PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE BACHELOR OF BUSINESS LEADERSHIP
END OF TERM EXAMINATION -MAY-AUGUST 2026

DEPARTMENT: BUSINESS

COURSE CODE: CAC 303

COURSE TITLE: ACCOUNTING FOR LIABILITIES:

INSTRUCTIONS

- This examination script consists of **Five (5)** questions.
- Read all questions carefully before attempting.
- Question **One** is compulsory and Answer any **three (3)** questions.
- Write your **student number** on the answer booklet provided.

QUESTION ONE (30 Marks)

(a) Nyelwo limited has issued a bond that has a coupon rate of 9%, Yield Rate of 12%, Face value of sh.2,000,000 and 5 years to maturity.

Required

i. Compute the present value of the bond and the Discount/Premium of Bond. (3 marks)

ii. Prepare the amortization schedule showing how to spread out discount/premium on issue using Straight Line Method. (5 marks)

iii. Pass journal entries at end of every financial period. (7 marks)

(b) Capital lease contracts allow for use as well as ownership of assets. In the Balance sheet they are considered as liabilities and therefore incur interest expense and depreciate over time.

Required

Explain any three characteristics of a capital lease. (6 marks)

(c) A company acquired goods worth sh. 100,000 from a supplier on 4/4/19 on the following terms; trade discount 10%, 5/10, n/30.

Required

Prepare journal entries demonstrating the accounts payable value to report using the gross and net method assuming he paid for the goods on 10/4/19. (4 marks)

(d) A company has 35,000 shares outstanding each having a price of sh. 8. It is decided that a reverse stock split be done using a ratio of 4:7.

Required

Show the number of outstanding shares after the stock split, market price per share and the company's market capitalization. (5 marks)

(Total 30 marks)

QUESTION 2 (10Marks)

(a) The issue of shares not only generates cash for a firm but also increase its liabilities.

Distinguish between ordinary and preference shares. (2mark)

(b) A company had authorized 7% 500,000 preference shares of sh. 100 and 5 million ordinary shares of sh. 10. The issued preference shares were 250,000 and 2.5 million ordinary shares. On 1/9/2008, the company issued an additional 1 million ordinary shares and it had earlier issued 10% 200,000 debentures of sh. 100. The operating profit was sh. 14 million, tax rate of 30% and closes its books on 30/6/2019

Required

Compute Basic and Diluted earnings per share (EPS) (5 marks)

(c) Explain any two ways in which information communication technology may useful when in accounting for liabilities and equities. (Hint: not advantages of computers). (3 marks)

QUESTION THREE (10 MARKS)

a) Define unearned revenue and explain why it is classified as a liability in the financial statements. (2 Marks)

b) On 1 November 2004, Bethel Company received Kshs. 6,000 as rent income in advance covering a period of six months. The company's accounting year ends on 31 December 2004. Prepare the necessary journal entries to record the receipt of rent and the adjusting entry as at 31 December 2004. (6 Marks)

c) With reference to the transaction in (b) above, explain how the remaining Kshs. 4,000 unearned revenue should be presented in the Statement of Financial Position (Balance Sheet) and the Income Statement as at 31 December 2004. (2 Marks)

QUESTION FOUR (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 FIVE (10 MARKS)

(a) A company issued 400,000 10% preference shares of sh. 25 at sh. 40 each. After two years the company redeemed the issue at a call/redemption price of sh. 50.
Required
Show journal entries reflecting the issuance and redemption the shares. (5 marks)

(b) Three reasons may be attributed to an individual's time preference for money. Explain these reasons. (3 marks)

(c) Distinguish between term bonds and serial bonds in accounting for liabilities. (2 marks)