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DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 23 November 2020.

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) Evaluate the specific accounting information needs to the following stakeholders:

- (i) The Government. (2 marks)
- (ii) Trade unions. (2 marks)
- (iii) Potential investors. (2 marks)
- (iv) Financial institutions. (2 marks)

(b) The accountant of Bestwaters Enterprises prepared a trial balance which failed to balance with the credit side exceeding the debit side by Sh.26,500. The difference was placed in a suspense account awaiting investigations. The following errors were later discovered and once corrected the suspense account balance was eliminated:

1. A creditor's balance for Sh.30,500 was omitted from the creditors schedule and the wrong balance taken to purchases.
2. Rent received of Sh.33,000 was debited in the rent receivable account.
3. Purchases were overcast by Sh.150,000.
4. Purchase of furniture worth Sh.42,000 was correctly entered in the furniture account but debited in the purchases account.
5. A sales invoice of Sh.54,000 was omitted in the sales schedule.
6. A credit sale of Sh.65,500 to Juma was recorded correctly in the sales account, but debited in Jane's account, another debtor.
7. Additional capital introduced by the owner during the year of Sh.255,000 by cheque was entered in the capital account but was not recorded in the cash book.

Required:

- (i) Journal entries to correct the above errors (Narrations not required). (7 marks)
- (ii) Suspense account duly balanced. (5 marks)

(Total: marks)

QUESTION TWO

The following balances were extracted from the books of William Kagwi as at 30 April 2020:

	Sh."000"
Motor vehicles (cost)	12,800
Freehold premises (cost)	26,000
Fixtures and fittings	5,760
General expenses	1,424
Insurance expense	280
Allowance for doubtful debts (credit)	500

	Sh. "000"
Motor vehicle expenses	1,504
Bad debts written off	288
Capital	59,200
Drawings	12,000
Trade receivables	18,084
Trade payables	21,690
Sales	88,926
Purchases	41,884
Sales returns	1,447
Purchase returns	2,188
Cash at hand	568
Cash at bank	10,564
Warehouse expenses	6,400
Discounts allowed	902
Discounts received	1,704
Salaries	6,000
Electricity	1,888
Rates	1,082

Additional information:

- Allowance for doubtful debts as at 30 April 2020 is to be made at 2.5% of the trade receivables.
- Inventories as at 1 May 2019 were valued at Sh.25,333,000.
- Prepayments as at 30 April 2020 were as follows:

	Sh. "000"
Insurance premium	40
Rates	256

4. Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Motor vehicles	10%
Fixtures and fittings	5%

Required:

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

(Total: 20 marks)

QUESTION THREE

- The following is a cashbook summary provided by Waki Enterprises Ltd. for the month of February 2020:

	Sh. "000"		Sh. "000"
Receipts	1,469	Balance brought forward	761
Balance carried forward	<u>554</u>	Payments	<u>1,262</u>
	<u>2,023</u>		<u>2,023</u>

The balance in Waki's books did not agree with the bank statement balance which had a debit balance of Sh.1,353,000. On investigation, the following were discovered:

- Bank charges of Sh.136,000 entered in the bank statement had not been entered in the cash book.
- Cheques drawn amounting to Sh.267,000 had not been presented to the bank for payment.
- Cheques received amounting to Sh.762,000 had been entered in the cash book and paid into the bank, but had not been credited by the bank until 3 March 2020.
- A cheque for Sh.22,000 for sundry expenses had been entered in the cash book as a receipt.
- A cheque received from K. Jones for Sh.80,000 had been returned by the bank and marked "Insufficient funds". No adjustment has been made in the cash book.
- A standing order for rates and rent instalment of Sh.150,000 on 29 February 2020 had not been entered in the cash book.
- All dividends received are credited directly to the bank account. During the month of February 2020, dividends amounting to Sh.62,000 were credited by the bank but no entries were made in the cash book.
- A cheque drawn for Sh.66,000 for stationery had been incorrectly entered in the cash book as Sh.60,000.
- The balance brought forward in the cash book should have been Sh.711,000 and not Sh.761,000.

Required:

- (i) Adjusted cash book as at 29 February 2020. (9 marks)
- (ii) Bank reconciliation statement as at 29 February 2020. (3 marks)
- (b) Alice, Bilha and Caro are trading in a partnership. Each partner is entitled to receive interest on capital at the rate of 5% per annum. It is also agreed that Caro, who is in charge of running the business is to receive a further 10% of the net profit after charging interest on capital accounts instead of a salary.

The balance of the profit or loss is to be shared by the partners in the ratios of 6:3:2 respectively.

The net profit for the year ended 30 April 2020 was Sh.238,150. The capital accounts at the beginning of the year were as follows:

	Sh.
Alice	1,056,000
Bilha	506,000
Caro	253,000

Required:

- (i) The partnership appropriation account for the year ended 30 April 2020. (4 marks)
- (ii) Partners' current accounts. (4 marks)

(Total: 20 marks)

QUESTION FOUR

The following balances were extracted from the books of Tangi Manufacturers Ltd as at 31 December 2019:

	Sh. "000"
Factory building at cost	200,000
Plant at cost	180,000
Sales	1,340,000
Inventories (1 January 2019):	
Raw materials	72,000
Work-in-progress	88,000
Finished goods	75,000
Bank loan	40,000
Accumulated depreciation (1 January 2019):	
Factory building	60,000
Plant	36,000
Repair to factory building	14,600
Carriage outwards	18,100
Purchases of raw materials	350,200
Factory rates	22,500
Direct wages	280,000
Carriage inwards	16,600
Returns inward	8,000
Factory managers salary	5,000
Indirect wages	100,400
Direct expenses	108,000
Office staff salaries	166,000
Factory power	15,000
Office furniture	24,000
Office electricity bills	11,800

Additional information:

1. Inventories as at 31 December 2019 were valued as follows:

	Sh. "000"
Raw material	86,000
Work-in-progress	166,000
Finished goods	120,000

2. Depreciation is to be provided on cost as follows:
- | Asset | Rate per annum |
|------------------|----------------|
| Factory building | 5% |
| Office furniture | 15% |
| Plant | 15% |
3. Finished goods are transferred from factory at a profit of 20%.

Required:

- (a) Manufacturing account for the year ended 31 December 2019. (12 marks)
- (b) Statement of profit or loss for the year ended 31 December 2019. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Outline four contents of an invoice. (4 marks)
- (b) Evaluate four benefits of issuing bonus shares. (8 marks)
- (c) Explain four limitations of using ratios as a tool of financial analysis. (8 marks)
- (Total: 20 marks)**
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