



MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

FOURTH YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITY

DATE:

TIME:

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the meaning of single entry system and incomplete records. (5 marks)
- b) There are instruments that are classified as liabilities rather than equity. Explain (5 marks)
- c) ABC LTD issued a shs.4,000,000 of 5 years 8% bonds of shs.3,691,120 at the beginning of its fiscal year on July 1,2016,when the market rate is 10%.The interest is payable semi annually, beginning December 31,2016

Prepare

- i) Amortization schedule using effective interest method for the first three years (5 marks)
- ii) Journal entries to record the issuance interest payments for the first year and retirement of bond for ABC LTD (5 marks)
- iii) Distinguish between preference share capital and a debenture (5 marks)
- iv) Explain and distinguishing features of a finance lease according to IAS 17 (5 marks)

QUESTION TWO

- a) Assume that kagoo LTD issued a three-year bond with an 8% coupon rate sold to yield 10% on January 1 2011. interest payable annually on December 31. The bonds are callable at 105.

The face value of the bond being kshs.500, 000. The bonds issue costs being kshs 25,000.

Required

- i) Compute the premium or discount of the bond (2 marks)
 - ii) Journal entries to record the issuance of the bond (4 marks)
 - iii) Prepare bonds amortization schedule using effective interest method (4 marks)
 - iv) Prepare journal entries to record interest expenses and bonds issuance expense for the first two years. (5 marks)
- b) Assume that the three years 8% bonds of kshs.500,000 were recalled at 105 on December 31,2012.

The expense for the recall being kshs.10,000

Required

Prepare journal entries to record the recall of the bonds (5 marks)

QUESTION THREE

- a) Explain the disclosure requirements of contingency liability (6 marks)
- b) Assume that the financial year end of kiiti LTD is 31 December. On 1 January 2014 kiiti had ordinary share capital of kshs.1, 000,000 which was contributed at par on incorporation of kiiti

The par value of the shares of the entity being kshs.1 per share

Additional information

- 1) On 1 January 2014 the entity issued a further 1,500,000 ordinary shares of shs.5 per share. The shares were issued for cash.
- 2) Each shareholder was permitted to buy one share option for every share purchased, at shs.0.5 per option.
- 3) Each option allows the holder to buy one share on 31 January 2015 at shs.4 per share, and 1,000,000 share options were purchased.
- 4) On January 2015, 950,000 share options were converted into ordinary shares and 50,000 options lapsed.

Required

- i) Prepare journal entries to recognize the issue of shares. (9 marks)
- ii) Recognize the issue of share on 1 January 2014 (5 marks)

QUESTION FOUR (20 MARKS)

JT entered into an agreement to lease for a motor vehicle KCM 940J.

Cash price for the vehicle was kshs.10, 000,000 and the lease payments were to be done in 5 (five) installments for kshs.2, 571,000. The amount was to be paid in arrears. It's the policy of the company to change depreciation using straight line method. Using actual method.

Required

In the books of the lessee:

- i) Lessors account (10 marks)
- ii) Provision for depreciation accounts (5 marks)
- iii) Balance sheet extracts at the end of year 1 (5 marks)

QUESTION FIVE (20 MARKS)

- a) Explain any six various types of bond you know and their characteristics . (6 marks)
- b) Write short notes following terms as per the IFRS :
 - i) Equity instrument (2 marks)
 - ii) Financial liability instrument (2 marks)
- c) Can bonds be distinguished? comment. (6 marks)
- d) Discuss classification of liability measurement in accounting.. (4 marks)