



## **UNIVERSITY OF EMBU**

**2017/2018 ACADEMIC YEAR**

**SECOND SEMESTER EXAMINATIONS**

**THIRD YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**DAC 302: ACCOUNTING AND REPORTING FOR EQUITIES**

**DATE: APRIL 6, 2018**

**TIME: 11:00 AM – 1:00 PM**

**INSTRUCTIONS:**

**Answer Question ONE and ANY Other TWO Questions.**

**QUESTION ONE (30 MARKS)**

- a) Discuss five characteristics of the corporate form of organization (5 marks)
- b) State five Sources of Changes in Shareholders' Equity (5 marks)
- c) Define the following terms;
  - i) Share Capital (2 marks)
  - ii) Retained Earnings (2 marks)
  - iii) Share Repurchase (2 marks)
  - iv) Contingent Liability (2 marks)
- d) Kioko Limited issued 45,000 shares @ Kshs40.00 on 30 June 2014. The Share subscription terms were 30% down and balance in six (5) months. Prepare the necessary journal entries? (6 marks)
- e) On Jan. 30, 2015 XYZ Company received a one year Kshs 98,000 note payable at 10% interest to purchase inventory, Pass the relevant Journal entry in the books of XYZ.
  - i) To record the Purchase of the Inventory (2 marks)
  - ii) To accrue interest after 3 Months (2 marks)
  - iii) To record repayment after the maturity (2 marks)

## **QUESTION TWO (20 MARKS)**

- a) Describe the major features of preferred shares. (5 marks)
- b) Kakuzi Limited issued Kshs 500 million in 9%, 5 year bonds on Jan 1, 2012 at par at NSE.

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Record the following Journals in the Books of Kakuzi

- i) To issue bonds at par (2 marks)
- ii) To pay semiannual interest (2 marks)
- iii) To accrue interest at the end of the year 2012 (2 marks)
- c) Jindal and Company purchased a machine from High Life Machine Limited for Kshs.380,000. As per purchase agreement, Kshs. 20,000 was paid in cash and balance by issue of shares of Kshs.100 each. What will be the entries passed if the shares are issued:
- i) at par (3 marks)
- ii) at 10% discount (3 marks)
- iii) at 20% premium (3 marks)

## **QUESTION THREE (20 MARKS)**

- a) State the required Disclosures in Financial Statements by Construction contractors (5 marks)
- b) Eastern Company Limited issued 40,000 shares of Kshs 10 each to the public for the subscription out of its share capital, payable as Kshs. 4 on application, Kshs. 3 on allotment and the balance on Ist and final call. Applications were received for 40,000 shares. The company made the allotment to the applicants in full. All the amounts due on allotment and first and final call were duly received. Give the journal entries in the books of the company. (7 marks)
- c) Castle National Bank agrees to lend sh. 100,000 on March 1, 2008, to landscape co. of landscape co. signs a sh. 100,000, 12%, 4-month note. Make necessary entries (3 marks)
- d) Discuss five Common loss contingencies that can affect a corporation (5 marks)

## **QUESTION FOUR (20 MARKS)**

- a) Distinguish between stock dividends and stock splits (4 marks)
- b) PWZ was awarded a contract for road construction by county government of Embu. The following data related to PWZ Construction Co. using Percentage-of-Completion Method,

PWZ Construction Co			
	2014 Kshs. "000"	2015 Kshs. "000"	2016 Kshs. "000"
Contract Prize	675,000	675,000	675,000
Cost incurred current	150,000	287,000	170,100
estimate cost to complete in future years	450,000	170,100	-
Billing to customers current year	135,000	360,000	180,000
Cash receipts from customers current year	112,500	162,500	300,000

- i) Prepare the journal entries for 2014, 2015, and 2016 (10 marks)
- ii) Summary income statement (3 marks)
- iii) Balance sheet as at December 2016 (3 marks)

#### **QUESTION FIVE (20 MARKS)**

- a) Briefly explain three types of income taxes in Kenya (5 marks)
- b) Discuss six reasons for the reacquisition of a corporation's own shares (6 marks)
- c) Raymond Holding Company issues Shs 55,000,000 in 9%, 5 year bonds at NSE when the market rate is 10% for Kshs 54,690,000. Record Journal entry to issue bonds at a discount (4 marks)
- d) Mona Earth Mover Limited decided to issue 12,000 shares of Kshs.100 each payable at Kshs.30 on application, Kshs.40 on allotment, Kshs.20 on first call and balance on second and final call. Applications were received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money was duly received on all the shares, and all sums due on calls are received except on 100 shares. Record the transactions in the books of Mona Earth Movers Limited. (5 marks)

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