



# MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITIES

DATE: 31/8/2022

TIME: 8.30-10.30 AM

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## INSTRUCTIONS

- Answer question **ONE (Compulsory)** and any other **TWO questions**

## QUESTION ONE (30 MARKS)

- a) Describe the nature of each of the following current liabilities.
- Contingent Liability
  - Current Matutities of Long –Term Debt
  - Unearned Revenue
  - Warranty Payable (6 marks)
- b) Vuma Corporation had retained earnings of Shs.5,130,000 on January 2020. During the year, Vuma earned Shs.2,000,000 of Net Income. It declared and paid cash dividend of Shs.250,000 and issued stock dividend of Shs.300,000 in the year 2020. In the year 2020, the corporation recorded an adjustment of Shs.180,000 due to the understatement of 2019 depreciation expense.
- Required:**
- Prepare a retained earnings statement for 2020. (6 marks)
- c) Identify five features that distinguish Financial Lease from Operating Lease. (5 marks)

- d) Mafumbo Corpaatation had issued share capital of Shs.10,000,000 consisting of ordinary shares of Shs.10 par value on 1 January 2019. The corporation issued an additional 1,000,000 shares of Shs.10 par value common stock for cash at shs.15 per share on 1 January 2019. As at that date, the corporation had a balance of Shs, 2,700,000 in the retained earnings account.

**Required:**

- i. Show the journal entries to record the issue (5 marks)
- ii. Show the corporation's stockholders' equity section of the balance sheet. (6 marks)

**QUESTION TWO (20 MARKS)**

- a) Explain the meaning of single entry system and incomplete records (6 marks)
- b) J. Collins operates a warehouse and on the night of 20<sup>th</sup> August 2020, he had the whole of his inventory stolen along with many of his accounting records including his sales and purchases day books. The sales and purchases ledgers were found at the car park. The following facts were established:

1. Inventory at the last date of the statement of financial position, 31 March 2020 was Shs.1,248,000 at cost.
2. Receipts from debtors during the period 1 April to 20 August 2020 amounted to Shs.3,174,500. Accounts receivable were: at 31 March 2020 Shs.1,427,800; at 20 August 2020 amounted to Shs.1,233,300.
3. Payments to creditors during the period 1 April 2020 to 2020 amounted to Shs.1,727,000. Accounts payable were: at 31 March 2020 Shs.763,300; at 20<sup>th</sup> August 2020 Shs.628,900.
4. The gross profit margin on all sales had been constant at 25%.

**Required.**

- i. Calculate the amounts of sales and purchases for the period between 1 April 2020 and 20<sup>th</sup> August 2020. (4 marks)
- ii. Prepare Trading account for the period 1 April 2020 to 20<sup>th</sup> August 2020. (10 marks)

### QUESTION THREE (20 MARKS)

The stockholders' equity section of Tinker Corporation as at 31 December 2018 was as follows:

#### TINKER CORPORATION

#### STATEMENT OF FINANCIAL POSITION (EXTRACT)

	Shs.'000"
Paid –in-Capital	
Preferred Stock, Cumulative, 10,000 shares authorized, 6,000 shares issued and Outstanding	600,000
Common Stock, no par 750,000 authorized, 600,000 shares issued	<u>1,200,000</u>
Total paid-in-Capital	1,800,000
Retained Earnings	<u>1,858,000</u>
Total paid in Capital and Retained Earnings	3,658,000
Less: Treasury Stock (12,000 Shares)	<u>64,000</u>
Total Shareholders Equity	<u><u>3,594,000</u></u>

The CEO of the Company does not understand the above Statement clearly.

#### Required.

Review the stockholders' equity section and as the Chief Accountant, answer the following questions from your CEO.

- How many shares of Common Stock are Outstanding? (2 marks)
- Assuming there is a Stated Value, what is the stated value of common Stock? (4 marks)
- What is the Par Value of Preferred Stock? (4 marks)
- If the annual dividend on preferred stock is Shs. 30,000,000, what the dividend rate on preferred stock? (4 marks)
- If dividends of Shs. 60,000,000 were in arrears on preferred stock, what would be the balance in the retained Earnings? (6 marks)

#### QUESTION FOUR (20 MARKS)

Pima company limited provided the following balances on 31<sup>st</sup> December 2018

	Dr .	Cr.
Sh10, 80,000 ordinary shares		800,000
12% preference shares		600,000
8% debentures		400,000
Sales and purchases	300,000	1050,000
Debtors and creditors	227,000	56,000
Provision for doubtful debts		5,000
Returns	50,000	20,000
Insurance	40,000	
Salaries	120,000	
Building (cost 1400,000)	1320,000	
Plant and machinery (cost 350,000)	280,000	
Motor vehicle (cost 250,000)	150,000	
Directors fee	23,000	
Commission	80,000	19 000
Bad debts	15,000	
Bank	280,000	
Goodwill	450,000	
Discount	38,000	
Profit and loss		500,000
Stock 1.1.2018	50,000	
Vehicle expenses	<u>30,000</u>	
	<b><u>3450,000</u></b>	<b><u>3450,000</u></b>

#### Additional information

1. Shs. 2,000 of debtors were declared bad and written off; the provision is to be adjusted to 2.5% of the remaining debtors
2. Unpaid insurance is shs. 2,000; prepaid salaries were shs. 20,000
3. Auditors fees sh 12 000
4. Accrued directors fee is sh 2000
5. National social security funds sh 8 000 is included in the salaries figure.
6. Corporation tax rate is at 30%
7. The directors have recommended
  - A transfer of shs. 2,000 to general reserves
  - Payment preference dividends
  - To pay shs. 0.20 per ordinary share

**Required**

- a) Income statement for the year ended 31.12.2018 (12 marks)
- b) Statement of financial position as at a 31.12.2018 (8 marks)

**QUESTION FIVE (20 MARKS)**

- a) Gateway Corporation has three classes of shares as follows:
  - 6% Cumulative preferred stock of Shs.10 par issued and paid in form of 200,000 shares ..2,000,000
  - 7% noncumulative preferred stock Shs.25 par issued and paid in form of 80,000 Shares....2000,000
  - 200,000 Shares of common Stock of Shs.10 par.....2,000,000

The operations of Gateway Corporation were unprofitable in 2015, 2016 and 2017 and no dividends were declared during those three years. In 2018 however, a large net income was earned and Gateways Directors on Dec 31 2018 that Shs.900,000 should be distributed as dividends.

**Required:**

- i. Compute the dividends to be paid to each Class of shares. (7 marks)
  - ii. Show the Ledger accounts to record the payment of these dividends. (7 marks)
- b) Explain the following terms as per the IFRS:

- i. Equity
- ii. Financial liability instrument?

(6 marks)