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DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF 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) Describe why the following parties might be interested in the financial statements of an organisation:

- (i) Employees. (2 marks)
- (ii) Financial analysts. (2 marks)
- (iii) The Government. (2 marks)
- (iv) The public. (2 marks)

(b) On 30 April 2018, the trial balance of Abunuwasi Mjanja did not agree. An income statement was however prepared which showed a gross profit and a net profit of Sh.3,560,000 and Sh.1,320,000 respectively.

Upon investigations, the following errors were discovered:

1. The carriage outwards of Sh.65,000 was erroneously classified as returns outwards.
2. Credit purchases of Sh.350,000 was posted to the particular suppliers account and machinery account. The depreciation rate for machinery was provided at 15% irrespective of the period of usage in the year.
3. A cheque payment of Sh.89,000 by Bernard Matano, a trade receivable was correctly posted in his account but shown as Sh.8,900 in the bank column of the cash book.
4. Salaries and wages for the month of April 2018 of Sh.960,000 were recorded in the repairs account. The cashbook had the correct postings.
5. A cheque paid to Lucy Tambiti, a supplier for Sh.160,000 was dishonoured by the bank. The entry in the bank was reversed but no other adjustment was made.

Required:

- (i) Journal entries to correct the above errors. (Narrations not required) (8 marks)
- (ii) Suspense account duly balanced which must disclose the original difference. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain five advantages of double entry. (10 marks)

(b) The following balances were extracted from the books of a trading concern for the month of March 2018:

	Sh. "000"
Sales ledger debit balances (1 March 2018)	10,230
Sales ledger credit balances (1 March 2018)	34
Cash received from receivables	49,866
Accounts settled by contra to purchase ledger	520
Bad debts written off	395

	Sh. "000"
Cash sales	14,010
Credit sales	63,080
Returns outwards	830
Returns inwards	270
Discounts received	1,520
Discounts allowed	1,179
Sales ledger credit balances (31 March 2018)	51

Required:

Sales ledger control account for the month of March 2018

(10 marks)

(Total: 20 marks)

QUESTION THREE

(a) Distinguish between the following:

- (i) Capital receipts and revenue receipts. (4 marks)
- (ii) Capital expenditure and revenue expenditure. (4 marks)

(b) RFN Ltd. acquired two machines on 1 January 2015 at a cost of Sh.1,500,000 each. Each machine had an estimated useful life of five years and a nil residual value. The straight line method of depreciation is used.

On 31 March 2017, one machine was sold for Sh.800,000. The second machine was sold on 1 December 2017 for Sh.250,000. Depreciation is provided on prorata basis up to the time of disposal.

Required:

Prepare the following accounts for the year ended 31 December 2017:

- (i) Machinery account. (4 marks)
- (ii) Provision for depreciation of machinery account. (4 marks)
- (iii) Machinery disposal account. (4 marks)

(Total: 20 marks)

QUESTION FOUR

The following trial balance has been extracted from the books of Bigbrothers Ltd. as at 30 April 2018:

	Sh. "Million"	Sh. "Million"
Sales		500
Purchases	200	
Opening inventory	30	
Wages and salaries	20	
Advertising	12	
Travelling expenses	10	
Electricity and water	9	
Rent and rates	12	
Insurance	5	
Land at cost	120	
Buildings: Cost	80	
Accumulated depreciation		14
Plant and machinery: Cost	25	
Accumulated depreciation		10
Accounts receivable	80	
Accounts payable		36
Bank balance	52	
Ordinary shares of Sh.100 each		60
Share premium		10
General reserve		5
Retained earnings	<u> </u>	<u>20</u>
	<u>655</u>	<u>655</u>

Additional information as at 30 April 2018:

	Sh. "Million"
1. Accrued salaries	5
2. Rent prepaid	2
3. Closing inventory	40

A review of inventory revealed the following:

An item of inventory costing Sh.6 million included in closing inventory was found to have deteriorated. The normal selling price was Sh.8 million, but even after remedial work costing Sh.1 million, this item could only realise Sh.5 million.

4. Depreciation on non-current assets should be provided as follows:

Asset	Annual rate	Method
Buildings	5%	Straight line
Plant and machinery	20%	Reducing balance

5. Directors proposed the following: Sh. "million"

• Transfer to general reserve	11
• Dividend	24

6. Provision for corporation tax to be made for Sh.69 million.

Required:

- (a) Income statement for the year ended 30 April 2018. (10 marks)
- (b) Statement of financial position as at 30 April 2018. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Describe four limitations of using accounting ratios as a tool of analysis and interpretation. (8 marks)
- (b) The following information was obtained from Imani Manufacturing Enterprise for the year ended 30 April 2018:

	Sh. "000"
Inventory on 1 May 2017:	
• Raw materials	70
• Finished goods	110
• Work-in-progress	14
Inventory on 30 April 2018:	
◦ Raw materials	74
◦ Finished goods	121
◦ Work-in-progress	12
Purchases of raw materials	683
Carriage outwards	90
Carriage inwards	71
Returns outwards	25
Royalties payables	125
Manufacturing wages	450
Administrative expenses	80
Sales and distribution costs	70
Factory fuel and power	100
Plant maintenance	11
Rates and insurance	30
Provision for unrealised profit (1 May 2017)	10
Depreciation on:	
◦ Plant and machinery	67
◦ Office equipment	10
Sales	2,190

Additional information:

1. Rates and insurance are apportioned as follows:
 - 2/3 to factory
 - 1/3 to administration
2. Finished goods are transferred to trading account at cost plus 10 per cent.

Required:

Manufacturing account for the year ended 30 April 2018.

(12 marks)

(Total: 20 marks)

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