PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS LEADERSHIP BACHELORS OF COMMERCE

JANUARY-APRIL 2017

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CAC303

COURSE TITLE: ACCOUNTING FOR LIABILITIES

EXAM DATE: THURSDAY 6th APRIL 2017

TIME: 2.00PM –5.00PM

INSTRUCTIONS

- This examination script consists of **EIGHT (8)** questions.
- Answer question ANY **SIX** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

On June 15th 2016 the cash register readings for Mr. Kamau's Grocery showed sales of Sh 100,000 and sales taxes of Sh 6,000 (sales tax rate of 6%).

Required: show the journal entry for the above transaction **(10marks)**

QUESTION TWO

Explain the following terms as used in accounting for liabilities and state their accounting treatment

i. Unearned revenue
ii. Bonds
iii. Notes Payable

(10marks)

QUESTION THREE

Discuss three types of Bonds found in a capital market **(10marks)**

QUESTION FOUR

Explain three reasons as to why discounting of returns or cash flows is necessary **(10marks)**

QUESTION FIVE

XYZ Corporation issues 100, five-year, 10%, Ksh 1,000 bonds dated January 1, 2015, at Sh100 (100% of face value).

Required:

Provide the entry to record the sale, accrue the interest and to make the payment of interest

(10marks)

QUESTION SIX

Distinguish between the following terms as used in accounting for liabilities:

i. Current liabilities and Non-current liabilities

ii. Scrip issue and a bonus issue of shares **(10marks)**

QUESTION SEVEN

During the financial year ended 30th June 2016 Isuzu motors declared a **six** (6) for **four** (4) bonus issue to its shareholders. An extract of its statement of financial position prior to issuance of bonus shares was as follows:

	Ksh
Ordinary Share Capital (4,000,000shares of Sh 1.00 each)	4,000,000
Share Premium Account	2,000,000
Revaluation Reserve	3,000,000
Retained Profits	10,000,000
	19,000,000

Required

State the journal entries required to account for the above transactions and prepare extract of the balance sheet after bonus issue. **(10marks)**

QUESTION EIGHT

Explain five benefits an organization can gain from goodwill valuation **(10 marks)**