PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER-DECEMBER 2020

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CAC 303

COURSE TITLE: ACCOUNTING FOR LIABLITIES

EXAM DATE:

QUESTION ONE (COMPULSORY) 10 MARKS

In 2004, ABC Company earned Sh400,000 and preference dividends were Sh75,000. Financial year ended on 31st December 2004. Assume that the stock transactions in 2004 included a stock split, as follows:

Jan. 1: 50,000 common shares were outstanding.

Jul. 1: ABC sold 40,000 additional shares of common stock.

Nov.1: ABC purchased 30,000 common shares as treasury stock.

Dec. 1: Outstanding common shares were split 2 for 1.

Given these changes in the number of shares outstanding during 2004, calculate the weighted average number of shares

QUESTION TWO 10 MARKS

a) The Financial Accounting Standards Board (FASB) has comprehensively defined liabilities as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provided services to other entities in the future as a result of past transactions or events". State three characteristics of a liability. (3 marks)

b) National Bank agrees to lend shs.100,000 on March 1, 2002, to Rocky Co. if Rocky Co. signs a shs. 100,000, 12%, 4-month note. With an interest-bearing note, the amount of assets received upon issuance of the note generally equals the note's face value . Record the journal entries. (7 marks)

QUESTION THREE 10 MARKS

a) Define the term unearned revenue (2 marks)

b) November 1, 2004, Ayub Company collects rent of shs. 6,000 for the next six months. The accounting period ends December 31. Show the journal entries up to 31st December(6 marks)

c) Explain the treatment of the remaining Kshs.4,000 unearned revenue in the balance sheet and income statement. (2 marks)

QUESTION FOUR 10 MARKS

a) When a loss contingency exists, the likelihood that a future event or events will confirm the impairment of an asset or the incurrence of a liability can range from very likely to very unlikely. State **three** levels of likelihood set by FASB. (3 marks)

b) It is fairly common practice for sellers to give premiums such as cash or merchandise to customers in exchange of coupons, labels, wrappers, etc. that accompany purchased merchandise. Following this statement, ABC Ltd. offered an official-size football in exchange of 10 super cereal box tops plus Sh.10. assume that a total of 100,000 boxes of super cereal were sold for Sh.3 each during the accounting period and that estimates are that 40% of box tops will be turned in for footballs. ABC Ltd acquired 5,000 footballs at Sh.12.50 each for this purpose. Show the journal entries. (7 marks)

QUESTION FIVE 10 MARKS

a) Explain **three** conditions that must be met for Accrual of loss contingencies for threatened litigation, pending litigation, claims, or assessments to be deemed appropriate. (6 marks)

b) State the treatment given to a loss on contingency that fails to meet the conditions in (a) above. (4 marks)

QUESTION SIX 10 MARKS

a) Discuss **three** types of leases giving suitable examples on each. (6 Marks)

b) The Financial Accounting Standards Board (FASB) has established rules or criteria that accountants use to decide how leases should be classified. State the criteria to be followed so as to identify a capital lease. (4 Marks)