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UNIVERSITY EXAMINATIONS 2023/2024

SECOND YEAR SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF SCIENCE
IN APPLIED ACCOUNTING

BFH 3250: ACCOUNTING FOR LIABILITIES

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Deka Ltd issued a shs. 1,000,000 5-year bond with a stated interest rate of 10% on 1st January 2012, the market interest rate is 9% and interest is paid semi-annually on 1st July and 1st of January each year. Deka Ltd incurred bond issue costs of shs. 20,000.

Required

- i. Calculate the price of the bond (6marks)
 - ii. Show the accounting entries for the issue of the bond and the payment of the first interest payment (4marks)
 - iii. Prepared a bond discount/premium amortization schedule for the bond (12marks)
- b) Describe how you would account and present the following transaction and events appearing in the books of Wamu Ltd at close of financial year.
- i. A former employee has sued the company for wrongful dismissal and claims shs 3 million, the company legal advisor has given an opinion that the case is likely to go against the company and estimates that the company is likely pay shs. 2million inclusive of legal costs. (4marks)



- ii. The company sells its goods through containers which it charges shs 200 per unit past experience shows that only 50% of the container deposit is claimed. The company has container deposit of shs. 400,000 for the current period. (4marks)

QUESTION TWO (20MARKS)

Air services ltd came into the possession of an air craft through a lease agreement leasing services (Lessor). The aircraft was acquired on 1st Jan, 2005 when the carrying amount of the asset was 6,840, 000 in the books of aircraft leasing services. Air services incurred shs.120,000 and aircraft leasing services incurred shs. 132,000 in negotiation and subsequent securing the lease. The amount payable by air services is in four installments as follows:

Shs, 000

	Shs, '000'
1 st January, 2005	4,200
3 1 st December 2006	1,920
3 1 st December 2007	960
3 1 st December 2008	540
3 December 2009	360

The cost of financing the lease is 12% for air services; depreciation of the asset is to be charged on a straight line method. The lessee air services has also given a guarantee of 5% of the cost of the asset to air craft leasing services at the end of the economic life of the leased asset.

Required

- i. Determine the nature of the lease (4marks)
- ii. Prepare relevant journal entries in the books of the lessee (6marks)
- iii. prepare a lease amortization schedule (6marks)
- iv. explain the essential conditions for determining a finance lease (4marks)

QUESTION THREE (20 MARKS)

- (a) On May 1, Daba ltd, a consumer electronics firm, borrowed shs.800, 000 cash from Kenya National Bank Ltd, under a non-committed short-term line of credit arrangement and issued a 6-month, 12% promissory note. Interest was payable at maturity.



Show the entries to record the issue of note and payment of the principal amount and interest at maturity (6marks)

- (b) Discuss four accounting concepts that underlie the preparation of financial statement (8marks)
- (c) An asset which cost shs. 150,000 has a carrying amount of 100,000. Cumulative depreciation for tax purposes is 90,000 and the tax rate is 30%.

Calculate

- (i) The tax base of the asset (2marks)
- (iii) The deferred tax asset or liability for the business (4marks)

QUESTION FOUR (20MARKS)

(a) The Following information relates to Imenti investment co. ltd, defined benefit pension plan for the year 2012:

- (i) Service costs shs. 640,000
- (ii) Actual and expected return shs. 140,000
- (iii) Unexpected loss on plan assets related to year 2012 disposal of an asset shs. 160,000
- (iv) Amortization of past service cost shs. 20,000
- (v) Annual interest on pension obligation shs. 200,000

Required

(i) What amount should Imenti co. ltd. report as pension expense in its 2012 income statement?

(5marks)

(ii) Describe the components of pension expense

(5marks)

(b) Describe the following terms

(10marks)

- (i) Defined benefit pension plan
- (ii) Plan assets
- (iii) Contingent liability
- (iv) Bond indenture
- (v) Bearer bond

QUESTION FIVE (20MARKS)

(a) At the end of 2014, its first year of operation, the Aber limited reported shs.900,000 taxable income and shs. 760,000 pretax financial income as a result of a single temporary difference. Because of uncertain economic times, the company believes that only 80% of the deductible temporary



difference will be realized. The tax rate for 2014 is 30%, and no change has been enacted for future years.

- (b) Calculate the deferred tax asset/liability to be included in 2014 balance sheet (8marks)
- (c) Ntugi Limited had a deferred tax liability balance of Sh.20 million as at 1 Jul 2012. During the year ended 30 Jun 2013, the following carrying amounts and tax bases were ascertained;

	Carrying amount	Tax base
	Shs. 000	shs.
Plant and equipment	300	200
Inventory	250	230
Receivables	300	320
Payables	400	420
Long-term debt	200	190

The relevant tax rate is 30 percent.

Required:

- i. The deferred tax balance as at 30 June (8marks)
- ii. Distinguish between the following pairs of terms (4marks)
- Carrying value and fair value of an asset

