

CHUKA



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**EXAMINATION FOR THE AWARD DEGREE OF
BACHELOR OF COMMERCE / BACHELOR OF ENTREPRENEURSHIP &
ENTERPRISEMENT.**

BCOM 213: INTERMEDIATE ACCOUNTING II**STREAMS: BEEM / BCOM Y2 S2****TIME: 2 HOURS****DAY/DATE: THURSDAY 9/04/2020****8.30 A.M - 10.30 A.M.****INSTRUCTIONS**Answer questions **ONE** and any other **TWO** questions.**QUESTION ONE**

- a) Using an illustration, briefly describe a liability highlighting its main characteristics. [6 Marks]
- b) Using illustrations, briefly distinguish between constructive obligation and legal obligation. [4 Marks]

- c) The statements of financial position of Akiba Ltd include the following extracts:

Statements of financial position as at 31st December

	2019	2018
	Sh.	Sh.
Non-current liabilities		
Deferred tax	310,000	140,000
Current liabilities		
Taxation	130,000	160,000

The tax charge in the statement of income for the year ended 31st December 2019 was sh.270,000.

Required:

The amount of tax that was paid during the year to 31st December 2019 [6 Marks]

- d) Describe any four components of a complete set of published financial statements of a company. [6 Marks]
- e) ABC Limited issued one million ordinary shares (par value Sh.1 each) on 1st Jan 2018 at an issue price of Sh.1.50 per share. The issue costs amounted to Sh.150,000. The issued shares started trading on a local securities exchange on 1st February at Sh.2 per share. On 31st December 2018, the shares were trading at Sh.5.00 per share.

Required:

Journal entries to recognize issue of the shares and subsequent measurement as at year end.

[8 Marks]

QUESTION TWO

- a) Fair Ltd was notified while preparing the financial statement for the year ended 31st March 2020 that an ex-employee has initiated a court proceedings against the company for unfair termination. The firm has obtained legal advice was that there was a 53% chance that the company would lose the case and would be required to pay an estimated amount of Sh.3 million in damages.

Required:

Accounting treatment of the transaction for the year ended 31st March 2020 [2 Marks]

- b) Jambo Ltd had an outstanding share capital of 5 million ordinary shares of Sh.2 each as at 1st January 2019. On 1st March 2019, the company made a rights issue of one new share for each five shares outstanding at an exercise price of Sh.5. the market value of an ordinary share immediately before the rights issue exercise was Sh.11. On 1st October 2019, the company issued 400,000 ordinary shares at the market price. The company made a profit of Sh.30 million in 2018 and Sh.38 million in 2019.

Required:

- i) The earning per share for each of the two years ended 31st December 2018 and 2019. [12 Marks]
- ii) Evaluate four potential problems that an investor might encounter in relying on earning per share figure to extract financial information for decision making from financial statement. [6 Marks]

QUESTION THREE

- a) On 1st January 2018, Primary Ltd issued a two year, 12% debenture for Sh 200 million for financing the firm capital expenditure. Interest is payable annually in arrears at the end of each year. The effective interest rate in the market is 20% per annum. The debenture will be held to maturity and will be redeemed at the end of the two years at a premium of Sh.258.24 million.

Required:

- ii). Finance cost charged to the income statement for each of the two years ending 31st December 2018 and 31st December 2019 [6 Marks]

- iii) Extracts from the statement of financial position as at each financial year end. [4 Marks]

- b) The following information relates to Raha Ltd as at 31st March 2020.

Asset	Notes	Carrying value Sh.'000'
Property, Plant and Equipment	1	200,000
Trade Receivables	2	50,000
Payables: Interest payables	3	1,000
Cash and cash equivalent		1,500

Additional information

1. The tax base of property plant and equipment is Sh.175 million
2. The company had made an allowance for uncollectible accounts amounting to Sh.5million.
3. Interest is taxed on a cash basis
4. The deferred balance brought forward as at 1 April 2019 was Sh. 1 million.
5. The appropriate tax rate is 30%

Required:

Journal to record deferred tax liability and the deferred tax account as at 31st March 2020.

[10 Marks]

QUESTION FOUR

The following trial balance was extracted from the books of accounts of Tayari Limited as at 31st December 2019

	Sh'000'	Sh. '000'
Building at cost (Land: Sh.60 million)	170,000	
Accumulated Depreciation (1 January 2019)		22,000
Plant and equipment at cost	56,000	
Accumulated Depreciation (1 January 2019)		18,000
Ordinary Shares (Sh.10 each)		61,000
6% Debentures		25,000
Retained earnings (1 January 2019)		177,000
Revenue		216,000
Cost of sales	108,500	
Distribution cost	23,600	
Administrative expenses	44,000	
Inventory (31 December 2019)	18,750	
Trade receivables	27,300	
Trade payables		23,800
Investment income		600
Finance costs	6,200	
Current tax		650
Deferred tax		13,900
Bank balance	<u>103,600</u>	<u> </u>
	<u>557,950</u>	<u>557,950</u>

Additional information:

1. The plant and equipment should be depreciated on reducing balance basis at a rate of 12.5 % per annum. The building was estimated at a useful life of 50 years. All depreciation should be charged to cost of sales.
2. The current tax estimate for the year ended 31st December 2019 is Sh.5 million. In addition the taxable temporary differences stood at sh.30 million.
3. The management has proposed a dividend of Sh.0.50 for each share for the year ended 31 December 2019.

Required:

- a. The statement of comprehensive income for the year ended 31 December 2019. [10 Marks]
- b. The statement of changes in equity as at December 2019. [3 Marks]
- c. The statement of financial position as at 31 December 2019. [7 Marks]