

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR COMMERCE

BCOM 213: INTERMDIATE ACCOUNTING II

STREAMS:BCOM

TIME: 2 HOURS

DAY/DATE: THURSDAY 08/07/2021

2.30 P.M – 4.30 P.M

INSTRUCTIONS:

Answer question one and any other two questions

QUESTION ONE

- (a) Using illustrations, clearly distinguish between current liabilities and non current liabilities. [6 marks]
- (b) Avenue ltd share capital and profit details for the year 2020 are as follows:
1. Ordinary share capital as at 1st January 2020 was ksh 15 million made up of shares of ksh 5 par value.
 2. The company made a rights issue of 2 new ordinary shares for every 10 ordinary shares as at 1st April 2020. The rights price per share was ksh 42.50 while the market price per share as at the same date was ksh 48.
 3. Further, the company issued 500,000 ordinary shares at full market value on 1st July 2020.
 4. The profit after tax for the year 2020 amounted to ksh 2.1 million.

Required:

The basic earnings per share (EPS) for the year ended 31st December 2020. [6 marks]

- (c) ABC limited made a provision of ksh 230,000 for corporation tax on profits for the year ended 31st December 2019. In February 2020 the corporation tax liability was finalized at ksh 240,000 and amount due to paid in March 2020. The corporation tax payable in the year to 31 December 2020 was estimated at ksh 260,000.

Required:

Tax payable account for 2019 and 2020. [6 marks]

(d) Using illustrations, describe shareholders equity is and distinguish it from liabilities. [6 marks]

(e) As at 1st January 2020, an entity's had an opening telephone accrual balance brought forward of ksh 5,000. The entity received a bill of ksh 20,000 for the year ended 31st December 2020 but made a payment of ksh 15,000.

Required;

Journal entry to record the transactions for the year 2020. [6 marks]

QUESTION TWO

(a) On 1st January 2019, avenue ltd issued 4% ksh 1 million, four year bonds when the prevailing market interest rate was 5%. The bonds sales proceeds realized was ksh 942,136.

Required:

- (i) Journal to record issue of the bonds. [2 marks]
- (ii) Entries to record the amount of interest expense on the bonds that would be reported in the first two years of issuance, using the effective interest rate method.[4 marks]
- (iii) The carrying amount of the bonds at the end of the first two years. [2 marks]
- (b) Describe the distinction between provisions and contingent liabilities and indicate the conditions under which each meets the recognition criteria. [6 marks]
- (c) Describe any four components of a complete set of financial statements. [6 marks]

QUESTION THREE

TEQ Ltd trial balance for the year ended 31st December 2020 was as follows:

Item	Ksh '000'	Ksh '000'
Ordinary share capital ksh 1.00		6,000
Retained earnings at 1 Jan 2020		1,000
10% debenture		800
Administrative expenses	3,300	
Receivables	4,700	
Bank overdraft		800
Deferred tax		250
Distribution costs	4,200	
Financial assets	5,600	
Investment income		2,550
Plant and machinery: cost	7,500	
Accumulated depreciation(31 st Dec 2020)		2,200
Purchases	9,600	
Inventory at 1 Jan 2020	1,400	
Trade payables		2,600
Revenue		20,100
	36,300	36,300

Additional information:

1. Inventory as at 31st December 2020 was valued at ksh 1,500,000.
2. Plant and machinery depreciation is treated as an administrative and the charge for the year was ksh 320,000.
3. The estimated income tax charge for the year was estimated at ksh 740,000.
4. The debenture interest for the year had not been paid for the year 2020.
5. The company taxable temporary differences amounted to ksh 350,000 on 31st December 2020.
6. The directors propose to pay ordinary shareholders a final dividend of ksh 1 per share for the year ended 31st December 2020.
7. The applicable corporate tax rate is 30%.

Required:

Statement of comprehensive income, statement of financial position ad statement of changes in equity for the year ended 31st December 2020. [20 marks]

QUESTION FOUR

- (a) Using illustrations, distinguish between changes in accounting policy and changes in accounting estimates. [6 marks]
- (b) The following balances and information are relevant as at 1st July 2021.

Non current Assets	Carrying value
Land	200,000
Property, plant and equipment	100,000
Current Assets	
Inventory	55,000
Receivables	73,000
Current liabilities	
Payables	21,000

Additional information for the period ended 30th June 2021:

- Land has not been revalued and is not subject to depreciation.
- The tax base for property, plant and equipment is ksh 90,000.
- A general inventory write down of ksh 5,000 was made as at the year end.
- The trade receivables balance in the accounts is made up of the following amounts:

Gross receivables	80,000
Less specific provisions	(7,000)
- The payables /liabilities have no expected tax deduction allowable upon payment.
- The balance on the deferred tax account on 1st July 2020 was ksh 3,600.

Required :

- (a) What is meant by 'tax base of an asset'? [2 marks]
- (b) The tax base for each item listed and the temporary difference. [6 marks]
- (c) The deferred tax account. [6 marks]
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