

KASNEB

DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 22 May 2017.

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 James Rui, a sole trader as at 31 March 2017:

| | Sh."000" | Sh."000" |
|---|---------------|---------------|
| Purchases and sales | 15,400 | 26,000 |
| Capital | | 4,500 |
| Premises at cost | 4,000 | |
| Motor vehicle (cost Sh.6 million) | 4,200 | |
| Machinery (cost Sh.4 million) | 2,400 | |
| Trade receivables and trade payables | 4,600 | 2,200 |
| Salaries and wages | 2,420 | |
| Postage and stationery | 180 | |
| Carriage inwards | 200 | |
| Carriage outwards | 120 | |
| Inventory (1 April 2016) | 1,800 | |
| Revenue reserves | | 1,400 |
| Cash at bank | 460 | |
| Cash in hand | 50 | |
| 10% bank loan | | 2,000 |
| Loan interest paid | 200 | |
| Allowance for doubtful debts (1 April 2016) | | 60 |
| Office general expenses | 130 | |
| | <u>36,160</u> | <u>36,160</u> |

Additional information:

- Inventory as at 31 March 2017 was valued at Sh.2,100,000.
- James Rui took goods worth Sh.150,000 per month for personal use. No records were made to this effect.
- During the year, a debtor who owed Sh.100,000 was declared bankrupt.
- Allowance for doubtful debts is to be adjusted to 3% of trade receivables.
- Depreciation is to be provided as follows:

| Asset | Rate per annum |
|---------------|-------------------------|
| Motor vehicle | 20% on straight line |
| Machinery | 10% on reducing balance |
- Salaries amounting to Sh.80,000 were in arrears as at 31 March 2017.

Required:

- Income statement for the year ended 31 March 2017. (12 marks)
 - Statement of financial position as at 31 March 2017. (8 marks)
- (Total: 20 marks)

QUESTION TWO

- Explain three purposes for which control accounts are prepared. (6 marks)
- The following are the balances and transactions affecting Malingo Ltd.'s control accounts for the month of March 2017:

| | Sh."000" |
|---------------------------------|----------------|
| Opening balance (1 March 2017): | |
| Sales ledger: | 9,123 (Debit) |
| | 211 (Credit) |
| Purchases ledger: | 4,490 (Credit) |
| | 88 (Debit) |

| | Sh. "000" |
|---|--------------|
| Closing balance (31 March 2017): | |
| Sales ledger | 136 (Credit) |
| Purchases ledger | 67 (Debit) |
| Transactions during the month of March 2017: | |
| Discounts allowed | 732 |
| Refunds to customers for overpaid accounts | 53 |
| Cash receipts from credit customers | 4,201 |
| Customers' cheques dishonoured | 489 |
| Bills of exchange receivable | 6,506 |
| Allowances to customers | 1,720 |
| Contra settlements | 3,046 |
| Payments to creditors by cheque | 15,413 |
| Discounts received | 1,105 |
| Sales on credit | 36,755 |
| Receipts from customers by cheque | 27,370 |
| Purchases on credit | 18,135 |
| Allowances from suppliers | 629 |

Required:

- (i) Sales ledger control account. (8 marks)
- (ii) Purchases ledger control account. (6 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain the following accounting concepts:

- (i) Going concern concept. (2 marks)
- (ii) Materiality concept. (2 marks)
- (iii) Consistency concept. (2 marks)
- (iv) Accrual concept. (2 marks)

(b) The following information was extracted from the books of Hosana Social Club for the year ended 31 December 2016:

| | Sh. |
|--|---------|
| Bank balance as at 1 January 2016 | 68,000 |
| Subscriptions received during the year | 344,000 |
| Receipts from the canteen | 552,000 |
| Donations received | 46,720 |
| Unpaid subscriptions as at 31 December 2016 | 50,000 |
| Sales of dinner tickets | 18,400 |
| Catering charges paid for the dinner | 26,000 |
| Payments to the canteen's suppliers | 368,000 |
| Payments for the rates and insurance | 15,200 |
| Accrued rates and insurance as at 31 December 2016 | 3,800 |
| Payments for decorations and repairs | 36,400 |
| Payments for stationery and printing | 9,920 |
| Administrator's salaries paid | 188,000 |
| Provision for depreciation for equipment | 20,000 |

Out of the subscription received, Sh.44,000 relates to the year 2017.

Required:

Receipts and payments account for the year ended 31 December 2016.

(12 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) The accounts assistant of Twashinda Enterprises prepared a trial balance from the accounting records as at 30 April 2017 which did not balance.
- Advise the accountant on four areas that should be checked in identifying the cause of the imbalance. (4 marks)
- (b) Describe the following types of ratios:
- (i) Return on capital employed (ROCE). (2 marks)
 - (ii) Return on owner's equity (ROOE). (2 marks)
 - (iii) Leverage ratio. (2 marks)
- (c) The following information relates to Pan Ltd. and Cake Ltd. in respect of the year ended 31 December 2016:

Income statement extracts:

| | Pan Ltd. Sh."000" | Cake Ltd. Sh."000" |
|------------------|----------------------|-----------------------|
| Turnover | 497,000 | 371,000 |
| Cost of sales | 258,000 | 153,000 |
| Operating profit | 138,000 | 79,000 |
| Finance costs | 19,000 | - |

Extracts from statements of financial position:

| | Pan Ltd. Sh."000" | Cake Ltd. Sh."000" |
|------------------------|----------------------|-----------------------|
| Non-current assets | 142,000 | 92,000 |
| Current assets: | | |
| Inventory | 100,000 | 87,000 |
| Receivables | 46,000 | 42,000 |
| Bank balance | 40,000 | 44,000 |
| Current liabilities | 98,000 | 108,000 |
| Term loan | 33,000 | - |
| Shareholders funds | 197,000 | 157,000 |

Note: All sales were on credit.

Required:

For each company, calculate the following ratios:

- (i) Debt-equity ratio. (2 marks)
- (ii) Return on capital employed. (2 marks)
- (iii) Acid test ratio. (2 marks)
- (iv) Inventory turnover. (2 marks)
- (v) Average collection period. (2 marks)

(Total: 20 marks)

QUESTION FIVE

The following trial balance was extracted from the books of Maxim Ltd. as at 31 March 2017.

| | Sh."000" | Sh."000" |
|--------------------------------|----------|----------|
| Ordinary shares of Sh.10 each. | | 10,000 |
| Share premium | | 5,000 |
| General reserves | | 2,600 |
| Retained earnings | | 1,500 |
| 10% Debentures | | 5,000 |
| Purchases and sales | 16,000 | 30,900 |

| | Sh. "000" | Sh. "000" |
|---|-----------|-----------|
| Freehold land and buildings at cost | 11,000 | |
| Equipment: Cost | 2,000 | |
| Accumulated depreciation (1 April 2016) | | 200 |
| Motor vehicles: Cost | 9,600 | |
| Accumulated depreciation (1 April 2016) | | 2,400 |
| Discount allowed and discount received | 400 | 300 |
| Carriage inwards | 200 | |
| Salaries and wages | 3,400 | |
| Sales and distribution cost | 1,400 | |
| Rates and insurance | 1,100 | |
| Electricity and water | 900 | |
| Directors fees | 2,100 | |
| Inventory (1 April 2016) | 5,000 | |
| Trade receivables and trade payables | 7,000 | 4,000 |
| Bank balance | 1,700 | |
| Interest on debentures | 100 | |
| | 61,900 | 61,900 |

Additional information on 31 March 2017:

| | Sh. "000" | |
|---|-----------------------|------------------|
| 1. Inventory was valued at | 5,600 | |
| 2. Corporation tax is estimated at | 600 | |
| 3. Audit fees owing | 1,500 | |
| 4. Directors fees outstanding | 400 | |
| 5. Insurance prepaid | 100 | |
| 6. Depreciation is to be provided as follows: | | |
| Asset | Rate per annum | Method |
| Equipment | 10% | Straight line |
| Motor vehicle | 25% | Reducing balance |
| 7. Directors have proposed a dividend of Sh.2 per share after transfer of Sh.400,000 to general reserves. | | |

Required:

- (a) Income statement for the year ended 31 March 2017. (12 marks)
- (b) Statement of financial position as at 31 March 2017. (8 marks)
- (Total: 20 marks)**