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DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF 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 your workings.

QUESTION ONE

(a) Describe five source documents used in recording business transactions. (10 marks)

(b) Zantel Ltd. is a software development company that is in the process of developing an off-the-shelf accounting package to be known as Quickware.

The following list of balances represents data that has been prepared to test the software on whether or not it would meet the users' needs to produce a trial balance at the end of each financial period.

List of balances for Model Company A [test data].

	Sh. "000"
Capital	10,180
Machinery and equipment	4,000
Rent and rates	1,500
Discount received	1,300
Discount allowed	500
Carriage inwards	1,000
Accounts receivable	2,000
Prepaid rent	750
Accrued interest income	450
Carriage outwards	1,500
Inventory	3,000
Allowance for doubtful debts	120
Bad debts written off	500
Depreciation expense	1,250
Accumulated depreciation	3,200
Furniture and fittings	2,200
Cash in hand	1,000
Investment	2,250
Bank overdraft	750
Investment income	450
8% debentures	5,000

**Required:**

Trial balance for Model Company A that would be compared with the information generated by Quickware.

(10 marks)

(Total: 20 marks)

## QUESTION TWO

- (a) Identify three advantages of preparing a cash flow statement. (6 marks)
- (b) The trial balance of Molly Enterprises failed to agree on 30 September 2020 with credit column exceeding the debit column by Sh.17,000.

After thorough scrutiny, the following errors were discovered:

1. A computer purchased for office use at Sh.100,000 had been recorded in error to general expenses account. It is the policy of the firm to depreciate computers and equipment existing at the end of a financial year at the rate of 20% using straight line method.
2. Sales journal was overcast by Sh.60,000.
3. Purchases journal was overcast by Sh.80,000.
4. A credit note for Sh.11,000 received from a supplier was entered on the wrong side of his personal account.
5. Sales returns journal was undercast by Sh.15,000.

### Required:

- (i) Journal entry to correct the above errors (narration not required). (6 marks)
- (ii) Suspense account duly balanced. (5 marks)
- (iii) Statement of corrected net profit for the year ended 30 September 2020.

The net profit before correction was Sh.915,000.

(3 marks)

**(Total: 20 marks)**

## QUESTION THREE

The following list of balances has been provided for Vernice Ltd. as at 30 April 2020:

	Sh. "000"
Share capital (Ordinary shares)	120,000
Retained earnings (1 May 2019)	64,252
Inventories (30 April 2020)	83,852
Trade receivables and prepayments	27,200
Trade payables and accruals	13,722
Bank balance (debit balance)	7,796
10% debentures	16,000
General reserve (1 May 2019)	28,000
Bad debts written off	340
Gross profit for as at 30 April 2020	81,508
Salaries and wages	28,200
Rates and insurance	1,410
Other operating expenses	5,744
Directors' fees	2,500
Motor vehicles (net book value)	6,800
Equipment (net book value)	27,440
Land (Cost)	132,200

### Additional information:

1. Depreciation is to be provided as follows:

Motor vehicles	Sh.350,000
Equipment	Sh.1,440,000
2. The directors have recommended that:
  - Sh.4 million be transferred to the general reserve.
  - A 10% ordinary share dividend be paid.

### Required:

- (a) Statement of profit or loss for the year ended 30 April 2020. (10 marks)
- (b) Statement of financial position as at 30 April 2020. (10 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

- (a) John and Claire intend to start a partnership business. They have approached you for advice on what they need to include in the partnership agreement.

**Required:**

Advise John and Claire on six contents of a partnership deed.

(6 marks)

- (b) Explain three reasons why the cash book balance might differ with the bank statement balance on the same date. (3 marks)

- (c) On 31 March 2021, Aldrin Sechere received his bank statement whose balance did not agree with his cash book bank balance.

His cash book had a credit balance of Sh.200,000.

On investigating, the following matters were discovered:

1. The payment side of the cash book had been overcast by Sh.180,000.
2. Bank charges of Sh.12,600 appearing in the bank statement had not been posted into the cash book.
3. Dividends amounting to Sh.56,000 had been paid directly into the bank, but had not been entered in the cash book.
4. The bank had credited Sechere's account with Sh.100,000 in error. This is yet to be corrected.
5. Cheques amounting to Sh.448,000 paid to suppliers on 31 March 2021 had not yet been presented to the bank for payment.
6. The bank had effected standing orders of Sh.68,000. This had not been recorded in the cash book.
7. As at 31 March 2021, the bank had not recorded cheques amounting to Sh.238,000 deposited on 30 March 2021.

**Required:**

- (i) Updated cash book as at 31 March 2021.

(6 marks)

- (ii) Bank reconciliation statement as at 31 March 2021.

(5 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

- (a) With reference to manufacturing enterprises, explain the following terms:

- (i) Prime cost.

(2 marks)

- (ii) Work-in-progress.

(2 marks)

- (b) On examination of the books of Flutton Exports Ltd., you ascertain that on 1 April 2020, the receivables ledger balances were Sh.641,920 debit and Sh.4,560 credit while the payables ledger balances on the same date were Sh.506,000 credit and Sh.8,400 debit.

For the year ended 31 March 2021, the following information is available:

	Sh. "000"
Sales	5,098,240
Purchases	3,197,920
Cash from trade receivables	4,416,960
Cash to trade payables	2,984,560
Discounts received	118,000
Discounts allowed	186,240
Returns inward	80,160
Returns outward	42,800
Irrecoverable debt written off	26,080
Cash received in respect of debit balances in payables ledger	8,400
Settlement by contra	34,720
Allowances to customers on goods damaged in transit	16,960

On 31 March 2021, there were no credit balances in the receivables ledger and no debit balances in the payables ledger.

**Required:**

- (i) Receivables control account.

(8 marks)

- (ii) Payables control account

(8 marks)

**(Total: 20 marks)**