MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF EDUCATION

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITY

DATE: 24/7/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Briefly explain the main differences between a liabilities and equities. (6 marks)

b) The universal Traders corporation borrowed 10,000,000 from National Bank on 1st May 2017 it signed 90 days bill payable. The Universal Traders Corporation accounting period ends on 30th June 2017.

Required

Record the above transaction in the journal recognizing 60 days interest on bill as expense of the bill. (6 marks)

c) The Trident Company has 100,000 equity shares and has a profit after tax of 500,000 and the corporation tax rate is 35%. Calculate the basic earning per share and diluted earning per share. (6 marks)

d) Differentiate between capital reserve and revenue reserve. (6 marks)

e) Warranty under which the company would replace defective parts free of charge. During 2016 the company sold 2,300 ovens. The cost of warranty service is 200 per oven sold require replacement of parts.

Required

Prepare a journal entry to record estimated warranty for liability 2016.

QUESTION TWO (20 MARKS)

Murungu Company limited extracted the following Trial balance as on 31st December 2016

	Dr	Cr
	shs	shs
Share capital 1		
250,000 ordinary shares of sh.100 each		2,500,000
125,000 10% preference shares of sh.100 each		12,500,000
10% debenture		10,000,000
Free hold premise at cost	25,000,000	
Motor vehicle at cost	7,500,000	
Fixtures and fittings	1,300,000	
Plant and machinery at cost	2,500,000	
Profit and Loss a/c 1st Jan 2016		2,685,000
Sales		59,475,000
Inventory at 1st Jan 2016	10,775,000	
Bad debts written off	125,000	
Purchases	16,900,000	
<u>Dividents paid at 30th June 2016</u>		
Preference dividend	625,000O	
Ordinary dividend	1,250,000	
Debenture intrest paid as at 30th June 2016	500,000	
Account receivable\ payable	2,700,000	1,500,000
<u>Provisions for depreciation at 1st Jan 2016</u>		
Plant and machinery		1,025,000
Motor vehicles		2,250,000
Fixtures and fittings		800,000
Salaries and wages	4,100,000	
Cash and bank balances	4,775,000	
Investments	22,500,000	

Office expenses	2,300,000	
General reserve		1,000,000
Selling and Distribution expenses	13,750,000	
Director emoluments	3,700,000	
Auditors remuneration		800,000
Preliminary expenses	1,200,000	
Sundry income		1,625,000
Bank charges	60,000	
Income from investment		4,500,000
	122,360,000	122,360,000

Additional information available at 31st December 2016

1) Inventory shs. 3,750,000
2) Depreciate non-current asset as follows;
   -Motor vehicle at 20% on cost
   -fixtures and fittings at 12 ½% on bank value
   There were no disposals and acquisition of non-current assets during the year.
3) Expenses due but unpaid include salaries and wages shs.62,500 and office expenses paid in advance amounts to 120,000
4) Allowance for bad debts is to be set up at 2 ½% of sundry debtors
5) Debenture interest is payable half yearly, the half year to 31st December,2016 being due on that date
6) Corporation taxation is chargeable at 30% on the current profits of the year of taxation liabilities .
7) The directors of Murungi Co. Ltd recommended appropriation as follows;
   i) The preliminary expenses to be written off in full
   ii) Transfer to be made from the profit and loss accounts as follows;
   -General reserve shs. 1,500,000
   iii) Payment of final dividend of 12 ½ on the ordinary share capital

Required:

a) Comprehensive income statement for the year ended 31st December 2016.
b) Statement of financial position as at 31st December 2016.

QUESTION THREE (20 MARKS)

The summarized statement of financial position as at 31st December 2014 of Sokoni Limited is as follows;

Sokoni Ltd

Statement of financial position	shs
Net asset (except bank)	200,000
Bank	130,000
	330,000
Preference share capital	50,000
Ordinary share capital	150,000
Share premium	20,000
Profit and Loss account	110,000
	330,000

The following additional information is provided;

i) Shs. 50,000 preferences shares are redeemed
ii) To help finance the redemption an issue of shs. 15,000 ordinary shares at per is effected.

Required

a) Journal the transactions
b) Show the statement of financial position after redemption

Outline the legal requirements which should be fulfilled before shares can be redeemed.

QUESTION FOUR (20 MARKS)

a) Discuss the discuss the differences between operating lease and financial lease.

b) A lessee enters a leasing agreement on 31st December 2015 for a plant and machinery costing shs. 949,000 .The lease requires the payment of an annual rent of shs. 272,200 payable in advance.The period of the lease is four years. Its assumed that the useful life of this plant and machinery is four years and there ill be no scrap value at the end of that period. This asset is depreciated based on straight line method.

The accounting period of the lessor and lessee ends on 31st December each year.

Required;

i) Journal entries at the inception of the lease

ii) The charges to the profit and loss account of the lease for the years 2006,2009 on basis of actuarial basis.

iii) The lessor's accounts in the lessee's books for the years 2006 to 2008 on the basis of actuarial basis.

QUESTION FIVE (20 MARKS)

a) Differentiate between;

i) Bonus issue and right issue

ii) Capital reserve and revenue reserve

iii) Authorized share capital and issued share capital

iv) Participating and non-participating preference shares (8 marks)

b) On August 1st 2016 Nasa company issued 500,000 15%,10 year debenture for shs. 480,000, intrest is payable on January 1st and July 1st. The company's accounting year is March 31st. The Company follows the straight-line method of amortization debentures. Prepare journal entries to record the following;

i) Issuance of debentures on 1st August 2016.

ii) Payment of semi- annual interest on January 1st 2017 and amortization of discount.

iii) Accrual of interest on March 31st, 2017 and amortization of discount.