

# KASNEB

DICTIONARY LEVEL III

DCM LEVEL III

## FOUNDATIONS OF ACCOUNTING

MONDAY: 21 November 2016.

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) Explaining their accounting treatment, distinguish between “reserves” and “provisions”. (8 marks)
- (b) Describe the term “bank reconciliation”. (3 marks)
- (c) On 31 October 2016, the bank statement of XYZ Ltd. showed a balance of Sh.63,950 (credit) while the cashbook (bank column) had a balance of Sh.93,500. The book-keeper checked the entries in the cashbook with the entries on the bank statement and found several differences between the two set of records.

The differences are listed below:

- Cash and cheques totalling Sh.39,200 had been entered in the cashbook on 31 October 2016 and paid into the bank on the same day but had not been credited as receipts in the bank statement.
- Bank charges amounting to Sh.1,200 were included in the bank statement but had not been recorded in the cashbook.
- A dividend receipt for Sh.14,000 had been received by the bank and included in the bank statement. This receipt had not been recorded in the cashbook.
- Cheques totalling Sh.12,850 had been entered in the cashbook but had not been presented at the bank by 31 October 2016.
- A standing order for rent for an amount of Sh.16,000 appeared in the bank statement on 24 October 2016 but had not been included in the cashbook.

#### Required:

- (i) Updated cashbook as at 31 October 2016 (5 marks)
- (ii) Bank reconciliation statement as at 31 October 2016. (4 marks)

**(Total: 20 marks)**

### QUESTION TWO

Sam and Betty are in partnership sharing profits and losses in the ratio of 3:2 respectively after allowing interest of 10% on capital and drawings. Sam and Betty are entitled to annual salary of Sh.5 million and Sh.4 million respectively.

The following trial balance was extracted from the partnership’s books of account on 30 September 2016:

	Sh. “000”	Sh. “000”
Capital accounts: Sam		80,000
Betty		60,000
Current accounts: Sam		12,000
Betty		10,000
Drawings: Sam	8,000	
Betty	5,000	
Inventory (30 September 2016)	39,800	
Gross profit		191,200
Carriage outwards	3,000	
Accounts receivable and accounts payable	24,000	18,000
15% Bank loan		60,000
Salaries and wages	84,000	
Rates and insurance	14,800	
Water and electricity	15,400	

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Bad debts written off	6,000	
Allowances for doubtful debts (1 October 2015)		1,000
Interest on loan	4,500	
Freehold buildings at cost	120,000	
Equipment: Cost	125,000	
Accumulated depreciation (1 October 2015)		25,000
Discount allowed and discount received	1,800	6,600
Bank balance	<u>12,500</u>	
	<u>463,800</u>	<u>463,800</u>

**Additional information on 30 September 2016:**

1. Salaries and wages paid includes salary of:

	<b>Sh. "000"</b>
- Sam	2,500
- Betty	1,500

2. Insurance prepaid amounted to Sh.800,000  
3. Accrued electricity expense amounted to Sh.600,000  
4. A half year interest on bank loan is owing.  
5. Allowance for doubtful debts is to be maintained at 5% on accounts receivable.  
6. Depreciation on equipment is to be charged at the rate of 20% on reducing balance method.

**Required:**

- (a) Income statement and appropriation account for the year ended 30 September 2016. (10 marks)  
(b) Partners current accounts. (4 marks)  
(c) Statement of financial position as at 30 September 2016. (6 marks)  
**(Total: 20 marks)**

**QUESTION THREE**

The following information relates to Sunrise Sports Club for the year ended 30 September 2016:

<b>Receipts and payments account</b>			
	<b>Sh. "000"</b>		<b>Sh. "000"</b>
Balance brought forward	800	Purchase of new equipment	6,000
Bar takings	9,000	Bar payables	5,400
Entry fees	2,200	Electricity and water	460
Annual dinner sales	4,000	Staff salaries	7,000
Subscriptions	7,970	Barman's wages	1,600
Sale of equipment	800	Rates and insurance	1,600
		Dinner dance costs	1,800
		Cash refund to subscribers	20
		Balance carried down	<u>890</u>
	<u>24,770</u>		<u>24,770</u>

The following balances were available as at 30 September:

	<b>2015</b>	<b>2016</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Land and buildings	5,000	5,000
Equipment	7,000	11,400
Accrued electricity and water	10	50
Insurance prepaid	300	250
Subscriptions in advance	380	480
Subscriptions in arrears	300	400
Bar inventory	350	450
Bar payables	500	600

**Additional information:**

1. During the year, equipment with a book value of Sh.600,000 was sold for Sh.800,000.  
2. It is the policy of the club to write-off any subscriptions in arrears for more than twelve months.  
3. Subscriptions received during the year included Sh.250,000 being arrears of last financial year.

**Required:**

- (a) Bar income statement for the year ended 30 September 2016. (3 marks)
- (b) Subscriptions account. (4 marks)
- (c) Income and expenditure account for the year ended 30 September 2016. (7 marks)
- (d) Statement of financial position as at 30 September 2016. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Distinguish between "prime cost" and "factory cost". (4 marks)
- (b) The following trial balance was extracted from the books of Wanda Bakers Limited as at 31 October 2016:

	<b>Sh."000"</b>
Retained earnings	30,000
Carriage inwards	13,600
Returns inwards	4,000
Directors' fees	7,000
Indirect wages	104,600
Plant at cost	150,400
Direct expenses	19,800
Factory building at cost	120,000
Sales	956,000
Inventories (1 November 2015):	
Work-in-progress	68,000
Finished goods	63,200
Raw materials	46,000
Bank overdraft	30,000
Accumulated depreciation (1 November 2015):	
Factory building	24,000
Plant	57,400
Repairs to factory building	9,600
Carriage outwards	14,600
Purchases of raw materials	250,600
Factory rates	15,800
Direct wages	220,000

**Additional information:**

- The factory production was charged to the finished goods warehouse at a standard cost of Sh.760,000,000.
- Inventories as at 31 October 2016 were valued as follows:

	<b>Sh."000"</b>
Raw materials	52,000
Work-in-progress	72,000
Finished goods	58,000

- Depreciation is to be provided for as follows:

<b>Asset</b>	<b>Rate per annum (%)</b>	<b>Method</b>
Factory building	3½	Straight line
Plant	12.5	Straight line

**Required:**

Manufacturing account for the year ended 31 October 2016.

(16 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Identify two distinctions between “receipts and payments account” and “income and expenditure account”. (4 marks)
- (b) Explain two errors which cannot be detected by a trial balance. (4 marks)
- (c) Describe the following types of reserves:
- (i) Share premium. (2 marks)
  - (ii) General reserve. (2 marks)
  - (iii) Revaluation reserve. (2 marks)
- (d) Explain three advantages of accounting standards. (6 marks)
- (Total: 20 marks)**
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