



Riara School of Business

Nurturing business innovators

SEPTEMBER – DECEMBER 2019, TRIMESTER

**EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION (ACCOUNTING
SPECILISATION)
DAY PROGRAMME**

RAC 402: ACCOUNTING REPORTS AND FORMATS

DATE: 9TH 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 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) Evaluate **three** importance of receivable management **(6 Marks)**.
(b) Explain **three** main differences between direct write off method and allowance method used in accounting for uncollectible debts/doubtful debts **(6 Marks)**.
(c) Electric limited is an expanding private company in the electric trade. Accounts prepared in January 2018 included in the following information:-

INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER

	2017 Kshs.(000)	2018 Kshs.(000)
Sales	2,000	3,200
Less cost of goods sold	1,100	1,800
Gross profit	900	1,400
Less trading expenses	450	550
Operating profit	450	850
Less: debenture interest	25	25
Net profit before taxation	425	825
Less corporation tax	160	32
Net profit after taxation	265	505
Less ordinary share dividend	125	175
Undistributed profits for the year	140	330

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER

	2017 Kshs.(000)	2018 Kshs.(000)
Non-current assets	800	1,150
Current assets		
Inventory	400	550
Accounts receivable	250	350
Cash	80	-

Total assets	1,530	2,050
Current Liabilities		
Accounts payable	145	200
Taxation	160	320
Proposed dividend	125	175
Bank overdraft	-	65
Sources of capital		
Ordinary share capital- authorized and issued (Kshs.1)	500	500
Undistributed profits	350	680
10% debentures	250	110
Total liabilities and capital	1,530	2,050

Required:

- (a) Calculate **three** profitability and **three** liquidity ratios to assess the performance of Electric limited **(12 Marks)**.
- (b) Comment on the current position of Electric limited with the aid of the accounting ratio computed in (a) above and any other information that you consider to be relevant **(6 Marks)**.

QUESTION TWO

The following financial statements relate to ABC Ltd for the year ended 31st March 2018

	2017	2018
	Kshs (Million)	Kshs (Million)
Sales	800	1,000
Cost of Goods sold		
Opening inventory	180	100
Purchases	420	620
Closing stock	(100)	(700)

Gross profit		300		300
Administration costs	40		50	
Other operating costs	60	(100)	50	(100)
Net profit		<u>200</u>		<u>200</u>
Property, plant and machinery (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	20	240	30	140
		<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 cash flow statement of ABC Ltd for the year ended 31st March 2018
(15 Marks).

QUESTION THREE

- (a) Evaluate **three** reasons why a business need to regularly value inventory
(3 Marks).
- (b) ABC Ltd has the following records from the stores

Opening Inventory 100units @5.00

Purchases were as follows in the month of January 2018:

1st 70 units @ 4.50

10th 30 units @ 5.50

17th 100 units @ 5.00

27th 30 units @ 6.00

Issues were as follows:

5th 120 units

12th 20 units

19th 70 units

31st 50 units

Required: Compute

- (i) Closing inventory using **FIFO** method as at 31st January 2018 (6 Marks).
- (ii) Closing inventory using Weighted Average Method as at 31st January 2018
(6 Marks).

QUESTION FOUR

- (a) Evaluate **four** importance of capital budgeting (4Marks).
- (b) Differentiate the coverage of IFRS 1 and IFRS 9 (3 Marks).
- (c) Explain **four** main attributes that make the information provided in the Accounting reports relevant to the user (8 marks).