



Riara School of Business
Nurturing business innovators

SEPTEMBER-DECEMBER, 2019 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION/BACHELOR OF
BUSINESS INFORMATION TECHNOLOGY/BACHELOR OF COMPUTING SCIENCES
DAY PROGRAMME
RAC 101: PRINCIPLES OF FINANCIAL ACCOUNTING 1

DATE: 13TH DECEMBER, 2019

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 (COMPULSORY) and any other two.
- 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 and NOT on your person.
- 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 exam room 30minutes to the end of the Exam.

QUESTION ONE: COMPULSORY (30 MARKS)

a) Analyze the following accounting concepts:

(i) Going concern concept

(2 Marks).

(ii) Dual concept

(2 Marks).

(iii) Matching concept

(2 Marks).

b) Highlight **four** elements of financial statements

(4 Marks).

c) ABC Limited trial balance for the year ended 31st December 2018 is as follows:

Details	DR (Kshs. 000)	CR (Kshs.000)
Land and building	15,000	
Sales		40,000
Fixtures and fittings	3,000	
Salaries and wages	3,000	
Drawings	4,000	
Purchases	19,000	
General expenses	3,000	
Motor vehicles	8,000	
Commissions	3,000	
Office expenses		

	2,000	
Debtors	8,000	
Creditors		7,000
Cash	4,000	
Stock 1/1/2013	4,000	
Capital		29,000
Totals	<u>76,000</u>	<u>76,000</u>

Additional Information

1. Inventory as at 31st December 2018 was valued at Kshs.4,500,000
2. Accrued salaries and wages amounted to Kshs.1,200,000
3. Depreciation was as follows;
 - Land and building- Kshs.3,000,000
 - Fixtures and fittings-Kshs.375,000
 - Motor vehicles-Kshs.2,000,000

Required:

- (i) An Income Statement for the year ended 31st December 2018 **(10 Marks).**
- (ii) Statement of financial position as at 31st December 2018 **(10 Marks).**

QUESTION TWO

- a) Evaluate **four** types of errors which are not disclosed by the trial balance

(8Marks)

- b) The trial balance of Juma, a sole trader, did not balance on 30th April 2014. The difference was put in the suspense account. The final accounts, which were then prepared, showed a net profit of Kshs.64, 000.

An investigation revealed the following errors;

1. A loan from ABD Bank of Kshs.10, 000 was entered correctly in the cashbook but was not posted to the ledger.
2. A cheque of Kshs.4, 000 for rent received was not entered in the books.
3. Closing stock was overvalued by Kshs.1, 500.
4. Discount allowed of Kshs.500 was entered in the discount received account.
5. The opening stock was understated by Kshs.3, 200.
6. Prepaid insurance of Kshs.220 had been included in the profit and loss account.
7. Goods destroyed by fire amounting to Kshs.12, 000 were written off in the profit and loss account. However, the insurance company has agreed to compensate the full amount.

Required:

- (i) Journal entries to correct the errors **(8 Marks).**
- (ii) Statement of corrected profits **(2 Marks).**
- (iii) Suspense account **(2 Marks).**

QUESTION THREE

- a) Explain **two** types of a cash book **(2 Marks).**
- b) Differentiate between the following terms:
- (i) Sales returns and purchases returns **(2 Marks).**
- (ii) Prepaid expenses and accrued expenses **(2 Marks).**
- (iii) Bad debts written off and provisions for bad and doubtful debts **(2 Marks).**
- c) List **six** users of financial reports **(6 Marks).**
- d) Outline the accounting cycle **(6 Marks).**

QUESTION FOUR

TBL Limited keeps sales and purchases control accounts in the general ledger. The transactions for the month ended 30 April 2018 were as follows:

	Kshs.
Credit balance on 1 st April 2018-Sales ledger	154,000

-Purchases ledger	569,000
Debit balance on 1 st April 2018-Sales ledger	956,000
-Purchases ledger	196,000
Credit balance on 30 th April 2018-Sales ledger	178,000
Debit balance on 30 th April 2018-Purchases ledger	189,000
Credit purchases	2,450,000
Credit sales	4,563,000
Cheques received from debtors	3,140,000
Cash received from debtors	1,367,000
Cheque payments to creditors	1,994,000
Cash payments to creditors	352,000
Bad debts written -off	68,000
Discount received	104,000
Discount allowed	169,000
Contra entry to sales ledger from purchases ledger	234,000
Refunds to debtors	62,000
Returns outwards	138,000
Returns inwards	231,000

Required:

- (i) Sales ledger control accounts for the month ended 30th April 2018 **(10 Marks).**
- (ii) Purchases ledger control accounts for the month ended 30th April 2018 **(10 Marks).**