PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER-DECEMBER 2025

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CAC 303

COURSE TITLE: ACCOUNTING FOR LIABILITIES

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **Six (6)** questions.
- Answer question **ONE** and ANY other **three** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One (Compulsory) **(30 marks)**

a. Pat's Quilting Shop borrowed shs. 10,000 on January 1, 2024, from the local bank to expand its building. The funds were borrowed by signing a shs.10,000, 12%, one-year note payable.

i. Prepare the entry to record the receipt of the funds on January 1, 2024. (3marks)

ii. Prepare the entry to accrue the interest on June 30, 2024. (3 marks)

iii. Show the statement of financial position presentation for the note and accrued interest at June 30 (3 marks)

b. Local University's baseball program sells 2,000 season tickets at shs. 75 each for its 15-game home schedule. Regular tickets are shs. 7 per game for adults. Students of the University and children under 18 get in free. During February Local played three home games. Ticket sales at the gate totaled shs. 6,524.

i. Prepare the entry to record the sale of season tickets. (3 marks)

ii. Record the entry to record the revenue earned in February. (3 marks)

c. On January 1, 2020, LYNX Ltd. issued Sh. 100,000 par value, 5-year life of 8% term bonds with interest payable on July 1 and January 1. The market rate of interest for the company's bonds is 10%. In exchange for the purchase price, investors of these bonds obtain the right to receive two different future cash inflows. First, the right to receive Sh. 100,000 at the end of the bond issue's five-year life and secondly, the right to receive Sh. 4,000 in interest at the end of each six-month interest period throughout the five-year life of the bonds

Required:

i. Calculate the present value (7 marks)

ii. Discount the amount on bonds and prepare a journal. (8 marks)

Question Two (10 Marks)

The following data for the Proto corporation involving non -convertible cumulative preferred stock.

Capital stock:	<u>Shares</u>
Common stock, Sh1, outstanding on January 1, 2004	90,000

Common stock issued on May 1, 2004	6,000
Preferred stock, par Sh20, 6%, Cumulative, non-convertible	2,500

Income for the year ending 31 December 2004	Shillings
Net income before extraordinary item	134,000
Extraordinary item net of tax	10,000
	144,000

Required

Compute the basic EPS

Question Three (10 Marks)

a. Distinguish between an operating lease and a capital lease giving an example for each.(4 marks)

b. To make financial statements more comparable, the Financial Accounting Standards Board (FASB) has established rules or criteria that accountants use to decide how leases should be classified. Discuss these criteria for a lease to be classified as a capital lease (6 marks)

Question Four (10 Marks)

a. Outline the accounting treatment of the following items in a journal

   i. Accounts payable
   ii. Short term notes payable
   iii. Dividend payable
   iv. Accrued liabilities
   v. Unearned income

vi. Contingencies and estimated liabilities (6 marks)

a. In 2022, Best Stuff, Inc. had sales of shs. 90,000 of its new video recorders. The company gives a two-year warranty with the purchase of a video recorder. When Best Stuff recorded the sales, the company also estimated that it would spend shs.8,400 to honor those warranties. When the company prepared its annual financial statements for 2022, no video recorders had been brought in for repair. In January 2023, however, 20 people brought in their broken video recorders, and Best Stuff spent a total of shs. 750 repairing them (at no charge to the customers, because the video recorders were under warranty). Assume no additional sales were made in January 2023 (i.e., no new warranties were given in January).

Required:

i. Show the journal entries for the above transactions. (4 marks)

Question Five (10 marks)

Cynthia Inc. needs Sh 2 million for additional financing. On December 31, 2022, it borrowed money by issuing Sh 500,000, 11%, 10-year convertible bonds. The bond sold at face value and pay semi-annual interest on January 1 and July 1. Each Sh 1,000 bond is convertible into 30 shares of Cynthia Inc. Sh 20 par value common stock. Prepare journal entries for:

a) issuance of the bonds on January 1, 2023. (3 Marks)
b) Interest expense on July 1, and December 31, 2023. (3 Marks)
c) The payment of interest on January 1, 2024. (2 marks)
d) The conversion of all bonds to common stock on January 1, 2024, when the market value of common stock was Sh 67 per share. (2 marks)