

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**SECOND YEAR EXAMINATION FOR THE AWARD OF DIPLOMA IN
ACCOUNTING**

DIAC 0221: INTERMEDIATE ACCOUNTING II**STREAMS:****TIME: 2 HOURS****DAY/DATE: WEDNESDAY 12/04/2023****8.30 A.M – 10.30 A.M****INSTRUCTIONS:****Answer question one and any other two questions****QUESTION ONE**

- (a) You have been invited by a small business man to construct an overdraft amortization schedule of ksh 50,000 payable in 10 months at 12% rate per annum. Extract the schedule and post the interest payable entry. [10 marks]
- (b) The following trial balance was extracted from the books of wanabe ltd as at 31st October 2010.

	ksh '000	'ksh '000
Ordinary share capital (ksh 10 each par value)		15,000
Share premium		800
10% debenture		1,000
General reserve		1,000
Revenue reserve (1 November 2009)		1,620
8% redeemable preference shares		8,000
Good will	2,500	
Inventory (1 November 2009)	2,790	
Purchases and sales	22,180	37,920
Discount allowed and received	340	520
Salaries	2,850	
Rates and insurance	1,702	
Directors remuneration	500	
Interim dividend: preference	320	
: Ordinary	1,500	

Financial assets (fair value)	8,000	
Trade receivables and payables	2,400	2,010
Allowance for doubtful debts		280
Bank balance	1,278	
Building	17,000	
Furniture & fittings	1,500	
Motor vehicles	3,100	
Provision depreciation: furniture & fittings		300
Motor vehicles		450
Investment income		550
Debenture interest	<u>50</u>	
	<u>69,482</u>	<u>69,482</u>

Additional information:

1. The cost and net realizable value of inventory as at 31 October 2010 was,3,650,000 and 3,560,000 respectively.
2. Depreciate furniture & fitting at 8% reducing balance and motor vehicle at 9% on cost.
3. Allowance for bad debts is to be adjusted to 240,000.
4. Corporation tax for the year is estimated at 80,000.
5. The directors have proposed to pay final dividend of 5% of ordinary share capital and pay the final balance of preference shares.
6. Transfer ksh 400,000 to general reserves.
7. Accrued the debenture interest accordingly

Required:

Statement of comprehensive income, statement of financial position for publication. [20 marks]

QUESTION TWO

- (a) Describe the classification of liabilities. [4 marks]
- (b) ABC limited declared a 3 for 2 bonus issue. The extract of the company statement of financial position prior to issue of bonus shares is as follows:

Equity item	Ksh '000'
Ordinary share capital (ksh 0.5 each)	2,000
Share premium	1,000
Revaluation reserve	2,500
Retained profit	6,000
	11,500

Required:

Entry to record the transaction and extract of the statement of financial position after the issue. [8 marks]

- (c) Describe the presentation of current liabilities in the financial statements. [4 marks]
 (d) XYZ Ltd has a bill of ksh 56,000 of stationary as at the end of the financial year. Show the journal entry to record the accrual. [4 marks]

QUESTION THREE

- (a) Briefly discuss the valuation of non current liabilities. [4 marks]
 (b) Discuss the classification of liabilities. [4 marks]
 (c) Kamare limited discloses the following capital and reserves in its published financial statement as at 31st Dec 2020.

	Ksh
Ordinary share capital (per value ksh 1)	900,000
Share premium	440,000
Revaluation reserves	720,000
Retained earnings	827,000

During 2021 the following transaction occurred.

1. Kamare limited issued 100,000 ksh 1 ordinary shares at ksh 1.15 fully paid.
2. The company revalued its free hold land from a previous valuation 1 million to 1.2 million.
3. The company made a 1 for 5 bonus on its existing shares as at 31st Dec 2020.
4. The company made a profit after tax of 308,000 and proposed a financial dividend of 20 cents per ordinary share (new issued during the year rank for dividend in 2021).

Required: statement of changes in equity. [12 marks]

QUESTION FOUR

- (a) Company C had estimated that the corporation tax payable for the year 2018 was ksh 600,000. This amount was not paid at at 31st December, 2018. The company estimates that during the year ended 31st December 2019, the corporation tax payable for the year is ksh 800,000. It had paid installment taxes for the year 2019 of ksh 400,000.

Required:

The income tax expense and the balance sheet liability for the year 2019 assuming that the actual tax liability for 2018 agreed with the tax authority was:

- (i) Ksh 700,000 [3 marks]
 (ii) Ksh 500,000 [3 marks]

- (b) Carson limited presented the following extract of assets and liabilities presented in their statement of financial position as at 31st Dece 2020.

Assets	Carrying amount (ksh)
Property, plant and equipment	15,000,000
Inventory	4,000,000
Trade receivables	3,000,000
Trade payables	6,000,000
Bank and cash balances	2,000,000

Additional information:

1. The value for tax purpose of property plant and equipment is ksh 11 million.
2. The company made a write down for obsolete inventories of ksh 2 million.
3. A general allowance for doubtful debt of ksh 1 million was made against trade receivables.
4. The balance brought forward for deferred tax liability as at January 2020 for carson ltd was ksh 500,000.
5. The appropriate tax rate is 30%.

Required:

- (i) Differentiate between current tax and deferred tax as per IAS 12 income taxes. [4 marks]
- (ii) Journal to record deferred tax liability and the deferred tax accounts at 31st December 2020. [10 marks]
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