



**ATD LEVEL I**

**PILOT PAPER**

**INTRODUCTION TO FINANCIAL ACCOUNTING**

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

**QUESTION TWO**

The following balances were extracted from the books of Mzalendo Ltd as at 31 December 2020:

	<b>Debit</b> <b>Sh. "000"</b>	<b>Credit</b> <b>Sh. "000"</b>
Trade receivables and trade payables	4,500	3,960
General reserves (1 January 2020)		3,800
Gross profit for the period		9,500
Inventories (31 December 2020)	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.7million)	5,600	
Land at cost	13,695	
Revenue reserves (1 January 2020)		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 director fees	150	
Accrued rental income	<u>200</u>	
	<u>32,645</u>	<u>32,645</u>

**Additional information:**

- Provisions as at 31 December 2020 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 2021.

3. Allowances for doubtful debts are to be made at 10% of net trade receivables.
4. Furniture and fittings are to be depreciated at 10% per annum on the net book values.
5. 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:**

- (a) Income statement for the year ended 31 December 2020. (12 marks)
- (b) Statement of financial position as at 31 December 2020. (8 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Explain two reasons why it is necessary to prepare a bank reconciliation statement. (4 marks)
- (b) On 2 May 2020, Mapato Ltd. received their monthly bank statement which showed an overdraft of Sh.212,900. This amount did not agree with the credit balance of Sh.607,600 shown in the bank column of the cashbook.

Upon investigation the following was revealed:

1. The bank statement recorded that a cheque for Sh.18,500 paid into the bank had been subsequently dishonored. The company was unaware of this.
2. Bank charges for the month of April 2020 amounting to Sh.4,800 had been omitted from the cashbook.
3. A page in the cashbook of debits entries had been undercast by Sh.52,100 and the incorrect total carried forward in the next page.
4. A hire purchase agreement for equipment had been entered into by the company that required Sh.12,000 to be paid every month for the two years. The first payment was due on 20 February 2020. These amounts were correctly entered by the company, but the bank had inadvertently debited another company.
5. A dividend cheque received for Sh.34,000 had been entered twice in the cashbook.
6. The company's agent had deposited a cheque of Sh.155,000 into Mapato Ltd. bank account, but this was not indicated on the bank statement.
7. A standing order of Sh.11,000 had been duly paid by the bank, but there was no record in the cashbook.
8. A cheque totaling Sh.492,000 had been delivered to suppliers on 30 April 2020 but none of these had been presented to the bank.
9. A cheque for Sh.15,400 had been received from a customer on 25 April 2020 had been entered in the cashbook as at Sh.14,500.

**Required:**

- (i) An updated cashbook as at 30 April 2020. (10 marks)
- (ii) Bank reconciliation statement as at 30 April 2020. (6 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

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 2020:

	Sh. "000"	Sh. "000"
Purchases and sales	6,500	9,430
Inventory (I January 2020)	800	
Accounts receivable and accounts payable	1,200	600
Motor vehicle at cost	2,400	
Furniture and fittings at cost	1,400	
Accumulated depreciation (I January 2020):		
Motor vehicle		960
Furniture and fittings		400
Freehold land	1,000	
Discounts	100	180
Rent and rates	230	

	Sh. "000"	Sh. "000"
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	<u>520</u>	
	<u>16,330</u>	<u>16,330</u>

**Additional Information:**

- Inventory as at 31 December 2020 was valued at Sh.1,000,000.
- The trial balance figures above does not include the additional capitals made on 1 January 2020 as per the partnership deed.
- As at 31 December 2020, rent and rates paid in advance amounted to Sh.30,000.
- Salaries and wages outstanding as at 31 December 2020 amounted to Sh.200,000.
- Depreciation was to be provided as follows:

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

**Required:**

- Statement of profit or loss and appropriation account for the year ended 31 December 2020. (8 marks)
  - Partners current accounts. (4 marks)
  - Partners capital accounts. (2 marks)
  - Statement of financial position as at 31 December 2020. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

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

Year to 30 June	Trade receivables balance	Allowance for doubtful debts	Provision for discount allowed
	Sh.	%	%
2017	400,000	10	2
2018	660,000	10	2
2019	520,000	10	2
2020	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)**

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