CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA, EMBU AND THARAKA CAMPUSES

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM Y2S2 **TIME: 2 HOURS**

DAY/DATE: FRIDAY 06/12/2019 **2.30 P.M. – 4.30 P.M.**

INSTRUCTIONS:
- **Answer question ONE and any other TWO questions.**

QUESTION ONE

(a) Explain the accounting treatment of contingent liabilities in the financial statements. (5 marks)

(b) Differentiate between income tax liability and deferred tax liability. (3 marks)

(c) Using examples, distinguish between changes in accounting principles and changes in accounting estimates. (4 marks)

(d) Kwame Ltd presented the following trial balance as at 31st December 2017

	Sh.	Sh.
Revenue		2,648,000
Interest	3,000	
Purchases	1,669,000	
Distribution costs	514,000	
Administrative expenses	345,000	
Interim dividends paid	6,000	
Inventory as at 1 January 2018	444,000	
Trade receivables and trade payables	545,000	434,000
Cash and cash equivalents	576,000	
Ordinary shares (Sh. 10 each)		100,000
Share premium		244,000

General reserve		570,000
Retained earnings as at 1 Jan 2018		349,000
4% 10 year debentures		150,000
Land and buildings: Cost (Land sh. 60,000)	380,000	
accumulated depreciation		64,000
Plant & Equipment: cost	258,000	
Accumulated depreciation		126,000
Rental income		55,000
	4,740,00	4,740,000

Additional information

1. Closing inventory as at 31 December 2018 amounted to Sh. 388,000.

2. Land and building were revalued on 1 January 2018 to Sh. 800,000 (including land at sh. 100,000). The buildings have a remaining useful life of 40 years.

3. The income tax liability in the year was estimated at Sh. 20,000. Deferred tax was to be provided at Sh. 7,000.

4. The company accounting policy is to charge a full year's depreciation and none in the year of disposal.

5. The company treats depreciation on plant and equipment as a cost of sale and on land and building as an administrative expense.

6. Depreciation as per the company's policy are as follows:

   Building – straight line method
   Plant and equipment – 20% reducing balance

Required:

(i) Statement of comprehensive income. (7 marks)

(ii) Statement of financial position. (6 marks)

(iii) Statement of changes in equity. (5 marks)

QUESTION TWO

(a) Explain the differences between basic earnings per share and diluted earnings per share. (5 marks)

(b) The balance brought forward for deferred tax asset as at 1st January 2017 for XYZ Ltd was Sh. 6 million. The taxable temporary differences as at 31st December 2017 amounted to Sh. 32 million. The applicable corporate tax rate is 30%.

Required

Journal entries to record deferred tax liability for the year and the deferred tax account as at 31st December 2017. (7 marks)

(c) Jambo Ltd acquired an equipment for Sh. 20 million that had an estimated useful life of 5 years and no residual value. Two years later, the remaining useful life of the equipment was revised to four years.

Required:

(i) Journal entry to adjust the prior period depreciation expense. (3 marks)

(ii) Journal entries to record depreciation expense in the third year and the accumulated depreciation account at the end of third year. (4 marks)

QUESTION THREE

(a) Using examples, distinguish between financial liabilities at amortized cost and financial liabilities at fair value or loss (FVTPL). (5 marks)

(b) Bongo Ltd raises finance by issuing zero coupon bonds at par. On 1st January 2016, with a nominal value of Sh. 10,000. The bonds will be redeemed after two years at a premium of Sh 1, 449. The effective rate of interest is 7%. The financial year ends on 31st December every year.

Required

Illustrate how the bond is accounted for in the financial statement of Bongo Ltd for the year ended 31st December 2016 and 2017. (10 marks)

(c) Explain the meaning of the term 'provision' highlighting the circumstances under which provisions are recognized. (5 marks)

QUESTION FOUR

(a) On 1st January 2015 Bright Ltd issued a 3-year Sh. 60,000 bond at the nominal value when the effective rate of interest was at 5%. At the end of the first accounting period, the market interest rate rose to 6%. In the subsequent year, the market interest rate fell to 4%. The liability is classified as financial liability at fair value through profit or loss (FLTPI) and is presumed to be held for trading purposes.

Required:

Illustrate how the bond is accounted for in the financial statement at the end of the year. (10 marks)

(b) The following information was extracted from the books of Levi Ltd for the year ended 31 December 2017.

1/1/2017 existing ordinary shares 1,000,000
31/3/2017 rights issue of 1 share for every 5 existing ordinary shares at sh. 90.
The market price before issue was SH. 100.

Required:

Compute the weighted average number of ordinary shares (WANOS). (5 marks)

(c) Explain the methods of accounting for product warranties. (5 marks)
