



Riara School of Business
Nurturing business innovators

JANUARY – APRIL 2023 TRIMESTER
EXAMINATIONS FOR CERTIFICATE IN BUSINESS MANAGEMENT

DAY PROGRAMME

RCM 005: FUNDAMENTALS OF ACCOUNTING AND FINANCE

DATE: APRIL 2023

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 **four** disadvantages of using ordinary share capital as a source of finance to a company. **(8 marks)**
- b) James Bond is a sole trader. At 31st December 2022 the following balances have been extracted from his books:

	Ksh
Sales	47,600
Purchases	22,850
Office expenses	1,900
Insurance	700
Wages	7,900
Rates	2,800
Heating and lighting	1,200
Telephone	650
Discounts allowed	1,150
Inventory 1 st January 2022	500
Returns inwards	200
Returns outwards	150
Premises	40,000
Plant and machinery	5,000
Motor vehicles	12,000
Accounts receivables	12,500
Bank balance	7,800
Accounts payables	3,400
Long term loan	10,000
Capital	60,000
Drawings for the year	40,000
Inventory 31 st December 2022	550

Required: Prepare:

- i) A trial balance for year ending 31st December 2022 **(6 marks)**
- ii) An income statement for year ending 31st December 2022 **(8 marks)**

iii) Statement of financial position as at 31st December 2022 **(8 marks)**

QUESTION TWO

a) The earnings per share of ABC Limited in the year 2022 was sh. 4. A dividend of Sh. 2 per share was paid to shareholders while the market price of the shares was Sh. 48.5.

Required: Compute the company's:

- i) Dividend yield
- ii) Earnings yield
- iii) Price earnings ratio
- iv) Dividend cover.

(8 marks)

b) If the information in financial statements is to be useful, regard must put to the following:

- i. Materiality concept
- ii. Accrual concept
- iii. Prudence concept
- iv. Going concern concept

Describe the meaning of each of these concepts as they apply to financial accounting **(12marks)**

QUESTION THREE

a) Explain **four** qualities of useful financial information

(8 marks)

b) Describe **six** limitations of ratio analysis.

(12 Marks)

QUESTION FOUR

a) Explain **six** main users of financial information clearly showing why they need it.

(12 marks)

b) Explain **four** advantages of leasing as a source of finance.

(8 marks)

*****END*****

