

# KASNEB

## ATD LEVEL I

### INTRODUCTION TO FINANCIAL ACCOUNTING

#### PILOT PAPER

September 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

- (a) Briefly explain the accounting equation. (2 marks)
- (b) Mark Swaleh retired from employment on 30 April 2015 and was paid retirement benefits amounting to Sh.216,500. With this money Mr. Swaleh started a business in Nairobi on 1 June 2015.

His transaction for the month were as follows:

- June: 1 Started business with Sh.216,500 in cash.  
2 Opened a bank account depositing Sh.168,000.  
4 Paid by cheque six months rent in advance Sh.72,000.  
8 Bought furniture by cheque Sh.24,000.  
15 Purchased goods for sale Sh.19,500 by cheque.  
18 Withdrew Sh.3,500 from the bank for office use.  
21 Sold goods for cash Sh.28,800.  
23 Deposited into the bank Sh.42,300.  
25 Purchased goods on credit from J. Barkarey with credit terms of 2/10 net 30 for Sh.21,000.  
26 Sold goods for Sh.36,000 receiving payment by cheque.  
27 Paid J. Barkarey in cash the amount due in full after discounts.  
27 Sold goods on credit to T. Kings for Sh.14,300.  
28 Paid wages in cash Sh.7,400.  
29 Paid transport in cash Sh.2,400.  
29 Withdrew from bank for personal use Sh.12,000.  
30 Paid electricity Sh.4,800 in cash and insurance premium Sh.15,000 by cheque.  
30 Received Sh.13,800 cash from T. Kings in full settlement of amounts due from him.

#### Required:

A three column cash book to record the transactions in the month of June 2015 bringing down balances to 1 July 2015.

(12 marks)

- (c) The following balances were extracted from the accounting records of Zintam Company Ltd. for the year ended 30 June 2015:

	Sh. "million"
7% preference share capital of Sh.10 each	4,800
Ordinary share capital of Sh.10 each	21,600
Share premium account	2,400
Buildings	24,000
Motor vehicles	7,800
Accumulated depreciation - Buildings	6,000
- Motor vehicles	600
- Equipment	1,200
Equipment	3,600
Trade receivables	13,080
Trade payables	6,000
Purchases	66,960
Sales	86,760
Return outwards	240
Return inwards	300

	Sh. "million"
Directors remuneration	2,100
Salaries	5,220
Motor vehicles expenses	1,500
Office expenses	1,680
Carriage outwards	240
Inventory	4,080
Investments	1,920
Cash in hand	1,320
Retained profits	3,240
Debenture interest	144
Investment income	180
Preference dividend	168
Bad debts	660
Allowance for doubtful debts (1 July 2014)	840
Land at cost	12,168
General reserve	2,640

**Required:**

Trial balance as at 30 June 2015.

(6 marks)  
(Total: 20 marks)

**QUESTION TWO**

The following information relating to trade receivables was extracted from books of Tiwi Ltd.:

Year to 30 June	Trade receivables	Allowance for	Provision for
	Balance	doubtful debts	discount allowed
	Sh.	%	%
2012	400,000	10	2
2013	660,000	10	2
2014	520,000	10	2
2015	580,000	10	2

**Required:**

- (a) Allowance for doubtful debts account. (6 marks)
- (b) Provision for discounts allowed account. (6 marks)
- (c) Income statement extracts for each year. (4 marks)
- (d) Statement of financial position extracts at each reporting date. (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

The following trial balance was extracted from the books of Tulep Naliasi a sole trader, on 30 April 2015:

	Sh.	Sh.
Capital		4,380,000
Buildings at cost	1,680,000	
Motor vehicles at cost	1,641,000	
Furniture and fittings at cost	372,000	
Inventory	1,488,000	
Purchases and sales	14,112,000	16,632,000
Receivables and payables	1,404,000	1,042,800
Discounts allowed and received	292,800	178,800
Return inwards and outwards	24,000	43,200
Rent received		66,000
Loan		288,000
Prepaid rates 1 May 2014	7,200	
Investment income		225,000
Accrued electricity 1 May 2014		40,800
Irrecoverable debts	78,000	

	Sh.	Sh.
Wages and salaries	1,690,800	
Drawings	384,000	
Electricity	207,600	
Bank balances	163,200	
Rates and insurance	72,000	
Provision for depreciation: Furniture and fittings		240,000
Motor vehicles		<u>480,000</u>
	<u>23,616,600</u>	<u>23,616,600</u>

**Additional information:**

- Inventory as at 30 April 2015 was valued at Sh.2,040,000.
- As at 30 April 2015 rates prepaid amounted to Sh.5,400.
- Outstanding wages and salaries amounted to Sh.10,200 on 30 April 2015.
- Depreciation on motor vehicles and furniture and fittings is to be provided at 10% and 5% respectively on reducing balance.
- As at 30 April 2015 accrued electricity amounted to Sh.30,200.

**Required:**

- Income statement for the year ended 30 April 2015. (10 marks)
  - Statement of financial position as at 30 April 2015. (10 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- Explain the following terms:

- Rights issue. (2 marks)
- Bonus issue. (2 marks)

- The following balances were extracted from the books of Juxtaposed Ltd. as at 30 June 2015:

	Sh. "000"
36,000,000 ordinary shares of Sh.20 each	720,000
12,000,000 8% preference shares of Sh.20 each	240,000
Inventory	503,112
Accounts receivables and prepayments	163,200
Accounts payable and accruals	82,332
Bank balance	46,776
10% debentures	96,000
General reserves	168,000
Irrecoverable debts	2,040
Gross profit for year ended 30 June 2015	489,048
Wages and salaries	169,200
Rates and insurance	8,460
Postage and telephone	3,720
Electricity	7,296
Debenture interest	4,800
Directors remuneration	15,000
General expenses	18,648
Motor vehicles	40,800
Office furniture and equipment	164,640
Land	793,200
Retained earnings	145,512

**Additional information:**

- The amount of insurance premium includes a premium of Sh.1,440,000 paid in March 2015 covering six months from 1 March 2015.
- A bill for Sh.2,740,000 in respect of electricity for the period ended 30 June 2015 had not been paid.

3. Motor vehicles are depreciated at 20% per annum and office furniture and equipment are depreciated at 10% per annum. Depreciation is based on reducing balance method.
4. Provisions are to be made for:
  - Audit fee Sh.4,800,000
  - Outstanding debenture interest
5. A dividend of 5% be provided for ordinary shareholders in addition to preference dividends.

**Required:**

- (i) Income statement for year ended 30 June 2015. (8 marks)
  - (ii) Statement of financial position as at 30 June 2015. (8 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

Arrow and Barrow are in partnership sharing profits and losses in the ratio 1:2 respectively. The following is their trial balance as at 30 June 2015:

	Sh. "000"	Sh. "000"
Buildings (cost Sh.300 m)	200,000	
Fixtures at cost	44,000	
Provision for depreciation on fixtures		13,200
Receivables	64,972	
Payables		44,600
Cash at bank	2,708	
Opening inventory	167,916	
Sales		494,600
Purchases	341,664	
Carriage outwards	5,152	
Discounts allowed	460	
Loan interest	16,000	
Office expenses	9,664	
Salaries and wages	75,668	
Irrecoverable debts	2,012	
Allowance for irrecoverable debts		1,600
Loans		16,000
Capital:		
Arrow		140,000
Barrow		116,000
Current accounts:		
Arrow		5,224
Barrow		1,192
Drawings:		
Arrow	25,600	
Barrow	<u>22,600</u>	
	<u>978,416</u>	<u>978,416</u>

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**Additional information:**

1. Inventory on 30 June 2015 amounted to Sh.225,360,000.
2. Office expenses Sh.384,000 and wages Sh.800,000 are to be accrued at the year end.
3. Fixtures are depreciated at 10% on a reducing balance basis while buildings are depreciated at 5% on straight line basis.
4. Allowance for doubtful debts to be adjusted to Sh.1,280,000.
5. Arrow draws a salary of Sh.3,200,000 per annum while partners capital attracts interest at 5% per annum.
6. Partners drawings are charged interest at 10% in the year they are drawn.

**Required:**

- (a) Income statement and appropriation account for year ended 30 June 2015. (12 marks)
  - (b) Statement of financial position as at 30 June 2015. (8 marks)
- (Total: 20 marks)**

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