MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING, BANKING AND FINANCE

SPECIAL/SUPPLIMENTARY EXAMINATION FOR BACHELOR OF COMMERCE

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITIES

DATE: **DATE :2HRS**

INSTRUCTIONS.

Answer Question One and any other Two Question

QUESTION ONE

a) Explain five benefits that accrue to an organization that finances its business operations through debt. (10 marks)

b) Bona company issued a 3yr semi -annual bond of sh.3m,10% coupon rate on 1^{st} January 2012.The market value was 12 % at the time of issue.

Required

Prepare the amortization table using the interest level method. (10 marks)

c) Albert had the following balances on the dates shown:

	31^{st} December 2010	31^{st} December 2011
Shsshs		
Premises	72,500	72,500
Motor vehicles	14,000	9,000
Furniture	17,500	16,000
Stock-in-trade	56,000	65,500
Accounts receivable	54,500	57000
Cash in hand	7,500	10,000
Cash at bank	(2,500)	20,000

Accounts payable	72,500	85,000
Prepaid expenses	5,000	7,500
Accrued expenses	6,500	3,000

During 2011 he withdrew shs1,500 per month from the business bank account for his personal use.

On 4th jolly 2011, he sold his private car for shs 6,000 and the proceeds deposited into the business bank account.

Required

Calculate his profit or loss for the year ended on 31st Dec.2011 (10 marks)

QUESTION TWO

K.LTD entered into an agreement to lease for a motor vehicle M.LTD:

Cash price for the vehicle was sh.5, 000,000 and the lease payments were to be done in 5 installments of sh.1, 285,500.This amount was to be paid in arrears. It's the policy of the company to charge depreciation using straight line method. Using sum of digits method.

Required

(i) Determine how much of this finance charge will appear in each year's profit and loss as an expense. (5 marks)

(ii) Prepare the lessors account in lessee's bank. (10 marks)

(iii) Prepare provision for depreciation account (5 marks)

QUESTION THREE

a) Explain the distinguishing features of a finance lease (6 marks)
b) Highlight the factors which give rise to deferred taxation according to IAS 12 (8 marks)
c) Explain the following terms as per the IFRS:
   (i) Equity
   (ii) Financial liability instrument? (6 marks)

QUESTION FOUR

Assume that accompany purchased a fixed asset in 1st January 2012 at a cost of kshs.8,000,000.Theresidual value of the asset is assumed to be Nil, and it is to be depreciated as a straight line basis over 4 years. The company claims 100%first year allowance and the corporation tax rate for each of the four years is assumed to be 35% profit after charging depreciation is kshs 40,000,000 in each of the four years and there are no other timing differences. No capital expenditure taxes place in2013, 2014 and 2015

Required

(i)	Compute deferred tax	(5 marks)
(ii)	Analyse timing differences	(5 marks)
(iii)	Calculate profit after tax for each of the years	(5 marks)
(iv)	Journal entries to record the income tax expense and related deferred tax liability for tax years 2012 and 2013	(5 marks)

<u>QUESTION FIVE</u>

Explain classification of liability according to the probability of occurrence (5 marks)

Assume you have been provided with the following information.

	Dec 2011 Shsshs	31 Dec 2012
Wages in arrears	24,000	26,800
Insurance paid in advance	8,400	10,200
Rates in arrears	3,00	
Rates in advance		3,600

Payments made during 2012 were as follows.

	Shs
Wages	286,000
Insurance	17,400
Rates	18,400

Required

Calculate the amount to be transferred to the profit and loss account for wages, insurance and rates for the year 2012 (15 marks)