



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

SEPTEMBER – DECEMBER 2019 TRIMESTER

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR/ODEL PROGRAMME

CAC 322: ACCOUNTING FOR LIABILITIES

Date: DECEMBER 2019

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Define and discuss the following terms as used in accounting for liabilities
- i. Zero-interest bearing notes
 - ii. Accrued liabilities
 - iii. Unearned revenues
- (9 marks)**
- b) On May 1, 2018 Affiliated Technologies a consumers electronics firm borrowed sh 700,000 cash from First BankCorp and signed a six month 12% short term note payable in exchange for the cash. Assume the financial year of affiliated Technologies ends on June 30, two months after the six month note is issued and interest was payable at maturity. Prepare the journal entries required to report this transaction.
- (6 marks)**
- c) List and describe in detail at least THREE advantages of leasing over owning property.
- (9 marks)**
- d) Broadway Confectionary Ltd, a company that manufactures sweets, cakes and related items on June 10, 2019 declared a cash dividend of 50 cents per share on 900,000 shares payable July 16, 2019 to all shareholders of record or on the register June 24, 2019 write up the various entries required for the declaration and distribution of these dividends.
- (6 marks)**

Q2. On 1 January 2017, Master Wear Industries issued sh 7,000,000 of 12% bonds dated January 1 2017. Interest of sh 420,000 payable semi-annually on June 30 and December 31. The bonds mature in 3 years. The market yield for bonds of similar risks and maturity is 10%. The entire bond issue was purchased by United Intergroup Ltd.

Required

- a) Determine the price of the bond at the issue date. **(3 marks)**
- b) Draw up an amortization table to be used to record entries for this bond issue. **(13 marks)**
- c) Show the portion of the long-term liability section of the balance sheet for this bond as at December 2013. **(4 marks)**

- Q3. a) Discuss the difference between tax avoidance and tax evasion **(4 marks)**
- b) Trainers Ltd a company involved with providing training in business management skills had revenues of sh 300,000 for book purposes as at its financial year end June 30 2016 (its first year of operations) and sh 200,000 for tax purposes. It also had expenses of sh 100,000 for both book and tax purposes.
- i. With a computation how would Trainers Ltd report financial and taxable income for 2016? **(3 marks)**
 - ii. Assuming a tax rate of 40% compute income tax payable. **(3 marks)**
 - iii. If the difference between the taxable income and financial income relates to accounts receivables or debtors as at 2016 and that the company expects to collect sh 60,000 of the receivables in 2017 and sh 40,000 in 2018, record in the books of Trainers Ltd the deferred tax consequences of the related receivables. Income tax payable for 2017 was sh 50,000 and for 2018 was sh 70,000. **(10 marks)**

Q4. a) Very few companies pay dividends in amounts equal to their legally available retained earnings. What are the major reasons for this?

(10 marks)

- b) Describe the following forms of dividends that may be offered to shareholders by a Limited liability company. Accounting entries are not necessary.
 - i. Property dividends
 - ii. Stock dividends **(5 marks)**
- e) Distinguish between preferred stock or preference shares and ordinary shares or common stock.

marks)

(5

END