



Riara School of Business
Nurturing business innovators

SEPTEMBER-DECEMBER TRIMESTER, 2015
EXAMINATIONS FOR BACHELOR OF BUSINESS ADMINISTRATION

DAY PROGRAMME

BAC: 102: PRINCIPLES OF FINANCIAL ACCOUNTING 11

DATE: DECEMBER, 2015

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**
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QUESTION ONE:

- a) Explain the common techniques that are employed to control cash **(4 Marks).**
- b) Explain how to account for Interest Payable **(2 Marks).**
- c) Write short notes on the Institute of Certified Public Accountant of Kenya **(4Marks).**
- d) Tangaza Ltd results and financial positions for the two years ended 31st March 2012 are as follows:

Income statement for the year ended 31 st March	2012	2011
	Shs.(000)	Shs. (000)
Sales	180,000	150,000
Cost of sales	<u>(126,000)</u>	<u>(102,000)</u>
Gross profit	54,000	48,000
Operating expenses	<u>(46,500)</u>	<u>(39,000)</u>

Operating profits	7,500	9,000
Interest expense	<u>(6,600)</u>	<u>(3,900)</u>
Profit before taxation	900	5,100
Taxation	<u>(1,050)</u>	<u>(1,800)</u>
Profit (loss) after taxation	(150)	3,300
Ordinary dividends	<u>(1,800)</u>	<u>(1,800)</u>
Transfer (from)/ to reserves	<u>(1,950)</u>	<u>1,500</u>

Statement of financial position as at 31 st March	2012	2011
	Shs. (000)	Shs. (000)
Non-Current assets		
Property, plant and equipment (PPE)	39,000	33,000
Current assets		
Inventory	42,000	39,000
Trade receivables	48,000	45,000
Cash and cash equivalents	<u>1,500</u>	<u>1,500</u>
Total current assets	<u>91,500</u>	<u>85,500</u>
Total Assets	<u>130,500</u>	<u>118,500</u>
Equity and Liabilities		
Equity		
Share capital (Par values Shs.10)	19,800	19,800
Accumulated profits	<u>20,250</u>	<u>22,200</u>
Shareholders' funds	40,050	42,000
Non-current liabilities		
Long term loan	18,000	16,500

Current liabilities

Trade payables	<u>72,450</u>	<u>60,000</u>
Total equity and liabilities	<u><u>130,500</u></u>	<u><u>118,500</u></u>

Required:

- (i) Use the Liquidity, Profitability and Turnover ratios, to analysis the performance of Tangaza Ltd **(16 Marks).**
- (ii) Advise the management of Tangaza Ltd on the areas that require further investigations **(4 Marks).**

QUESTION TWO

- a) Define a cash flow statement and describe how the activities of a business are reflected and categorized in the statement of cash flows **(6 Marks).**
- b) The following financial statements relate to ABC Ltd for the year ended 31st March 2013

	2012	2013
	Shs (Million)	Shs (Million)
Sales	800	1,000
Cost of Goods sold		
Opening inventory	180	100
Purchases	420	620
Closing inventory	<u>(100)</u>	<u>(20)</u>
Gross profit	300	300
Administration costs	40	50
Other operating costs	<u>60</u>	<u>(100)</u>
Net profit	<u>200</u>	<u>200</u>
Property, Plant and Equipment (PPE)	690	840
Provision for depreciation	<u>(120)</u>	<u>(130)</u>
Net Book Value	570	710
Inventories	100	20

Receivables	120	90
Cash and cash equivalent	<u>20</u>	<u>240</u>
	<u>810</u>	<u>850</u>
Capital	600	650
Drawings	(50)	(40)
Net profit	<u>200</u>	<u>200</u>
	750	810
Payables	<u>60</u>	<u>40</u>
	<u>810</u>	<u>850</u>

Required: Prepare a statement showing the cash flow position of ABC Ltd for the year ended 31st March 2013 **(14 Marks).**

QUESTION THREE

- a) Explain the causes of depreciation **(5 Marks).**
b) On the 1st of January 2012 XYZ Transporters owned three lorries purchased at different dates as follows:

Lorry number	Year of purchase	Cost (Shs)
KBQ 452H	1 st January 2010	640,000
KBX 451H	1 st January 2012	800,000
KBY 450H	1 st January 2013	960,000

Additional information:

- The company has a policy to charge depreciation at 20% straight line basis
- Full depreciation is charged in the year of acquisition and no charge in the year of disposal
- KBX developed mechanical problem and was disposed on the 2nd March 2013 at a cash price of Shs.440, 000. A new lorry registration number KBZ was purchased on 31st March 2013 at Shs. 956,000

4. KBQ 452H was traded in 12th April 2013 at a value of Shs.250, 000 in part exchange of the new lorry KCA 453H costing Shs.1, 100, 000

Required: Prepare the following accounts for the three years ended 31st December 2010, 2011, 2012 and 2013

- i) Lorry account **(4 Marks).**
- ii) Lorry disposal account **(2 Marks).**
- iii) Provision for depreciation on Lorry account **(4 Marks).**
- iv) Profit and loss extract **(4 Marks).**
- v) Balance sheet extract as at 31st December 2013 **(1Marks).**

QUESTION FOUR

- a) Explain the term’’ bank reconciliation’’ and state the causes of the its preparation **(5Marks).**
- b) Explain the three major classifications of receivables **(6Marks).**
- c) ABC Limited cash book showed credit balance of Shs. 36,080 on 30th June 2009 whereas the Bank statement received from his bank showed a credit balance of Shs. 49,320 on the same date. The following differences were discovered;
 - i. Cheques totalling Shs. 61,450 issued by ABC Limited did not appear in the bank statement
 - ii. Cheques totalling Shs. 39,450 deposited on the last day of the month were credited by the bank on 5th July 2009
 - iii. Bank charges for the month amounted to Shs. 2,410
 - iv. The bank made payments of Shs.8,000 to ABC Limited landlord and another of Shs. 2,000 to an insurance company as per his standing orders
 - v. A cheque for Shs. 6,050 deposited on June 23,2009 was returned unpaid by the bank on July 4th 2009
 - vi. A debtor remitted Shs. 9,700 direct to ABC Limited account

Required: Prepare a Bank Reconciliation Statement as at 30th June 2009 **(9 Marks).**

QUESTION FIVE

- a) With examples differentiate between bonus issue and right issue **(4 Marks).**
- b) BC Ltd had authorized share capital consisting of 20M ordinary shares of Shs.2 each and 15M 10% preference shares of Shs. 10 each. For the year ended 31st December 2013 the company had issued shares capital consisting of 10M ordinary shares and 2M preference shares. The company had operating profits of Shs.10M and non-operating profit for Shs. 5M. The company had borrowed a long term loan of Shs.14M whose interest rate was 10%. The corporation tax rate was 30%. On 1/04/14 the company issued an additional 4M ordinary shares and 2M preference shares. The company also issued 10% 1M debentures of Shs.100 each on the same date.

Required:

- i) Compute the basic EPS **(3 Marks).**
- ii) Compute the diluted EPS as at 31st December 2014 **(3 Marks).**
- c) Wema Ltd issued a 4 year term bond of Shs. 4M whose coupon rate was 8% and a yield rate of 10% payable annually.

Required;

- i) Determine the present value of the term bond **(2 Marks).**
- ii) Show the amortization of the term bond **(4 Marks).**
- iii) Record the journal entries for the above transactions **(2 Marks).**