**Tutor: G. Orina**

**RCM ONLINE COLLEGE**

**FINANCIAL ACCOUNTING**

**CAT 2**

**QUESTION 1**

1. Outline four objectives of the International Public Sector Accounting Standards Board (IPSASB)
2. The following information relates to Mapozi Social Club for the year ended 30 June 2018

|  |
| --- |
| **Statement of Receipts and Payments** |
| ReceiptsBalance brought downCanteen salesDonation receivedSubscriptions received for the year:2016/20172017/20182018/2019 | **Sh. “000”**3,910183,8402,4004,20043,0503,600\_\_\_\_\_\_\_241,000 | PaymentsRepairs to sports pavilionSecretary’s allowancesTransport expensesCanteen expensesCanteen staff wagesGroundmen’s wagesPayment for canteen suppliesBalance carried down | **Sh. “000”**2,2202,8147,26080225,87265,304115,86020,968241,000 |

**Additional information**

1. As at June 2017, the club’s land was valued at Sh.120 million and the sports pavilion at sh.60 million. The sports pavilion is depreciated at the rate of 10% per annum on cost or valuation.
2. The club’s equipment as at 30 June 2017 was valued at sh.7.5 million and is to be depreciated at the rate of 20% per annum on cost or valuation.
3. Subscriptions owing by members amount to sh.4.2 million as at 30 June 2017 and sh.5.25 million as at 30 June 2018
4. The following balances were available as at 30 June:

|  |  |  |
| --- | --- | --- |
| Canteen expenses owingTransport expenses owingInventory in canteen for saleOwing for canteen supplies | **2017****Sh.000**676-13,4889,882 | **2018****Sh.000**1,00879616,67413,020 |

**Required:**

1. Canteen income statement for the year ended 30 June 2018
2. Income and expenditure statement for the year ended 30 June 2018
3. Statement of financial position as at 30 June 2018

**QUESTION 2**

The following were cash account and balances prepared by E. Wafula, a sole trader who did not keep his books in a complete double entry system.

|  |
| --- |
| **Cash Book Summary** |
| Balance b/d 1 July 2016Cash salesReceipts from debtors | **Sh. “000”**100,0001,300,0005,000,000\_\_\_\_\_\_\_6,400,000 | Wages Electricity Payments to creditorsCash purchasesDrawingsInsurance Office equipmentGeneral expensesBal c/d 30 June 2017 | **Sh. “000”**200,00050,0003,000,000600,000160,000150,000400,000120,0001,720,0006,400,000 |

|  |  |  |
| --- | --- | --- |
| Receivables (debtors)Payables (creditors)Motor vehiclesOffice equipmentElectricity owingInsurance prepaidInventory  | **1 July 2016****Sh.**400,000500,0003,000,000120,00013,00020,000600,000 | **30 June 2017****Sh.**480,000200,0002,700,000480,00014,00050,00070,000 |

**Additional information:**

1. Discount allowed and discount received were Sh.6,000 and sh.7,000 respectively
2. Return inwards and return outwards were sh.8,000 and sh.9,000 respectively
3. Bad debts of sh.17,000 have been written off and an allowance for doubtful debts of 5% is required.

**Required:**

1. Calculate capital as at 1 July 2016
2. Statement of profit and loss for the year ended 20 June 2017
3. Statement of financial position as at 30 June 2017

**QUESTION 3**

Mr Ole Muyaa has prepared the following statement of financial position as at 31 March 2020.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Capital account balance 1-4-019Profit or the yearTrade payable and provisionsBank overdraftSuspense account | **Sh.**208,00090,500298,50045,80017,0004,200­­­­\_\_\_\_\_\_\_\_365,500 | Plant at costLess: DepreciationVehicle at costLess: DepreciationInventory Trade receivablesLess: AllowanceCash  | **Sh.**80,00020,000300,000100,00032,0002,000 | **Sh.**60,000200,00070,00030,0005,500365,000 |

Mr Ole Muyaa asks you to audit his accounts and in the course of your examination you find the following:

1. Bank charges sh.5,000 not yet recorded in the books.
2. A debt of Sh.4,000 is irrecoverable and the appropriate provision for doubtful debts should be 10% of the outstanding debtors.
3. A purchase of plant, costing Sh.20,000 has been charged to repairs. It was agreed that this should be depreciated at 10% on cost.
4. The inventory on 31 March 2020 was overvalued by Sh.2,500.
5. A bill for lighting or Sh.3,700 has not yet been accrued for.
6. A discount allowed to a customer E. Barasa, amounting to Sh.2,100 has been debited to discounts received and then debited to the customer’s amount.
7. Prepaid insurance Sh.3,500 was included in total expenses.

**Required:**

1. Journal entries (with narrations) to correct the errors
2. Statement of memorandum showing adjusted profit
3. Corrected Statement of Financial Position, prepared in good form.

**QUESTION 4**

1. The following information as extracted from the books of Dada Traders for the month of May 2021:

Balance on purchases ledger as at 1 May 2021:

|  |  |
| --- | --- |
| * Debit balance
* Credit balance
 | **Sh.**980,0002,990,000 |

Transactions during the month of May 2021:

|  |  |
| --- | --- |
| Purchases on creditPurchases returnsCheques paid to trade payablesCash paid to trade payablesDiscounts received from trade creditorsCredit sales offset against credit purchasesCredit purchase of a motor vehicle posteed in the purchases ledgerBalance as at May 2021 (Debit) | **Sh. “000”**39,24589523,3706,5151,1551,7802,990885 |

**Required:**

Purchases ledger control account for the month ended 31 May 2021.

1. In the books of Rhyme Enterprises, the balance at bank as at 30 October 2022 according to the cash book, was Sh.894,680. Subsequently, the following discoveries were made
2. Cheque no.176276 dated 2020 for Sh.310,840 in favour of Love Ltd had been incorrectly recorded in the cash book payments as sh.301,840.
3. Bank commission charged of Sh.169,560 and bank interest charged of Sh.109,100 had been entered in the bank statement on 23 October 2020, but not included in the cash book.
4. The bank statement showed a cheque of Sh.29,310 received from Adrew Oloo and credited in the bank statement on 9 October 2020 was dishonoured on 26 October 2020. No entry had been made in the cash book with regard to the dishonoured cheque.
5. Cheque No.177145 for Sh.15,100 had been recorded twice as a credit in the cash book.
6. Cash received in the last few days of October 2020 amounting to Sh.1,895,000 was deposited in the bank on 31 October 2020. This amount was recorded in the cash book, but was updated in the bank statement on 2 November 2020.
7. Some customers paid directly into the bank account amounts totaling to Sh.210,100 on 25 October 2020. These amounts had not been recorded in the cash book.
8. Cheques paid by Rhyme Enterprises during October 2020 amounting to Sh.395,800 were not presented to the bank for payment until November 2020.
9. A standing order payment of Sh.15,000 on 17 October 2020, had not been recorded in the cash book.

**Required:**

1. Updated cash book as at 30 October 2020.
2. Bank reconciliation statement as at 30 October 2020.

**QUESTION 5**

1. Fatuma Ali commenced business as a retail chemist on 1 January 2021 with an initial capital of sh.30,000,000 which she paid into her business bank account. She hired a shop manager at an annual salary of sh.2,000,000. In addition, the shop manager is to receive a commission of 10% of the gross profit.

During the year ended 31 December 2021, Fatuma Ali did not maintain proper books of account. After an examination of the available records the following information was extracted:

Bank statement for the year ended 31 December 2021:

|  |  |  |  |
| --- | --- | --- | --- |
| **Receipts** Capital Sales Bank loan | **Sh. “000”**30,000123,72020,000\_\_\_\_\_\_\_173,720 | **Payments** Leasehold premisesShop fittings and equipmentMotor vehiclePayment to suppliersInterest on bank loanGeneral expensesRent Balance carried forward | **Sh. “000”**20,0008,8002,740112,3601,0008,3353,75016,7351,173,720 |

**Additional information:**

1. All sales were for cash and sales are banked daily subject to the retention of a cash float of sh.100,000. The following payments were made out of the cash sales:

|  |  |
| --- | --- |
| Manager’s salaryDrawings Payments to suppliersGeneral expenses | **Sh. “000”**1,9804,0001,390840 |

1. As at 31 December 2021, cheques sent to suppliers amounting to Sh.2,500,000 had not been presented to the bank for payment.
2. As at 31 December 2021, invoices from suppliers amounting to Sh.8,600,000 had not been paid.
3. As at 31 December 2021, inventory was valued at sh.36,500,000.
4. Depreciation per annum is to be provided on the motor vehicle at the rate of 25% on cost and on the shop fittings and equipment at 10% on cost.
5. During the year ended 31 December 2021, Fatuma Ali took goods which cost 100,000 for her personal use.

**Required:**

1. Statement of profit or loss for the year ended 31 December 2021.
2. Statement of financial position as at 31 December 2021.
3. Explain the following concepts used in the preparations of financial statements:
4. Relevance
5. Reliability
6. Faithful representation
7. Neutrality
8. Completeness
9. Comparability