



DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF ACCOUNTING

MONDAY: 27 November 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

- (a) Describe three advantages of using accounting ratios to evaluate performance of a business enterprise. (6 marks)
- (b) Biba Wango maintains a petty cash on the imprest system at a limit of Sh.30,000. The following transactions took place in the month of September 2017:

September 2017:

- 1 Received imprest from the cashier of Sh.30,000.
- 3 Bought postage stamps of Sh.2,000.
- 6 Paid Sh.4,000 for Peter's account in purchase ledger.
- 7 Bought stationery for Sh.5,000.
- 8 Paid travelling allowance to an employee, Juma Tom of Sh.4,000.
- 10 Paid for cleaning expenses Sh.6,000.
- 12 Paid Levi's account in the purchases ledger Sh.5,000.
- 14 Paid subscriptions of Sh.2,000.
- 17 Paid for cleaning expenses Sh.2,000.
- 18 Received cash Sh.30,000 from the cashier.
- 19 Paid travelling expenses to Moses Onyango Sh.10,000.
- 22 Bought electric bulbs for Sh.2,000.
- 25 Paid Levi's account in the purchases ledger Sh.2,500.
- 26 Paid travelling expenses Sh.1,000.
- 27 Paid for sugar, tea, milk and cream Sh.3,000.

Required:

Enter the above transactions into a petty cash book under the following analysis columns: Postage and stationery, travelling expenses, cleaning expenses, sundries and a ledger column. (14 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Highlight four advantages of preparing a bank reconciliation statement to an organisation. (4 marks)
- (b) Lida Mayaka operates a savings account and a current account at the bank. As at 31 October 2017, the credit balances at bank as per bank statements were:
- Savings account Sh.157,000.
  - Current account Sh.850,000.

The balances in Lida's books as at the same date were:

- Savings account Sh.82,500 (debit).
- Current account Sh.1,047,000 (debit).

An investigation into the differences revealed the following relevant information:

1. Cheques lodged but not yet credited were Sh.100,000 and Sh.70,000 for the savings account and the current account respectively.
2. A cheque for Sh.12,000 paid into the current account was returned by the bank marked "RD" but no entry thereafter has been made in Lida's books.
3. A cheque from TK Ltd. for Sh.11,000 remitted directly to savings account has not been entered in Lida's books.
4. A cheque for Sh.20,000 being payment out of savings account had been paid by the bank but no entry had been made in the cash book.
5. A cheque for Sh.16,000 drawn on current account was erroneously entered in the cash book as being drawn on the savings account.
6. A transfer of Sh.236,500 out of savings account into current account, was entered in the cash book but transfer instructions to bank overlooked.
7. A cheque drawn on current account entered in correct account in the cash book but as Sh.6,000 instead of the correct amount of Sh.60,000.
8. Bank charges of Sh.1,500 and Sh.2,000 for savings account and current account respectively not yet entered in the cash book.
9. A cheque received for Sh.100,000 and paid into current account incorrectly entered in the cash book as savings account.
10. Cheque received and paid into correct account and amount (current account) Sh.9,000 entered as Sh.8,500 in the cash book.
11. Unpresented cheques were: savings account Sh.32,500 and current account Sh.108,000.
12. A periodic payment of Sh.15,000 under standing order out of current account not yet recorded in the cash book.

**Required:**

- (i) An updated cash book as at 31 October 2017. (8 marks)
- (ii) Bank reconciliation statement as at 31 October 2017. (8 marks)

(Total: 20 marks)

**QUESTION THREE**

- (a) In reference to partnership accounting, highlight four rules that are applicable in the absence of a partnership deed. (4 marks)
- (b) The following are the details of acquisitions and disposals of machinery for Konze Ltd.:

Machine	Date of purchase	Cost Sh."000"	Date of disposal	Disposal proceeds Sh."000"
A	1 October 2014	5,000		
B	1 October 2014	2,500	1 October 2016	900
C	1 October 2016	7,000		

**Additional information:**

1. The machines are depreciated on cost at the rate of 20% per annum.
2. Full year depreciation is provided in the year of purchase and no depreciation is provided in the year of disposal.

**Required:**

For the three years ended on 30 September 2015, 2016 and 2017, prepare the following:

- (i) Machines account. (6 marks)
- (ii) Accumulated depreciation account. (6 marks)
- (iii) Disposal of machines account. (4 marks)

(Total: 20 marks)

**QUESTION FOUR**

- (a) With reference to shareholders of a company, explain four qualitative characteristics of financial statements. (8 marks)
- (b) The receipt and payment account for Lenga Juu Sports Club for the year ended 30 June 2017 is as follows:

<b>Receipts and payments account</b>			
<b>Receipts</b>	<b>Sh. "000"</b>	<b>Payments</b>	<b>Sh. "000"</b>
Balance brought down	50,000	Purchase of furniture	10,000
Subscriptions:		Salaries	4,000
2015/2016	3,000	Telephone expenses	600
2016/2017	20,000	Electricity charges	1,200
2017/2018	1,000	Postage and stationery	300
Donations	4,000	Purchase of books	5,000
Rent (hall)	600	Entertainment expenses	1,800
Interest on bank deposits	900	5% government bonds	16,000
Entrance fees	2,000	Miscellaneous expenses	1,200
		Balance carried down: Cash	600
		Bank	40,800
	<u>81,500</u>		<u>81,500</u>

**Additional information:**

- Salaries outstanding as at 30 June 2017 amounted to Sh.3,000,000.
- Entertainment expenses outstanding as at 30 June 2017 amounted to Sh.1,000,000.
- Bank interest receivable as at 30 June 2017 was Sh.300,000.
- Subscriptions in arrears as at 30 June 2017 amounted to Sh.800,000.
- Furniture is to be depreciated on cost at the rate of 10% per annum.

**Required:**

Income and expenditure account for the year ended 30 June 2017.

(12 marks)  
(Total: 20 marks)

**QUESTION FIVE**

The following trial balance was extracted from the books of Belas Ltd. a manufacturer as at 31 October 2017:

	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Land and buildings	200,000	
Machinery at cost	80,000	
Office equipment at cost	18,000	
Sales van at cost	13,600	
Accumulated depreciation (1 November 2016):		
Machinery		22,800
Sales van		1,200
Office equipment		1,600
Sales van expenses	3,520	
Water and electricity: Factory	12,440	
Office	2,980	
General expenses: Factory	16,200	
Office	3,880	
Manufacturing wages	144,200	
Sales		389,600
Sales representatives' commission	23,376	
Purchase of raw materials	118,420	
Returns to suppliers of raw materials		4,000
Rent and rates: Factory	12,200	
Office	5,400	
Office salaries	35,480	
Accounts receivable	68,400	
Accounts payable		18,800
Capital		511,900
Inventories (1 November 2016):		
Raw materials	26,520	
Work-in-progress	2,000	
Finished goods	82,600	
Drawings	48,400	
Bank balance	32,284	
	<u>949,900</u>	<u>949,900</u>

**Additional information:**

1. Inventories as at 31 October 2017 were valued as follows:

	<b>Sh. "000"</b>
Raw materials	29,020
Work-in-progress	1,160
Finished goods	88,980
2. Depreciation is to be provided as follows:

	<b>Sh. "000"</b>
Machinery	6,000
Office equipment	1,200
Sales van	2,400
3. Manufacturing wages accrued as at 31 October 2017 amounted to Sh.1,100,000.
4. Office rent paid in advance as at 31 October 2017 was Sh.280,000.

**Required:**

- (a) Manufacturing account for the year ended 31 October 2017. (12 marks)
  - (b) Income statement for the year ended 31 October 2017. (8 marks)
- (Total: 20 marks)**
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