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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

TUESDAY: 26 November 2019.

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 four limitations of financial statements. (8 marks)
- (b) The following information was extracted from the books of Future Traders for the month of October 2019:

Balance as at 1 October 2019

	Sh. "000"
Purchases ledger	360,000 (Credit)
Sales ledger	220,000 (Debit)
Transactions during the month of October 2019:	
Purchases: Cash	800,000
Credit	4,160,000
Sales: Cash	640,000
Credit	6,800,000
Refunds to cash customers	40,000
Contra settlement	360,000
Bad debts written off	12,000
Increase in allowance for doubtful debts	6,400
Returns inward	80,000
Returns outward	160,000
Cash refunds from credit suppliers	32,000
Interest on overdue customer debts	8,200
Discounts received from credit suppliers	256,000
Discounts allowed to credit customers	260,000
Total payments to credit suppliers	3,360,000
Total receipts from credit customers	6,100,000

Required:

- (i) Sales ledger control account as at 31 October 2019. (6 marks)
- (ii) Purchases ledger control account as at 31 October 2019. (6 marks)

(Total: 20 marks)

QUESTION TWO

Mavuno Feeds Enterprises is a small scale business that sells animal feeds.

The following information relates to June 2019, its first month of trading:

June 2019:	Particulars
1	Started business with Sh.175,000 in cash
2	Deposited Sh.140,000 of the cash into the bank account
3	Bought goods for cash worth Sh.7,500
4	Bought stationery on credit worth Sh.17,000 from Nathan
5	Bought goods on credit from Eva Sh.18,000, Paul Sh.24,500, Tony Sh.5,500 and Mark Sh.17,000
6	Paid rent balance by Cheque Sh.2,750

- 7 Sold goods on credit to Nancy Sh.4,500, Otieno Sh.7,500, Mureithi Sh.9,500 and Tamasha Sh.8,000
 8 Bought furniture from Juhudi Carpenters on credit Sh.24,000
 12 Paid wages in cash for casuals Sh.6,000
 14 Returned goods worth Sh.3,000 and Sh.2,000 to Tony and Paul respectively
 15 Bought an old machine by cheque Sh.35,000
 16 Received a loan from Havvy by cheque Sh.30,000
 17 The following goods were returned to the business; Nancy Sh.1,000 and Mureithi Sh.2,000
 18 Cash sales Sh.4,500
 21 Sold goods on credit to Pamela Sh.5,750, Otieno Sh.5,000 and Tamasha Sh.17,000
 24 Paid the following by cheque; Paul Sh.22,500 and Tony Sh.2,500
 25 Received a cheque from Pamela Sh.5,750 and Otieno Sh.12,500
 28 Received an additional loan from Havvy Sh.10,000 in cash
 30 Received Sh.25,000 from Tamasha in cash

Required:

- (a) Relevant ledger accounts. (12 marks)
 (b) Trial balance as at 30 June 2019. (8 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Using examples in each case, describe the following types of accounting errors:
 (i) Error of original entry. (2 marks)
 (ii) Error of commission. (2 marks)
 (iii) Error of principle. (2 marks)
 (iv) Compensating error. (2 marks)
- (b) Bahati Enterprises operates a hardware shop. The accountant prepared a trial balance which failed to balance with the debits exceeding the credits with Sh.75,420. The difference was placed in a suspense account awaiting investigations.

The following errors were later discovered and when corrected, the suspense account balance was eliminated:

1. Sales return day book was under cast by Sh.10,000.
2. A creditors balance of Sh.15,400 was omitted from the creditors schedule.
3. A credit sale of Sh.57,000 was entered in the debtor's account as Sh.75,000.
4. Rent received of Sh.21,000 was treated in the account as an expense.
5. An invoice of Sh.36,500 received was not recorded in the books.
6. A bad debt recovered of Sh.14,200 was correctly recorded in the debtors account and no other record was made in the books.
7. A credit note of Sh.4,560 sent to a debtor was debited in his account as Sh.5,460.

Required:

- (i) Journal entries to correct the above errors. (7 marks)
 (ii) Suspense account to clear the difference in the trial balance. (5 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) Explain the following terms as used in accounting:
 (i) Accrual basis of accounting. (2 marks)
 (ii) Substance over form. (2 marks)
 (iii) Cost principle. (2 marks)
 (iv) Monetary unit assumption. (2 marks)

(b) The following trial balance was extracted from the books of ABC Enterprises, a sole trader as at 31 October 2019:

	Debit Sh."000"	Credit Sh."000"
Freehold property at cost	120,000	
Equipment at cost	80,000	
Accumulated depreciation (1 November 2018):		
Freehold property		20,000
Equipment		38,000
Purchases	250,000	
Sales		402,200
Inventory (1 November 2018)	50,000	
Discounts allowed	18,000	
Discounts received		4,800
Returns outward		15,000
Salaries and wages	58,800	
Bad debts written off	4,600	
Interest on loan	5,100	
Rent	17,700	
Trade payables		36,000
Trade receivables	38,000	
Cash in hand	300	
Bank balance	1,300	
Allowance for bad debts		500
Drawings	24,000	
Long term loan		30,000
Capital		<u>121,300</u>
	<u>667,800</u>	<u>667,800</u>

Additional information:

- Inventory as at 31 October 2019 amounted to Sh.42,000,000.
- Salaries and wages outstanding as at 31 October 2019 was Sh.800,000.
- Rent paid in advance as at 31 October 2019 amounted to Sh.300,000.
- Allowance for doubtful debts is to be adjusted to 2% of trade receivables.
- Depreciation for non-current assets is to be provided as follows:

Asset	Method	Rate per annum
Freehold property	Straight line	1.5%
Equipment	Reducing balance	25%

Required:

Income statement for the year ended 31 October 2019.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

Green Gas Ltd., has an authorised capital of 1,000,000 ordinary shares of Sh.10 each. The company's trial balance as at 30 September 2019 was as follows:

	Sh."million"	Sh."million"
Freehold Land	6,200	
Motor vehicles at cost	5,200	
Fixture and fittings at cost	4,600	
Accumulated depreciation (1 October 2018):		
Motor vehicles		3,000
Fixtures and fittings		2,500
Retained profit (1 October 2018)		800
General reserves (1 October 2018)		200
Ordinary share capital		7,800
10% debentures		2,040
Trade receivables and Trade payables	1,700	1,400
Purchases and sales	5,718	9,560
Administrative expenses	250	

	Sh. "million"	Sh. "million"
Bad debts written off	146	
Inventory (1 October 2018)	650	
Debentures interest paid	102	
Salaries and wages	900	
Directors emoluments	420	
Insurance	60	
Bank and cash balance	954	
Assets held for investment.	440	
Investment income		40
	<u>27,340</u>	<u>27,340</u>

Additional information:

1. Insurance paid in advance as at 30 September 2019 was Sh.9,000,000.
2. Salaries and wages outstanding as at 30 September 2019 amounted to Sh.51,000,000
3. Inventory as at 30 September 2019 was valued at Sh.960 million.
4. Provision for corporation tax for the year ended 30 September 2019 was Sh.300 million.
5. Depreciation is to be provided as follows:

Asset	Rate per annum
Fixtures and fittings	10% on straight line basis
Motor vehicles	20% on reducing balance basis
6. Directors have proposed for:
 - Dividends of 10% for ordinary shares.
 - Transfer of Sh.60 million to general reserves.
 - Provision for outstanding debenture interest.

Required:

- (a) Income statement for the year ended 30 September 2019. (12 marks)
 - (b) Statement of financial position as at 30 September 2019. (8 marks)
- (Total: 20 marks)**

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