



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

WEDNESDAY: 15 December 2021.

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) Giving appropriate examples, describe the following types of errors:

- (i) Error of omission. (3 marks)
- (ii) Error of commission. (3 marks)
- (iii) Error of principle. (3 marks)

(b) The cash book balance of Jambo Traders as at 30 November 2021 was a debit balance of Sh.4,000,500, while the bank statement balance showed a credit balance of Sh.3,788,500.

On investigation, the following was discovered:

1. Cheques drawn but not presented for payment amounted to Sh.590,000.
2. A direct debit by the bank amounting to Sh.30,000 was not recorded in the cash book.
3. Dividends received worth Sh.130,000 was recorded in the bank statement but was not recorded in the cash book.
4. Bank charges amounting to Sh.50,000 and commission charges of Sh.2,000 were not recorded in the cash book.
5. Cheques received but not credited by the bank amounted to Sh.850,000.
6. A cheque drawn in favour of Peter Kamau worth Sh.400,000 was recorded by the bank as Sh.40,000.
7. A cheque worth Sh.150,000 received on 15 November 2021 was dishonoured by the bank and returned on 3 December 2021. No record had been made in the cash book.
8. An error in the cash book was discovered on the opening balance of Sh.500,000 which had been recorded as Sh.50,000 in one of the pages.

Required:

- (i) Adjusted cash book. (7 marks)
- (ii) Bank reconciliation statement as at 30 November 2021. (4 marks)

(Total: 20 marks)

QUESTION TWO

The following information was extracted from the books of Tom Obi, a sole trader as at 31 August 2021:

	Sh."000"	Sh."000"
Purchases and sales	13,000	21,800
Inventory (1 September 2020)	600	
Carriage inwards	350	
Staff salaries and wages	1,744	
Discount allowed and discount received	490	600
Returns inwards and returns outward	800	400
Carriage outwards	450	
Rates and insurance	520	
Office expenses	1,000	
Water and electricity	720	

	Sh. "000"	Sh. "000"
Bad debts written-off	190	
Allowances for bad debts (1 September 2020)		160
Account receivables and account payables	3,410	1,300
Rent received		780
Capital		2,998
Drawings	140	
Buildings (cost)	5,000	
Equipment (cost)	1,000	
Furniture and fittings (cost)	480	
Accumulated depreciation (1 September 2020):		
- Buildings		200
- Equipment		360
- Furniture and fittings		96
Bank overdraft		1,200
	<u>29,894</u>	<u>29,894</u>

Additional information on 31 August 2021:

	Sh. "000"
1. Closing inventory was valued at	750
2. Rent received in advance	60
3. Accrued rates	60
4. Prepaid insurance	30
5. Accrued electricity	80
6. During the year, Tom Obi took goods for personal use worth Sh.200,000 without recording.	
7. Tom Obi decided to write-off additional bad debts amounting Sh.10,000 .	
8. Allowance for doubtful debts be maintained at the rate of 5% of outstanding debts.	
9. Depreciation is to be provided as follows:	

Asset	Rate	Method
Buildings	2%	Straight line
Equipment	20%	Reducing balance
Furniture and fittings	10%	straight line

Required:

(a) Statement of profit or loss for the year ended 31 August 2021. (12 marks)

(b) Statement for financial position as at 31 August 2021. (8 marks)

(Total: 20 marks)

QUESTION THREE

S and P are partners in a retail business. The balances in their ledger account as at 30 June 2021 are as follows:

	Sh. "000"	Sh. "000"
Capital account: S		128,000
P		96,000
Current account: S		7,040
P		4,064
Drawings: S	8,320	
P	19,200	
Trade receivables	23,760	
Returns inward	1,904	
Returns outward		5,040
Carriage inwards	5,184	
Office expenses	10,928	
Insurance	5,360	
Bank balance	72,288	
Motor vehicles: Cost	144,000	
Accumulated depreciation		56,640
Fixtures and fittings: Cost	36,000	
Accumulated depreciation		2,880
Inventory (1 July 2020)	15,616	

	Sh. "000"	Sh. "000"
Purchases	244,608	
Sales		444,400
Discount allowed and discount received	3,616	5,008
Office salaries	86,976	
Rent and rates	23,328	
Salesmen salaries	54,720	
Commission received		6,736
	<u>755,808</u>	<u>755,808</u>

Additional information:

- Inventory as at 30 June 2021 was valued at Sh.16,544,000.
- An allowance for doubtful debts is to be charged at the rate of 5% per annum.
- The partnership agreement provides for the following:
 - Interest on capital to be charged at the rate of 1% per annum.
 - Annual salary of Sh.1,280,000 to be paid to P.
 - S and P to share profits and losses in the ratio 3:1 respectively.
- Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Motor vehicles	20%	Reducing balance
Fixtures and fittings	5%	Reducing balance

Required:

- Statement of profit or loss and appropriation account for the year ended 30 June 2021. (9 marks)
- Partner's current accounts. (5 marks)
- Statement of financial position as at 30 June 2021. (6 marks)

(Total: 20 marks)

QUESTION FOUR

The following balances remained in the books of Kivindyo Ltd. as at 31 August 2021 after the trading account was prepared:

	Sh.
Motor vehicles (cost Sh.7,880,000)	5,360,000
Furniture and equipment (cost Sh.10,528,000)	7,088,000
Land and buildings (cost)	34,440,000
Revenue reserves (1 September 2020)	3,450,000
Share capital: 1,600,000 Sh.20 ordinary shares	32,000,000
600,000 10% Sh.20 preference shares	12,000,000
Share premium account	1,600,000
Gross profit	16,301,600
Trade receivables	5,470,000
Trade payables	3,976,400
Bank balances	1,559,200
10% debentures	3,200,000
General reserves	3,600,000
Postage and telephone	156,000
Bad debts written off	68,000
Salaries and wages	4,640,000
Rent and rates	360,000
Insurance	122,000
Electricity and water	243,200
Directors' fees	500,000
Debenture interest	160,000
General expenses	1,621,600
Inventory (31 August 2021)	14,370,000

Additional information:

- Insurance includes Sh.60,000 paid in March 2021 for 12 months to 28 February 2022.
- Depreciation on furniture and equipment and motor vehicles is to be provided at the rate of 15% per annum and 25% per annum on cost respectively.

3. Provisions are to be made for:
- | | Sh. |
|-----------------------|---------|
| Audit fees | 258,000 |
| Electricity and water | 109,600 |
| Directors fees | 460,000 |
| Bad debts | 64,000 |
4. The directors have approved for the following appropriations:
- A dividend of 5% on the ordinary shares be paid.
 - Sh.1,200,000 to be transferred to general reserve.
 - Preference share dividend be paid.
5. Provision for corporation tax for the year amounted to Sh.1,737,000.

Required:

- (a) Statement of profit or loss for the year ended 31 August 2021. (12 marks)
- (b) Statement of financial position as at 31 August 2021. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Describe four purposes of financial accounting. (8 marks)
- (b) Explain the following accounting concepts:
- (i) Going concern. (2 marks)
 - (ii) Accrual. (2 marks)
 - (iii) Consistency. (2 marks)
- (c) Explain three advantages of maintaining petty cash book on imprest basis to an enterprise. (6 marks)
- (Total: 20 marks)**
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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 30 August 2021.

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) Citing an example in each case, explain the following terms:

(i) Prepayment. (2 marks)

(ii) Accrual. (2 marks)

(b) Celia Atieno lost her job after her employer closed shop due to effects of COVID-19 pandemic. With her savings amounting to Sh.950,000 she started a general supplies shop in January 2021. Her transactions for the month were as follows:

- January:
- 1 Started business with Sh.950,000 in cash.
 - 2 Bought goods on credit from Joncy Traders Sh.180,000.
 - 3 Credit sales: Bidii Ltd. Sh.66,000, Swaju Investment Sh.25,000, Swan Ltd. Sh.43,000.
 - 4 Purchased goods in cash Sh.230,000.
 - 5 Bought second-hand motor van for Sh.256,000 paying by cheque.
 - 7 Paid motor expenses Sh.12,000 cash.
 - 9 Credit sales: Paris Traders, Sh.24,000, Calvary Group, Sh.26,000, Finly Ltd. Sh.68,000.
 - 11 Purchased goods on credit: Joncy Traders Sh.240,000, Davincy Ltd. Sh.62,000.
 - 13 Purchases returned to Joncy Traders Sh.25,000.
 - 19 Sales returns from Swaju Investments Sh.11,000.
 - 20 Cash drawings by the proprietor Sh.44,000.
 - 21 Payments made to Davincy Ltd. Sh.62,000 cash.
 - 23 Received payment from Bidii Ltd. Sh.66,000 through a cheque.
 - 25 Received payments from Swan Ltd. Sh.43,000 through a cheque.
 - 28 Purchases returned to Joncy Traders Sh.42,000.
 - 29 Purchased stationery Sh.4,000 paying cash.
 - 30 Credit sales: Swaju Investments Sh.42,000, Calvary Group Sh.54,000.

Required:

(i) The relevant ledger accounts and close them as at 31 January 2021. (12 marks)

(ii) Trial balance as at 31 January 2021. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the following terms as used in presentation of accounting information:

(i) Dual aspect. (2 marks)

(ii) Materiality. (2 marks)

(iii) Going concern. (2 marks)

- (b) The following information was extracted from the books of Mworira Traders for the month of June 2021:

Balance as at 1 June 2021

Purchases ledger	Sh. "000" 800 (Credit)
Sales ledger	560 (Debit)

Transactions during the month of April 2021 were as follows:

	Sh. "000"
Payment to suppliers	6,400
Total receipts from customers	12,100
Discount received	520
Discount allowed	490
Purchases: Cash	8,410
Credit	15,200
Sales: Cash	1,300
Credit	17,500
Cash refunded from credit suppliers	60
Returns outward	310
Returns inward	250
Increase in allowance for doubtful debts	35
Bad debts written off	30
Contra settlement	850
Dishonoured cheques (included in receipts)	210
Interest on overdue debts charged to debtors	140
Refund to cash customers	120
Bills receivable	330

Required:

- (i) Sales ledger control account as at 30 June 2021. (7 marks)
- (ii) Purchases ledger control accounts as at 30 June 2021. (7 marks)

(Total: 20 marks)

QUESTION THREE

The trial balance of Mamboleo Enterprises as at 31 December 2020 failed to balance. The debit balance was Sh.1,724,300 while the total of credit balance was Sh.1,713,200. A suspense account was opened with the difference.

Further investigation revealed the following errors:

- Computers costing Sh.40,000 had been recorded as a debit entry in the repairs and maintenance account.
- Total purchases in the period were understated by Sh.20,000 although the total value of creditors was correctly recorded.
- Bank charges of Sh.400 had been omitted entirely from the ledger.
- Total telephone expenses were overstated by Sh.28,000.
- Purchase returns of Sh.1,100 were recorded as a debit entry in the sales returns account, but the correct entry had been made in the trade payables control account.
- Rental expenses of Sh.10,980 were entered incorrectly as Sh.11,880 in the expense account, but were entered correctly in bank account in the ledger.
- Credit purchases amounting to Sh.35,000 had been omitted from the books of accounts.

Required:

- (i) Journal entries to correct the above errors. (14 marks)
- (ii) Suspense account duly balanced. (6 marks)

(Total: 20 marks)

QUESTION FOUR

The following trial balance was extracted from the books of Kamwea Ltd. as at 30 September 2020:

	Sh. "000"	Sh. "000"
Bank balance	800	
Trade receivables	32,100	
Trade payables		23,800
Inventory (1 October 2019)	29,000	
Land and buildings at cost	80,000	
Accumulated depreciation (1 October 2019)		8,000
Equipment at cost	32,000	
Accumulated depreciation (1 October 2019)		9,600
Retained earnings		13,600
General reserves		12,000
Ordinary shares of Sh.100 each		70,000
10% debentures		12,000
Purchases	82,100	
Sales		161,600
Carriage inwards	300	
Carriage outwards	700	
Debenture interest paid	600	
Salaries	38,500	
Business rates	1,500	
Office expenses	900	
Sundry expenses	200	
Directors' remuneration	11,900	
	<u>310,600</u>	<u>310,600</u>

Additional information:

- Inventory as at 30 September 2020 was valued at Sh.31,700,000.
- A half year interest on 10% debentures was outstanding as at 30 September 2020.
- The following information relates to the company as at 30 September 2020:

	Sh. "000"
Accruals: Business rates	200
Office expenses	25
- Depreciation charge should be provided as follows:

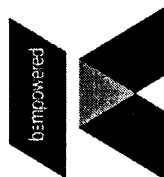
Asset	Rate per annum	Method
Land and buildings	5%	Straight-line
Equipment	15%	Straight-line
- The directors have proposed that the ordinary shareholders be paid Sh.5 per share after transferring Sh.1,000,000 to general reserves.
- The tax charged for the year amounted to Sh.10 million. This was outstanding as at 30 September 2020.

Required:

- Statement of profit or loss for the year ended 30 September 2020. (10 marks)
 - Statement of financial position as at 30 September 2020. (10 marks)
- (Total: 20 marks)

QUESTION FIVE

- Citing five users of accounting information, highlight their interests in such information. (10 marks)
 - State five benefits that a firm could derive from acquiring an accounting software. (5 marks)
 - Distinguish between "rights issues" and "bonus issues". (2 marks)
 - Explain three types of reserves associated with company accounts. (3 marks)
- (Total: 20 marks)
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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 17 May 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL workings.

QUESTION ONE

The following trial balance was extracted from the books of Farida Enterprises as at 30 September 2020:

	Sh. "000"	Sh. "000"
Capital account		12,300
Trade receivables and trade payables	4,000	1,600
Purchases and sales	24,400	36,600
Returns inward and returns outward	600	400
Discount allowed and discount received	300	400
Inventory (1 October 2019):	3,000	
Rates and insurance	3,000	
Allowances for doubtful debts		300
Rent received		1,000
Bad debts written off	600	
Staff salaries and wages	4,000	
Carriage inwards	200	
Carriage outwards	700	
Electricity and water	1,500	
Motor vehicles at cost	4,800	
Equipment at cost	2,000	
Accumulated depreciation (1 October 2019):		
• Motor vehicles		1,200
• Equipment		400
Bank balance	<u>5,100</u>	<u>54,200</u>
	<u>54,200</u>	<u>54,200</u>

Additional information:

1. Inventory as at 30 September 2020 amounted to Sh.3,600,000.
2. As at 30 September 2020, insurance paid in advance amounted to Sh.500,000.
3. As at 30 September 2020, electricity outstanding amounted to Sh.300,000 while rent due but not received amounted to Sh.200,000.
4. Allowance for doubtful debts is to be decreased by Sh.100,000.
5. During the year, goods estimated at Sh.2,000,000 were stolen and the insurance accepted claim for Sh.1,000,000.
6. Depreciation is to be provided on cost as follows:

Asset	Rate per annum
Motor vehicles	25%
Equipment	20%

Required:

- (a) Statement of profit or loss for the year ended 30 September 2020. (12 marks)
 - (b) Statement of financial position as at 30 September 2020. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Identify four errors that cannot be revealed by a trial balance. (4 marks)
- (b) The totals of the draft trial balance of Kongolo as at 30 September 2020 did not balance. The difference was posted to the suspense account.

Draft final accounts were prepared which showed a profit of Sh.6,126,480. Subsequent investigations revealed the following errors:

1. One of the pages of the sales book totalling Sh.308,280 had not been posted to the sales account.
2. The year-end inventory sheets had been overcast by Sh.66,000.
3. The discount allowed column in the cash book had been undercast by Sh.5,400.
4. The last page of the purchases day book totalling Sh.430,740 had been posted to the purchases account as Sh.430,470.
5. An invoice of Sh.3,840 was correctly entered in the sales day book but posted as Sh.5,840 in the customer's account.
6. An entry in the purchases day book of Sh.4,920 had not been posted to the supplier's account.
7. An error had been made in balancing of the petty cash book. The correct balance was Sh.15,000 and not Sh.1,500.
8. Loan interest paid amounting to Sh.30,000 was posted to the loan account.

Required:

- (i) Journal entries to correct the errors enumerated above. (8 marks)
- (ii) Suspense account showing the disposal of the original difference. (4 marks)
- (iii) Statement showing the corrected net profit. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Summarise two differences between debentures and equity shares. (4 marks)
- (b) The following information was extracted from the ledger of Karaja Traders as at 31 October 2020:

	Sh."000"
Land	40,000
Buildings	80,000
Fixtures and fittings	88,000
Motor vehicles	45,000
Allowance for doubtful debts	2,570
Accumulated depreciation:	
Land and buildings	16,000
Fixtures and fittings	44,000
Motor vehicles	27,000
Trade receivables	66,000
Prepaid expenses	1,380
Trade payables	47,800
Accrued expenses	460

Additional information:

1. During the year, motor vehicles which had cost Sh.15,000,000 and which had a net book value of Sh.3,000,000 were sold for Sh.4,500,000.
2. Depreciation is yet to be provided as follows:

Asset	Rate per annum	Method
Buildings	2%	Straight-line
Fixtures and fittings	25%	Reducing balance
Motor vehicles	20%	Straight-line

No depreciation is charged on land.
3. Trade receivables of Sh.1,340,000 are to be written-off as bad and the allowance for doubtful debts is to be adjusted so that it is 5% of trade receivables.

Required:

Prepare the following ledger accounts for the year ended 31 October 2020:

- | | | |
|-------|---------------------------------------------------|--------------------------|
| (i) | Bad debts. | (2 marks) |
| (ii) | Allowance for doubtful debts. | (2 marks) |
| (iii) | Assets disposal. | (3 marks) |
| (iv) | Accumulated depreciation (land and buildings). | (3 marks) |
| (v) | Accumulated depreciation (fixtures and fittings). | (3 marks) |
| (vi) | Accumulated depreciation (motor vehicles). | (3 marks) |
| | | (Total: 20 marks) |

QUESTION FOUR

Bondo, Chilungu and Donde are in partnership sharing profits and losses in the ratio of 3:2:1.

The trial balance of the partnership as at 31 October 2020 was as follows:

	Sh."000"	Sh."000"
Capital accounts:		
Bondo		270,000
Chilungu		180,000
Donde		90,000
Current accounts:		
Bondo		10,500
Chilungu	7,500	
Donde		4,500
Allowance for doubtful debts (1 November 2019)		15,000
Trade payables		525,000
Trade receivables	345,000	
Bank balance	37,500	
Purchases	1,275,000	
Sales		2,250,000
Rents and rates	60,000	
Motor vehicle expenses	20,000	
Office expenses	40,000	
Selling expenses	210,000	
Inventory (1 November 2019)	300,000	
Building at cost	900,000	
Motor vehicle at cost	300,000	
Accumulated depreciation:		
Building		180,000
Motor vehicle		120,000
Drawings:		
Bondo	60,000	
Chilungu	45,000	
Donde	45,000	
	<u>3,645,000</u>	<u>3,645,000</u>

Additional information:

- Inventory as at 31 October 2020 was Sh.450,000,000.
- Non-Current assets are to be depreciated on cost at the following rates:

Buildings	-	5% per annum.
Motor vehicles	-	20% per annum.
- Rates prepaid on 31 October 2020 amounted to Sh.30,000,000.
- On 31 October 2020, an amount of Sh.26,625,000 was owing in respect of selling expenses.
- A debt of Sh.7,500,000 is to be written-off.
- Allowance for doubtful debts is to be adjusted to 5% of outstanding debtors as at 31 October 2020.

7. The partnership agreement provides that:
- Donde is to be allowed a salary of Sh.90,000,000 per annum.
 - 10% interest per annum is to be allowed on capital account balances.
 - No interest is allowed on current accounts.
 - No interest is charged on drawings.

Required:

- (a) Statement of profit or loss and appropriation account for the year ended 31 October 2020. (8 marks)
- (b) The partners' current accounts as at 31 October 2020. (4 marks)
- (c) Statement of financial position as at 31 October 2020. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) The objective of financial statements is to provide information about the changes in financial performance and financial position of an entity that is useful to a wide range of users in making economic decisions.

Required:

List five users of financial information clearly explaining their information needs. (10 marks)

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

- (i) Journal proper. (3 marks)
- (ii) Trial balance. (2 marks)
- (iii) Sales ledger. (2 marks)
- (iv) Purchases ledger. (2 marks)
- (v) Personal accounts. (1 mark)

(Total: 20 marks)



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 23 November 2020.

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) In the context of company's accounts, describe the following terms:

- (i) Preference shares. (2 marks)
- (ii) Ordinary shares. (2 marks)
- (iii) Share premium. (2 marks)
- (iv) Bonus issues. (2 marks)
- (v) Issued share capital. (2 marks)

(b) The following information was extracted from the books of accounts for Uwezo Ltd during the year ended 30 April 2020:

Particulars	Opening balances	Closing balances
	1 May 2019 (Sh. "000")	30 April 2020 (Sh. "000")
Land and buildings	200,000	180,000
Furniture and fittings	75,000	70,000
Motor vehicles	120,000	100,000
Cash in hand	7,000	21,000
Cash at bank	-	87,000
Accounts receivable	42,000	96,000
Accounts payable	64,000	72,000
Inventories	28,000	18,000
Bank overdraft	78,000	-
Long term loan	50,000	40,000

Additional information:

Drawings made during the financial year amounted to Sh.14,200,000.

Required:

Ascertain the profit for the financial year ended 30 April 2020.

(10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the use of each of the following documents used in business transactions:

- (i) Local purchase order. (2 marks)
- (ii) Debit note. (2 marks)
- (iii) Catalogue. (2 marks)

(b) The following transactions were extracted from the books of Odhiambo Enterprises for month of March 2020:

March 2020:

- 1 Balance brought forward: Cash Sh.26,000, bank Sh.360,000.
- 2 Purchased goods and paid by cheque Sh.48,000.
- 2 Purchased goods on credit from the following; Tom Sh.36,000, Sanny Sh.40,000, Faith Sh.60,000 and Evans Sh.24,000.
- 3 Paid rent by cheque Sh.18,000.
- 4 Paid wages in cash Sh. 7,200,
- 4 Sold goods on credit to Ann Sh.12,000, Biden Sh.16,000, Samuel Sh.20,000 and Wetu Sh.30,000.
- 5 Sold goods in cash Sh.14,000.
- 6 Bought Stationery in Cash Sh.4,500.
- 8 Paid the following suppliers by cheque in each case deducting 5% cash discounts; Tom, Sanny, Faith and Evans.
- 9 Withdrew Sh.22,000 from the bank for business use.
- 10 Cheque received from Peter who had bought some furniture from the business in the month of February 2020 amounting to Sh.36,000 was returned by the bank, stamped insufficient funds.
- 14 The following paid their accounts in cash in each case deducting 2½% cash discount; Ann, Biden, Samuel and Wetu.
- 17 Sold goods in cash to the following: Penina Sh.18,000, Sara, Sh.12,000 and Hezron Sh.15,000.
- 24 Paid wages by cash Sh.12,000.
- 26 Banked Sh.30,000 from the cash till.

Required:

A duly balanced three-column cash book.

(14 marks)

Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Moses Kivindy as at 31 December 2019.

	Sh."000"	Sh."000"
Purchases and sales	293,500	430,000
Carriage inwards	2,100	
Drawings	31,000	
Equipment at cost	150,000	
Accumulated depreciation for equipment (1 January 2019)		35,000
Accounts receivable and accounts payable	5,120	3,600
Bad debts written off	400	
Allowance for doubtful debts		400
Rent	5,200	
Business rates	2,600	
Insurance	550	
Postage	250	
Stationery	986	
Capital		43,353
Inventory (1 January 2019)	6,520	
Cash at bank	3,257	
Cash in hand	120	
Advertising expenses	250	
Wages	10,500	
	<u>512,353</u>	<u>512,353</u>

Additional information:

1. Depreciation on equipment is to be provided at the rate of 10% on cost.
2. The allowance for doubtful debts is to be increased to 10% of the year end balance.
3. Purchases invoices valued at Sh.12,000,000 were discovered in a desk drawer. Half of them have been paid by cheque but no record was in the cash book. The rest are outstanding.
4. Accruals as at 31 December 2019 were as follows:

Sh."000"

Rent	150
Business rates	200
Stationery	16

5. Prepayments as at 31 December 2019 were as follows:

	Sh."000"
Insurance	150
Advertising	50

Required:

- (a) Statement of profit or loss for the year ended 31 December 2019. (12 marks)
- (b) Statement of financial position as at 31 December 2019. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Examine five purposes of control accounts. (5 marks)
- (b) The accounts clerk of Mawe Traders extracted the trial balance for the year ended 31 March 2020. It was observed that the total debits exceeded the total credits by Sh.476,000.

Investigations done by the accountant revealed the following:

- Sh.44,000 received from Juma traders (a debtor) had been debited to his account.
- A cash purchases of Sh.4,640 had been recorded in the cash book only.
- A payment by Munene (a debtor) of Sh.300,000 through Electronic Funds Transfer (EFT) direct to the bank had not been entered in the debtors account.
- Returns outward account had not been credited with an amount of Sh.122,640.
- Sales had been overcast by Sh.30,000.
- Credit purchases of Sh.50,000 from a creditor J. Kaka was correctly entered in the purchases account but was credited in the account of J. Kariuki another creditor.

Required:

- (i) The necessary journal entries with narrations to correct the above errors. (12 marks)
- (ii) Suspense account duly balanced. (3 marks)

(Total: 20 marks)

QUESTION FIVE

Pendo and Bora are partners running a retail business. Their partnership deed provides for the following:

- Profit and loss to be shared equally.
- Interest on capital at the rate of 5% per annum.
- Bora to get a salary of Sh.30,000 per month.
- The partners to be adding capital of Sh.500,000 to the fixed capital at the start of every year.

The following trial balance was extracted from the books of the partnership as at 31 December 2019:

	Sh."000"	Sh."000"
Purchases and sales	6,500	9,430
Inventory (1 January 2019)	800	
Accounts receivable and accounts payable	1,200	600
Motor vehicle at cost	2,400	
Furniture and fittings at cost	1,400	
Accumulated depreciation (1 January 2019):		
Motor vehicle		960
Furniture and fittings		400
Freehold land	1,000	
Discounts	100	180
Rent and rates	230	
Salaries and wages	1,300	
Bank balance	400	
Capital accounts: Pendo		2,500
Bora		2,000
Current accounts: Pendo		110
Bora		150
Drawings: Pendo	480	
Bora	520	
	<u>16,330</u>	<u>16,330</u>

Additional information:

1. Inventory as at 31 December 2019 was valued at Sh.1,000,000.
2. The trial balance figures above does not include the additional capitals made on 1 January 2019 as per the partnership deed.
3. As at 31 December 2019, rent and rates paid in advance amounted to Sh.30,000.
4. Salaries and wages outstanding as at 31 December 2019 amounted to Sh.200,000.
5. Depreciation was to be provided as follows:

Asset	Rate per annum	Method
Motor vehicle	20%	Straight line
Furniture and fittings	10%	Reducing balance

Required:

- (a) Statement of profit or loss and appropriation account for the year ended 31 December 2019. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 December 2019. (6 marks)

(Total: 20 marks)

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ATD LEVEL I

INTRODUCTION TO FINANCIAL 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) Explain four limitations of financial statements. (8 marks)
- (b) The following information was extracted from the books of Future Traders for the month of October 2019:

Balance as at 1 October 2019

	Sh."000"
Purchases ledger	360,000 (Credit)
Sales ledger	220,000 (Debit)
Transactions during the month of October 2019:	
Purchases: Cash	800,000
Credit	4,160,000
Sales: Cash	640,000
Credit	6,800,000
Refunds to cash customers	40,000
Contra settlement	360,000
Bad debts written off	12,000
Increase in allowance for doubtful debts	6,400
Returns inward	80,000
Returns outward	160,000
Cash refunds from credit suppliers	32,000
Interest on overdue customer debts	8,200
Discounts received from credit suppliers	256,000
Discounts allowed to credit customers	260,000
Total payments to credit suppliers	3,360,000
Total receipts from credit customers	6,100,000

Required:

- (i) Sales ledger control account as at 31 October 2019. (6 marks)
- (ii) Purchases ledger control account as at 31 October 2019. (6 marks)

(Total: 20 marks)

QUESTION TWO

Mavuno Feeds Enterprises is a small scale business that sells animal feeds.

The following information relates to June 2019, its first month of trading:

June 2019:	Particulars
1	Started business with Sh.175,000 in cash
2	Deposited Sh.140,000 of the cash into the bank account
3	Bought goods for cash worth Sh.7,500
4	Bought stationery on credit worth Sh.17,000 from Nathan
5	Bought goods on credit from Eva Sh.18,000, Paul Sh.24,500, Tony Sh.5,500 and Mark Sh.17,000
6	Paid rent balance by Cheque Sh.2,750

- 7 Sold goods on credit to Nancy Sh.4,500, Otieno Sh.7,500, Mureithi Sh.9,500 and Tamasha Sh.8,000
- 8 Bought furniture from Juhudi Carpenters on credit Sh.24,000
- 12 Paid wages in cash for casuals Sh.6,000
- 14 Returned goods worth Sh.3,000 and Sh.2,000 to Tony and Paul respectively
- 15 Bought an old machine by cheque Sh.35,000
- 16 Received a loan from Havvy by cheque Sh.30,000
- 17 The following goods were returned to the business; Nancy Sh.1,000 and Mureithi Sh.2,000
- 18 Cash sales Sh.4,500
- 21 Sold goods on credit to Pamela Sh.5,750, Otieno Sh.5,000 and Tamasha Sh.17,000
- 24 Paid the following by cheque; Paul Sh.22,500 and Tony Sh.2,500
- 25 Received a cheque from Pamela Sh.5,750 and Otieno Sh.12,500
- 28 Received an additional loan from Havvy Sh.10,000 in cash
- 30 Received Sh.25,000 from Tamasha in cash

Required:

- (a) Relevant ledger accounts. (12 marks)
 - (b) Trial balance as at 30 June 2019. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Using examples in each case, describe the following types of accounting errors:
 - (i) Error of original entry. (2 marks)
 - (ii) Error of commission. (2 marks)
 - (iii) Error of principle. (2 marks)
 - (iv) Compensating error. (2 marks)
- (b) Bahati Enterprises operates a hardware shop. The accountant prepared a trial balance which failed to balance with the debits exceeding the credits with Sh.75,420. The difference was placed in a suspense account awaiting investigations.

The following errors were later discovered and when corrected, the suspense account balance was eliminated:

1. Sales return day book was under cast by Sh.10,000.
2. A creditors balance of Sh.15,400 was omitted from the creditors schedule.
3. A credit sale of Sh.57,000 was entered in the debtor's account as Sh.75,000.
4. Rent received of Sh.21,000 was treated in the account as an expense.
5. An invoice of Sh.36,500 received was not recorded in the books.
6. A bad debt recovered of Sh.14,200 was correctly recorded in the debtors account and no other record was made in the books.
7. A credit note of Sh.4,560 sent to a debtor was debited in his account as Sh.5,460.

Required:

- (i) Journal entries to correct the above errors. (7 marks)
 - (ii) Suspense account to clear the difference in the trial balance. (5 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the following terms as used in accounting:
 - (i) Accrual basis of accounting. (2 marks)
 - (ii) Substance over form. (2 marks)
 - (iii) Cost principle. (2 marks)
 - (iv) Monetary unit assumption. (2 marks)

- (b) The following trial balance was extracted from the books of ABC Enterprises, a sole trader as at 31 October 2019:

	Debit Sh."000"	Credit Sh."000"
Freehold property at cost	120,000	
Equipment at cost	80,000	
Accumulated depreciation (1 November 2018):		
Freehold property		20,000
Equipment		38,000
Purchases	250,000	
Sales		402,200
Inventory (1 November 2018)	50,000	
Discounts allowed	18,000	
Discounts received		4,800
Returns outward		15,000
Salaries and wages	58,800	
Bad debts written off	4,600	
Interest on loan	5,100	
Rent	17,700	
Trade payables		36,000
Trade receivables	38,000	
Cash in hand	300	
Bank balance	1,300	
Allowance for bad debts		500
Drawings	24,000	
Long term loan		30,000
Capital		121,300
	<u>667,800</u>	<u>667,800</u>

Additional information:

- Inventory as at 31 October 2019 amounted to Sh.42,000,000.
- Salaries and wages outstanding as at 31 October 2019 was Sh.800,000.
- Rent paid in advance as at 31 October 2019 amounted to Sh.300,000.
- Allowance for doubtful debts is to be adjusted to 2% of trade receivables.
- Depreciation for non-current assets is to be provided as follows:

Asset	Method	Rate per annum
Freehold property	Straight line	1.5%
Equipment	Reducing balance	25%

Required:

Income statement for the year ended 31 October 2019.

(12 marks)
(Total: 20 marks)

QUESTION FIVE

Green Gas Ltd., has an authorised capital of 1,000,000 ordinary shares of Sh.10 each. The company's trial balance as at 30 September 2019 was as follows:

	Sh."million"	Sh."million"
Freehold Land	6,200	
Motor vehicles at cost	5,200	
Fixture and fittings at cost	4,600	
Accumulated depreciation (1 October 2018):		
Motor vehicles		3,000
Fixtures and fittings		2,500
Retained profit (1 October 2018)		800
General reserves (1 October 2018)		200
Ordinary share capital		7,800
10% debentures		2,040
Trade receivables and Trade payables	1,700	1,400
Purchases and sales	5,718	9,560
Administrative expenses	250	

	Sh. "million"	Sh. "million"
Bad debts written off	146	
Inventory (1 October 2018)	650	
Debentures interest paid	102	
Salaries and wages	900	
Directors emoluments	420	
Insurance	60	
Bank and cash balance	954	
Assets held for investment.	440	
Investment income		40
	<u>27,340</u>	<u>27,340</u>

Additional information:

1. Insurance paid in advance as at 30 September 2019 was Sh.9,000,000.
2. Salaries and wages outstanding as at 30 September 2019 amounted to Sh.51,000,000
3. Inventory as at 30 September 2019 was valued at Sh.960 million.
4. Provision for corporation tax for the year ended 30 September 2019 was Sh.300 million.
5. Depreciation is to be provided as follows:

Asset	Rate per annum
Fixtures and fittings	10% on straight line basis
Motor vehicles	20% on reducing balance basis
6. Directors have proposed for:
 - Dividends of 10% for ordinary shares.
 - Transfer of Sh.60 million to general reserves.
 - Provision for outstanding debenture interest.

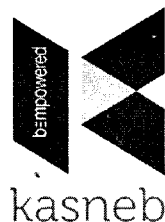
Required:

- (a) Income statement for the year ended 30 September 2019.
- (b) Statement of financial position as at 30 September 2019.

(12 marks)

(8 marks)

(Total: 20 marks)



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 20 May 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) Enumerate four objectives of financial accounting. (4 marks)
- (b) Highlight four advantages of preparing a trial balance. (4 marks)
- (c) Discuss four qualities of useful accounting information. (12 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) John and Ken are in partnership sharing profits and losses equally.

The following list of balances were extracted from their books of account as at 31 December 2018:

	Sh."000"
Freehold property at cost	40,000
Motor vehicles at cost	8,000
Equipment at cost	6,000
Accumulated depreciation (1 January 2018):	
- Motor vehicles	2,000
- Equipment	1,200
Accounts receivable	10,000
Accounts payable	6,000
Bank balance (debit)	2,400
Carriage outwards	5,560
Salaries and wages	8,840
Purchases	66,600
Inventory (1 January 2018)	8,000
Returns inward	1,600
Cash drawings:	
John	4,000
Ken	2,000
Current accounts:	
John (credit)	8,000
Ken (credit)	6,000
Capital accounts:	
John	24,000
Ken	18,000

Additional information:

- The salaries and wages outstanding as at 31 December 2018 amounted to Sh.200,000.
- The carriage outwards paid in advance as at 31 December 2018 amounted to Sh.160,000.
- The partnership agreement provides for the following:
 - Interest will be allowed on the fixed capital at the rate of 10% per annum.
 - John is entitled to an annual salary of Sh.2,400,000.
 - Interest shall be charged on cash drawings at the rate of 10% per annum.
- Sales per month which accrued evenly throughout the year were Sh.8,150,000.
- Inventory as at 31 December 2018 was valued at Sh.10,000,000.

6. During the year, partners took goods for personal use amounting to Sh.2,400,000 and Sh.1,600,000 for John and Ken respectively.
7. Depreciation is to be provided for as follows:

Asset	Rate per annum	Method
Motor vehicles	25%	Straight line
Equipment	20%	Reducing balance

Required:

- (a) Income statement and appropriation account for the year ended 31 December 2018. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 December 2018. (6 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Alibeba Traders on 31 March 2019:

	Sh. "000"	Sh. "000"
Freehold property at cost	80,000	
Accounts receivable and accounts payable	32,000	38,000
Discounts allowed and discounts received	1,000	1,500
Wages and salaries	42,200	
Returns inward and returns outward	210	350
Drawings	600	
Insurance	900	
General expenses	1,800	
Bank balance	14,500	
Suspense account	4,200	
Purchases and sales	182,000	290,650
Inventory (1 April 2018)	14,000	
Bank charges	90	
Equipment	16,400	
Motor vehicle	10,600	
Capital		70,000
	<u>400,500</u>	<u>400,500</u>

Additional information:

1. Inventory as at 31 March 2019 was valued at Sh.16,500,000.
2. After a thorough scrutiny, the following errors were discovered:
 - (i) Purchases of office equipment for Sh.2,600,000 was entered in the purchases account.
 - (ii) Bank charges omitted from the books amounted to Sh.910,000.
 - (iii) Sales were undercast by Sh.20,000,000.
 - (iv) Discounts allowed were overcast by Sh.200,000.
 - (v) Returns inward credited to returns outward account amounted to Sh.200,000.
 - (vi) Purchases were undercast by Sh.10,000,000.
 - (vii) Accounts payable were overcast by Sh.14,000,000.

Required:

- (a) Journal entry to correct the above errors. (narrations not required). (6 marks)
- (b) Suspense account duly balanced. (4 marks)
- (c) Income statement for the year ended 31 March 2019. (10 marks)

(Total: 20 marks)

QUESTION FOUR

The following balances were extracted from the books of Mzalendo Ltd. as at 31 December 2018:

	Debit Sh."000"	Credit Sh."000"
Trade receivables and trade payables	4,500	3,960
General reserves (1 January 2018)		3,800
Gross profit for the period		9,500
Inventories (31 December 2018)	3,200	
Ordinary share capital		7,000
10% preference capital		2,000
Bad debts written off	120	
Salaries and wages	2,940	
Furniture and fittings (cost Sh.7 million)	5,600	
Land at cost	13,695	
Revenue reserves (1 January 2018)		2,100
Directors fees	900	
Cash balance	150	
12% debentures		3,000
Discounts allowed and discounts received	170	85
Allowance for doubtful debts		400
Debenture interest paid	300	
Rental income		800
Interim preference dividends paid	180	
Interim ordinary dividends paid	130	
Corporation tax paid	410	
Prepaid directors fees	150	
Accrued rental income	200	
	<u>32,645</u>	<u>32,645</u>

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Additional information:

- Provisions as at 31 December 2018 are to be made as follows:
 - Audit fees Sh.360,000.
 - Outstanding debenture interest.
- Included in the salaries and wages is Sh.140,000 which relates to the month of January 2019.
- Allowances for doubtful debts are to be made at 10% of net trade receivables.
- Furniture and fittings are to be depreciated at 10% per annum on the net book values.
- The directors have recommended that:
 - Sh.700,000 be transferred to general reserves.
 - Outstanding preference dividends and a 5% ordinary dividend be paid for the whole year.

Required:

- Income statement for the year ended 31 December 2018. (12 marks)
 - Statement of financial position as at 31 December 2018. (8 marks)
- (Total: 20 marks)

QUESTION FIVE

- Highlight four reasons why it is important to make a provision for depreciation on non-current assets. (4 marks)
- Onyango is the proprietor of a private college and makes most of his payments and receipts through the bank.
The tuition fees is directly deposited in the bank or by use of cheques.
The summary of the cash book (bank column) for the month of April 2019 was provided by the accountant as follows:

Cash book (bank column)			
	Sh."000"		Sh."000"
Balance b/d	2,000	Total payments	66,900
Total receipts	53,640	Fees refunds	60
Balance c/d	<u>11,320</u>		
	<u>66,960</u>		<u>66,960</u>

A thorough scrutiny of the records revealed the following:

1. The opening balance in the bank account shown above was understated by Sh.100,000.
2. A standing order of Sh.534,000 in respect of purchase of a college bus was processed through the bank on 27 April 2019 but had not been entered in the accounting records.
3. Cheques totalling Sh.14,100,000 had been entered in the cash book on 28 April 2019 and paid into the bank on the same day but had not been credited as a receipt in the bank statement.
4. A cheque received for hiring out college premises for a youth seminar during the holidays of Sh.226,800 paid into the bank had not been entered in the cash book.
5. Unpresented cheques as at 30 April 2019 were as follows:

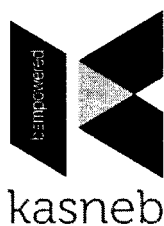
Cheque number	Amount (Sh.)	Date issued
4863	1,470,000	10 April 2019
4848	1,200,000	15 April 2019
4872	2,150,000	19 April 2019
4884	1,060,000	29 April 2019

6. The balance on the bank statement as at 30 April 2019 was an overdraft of Sh.22,962,000.
7. A cheque payment to a supplier for Sh.1,502,400 was incorrectly entered in the accounting records as a receipt.
8. Bank charges included in the bank statement but not in the cash book amounted to Sh.210,000.

Required:

- (i) Updated cash book as at 30 April 2019. (8 marks)
- (ii) Bank reconciliation statement as at 30 April 2019. (8 marks)

(Total: 20 marks)



ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 26 November 2018.

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) Explain the following accounting concepts:

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

(b) The following transactions were extracted from the books of Hawa Traders for the month of October 2018:

October 1	Balances brought forward:	Sh.
	- Cash in hand	392,500
	- Cash at bank	635,000
	- Capital	1,027,500
October 3	Bought goods and paid by cash Sh.102,500.	
October 4	Purchased goods on credit from Kamata Traders for Sh.145,000 less 10% trade discount.	
October 7	Sold goods on credit to Muthee for Sh.222,500 less 20% trade discount.	
October 9	Withdrew Sh.12,500 cash for personal use.	
October 12	Sold goods to Kasina for Sh.160,000 and received a cheque.	
October 15	Paid Sh.125,000 by cheque to Kamata Traders in full settlement of the debt.	
October 18	Muthee returned goods worth Sh.10,000.	
October 20	Received cash amounting to Sh.100,000 from Muthee.	
October 21	Purchased goods on credit from Hello Ltd. valued at Sh.217,500.	
October 23	Issued a cheque of Sh.150,000 to Hello Ltd. and received a discount of Sh.7,500.	
October 24	Purchased furniture worth Sh.20,000 from Urembo Furniture Ltd. on credit.	
October 26	Deposited Sh.55,000 from the cash in hand to the bank account.	
October 28	Goods worth Sh.15,000 were returned to Hello Ltd.	
October 29	Paid wages in cash amounting to Sh.45,000 and issued a cheque of Sh.250,000 for advertisements.	

October 30 Made cash sales of Sh.545,000.

October 30 Banked Sh.500,000 from the cash in hand.

October 31 Received Sh.47,500 in cash from Muthee and allowed a discount of Sh.2,500.

October 31 Goods worth Sh.10,000 were taken for personal use.

Required:

A duly balanced three-column cash book.

(12 marks)

(Total: 20 marks)

QUESTION TWO

Nancy and Regina are in partnership sharing profits and losses in the ratio of 3:2.

Their partnership agreement provides as follows:

- Interest is to be allowed on capital at the rate of 10% per annum.
- Interest is to be charged on drawings at the rate of 5% per annum.
- Nancy and Regina are entitled to annual salaries of Sh.18 million and Sh.12 million respectively.
- Nancy guaranteed Regina that Regina's total income from the partnership shall not be less than Sh.23 million per annum.

The partnership's trial balance as at 30 September 2018 is as follows:

	Sh."000"	Sh."000"
Buildings at cost	200,000	
Equipment at cost	100,000	
Accumulated depreciation (1 October 2015):		
Buildings		10,000
Equipment		20,000
Capital accounts:		
Nancy		200,000
Regina		100,000
Current accounts:		
Nancy		8,200
Regina		2,800
Gross profit		390,000
Discount received		10,000
Accounts receivable and accounts payable	36,000	21,000
Allowance for doubtful debts	1,700	
Drawings:		
Nancy	40,000	
Regina	20,000	
Staff salaries and wages	100,000	
Sales and distribution costs	90,700	
Discounts allowed	12,000	
Office expenses	60,000	
Insurance and rates	42,000	
Bad debts	8,000	
Inventory (30 September 2018)	38,000	
Bank balance	16,000	
Cash in hand	1,000	
	<u>763,700</u>	<u>763,700</u>

Additional information:

1. Allowance for doubtful debts is to be increased by Sh.100,000 as at 30 September 2018.
2. As at 30 September 2018, insurance prepaid amounted to Sh.2,000,000 while accrued sales and distribution costs amounted to Sh.300,000.

3. Depreciation is provided on cost as follows:

Asset	Rate per annum (%)
Buildings	5
Equipment	20

Required:

- (a) Income statement and appropriation account for the year ended 30 September 2018. (10 marks)
- (b) Partners' current accounts as at 30 September 2018. (4 marks)
- (c) Statement of financial position as at 30 September 2018. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

The following trial balance was extracted from the books of Kona Ltd. as at 30 June 2018:

	Sh."000"	Sh."000"
Land and buildings	115,360	
Motor vehicles at cost	44,800	
Accumulated depreciation on motor vehicles (1 July 2017)		26,880
Directors' emoluments	29,120	
Purchases and sales	841,120	1,099,952
Inventory (1 July 2017)	76,160	
Retained earnings (1 July 2017)		45,136
General expenses	2,436	
Salaries and wages	183,680	
Electricity	3,640	
Bank balance	30,184	
Interim dividend paid	5,460	
Motor vehicles running expenses	4,816	
Insurance	4,648	
Discounts allowed and discounts received	9,408	6,384
Bad debts written off	2,016	
Allowance for doubtful debts (1 July 2017)		1,232
Accounts receivable and accounts payable	103,376	85,120
Debenture interest paid	1,680	
400,000 ordinary shares at Sh.280 each		112,000
Share premium		25,200
6% debentures		56,000
	<u>1,457,904</u>	<u>1,457,904</u>

Additional information:

- Goods worth Sh.504,000 purchased on credit on 28 June 2018 were in transit and had not been entered in the books by close of business on 30 June 2018.
- As at 30 June 2018, outstanding motor vehicles running expenses amounted to Sh.392,000 while prepaid insurance amounted to Sh.672,000.
- Inventory as at 30 June 2018 was valued at Sh.91,280,000.
- Depreciation on motor vehicles is to be provided at the rate of 20% per annum on cost.
- Allowance for doubtful debts is to be increased to Sh.1,344,000.
- Audit fees and corporation tax are to be provided for at Sh.5,600,000 and Sh.11,200,000 respectively.
- The directors have proposed a final dividend at the rate of 10% of the outstanding ordinary share capital.

Required:

- (a) Income statement for the year ended 30 June 2018. (12 marks)
- (b) Statement of financial position as at 30 June 2018. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

Joyce Biba operates a small retail business and has not employed an accountant. She relies on her limited accounting knowledge.

Below is the trial balance she prepared for the year ended 30 September 2018:

	Sh. "000"	Sh. "000"
Building at cost		31,000
Fixtures at cost	6,000	
Motor vehicles at cost	13,000	
Accumulated depreciation:		
• Building		2,400
• Fixtures	1,800	
• Motor vehicles	3,250	
Carriage outwards		440
Carriage inwards	310	
Returns inward		900
Returns outward		1,100
Discounts allowed		600
Discounts received	1,200	
Accounts payable	3,400	
Accounts receivable		7,050
Telephone and postage	390	
Stationery		210
Office expenses	420	
Transport		1,930
Rent receivable		1,400
Bank balance	1,640	
Insurance expenses		225
Bad debts written off		325
Inventory (1 October 2017)	4,100	
Salaries and wages		6,000
Inventory (30 September 2018)	6,080	
Capital		24,000
Purchases		35,200
Sales	74,285	
Drawings		3,095
	<u>115,875</u>	<u>115,875</u>

Additional information:

- During the year ended 30 September 2018, Joyce had taken goods worth Sh.1,200,000 for personal use. This was not recorded in the books of account.
- As at 30 September 2018, prepaid insurance amounted to Sh.75,000 while outstanding salaries and wages amounted to Sh.660,000.
- Rent receivable accruing as at 30 September 2018 amounted to Sh.600,000.
- Allowance for doubtful debts is to be maintained at the rate of 5% of the accounts receivable.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Building	5	Cost
Fixtures	10	Cost
Motor vehicles	15	Reducing balance

Required:

- The corrected trial balance as at 30 September 2018. (5 marks)
 - Income statement for the year ended 30 September 2018. (9 marks)
 - Statement of financial position as at 30 September 2018. (6 marks)
- (Total: 20 marks)

QUESTION FIVE

(a) Explain the use of each of the following source documents in business transactions:

- (i) VAT invoice. (2 marks)
- (ii) Credit note. (2 marks)
- (iii) Statement of account. (2 marks)
- (iv) Receipt. (2 marks)
- (v) Pay in slip/cash deposit slip. (2 marks)

(b) The trial balance extracted from the books of Jewel Traders showed a total debit of Sh.5,630,400 while the credit side amounted to Sh.5,593,800.

The accountant later discovered the following errors:

1. A cheque for Sh.36,200 received from a debtor was entered in all the books as Sh.20,000.
2. Discounts allowed worth Sh.14,100 were credited to the discounts received accounts in the ledger.
3. Rent received of Sh.13,200 had been credited to the premises account.
4. Sales day book was undercast by Sh.56,400.
5. A credit note for Sh.8,400 issued to a debtor had been entered correctly in the returns account, but had not been posted to the relevant personal account.
6. A credit note for Sh.13,800 received from a supplier had not been recorded in any book.

Required:

- (i) Journal entries to correct the above errors.
(No narrations required). (6 marks)
- (ii) Suspense account duly balanced. (4 marks)

(Total: 20 marks)



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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 21 May 2018.

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) Discuss four limitations of financial accounting information. (8 marks)

(b) The following balances were extracted from the books of Jembe Ltd. for the month of April 2018:

Sh."000"

Balances as at 1 April 2018:

Trade receivables ledger	
- Debit	420,000
- Credit	1,484
Trade payables ledger	
- Credit	240,100
- Debit	1,708

Transactions during the month:

Dishonoured cheques from credit customers	13,230
Cash receipts from credit customers	205,170
Refund to customers for overpayments	1,470
Contra settlements	87,850
Discounts received	45,780
Payments to creditors by cheque	996,520
Discounts allowed	50,645
Receipts from customers by cheque	830,235
Allowance from suppliers	16,912
Credit purchases	1,085,098
Cash purchases	74,270
Credit sales	1,318,100
Cash sales	107,870

Balances as at 30 April 2018:

Trade receivables ledger (credit)	2,205
Trade payables ledger (debit)	770

Required:

(i) Trade receivables control account for the month ended 30 April 2018. (7 marks)

(ii) Trade payables control account for the month ended 30 April 2018. (5 marks)

(Total: 20 marks)

QUESTION TWO

(a) Twende Ltd. has an authorised share capital of Sh.10,000,000 divided into 500,000 ordinary shares of Sh.20 each. On 1 April 2018, the directors invited interested members of the public to apply for the purchase of shares at par. The closing date for application was 15 April 2018. Applications were received for 600,000 ordinary shares and paid in full. The allotment was made on 20 April 2018 and excess application money refunded.

Required:

(i) Journal entries, including narrations, to record the above transactions. (6 marks)

(ii) Ledger accounts to record the above transactions. (4 marks)

- (b) The accountant of Biomark Limited balanced the cash book on 31 December 2017. He obtained a debit balance of Sh.4,488,000 in the bank column. He obtained the bank statement on the same date which showed a balance of Sh.3,069,600.

On further examination of the books, the following differences were discovered:

1. A standing order for the purchase of equipment on credit of Sh.768,000 was in the bank statement and not the cash book.
2. Cheques totalling Sh.616,800 had been entered in the cash book, but had not been presented to the bank by 31 December 2017.
3. Bank charges amounting to Sh.48,000 had not been recorded in the cash book.
4. Cheques totalling Sh.1,881,600 had been entered in the cash book and deposited in the bank, but not yet credited into the account as at 31 December 2017.
5. A dividend receipt of Sh.672,000 was deposited directly into the bank account. There is no record of this deposit in the cash book.
6. The bank charged Sh.9,600 for a new cheque book. This was not recorded in the cash book.

Required:

- (i) The updated cash book as at 31 December 2017. (6 marks)
- (ii) Bank reconciliation statement as at 31 December 2017. (4 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Ray Mrefu on 31 December 2017:

	Sh."000"	Sh."000"
Freehold property at cost	600,000	
Equipment at cost	540,000	
Motor vehicles at cost	420,000	
Accumulated depreciation (1 January 2017)		
- Equipment		54,000
- Motor vehicles		84,000
Purchases and sales	936,000	1,575,000
Trade receivables and trade payables	120,000	90,000
Returns inward and returns outward	15,000	6,000
Carriage inwards	3,000	
Carriage outwards	24,000	
Salaries and wages	210,000	
Electricity and water	144,000	
Rates and insurance	66,000	
Sales and distribution expenses	360,000	
Bad debts	30,000	
Allowance for doubtful debts (1 January 2017)		9,000
Capital account		1,500,000
Drawings	51,000	
Inventory (1 January 2017)	114,000	
Bank balance	45,000	
Rent received		360,000
	<u>3,678,000</u>	<u>3,678,000</u>

Additional information:

1. Inventory as at 31 December 2017 was valued at Sh.120,000,000.
2. Accrued electricity expenses as at 31 December 2017 amounted to Sh.6,000,000.
3. Insurance prepaid as at 31 December 2017 amounted to Sh.18,000,000.
4. Rent receivable outstanding as at 31 December 2017 amounted to Sh.60,000,000.
5. Goods costing Sh.12,000,000 were destroyed by fire during the year. The insurance company has accepted a claim for Sh.9,000,000 only. No record was made for this transaction.
6. Allowance for doubtful debts is to be maintained at a rate of 5% per annum of the trade receivables.

7. Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Equipment	10	Reducing balance
Motor vehicles	20	Straight line

Required:

(a) Income statement for the year ended 31 December 2017. (12 marks)

(b) Statement of financial position as at 31 December 2017. (8 marks)

(Total: 20 marks)

QUESTION FOUR

Rachel and Violet are in partnership trading under the name Ravi Traders. The following is the partnership's trial balance as at 31 March 2018:

	Sh."000"	Sh."000"
Capital account:		
Rachel		25,000
Violet		20,000
Current account:		
Rachel		424
Violet	127	
Drawings:		
Rachel	3,600	
Violet	4,200	
Land at cost	12,000	
Buildings at cost	30,000	
Provision for depreciation on buildings		6,000
Motor vehicles at cost	18,000	
Provision for depreciation on motor vehicles		4,500
Fixtures and fittings	4,200	
Provision for depreciation on fixtures and fittings		1,250
Trade receivables and trade payables	9,200	3,600
Inventory (1 April 2017)	7,000	
Purchases and sales	39,300	70,808
Distribution expenses	920	
Discounts allowed	340	
Loan interest	840	
Office expenses	570	
Salaries and wages	6,700	
Bad debts	185	
12% bank loan		7,000
Cash in hand	1,400	
	<u>138,582</u>	<u>138,582</u>

Additional information:

- Inventory as at 31 March 2018 was valued at Sh.120,000,000.
- Allowance for doubtful debts is to be provided at the rate of 2.5% per annum of the outstanding trade receivables at the end of the year.
- Depreciation is to be provided as follows:

Asset	Rate per annum (%)	Method
Buildings	2.5	Cost
Motor vehicles	15	Cost
Fixtures and fittings	10	Reducing balance
- The partnership deed provided the following:
 - Violet to receive a salary of Sh.3,000,000 per annum.
 - Interest be charged on drawings at the rate of 10% per annum.
 - Interest be allowed on capital balance at the rate of 5% per annum.
 - Rachel and Violet to share profit and losses in the ratio 3:2 respectively.

Required:

- (a) Income statement and appropriation account for the year ended 31 March 2018. (10 marks)
- (b) Partners' current accounts as at 31 March 2018. (4 marks)
- (c) Statement of financial position as at 31 March 2018. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Analyse three errors that might not affect the balancing of a trial balance. (6 marks)
- (b) The trial balance of Yellow Sun Ltd. failed to agree on 31 March 2018. The debit side exceeded the credit side by Sh.360,000. After thorough scrutiny, the following errors were discovered:
1. The total of discount received column in the cash book had been overcast by Sh.180,000.
 2. The return of goods worth Sh.120,000 from Zaituni, a debtor, had been credited in Zaituni's account and debited to purchases account.
 3. A page of the purchases journal had been undercast by Sh.360,000.
 4. The return of goods worth Sh.460,000 to Muindi, a supplier, had been completely omitted from the books of accounts.
 5. A total in one of the pages of the sales journal has been carried forward as Sh.980,000 instead of Sh.1,880,000.

Required:

- (i) Journal entry to correct the above errors. (Narrations not required). (5 marks)
- (ii) Suspense account duly balanced. (3 marks)
- (iii) Corrected income statement for the year ended 31 March 2018. The net profit before correction was Sh.1,540,000. (6 marks)
- (Total: 20 marks)**

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ATD LEVEL I

INTRODUCTION TO FINANCIAL 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

- (a) Outline four contents of a valid invoice as a source document. (4 marks)
- (b) Citing suitable examples, explain the meaning of the following terms:
- (i) Accounting concepts. (2 marks)
- (ii) Accounting bases. (2 marks)
- (c) Distinguish between First-in-First Out (FIFO) and weighted average cost as used in the accounting for inventory. (2 marks)
- (d) Double N Traders commenced trading on 1 January 2015. During the two years ended 31 December 2015 and 31 December 2016, the following debts were written off to bad debts account on the stated dates:

Sh. "000"		
31 August 2015	J. Oyaro	425
30 September 2015	S. Mwaboza	700
28 February 2016	K. Munyi	900
31 August 2016	C. Owayo	300
30 October 2016	J. Timberlake	1,250

On 31 December 2015, total debtors amounted to Sh.20,250,000. It was decided to make an allowance for doubtful debts of 5% of the debtors. On 31 December 2016, the debtors balance stood at Sh.23,650,000. Allowance for bad debts was maintained at 5% of debtors.

The accountant of Double N Traders did not provide for the bad debts nor did he recognise the bad debts expense in the two years.

Required:

- (i) Debtors account at each year end. (4 marks)
- (ii) Bad debts account. (3 marks)
- (iii) Allowance for bad debts account. (3 marks)

(Total: 20 marks)

QUESTION TWO

Nyakati Limited showed a difference on their trial balance of Sh.14,650,000. This was posted to a suspense account so that the accounts for the year ended 31 March 2017 could be prepared. The following statement of financial position was produced:

Nyakati Limited					
Statement of financial position as at 31 March 2017					
	Sh."000"		Cost Sh."000"	Depreciation Sh."000"	Net book value Sh."000"
Capital	125,000	Fixed Assets			
Profit for the year	33,500	Freehold premises	60,000	-	60,000
	<u>158,500</u>	Motor vehicles	25,000	11,935	13,065
		Fixtures and fittings	<u>1,500</u>	<u>750</u>	<u>750</u>
			86,500	12,685	73,815
Current liabilities		Current assets			
Creditors and accruals	41,360	Inventories		75,410	
Bank overdraft	<u>1,230</u>	Debtors		37,140	
	<u>42,590</u>	Cash in hand		<u>75</u>	<u>112,625</u>
					186,440
		Suspense account			<u>14,650</u>
	<u>201,090</u>				<u>201,090</u>

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Out of 5

On checking the books to eliminate the suspense account, the following errors were found:

1. The debit side of the cash book was undercast by Sh.10,000,000.
2. A credit item of Sh.5,000,000 in the cash book on account of a new building has not been posted to the nominal ledger.
3. The purchase day book has been summarised for posting to the nominal ledger but an item of purchases of Sh.100,000 has been entered in the summary as Sh.1,000,000 and a further transport charge of Sh.450,000 has been entered as Sh.45,000.
4. An item of rent received amounting to Sh. 45,000 was posted twice to the nominal ledger from the cash book.
5. The debit side of the debtors' control account was undercast by Sh.100,000.
6. On reconciling the bank statement with the cash book, it was discovered that bank charges of Sh.3,250,000 had not been entered in the cash book.
7. Depreciation of motor vehicles was undercharged by Sh.500,000.
8. Inventories were undervalued by Sh.1,250,000.
9. Suppliers' invoices totalling Sh.2,110,000 for goods included in the inventories had been omitted from the books.

Required:

- (a) Journal entries necessary to eliminate the balance on the suspense account. (6 marks)
- (b) Suspense account duly balanced. (6 marks)
- (c) Statement of financial position as at 31 March 2017 after correcting the errors. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) The following trial balance was extracted from the books of Chrispine Oduma, a sole trader as at 30 April 2017:

	Sh. "000"	Sh. "000"
Capital (1 May 2016)		78,282
Trade receivables	128,211	
Cash in hand	4,233	
Trade payables		106,212
Fixtures and fittings at cost	126,600	
Discount allowed	3,912	
Discount received		3,525
Inventory (1 May 2016)	55,380	
Sales		1,474,860
Purchases	1,163,808	
Motor vehicles at cost	137,190	
Lighting and heating	18,552	
Motor vehicles running expenses	8,586	
Rent payable	26,523	
General expenses	22,239	
Bank overdraft		59,583
Accumulated depreciation (1 May 2016):		
• Fixtures and fitting		6,600
• Motor vehicles		45,876
Drawings	79,704	
	<u>1,774,938</u>	<u>1,774,938</u>

Additional information:

1. The following balances were available as at 30 April 2017:

	Sh.
• Accrued motor vehicles running expenses	218,000
• Prepaid rent	680,000
2. Depreciation is to be provided as follows:

Asset	Method	Rate per annum
• Motor vehicles	Straight line	20%
• Fixtures and fittings	Reducing balance	10%
3. Inventory as at 30 April 2017 was valued at Sh.59,778,000.

Required:

- Income statement for the year ended 30 April 2017. (8 marks)

- (b) You have been preparing the accounts for your client Jane Ambani for the year ended 31 December 2016. Jane has commented that the bank balance in her account is always different from the balance shown on her bank statement.

In your working papers for Jane's accounts, you have noted the following issues:

1. The reconciled bank balance as at 31 December 2015 was Sh.2,573,000 (debit).
2. The total value of cheques recorded for the accounting period in the cheque journal was Sh.147,684,000.
3. The total value of lodgements recorded for the accounting period in the cash book was Sh.146,093,000.
4. A cheque had been incorrectly recorded in the cheque journal with a value of Sh.1,765,000. The correct value of Sh.1,675,000 had been debited on the bank statement.
5. Standing order totalling Sh.3,600,000 had been debited by the bank, but not recorded in the cheque journal.
6. During the year, Jane had a short-term surplus of cash and Sh.40,000,000 had been transferred to a deposit account for a period of 6 weeks. When the deposit matured, the original amount of Sh.40,000,000 together with the interest earned of Sh.312,000 were credited by the bank to the current account. None of those transactions had been recorded in Jane's books.
7. Bank charges of Sh.563,000 had been debited by the bank, but had not been recorded in Jane's books.
8. A lodgement of Sh.12,386,000 had been entered in the cash book on the last day of the accounting period. This had not been credited on the bank statement until the second working day of the month of January 2017.
9. The following cheques were issued during the accounting period but were not debited on the bank statement until after the end of the accounting period:

Cheque Number	Amount Sh."000"
782413	1,425
782414	824
782430	681
782456	2,643
782465	832

10. The closing balance on the bank statement was Sh.8,760,000 overdrawn.

Required:

- (i) Adjusted cash book as at 31 December 2016. (8 marks)
 - (ii) Bank reconciliation statement as at 31 December 2016. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

Pete and Chanda have been in partnership sharing profits and losses in the ratio of 3:2 respectively. Their agreement also provides the following:

- Interest be allowed on capital at the rate of 10% per annum.
- Interest be charged on drawings and current accounts with a debit balance at the rate of 10% per annum.
- Chanda is entitled to a salary of Sh.1,200,000 per year.

Their trial balance after the preparation of trading account on 31 March 2017 was as follows:

	Sh."000"	Sh."000"
Capital accounts:		
Pete		6,000
Chanda		3,000
Current accounts:		
Pete		2,000
Chanda	1,000	
Drawings:		
Pete	3,600	
Chanda	2,400	
10% loan from Pete		4,000
12% loan from Boresha Bank Ltd.		6,000
Gross profit for the year		16,000
Inventory (31 March 2017)	3,200	
Administrative expenses	3,800	
Sales and distribution expenses	6,200	
Freehold property at cost	10,000	
Motor vehicles at cost	6,000	

	Sh."000"	Sh."000"
Accumulated depreciation (1 April 2016):		
- Freehold property		1,000
- Motor vehicles		2,400
Interest on bank loan paid	360	
Accounts receivable and accounts payable	4,800	3,000
Bank balance	<u>2,040</u>	
	<u>43,400</u>	<u>43,400</u>

Additional information:

1. The following balances were available as at 31 March 2017:

	Sh."000"
• Accrued administrative expenses	200
• Sales and distribution expenses prepaid	1,200
2. A half year interest on loan from bank is owing.	
3. Depreciation is provided on cost as follows:	
Asset	Rate per annum
Freehold property	5%
Motor vehicles	20%

Required:

- (a) Income statement and appropriation account for the year ended 31 March 2017. (10 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 31 March 2017. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Summarise four objectives of accounting. (8 marks)
- (b) The following trial balance was extracted from the books of Bentum Ltd. on 31 March 2017:

	Sh."000"	Sh."000"
Issued and fully paid capital:		
Ordinary share capital of Sh.20 each		80,000
10% preference shares of Sh.20 each		50,000
Share premium		20,000
General reserve		4,000
Retained earnings		16,000
Inventory (1 April 2016)	18,000	
Purchases and sales	220,000	400,000
Returns inwards and returns outwards	7,000	6,000
Accounts receivable and accounts payable	24,000	18,000
Administrative expenses	42,600	
Sales and distribution expenses	64,400	
10% Debentures		40,000
Rent received		1,100
Interest on debentures paid	2,000	
Freehold property at cost	120,000	
Equipment at cost	60,000	
Motor vehicles at cost	80,000	
Accumulated depreciation (1 April 2016):		
- Equipment		6,000
- Motor vehicles		16,000
Bank balance	25,100	
Suspense account		<u>6,000</u>
	<u>663,100</u>	<u>663,100</u>

Additional information:

1. The following information relates to the firm as at 31 March 2017:

Sh."000"

• Inventory	24,000
• Administrative expenses owing	100
• Sales and distribution expenses prepaid	300
• Rent receivable due	100
• Corporation tax (estimated)	18,000

2. A half year interest on debentures is owing.

3. Suspense account is due to the following errors:

- Total sales journal was undercast by Sh.10 million.
- Total returns inwards of Sh. 2 million for the month of March 2017 was erroneously credited to returns outwards account.

4. Depreciation should be provided as follows:

Asset	Rate per annum	Method
Equipment	10%	Reducing balance
Motor vehicles	20%	Straight line

5. Directors have proposed that dividend be paid on preference shares and Sh.4 per ordinary share after transfer of Sh.10 million to general reserve.

Required:

(i) Suspense account duly balanced.

(2 marks)

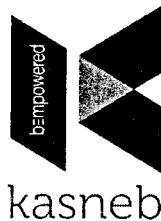
(ii) Income statement for the year ended 31 March 2017.

(10 marks)

(Total: 20 marks)

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ATD LEVEL I

INTRODUCTION TO FINANCIAL 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

- Highlight four source documents used in accounting. (4 marks)
 - Describe three external users of accounting information indicating the information needs for each user. (6 marks)
 - Discuss five disadvantages of a sole proprietorship as a form of business. (10 marks)
- (Total: 20 marks)

QUESTION TWO

The accountant of Twende Kazi Ltd. discovered that the statement of financial position for the company did not balance. He put the difference in a suspense account. The following is the statement of financial position of Twende Kazi Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"	Sh. "000"
Non-current assets:			Net book value
Premises			36,000
Equipment			15,600
Motor vehicles			<u>12,540</u>
			64,140
Current assets:			
Inventory (30 September 2017)		26,826	
Accounts receivable	14,277		
Allowance for doubtful debts	<u>(1,392)</u>	12,885	
Prepayments		858	
Bank and cash balance		<u>6,540</u>	47,109
Current liabilities:			
Accounts payable		15,048	
Accruals		<u>768</u>	<u>(15,816)</u>
			95,433
Suspense account			<u>(9,789)</u>
			<u>85,644</u>
Financed by:			
Ordinary share capital			84,000
Revenue reserve			<u>1,644</u>
			<u>85,644</u>

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

- Discounts received of Sh.792,000 had been debited to the discounts allowed account.
- The sales account had been undercast by Sh.6,000,000.
- The purchase returns daybook had been correctly entered and totalled at Sh.3,696,000 but had not been posted to the ledger.
- A credit sale of Sh.882,000 had been debited to a customer's account as Sh.1,287,000.
- A motor vehicle bought at a cost of Sh.4,200,000 four years ago has been sold at Sh.1,800,000. No entries other than in the bank account had been passed through the books. The motor vehicle was depreciated at a rate of 20% per annum on a straight-line basis on a residual value of Sh.600,000.

6. Accrued electricity expenses of Sh.336,000 had been omitted.
7. A bad debt of Sh.936,000 had not been written off and allowance for doubtful debts is to be maintained at a rate of 10% of the accounts receivable.

Required:

- (a) Suspense account duly balanced. (3 marks)
 - (b) Statement of adjustments to show the correct net profit for the year ended 30 September 2017. (9 marks)
 - (c) Corrected statement of financial position as at 30 September 2017. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

Alex, Brian and Charles are in partnership sharing profit and losses in the ratio 3:2:1 respectively. Their partnership agreement provides as follows:

- Charles is entitled to an annual salary of Sh.2,700,000.
- Interest is to be allowed on capital at the rate of 10% per annum.
- Alex and Brian guaranteed that the total income of Charles from the firm shall not be less than Sh.15,000,000.

The partnership's trial balance as at 30 June 2017 is as follows:

	Sh. "000"	Sh. "000"
Capital accounts:		
Alex		90,000
Brian		60,000
Charles		30,000
Current accounts:		
Alex		9,000
Brian		6,000
Charles	1,500	
Drawings:		
Alex	22,320	
Brian	14,880	
Charles	6,000	
Inventory as at 30 June 2017	36,000	
Gross profit		288,000
Premises at cost	63,000	
Motor vehicles at cost	60,000	
Equipment at cost	90,000	
Accumulated depreciation (1 July 2016):		
Motor vehicles		12,000
Equipment		9,000
Rent	39,000	
Salaries and wages	72,000	
Water and electricity	9,900	
Office expenses	12,000	
Distribution expenses	58,500	
Bad debts	3,000	
Allowance for doubtful debts		1,350
Accounts receivable and accounts payable	33,000	27,150
Cash and bank balances	<u>11,400</u>	
	<u>532,500</u>	<u>532,500</u>

Additional information:

1. As at 30 June 2017, accrued distribution expenses amounted to Sh.1,500,000 while rent paid in advance was Sh.3,000,000.
2. Depreciation is provided as follows:

Asset	Rate per annum	Method
Motor vehicles	20%	Straight line
Equipment	10%	Reducing balance
3. Allowance for doubtful debts is to be increased to 5% of the accounts receivable.

Required:

- (a) Income statement and appropriation account for the year ended 30 June 2017. (9 marks)
- (b) Partners' current accounts. (4 marks)
- (c) Statement of financial position as at 30 June 2017. (7 marks)

(Total: 20 marks)**QUESTION FOUR**

The following trial balance was extracted from the books of Jenga Taifa Ltd. as at 30 September 2017:

	Sh. "000"	Sh. "000"
Purchases and sales	516,000	955,000
Carriage inwards	14,500	
Carriage outwards	34,000	
Discounts allowed and discounts received	14,000	36,500
Salaries and wages	73,000	
General expenses	22,000	
Rent and rates	45,000	
Electricity and water	23,500	
Insurance	10,500	
Selling expenses	21,250	
Director's fees	52,500	
Repairs and maintenance	8,750	
Interim dividend paid	15,000	
Fixtures and fittings at cost	102,000	
Motor vehicles at cost	61,000	
Accumulated depreciation (1 October 2016)		
Fixtures and fittings		16,500
Motor vehicles		25,500
Ordinary shares (Sh.10 par value)		150,000
Share premium		37,500
Revenue reserve (1 October 2016)		53,500
General reserve		25,000
Inventory (1 October 2016)	157,500	
Trade receivables and trade payables	230,000	80,000
Bank overdraft		21,000
	<u>1,400,500</u>	<u>1,400,500</u>

Additional information:

- Inventory as at 30 September 2017 was valued at Sh.182,000,000.
- An allowance for doubtful debts is to be made at a rate of 2.5% of the trade receivables balance.
- Prepayments and accruals as at 30 September 2017 were as follows:

	Prepayment Sh. "000"	Accrual Sh. "000"
Salaries and wages		3,000
Insurance	2,000	
Selling expenses		500
Auditor's fees		7,000

- Depreciation is to be charged as follows:

Asset	Rate per annum	Method
Fixtures and fittings	10%	Straight line
Motor vehicles	25%	Reducing balance

- Corporation tax is to be charged at a rate of 30% of the reported profit for the year.
- The directors have proposed the following:
 - A final dividend of Sh.3 per share be paid.
 - A transfer of Sh. k2,500,000 to the general reserve.

Required:

- (a) Income statement for the year ended 30 September 2017. (12 marks)
- (b) Statement of financial position as at 30 September 2017. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The following transactions relate to the business of Jayden Kibe for the month of October 2017:

Date	Details	Sh. "000"
October 1	Balance brought forward	
	- Cash	400
	- Bank overdraft	20,650
3	Introduced additional capital by cheque	15,000
8	Bought equipment by cheque	3,000
10	Cash sales	17,500
14	Withdrew cash from bank for office use	5,000
16	Paid salaries by cash	4,500
18	Bought a motor vehicle by cheque	25,000
25	Receipt from customers by cheques. The accounts have a 5% cash discount:	
	- Bilha Ltd.	20,000
	- R and R Merchants Ltd.	9,000
	- Cool Baby Ltd.	18,000
28	Payment to creditors by cheques, having deducted 10% cash discounts:	
	- Zuri Ltd.	27,000
	- Pamba Ltd.	1,350
30	Paid rent in cash	300
30	Banked all cash in hand except Sh.250,000	

Required:

Three column cash book duly balanced on 31 October 2017.

(40 marks)

(b) Dora Johari started her transport business on 1 July 2015. She purchased the following vehicles on the same day:

- KZ 414A - Pickup at Sh.4,500,000.
- KB 410C - Lorry at Sh.6,000,000.
- KD 300B - Lorry at Sh.15,000,000.

Year 2016:

- 1 January - KL 330A - Pickup at Sh.3,600,000.
- 30 June - KE 111B - Lorry at Sh.12,000,000.
- 30 September - KG 200A - Lorry at Sh.18,000,000.

Year 2017:

- Disposed KZ 414A for Sh.3,600,000 cash on 1 March.
- Disposed KL 330A for Sh.2,250,000 cash on 1 July.
- Traded-in KB 410C with KH 275D costing Sh.7,500,000. The dealer requested Dora Johari to pay an additional Sh.3,000,000 in cash. The trade-in transaction was completed on 30 June 2017.
- Dora Johari provides depreciation at the rate of 20% per annum on cost on a pro-rata basis.

Required:

For each of the years ending 30 June 2016 and 30 June 2017, prepare:

(i) Motor vehicles provision for depreciation account. (6 marks)

(ii) Motor vehicles disposal account. (4 marks)

(Total: 20 marks)

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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 23 May 2016.

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 balances were extracted from the books of Jane Wande, a sole proprietor, on 31 March 2016:

	Sh. "000"	Sh. "000"
Sales		942,330
Purchases	720,000	
Carriage inwards	10,000	
Drawings	35,000	
Rent	15,000	
Rates	8,000	
Insurance	800	
Postage and telephone	450	
Stationery	1,210	
Sales promotion	400	
Salaries and wages	24,000	
Bad debts written off	600	
Allowance for doubtful debts (1 April 2015)		720
Accounts receivable	12,800	
Accounts payable		6,800
Cash in hand	140	
Cash at bank	7,400	
Inventory (1 April 2015)	14,350	
Motor vehicle (cost)	280,000	
Accumulated depreciation (1 April 2015)		112,000
Capital		68,300
	<u>1,130,150</u>	<u>1,130,150</u>

Additional Information:

- Inventory as at 31 March 2016 was valued at Sh.16,250,000.
- The following expenses were prepaid as at 31 March 2016:

	Sh.
• Sales promotion expenses	80,000
• Insurance	180,000
- The following expenses were outstanding as at 31 March 2016:

	Sh.
• Stationery	190,000
• Rent	300,000
• Rates	200,000
- Allowance for doubtful debts is to be increased to Sh.800,000.
- Included in the purchases is the purchase of equipment and office computers worth Sh.120,000,000.
- Depreciation is to be charged on cost as follows:

Motor vehicle	15%
Equipment and computers	10%

Required:

- Income statement for the year ended 31 March 2016. (12 marks)
 - Statement of financial position as at 31 March 2016. (8 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Explain four qualities of a good accounting package applicable to a medium sized business enterprise today. (8 marks)
- (b) John Wambua maintains his petty cash on the imprest system. The petty cash amount was set at Sh.80,000 per month for the year 2016. On 1 February 2016, the opening balance brought forward was Sh.18,500.

The following transactions took place during the month of February 2016:

February	1	:	Withdrew cash from the bank to restore the imprest.
	3	:	Postage stamps Sh.4,500.
	4	:	Bus fare reimbursed Sh.2,800.
	6	:	Petrol Sh.2,500.
	8	:	Stationery Sh.8,600.
	10	:	Postage stamps Sh.3,500.
	12	:	Bus fare reimbursed Sh.4,600.
	14	:	Newspapers for 2 weeks Sh.2,800.
	16	:	Petrol for motor cycle (used by messenger) Sh.3,000.
	18	:	Periodicals for the office Sh.2,500.
	20	:	Airtime for cellphone Sh.4,200.
	21	:	Internet charges Sh.3,800.
	22	:	Bus fare reimbursed to a staff member Sh.2,500.
	23	:	Petrol for motor cycle Sh.2,500.
	24	:	Office parcel sending charges Sh.2,200.
	26	:	Airtime and internet charges Sh.10,200.

Required:

Petty cash book showing the cash in hand as at 29 February 2016 and the amount of cash to be drawn from the bank to restore the imprest. (12 marks)
(Total: 20 marks)

QUESTION THREE

The trial balance of John Tabu on 31 March 2016 was as follows:

	Sh."000"	Sh."000"
Capital		50,000
Motor vehicles	8,000	
Equipment	10,300	
Inventory (1 April 2015)	12,000	
Purchases and sales	169,000	270,000
Land and building	70,000	
Accounts receivable and accounts payable	28,000	32,000
Discounts allowed and discounts received	600	1,250
Wages and salaries	37,000	
Returns inward and returns outward	150	200
Drawings	700	
Insurance	800	
General expenses	2,800	
Bank	12,000	
Suspense account	2,100	
	<u>353,450</u>	<u>353,450</u>

Additional information:

- Closing inventory was valued at Sh.14,000,000.
- After a thorough scrutiny the following errors were discovered:
 - Sales were undercast by Sh.10,000,000.
 - Discount allowed was overcast by Sh.100,000.
 - Returns inwards credited to returns outward account was Sh.100,000.
 - Purchases were undercast by Sh.5,000,000.
 - Accounts payable were overcast by Sh.7,000,000.
 - Bank charges omitted from the books amounted to Sh.500,000.

Required:

- (a) Journal entry to correct the above errors (narration not required).

(6 marks)

- (b) Suspense account duly balanced. (4 marks)
- (c) Income statement for the year ended 31 March 2016. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

Mark and Luke are in partnership sharing profits and losses in the ratio of 2:1 respectively. The following is their trial balance as at 31 March 2016:

	Sh."000"	Sh."000"
Capital accounts:		
Mark		45,000
Luke		30,000
Current accounts:		
Mark		5,000
Luke		2,000
Freehold property at cost	87,600	
Equipment at cost	10,000	
Motor vehicles at cost	28,000	
Accumulated depreciation (30 March 2015):		
Equipment		2,000
Motor vehicles		7,000
Inventory (1 April 2015)	12,000	
Purchases	270,000	
Sales		360,000
Staff salaries	18,000	
Administrative expenses	65,040	
Sales and distribution cost	43,360	
Accounts receivable and accounts payables	14,000	8,000
Bank overdraft		25,000
Cash in hand	5,000	
Drawings accounts:		
Mark	6,000	
Luke	3,000	
Rent received		78,000
	<u>562,000</u>	<u>562,000</u>

Additional information:

- Closing inventory was valued at Sh.15,000,000.
- Rent income received in advance amounted to Sh.6,000,000.
- Partner's salary totalling Sh.3,000,000 has been debited to staff salaries and credited to Mark's current account.
- Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Equipment	20%	Reducing balance
Motor vehicles	25%	Straight line
- Partnership agreement also provides the following:
 - Interest shall be charged on drawings at the rate of 5% per annum.
 - Interest shall be allowed on capital at the rate of 10% per annum.
 - Mark shall be entitled to an annual salary of Sh.3,000,000.

Required:

- (a) Income statement and appropriation account for the year ended 31 March 2016. (10 marks)
- (b) Partners current account. (4 marks)
- (c) Statement of financial position as at 31 March 2016. (6 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain four qualities that good accounting information should possess in order to be useful to the users. (8 marks)

(b) Describe the following types of reserves:

(i) Capital reserves. (3 marks)

(ii) Revenue reserves. (3 marks)

(iii) Revaluation reserves. (3 marks)

(iv) Share premium. (3 marks)

(Total: 20 marks)

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ATD LEVEL I

INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 21 November 2016.

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) Explain the term "accounting policy". (2 marks)
- (b) The trial balance of SBE Ltd. failed to agree as at 30 September 2016. After a thorough scrutiny of the accounts, the following errors were discovered:
1. Sales journal had been undercast by Sh.200,000.
 2. A total of Sh.4,000 from the return inwards journal was posted to the credit side of the return outwards account.
 3. A customer's personal account had been correctly credited with discount allowed of Sh.120,000 but no corresponding entry was made.
 4. Purchases journal had been overcast by Sh.180,000.
 5. A receipt of cash amounting to Sh.30,000 from JJ Enterprises had been credited in the cash book and debited in JJ enterprises' account.
 6. Credit sales of Sh.800,000 to Ox Ltd. were debited to Oxtail Ltd's account.

Required:

- (i) Journal entries to correct the above errors. (6 marks)
(No narrations required)
- (ii) Suspense account duly balanced showing the original difference in the trial balance. (6 marks)
- (iii) Corrected income statement for the year ended 30 September 2016. The net profit before correction was Sh.348,000. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following accounting concepts:
- (i) Faithful representation. (2 marks)
 - (ii) Comparability. (2 marks)
 - (iii) Relevance. (2 marks)
- (b) The following balances were extracted from the books of Rain and Shine Ltd. for the month of September 2016:

	Sh. "000"
Balance as at 1 September 2016:	
Trade receivables ledger	
- Debit	51,000
- Credit	2,050
Trade payables ledger	
- Credit	30,750
- Debit	600
Transactions during the month:	
Discounts allowed	4,110
Refund to customer for overpayments	330
Cash receipts from credit customers	33,750
Bill of exchange receivable	20,800
Contra settlement	19,240
Payment to creditors by cheques	80,575
Discounts received	10,900
Credit sales	241,500

Receipt from customers by cheques	106,550
Purchases on credit	135,000
Customers' dishonoured cheques	3,075
Balance as at 30 September 2016:	
Trade receivables ledger (credit)	1,050
Trade payables ledger (debit)	435

Required:

- (i) Accounts receivable control account for the month ended 30 September 2016. (9 marks)
- (ii) Accounts payable control account for the month ended 30 September 2016. (5 marks)

(Total: 20 marks)

QUESTION THREE

The following information was extracted from the books of Berry Ltd. as at 30 June 2016:

	Sh."000"	Sh."000"
Issued and fully paid capital:		
Ordinary shares of Sh.10 each		40,000
10% preference shares of Sh.10 each		20,000
Share premium		22,000
Revaluation reserve		26,000
General reserve		14,000
Retained earnings		28,000
10% debentures		12,000
Sales		196,000
Accounts receivable and accounts payable	10,000	6,200
Inventory (30 June 2016)	10,400	
Cost of sales	117,600	
Freehold land and buildings (Land cost Sh.20,000,000)	140,000	
Motor vehicles at cost	40,000	
Equipment at cost	25,000	
Accumulated depreciation (1 July 2015):		
- Buildings		2,400
- Motor vehicles		8,000
- Equipment		5,000
Administrative expenses	13,800	
Sales and distribution costs	10,400	
Interest on debentures	600	
Discount received		1,600
Bank balance	12,000	
Cash in hand	2,000	
Allowance for doubtful debts (1 July 2015)		600
	<u>381,800</u>	<u>381,800</u>

Additional information:

1. Accrued administrative expenses as at 30 June 2016 amounted to Sh.200,000.
2. Sales and distribution cost prepaid as at 30 June 2016 amounted to Sh.400,000.
3. Allowance for doubtful debts is to be increased by Sh.400,000.
4. Corporate tax is estimated at Sh.12,000,000.
5. A half of the annual interest on debentures was outstanding as at 30 June 2016.
6. Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Buildings	2%	Straight line
Motor vehicles	20%	Straight line
Equipment	20%	Reducing balance

7. The directors have proposed the following:

- A dividend be paid to preference shareholders.
- A dividend of Sh.1.60 per share to the ordinary shareholders after transfer of Sh.2,000,000 to the general reserve.

Required;

- (a) Income statement for the year ended 30 June 2016. (12 marks)
- (b) Statement of financial position as at 30 June 2016. (8 marks)

(Total: 20 marks)

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QUESTION FOUR

The following trial balance was extracted from the books of Jessica Pendo as at 31 October 2016:

	Sh. "000"	Sh. "000"
Motor vehicle at cost	16,950	
Equipment at cost	20,010	
Furniture and fittings at cost	2,400	
Inventory as at 1 November 2015	217,230	
Accounts receivable and accounts payable	114,300	76,900
Accumulated depreciation as at 1 November 2015:		
- Motor vehicle		3,390
- Equipment		4,002
- Furniture and fittings		240
Capital		143,393
Drawings	85,800	
Cash at bank	13,260	
Cash in hand	336	
Returns inward and returns outward	6,330	3,720
Carriage inwards	2,280	
Carriage outwards	8,550	
Sundry expenses	648	
Office expenses	2,235	
Insurance	2,976	
Wages and salaries	117,000	
Rent	24,600	
Telephone expenses	2,040	
Motor vehicle expenses	4,470	
Purchases and sales	<u>764,430</u>	<u>1,174,200</u>
	<u>1,405,845</u>	<u>1,405,845</u>

Additional information:

1. Inventory as at 31 October 2016 was Sh.268,212,000.
2. A customer who owed Jessica Pendo Sh.2,300,000 was declared bankrupt.
3. An allowance for doubtful debts of 2% is to be created.
4. The assets are depreciated on a straight line basis at the following rates per annum:

Motor vehicles	25%
Equipment	20%
Furniture and fittings	10%

5. Insurance prepaid as at 31 October 2016 was Sh.576,000.
6. Wages and salaries accruing as at 31 October 2016 was Sh.3,000,000.

Required:

- (a) Income statement for the year ended 31 October 2016. (12 marks)
- (b) Statement of financial position as at 31 October 2016. (8 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Describe five characteristics of partnerships. (10 marks)
- (b) James Nzuri balances his cash book at the end of every month and compares it with his bank statement for reconciliation. On 31 October 2016, the balances did not agree. The cash book bank column showed an overdraft of Sh.1,496,000. The debit balance on the bank statement as at 31 October 2016 was Sh.3,061,600.

After inspecting his books, James Nzuri discovered the following issues:

1. Cheques totalling to Sh.784,000 had been entered in the cash book, but the cheques had not been presented to the bank as at 31 October 2016.
2. Payment for goods worth Sh.30,240 from debtors through electronic funds transfer (EFT) had not been entered in the cash book.

3. A standing order for a credit purchase of a motor vehicle of Sh.71,200 was processed through the bank on 27 October 2016, but had not been entered in the cash book.
4. Bank charges of Sh.12,000 were included in the bank statement but had not been recorded in the cash book.
5. A cheque payment to a supplier for Sh.200,320 was incorrectly entered in the cash book as a receipt.
6. A cheque for Sh.16,000 received from a debtor and deposited with the bank was returned stamped "Account closed".
7. Cheques received and entered in the cash book but not yet credited in the bank amounted to Sh.1,880,000.

Required:

- (i) Updated cash book as at 31 October 2016. (7 marks)
 - (ii) Bank reconciliation statement as at 31 October 2016. (3 marks)
- (Total: 20 marks)**

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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)

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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 Balance	Allowance for doubtful debts	Provision for discount allowed
	Sh.	%	%
2012	400,000	10	2
2013	660,000	10	2
2014	520,000	10	2
2015	580,000	10	2

Required:

- Allowance for doubtful debts account. (6 marks)
- Provision for discounts allowed account. (6 marks)
- Income statement extracts for each year. (4 marks)
- 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		480,000
	<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:		140,000
Arrow		116,000
Barrow		5,224
Current accounts:		1,192
Arrow		
Barrow		
Drawings:		
Arrow	25,600	
Barrow	22,600	
	<u>978,416</u>	<u>978,416</u>

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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