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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 17 May 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL workings.

QUESTION ONE

The following trial balance was extracted from the books of Farida Enterprises as at 30 September 2020:

	Sh. "000"	Sh. "000"
Capital account		12,300
Trade receivables and trade payables	4,000	1,600
Purchases and sales	24,400	36,600
Returns inward and returns outward	600	400
Discount allowed and discount received	300	400
Inventory (1 October 2019):	3,000	
Rates and insurance	3,000	
Allowances for doubtful debts		300
Rent received		1,000
Bad debts written off	600	
Staff salaries and wages	4,000	
Carriage inwards	200	
Carriage outwards	700	
Electricity and water	1,500	
Motor vehicles at cost	4,800	
Equipment at cost	2,000	
Accumulated depreciation (1 October 2019):		
• Motor vehicles		1,200
• Equipment		400
Bank balance	<u>5,100</u>	<u>54,200</u>
	<u>54,200</u>	<u>54,200</u>

Additional information:

1. Inventory as at 30 September 2020 amounted to Sh.3,600,000.
2. As at 30 September 2020, insurance paid in advance amounted to Sh.500,000.
3. As at 30 September 2020, electricity outstanding amounted to Sh.300,000 while rent due but not received amounted to Sh.200,000.
4. Allowance for doubtful debts is to be decreased by Sh.100,000.
5. During the year, goods estimated at Sh.2,000,000 were stolen and the insurance accepted claim for Sh.1,000,000.
6. Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Motor vehicles	25%
Equipment	20%

Required:

- (a) Statement of profit or loss for the year ended 30 September 2020. (12 marks)
- (b) Statement of financial position as at 30 September 2020. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Identify four errors that cannot be revealed by a trial balance. (4 marks)
- (b) The totals of the draft trial balance of Kongolo as at 30 September 2020 did not balance. The difference was posted to the suspense account.

Draft final accounts were prepared which showed a profit of Sh.6,126,480. Subsequent investigations revealed the following errors:

1. One of the pages of the sales book totalling Sh.308,280 had not been posted to the sales account.
2. The year-end inventory sheets had been overcast by Sh.66,000.
3. The discount allowed column in the cash book had been undercast by Sh.5,400.
4. The last page of the purchases day book totalling Sh.430,740 had been posted to the purchases account as Sh.430,470.
5. An invoice of Sh.3,840 was correctly entered in the sales day book but posted as Sh.5,840 in the customer's account.
6. An entry in the purchases day book of Sh.4,920 had not been posted to the supplier's account.
7. An error had been made in balancing of the petty cash book. The correct balance was Sh.15,000 and not Sh.1,500.
8. Loan interest paid amounting to Sh.30,000 was posted to the loan account.

Required:

- (i) Journal entries to correct the errors enumerated above. (8 marks)
- (ii) Suspense account showing the disposal of the original difference. (4 marks)
- (iii) Statement showing the corrected net profit. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Summarise two differences between debentures and equity shares. (4 marks)
- (b) The following information was extracted from the ledger of Karaja Traders as at 31 October 2020:

	Sh."000"
Land	40,000
Buildings	80,000
Fixtures and fittings	88,000
Motor vehicles	45,000
Allowance for doubtful debts	2,570
Accumulated depreciation	
Land and buildings	16,000
Fixtures and fittings	44,000
Motor vehicles	27,000
Trade receivables	66,000
Prepaid expenses	1,380
Trade payables	47,800
Accrued expenses	460

Additional information:

1. During the year, motor vehicles which had cost Sh.15,000,000 and which had a net book value of Sh.3,000,000 were sold for Sh.4,500,000.
2. Depreciation is yet to be provided as follows:

Asset	Rate per annum	Method
Buildings	2%	Straight-line
Fixtures and fittings	25%	Reducing balance
Motor vehicles	20%	Straight-line

No depreciation is charged on land.
3. Trade receivables of Sh.1,340,000 are to be written-off as bad and the allowance for doubtful debts is to be adjusted so that it is 5% of trade receivables.

Required:

Prepare the following ledger accounts for the year ended 31 October 2020:

- | | | |
|-------|---|-----------|
| (i) | Bad debts. | (2 marks) |
| (ii) | Allowance for doubtful debts. | (2 marks) |
| (iii) | Assets disposal. | (3 marks) |
| (iv) | Accumulated depreciation (land and buildings). | (3 marks) |
| (v) | Accumulated depreciation (fixtures and fittings). | (3 marks) |
| (vi) | Accumulated depreciation (motor vehicles). | (3 marks) |

(Total: 20 marks)

QUESTION FOUR

Bondo, Chilungu and Donde are in partnership sharing profits and losses in the ratio of 3:2:1.

The trial balance of the partnership as at 31 October 2020 was as follows:

	Sh. "000"	Sh. "000"
Capital accounts:		
Bondo		270,000
Chilungu		180,000
Donde		90,000
Current accounts:		
Bondo		10,500
Chilungu	7,500	
Donde		4,500
Allowance for doubtful debts (1 November 2019)		15,000
Trade payables		525,000
Trade receivables	345,000	
Bank balance	37,500	
Purchases	1,275,000	
Sales		2,250,000
Rents and rates	60,000	
Motor vehicle expenses	20,000	
Office expenses	40,000	
Selling expenses	210,000	
Inventory (1 November 2019)	300,000	
Building at cost	900,000	
Motor vehicle at cost	300,000	
Accumulated depreciation:		
Building		180,000
Motor vehicle		120,000
Drawings:		
Bondo	60,000	
Chilungu	45,000	
Donde	45,000	
	<u>3,645,000</u>	<u>3,645,000</u>

Additional information:

- Inventory as at 31 October 2020 was Sh.450,000,000.
- Non-Current assets are to be depreciated on cost at the following rates:

Buildings	-	5% per annum.
Motor vehicles	-	20% per annum.
- Rates prepaid on 31 October 2020 amounted to Sh.30,000,000.
- On 31 October 2020, an amount of Sh.26,625,000 was owing in respect of selling expenses.
- A debt of Sh.7,500,000 is to be written-off.
- Allowance for doubtful debts is to be adjusted to 5% of outstanding debtors as at 31 October 2020.

7. The partnership agreement provides that:
- Donde is to be allowed a salary of Sh.90,000,000 per annum.
 - 10% interest per annum is to be allowed on capital account balances.
 - No interest is allowed on current accounts.
 - No interest is charged on drawings.

Required:

- (a) Statement of profit or loss and appropriation account for the year ended 31 October 2020. (8 marks)
- (b) The partners' current accounts as at 31 October 2020. (4 marks)
- (c) Statement of financial position as at 31 October 2020. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) The objective of financial statements is to provide information about the changes in financial performance and financial position of an entity that is useful to a wide range of users in making economic decisions.

Required:

List five users of financial information clearly explaining their information needs. (10 marks)

- (b) Explain the following terms as used in financial accounting:

- (i) Journal proper. (3 marks)
- (ii) Trial balance. (2 marks)
- (iii) Sales ledger. (2 marks)
- (iv) Purchases ledger. (2 marks)
- (v) Personal accounts. (1 mark)

(Total: 20 marks)

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