

**SCHOOL OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCE**  
**SECOND YEAR FIRST SEMESTER SUPPLEMENTARY EXAMINATION**  
**BAC201: ACCOUNTING FOR LIABILITIES AND EQUITIES**

DATE:

DATE: 2HRS

**INSTRUCTIONS.****Answer Question One and any other Two Question****QUESTION ONE**

- i. Explain classification of liability according to the probability of occurrence (5 marks)
- ii. Assume you have been provided with the following information.

	Dec 2011 Shs	31 Dec 2012 shs
Wages in arrears	24,000	26,800
Insurance paid in advance	8,400	10,200
Rates in arrears	3,000	_____
Rates in advance	_____	3,600

Payments made during 2012 were as follows.

	Shs
Wages	286,000
Insurance	17,400
Rates	18,400

**Required**

Calculate the amount to be transferred to the profit and loss account for wages, insurance and rates for the year 2012 (10 marks)

iii. The following can be classified as a equity or liability. Comment

a. company A issues preference shares that are mandatorily redeemable at par 30 years later. Dividends are discretionary. 3 marks

b) Company A issues preference share that are redeemable at par at the option of the holder. Dividends are discretionary. 3 marks

c) Company A issues preferences shares that are redeemable at par at the option of company A dividends are discretionary. 3 marks

d) A shareholder provides an interest-free loan to company A. There is no specified maturity date. However, the shareholder may ask for the loan to be repaid at any time. The shareholder does not intend to require the loan to be repaid. 3 marks

iv. Give reasons that cause incomplete records. 3 marks

**QUESTION TWO**

- a) Explain the distinguishing features of a finance lease (6marks)
- b) Highlight the factors which give rise to deferred taxation according to IAS 12 (8 marks)
- c) Explain the following terms as per the IFRS:
  - (i) Equity
  - (ii) Financial liability instrument?

**QUESTION THREE**

Assume that a company purchased a fixed asset in 1<sup>st</sup> January 2012 at a cost of KShs.8,000,000. The residual value of the asset is assumed to be Nil, and it is to be depreciated as a straight line basis over 4 years. The company claims 100% first year allowance and the corporation tax rate for each of the four years is assumed to be 35% profit after charging depreciation is KShs 40,000,000 in each of the four years and there are no other timing differences. No capital expenditure taxes payable in 2013, 2014 and 2015

**Required**

- (i) Compute deferred tax (5 marks)
- (ii) Analyse timing differences (5 marks)
- (iii) Calculate profit after tax for each of the years (5 marks)
- (iv) Journal entries to record the income tax expense and related deferred tax liability for tax years 2012 and 2013 (5 marks)

**QUESTION FOUR**

Mutisya had the whole of his inventory stolen from his warehouse on the night of 20<sup>th</sup> August 2006 along with many of his accounting records including his sales and purchase day books. The sales and purchase ledgers were found in the car park. The following facts are known.

- a) inventory at the last balance sheet date was 31<sup>st</sup> March 2006, was Sh.24,960,000 at cost

- b) receipts from debtors during the period 1<sup>st</sup> April to 20<sup>th</sup> August 2006 amounted to sh. 63,790,000

Accounts receivable were at: 31<sup>st</sup> March 2006 shs. 28,556,000 at 20 August 2006 sh 24,666,000

- c) Payments to creditors during the period 1 April to 20 August 2006 amounted to sh. 34,540,000.

Accounts payable were at 31 March 2006 sh 15,266,000 at 20 August 2006 sh 12,578,000

- d) the gross profit margin on all sales has been constant at 25%

### Required

- i. Total accounts receivable 4 marks
- ii. Total accounts payable accounts, 4 marks
- iii. Sales and purchases 4 marks
- iv. Trading account for the period 8 marks

### QUESTION FIVE

- a. On 1 January, 2013 SMA B issues 300,000 ordinary shares at sh. 12 share. The par value of the shares is sh. 4 per share. The cash consideration is payable to SMA B on 31 December, 2014. The shares are to be held in an escrow account until payment is received. However, the shareholders are eligible to vote and earn dividends on the shares during 2013 and 2014. Assume that the appropriate discount rate is 8 per cent. SMA B has a 31 December year-end.

### Required

Prepare journal entries for

- i. January 1, 2013. 6 marks
- ii. December 31, 2014. 4 marks

- b. Explain the features of puttable instruments. 10 marks