



MACHAKOS UNIVERSITY

ISO 9001:2015 Certified
Business and Economics



SCHOOL OF ...BUSINESS AND ECONOMICS.....

Department of BUSINESS AND FINANCE

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITIES

NOVEMBER/DECEMBER 2022 EXAMS

DATE _____

TIME: 2 HOURS

QUESTION ONE

(a) Describe the nature of each of the following current liabilities.

- (i) Contingent Liability
- (ii) Current Matutities of Long –Term Debt
- (iii) Income Tax Payable
- (iv) Warrantly Payable

(6Marks)

(b) ABC Corporation is considering two plans for financing the construction of a new Shs.5,000,000 plant. Plan A involves issuance of 200,000 shares of common stock at the current market price of Shs.25 per share. Plan B involves issuance of Shs.5,000,000, 8% bonds at face value. Income before interest and taxes on the new plant will be Shs1.5 million. Income taxes are expected to be 30 %. ABC Corporation has 100,000 shares of common stock outstanding.

(i) Calculate the EPS resulting from both plans. (4Marks)

(ii) Which plan would you advise on.? (2Marks)

(c) Identify fie features that distinguish Financial Lease from Operating Lease.

(5Marks)

(d) Explain the disclosure requirements of deferred tax as per IAS 12 (5Marks)

(f) The following income Statement extracts belong to Expert Corporation for the three years 2015, 2016 and 2017.

	2015		2016		2017	
	'000'	'000'	'000'	'000'	'000'	'000'
Profit before Tax		1,000		1,000		1,000
Taxation						
Corporation Tax	290		410		500	
Deferred Taxation	110	400	(10)	400	(100)	400
Profit for the year	<u>600</u>		<u>600</u>		<u>600</u>	

For stakeholders such as shareholders, stock exchange analysts and would be shareholders, the profit after taxation figures on which earnings per share EPS would be calculated is 600,000 for each year. The timing difference distortion has thus been eliminated by inclusion of the deferred tax adjustments.

Assuming that corporation tax is payable on 1 January following each accounting year end, prepare:

- (a) Corporation Tax Account (6Marks)
 (b) Deferred Taxation Account. (2Marks)

QUESTION TWO

(a) Liverpool Corporation which manufactures appliances for other Companies made sales of shs.200,000,000 subject to product Warranties. In the past years between 4% and 6% of products proved defective and Liverpool management estimated that 5% of the products it will sell this year will require repair or replacement during the one year warranty period. The defective Merchandise totaled to Shs.8,000,000 half of which was repaired and half was replaced.

Required

- (i) Calculate the estimated warranty expense for the period. (2Marks)
 (ii) Show Journal Entries to record the estimated Warranty Expense. (2Marks)
 (iii) Show the Ledger accounts to record the repaired and replaced Merchandise. (2Marks)
 (b) Beta Ltd entered into an agreement to Lease a Vehicle from Mare Ltd. The market price of the Vehicle is Shs.10,000,000. Lease payments are 5 installments of Shs.2,571,000 paid at the end of each year.

Required.

(i) Calculate the amount of finance Charge that will appear in each year's profit and loss as an expense. (4 Marks)

(ii) Show the Lessor's Account and the Finance Charge Account in the Books of the Lessee. (10 Marks)

QUESTION THREE

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.

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

QUESTION FOUR

Pima company limited provided the following balances on 31st 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>		
	<u>3450,000</u>	<u>3450,000</u>	

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

The accountant has found the following details for Mwaniki shop for the year ended 31 December 2019.

- (a) The sales are mostly credit. No record of sales has been kept, but Shs.133,000 has been received from persons to whom goods have been sold Kshs.96,000 by cheque and Kshs.27,000 in cash.
- (b) Amount paid by cheque to suppliers during the year was Kshs.63,000
- (c) Expenses paid during the year were: By cheque rent Kshs.7,600, General Expenses KShs 310, By cash Kshs.800.
- (d) Mwaniki took Kshs.500 cash per week (for 52 weeks) as drawings.
- (e) Other information available was as follows:

Details	31.Dec.2018 KShs.	31 Dec.2019 KShs.
Accounts Receivable	11,000	13,200
Accounts payable for goods	3,200	5,200
Rent Owing	-	700
Bank Balances	11,300	35,880
Cash Balances	640	840
Inventory	12,720	12,600

- (f) The only non-current asset consists of fixtures which were valued on 31 Dec. 2018 at Kshs.9,900. These are to be depreciated at 10% per annum.

Required.

- (a) Income Statement for the year ended 31 Dec3mber 2019 (10 Marks)
- (b) Statement of Financial Position as at 31 December 2019. (10 Mark)