



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 20 May 2019.

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) Enumerate four objectives of financial accounting. (4 marks)
- (b) Highlight four advantages of preparing a trial balance. (4 marks)
- (c) Discuss four qualities of useful accounting information. (12 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) John and Ken are in partnership sharing profits and losses equally.

The following list of balances were extracted from their books of account as at 31 December 2018:

	Sh. "000"
Freehold property at cost	40,000
Motor vehicles at cost	8,000
Equipment at cost	6,000
Accumulated depreciation (1 January 2018):	
- Motor vehicles	2,000
- Equipment	1,200
Accounts receivable	10,000
Accounts payable	6,000
Bank balance (debit)	2,400
Carriage outwards	5,560
Salaries and wages	8,840
Purchases	66,600
Inventory (1 January 2018)	8,000
Returns inward	1,600
Cash drawings:	
John	4,000
Ken	2,000
Current accounts:	
John (credit)	8,000
Ken (credit)	6,000
Capital accounts:	
John	24,000
Ken	18,000

**Additional information:**

1. The salaries and wages outstanding as at 31 December 2018 amounted to Sh.200,000.
2. The carriage outwards paid in advance as at 31 December 2018 amounted to Sh.160,000.
3. The partnership agreement provides for the following:
  - Interest will be allowed on the fixed capital at the rate of 10% per annum.
  - John is entitled to an annual salary of Sh.2,400,000.
  - Interest shall be charged on cash drawings at the rate of 10% per annum.
4. Sales per month which accrued evenly throughout the year were Sh.8,150,000.
5. Inventory as at 31 December 2018 was valued at Sh.10,000,000.

6. During the year, partners took goods for personal use amounting to Sh.2,400,000 and Sh.1,600,000 for John and Ken respectively.
7. Depreciation is to be provided for as follows:

Asset	Rate per annum	Method
Motor vehicles	25%	Straight line
Equipment	20%	Reducing balance

**Required:**

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

**QUESTION THREE**

The following trial balance was extracted from the books of Alibeba Traders on 31 March 2019:

	Sh. "000"	Sh. "000"
Freehold property at cost	80,000	
Accounts receivable and accounts payable	32,000	38,000
Discounts allowed and discounts received	1,000	1,500
Wages and salaries	42,200	
Returns inward and returns outward	210	350
Drawings	600	
Insurance	900	
General expenses	1,800	
Bank balance	14,500	
Suspense account	4,200	
Purchases and sales	182,000	290,650
Inventory (1 April 2018)	14,000	
Bank charges	90	
Equipment	16,400	
Motor vehicle	10,600	
Capital		70,000
	400,500	400,500

**Additional information:**

1. Inventory as at 31 March 2019 was valued at Sh.16,500,000.
2. After a thorough scrutiny, the following errors were discovered:
  - (i) Purchases of office equipment for Sh.2,600,000 was entered in the purchases account.
  - (ii) Bank charges omitted from the books amounted to Sh.910,000.
  - (iii) Sales were undercast by Sh.20,000,000.
  - (iv) Discounts allowed were overcast by Sh.200,000.
  - (v) Returns inward credited to returns outward account amounted to Sh.200,000.
  - (vi) Purchases were undercast by Sh.10,000,000.
  - (vii) Accounts payable were overcast by Sh.14,000,000.

**Required:**

- (a) Journal entry to correct the above errors. (narrations not required). (6 marks)
- (b) Suspense account duly balanced. (4 marks)
- (c) Income statement for the year ended 31 March 2019. (10 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

The following balances were extracted from the books of Mzalendo Ltd. as at 31 December 2018:

	Debit Sh."000"	Credit Sh."000"
Trade receivables and trade payables	4,500	3,960
General reserves (1 January 2018)		3,800
Gross profit for the period		9,500
Inventories (31 December 2018)	3,200	
Ordinary share capital		7,000
10% preference capital		2,000
Bad debts written off	120	
Salaries and wages	2,940	
Furniture and fittings (cost Sh.7 million)	5,600	
Land at cost	13,695	
Revenue reserves (1 January 2018)		2,100
Directors fees	900	
Cash balance	150	
12% debentures		3,000
Discounts allowed and discounts received	170	85
Allowance for doubtful debts		400
Debenture interest paid	300	
Rental income		800
Interim preference dividends paid	180	
Interim ordinary dividends paid	130	
Corporation tax paid	410	
Prepaid directors fees	150	
Accrued rental income	200	
	<u>32,645</u>	<u>32,645</u>

#### Additional information:

1. Provisions as at 31 December 2018 are to be made as follows:
  - Audit fees Sh.360,000.
  - Outstanding debenture interest.
2. Included in the salaries and wages is Sh.140,000 which relates to the month of January 2019.
3. Allowances for doubtful debts are to be made at 10% of net trade receivables.
4. Furniture and fittings are to be depreciated at 10% per annum on the net book values.
5. The directors have recommended that:
  - Sh.700,000 be transferred to general reserves.
  - Outstanding preference dividends and a 5% ordinary dividend be paid for the whole year.

#### Required:

- (a) Income statement for the year ended 31 December 2018. (12 marks)
- (b) Statement of financial position as at 31 December 2018. (8 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

- (a) Highlight four reasons why it is important to make a provision for depreciation on non-current assets. (4 marks)
- (b) Onyango is the proprietor of a private college and makes most of his payments and receipts through the bank.  
The tuition fees is directly deposited in the bank or by use of cheques.

The summary of the cash book (bank column) for the month of April 2019 was provided by the accountant as follows:

Cash book (bank column)			
	Sh."000"		Sh."000"
Balance b/d	2,000	Total payments	66,900
Total receipts	53,640	Fees refunds	60
Balance c/d	<u>11,320</u>		
	<u>66,960</u>		<u>66,960</u>

A thorough scrutiny of the records revealed the following:

1. The opening balance in the bank account shown above was understated by Sh.100,000.
2. A standing order of Sh.534,000 in respect of purchase of a college bus was processed through the bank on 27 April 2019 but had not been entered in the accounting records.
3. Cheques totalling Sh.14,100,000 had been entered in the cash book on 28 April 2019 and paid into the bank on the same day but had not been credited as a receipt in the bank statement.
4. A cheque received for hiring out college premises for a youth seminar during the holidays of Sh.226,800 paid into the bank had not been entered in the cash book.
5. Unpresented cheques as at 30 April 2019 were as follows:

Cheque number	Amount (Sh.)	Date issued
4863	1,470,000	10 April 2019
4848	1,200,000	15 April 2019
4872	2,150,000	19 April 2019
4884	1,060,000	29 April 2019
6. The balance on the bank statement as at 30 April 2019 was an overdraft of Sh.22,962,000.
7. A cheque payment to a supplier for Sh.1,502,400 was incorrectly entered in the accounting records as a receipt.
8. Bank charges included in the bank statement but not in the cash book amounted to Sh.210,000.

**Required:**

- (i) Updated cash book as at 30 April 2019. (8 marks)
  - (ii) Bank reconciliation statement as at 30 April 2019. (8 marks)
- (Total: 20 marks)**
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