



Riara School of Business
Nurturing business innovators

JANUARY-APRIL 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION, BACHELOR
OF BUSINESS INFORMATION & TECHNOLOGY AND BACHRLOR OF SCIENCE

DAY PROGRAMME

RAC 101: PRINCIPLES OF FINANCIAL ACCOUNTING I

DATE: APRIL 2023

TIME: 2 HOURS

INSTRUCTIONS

- i) **Answer question one and any other two**
- ii) **Marks allocated to each question are shown at the end of the question**
- iii) **Arrange your work neatly and indicate the questions answered in the Examination booklet**

QUESTION ONE: COMPULSORY (30 MARKS)

- a) Describe the double-entry concept in view of posting journal entries **(4 marks)**
- b) Differentiate between financial accounting from managerial accounting **(6 marks)**
- c) The following balances are for J. Steadman, a sole trader as at 31st December 2022.

List of balances as at 31st December 2022

	<u>Sh. ('000)</u>
Capital	58,260
Equipment	11,250
Furniture and Fittings	6,000
Motor vehicles	17,370
Sales	96,030
Purchases	59,220

Cash at bank	750
General expenses	1,800
Wages	17,820
Rent, rates and insurance	7,650
Heating and lighting	2,100
Debtors	24,000
Creditors	10,800
Stock (1st January 2022)	17,130

The following additional information is also available as at 31st December 2022

- a) Wages that are unpaid/accrued wages amounted to Sh. 351,000
- b) Advance rent collected and unrecorded/unearned rent- sh. 200,000
- c) Insurance paid in advance but unrecorded/prepaid- Sh. 600,000
- d) Sh. 20,000 of bad debt is to be written off since the customer cannot be traced
- e) Closing stock(end year stock balance) was valued at Sh. 14,730

Required: Consider the above information and prepare the final accounts for J. Steadman:

- i) The Statement of Income for the year ended 31st December 2022 **(10 marks)**
- ii) The Statement of Financial Position (Balance sheet) as at 31st December 2022**(10 marks)**

QUESTION TWO

- a) Presented below is information related to Nicole Thompson, R.at the close of the fiscal year ending 31st December 2022.
 1. Nicole had paid the local newspaper Sh. 215 for an advertisement to be run in January of the next year, charging it to advertising expense.
 2. Interest accrued to date on Mark Kluges note, which Nicole holds Sh. 450.
 3. Nicole has not paid December rent on the building her business occupied Sh. 900.

4. Insurance paid November 1 for one year Sh. 912 charged to an expired insurance when paid.
5. On October 31 Nicole received Sh. 2,580 from Patricia Cowfer in payment of 6 months' rent for office space occupied by her in the building and credited unearned rent.
6. The bill from the Stormlake Light and Power Company for December has been received but not yet entered or paid Sh. 460.
7. Estimated depreciation on furniture and equipment Sh. 1,300

Required: Prepare annual adjusting entries as of December 31, 2022 **(14 marks)**

- b) Differentiate between revenue recognition principle and matching principle **(6 marks)**

QUESTION THREE

- a) Explain any FOUR objectives of financial reporting **(8 marks)**
- c) Discuss any THREE qualitative characteristics of financial reporting in view of content and presentation of financial reports **(6 marks)**
- d) Discuss the historical cost principle and highlight two of its shortcomings **(6 marks)**

QUESTION FOUR

- a) The following information relates to a sole trader in the month of April 2022

April 1- bought Furniture and Fixtures on credit from Bell and Co- Sh. 1,153.

April 4- the proprietor took goods costing sh. 3,400 out of the business without paying for them.

April 12- H Cowes owes the business Sh. 640 and he is unable to pay his debt. After negotiations with him, the sole trader agrees to take some Computer equipment from him at that value in settlement of his debt.

April 18- Paid a creditor through the bank account- Sh. 12,00.

April 24- A debtor P. Smith departs the country without paying us his debt of Sh. 12,400 hence the need to write off the debt.

April 30- Office equipment bought on credit from Furniture Todys Ltd. For Sh. 11.710.

Required: Capture the general journal entries necessary to record the above items **(12 marks)**

- a) Discuss the accrual basis of accounting in view of financial reporting **(4 marks)**
- b) Describe the going concern assumption in the context of financial accounting **(4 marks)**