

PAN AFRICAN CHRISTIAN UNIVERSITY (PAC)

EXAMINATION 2020/2021

DEGREE IN BACHELOR OF COMMERCE

BUA3313: FINANCIAL ACCOUNTING III - ROYSAMBU EVENING

DATE: APRIL 2021

TIME: 3 HOURS

SECTION A: COMPULSORY

QUESTION ONE (10mks)

- a) Describe the term liability (1 Mark)
- b) Assume that Githurai National Bank agrees to lend \$100,000 on March 1, 2002, to Rocky Co. if Rocky Co. signs a \$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.
 - i. Make the necessary journal entries (3 Marks)
- c) Discuss THREE ways to account for and report loss contingencies (3 Marks)
- d) Explain THREE criterias that are used to classify a capital lease (3 Marks)

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO (10mks)

- a) Discuss THREE types of dividends (3 Marks)
- b) PK Ltd. made an issue of 1,000,000 equity shares of `10 each at a premium of 1, payable `2 on application, `3 on allotment including premium and `3 on first call and the rest on final call. All the shares are subscribed and amounts duly received except 50,000 shares on the first call which were paid on the final call and a shareholder of 60,000 shares who paid everything on allotment.
 - i. Pass journal entries to give effect to these. (7 Marks)

QUESTION THREE (10mks)

- a) Discuss THREE types of bonds (3 Marks)
- b) XYZ Company issued \$800,000 of 10%, 10-year term bonds at 100 i.e. at par (100% of the face value) dated January 1, 2004, with interest payable semiannually on January 1 and July 1. The accounting period for the company ends on December 31. Pass the journal entries : (7 Marks)

QUESTION FOUR (10mks)

- a. Differentiate between the following terms:
 - i. Stated and effective interest (2 Marks)
 - ii. Face and maturity amount (2 Marks)

- b. Discuss the THREE primary categories of stockholders equity (6 Marks)

QUESTION FIVE (10mks)

- a. Nyaru Company plans to produce a product with a new machine that has a cash price of approximately Sh.32,000 and an estimated life of 10 years with no salvage value. Nyaru Company does not have enough money and plans to lease the asset starting in December 2003. Nyaru will lease the machine for five years, with annual payments of Sh.10,000 payable at the end of each of the five years. The machine will become the property of the lessor at the end of the lease period. If Nyaru had chosen to borrow sufficient cash to purchase the machine, it would have paid interest at an annual rate of 16%. Pass the necessary journal entries. (10 Marks)

QUESTION SIX (10mks)

- a) A company with a total of 1,000,000 shares declares a dividend of Kes 4 per share in July 2020 but pays the amount on December 31st 2020. Pass the necessary journal entries if the company's year ends on 30th June 2020. (4 Marks)
- b) Discuss THREE Generally Accepted Accounting Principles (6 Marks)