



DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 30 August 2021.

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

The following trial balance was extracted from the books of Progress Traders as at 31 July 2021:

	Sh. "000"	Sh. "000"
Inventory (1 August 2020)	1,421	
Carriage outwards	120	
Carriage inwards	186	
Sales returns/Purchases returns	123	193
Purchases/sales	7,124	11,160
Salaries and wages	2,317	
Rent and rates	183	
Insurance	47	
Motor vehicle expenses	266	
Telephone and internet charges	262	
Electricity	100	
General expenses	188	
Buildings at cost	5,000	
Motor vehicles at cost	1,080	
Furniture and fittings at cost	210	
Trade receivables	2,338	
Trade payables		2,039
Bank balance	489	
Drawings	720	
Capital		8,482
Accumulated depreciation (1 August 2020): Buildings		100
Motor vehicle		150
Furniture and fittings		50
	<u>22,174</u>	<u>22,174</u>

Additional information:

- Inventory as at 31 July 2021 was valued at Sh.1,770,000.
- Provision for depreciation is charged on cost as follows:

Asset	Rate per annum (%)
Buildings	2.5
Motor vehicle	20
Furniture and fittings	15
- As at 31 July 2021, the following expenses were still outstanding:

	Sh.
Salaries and wages	213,000
Electricity	20,000
- Prepaid rent and rate as at 31 July 2021 was Sh.23,000 while insurance paid in advance was Sh.17,000.

Required:

- (a) Statement of profit or loss for the year ended 31 July 2021. (12 marks)
- (b) Statement of financial position as at 31 July 2021. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Outline five uses of journal entries in accounting. (5 marks)
- (b) The following information was extracted from the books of ABC traders for the month of June 2021:

Balances as at 1 June 2021	Sh. "000"
Sales ledger	112,494
Purchases ledger	136,328

The following transactions occurred in the month of June 2021 in relation to its trade receivables and trade payables:

	Sh. "000"
Sales: Credit	691,624
Cash	21,690
Purchases: Credit	441,082
Cash	83,654
Return inwards	12,950
Return outwards	40,338
Trade payable accounts settled by contra accounts with trade receivables	30,934
Discount allowed to credit customers	29,704
Discount received from credit suppliers	46,506
Amounts paid by cheque to trade payables	389,304
Amounts received by cheque from trade receivables	724,290
Cheques received from trade payables	3,142
Cash refund to credit customers	3,708
Increase in allowance for doubtful debts	8,235
Bad debts written off	2,285

Required

- (i) Sales ledger control account as at 30 June 2021. (8 marks)
- (ii) Purchases ledger control account as at 30 June 2021. (7 marks)
- (Total: 20 marks)**

QUESTION THREE

Cate and Susan are in partnership sharing profit and losses in the ratio of 3:2 respectively. Their partnership agreement also provides the following:

- Interest be allowed on capital at the rate of 10% per annum.
- Cate to be entitled to an annual salary of Sh.4,500,000.
- Interest shall be charged on drawings at the rate of 5% per annum.

The following is the partnership trial balance as at 31 March 2021:

	Sh. "000"	Sh. "000"
Purchases and sales	390,000	318,800
Staff salaries	24,000	
Administrative expenses	52,000	
Sales and distribution cost	36,600	
Account receivables and account payables	18,800	7,200
Bank overdraft		15,000
Cash in hand	8,200	
Interest on bank overdraft	200	
Drawings: Cate	8,000	
Susan	4,000	
Rent receivable		95,000

		Sh. "000"	Sh. "000"
Capital:	Cate		100,000
	Susan	60,000	
Current account:	Cate	9,000	
	Susan		5,000
Inventory (1 April 2020)		15,000	
Equipment at cost		16,000	
Motor vehicle at cost		40,000	
Accumulated depreciation (1 April 2020)			
	Equipment		4,800
	Motor vehicle		<u>16,000</u>
		<u>621,800</u>	<u>621,800</u>

Additional information:

- Inventory as at 31 March 2021 was valued at Sh.24,000,000.
- Rent income received in advance as at 31 March 2021 amounted to Sh.5,000,000.
- Included in the purchases is the purchase of freehold property at a cost of Sh.105,000.
- Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Equipment	10%	Reducing balance
Motor vehicle	20%	Straight line.

Required:

- Statement of profit or loss and appropriation account for the year ended 31 March 2021. (10 marks)
 - Partners' current account. (4 marks)
 - Statement of financial position as at 31 March 2021. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- Explain the term "bank reconciliation statement". (1 marks)
 - Outline three uses of bank reconciliation statement. (3 marks)
- Highlight four uses of a trial balance. (4 marks)
- Mwema operates a shop and extracts a trial balance at the end of every month. The trial balance as at 31 July 2021 did not agree with the debits exceeding the credits by Sh.36,700.

Subsequently investigations revealed the following:

- An office machine purchased for Sh.184,000 had been written off to general expenses.
- A debtor paid Sh.92,400 to clear his account. His personal account had been credited, but the cheque had not yet been recorded in the cash book.
- The totals of sales day book had been carried forward as Sh.948,000 instead of Sh.984,000.
- A water bill for Sh.12,500 was paid and entered in the cash book but no entry was made in the water bills' account.
- The payment side of the cash book had been undercast by Sh.68,800.
- A credit note for Sh.18,300 received from a supplier had been posted to the wrong side of his account.
- The owner had taken goods worth Sh.42,500 for personal use. No entry was made to record this transaction.

Required:

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

(Total: 20 marks)

QUESTION FIVE

- (a) Describe four differences between “income and expenditure account” and “receipts and payments account”. (8 marks)
- (b) Differentiate between “prime cost” and “factory overheads” as used in a manufacturing entity. (4 marks)
- (c) Explain the following terms as used in accounting:
- (i) Going concern. (2 marks)
 - (ii) Fair presentation. (2 marks)
 - (iii) Substance over form. (2 marks)
 - (iv) Accounting policy. (2 marks)
- (Total: 20 marks)**
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