SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF EDUCATION (MATHS AND BUSINESS)

BACHELOR OF ECONOMICS AND FINANCE

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITIES

Date: 8/8/2016 **Time: 11:00 – 1:00 PM**

INSTRUCTIONS

- **Answer Question One And Any Other Two Questions**
- **Show your workings**

1. (a)Explain the following types of current liabilities

   i) Accounts payable
   ii) Customer advances
   iii) Unearned revenue
   iv) Employee related liabilities (8 marks)

   (b) State and explain THREE items that must be disclosed in a published balance sheet of a limited liability company. (6 marks)

   (c) Company X limited has made a pre-tax profit of sh. 4,886,250. The auditors have established that during the computation of the profits, the closing stock had been overstated by sh. 231,000 while the expenses on rent had been accounted for twice. The company held 300,000 ordinary shares of sh. 10 each. A dividend of

10% had been declared, and a debenture redemption reserve of sh. 300,000 was created.

Assuming a corporation tax rate of 30%, draw up the relevant accounts to determine the correct net profit and appropriate it accordingly. (10 marks)

(d) Discuss THREE types of lease agreements in respect to business property. (6 marks)

2. (a) Explain THREE types of bonds. (6 marks)

(b) Company Z sells its goods at a margin of 20%. Its purchases are subject to value added tax at the rate of 16%. The value of its average stock was estimated at sh. 7,400,000.Its rate

of turnover was estimated at 9.4 times per annum. Assuming that the net profit was 68% of gross profit, draw up a Trading, Profit and loss account for the company for the year ended 31 December 2014. (14 marks)

3. (a)The following trading profit and Loss account was extracted from the books of Manyani Ltd for the year ended 31 October 2015.

	Sh. '000'
Sales	50,000
Cost of sales	(30,000)
Gross Profit	20,000
Administration expenses	(5,000)
Selling expenses	(3,000)
Distribution expenses	(2,000)
Net Profit for the year	10,000
Corporation tax @ 30%	(3,000)
Profit after tax	7,000
Dividends: - Preference	(1,000)
-Ordinary	(2,000)
Transfer to general reserve	(500)
Retained profit for the year	3,500

Additional information:

i) The company's issued ordinary share capital was 500,000 shares of Sh. 10 each.
ii) The current market price of the company's ordinary shares is Sh. 15.

Required: Compute the following ratios;

i) Dividend per Share (DPS)
ii) Earnings per Share (EPS)
iii) Dividend Pay-Out Ratio
iv) Dividend Yield Ratio
v) Earnings Yield Ratio
vi) Price-Earnings Ratio
vii) Gross Profit margin
viii) Ordinary dividend cover (12 marks)

(b) Explain FOUR advantages of using retained earnings to finance capital expenditure. (8 marks)

4. Masaku enterprises acquired Sh. 4,000,000 eight year bank loan from Fedha bank on January 1, 2016 at an annual interest rate of 10%. The terms of the loan repayment were; Equal annual installment payments.

Required:

a) The amount of the annual installment. (4 marks)

b) Loan amortization schedule. (16 marks)

5. Majani Tea Company Limited has an authorized share capital of Sh.10 million divided into one million ordinary shares of Sh. 10 each. The shares were issued as follows:

	Sh.
Application	1
Allotment	5
First Call	4
Second Call	2

Applications were received for 1.63 million shares. It was decided to refund application monies for 130,000 shares and to allot all the remaining shares on the basis of two for every three applied for. The excess application money received from the successful applicants was not refunded but applied to reduce the amount payable on allotment. The calls were made and paid in full with the exception of one member holding 5,000 shares who paid neither the first nor the second call and another member who did not pay for the second call on 1,000 shares. After requisite action by directors the shares were forfeited. They were later re-issued at Sh. 8 per share.

Required:

i) Necessary general journal entries to record the above issue

ii) Balance Sheet immediately after the issue. (20 marks)