RCM ONLINE COLLEGE

FINANCIAL ACCOUNTING

CAT 1

CAMS, ATD, CPA,CIFA

QUESTION ONE

1) Explain the following accounting principles:

(i) Economic entity principle.

(ii) Matching principle.

(iii) Going concern concept

(b) Citing relevant examples, describe the following terms:

(i) Financial assets.

(iv) Financial liabilities.

(v)

c) The Conceptual Framework for Financial Reporting (the conceptual Framework),

i) identifies **TWO** fundamental qualitative characteristics and **FOUR** enhancing qualitative characteristics that useful financial information is required to have.

(ii) Explain the TWO fundamental qualitative characteristics of useful financial information

d)

i) Describe how inventories are valued as provided by the International Accounting Standard (IAS) 2, Inventories.

ii) Highlight FOUR reasons that may cause a cheque to be dishonoured by a bank.

e) Outline the internal users of accounting information and the information they are interested in the financial statements.

QUESTION TWO

The following information relates to the non-current assets of Holo Ltd. as at 1 April 2023:

Non current assets	Cost sh 000	Accumulated depreciation sh 000
Freehold property	70,000	-
Plant and machinery	52,500	20,230
Office equipment	10,500	5,110
Motor vehicles	31,500	18,200

Additional information:

1. The following non-current assets were acquired during the year ended 31 March 2024:

Date	**Non current assets**	**Cost sh 000**
1ST April 2023	machinery	7,000
1st October 2023	Motor vehicle	4,200

2. The following non-current assets were disposed of during the year ended 31 March 2024:

Date	**Non current assets**	**Sale proceeds sh 000**	**Cost sh 000**	**Accumulated depreciation as at the date of disposal sh 000**
1st April 2023	Machinery	4,830	6,3000	700
1st July 2023	Office equipment	448	560	140
31st march 2024	Motor vehicle	2,240	3,500	350

3.Daraja Ltd. depreciates the assets using the straight-line method on a pro rata basis at the following rates per annum:

Non current assets	**Rate %**
Plant and machinery	20
Office equipment	15
Motor vehicle	25

3. On 1 April 2023, the management of Daraja Ltd. decided to start depreciating freehold property at the rate of 2.5% per annum.

Required : Non current asset movement schedule for the year ended 31st march 2024

QUESTION THREE

a) Newell Co’s receivables ledger control account shows a balance at the end of the year of ksh.58,200 before making the following adjustments:

(i) Newell Co decides to write off debts amounting to ksh. 8,900 as it believes they are irrecoverable.

(ii) Newell Co also decides to make specific allowance for Carroll’s debt of Ksh. 1,350, Jay’s debt of ksh. 750 and Mai’s debt of ksh. 1,416. Newell Co’s allowance for receivables at the previous year end was ksh. 5,650.

What is the charge to the statement of profit or loss in respect of the above information?

II) The following transactions relate to Rashid’s electricity expense ledger account for the year ended 30 June 20X9:

	Sh.
Prepayment brought forward	550
Cash paid	5,400
Accrual carried forward	650

What amount should be charged to the statement of profit or loss in the year ended 30 June 20X9 for electricity?

b) The following is the statement of financial position of Mohammed Ali, a sole trader, as at 1 January 2022**:**

Assets:	**Sh.“000”**	**Sh.“000”**
Non-current assets:		
Building		4,650
Equipment		2,150
Motor vehicles		1,540
		8,340
Current assets:		
Inventory	1,260	
Accounts receivable	885	
Cash in hand	73	
Cash at bank	387	2,605
Total assets		10,945
Capital and liabilities:		
Capital		6,015
Long-term liability:		
Bank loan		1,500
Current liabilities:		
Accounts payable	1,480	
Short-term loan from Paul Sila	600	
Accrued general expenses	1,350	3,430
Total capital and liabilities		10,945

Additional information:

1. During the year ended 31 December 2022, Riziki Ali only maintained the cash book, whose summary is as follows:

Cash summary

	Sh. "000"		**Sh. "000"**
Balance brought forward	460	Bank loan repayment	1,000
Receipts from debtors	8,950	Sila's loan repayment	500
Additional capital	4,800	Payments to creditors	6,750
Cash sales	4,250	Payment for general expenses	3,000
Rent income	220	Drawings	1,700
		Rates	160
		Wages	1,190

2. Accounts receivable and accounts payable as at 31 December 2022 were Sh.1,320,000 and Sh.1,820,000 respectively.
3. During the year ended 31 December 2022, proceeds from cash sales amounting to Sh.1,650,000 were not recorded, but the amount was used as follows:

	Sh."000"
Purchase of goods for sale	1,000
Loan repayment – Paul Sila	100
Office stationery	150
Family use	400
	1,650

4. Accrued general expenses as at 31 December 2022 amounted to Sh.400,000.
5. Inventory as at 31 December 2022 was valued at Sh.1,480,000.
6. Depreciation is to be provided on book values as follows:
   - Buildings – 10% per annum
   - Equipment – 15% per annum
   - Motor vehicles – 20% per annum
7. House furniture valued at Sh.250,000 was converted to business use. Depreciation on the furniture was to be provided at 12½% per annum on this amount.

Required:

(a) Statement of profit or loss for the year ended 31 December 2022. (10 marks)

(b) Statement of financial position as at 31 December 2022. (10 marks)

QUESTION FOUR

a) The following information was availed by a shopkeeper who does not maintain complete set of accounts.

Sales (all on credit)	750,000
Inventory as at 1st July 2022	70,000
Inventory 30th June 2023	80,000
Trade Receivable at 1st July 2022	50,000
Trade receivables 30th June 2023	90,000
Mark up 20%	

What is the figure for purchases to be included in the statement of profit and loss account for the year ended 30th june 2023.

QUESTION FIVE

c) The following information relating to trade receivables was extracted from the books of Tiwi Ltd:

Year to 30 June	Trade receivables balance Ksh.	Allowance for Doubtful debts %	Provision for discount allowed %
2017	400,000	10	2
2018	660,000	10	2
2019	520,000	10	2
2020	580,000	10	2

Required:

(i) Allowance for doubtful debts account. (3 marks)

(ii) Provision for discounts allowed account. (3 marks)

(iii) Income statement extracts for each year. (2marks)

(iv) Statement of financial position extracts at each reporting date. (2 marks).

d)

KK Ltd. received their bank statement for the month of October 2015. It reflected a credit balance of Sh.9,290,000. However, the cash book balance as at 31 October 2015 indicated a higher amount by Sh.4,530,000.

The company accountant investigated the matter and discovered the following discrepancies:

1. Cash amounting to Sh.1,704,000 though entered in the cash book as having been banked, had been embezzled by the accounts clerk in the office.
2. The bank had erroneously credited KK Ltd. with an amount of Sh.2,510,000.
3. Direct deposits by debtors amounted to Sh.13,080,000. These deposits were made via electronic funds transfer.
4. Uncredited cheques as at 31 October 2015 amounted to Sh.9,624,000.
5. A standing order of Sh.1,770,000 for goods purchased on hire purchase, had been effected by the bank.
6. Cheques issued to suppliers, but not yet presented to the bank as at 31 October 2015 amounted to Sh.2,640,000.
7. Bank charges amounting to Sh.484,000 had not been entered in the cash book.
8. A cheque from a debtor for an amount of Sh.1,446,000 was returned by the bank stamped "Account closed".
9. A forged cheque in favour of 'XYZ Ltd.' was presented to the bank. The cheque which amounted to Sh.2,712,000 was paid by the bank.

Required:

(i) Adjusted cash book as at 31 October 2015. (6 marks)

(ii) Bank reconciliation statement as at 31 October 2015. (4 marks)

e) The table below shows the ledger balance for Tetemeka Enterprises as at 31 December 2023:

Account description	**Debit (sh.)**	**Credit (sh.)**
Plant and machinery	445,000	
Computers	60,000	
Inventory (01.01.2023)	Y	31,500
Trade payables		
Trade receivable	29,500	
Bank		5,000
Bank loan		150,000
sales		450,000
Purchases	325,500	
Sales Returns	25,000	
Operating expenses	45,000	
Capital (01.01.2023)		Z
	XXX	XXX

I. Given that the gross profit was Sh.80,000 and closing inventory as at 31 December 2023 was Sh.45,000. Calculate the opening inventory (Y) as at 1 January 2023.

II. Calculate the opening capital (Z) as at 1 January 2023.

III. Calculate the closing capital as at 31 December 2023.

f) Amy is a sole trader and had assets of sh.569,400 and liabilities of sh.412,840 on 1 January 2018. During the year ended 31 December 2018 she paid sh.65,000 capital into the business and she paid herself wages of sh.800 per month.

At 31 December 2018, Amy had assets of sh.614,130 and liabilities of sh.369,770.

What is Amy's profit for the year ended 31 December 2018?