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DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 26 November 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) Explain three errors which cannot be detected by a trial balance. (6 marks)
- (b) The following transactions relate to the business of Mwenda Pole for the month of March 2018:

	Sh. '000"
March 1. Balance brought forward:	
Cash in hand	150
Bank overdraft	1,600
2. Mwenda Pole paid further capital into business bank	1,000
3. Bought equipment by cheque	900
4. Cash sales	500
5. Banked cash	400
8. Mwenda Pole paid the following accounts by cheque, in each case deducting 5 per cent cash discount.	
Accounts: Mwangi	100
Mutua	200
Badi	140
10. Cash sales	900
11. Paid motor expenses by cash	100
14. Withdrew cash from the bank for office use	800
15. Paid staff salaries by cash	750
16. Cash drawings for personal use	60
18. The following customers paid their accounts by cheque, in each case deducting 5 per cent cash discount.	
Accounts: Bingwa	500
Toyo	900
Mazeras	780
21. Allan paid his account by cash	1,000
25. Cash sales paid direct into the bank	800
28. Paid rent by cheque	120
29. Paid staff salaries by cheque	750
30. Bought motor vehicle paying by cheque	673
31. He banked the cash in his possession except for Sh.50,000 cash in hand	

Required:

- (i) Three columned cash book duly balanced. (12 marks)
- (ii) Post discounts into the General Ledger. (2 marks)

(Total: 20 marks)

QUESTION TWO

Tom Bom is the proprietor of "Bom's Pets", a dog grooming business. He prepares his accounts annually to 31 October.

As at 31 October 2018, the following balances were extracted from his accounting records:

	Sh. "000"
Shop premises: Cost	40,000
Accumulated depreciation (1 November 2017)	4,000
Dog grooming equipment: Cost	15,000
Accumulated depreciation (1 November 2017)	3,500
Inventory (1 November 2017)	750
Sales	39,860
Purchases	16,790
Staff wages	5,200
Heat and light	685
Insurance	1,200
Motor expenses	419
Miscellaneous expenses	2,450
Trade payables	1,164
Bank balance (debit)	3,135
Trade receivables	580
Drawings	16,500
Capital (1 November 2017)	54,185

Additional information:

- Inventory as at 31 October 2018 was valued at Sh.980,000.
- As at 31 October 2018, insurance prepaid amounted to Sh.400,000.
- Motor expenses outstanding as at 31 October 2018, amounted to Sh.85,000.
- Depreciation is to be charged as follows:

Asset	Rate per annum (%)	Method
Shop premises	5	On cost
Dog grooming equipment	20	On reducing balance

Required:

- (a) Income statement for the year ended 31 October 2018. (12 marks)
- (b) Statement of financial position as at 31 October 2018. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

Susi and Tina are in partnership sharing profit and losses in the ratio of 3:2 respectively. Their trial balance as at 31 October 2018 is as follows:

	Sh. "000"	Sh. "000"
Purchases and sales	42,500	56,600
Inventory (1 November 2017)	3,000	
Land and buildings at cost	18,000	
Motor vehicles at cost	3,200	
Equipment at cost	6,250	
Accumulated depreciation (1 November 2017)		
Motor vehicles		800
Equipment		1,250
Allowances for bad debts		50
Bad debts written off	800	
Administrative expenses	4,500	
Sales and distribution costs	3,500	
Discount allowed and discount received	550	840
Accounts receivable and accounts payable	2,600	1,800
Rent received		330
Bank balance	1,770	
Drawings: Susi	1,500	
Tina	1,000	

		Sh. "000"	Sh. "000"
Capital accounts:	Susi		15,000
	Tina		10,000
Current accounts:	Susi		1,200
	Tina		<u>1,300</u>
		<u>89,170</u>	<u>89,170</u>

Additional information:

- Inventory as at 31 October 2018 was valued at Sh.3,050,000.
- Rent income owing as at 31 October 2018 amounted to Sh.30,000.
- A debtor had returned goods worth Sh.600,000 on 30 October 2018. Goods are sold to customers at cost plus a mark-up of $33\frac{1}{3}$ per cent. The goods which were returned by the debtor were not recorded in the books and were not included in closing inventory in Note 1 above.
- Allowance for bad debts was to be increased to Sh.100,000 as at 31 October 2018.
- The partnership agreement also provides for the following:
 - Interest shall be charged on drawings at the rate of 10 per cent.
 - Each partner shall be entitled to a monthly salary of Sh.30,000.
 - Interest shall be allowed on capital at the rate of 10 per cent per annum.
- Depreciation on non-current assets is to be provided as follows:

Asset	Rate per annum (%)	Method
Motor vehicles	25	On cost
Equipment	20	On reducing balance

Required:

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

QUESTION FOUR

- Discuss how ratios could be used for benchmarking, establishing trends and analysing investment potential. (6 marks)
- The financial statements for JK Ltd. for the years ended 30 June 2018 and 30 June 2017 are shown below. The results for the year ended 30 June 2018 disclosed significant improvement compared to the year ended 30 June 2017.

JK Ltd.

Extract from income statements for the years ended 30 June:

	2018	2017
	Sh. "000"	Sh. "000"
Sales	70,047	27,552
Cost of Sales	<u>(21,135)</u>	<u>(16,532)</u>
Gross profit	48,912	11,020
Expenses	<u>(10,116)</u>	<u>(8,304)</u>
Net profit	<u>38,796</u>	<u>2,716</u>

JK Ltd.

Statements of financial position as at 30 June:

	2018	2017
	Sh. "000"	Sh. "000"
Non-current assets:		
Fixtures and fittings	28,396	24,785
Motor vehicles	<u>7,000</u>	<u>3,327</u>
	<u>35,396</u>	<u>28,112</u>
Current assets:		
Inventory	5,656	3,308
Trade receivables	6,572	4,016
Bank	<u>560</u>	<u>2,016</u>
	<u>12,788</u>	<u>9,340</u>
Total assets	<u>48,184</u>	<u>37,452</u>

	Sh. "000"	Sh. "000"
Financed by:		
Capital	31,364	48,648
Profit for the year	38,796	2,716
Drawings	<u>(25,000)</u>	<u>(20,000)</u>
	<u>45,160</u>	<u>31,364</u>
Current liabilities:		
Trade payables	2,624	5,496
Accruals	<u>400</u>	<u>592</u>
	<u>3,024</u>	<u>6,088</u>
	<u>48,184</u>	<u>37,452</u>

Required:

For each of the years ended 30 June 2017 and 30 June 2018, compute:

- (i) Gross profit percentage. (3 marks)
- (ii) Net profit percentage. (3 marks)
- (iii) Current ratio. (2 marks)
- (iv) Acid test ratio. (3 marks)
- (v) Debtor days (to the nearest whole day).
(Assume a 365 days year). (3 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) (i) Explain the meaning of "Books of prime entry". (2 marks)
- (ii) Outline six books of prime entry. (6 marks)
- (b) Highlight four uses of a share premium account. (4 marks)
- (c) Describe four limitations of a receipts and payments account. (8 marks)

(Total: 20 marks)

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