

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

THARAKA CAMPUS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF COMMERCE

BCOM 213: INTERMEDIATE ACCOUNTING 2

STREAMS: BCOM Y2S2

TIME: 2 HOURS

DAY/DATE: MONDAY 03/12/2018

8.30 AM – 10.30 AM

INSTRUCTIONS:

ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

Chuka holdings ltd is a manufacture of food products with an authorized share capital of 5m shares of sh. 100 par value. Trial balance as at 31st October 2014 was

	Dr (sh '000')	Cr (sh '000')
Ordinary share capital (issued & fully paid)		300,000
Accumulated profit		131,000
10% debentures (secured on building)		50,000
8% debentures secured on floating charge		50,000
Freehold building – cost	150,000	
Accumulated depreciation		15,000
Plant & machinery – cost	220,000	
Motor vehicles - Accumulated depreciation		40,000
Profit for the year		285,820
Trade and other payables		31,400
Trade & other receivables	101,600	
Inventories	163,000	
Balance at Pesa Bank	47,000	
Directors remuneration	52,000	
Auditors remuneration	3,800	

BCOM 213

Balance at Ukulima bank	49,620	
Investment (market value sh. 35m)	32,000	
Interest receivable		2,100
Interim dividend paid	21,000	
Tax paid	<u>5,700</u>	
Dividend received		<u>14,000</u>
	<u>963,720</u>	<u>963,720</u>

Additional information:

1. Trading profit has been derived at as follows:

	Sh (sh '000')	Sh (sh '000')
Sales		1,432,000
Cost of sales	927,420	
Distribution cost	82,670	
Administration expenses	136,090	

2. The 10% debentures are redeemable at par in 10 equal annual installments commencing 1st November 2014 while the 8% debentures are due on 31st July 2015
3. The corporation tax is at 30% on the adjusted profit for the year which was computed at sh. 53m.
4. During the year an item of plant which cost sh. 20m on 20th September 2000 was disposed off for sh. 5m. the disposal proceeds have been offset off against the amount incurred in acquiring new plant and machinery.

During the year land was professionally revalued at sh. 250m

5. Depreciation on property plant and equipment is to be provided on cost and allocated as follows:

	Rate P.A	Basis of allocation
Freehold buildings	25%	Administration expenses
Plant & machinery	15%	Cost of sales
Motor vehicles	20%	Distribution cost

Full year depreciation is charged in the year of acquisition but none in the year of disposal.

6. Inventories comprises of (sh '000')
- | | | |
|------------------|--------|--|
| Raw materials | 50,000 | |
| Work in progress | 24,875 | |
| Finished goods | 87,225 | |
7. Employees cost included in the relevant functional expenses are (sh '000')
- | | | |
|------------------|---------|--|
| Salaries & wages | 478,770 | |
|------------------|---------|--|

Social security cost (NSSF)	67,500
Pension costs	42,000

8. Director's fees amounting to sh. 3 m have not been provided for
Directors proposed to pay a final dividend of sh. 8 per share

Required:

- (a) Income statement for the year ended 31st October 2014 [10 marks]
- (b) Balance sheet as at 31st October 2014
Include relevant notes using the information provided to ensure that the financial statements are in conformity with all the relevant requirements for the purpose of publication) [15 marks]
- (c) A statement of changes in equity and statement of total recognized gains and losses. [5 marks]

QUESTION TWO

Safaribond Company sells 10% bonds having a maturity value of Ksh. 3,000,000 for Ksh. 2,783,724. The bond are dated January 1, 2012, and mature January 1, 2017. Interest is payable semiannually on January 1 and July 1.

Required:

- (a) Setup a schedule of interest expense and discount amortization under
- (i) The straight-line method [6 marks]
- (ii) Effective-interest method [6 marks]
- (b) Under the above two methods record:
- (i) The issuance of the bonds
- (ii) The payment of interest and related amortization on July 1, 2012 [2 marks]
- (iii) The accrual of interest and the related amortization on December 31, 2012 [2 marks]
- (c) By use of examples, distinguish between a current liability and a contingent liability. [4 marks]

QUESTION THREE

On January 1, 2012, Majingumu had 480,000 shares of common stock outstanding. During 2012, it had the following transactions that affected the common stock account.

February 1 Issued 120,000 shares

March 1 issued a 20% stock dividend

May 1 acquired 100,000 shares of treasury stock

June 1 issued a 3-for-1 stock split 00

October 1 Reissued 60,000 shares of treasury stock

Required:

(a) Determine the weighted-average number of shares outstanding as of December 31, 2012.

[4

marks]

(b) Assume that Majimazito earned net income of Ksh.3,256,000 during 2012. In addition, it had 100,000 shares of 9%. Ksh. 100 par nonconvertible, noncumulative preferred stock outstanding for the entire year. Because of liquidity considerations, however, the company did not declare and pay a preferred dividend in 2012. Compute earnings per share for 2012, using the weighted-average number of shares determined in part (a).

[4

marks]

(c) Assume the same facts as in part (b), except that the preferred stock was cumulative compute earnings per share for 2012. [4 marks]

(d) Assume the same facts as in part (b), except that net income included an extraordinary gain of Ksh. 864,000 and a loss from discontinued operations of Ksh. 432,000. Both items are net of applicable income taxes. Compute earnings per share for 2012. [4 marks]

(e) Explain permanent and temporary differences between accounting and taxable income.

[4

marks]

QUESTION FOUR

The following information is available for Super Star for 2012.

1. Excess of tax depreciation over book depreciation, Ksh. 40,000 which will reverse equally over the years 2013-2016
2. Deferral, for book purposes, of Ksh. 25,000 of rent received in advance. The rent will be earned in 2013
3. Pretax financial income, Ksh. 350,000
4. Tax rate for all years. 40%

Required:

- (a) Compute taxable income for 2012 [4 marks]
- (b) Prepare the journal entry to record income tax expense, deferred income taxes, and income tax payable for 2012 [8 marks]
- (c) Prepare the journal entry to record income tax expense, deferred income taxes, and income taxes payable for 2013, assuming taxable income of Ksh. 325,000 [8 marks]
-