



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**JANUARY – APRIL 2014 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CAC 322: ACCOUNTING FOR LIABILITIES**

**Date: APRIL 2014**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) Discuss the following terms as used in Accounting for liabilities:
- i) Accounts payable
  - ii) Accrued liabilities **(6 marks)**
- b) Assume that Castle National Bank agrees to lend Sh. 100,000 on March 1, 2010 to landscape company if landscape signs a Shs. 100,000, 6 percent, four – month note and its financial year end is on June 30. Prepare all journal entries necessary to record the cash received; interest expense and interest payable as at June 30; and the payment at maturity on July 1. **(5 marks)**
- c) i) What are unearned revenues? **(3 marks)**
- ii) Assume that on January 4, 2014, the Kenya Premier League sells 10,000 football tickets at Shs. 200 each for a five game bonanza between the local teams. Kenya premier league recognizes revenue after each game which takes place after every month. Make entries to record the sale of the tickets and revenue earned after the first game. **(4 marks)**

- d) i) What is a pension plan. **(2 marks)**
- ii) The Kenyan pension system has four main components. List and describe these four components. **(10 marks)**
- Q2. a) A bond is a debt security issued by companies and government units to secure large amounts of capital on a long term basis. Several bond features affect the valuation and accounting for bonds. Discuss the features listed below:
- i) The stated or coupon interest rate.  
ii) The bond (authorization) date  
iii) The market (effective) interest rate. **(6 marks)**
- b) Redwood company issues Shs. 10 million, 8%, 10 – year bonds which sold for Shs. 8,753,800 on an effective interest rate of 10% on January 1, 2012. Write up journal entries to record the issue of the bond, interest, and discount amortization in the books of:
- i) The issuer  
ii) The investor
- For the first year if interest is paid semi-annually. **(14 marks)**
- Q3. a) Because GAAP and tax regulations are different in many ways, pretax financial income and taxable income frequently differ. Provide three examples of these differences. **(3 marks)**
- b) In 2012, Amirante Corporation had pretax financial income of Shs. 1,680,000 and taxable income of Shs. 1,200,000. The difference is due to the use of different depreciation methods for tax and accounting purposes. The effective rate of tax is 40%. Compute the amount to be reported as income tax payable at December 31, 2012. **(4 marks)**
- c) The book basis of depreciable assets for Tana Company is Shs. 900,000 and the tax basis is Shs. 700,000 at the end of 2011. The enacted tax rate is 34% for all periods. Determine the amount of deferred taxes to be reported on the balance sheet at the end of 2011. **(4 marks)**

- d) At December 31, 2011, Farsi Corporation had a deferred tax liability of Shs. 375,000. At December 31, 2012, the deferred tax liability is Shs. 630,000. The corporation's 2012 current tax expense is Shs. 720,000. What amount should Farsi report as total 2012 tax expense? **(5 marks)**
- e) Assume the same information as above but Farsi Corporation had a deferred the tax liability of Shs. 300,000 as at December 31, 2012. What amount should be reported by Farsi as total 2012 tax expense?
- Q4. a) Describe the following forms of dividend that may be offered to shareholders by a limited liability company:
- i) Cash dividends
  - ii) Property dividends
  - iii) Stock dividends **(9 marks)**
- b) In detail, identify and discuss **FOUR** advantages of leasing over owning property. **(11 marks)**

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