



Riara School of Business
Nurturing business innovators

JANUARY APRIL 2024 TRIMESTER EXAMINATIONS
DAY PROGRAMME
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
RAC 102: PRINCIPLES OF ACCOUNTING 11

DATE: APRIL 2024

TIME: 2 HOURS

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.
This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

- 1 Write your REGISTRATION NO. Clearly on the answer booklet(s).
- 2 Answer Question One and ANY other TWO questions.
- 3 Questions in all sections should be answered in answer booklet(s).
- 4 Marks allocated to each question are shown at the end of the question.
- 5 PLEASE start the answer to EACH question on a NEW PAGE.
- 6 For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
- 7 Write your answers in paragraph form unless stated otherwise.
- 8 Keep your phone(s) SWITCHED OFF at the front of the examination room.
- 9 Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
- 10 You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Explain the **two** differences between **sale without recourse** and **sale with recourse** as use the sale of accounts receivable **(6 marks)**
- b) Explain **two** advantages and **two** disadvantages of using Last -In-First Out (LIFO) cost flow assumption in determining cost of goods sold and ending inventory **(8 marks)**
- c) ABC limited purchased goods worth sh.640,000 from a credit supplier. The trade discount was 5%. The suppliers offered a 60 days credit period. At the end of the 60 days the company renegotiated for extension by accepting notes payable for 90 days at an annual interest rate of 15%. The company honored the notes payable on the due date.

Required;

- i) Prepare a journal entry at the date of purchase **(2 marks)**
- ii) Prepare a journal entry at acceptance of notes payable **(2 marks)**
- iii) Compute the amount paid on maturity of the notes payable and record the same using a journal entry **(4 marks)**
- d) A business starts on 1 January 2017 and its financial year end is 31 December annually. A table of the debtors, the bad debts written off. Provision for doubtful debts is estimated at the rate of 5 percent of debtors at the end of each year.

Year to 31 December	Bad debts written off during the year	Debtors at the end of the year
2017	50,000	630,000
2018	61,000	700,000
2019	60,400	675,000
2020	55,000	500,000
2021	55,000	750,000

You are required:

- (i) The Provision for Doubtful Debts Account for each year. **(6 marks)**
- (ii) Assuming the total sales in the year 2019 were Shs. 500,000, determine the net profit realized **(2 marks)**

QUESTION TWO

ABC LTD

Statement of Financial Position as at 31st December 2022 and 2023.

	2023			2022		
	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000
Non-current assets	Cost/ Valuation	Acc Deprec.		Cost/ Valuation	Acc.Deprec.	
Property	269,000	29,250	239,750	210,500	21,600	188,900
Equipment	265,000	122,500	142,500	302,500	97,200	205,300
			382,250			394,200
Current assets						
Inventories		222,500			240,800	
Receivables		169,750			92,400	
Investments		20,000			0	
Bank		27,900	440,150		5,100	338,300
			882,400			732,500
Equity and liabilities						
Share capital (Ksh1 shares)			157,000			110,000
Share Premium			49,700			21,500
Profit and loss account			338,000			245,900
			544,700			377,400
Non-current liabilities						
10% debentures		120,000			180,000	
Finance Leases		6,300	126,300		3,200	183,200
Current liabilities						
Trade Payables		91,200			129,100	
Taxation		47,500			38,500	
Finance Leases		11,500			4,300	
Bank overdraft		1,200	151,400			171,900
			882,400			732,500

Statement of changes in equity 31-December 2023

	Share Capital	Share premium	Profit and loss account	Total
	Ksh'000	Ksh'000	Ksh'000	Ksh'000
Balance 1 st January 2023	110,000	21,500	245,900	377,400
Profit for the year			150,100	150,100
Dividends			(58,000)	(58,000)

Share issue for cash	47,000	28,200		75,200
Balance 31 st December 2023	157,000	49,700	338,000	544,700

Additional information

1. There were no disposals of land and buildings during the year.
2. The total amount paid in the year to 31st December 2023 in respect of finance leases was Ksh3 million of which Ksh500,000 was interest. Leases were used to finance additions to equipment.
3. Equipment with a net book value of Ksh48 million and an original cost of Ksh104 million was sold during the year for Ksh36 million.
4. The corporation tax charge for the year to 31st December 2023 was Ksh60 million
5. The debentures were repaid on 30th June 2023
6. There were no interest charges other than debenture interest and interest on finance leases.
7. Investments are in 30-day government bonds

Required:

- a) Prepare a cash flow statement for Hoyles Limited in accordance with IAS 7 Cash Flow Statements for the year ended 31st December 2023 **(17 marks)**
- b) Comment on the cash flow statement prepared in 1. above. **(3 marks)**

QUESTION THREE

- a) Consider a bond with a coupon rate of 15% and market interest rate of 12%. The bond has a face value of sh 8,500,000 and interest is payable semiannually for 4 years.

Required:

Calculate the value of the bond (amount of the proceeds from the issuance of this bond) and pass the necessary journal entry **(10 marks)**

- b) Describe four elements of current liabilities **(10 marks)**

QUESTION FOUR

- a) Explain **four** classifications of financial ratios **(10 marks)**
- b) Explain **four** differences between an operating lease and capital lease **(10 marks)**