**RCM ONLINE COLLEGE**

**ATD LEVEL 1**

**INTRODUCTION TO FINANCIAL ACCOUNTING**

**CAT 1**

**QUESTION 1**

E. Hassan started business on 1 July 2017. July 1 Started business with cash from personal savings Sh.176,000.

3 paid rent for shop by cash Sh.17,000

5 Bought goods, paying cash Sh.15,000.

7 Bought furniture for use in the shop by cash Sh.18,000

10 Bought goods on credit from: P. Majani Sh.23,000, T. Maua Sh.8,800

12 Took cash from the business for personal use Sh.2,500

14 banked part of the business cash in hand Sh.29,500

20 Cash sales to date Sh.14,500

22 Sold goods on credit to K. Msafiri, gross price Sh.16,400 less 10% trade discount, C. Nyoike, net Sh.8,000

26 Goods returned by C. Nyoike worth Sh.2,000

28 Issued cheque to P. Majani on account Sh.8,300, cash discount received 1,000

29 Cash received from C. Nyoike Sh.3,500, cash discount allowed Sh.800.

**Required:**

1. Three-column cash book (10 marks)
2. Entries in the relevant ledger amounts (10 marks)

Note: Books of prime entry are not required.

 (Total 20 marks)

**QUESTION 2**

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

|  |  |  |
| --- | --- | --- |
| Land and buildingsMotor vehicles at costAccumulated depreciation on motor vehicles (1 July 2017)Directors’ emolumentsPurchases and salesInventory (1 July 2017)Retained earnings (1 July 2017)General expensesSalaries and wagesElectricity Bank balanceInterim dividend paidMotor vehicles running expensesInsurance Discounts allowed and discounts receivedBad debt written Allowance for doubtful debts (1 July 2017)Accounts receivable and accounts payableDebenture interest paid400,000 ordinary shares at Sh.280 eachShare premium 6% debentures | **Sh. “000”**115,36044,80029,120841,12076,1602,436183,6803,64030,1845,4604,8164,6489,4082,016103,3761,680\_\_\_\_\_\_\_\_\_1,457,904 | **Sh. “000”**26,8801,099,95245,1366,3841,23285,120112,00025,20056,0001,457,904 |

**Additional information:**

1. 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.
2. As at 30 June 2018, outstanding motor vehicles running expenses amounted to Sh.392,000 while prepaid insurance amounted to Sh.672,000.
3. Inventory as at 30 June 2018 was valued at Sh.280,000.
4. Depreciation on motor vehicles is to be provided at the rate of 20% per annum on cost.
5. Allowance for doubtful debts is to be increased to Sh.1,344,000.
6. Audit fees and corporation tax are to be provided for at Sh.5,600,000 and Sh.11,200,000.
7. The directors have proposed a final dividend at the rate of 10% of the outstanding share capital.

**Required:**

1. Income statement for the year ended 30 June 2018. (12 marks)
2. Statement of financial position as at 30 June 2018. ( 8 marks)

(Total 20 marks)

**QUESTION 3**

Kamau and Obwocha are partners, sharing profits and losses in the ratio of 3:2 respectively. The following is the trial balance of the partnership as at 31 December 2018.

|  |  |  |
| --- | --- | --- |
| Allowance for doubtful debtsPurchases Sales Motor vehicle at costFittings at costProvision for depreciation:* Motor vehicles
* Fittings

Inventory (1 January 2018)Petty cashOffice expensesMotor vehicle expensesTrade receivablesPayablesBank SalariesInsurance Discounts allowedCapital (1 January 2018)* Kamau
* Obwocha

Current accounts* Kamau
* Obwocha
 | **Sh.**3,049,200396,00072,000520,8001,200192,000118,800366,000220,80018,60076,800108,00072,0005,212,200 | **Sh.**14,4003,955,800177,60034,200126,00016,200492,000396,000\_\_\_\_\_\_\_\_\_5,212,000 |

**The following additional information is available**

1. Depreciation is to be provided at 10% per annum on cost of fittings and 20% per annum on the written down value of the motor vehicle.
2. Kamau is to bear personally sh.12,000 of the motor vehicle expenses.
3. Inventory as at 31 December 2018 was valued as Sh.791,400.
4. Bad debts of Sh.6,000 are to be written off, and allowance for doubtful debts be adjusted to 2.5% of the remaining receivables
5. Insurance Sh.2,100 has been paid in advance as at 31 December 2018
6. Salaries amounting to Sh.11,100 are owing as at 31 December 2018
7. Partners are entitled to interest on capital as 10% p.a.
8. Obwocha is entitled to a partnership salary of Sh.96,000 p.a.

**Required:**

1. Statement of profit or loss and appropriation for the year ended 31 December 2018 (10 marks)
2. Partners’ current accounts in columnar form (4 marks)
3. Statement of financial position as at 31 December 2018 (6 marks)

**QUESTION 4**

The following is a summary of the cash book of Azimio Ltd. for the year ended 31 May 2014:

**Cash book**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Sh.000** |  | **Sh.000** |
| Balance brought forward Receipts  | 805 145,720 146,525 | Payments Balance carried forward  | 146,203  322 146,525 |

Subsequent investigations reveal that:

1. A page of the receipt side of the cash book has been under cast by Sh.200, 000.
2. The following transactions appearing on the bank statement have not yet been entered in the cash book:
* Dividend received on a trade investment Sh.1, 147,000.
* Hire purchase repayments for 12 months at Sh.55, 000 per month.
* Interest for the half year to 30 November 2014 on a loan of Sh.20, 000,000 at 11 percent per annum.
1. Bank charges of Sh. 143,000 shown on the bank statement have not yet been entered in the cash book.
2. A cheque received from a customer for Sh.180, 000 was returned by the bank unpaid and no entry has been made in the cash book for this transaction.
3. The company owes Sh.430, 000 for electricity consumed in the month of May 2014.
4. A cheque for Sh.82, 000 has been debited to the company's account in error by the bank.
5. A cheque drawn for Sh.98, 000 has been entered in the cash book as Sh.89, 000 and another one-drawn for Sh.230, 000 has been entered as a receipt.
6. A transposition error occurred in the opening balance of the cash book. The opening balance should have been brought down as Sh.850, 000 instead of Sh.805, 000.
7. Cheques paid to suppliers totaling Sh.630, 000 have not yet been presented at the bank, while deposits totaling Sh.580, 000 made on 31 May 2014 have not yet been credited to the company's account.
8. The balance as per the bank statement is an overdraft of Sh.870, 000.

**Required:**

(i) Adjusted cash book balance.

(ii) Bank reconciliation statement as at 31 May 2014.

**QUESTION 5**

1. Explain the seven generally accepted accounting principles. Include the following example
2. Costing principle (14 marks)
3. Explain the following qualitative characteristics of properly prepared financial statements.
4. Relevance
5. Faithful presentation
6. Comparability
7. Understandability
8. Timeliness
9. Neutrality (6 marks)