capital of Sh.10,000,000 divided into 500,000 ordinary shares of Sh.20 each. On 1 April 2018, the directors invited interested members of the public to apply for the purchase of shares at par. The closing date for application was 15 April 2018. Applications were received for 600,000 ordinary shares and paid in full. The allotment was made on 20 April 2018 and excess application money refunded.

Required:

(i) Journal entries, including narrations, to record the above transactions. (6 marks)

(ii) Ledger accounts to record the above transactions. (4 marks)

- (b) The accountant of Biomark Limited balanced the cash book on 31 December 2017. He obtained a debit balance of Sh.4,488,000 in the bank column. He obtained the bank statement on the same date which showed a balance of Sh.3,069,600.

On further examination of the books, the following differences were discovered:

1. A standing order for the purchase of equipment on credit of Sh.768,000 was in the bank statement and not the cash book.
2. Cheques totalling Sh.616,800 had been entered in the cash book, but had not been presented to the bank by 31 December 2017.
3. Bank charges amounting to Sh.48,000 had not been recorded in the cash book.
4. Cheques totalling Sh.1,881,600 had been entered in the cash book and deposited in the bank, but not yet credited into the account as at 31 December 2017.
5. A dividend receipt of Sh.672,000 was deposited directly into the bank account. There is no record of this deposit in the cash book.
6. The bank charged Sh.9,600 for a new cheque book. This was not recorded in the cash book.

Required:

- (i) The updated cash book as at 31 December 2017. (6 marks)
 - (ii) Bank reconciliation statement as at 31 December 2017. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

The following trial balance was extracted from the books of Ray Mrefu on 31 December 2017:

	Sh. "000"	Sh. "000"
Freehold property at cost	600,000	
Equipment at cost	540,000	
Motor vehicles at cost	420,000	
Accumulated depreciation (1 January 2017)		
- Equipment		54,000
- Motor vehicles		84,000
Purchases and sales	936,000	1,575,000
Trade receivables and trade payables	120,000	90,000
Returns inward and returns outward	15,000	6,000
Carriage inwards	3,000	
Carriage outwards	24,000	
Salaries and wages	210,000	
Electricity and water	144,000	
Rates and insurance	66,000	
Sales and distribution expenses	360,000	
Bad debts	30,000	
Allowance for doubtful debts (1 January 2017)		9,000
Capital account		1,500,000
Drawings	51,000	
Inventory (1 January 2017)	114,000	
Bank balance	45,000	
Rent received		360,000
	<u>3,678,000</u>	<u>3,678,000</u>

Additional information:

1. Inventory as at 31 December 2017 was valued at Sh.120,000,000.
2. Accrued electricity expenses as at 31 December 2017 amounted to Sh.6,000,000.
3. Insurance prepaid as at 31 December 2017 amounted to Sh.18,000,000.
4. Rent receivable outstanding as at 31 December 2017 amounted to Sh.60,000,000.
5. Goods costing Sh.12,000,000 were destroyed by fire during the year. The insurance company has accepted a claim for Sh.9,000,000 only. No record was made for this transaction.
6. Allowance for doubtful debts is to be maintained at a rate of 5% per annum of the trade receivables.

7.	Depreciation is to be provided as follows:		
	Asset	Rate per annum (%)	Method
	Equipment	10	Reducing balance
	Motor vehicles	20	Straight line

Required:

- (a) Income statement for the year ended 31 December 2017. (12 marks)
- (b) Statement of financial position as at 31 December 2017. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

Rachel and Violet are in partnership trading under the name Ravi Traders. The following is the partnership's trial balance as at 31 March 2018:

	Sh. "000"	Sh. "000"
Capital account:		
Rachel		25,000
Violet		20,000
Current account:		
Rachel		424
Violet	127	
Drawings:		
Rachel	3,600	
Violet	4,200	
Land at cost	12,000	
Buildings at cost	30,000	
Provision for depreciation on buildings		6,000
Motor vehicles at cost	18,000	
Provision for depreciation on motor vehicles		4,500
Fixtures and fittings	4,200	
Provision for depreciation on fixtures and fittings		1,250
Trade receivables and trade payables	9,200	3,600
Inventory (1 April 2017)	7,000	
Purchases and sales	39,300	70,808
Distribution expenses	920	
Discounts allowed	340	
Loan interest	840	
Office expenses	570	
Salaries and wages	6,700	
Bad debts	185	
12% bank loan		7,000
Cash in hand	1,400	
	<u>138,582</u>	<u>138,582</u>

Additional information:

- Inventory as at 31 March 2018 was valued at Sh.120,000,000.
- Allowance for doubtful debts is to be provided at the rate of 2.5% per annum of the outstanding trade receivables at the end of the year.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Buildings	2.5	Cost
Motor vehicles	15	Cost
Fixtures and fittings	10	Reducing balance
- The partnership deed provided the following:
 - Violet to receive a salary of Sh.3,000,000 per annum.
 - Interest be charged on drawings at the rate of 10% per annum.
 - Interest be allowed on capital balance at the rate of 5% per annum.
 - Rachel and Violet to share profit and losses in the ratio 3:2 respectively.

Required:

- (a) Income statement and appropriation account for the year ended 31 March 2018. (10 marks)
 - (b) Partners' current accounts as at 31 March 2018. (4 marks)
 - (c) Statement of financial position as at 31 March 2018. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Analyse three errors that might not affect the balancing of a trial balance. (6 marks)
- (b) The trial balance of Yellow Sun Ltd. failed to agree on 31 March 2018. The debit side exceeded the credit side by Sh.360,000. After thorough scrutiny, the following errors were discovered:
 - 1. The total of discount received column in the cash book had been overcast by Sh.180,000.
 - 2. The return of goods worth Sh.120,000 from Zaituni, a debtor, had been credited in Zaituni's account and debited to purchases account.
 - 3. A page of the purchases journal had been undercast by Sh.360,000.
 - 4. The return of goods worth Sh.460,000 to Muindi, a supplier, had been completely omitted from the books of accounts.
 - 5. A total in one of the pages of the sales journal has been carried forward as Sh.980,000 instead of Sh.1,880,000.

Required:

- (i) Journal entry to correct the above errors. (Narrations not required). (5 marks)
 - (ii) Suspense account duly balanced. (3 marks)
 - (iii) Corrected income statement for the year ended 31 March 2018. The net profit before correction was Sh.1,540,000. (6 marks)
- (Total: 20 marks)**
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