

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

## EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

## BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: Y2S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 07/08/2018

8.30 A.M. – 10.30 A.M.

## INSTRUCTIONS:

- Attempt question one and any other two questions

## Question one

- (a) Describe the nature of current liabilities and the conditions that must be met for classification of liabilities as current liabilities. (4 marks)
- (b) Image Limited's trial balance for the year ended 30<sup>th</sup> June 2018 was as follows:

Item	Sh. '000'	Sh. '000'
Revenue		320,250
Cost of sales	205,200	
Distribution costs	26,250	
Administrative expenses	28,500	
Finance costs	2, 250	
Investment income		600
Ordinary shares Sh. 0.50 each		90,000
6% Debenture		37,500
Retained Earnings 1 July 2017		6,450
Land	75,000	
Plant and Equipment at cost	125,550	
Accumulated Depreciation 1 July 2017-Plant and Equipment		5 0,550
Inventory	37,200	
Trade receivables	44,400	
Bank	29,850	
Deferred tax		1,800
Trade payables		<u>67,050</u>
	<u>574,200</u>	<u>574,200</u>
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**Additional information:**

- (a) On 30 June 2018, freehold land was revalued at a gain of Sh. 5 million. The entry has not been reflected in the books of account yet.
- (b) Plant and equipment are depreciated at 12.5% per annum on reducing balance basis. All depreciation is treated as an administration cost.
- (c) The directors propose to pay the ordinary shareholders a final dividend of Sh. 1 per share for the year ended 30 June 2018.
- (d) The current tax for the year ended 30 June 2018 is estimated at Sh. 11 million. The company taxable temporary differences amounted to Sh. 3.5 million on 30 June 2018.
- (e) The applicable corporate tax rate is 30%

**Required:** Statement of comprehensive income, statement of financial position and statement of changes in equity for the year ended 30 June 2018. (20 marks)

- (c) Using examples differentiate between capital reserves and revenue reserves. (4 marks)
- (d) Comment on the importance of Earnings per Share (EPS) to the users of financial statements. (2 marks)

**Question two**

- (a) SGL Ltd was incorporated on 1<sup>st</sup> June 2018 and issued 1,000,000 Sh. 100. Ordinary shares at a price of Sh 110 per share. The issue costs incurred amounted to Sh. 100,000.

**Required:**

Journal entry to record issue of the ordinary shares. (4 marks)

- (b) Faida Ltd raised finances by issuing Sh. 10 million, 6% three year bonds on 1<sup>st</sup> January 2015. The bonds were issued at a discount of 10%. The effective rate of interest in the market is 12%. The issue cost was Shs. 100,000. The company's financial year ends on 31<sup>st</sup> December every year.

**Required:**

- (i) Journal entry to recognize issue of bonds in the books of Faida Ltd. (4 marks)
- (ii) Statement of income extract showing finance charges for the year ended 31<sup>st</sup> December 2015, 2016 and 2017. (6 marks)
- (iii) Financial liability to be reflected in the statement of financial position as at 31<sup>st</sup> December 2015, 2016 and 2017. (6 marks)

**Question three**

- (a) An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to setting that obligation. Using examples differentiate between legal obligations and constructive obligation. (4 marks)
- (b) Plus limited presented the following extract of assets and liabilities presented in their statement of financial position as at 31<sup>st</sup> Dec 2017.

<b>Asset</b>	<b>Carrying amount (Sh)</b>
Property, plant and equipment	15,000,000
Inventory	4,000,000
Trade receivables	3 ,000,000
Trade payables	6,000,000
Bank and cash balances	2,000,000

**Additional information**

- 1. The value for tax purposes of property plant and equipment is Sh. 11 million
- 2. The company made a write-down for obsolete inventories of Sh. 2 million
- 3. A general allowance for doubtful debt of Sh. 1 million was made against trade receivables.
- 4. The balance brought forward for deferred tax liability as at 1<sup>st</sup> January 2017 for Plus Ltd was Ah. 500, 000.
- 5. The appropriate tax rate is 30%

**Required:**

- (i) Differentiate between current tax and deferred tax as per IAS 12 income taxes. (2 marks)
- (ii) Journal to record deferred tax liability and the deferred tax account as at 31<sup>st</sup> December 2017.

**Question Four**

- (a) Distinguish between a financial liability and an equity instrument. (4 marks)
- (b) The issued and fully paid capital of Real Limited on January 2017 comprised:
 

100,000 7% Preference shares of Sh. 10 per share	1, 000,000
4,000,000 Ordinary shares of Sh. 10 per share	<u>40,000,000</u>
	<u>41,000,000</u>
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On 1<sup>st</sup> June 2017, the company decided a 1 for 4 rights issue of ordinary shares at sh. 14 per share. The market price of ordinary shares on the last day of quotation on a cum-rights basis was Sh. 24 per share. On 1<sup>st</sup> October 2017, the company issued 200,000 ordinary shares at the market price. The profit after tax for the year ended 31 December 2017 amounted to Sh. 1,155,400.

Computer the earnings per share (13 marks)

(c) Describe the nature of contingencies (contingent liabilities) and explain how they are reported in the financial statements. (3 marks)

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