



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: BCAC 201**

**COURSE TITLE: ACCOUNTING FOR LIABILITIES**

**DATE: 9 AUGUST 2018**

**TIME: 3.00 PM – 6.00 PM**

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#### **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** *All exam rooms are under CCTV surveillance during the examination period.*

## **SECTION A: COMPULSORY**

### **Question One**

- a) Briefly explain any four characteristics that distinguish governmental organisations from private business organisations. **[8 marks]**
- b) A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset, such as buildings and vehicles or Industrial or business equipment. Explain six advantages of using a leased asset. **[12 marks]**
- c) In the context of Section 60 of the Companies Act (Cap 486 of the Laws of Kenya). Identify any four conditions that must be met before a company's performance shares can be redeemed. **[12 marks]**
- d) To be classified as a capital lease by the lessee, the lease must meet one of four criteria. List these four criteria. **[8 marks]**

## **SECTION B: ANSWER ANY THREE QUESTIONS**

### **Question Two**

The Lily Company Ltd., is authorized to issue 4,000,000 shares of Sh.20 par value common stock and 500,000 shares of Sh.40 par preferred stock. During 2014, its first year, the company had the following stock transactions:

Jan 10 Issued 1,600,000 shares of stock at Sh.16 per share

Feb 1 Issued 4,000 shares of preferred stock for land having a fair market value of Sh.250,000

Mar 1 Issued 4,000 shares of preferred stock for cash at Sh.240 per share

July 1 Issued 400,000 shares of stock for land. The land had an asking price of Sh.3,600,000. The stock is currently selling on a national exchange at Sh.133 per share.

Required:

Prepare journal entries to record the transactions. **[20 marks]**

### **Question Three**

Write short notes on the following terms as used in accounting for liabilities:

- a) Loss Contingent **[4 marks]**

- b) Gain Contingent [4 marks]
- c) Par value of a share [4 marks]
- d) Warranty [4 marks]
- e) Non-Current Liability [4 marks]

**Question Four**

On July 1, year 2012, Charm Company issued bonds with a face amount of Sh.16,000,000 maturing in four years. The coupon interest rate was 8% payable semi-annually on June 30 and December 31. The bonds were issued to yield 10% compounded semi-annually.

Required:

- a) Compute the proceeds received for the bonds. [6 marks]
- b) Prepare schedule of bonds discount amortization [14 marks]

**Question Five**

At December 31st, 2011 a company's records show the following information:

SERIAL NO	DESCRIPTION	AMOUNT KSHS
1	CASH	2,000,000
2	ACCOUNTS RECEIVABLE	6,000,000
3	INVENTORY	16,000,000
4	PREPAID INSURANCE	1,200,000
5	LONG-TERM ASSETS	40,000,000
6	ACCOUNTS PAYABLE	6,000,000
7	NOTES PAYABLE DUE IN 10 MONTHS	5,000,000
8	WAGES PAYABLE	1,000,000
9	LONG-TERM LIABILITIES	14,000,000
10	STOCKHOLDERS EQUITY	39,200,000

Required:

- a) Compute the company's working capital [5 marks]
- b) Compute the company's current ratio [5 marks]
- c) Compute the company's acid test ratio [5 marks]
- d) Compute the company's debt to equity ratio [5 marks]

