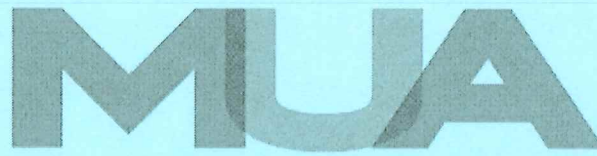


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF COMMERCE

BCM 221: ACCOUNTING FOR LIABILITIES

DATE: 28TH MARCH 2023

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Bishmerjob Limited issued \$1000,000 of 8% term bonds on January 1, 2018, due on January 1, 2023, with interest payable each July 1 and January 1. The investors required an effective interest rate of 10%.

Required.

- i) Compute proceeds from the sale of the bond **(5 Marks)**
- ii) Calculate the discount on bonds payable **(1 Mark)**
- iii) Schedule of Bond Discount Amortization **(10 Marks)**
- iv) Prepare journal entry to record;
 - a) the issuance of Bishmerjob Limited s bonds at a discount on Jan 1, 2018 **(3 Marks)**
 - b) 1st interest payment on July 1, 2018 and amortization of the discount **(3 Marks)**
 - c) the interest expense accrued at Dec 31, 2018 (year-end) and amortization of the discount **(3 Marks)**

QUESTION TWO

- a) Discuss five disadvantages of leasing **(10 Marks)**
- b) Westcon Limited transferred to stockholders some of its investments in marketable securities costing \$1,250,000 by declaring a property dividend on December 28, 2017 to be distributed on Jan 30, 2018, to stockholders of record on Jan 15, 2018. at the date of declaration, the securities have a market value of \$2,000,000. Prepare journal entries for above transactions **(5 Marks)**

QUESTION THREE

- a) Examine five reasons for appropriation of retained earnings **(10 Marks)**
- b) Nyamagesa Corporation, which closes its books each year on dec 31, receives its property tax bill in May each year. The fiscal year for the city in which Nyamagesa Corporation. is located begins on May 1 and ends on the following April 30. Property taxes of sh 36,000 are assessed against Nyamagesa Corporation property on January 1, 2018. And become a lien on May 1, 2018. Tax bills sent out in May and are payable in equal installments on July 1 and September 1. Prepare journal entries to record the liability, monthly tax charges and the tax payments for taxes becoming a lien on may1, 2018 **(5 Marks)**.

QUESTION FOUR

- a) Examine the factors that determine the amounts of employer's liability of a pension obligation that should be reported in the financial statements. **(6 Marks)**
- b) Discuss three factors that determine bond rates. **(6 marks)**
- c) Ingwe limited sells 10,000 season football tickets at sh 50 each for its five-game home schedule. Prepare journal entries for this sale of season tickets **(3 marks)**

QUESTION FIVE

On January 1, 2021, Omuga group issued \$8,000,000 of 11% bonds, dated January 1. Interest is payable semiannually on June 30 and Dec 31. the bonds mature in four years. Market yield for bonds of similar risk and maturity is 10%.

- a) Determine the price these bonds sold for yield the 10% market rate and record their issuance by the BAT group. **(5 marks)**

- b) Prepare an amortization schedule that determines interest at the effective rate and record interest on the 1st interest date, June 2021 **(10 Marks)**

QUESTION SIX

The actuarial valuation of Golden Treasures Retirement Benefit Scheme as at 31 December 2011 showed a deficiency of Sh.90 million. The actuary recommended that the company eliminated the deficiency by three lump sum payments of Sh.30 million each in addition to the standard contribution of Sh.10 million per annum. The contributions would continue at Sh.10 million per annum thereafter. The average remaining service life of employees in the scheme as at 31 December 2011 was 10 years.

Required:

- a) Determine the charge in the income statement and the figure to be disclosed in the scheme's balance sheet as a net pension liability or prepayment in each of the years 2012 to 2021. **(8 marks)**
- b) Suppose the actuarial valuation at 31 December 2021 of Golden Treasures Retirement Benefit Scheme showed a surplus of Sh.260 million. The actuary then recommended that the company eliminates this surplus by taking a contribution holiday for the first two years, and then pay yearly contributions of Sh.30 million for eight years. After the eight years, the standard contribution would be Sh.50 million per annum. The average remaining service life of employees in the scheme as at 31 December 2021 was 10 years.

Required:

Compute the figure to be charged in the income statement and the figure to be disclosed in the balance sheet of the scheme as a net pension liability or prepayment in each of the years 2012 to 2021. **(7 marks)**