The Management University of Africa

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UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

BCM 221: ACCOUNTING FOR LIABILITIES

DATE: 5TH APRIL 2022

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

Read the Case Study below carefully and answer the questions that follow:

AFYA FOOD PROCESSORS LIMITED

Afya pensioners is a funded, non-contributory defined benefit scheme that was established by the management of Afya Food processors Limited in 1950. The directors have always expensed the company's contribution to the scheme in the period of contribution and also credited to the income statement of any period, any refunds made from the scheme during the period in question.

As a result of the above policy, material variations in costs and incomes of Afya Food Processors Limited have arisen in the past years. These worsened by any contribution holidays or redundancies of employees. In this year's audit, the auditors. Ujuzi and Associates, described the company's pension accounting policy as "inadequate" as the resulting accounts do not give a true and fair view of pension costs to the employer. The auditors have also pointed out that current policy can be used to manipulate the company's profit levels.

The auditors have suggested that either of two approaches (the accrued benefits or prospective benefits) be adopted the management in accounting for pension costs.

Required:

a) Do you agree with the auditors positions? Why? **(6 marks)**

b) Examine any five reasons why there may be variations in the regular pension costs to the employer. **(10 marks)**

c) Briefly explain the two accounting approaches suggested by the auditor. **(4 marks)**

d) Illustrate the effect of the approaches in (iii) above on the pension fund **(5 marks)**

QUESTION TWO

a) Define the term gain contingencies **(1 Mark)**

b) Discuss with help of examples any four typical gain contingencies of a business operating in your locality **(8 Marks)**

c) The following information for Waah Company is provided

Waah Company	
Current assets	2016
	sh
Cash and cash equivalents	49,281,000
Accounts receivable less allowance	53,679,000
Inventories	
Finished products	28,732,000
Work in progress	83,173,000
Raw materials and supplies	8,792,000
Prepaid expenses	12,454,000
Total current assets	**156,111,000**

The total current liabilities for waah company were sh 46,423,000.

Compute

i) The current ratio **(3 Marks)**

ii) The Acid Test Ratio **(3 Marks)**

QUESTION THREE

West Kenya Millers issued Kes 100,000 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 bond **(3Marks)**

ii) Calculate discount on bonds payable **(1Marks)**

iii) Prepare a schedule of Bond Discount Amortization using effective interest method (semiannual interest payments). **(11 Marks)**

QUESTION FOUR

a) Discuss any six disadvantages of leasing **(6 Marks)**

b) Determine the amounts of the employer's liability of a pension obligation that should be reported in financial statements **(9 Marks)**

QUESTION FIVE

a) In late in 2020, Randolph limited issued sh 100,000 of 10% debentures dated january 1, 2021. Each bond has a sh 1,000 face value. The bonds mature Dec 31, 2021 and pay interest on June 30 and Dec 31.Examine any five features of bonds as depicted in the issue. **(5 Marks)**

b) An employer pays a lump sum to employees when they retire. The lump sum is equal to 1% of their salary in the final year of service, for every year of service they have given.

i. An employee is expected to work for 5 years (actuarial assumption)

ii. His salary is expected to rise by 8% pa (actuarial assumption)

iii. His salary in 2011 is Sh.10,000

iv. The discount rate applied is 10%pa

Required

Calculate the amounts chargeable to each of the years 2011 to 2015 and the closing obligation each year, assuming no change in actuarial assumptions. **(10 Marks)**

QUESTION SIX

a) Discuss two limitations of using ratios in business **(2 Marks)**

b) On 1 January 20 19 Bashara Company limited purchased a debt instrument for its value of KSh.1,000. The debt instrument is due to mature on 31 December 2024. The instrument has a principal amount of KSh.1,250 and the instrument carries fixed interest at 4.72% that is paid annually. Show how Biashara Company should account for the debt instrument over its five-year term. **(13 Marks)**