

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN PROCUREMENT AND LOGISTICS MANAGEMENT AND BUSINESS MANAGEMENT.

DIAC 0221: INTERMEDIATE ACCOUNTING II

STREAMS:

TIME: 2 HOURS

DAY/DATE: MONDAY 6/08/2018

11.30 A.M - 1.30 P.M.

INSTRUCTIONS:

- Attempt question ONE and any other TWO questions

QUESTION ONE

- (a) Briefly describe a liability highlighting its main characteristics. [4 Marks]
- (b) Mambo, a limited liability company year-end is 31 October. The accountant is preparing the published financial statement as at 31 October 2017 and requires your assistance. The following trial balance has been extracted from the general ledger.

Account	Dr Kshs.'000'	Cr Kshs.'000'
Buildings at cost	740	
Buildings accumulated depreciation, 1 November 2016		60
Plant at cost	220	
Plant accumulated depreciation, 1 November, 2016		110
Bank balance		70
Revenue		1,800
Purchases	1,140	
Inventory at 1 November 2016	160	
Cash	20	
Trade payables		250
Trade receivables	320	
Administrative expenses	325	
Allowance for receivables at 1 November 2016		10
Retained earnings at 1 November 2016		130
Share Capital at Kshs. 1 par share		415
Share premium account		80

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2,925

2,925

The following additional information is also available:

1. The allowance for receivables is to be increased to 5% of trade receivables. The allowance is treated as an administrative expense.
2. Plant is depreciated at 20% per annum using the reducing balance method while the buildings at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.
3. Closing inventory has been counted and is valued at Kshs.75,000.
4. An invoice of Kshs.15,000 for utilities expense relating to the quarter ended 30 November 2017 was received on 2 December 2017. Utilities expenses are included in administrative expense.

Required:

Prepare the statement of income, statement of changes in equity and the statement of financial position of Mambo Limited as at 31 October 2017 for publication. [20 Marks]

(c) Differentiate between current tax and deferred tax as per IAS 12 incomes taxes. [2 Marks]

(d) SGL Ltd had consumed electricity worth Kshs.50,000 by the end of the year 31st December 2017 but the electricity bill had neither been received nor paid for.

Required:

The journey entry to record the transaction in the company's books financial year end. [4 Marks]

QUESTION TWO

(a) Using examples differentiate between capital reserves and revenue reserves. [4 Marks]

(b) The balance brought forward for deferred tax liability as at 1st January 2017 for ABC Ltd was Kshs.3 Million. The taxable temporary differences as at 31st December 2017 amounted to Kshs. 16 million. The applicable corporation tax rate is 30%.

Required:

Journal to record deferred tax liability for the year and the deferred tax account as at 31st December 2017. [12 Marks]

(c) The board of directors of Beta Ltd declared a cash dividend of Kshs.1.00 per share on its 2 million outstanding shares as at 31st December 2017. Prepare the journal entry to record the dividend declaration. [4 Marks]

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QUESTION THREE

- (a) Describe any two uses of share premium. [4 Marks]
- (b) Distinguish between accounting profit and taxable profit. [4 Marks]
- (c) Day Ltd was incorporated on 1st January 2018 and issued 100,000 Kshs.1 ordinary shares at a price of Kshs.1.20 per share.

Required:

Journal entry to record issue of the ordinary shares. [6 Marks]

- (d) Fedha Ltd provides paid vacations to its employees. At 31st December 2017, 30 employees had each earned 30 days of vacation time. The employees' average salary is Kshs.50,000 per month, per employee

Required:

Journal entry to record the accrued vacation pay. [6 Marks]

QUESTION FOUR

- (a) Describe the components of a complete set of financial statements. [5 Marks]
- (b) At 31 December 2015 a company's capital structure was as follows:

	Sh.
Ordinary share capital (Sh.0.25 each)	125,000
Share premium	100,000
Retained earnings	150,000
Revaluation reserve	<u>50,00</u>
	<u>425,000</u>

For the year ended 31 December 2016, the company made a bonus issue of 1 share for every 5 held.

Required:

The company's capital structure/extract of equity and reserves section of the statement of financial position at 31st December 2016. [5 Marks]

- (c) SGL Limited raises finance by issuing Kshs.10 Million 6% three-year bonds on 1st January 2015. The effective rate of interest in the market was 12%.

Required:

- (i) Journal entry in the books of SGL Ltd on 1st January 2017. [4 Marks]

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(ii) Finance charges for the year ended 31st December, 2015, 2016 and 2017.

[6 Marks]

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