

EXAMINATION NO. _____



2017 EXAMINATIONS

KNOWLEDGE LEVEL

PAPER 1 : ACCOUNTING FRAMEWORK

WEDNESDAY 7 JUNE 2017

**TIME ALLOWED: 3 HOURS
9.00 AM - 12.00 NOON**

INSTRUCTIONS:

1. You are allowed **15 minutes** reading time **before the examination begins** during which you should read the question paper and, if you wish, make annotations on the question paper. However, you will **not** be allowed, **under any circumstances**, to open the answer book and start writing or use your calculator during this reading time.
2. Number of questions on paper - 5.
3. The paper is divided into **TWO** sections **A** and **B**. Section **A** contains **one** compulsory question. All the candidates are required to answer it. Section **B** has **FOUR** questions and candidates are required to answer any **THREE**.
4. Question one carries **40** marks while all the questions in Section **B** carry **20** marks each.
5. All workings must be shown.
6. This question paper must **not** be removed from the examination hall.
7. **DO NOT OPEN THIS PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR**

This question paper contains 9 pages

SECTION A
COMPULSORY QUESTION

1. Brown Mbewe is a trader in electrical appliances. He pays rent for part of his business premises at an annual rate of K1,500,000 payable in arrears. The following were balances appearing in his books at 1 January 2016:

	K'000
Capital account	1,808
Motor van	1,200
Fixtures and fittings	806
Provision for depreciation (motor van)	720
Provision for depreciation (fixtures & fittings)	250
Inventory	366
Accounts receivables for credit sales	220
Cash at bank	672
Cash in hand	5
Loan from Felix	250
Accounts payables for supplies	296
Amount owing for electricity	45
Rates paid in advance	100

Although Mr Mbewe has credit customers, most of his sales and services are for cash out of which he pays various expenses before banking the balance.

The following transactions took place during the four months period ended 30 April 2016:

	K'000
Purchases (all credit)	3,163
Addition to capital	500
Credit sales	830
Cash sales	4,764
Banking	3,645
Drawings (bank)	560
The following expenses were paid in cash before banking	
Postage and stationery	129
Motor and travelling expenses	144
Cleaning expenses	260
Sundry expenses	19
Utilities paid by cheque	
Telephone	214
Electricity	235
Rates	220
Receipts from customers	810
Payments to suppliers	2,793
Purchased van	800

Balances:

Sales ledger balance	240
Purchases ledger	666

Note:

Mbewe receives 15% discount from each supplier and allows 10% discount to his customers. The amounts for receivables and payables are before adjustment for the discounts.

Required:

Use the above listed transactions to update Brown Mbewe's accounts

(a) Show how the following accounts would appear in the ledger:

- | | | |
|-------|---------------------|----------------|
| (i) | Cash book | 7 Marks |
| (ii) | Accounts payable | 2 Marks |
| (iii) | Accounts receivable | 2 Marks |

(b) Draw up a trial balance for Brown Mbewe as at 30 April 2016. **10 Marks**

(c) After the trial balance Mbewe was provided with the following information:

- (1) Motor vans are depreciated at 20% per annum and fixtures and fittings are depreciated at 10% per annum.
- (2) Interest on the loan from Felix is to be accrued at 10% per annum on monthly basis and credited to his account.
- (3) Amounts owing as at 30 April included: electricity K22,000, telephone K15,000. Included in the telephone bill was K37,000 private bill for Brown Mbewe.
- (4) Inventory was valued at K390,000 cost on 30 April.
- (5) The K220,000 payment for rates was for six months paid in advance from 1 March 2016.

Required:

Make the necessary adjustments and prepare:

(i) A statement of profit or loss for Brown Mbewe for the four months ended 30 April 2016. **12 Marks**

(ii) A statement of financial position as at 30 April 2016. **7 Marks**

(TOTAL : 40 MARKS)

SECTION B

Answer THREE questions ONLY from this section

2. (a) (i) Explain the meaning of a control account. **2 Marks**
- (ii) With illustrations, explain the use and nature of control accounts. **3 Marks**
- (b) The following balances were recorded in the books of Elinor Ziyaya, a trader in hardware, at 31 December 2016:

	K
Accounts receivable control	63,158
Accounts payable control	32,000
Provision for bad and doubtful debts	3,158
Provision for discount receivable	800
Provision for discount allowable	1,500

During the year to 31 December 2017 the following transactions occurred:

	K
Credit sales	550,000
Credit purchases	276,000
Sales returns	6,000
Purchases returns	4,000
Cash received from customers	514,268
Cash paid to suppliers	258,100
Discount allowed to customers	12,790
Discount received from suppliers	5,900
Bad debts written off	4,100
Bad debts recovered	542
Receivable and payable set offs	4,000

Additional information

- (1) All transactions for bad debts written off and recovered are accounted through the provision for bad and doubtful debts account.
- (2) Provision for bad and doubtful debts is at 5% of the closing accounts receivable balance.
- (3) Discount allowable and receivable is at 2½% of the year-end receivables and payables respectively.

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Required:

Record the above stated transactions in the

- | | | |
|-------|--|-----------------|
| (i) | Accounts receivable control account | 5 Marks |
| (ii) | Accounts payable control account | 3½ Marks |
| (iii) | Provision for bad and doubtful debts account | 2½ Marks |
| (iv) | Discount receivable account | 2 Marks |
| (v) | Discount allowable account. | 2 Marks |

(TOTAL: 20 MARKS)

Continued/.....

3. (a) (i) What is a suspense account? **2 Marks**
- (ii) Name and explain at least **four** types of errors that may lead to the use of a suspense account. **4 Marks**
- (b) At the end of a trading period Zoani's trial balance was less on the debit side by K413,000. The following errors were identified in the books at 31 December 2016:
- (1) A debit note for the amount of K190,000 sent to a customer had not been posted either to sales returns or accounts receivable.
 - (2) Credit sales on 23 December amounting to K196,000 had not been entered in the Sales Day Book.
 - (3) A page with a sub-total of K1,642,500 in the Purchase Day Book had been carried forward as K1,462,500.
 - (4) Telephone expenses of K57,000 had been entered in the telephone account as K50,700.
 - (5) During annual stocktaking, inventory had been valued at K740,000. However, it has been established that goods worth K30,000 had been damaged and are not insured.
 - (6) A credit sale invoice of K142,000 had been entered in the Sales Day Book as K124,000.
 - (7) Discounts received of K68,500 had been incorrectly debited to discounts allowed.
 - (8) An amount of K82,300 owed by BG & Co. had been settled in contra against an amount of K156,300 owed to BG & Co. No ledger entries have been made.
 - (9) Terry, the owner of Zoani Supermarket, has been taking cash for personal use from the office. This amounted to K50,000.
 - (10) The book-keeper under recorded cash sales by K42,000.
 - (11) An old van, which had been fully depreciated was sold during the year for K15,000. The sale proceeds had been credited to the motor vehicles account.

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Required:

(i) Make Journal entries, without narratives, to correct the errors. **11 Marks**

(ii) Open a suspense account and make the necessary entries to eliminate the balance. **3 Marks**

(TOTAL : 20 MARKS)

4. (a) (i) Define intangible asset, as defined by IAS 38. **1 Mark**

(ii) Explain any **four** types of intangible assets. **4 Marks**

(iii) Describe **three** critical attributes of an intangible asset. **3 Marks**

(b) (i) Define impairment of asset as defined by IAS 36. **2 Marks**

(ii) What is the difference between impairment and depreciation of an asset? **3 Marks**

(iii) ABC company has a machine it acquired at K110,000, cost. The company's policy is to provide depreciation for the machinery at 20% per annum straight line. The total provision is K70,000 as at 31 December 2016.

The company is now exchanging a machine it acquired 2 years ago for K30,000 (cost) for a machine being exchanged costing K60,000. The trade-in price for the machine is K19,000.

Required:

Show the relevant accounts relating to fixed assets, to show the entries.

7 Marks

(TOTAL : 20 MARKS)

Continued/.....

5. (a) (i) Name any **three** provisions which may be found in a partnership agreement. **3 Marks**
- (ii) What is the difference between revaluation and realization, in partnership accounting? **2 Marks**
- (b) Peter, Yona and Zimba have been in partnership for many years sharing profits and loss in the ratio of 3:2:1. Below is their statement of financial position as at 31 December 2016:

Peter, Yona and Zimba Balance Sheet as at 31 December 2016

	K	K
Non-current assets	20,000	
Depreciation	<u>(6,000)</u>	14,000
Current assets		
Inventory	5,000	
Accounts receivable	<u>21,000</u>	<u>26,000</u>
		<u>40,000</u>
Capital		
Peter		4,000
Yona		4,000
Zimba		2,000
Current liabilities		
Bank	13,000	
Accounts payable	<u>17,000</u>	<u>30,000</u>
		<u>40,000</u>

Additional information

Due to unfavourable economic conditions Peter, Yona and Zimba dissolved the partnership on the following terms:

- (1) The K18,300 due from Masina within Accounts Receivable proved irrecoverable, whilst all other Accounts Receivable were recovered in full.
- (2) Inventory is to be sold to Nabanda Ltd at K4,000.
- (3) Some of the non-current assets were sold for K8,000, whilst the rest of them were taken over by Peter at an agreed valuation of K7,000.
- (4) The costs of dissolution were K800 and discounts received from creditors were K500.

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Required

Draw up

- (i) a realization account. **6 Marks**
 - (ii) an accounts payable account. **1 Mark**
 - (iii) a summary of the partnership bank account. **4½ Marks**
 - (iv) capital accounts of the partners, recording the dissolution of the partnership. **3½ Marks**
- (TOTAL : 20 MARKS)**

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