



**Riara School of Business**

*Nurturing business innovators*

**JANUARY – APRIL 2023, TRIMESTER**

**EXAMINATION FOR DEGREE IN BUSINESS ADMINISTRATION MANAGEMENT/**

**BACHELORS OF BUSINESS INFORMATION TECHNOLOGY**

**RAC: 102: PRINCIPLES OF FINANCIAL ACCOUNTING 11**

**DATE: APRIL 2023**

**TIME: 2 HOURS**

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**GENERAL INSTRUCTIONS:**

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text books/reference books/notes are not permitted.

**SPECIAL INSTRUCTIONS:**

1. Write your ADMISSION NUMBER clearly on the cover of 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. Indicate the number of the questions answered on the cover of 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 30 minutes to the end of the Examination.

### QUESTION ONE (COMPULSORY (30 MARKS))

- (a) In the context of the International Accounting Standards Boards's Conceptual Framework for Financial reporting, explain the **five** elements of Financial Statements **(10 Marks)**
- (b) Evaluate any **four** concepts that underpin preparation and presentation of Financial Statements **(2 Marks)**
- (c) Explain **four** functions of the Institute of Certified Public Accountants of Kenya (ICPAK) **(8 Marks)**
- (d) On 31<sup>st</sup> December 2022 the cash book of Rafiki showed a balance at bank of Shs. 81,000. The bank statement however showed a balance of Shs. 67,000.

The following details were discovered on checking the bank statement

- i. A cheque received from Taifa Ltd on 1<sup>st</sup> December for Shs.6, 000 and entered in the cash book did not appear on the bank statement.
- ii. A cheque paid to Kamara Shs.7, 000 on 25<sup>th</sup> December had not been presented.
- iii. A cheque received from Njiru on 24<sup>th</sup> December Shs.6, 000 and entered into cash book was dishonored. No entry in this regard was recorded in the cash book.
- iv. Bank charges amounting to Shs.1,000 had not been entered into cashbook
- v. The bank received directly Shs. 10,000 for E.A.B.L as dividends on 18<sup>th</sup> December on behalf of Rafiki.
- vi. A cheque payment of Shs. 20,000 to Olivia had been entered in error Shs. 2,000 in the cashbook.

#### Required:

- (i) The updated cash book **(5 Marks)**
- (i) Bank reconciliation statement for Rafiki for the month of December 2022 **(5 Marks)**

## QUESTION TWO

Jane, James and John are partners sharing profits and losses in the ratio 3:1:1 after interest on capital at 10% and salaries to James and John of Shs. 300,000 each per annum. The partner's trial balance for period ended 31/12/2022 is as follows.

	DR (Kshs.)	CR (Kshs.)
Capital a/c: Jane		3,000,000
Capital a/c: James		2,000,000
Capital a/c: John		1,500,000
Sales and purchases	6,000,000	10,000,000
Debtors and creditors	2,000,000	800,000
Returns	400,000	200,000
Discounts	200,000	300,000
Office expenses	1,000,000	
Current a/c: Jane		500,000
Current a/c: James		400,000
Current a/c: John	200,000	
General expenses	1,200,000	
Bad debts	200,000	
Provision for bad and doubtful debts		200,000
Rent and rates	200,000	
Salaries and wages	500,000	
Land and building	4,000,000	
Plant and Machinery	3,000,000	
Motor vehicles	3,000,000	
<b>Accumulated depreciation</b>		
Land and building		1,000,000
Plant and machinery		1,500,000
Motor vehicle		500,000

	<b>21,900,000</b>	<b>21,900,000</b>
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**Additional information**

1. Inventory as at 31/12/2022 amounted to Kshs. 1,000,000
2. Provision for bad and doubtful debt maintained at 10% of the debtors
3. General expenses amounting Shs.200,000 were in arrears while rent and rates Shs.10,000 are in advance
4. Depreciation is charged as follows:
  - a) Land and building 10% on cost
  - b) Plant and machinery 20% on reducing balance
  - c) Motor vehicle 15% on cost

**Required:**

- i) Income statement for the year ended 31/12/2022 **(7 Marks)**
- ii) Partner's appropriation account for the year ended 31/12 /2022 **(3 Marks)**
- iii) Partners current accounts **(3 Marks)**
- iv) Statement of financial position as at 31<sup>st</sup> December 2022 **(7 Marks)**

### QUESTION THREE

The following trial balance was extracted from the books of Mkubwa Company Limited on 31<sup>st</sup> December 2022

	DR (Kshs.)	CR (Kshs.)
Share capital: 200,000 ordinary shares of Kshs. 20 each		4,000,000
15% Preference shares of Kshs. 60 each		3,000,000
General reserves		140,000
Inventory 1/1/2022	240,000	
18% debentures		1,500,00
Retained earnings as at 1/1/2022		190,000
Debtors/creditors	360,000	310,000
Bad debts	14,000	310,000
Debenture interest ( half year)	135,000	
Interim dividends on ordinary shares	500,000	
Purchases/Sales	1,856,000	3,794,000
General expenses	40,000	
Auditor's fees	82,000	
Director's salaries	130,000	
Insurance	75,000	
Delivery van	1,900,000	
Investment	540,000	
Freehold property	5,712,000	
Provision for depreciation: Delivery van		360,000
Bank	1,710,000	

	<b>13,924,000</b>	<b>13,924,000</b>
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**Additional information**

1. Inventory on 31<sup>st</sup> December 2022 was valued at Shs. 270,000
2. Insurance Shs.18,000 was prepaid
3. 3% of the debtors are bad and doubtful
4. Delivery van are to be depreciated at 10% on book value
5. Interest on investment Shs.2,700 is outstanding
6. A final dividend on ordinary shares is provided at Shs.3 per share.
7. Corporate tax will be charged at 30% per annum

**Required:**

- (i) Income statement for the year ended 31<sup>st</sup> December 2022 **(10 Marks)**
- (ii) Statement of financial position as at 31<sup>st</sup> December 2022 **(10 Marks)**

**QUESTION FOUR**

- (a) Explain **FIVE** causes of depreciation **(5 Marks)**
- (b) On 1<sup>st</sup> January 2020, Kim Enterprises purchased vehicles as shown below:

Date	Reg. Number	Cost in Kshs
1st January 2020	KCA 555	750,000
1st October 2020	KCE 557	900,000
1st April 2021	KCN 888	840,000

On 30<sup>th</sup> June 2022, KCA 555 was sold for Kshs. 600,000. The firm's financial year ends on 31<sup>st</sup> December every year and provides for depreciation at 15% on straight basis. The company's policy is to provide full depreciation in the year of acquisition and non in the year of purchase.

**Required:** Prepare the following accounts as at 31<sup>st</sup> December 2022

- (i) Motor vehicle account **(5 Marks)**
- (ii) Provision for depreciation account **(5 Marks)**
- (iii) Disposal of motor vehicle account **(2 Marks)**
- (iv) Profit and loss extract for the three years **(3 Marks)**