

KASNEB

ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 23 May 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

The following balances were extracted from the books of Jane Wande, a sole proprietor, on 31 March 2016:

	Sh. "000"	Sh. "000"
Sales		942,330
Purchases	720,000	
Carriage inwards	10,000	
Drawings	35,000	
Rent	15,000	
Rates	8,000	
Insurance	800	
Postage and telephone	450	
Stationery	1,210	
Sales promotion	400	
Salaries and wages	24,000	
Bad debts written off	600	
Allowance for doubtful debts (1 April 2015)		720
Accounts receivable	12,800	
Accounts payable		6,800
Cash in hand	140	
Cash at bank	7,400	
Inventory (1 April 2015)	14,350	
Motor vehicle (cost)	280,000	
Accumulated depreciation (1 April 2015)		112,000
Capital		<u>68,300</u>
	<u>1,130,150</u>	<u>1,130,150</u>

Additional Information:

- Inventory as at 31 March 2016 was valued at Sh.16,250,000.
- The following expenses were prepaid as at 31 March 2016:

	Sh.
• Sales promotion expenses	80,000
• Insurance	180,000
- The following expenses were outstanding as at 31 March 2016:

	Sh.
• Stationery	190,000
• Rent	300,000
• Rates	200,000
- Allowance for doubtful debts is to be increased to Sh.800,000.
- Included in the purchases is the purchase of equipment and office computers worth Sh.120,000,000.
- Depreciation is to be charged on cost as follows:

Motor vehicle	15%
Equipment and computers	10%

Required:

- Income statement for the year ended 31 March 2016. (12 marks)
 - Statement of financial position as at 31 March 2016. (8 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Explain four qualities of a good accounting package applicable to a medium sized business enterprise today. (8 marks)
- (b) John Wambua maintains his petty cash on the imprest system. The petty cash amount was set at Sh.80,000 per month for the year 2016. On 1 February 2016, the opening balance brought forward was Sh.18,500.

The following transactions took place during the month of February 2016:

February	1	:	Withdrew cash from the bank to restore the imprest.
	3	:	Postage stamps Sh.4,500.
	4	:	Bus fare reimbursed Sh.2,800.
	6	:	Petrol Sh.2,500.
	8	:	Stationery Sh.8,600.
	10	:	Postage stamps Sh.3,500.
	12	:	Bus fare reimbursed Sh.4,600.
	14	:	Newspapers for 2 weeks Sh.2,800.
	16	:	Petrol for motor cycle (used by messenger) Sh.3,000.
	18	:	Periodicals for the office Sh.2,500.
	20	:	Airtime for cellphone Sh.4,200.
	21	:	Internet charges Sh.3,800.
	22	:	Bus fare reimbursed to a staff member Sh.2,500.
	23	:	Petrol for motor cycle Sh.2,500.
	24	:	Office parcel sending charges Sh.2,200.
	26	:	Airtime and internet charges Sh.10,200.

Required:

Petty cash book showing the cash in hand as at 29 February 2016 and the amount of cash to be drawn from the bank to restore the imprest.

(12 marks)

(Total: 20 marks)

QUESTION THREE

The trial balance of John Tabu on 31 March 2016 was as follows:

	Sh. "000"	Sh. "000"
Capital		50,000
Motor vehicles	8,000	
Equipment	10,300	
Inventory (1 April 2015)	12,000	
Purchases and sales	169,000	270,000
Land and building	70,000	
Accounts receivable and accounts payable	28,000	32,000
Discounts allowed and discounts received	600	1,250
Wages and salaries	37,000	
Returns inward and returns outward	150	200
Drawings	700	
Insurance	800	
General expenses	2,800	
Bank	12,000	
Suspense account	2,100	
	<u>353,450</u>	<u>353,450</u>

Additional information:

- Closing inventory was valued at Sh.14,000,000.
- After a thorough scrutiny the following errors were discovered:
 - Sales were undercast by Sh.10,000,000.
 - Discount allowed was overcast by Sh.100,000.
 - Returns inwards credited to returns outward account was Sh.100,000.
 - Purchases were undercast by Sh.5,000,000.
 - Accounts payable were overcast by Sh.7,000,000.
 - Bank charges omitted from the books amounted to Sh.500,000.

Required:

- (a) Journal entry to correct the above errors (narration not required).

(6 marks)

- (b) Suspense account duly balanced. (4 marks)
- (c) Income statement for the year ended 31 March 2016. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

Mark and Luke are in partnership sharing profits and losses in the ratio of 2:1 respectively. The following is their trial balance as at 31 March 2016:

	Sh. "000"	Sh. "000"
Capital accounts:		
Mark		45,000
Luke		30,000
Current accounts:		
Mark		5,000
Luke		2,000
Freehold property at cost	87,600	
Equipment at cost	10,000	
Motor vehicles at cost	28,000	
Accumulated depreciation (30 March 2015):		
Equipment		2,000
Motor vehicles		7,000
Inventory (1 April 2015)	12,000	
Purchases	270,000	
Sales		360,000
Staff salaries	18,000	
Administrative expenses	65,040	
Sales and distribution cost	43,360	
Accounts receivable and accounts payables	14,000	8,000
Bank overdraft		25,000
Cash in hand	5,000	
Drawings accounts:		
Mark	6,000	
Luke	3,000	
Rent received		<u>78,000</u>
	<u>562,000</u>	<u>562,000</u>

Additional information:

1. Closing inventory was valued at Sh.15,000,000.
2. Rent income received in advance amounted to Sh.6,000,000.
3. Partner's salary totalling Sh.3,000,000 has been debited to staff salaries and credited to Mark's current account.
4. Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Equipment	20%	Reducing balance
Motor vehicles	25%	Straight line
5. Partnership agreement also provides the following:
 - Interest shall be charged on drawings at the rate of 5% per annum.
 - Interest shall be allowed on capital at the rate of 10% per annum.
 - Mark shall be entitled to an annual salary of Sh.3,000,000.

Required:

- (a) Income statement and appropriation account for the year ended 31 March 2016. (10 marks)
- (b) Partners current account. (4 marks)
- (c) Statement of financial position as at 31 March 2016. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain four qualities that good accounting information should possess in order to be useful to the users. (8 marks)

(b) Describe the following types of reserves:

- (i) Capital reserves. (3 marks)
- (ii) Revenue reserves. (3 marks)
- (iii) Revaluation reserves. (3 marks)
- (iv) Share premium. (3 marks)

(Total: 20 marks)

.....