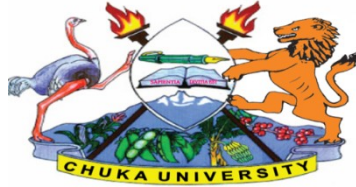


CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

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

**BCOM 213: INTERMEDIATE ACCOUNTING II****STREAMS: ODEL****TIME: 2 HOURS****DAY/DATE: WEDNESDAY 6/10/2021****8.30 A.M – 10.30 A.M****INSTRUCTIONS****Answer question one and any other two questions****Do not write anything in the question paper****QUESTION ONE**

- (a) In recent years, many companies have been changing their accounting principles. Explain two major reasons why companies change their accounting methods. [4 marks]
- (b) Differentiate the following:
- (i) Deferred tax asset and deferred tax liability. [3 marks]
- (ii) Temporary differences and permanent differences. [3 marks]
- (c) Kunt limited trial balance for the year ended 30<sup>th</sup> June 2018 was as follows:

Item	Ksh '000'	Ksh '000'
Revenue		320,250
Cost of sales	205,200	
Distribution costs	26,250	
Administrative expense	28,500	
Finance costs	2,250	
Investment income		600
Ordinary shares ksh 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 & equipment		50,550
Inventory	37,200	

Trade receivables	44,400	
Bank	29,850	
Deferred tax		1,800
Trade payables		67,050
	574,200	574,200

**Additional information;**

- (a) On 30<sup>th</sup> June 2018, freehold land was revalued at a gain of ksh 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 director propose to pay the ordinary shareholders a final dividend of ksh 1 per share for the year ended 30<sup>th</sup> June 2018.
- (d) The current tax for the year ended 30 June 2018 is estimated at 11 million. The company taxable temporary differences amounted to 3.5 million on 30<sup>th</sup> 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<sup>th</sup> June 2018. [20 marks]

**QUESTION TWO**

- (a) Using examples, distinguish between changes in accounting principles and changes in accounting estimates. [4 marks]
- (b) Mpinda ltd raises finance by issuing zero coupon bonds at par. On 1<sup>st</sup> January 2016, with a nominal value of ksh 10,000. The bonds will be redeemed after two years at a premium of ksh 1,449. The effective rate of interest is 7%. The financial year ends on 31<sup>st</sup> December every year.

**Required:** Illustrate how the bond is accounted for in the financial statement of Mpinda ltd for the year ended 31<sup>st</sup> December 2016 and 2017. [11 marks]

- (c) Using illustrations, explain the distinction between a constructive obligation and legal obligation. [5 marks]

**QUESTION THREE**

Mkombozi ltd started saw milling business on 1<sup>st</sup> January 2015. It bought a saw milling machine from Almas holdings at a cost of 20 million. The saw milling machines was expected to have a useful life of 5 years. The saw milling machines is depreciated at 50% per annum for capital allowances in the first year, 30% of the cost in the second year and 20% in its third year. Mkombozi ltd has been earning a profit before tax of 100,000,000 per annum for each of the five years ending 31<sup>st</sup> December 2019.

**Required:**

Prepare income statement and statement of financial position extract for Mkombozi ltd showing the current tax expense and deferred tax for each of the five years. [20 marks]

**QUESTION FOUR**

- (a) Distinguish between a current liability and a contingent liability by giving an example for each type. [4 marks]
- (b) The issued and finally paid share capital of Mwamuko limited as at 1<sup>st</sup> Jan 2017 comprised 4M, 7% cumulative preference shares of ksh 10 each, 40,000,000  
3M ordinary shares at ksh 10 each 30,000,000  
On 1<sup>st</sup> September 2017 a further 600,000 ordinary shares were issued and fully paid for in cash. The profit after tax amounted to ksh 10,976,000.

**Required:** Calculate the earning per share. [5 marks]

- (c) Using examples, distinguish between financial liabilities at amortized cost and financial liabilities at fair value or loss (FVTPL). [5 marks]
- (d) A company provides a two year warranty for a new product. It sold 8000 units of the product at ksh 2,000 per unit by the end of the year. Form the past experience with a similar product the company estimates that warranty costs will amount to 1.5% of the sales revenue by the end of the year. The company has paid out ksh 50,000 in relation to the warranty claims.

**Required :**

Journals entries to record the transactions in the books of the company assuming the company applies the accrual basis. [6 marks]

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