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DICT LEVEL III

DCM LEVEL III

FOUNDATIONS OF 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) XYZ Ltd. uses a manual accounting system. The Finance Manager has proposed to the company to install a computerised accounting system in the next financial year.

Required:

- (i) Summarise four benefits that would accrue to the company upon installing the computerised accounting system. (4 marks)
- (ii) Highlight four challenges likely to be encountered by the company upon installing the computerised accounting system. (4 marks)
- (b) Jabari Enterprises operates a petty cash book on an imprest system with a cash float of Sh.50,000 per month. On 1 September 2019, the petty cashier had a balance of Sh.3,000 and received a reimbursement to restore the float.

The following transaction payments were made during the month:

September:	Particulars
2	Postage stamps Sh.500, travelling Sh.2,000
3	Travelling Sh.1,500, stamps Sh.400 and sugar for staff tea Sh.100
4	Stationery Sh.5,000, travelling Sh.2,000 and postage stamps Sh.500
5	Cleaning Sh.2,000, Antony a creditor Sh.3,500
7	Travelling Sh.2,000, milk for staff tea Sh.800
10	Stationery Sh.700, postage stamps Sh.400
13	Michael, a creditor Sh.2,000
15	Travelling Sh.1,500, stationery Sh.1,200
18	Subscription for trade association Sh.2,000
20	Travelling allowance to an employee Sh.2,800
25	Light and heating Sh.1,600
28	Sugar and milk Sh.3,000
30	Postage stamps Sh.700, Nyambura, a creditor Sh.4,000
31	Received reimbursement to restore the float

Required:

A petty cash book with analytical columns for postage, travelling, staff tea, stationery, cleaning, miscellaneous and payments to creditors. (12 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following terms as used in accounting:

- (i) Accrual. (1 mark)
- (ii) Prepayment. (1 mark)

(iii) Straight line depreciation method.

(1 mark)

(iv) Reducing balance depreciation method.

(1 mark)

(b) ABC Ltd. ended its accounting year on 31 December 2018. The following payments had been made:

1. Rent of Sh.900,000 for the next three months paid on 1 November 2018.
2. Water expenses of Sh.600,000 paid on 1 April 2018 in respect of the year to 31 March 2019.
3. Advertising expenses of Sh.1,600,000 for 1 October 2018 to 31 January 2019 were paid on 1 February 2019.
4. Insurance expense of Sh. 1,800,000 paid on 1 August 2018, in respect of the year to 31 July 2019.
5. Electricity expenses of Sh.750,000 for the period 1 October 2018 to 31 December 2018 were paid on 15 January 2019.

Required:

Stating the individual amount, explain whether the payments listed above, result in an accrual or a prepayment in the accounts on 31 December 2018. (10 marks)

(c) Giving an example in each case, describe the following types of ratios:

(i) Liquidity ratios.

(2 marks)

(ii) Asset management ratios.

(2 marks)

(iii) Profitability ratios.

(2 marks)

(Total: 20 marks)

QUESTION THREE

The following information was extracted from the books of Kisima, a sole trader, as at 31 October 2019:

	Sh. "000"
Plant and machinery at cost	4,200
Motor vehicle at cost	2,400
Furniture and fittings at cost	800
Accumulated depreciation (1 November 2018):	
Plant and machinery	840
Motor vehicle	960
Furniture and fittings	160
Discounts allowed	240
Discounts received	300
Salaries and wages	2,820
Rent and rates	760
Drawings	1,200
Postage and stationery	150
Electricity expenses	120
Advertising expenses	80
Insurance expenses	240
12% bank loan	2,000
Carriage outwards	360
Loan interest	240
Purchases	12,400
Trade receivables	2,200
Trade payables	1,800
Inventory (1 November 2018)	1,600
Inventory (31 October 2019)	2,000
Bad debts written off	110
Sales	18,660
Returns outward	400
Cash at bank	200

Additional information:

For the year ended 31 October 2019, depreciation is to be charged on non-current assets as follows:

Asset	Sh. "000"
Plant and machinery	420
Motor vehicle	480
Furniture and fittings	80

Required:

- (a) Kisima's capital as at 1 November 2018. (4 marks)
 - (b) Income statement for year ended 31 October 2019. (10 marks)
 - (c) Statement of financial position as at 31 October 2019. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Describe four qualities of good accounting information. (8 marks)
- (b) Bazaar Motors Ltd. purchased a delivery van in January 2015 for Sh.2,000,000. The policy of the company is to depreciate motor vehicles at a rate of 25% on a straight line basis.

The delivery van was sold in March 2018 at a cash price of Sh.600,000. The company's policy is to charge full depreciation on the year of acquisition and no depreciation on the year of disposal.

Required:

For the whole life of the delivery van, prepare the following:

- (i) Motor vehicle depreciation account. (3 marks)
 - (ii) Motor vehicle accumulated depreciation account. (5 marks)
 - (iii) Disposal of motor vehicle account. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

The following is a summary of the receipts and payments account of Salt Lake Golf Club for the year ended 31 August 2019:

Receipts and payments account

	Sh. "000"		Sh. "000"
Balance brought forward:		Bar payables	6,000
- Bank	5,000	Bar attendant's wages	1,000
- Cash	200	Annual dinner costs	2,800
Subscriptions	16,000	Ground maintenance	3,000
Bar takings	10,000	Groundmen's salaries	10,000
Donations	2,000	Rates and insurance	3,480
Annual dinner sales	4,000	Purchase of equipment	1,100
Entry fees	1,000	Electricity and water	1,800
Sale of equipment	800	Secretary's honoraria	1,000
		Subscription refund	20
		Travelling expenses	3,000
		Purchase of prizes	400
		Balance carried forward:	
		- Bank	5,200
		- Cash	200
	<u>39,000</u>		<u>39,000</u>

Additional information:

1. Assets and liabilities on 31 August:

	2018 Sh. "000"	2019 Sh. "000"
Subscriptions in arrears	400	500
Subscriptions in advance	300	280
Insurance prepaid	100	80
Accrued electricity	40	30
Bar inventory	300	500
Bar payables	800	1,000
Land and buildings	1,200	1,200
Equipment	900	1,200
Inventory of prizes	30	20

2. During the year ended 31 August 2019, equipment with a net book value Sh.500,000 was sold for Sh.800,000.

3. Subscription received during the year ended 31 August 2019 of Sh.16 million included Sh.300,000 being arrears of the year ended 31 August 2018. It is the policy of the club to write-off any arrears of more than one year.

Required:

- (a) Bar income statement for the year ended 31 August 2019. (3 marks)
- (b) Subscriptions account. (4 marks)
- (c) Income and expenditure account for the year ended 31 August 2019. (7 marks)
- (d) Statement of financial position as at 31 August 2019. (6 marks)

(Total: 20 marks)

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