

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTING

DIAC 0221: INTERMEDIATE ACCOUNTING II

STREAMS: DIAC (Y2S1)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 07/8/2019

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO
- Do not write on the question paper

QUESTION ONE

- (a) Substance over form is a principle used in recording liabilities. Explain this concept and evaluate it in accounting for commitments. [4 marks]
- (b) Explain the difference between permanent and temporary differences as applied in deferred taxation. [4 marks]
- (c) The following trial balance was extracted from the books of Kamenju ltd as at 31 December 2018

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	Sh. 000	Sh. 000
Balance at bank	2, 182	
Creditors		2, 994
7% debentures		2, 400
Debtors	4,200	
Discount on debentures	96	
Directors fees	1880	
Furniture and fittings	3,560	
Goodwill	2,000	
Gross profit on trading		11,980
Commission		140
Motor vehicles at cost	9,000	
Provision for depreciation on motor vehicles		2,920
Preliminary expenses	174	
Profit and loss account as at 1 January 2018		2,812
Rent salaries and expenses	6,698	
Share capital (authorized and issued – 500,000 ordinary shares of sh. 20 each)		10,000
400,000 6% preference shares of sh. 20 each		2,000
Share premium account		2,400
Stock as at 31 December 2018	<u>7,856</u>	<u> </u>
	<u>37,646</u>	<u>37,646</u>

Additional Information:

- (i) A provision for doubtful debts is to be created at 4% of the debtors.
- (ii) Provision is to be made for corporation tax at 30% on chargeable profits of sh. 2, 240,000 for the year ended 31 December 2018
- (iii) The debentures were issued on 31 December 2018 and no interest on them had accrued. They are secured on all the assets of the company.
- (iv) Those items which the companies Act (Cap 486) permits to be charged against the share premium account are to be written off out of the balance of that account.
- (v) The directors have proposed to pay the ordinary dividend of 5% on the ordinary share capital.

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Required:

- (i) Income statement for the year ended 31 December 2018 [8 marks]
 - (ii) Statement of financial position as at 31 December 2018 [6 marks]
- (d) At beginning of year 2018, a firm had the following balances; ordinary share capital ksh. 200,000, Retained earning kshs, 500,000, share premium kshs. 200,000 and revaluation balances of ksh. 360,000. In the year 2018, the firm made after tax profits of kshs. 219,000. The firm paid a dividend of kshs 82,000 and issued bonus shares of kshs. 150,000. Kshs. 50,000 was written off from revaluation reserve.

Required:

Statement of changes in equity [8 marks]

QUESTION TWO

- (a) Explain the classes of current liabilities found in a typical organization. [8 marks]
- (b) On 1st January 2004, I bought equipment at cost of ksh. 4 million and depreciate it on a straight line basis over 5 years. For tax purpose, the equipment is depreciated at 25%, straight line per annum on the qualifying tax base.
In the year 2003, the enterprise taxable profit was ksh. 4.0 million Profit in subsequent years are expected to average the year 2003 profit. The corporation tax rate is 20%.

Required:

- (i) Show the temporary differences and deferred tax account [10 marks]
- (ii) Show the deferred tax impact on income statement for the year 2004 [2 marks]

QUESTION THREE

- (a) Explain the difference between term and serial bonds. [4 marks]
- (b) In June 2017 Juma ltd offered 200,000 ordinary shares of ksh. 10 each nominal value for public subscription at sh. 13 each as follows
 - Sh. 3 on application
 - Sh. 5 on allotment including the premium
 - Sh. 3 on first call
 - Sh. 2 on second call

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Applications were received for 320,000 shares. Applications for 70,000 ordinary shares were unsuccessful and money was refunded to the applications. Excess money on application was used to reduce the amount due on allotment. A shareholder with 2000 shares failed to pay for the first and second call. All other shareholders paid for their calls promptly. After giving the notice the 2000 shares were forfeited and were later reissued for cash at sh. 7 per share fully paid. All the funds were deposited in the bank.

Required:

Journal entries to record the above transactions [16 marks]

QUESTION FOUR

- (a) Explain three perspectives of correcting post balance sheet errors and changes of accounting estimates. [6 marks]
- (b) Adrian Ltd issued a 6%, 4 year term bond of ksh. 1, 000,000 that pays interest semiannually. The prevailing interest rates at the time of issue were 4%. The firm uses straight line method to write off the discounts or premiums.

Required:

- (i) Calculate the issue price of the bond [9 marks]
- (ii) The premium/discount thereon [1 mark]
- (iii) Accounting entry to amortize the premium/discount [4 marks]
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