



PIONEER INTERNATIONAL UNIVERSITY

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UNIVERSITY EXAMINATIONS

ACADEMIC YEAR: 2021/2022

SEMESTER: JANUARY-APRIL 2022

UNIT CODE: ACCT 2210

UNIT NAME: ACCOUNTING FOR LIABILITIES

DATE: APRIL 2022

TIME: 2 HOURS

Instructions: SECTION A
(Attempt question 1 (Compulsory))

QUESTION ONE

The Giblays company has the following shareholders' equity section as of December 31, 2003:

Preferred stock, Sh100 par, 8 percent cumulative, voting,

10,000 shares issued and outstanding Sh1,000,000

Common stock, Sh20 par, 100,000 shares authorized,

70,000 shares issued and outstanding 1,400,000

Additional paid-in capital 800,000

Total paid in capital 3,200,000

Retained earnings 3,000,000

Total stockholders' equity 6,200,000

There are no dividends in arrears on the preferred stock. During 2004 the following events occurred:

1. Earnings during 2003 total Sh600,000. The board of directors declares a cash dividend totaling Sh280,000 to be paid as appropriate to preferred stockholders and common stockholders. Later a stock dividend of 10 percent is declared on common stock. The market value of common stock is Sh68 per share on the date stock dividend is declared.
2. In order to familiarize stockholders with one of the company's new products, the board declares a property dividend of one ounce of new perfume the company produces for every share of outstanding common stock (before the above stock dividend). The cost of the perfume is 60 cents per ounce, and has a wholesale market value of Sh1 per ounce. Any gain or loss in this transaction is already included in the earnings reported above.
3. At the end of 2004, the board declares a three-for-two stock split. With the split, the number of common shares authorized to be issued is increased to 150,000. At the date of stock split, the market value of common stock is Sh 75 per share. The directors recommend that the stock split be treated as a stock dividend.

Required

1. Show all computations and entries to record the above transactions. (12 marks)
 2. Show the stockholders' equity section as of December 31, 2004. (8 marks)
 3. Assume the three-for-two stock split was accounted for as a stock dividend. Show the computations and entries to record it, and the stockholders' equity section of December 31, 2004. (4 marks)
- b) Briefly explain the advantages of leasing as a way of financing. (6marks)

(Total 30 marks)

SECTION B

(Attempt Any other TWO Questions)

QUESTION TWO

(a) In the context of IAS 17 (Leases), briefly explain the meaning of the following terms:

(i) Finance lease. (4 marks)

(b) Silversands Manufacturing Company Ltd. has entered into an agreement with a finance company, to lease a machine for a four year period. Under the terms of the agreement, the machine is to be made available to Silversands Manufacturing Company Ltd. on 1 January 2005, when an immediate payment of Sh. 2,550,000 will be made, followed by seven semi-annual payments of an equivalent amount. The fair market price of the machine on 1 January 2005 is expected to be Sh. 16,320,000. The estimated life of this type of machine is four years. The implicit rate of interest in the transaction is 6.94% payable semi-annually and the corporate tax rate is 30%. Silversands Manufacturing Company Ltd. has a policy of depreciating machines of this type over a four-year period on the straight line basis.

Assume the lease is to be capitalized.

Required:

(i) Show how the above transactions will be reflected in the profit and loss account of Silversands Manufacturing Company Ltd. for each of the four years ending 31 December 2005, 2006, 2007 and 2008. (8 marks)

(ii) Balance sheet extracts of Silversands Manufacturing Company Ltd. as at 31 December 2005 and 2006. (8 marks)

(Total 20 marks)

QUESTION THREE

a) In 2004, Blue Company earned Sh 400,000 and preference dividends were Sh75,000. However, on July 1, 2004, Blue sold additional 40,000 common shares. In addition, on November 1, 2004, Blue purchased 30,000 treasury shares. Financial year ended on 31st December 2004. Common shares at the beginning of the year was 50,000.

Required:

- i) Calculate the weighted-average number of shares outstanding during 2004. (4 Marks)
- ii) What is the earning per share (EPS)? (2 Marks)

b) Current year net income for Cynmos International is Sh600,000. All year 1,000, 6%, Sh1,000 debentures were outstanding, each convertible to 20 common shares. The weighted average shares outstanding before considering potentially dilutive securities is 200,000, and the tax rate is 40%. Required: calculate the basic earnings per share and the dilutive earnings per share (4 Marks)

c) Briefly explain any five Classification of Capital Stock (10 marks)

(Total 20 marks)

QUESTION FOUR

a) Corporations have advantages created by the characteristics of its form of business organization. Explain Some of these advantages (12 marks)

b) Explain the meaning of accrual accounting concept and money measurement accounting concept (4 marks)

c) Maisha company is an existing publicly owned company and its Sh5 par value stock is publicly traded at Sh8 per share. The company issues 10,000 shares of stock to acquire recently advertised land at Sh90,000. Post the necessary entries (4 marks)

