

KASNEB

ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 21 November 2016.

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) Explain the term "accounting policy". (2 marks)
- (b) The trial balance of SBE Ltd. failed to agree as at 30 September 2016. After a thorough scrutiny of the accounts, the following errors were discovered:
1. Sales journal had been undercast by Sh.200,000.
 2. A total of Sh.4,000 from the return inwards journal was posted to the credit side of the return outwards account.
 3. A customer's personal account had been correctly credited with discount allowed of Sh.120,000 but no corresponding entry was made.
 4. Purchases journal had been overcast by Sh.180,000.
 5. A receipt of cash amounting to Sh.30,000 from JJ Enterprises had been credited in the cash book and debited in JJ enterprises' account.
 6. Credit sales of Sh.800,000 to Ox Ltd. were debited to Oxtail Ltd's account.

Required:

- (i) Journal entries to correct the above errors. (6 marks)
(No narrations required)
- (ii) Suspense account duly balanced showing the original difference in the trial balance. (6 marks)
- (iii) Corrected income statement for the year ended 30 September 2016. The net profit before correction was Sh.348,000.

(6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following accounting concepts:
- (i) Faithful representation. (2 marks)
 - (ii) Comparability. (2 marks)
 - (iii) Relevance. (2 marks)
- (b) The following balances were extracted from the books of Rain and Shine Ltd. for the month of September 2016:

	Sh.
	"000"
Balance as at 1 September 2016:	
Trade receivables ledger	
- Debit	51,000
- Credit	2,050
Trade payables ledger	
- Credit	30,750
- Debit	600
Transactions during the month:	
Discounts allowed	4,110
Refund to customer for overpayments	330
Cash receipts from credit customers	33,750
Bill of exchange receivable	20,800
Contra settlement	19,240
Payment to creditors by cheques	80,575
Discounts received	10,900
Credit sales	241,500

Receipt from customers by cheques	106,550
Purchases on credit	135,000
Customers' dishonoured cheques	3,075
Balance as at 30 September 2016:	
Trade receivables ledger (credit)	1,050
Trade payables ledger (debit)	435

Required:

- (i) Accounts receivable control account for the month ended 30 September 2016. (9 marks)
- (ii) Accounts payable control account for the month ended 30 September 2016. (5 marks)

(Total: 20 marks)

QUESTION THREE

The following information was extracted from the books of Berry Ltd. as at 30 June 2016:

	Sh."000"	Sh."000"
Issued and fully paid capital:		
Ordinary shares of Sh.10 each		40,000
10% preference shares of Sh.10 each		20,000
Share premium		22,000
Revaluation reserve		26,000
General reserve		14,000
Retained earnings		28,000
10% debentures		12,000
Sales		196,000
Accounts receivable and accounts payable	10,000	6,200
Inventory (30 June 2016)	10,400	
Cost of sales	117,600	
Freehold land and buildings (Land cost Sh.20,000,000)	140,000	
Motor vehicles at cost	40,000	
Equipment at cost	25,000	
Accumulated depreciation (1 July 2015):		
- Buildings		2,400
- Motor vehicles		8,000
- Equipment		5,000
Administrative expenses	13,800	
Sales and distribution costs	10,400	
Interest on debentures	600	
Discount received		1,600
Bank balance	12,000	
Cash in hand	2,000	
Allowance for doubtful debts (1 July 2015)		600
	<u>381,800</u>	<u>381,800</u>

Additional information:

- Accrued administrative expenses as at 30 June 2016 amounted to Sh.200,000.
- Sales and distribution cost prepaid as at 30 June 2016 amounted to Sh.400,000.
- Allowance for doubtful debts is to be increased by Sh.400,000.
- Corporate tax is estimated at Sh.12,000,000.
- A half of the annual interest on debentures was outstanding as at 30 June 2016.
- Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Buildings	2%	Straight line
Motor vehicles	20%	Straight line
Equipment	20%	Reducing balance

7. The directors have proposed the following:

- A dividend be paid to preference shareholders.
- A dividend of Sh.1.60 per share to the ordinary shareholders after transfer of Sh.2,000,000 to the general reserve.

Required;

- (a) Income statement for the year ended 30 June 2016. (12 marks)
- (b) Statement of financial position as at 30 June 2016. (8 marks)

(Total: 20 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Jessica Pendo as at 31 October 2016:

	Sh. "000"	Sh. "000"
Motor vehicle at cost	16,950	
Equipment at cost	20,010	
Furniture and fittings at cost	2,400	
Inventory as at 1 November 2015	217,230	
Accounts receivable and accounts payable	114,300	76,900
Accumulated depreciation as at 1 November 2015:		
- Motor vehicle		3,390
- Equipment		4,002
- Furniture and fittings		240
Capital		143,393
Drawings	85,800	
Cash at bank	13,260	
Cash in hand	336	
Returns inward and returns outward	6,330	3,720
Carriage inwards	2,280	
Carriage outwards	8,550	
Sundry expenses	648	
Office expenses	2,235	
Insurance	2,976	
Wages and salaries	117,000	
Rent	24,600	
Telephone expenses	2,040	
Motor vehicle expenses	4,470	
Purchases and sales	<u>764,430</u>	<u>1,174,200</u>
	<u>1,405,845</u>	<u>1,405,845</u>

Additional information:

- Inventory as at 31 October 2016 was Sh.268,212,000.
- A customer who owed Jessica Pendo Sh.2,300,000 was declared bankrupt.
- An allowance for doubtful debts of 2% is to be created.
- The assets are depreciated on a straight line basis at the following rates per annum:

Motor vehicles	25%
Equipment	20%
Furniture and fittings	10%

- Insurance prepaid as at 31 October 2016 was Sh.576,000.
- Wages and salaries accruing as at 31 October 2016 was Sh.3,000,000.

Required:

- Income statement for the year ended 31 October 2016. (12 marks)
- Statement of financial position as at 31 October 2016. (8 marks)

(Total: 20 marks)

QUESTION FIVE

- Describe five characteristics of partnerships. (10 marks)
- James Nzuri balances his cash book at the end of every month and compares it with his bank statement for reconciliation. On 31 October 2016, the balances did not agree. The cash book bank column showed an overdraft of Sh.1,496,000. The debit balance on the bank statement as at 31 October 2016 was Sh.3,061,600.

After inspecting his books, James Nzuri discovered the following issues:

- Cheques totalling to Sh.784,000 had been entered in the cash book, but the cheques had not been presented to the bank as at 31 October 2016.
- Payment for goods worth Sh.30,240 from debtors through electronic funds transfer (EFT) had not been entered in the cash book.

3. A standing order for a credit purchase of a motor vehicle of Sh.71,200 was processed through the bank on 27 October 2016, but had not been entered in the cash book.
4. Bank charges of Sh.12,000 were included in the bank statement but had not been recorded in the cash book.
5. A cheque payment to a supplier for Sh.200,320 was incorrectly entered in the cash book as a receipt.
6. A cheque for Sh.16,000 received from a debtor and deposited with the bank was returned stamped "Account closed".
7. Cheques received and entered in the cash book but not yet credited in the bank amounted to Sh.1,880,000.

Required:

- (i) Updated cash book as at 31 October 2016. (7 marks)
 - (ii) Bank reconciliation statement as at 31 October 2016. (3 marks)
- (Total: 20 marks)**
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