CHUKA UNIVERSITY

UNIVERSITY SUPPLEMENTARY/SPECIAL EXAMINATIONS.

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

BCOM 212/BBAM 212/BCOM 213: INTERMEDIATE ACCOUNTING II

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

DAY/DATE: MONDAY 23/07/2018 **2.30 P.M - 4.30 P.M**

INSTRUCTIONS:
- **Answer Question ONE any other TWO Questions**
- Do not write anything on the Question paper.

QUESTION ONE.

(a) XYZ approaches you for help regarding the financial statements prepared for years ending December 31, 2017 and 2018. The owner is not satisfied with the previous accountants work and has asked you to check on the accuracy of the statements prepared. Your examination reveals the following:

- A three year insurance policy was purchased for 240,000 on June 30, 2017 and the full amount was expensed at that time.

- Accrued at the end of 2017 and 2018 amounted to Kshs.400,000 and Kshs.500,000 respectively. The accountant did not make any year-end adjustments.

- On October 1, 2017 the company purchased at par Kshs.100,000 bond of 8%. The bonds were dated October 1, 2017 and pay interests semi-annually. The accountant recorded interest revenue when cash was received.

- Depreciation was not recorded in 2017 and 2018. The amounts were Kshs.160,000 and Kshs.200,000 respectively.

Required:

(i) Indicate the overstatement, understatement or no effect on each of the errors. [5 Marks]

(ii) Prepare the necessary correcting entries for the transaction identified. [5 Marks]

(b) On January 1, 2017 Kelly Ltd issued Kshs.900,000 in 5 year, par value 6% bonds. The effective interest was 5%. Calculate the issue price of the bond and record the recognition of the interest expense and income in the first year in both books of issuer and investor. (Use straight line method) [11 Marks]

(c) Explain the classification of liabilities in a balance sheet. [4 Marks]

QUESTION TWO

The following trial balance was extracted from the books of AMM Ltd. as at 31 October 2010.

		Kshs. '000'	KShs. '000'
Ordinary share capital (Kshs.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			800
Goodwill		2,500	
Inventory (1 November 2009)		2,790	
Purchases and sales		22,180	
Discount allowed and received		340	
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 debs			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		50	
		69,482	69,482

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 & fittings at 12.5% reducing balance and motor vehicles at 10% on cost.

3. Allowance for bad debts is to be adjusted to 240,000

4. Corporation tax for the year is estimated at 1,614,000
5. The directors have proposed to pay a final dividend of 10% of ordinary share capital and pay the final balance on preference shares.

6. Transfer Kshs.500,000 to general reserves.

7. Accrue the debenture interest accordingly

Required:
Statement of comprehensive income, statement of financial position and accompanying notes for publication. [15 Marks]

QUESTION THREE.
ABC Ltd issues 5,000,000 preference shares of 20 par value each payable as follows

	Kshs.
On application	3
On allotment	5 (including discount)
On first and final call	7
On second and final call	4

7,200,000 preference shares were applied for and 1,200,000 preference shares were rejected and application monies were refunded. The remaining 6,000,000 were issued on prorata basis on 5 shares for every 6 shares applied for.

All monies were received when due except 1,000 preference shares whose holder failed to pay monies due on second and final call and were forfeited.

Required:
(a) Journal entries to record the above transactions. [12 Marks]

(b) Extracts from the statement of financial position of ABC Ltd immediately after the issues. [3 Marks]

QUESTION FOUR.
(a) Differentiate the following:
(i) Deferred tax asset and deferred tax liability. [4 Marks]
(ii) Temporary differences and permanent differences. [4 Marks]

The following transactions relate to Bell, a wholesale for the year ending 31st December 2001.

July 1, sold to Kamau agencies goods worth Kshs.52,000. On the same day he drew a bill of exchange payable after 3 months and was accepted by Kamau agencies.

July 20, Bell being in need of money discounted the bill with his bankers for Kshs. 50,000

Aug 1, sold further goods to Kamau agencies worth Kshs.40,000 drawing on them a bill of exchange for the amount which they accepted on a three month period.

The first bill was duly met on maturity.

The second bill was dishonoured on maturity and Bell incurred noting charges of Kshs.150

Required:
Record the above transactions in Bob's books. [12 Marks]

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