KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITY

DATE: Saturday, 23rd June 2018 **TIME:** 4.30 p.m. - 6.30 p.m.

INSTRUCTIONS:

ATTEMPT ALL QUESTIONS

Question One

a) Name and explain three classifications of current liabilities and give two examples of each. (6 Marks)

b) What are the characteristics of current liabilities. (6 Marks)

c) In the year ended 31st December 2017 ABC Ltd carried out several transactions involving notes payable. The company uses a 360 day year making all interest calculations. Listed below are the transactions relating to notes payable.

Jan 1 borrowed 20 million from Holden investments by issuing a 60 day 10% note payable to Holden as evidence of indebtedness.

Feb 18 bought office equipment from Super Office suppliers. The invoice amounts was shs 18 million and supper supplier accepted as full payment of 10% payment, three months note for this amount.

March 2 paid Holden note for shs. 20 million plus interest.

Required:

Prepare journal entries for the above transactions. (6 Marks)

d) Kent bank ltd pays its bank managers a bonus of 2.0% of the income. The income before taxes and bonus for the year 2016 amounted to Ksh.80 million. The company has three bonus plans and can use any to reward good performance for its employees.

i) Bonus based on income before taxes but after bonus. (3 Marks)

ii) Bonus on before bonus but after taxes certain. (3 Marks)

iii) Net income i.e bonus after taxes and bonus (3 Marks)

Tax rate is 30%

Calculate bonus payable under each of the plans

Question Two

a) What are the primary characteristics of a bond? What distinguishes it from common stock? (8 Marks)

b) Explain why and how bond discount and bond premium affect

i) The statement of income statement and

ii) Income statement of the borrower

iii) Pwani company issued a shs.1000,000 of 10% bond dated Jan 1st 2016 to yield 8%. The bonds pay interest each July 1st and January 1st. The bonds will mature on 31st December 2020.

Required:

a) Compute the price of the bond and provide the bond issue proceeds as a percentage of the par value. (4 Marks)

b) Prepare journal entry to record issuance of the bond. (3 Marks)

Question Three

a) Pawni Inc. needs Sh 2 million for additional financing. On December 31, 2012, it borrowed money by issuing Sh 500,000, 11%, 10-year convertible bonds. The bond sold at face value ad pay semi-annual interest on January 1 and July 1. Each Sh. 1,000 bond is convertible into 30 shares of Pwani Inc. Sh 20 par value common stock.

b) Prepare journal entries for:

i) Issuance of the bonds on January 1, 2013.

ii) Interest expenses on July 1 and December 31, 2013

iii) The payment of interest on January 1, 2004.

iv) The conversion of all bonds to common stock on January 1, 2004, when the market value of common stock was Sh 67 per share. (8 Marks)

c) Differentiate between:

i) Operating lease and a capital lease. (2 Marks)

ii) Basic EPS and diluted EPS (2 Marks)

iii) Outline and briefly explain the components of published accounts. (6 Marks)