

# KASNEB

## ATD LEVEL I

### INTRODUCTION TO FINANCIAL ACCOUNTING

TUESDAY: 17 November 2015.

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

Ben Omwenga started a transport business on 1 January 2012 operating under the name Msafiri Services. He bought motor vehicles as follows:

Year 2012:

- On 1 January, he purchased a motor vehicle (KBM 4413G) at Sh.1,200,000.
- On 1 July, he bought a second motor vehicle (KBM 6291K) at Sh.800,000.

Year 2013:

- On 1 April, he bought a third motor vehicle (KBP 1540F) at Sh.900,000.
- On 30 September, he bought a fourth motor vehicle (KBQ 1940X) at Sh.1,000,000.

Year 2014:

- On 30 April, KBM 4413G was disposed of for Sh.900,000.
- On 30 June, KBM 6291K was involved in an accident and was written off. The insurance company paid a compensation of Sh.680,000.
- On 31 March, KBP 1540F was traded in with KCA 9450Y which was valued at Sh.1,200,000. Ben Omwenga paid the dealer Sh.400,000 in cash.

Depreciation on the motor vehicles is to be provided at the rate of 15% per annum on the straight line method on a pro rata basis.

#### Required:

For the years ended 31 December 2012, 2013 and 2014, prepare:

- (a) Motor vehicles account. (6 marks)
- (b) Provision for depreciation account. (8 marks)
- (c) Motor vehicle disposal account. (6 marks)
- (Total: 20 marks)**

#### QUESTION TWO

The following information was extracted from the books of Job Onyango, a sole trader, as at 31 October 2015:

	Sh.
Building (Cost)	1,800,000
Salaries and wages	1,000,600
Office furniture (Cost)	264,500
Cash at bank	840,000
Cash in hand	184,600
Accounts payable	1,320,000
Electronic tax register (Cost)	48,000
Telephone and postage	66,400
Stationery	36,300
Office expenses	92,300
Carriage inwards	120,700
Transport expenses	690,900
Rent received	240,000
Sales returns	245,800
Accounts receivable	3,880,200
Discount received	40,400

	Sh.
Insurance	72,600
Allowance for doubtful debts (1 November 2014)	180,000
Bad debts written off	80,200
Inventory (1 November 2014)	680,400
Returns outwards	148,200
Sales	10,125,400
Purchases	6,100,200
Drawings	850,300
Capital	5,000,000

**Additional information:**

1. Inventory remaining as at 31 October 2015 was valued at Sh.880,600.
2. Insurance paid in advance as at 31 October 2015 amounted to Sh.16,600.
3. Depreciation is to be provided on cost as follows:
  - Building 2½% per annum.
  - Electronic Tax Register 20% per annum.
  - Office furniture 10% per annum.
4. Job Onyango decided to write off additional bad debts of Sh.20,200.
5. Salaries outstanding as at 31 October 2015 amounted to Sh.40,200.
6. Allowance for doubtful debts is to be maintained at 5% of the outstanding debts.
7. Rent receivable as at 31 October 2015 amounted to Sh.25,500.
8. Job Onyango discovered that one invoice for Sh.80,000 received from a supplier in September 2015 had not been entered in the records.

**Required:**

- (a) Income statement for the year ended 31 October 2015. (12 marks)
  - (b) Statement of financial position as at 31 October 2015. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

The trial balance of Cosmas Mashaka as at 30 September 2015 failed to balance. The difference of Sh.23,910 was on the credit side of the trial balance. A suspense account was opened with that difference.

After a thorough scrutiny of the books of account, the following errors were discovered:

1. The sales journal was undercast by Sh.12,000.
2. The purchases returns journal was undercast by Sh.8,000.
3. Bank charges of Sh.6,000 entered in the cash book, had not been posted to the ledger.
4. Discount received column in the cash book was undercast by Sh.10,000.
5. Purchase of goods for private use valued at Sh.5,000 by the proprietor (Cosmas Mashaka) was included in the purchases account.
6. Purchase of a motor vehicle on 1 October 2014 for Sh.800,000 was recorded in motor vehicle expenses account. Depreciation on the motor vehicle should be at the rate of 25% per annum on cost.
7. Closing inventory on 30 September 2015 was undercast by Sh.20,000.
8. A sale of goods on credit to Joy Mwikali at Sh.980 was correctly entered in the sales journal book but posted to her account as Sh.890.
9. Purchase of goods on credit from Joseph Mogaka at Sh.790 was entered in the respective records as Sh.970.

**Required:**

- (a) Journal entries to correct the above errors. (10 marks)
  - (b) Suspense account duly balanced. (4 marks)
  - (c) Statement of corrected net profit if profit before correction of the errors was Sh.1,100,820. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain the following terms in relation to issue of shares:
  - (i) Rights issue. (2 marks)
  - (ii) Bonus issue. (2 marks)

(b) The following information was extracted from the books of Chuma Ltd. as at 30 September 2015:

	Sh. '000'	Sh. '000'
Issued and fully paid capital:		
Ordinary shares of Sh.10 each		80,000
10% preference shares of Sh.10 each		10,000
Share premium		20,000
General reserve		4,000
Retained earnings		12,000
Inventory (30 September 2015)	125,000	
Cost of sales	515,000	
8% debentures		15,000
Trade receivables and trade payables	69,000	30,000
Land at cost	230,000	
Building at cost	60,000	
Equipment at cost	10,000	
Motor vehicles at cost	40,000	
Accumulated depreciation (1 October 2014):		
Building		2,400
Equipment		1,900
Motor vehicles		8,000
Sales		960,000
Rent received		700
Allowance for doubtful debts		5,000
Bank overdraft		65,000
Interest on debentures paid	600	
Administrative expenses	80,670	
Sales and distribution costs	78,000	
Cash in hand	5,730	
	<u>1,214,000</u>	<u>1,214,000</u>

**Additional information:**

1. As at 30 September 2015, the following balances were relevant:

	Sh. '000'
• Rent income receivable.	20
• Prepaid sales and distribution costs.	6,610

2. The allowance for doubtful debts was to be reduced to Sh.3,450,000.

3. Corporation tax is estimated to be Sh.87,000,000.

4. A half of the interest on debentures was still outstanding as at 30 September 2015.

5. Depreciation is to be provided as follows:

Non-current asset	Rate per annum	Method
Land	Nil	-
Building	2%	Straight line
Equipment	10%	Reducing balance
Motor vehicles	10%	Straight line

6. The directors have proposed that a dividend be paid to preference shareholders and to the ordinary shareholders (10 percent) after a transfer of Sh.11,000,000 to the general reserve.

**Required:**

(i) Income statement for the year ended 30 September 2015. (8 marks)

(ii) Statement of financial position as at 30 September 2015. (8 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a) Explain five different users of the financial statements of a business entity citing what each party would be interested in and why. (10 marks)

(b) Describe how the "petty cash imprest system" operates. (4 marks)

(c) Explain the following terms as used in financial accounting:

(i) Accruals. (2 marks)

(ii) Provisions. (2 marks)

(iii) Reserves. (2 marks)

**(Total: 20 marks)**