CHUKA UNIVERSITY

UNIVERSITY EXAMINATION

RESIT/SUPPLEMENTARY / SPECIAL EXAMINATIONS EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: **TIME: 2 HOURS**

DAY/DATE: MONDAY 3/5/2021 **11.30 A.M - 1.30 P.M.**

INSTRUCTIONS

QUESTION ONE

a) ABC Ltd approaches you for help regarding the financial statements prepared for years ending December 31, 2018 and 2019.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 360,000 on June 30, 2018 and the full amount was expensed at that time.

-Accrued expenses at the end of 2018 and 2019amounted to Kshs. 600,000 and Kshs. 900,000 respectively. The accountant did not make any year end adjustments.

-On October 1,2018 the company sold at par Kshs. 1,000,000 bond of 12%.The bonds were dated October 1,2018 and pay interest on quarterly basis. The accountant recorded interest revenue when cash was received.

-Depreciation was not recorded in 2018 and 2019.The amounts were Kshs. 360,000 and Kshs. 400,000 respectively.

Required:

i) Indicate the overstatement, understatement or no effect on each of the errors on profits, whence show the corrected profit assuming the profits for 2018 and 2019 were Kshs. 10,000,000 and 15,000,000 respectively (12 marks)

ii) Prepare the necessary correcting entries for the transactions identified (Current approach) (5 marks)

b) On January 1, 2020;Waridi Ltd issued Kshs. 1,000,000 in 4 year, par value 5% bonds. The effective interest was 8%. Calculate the issue price of the bond and record the recognition of the interest expense and income in the first year in the books of issuer (Use straight line method) (9 marks)

c) Explain the classification of liabilities in the statement of financial position (4 marks)

QUESTION TWO

The following trial balance was extracted from the books of AMM Ltd. as at 31 October 2019

	Sh.'000'	Sh.'000'
Ordinary share capital(sh.10 each par value)		14,000
Share premium		800
10% debenture		2,000
General reserve		3,000
Revenue reserve(1 November 2009)		2,620
8% redeemable preference shares		6,000
Goodwill	3,500	
Inventory(1 November 2009)	1,790	
Purchases and sales	21,180	36,920
Discount allowed and received	1,340	1, 520

Salaries3,850		
Rates and insurance	702	
Directors remuneration	500	
Interim dividend: preference	320	
:Ordinary	1,500	
Financial assets (fair value)	6,000	
Trade receivables and payables	4,400	1,010
Allowance for doubtful debts		1, 280
Bank balance	1,278	
Building	16,000	
Furniture & fittings	1,500	
Motorvehicles	4,100	
Provision depreciation:Furniture& fittings		300
:Motorvehicles		450
Investment income		550
Debenture interest	1050	
	70,482	70,482

Additional information:

1. The cost and net realizable value of inventory as at 31 October 2019 was 2, 550,000 and 2,360,000 respectively.
2. Depreciate furniture& fittings at 15% reducing balance and motor vehicles at 10% on cost.
3. Allowance for bad debts is to be adjusted to 840,000.
4. Corporation tax for the year is estimated at 614,000.
5. The directors have proposed to pay final dividend of 15% of ordinary share capital and pay the final balance on preference shares.
6. Transfer Kshs. 400,000 to general reserves.
7. Accrue the debenture interest accordingly.

Required:

Statement of comprehensive income and statement of financial position for publication (20 marks)

QUESTION THREE

a) Explain five sources of capital in a firm (5 marks)

b) XYZ Ltd issued 6,000,000 Debentures of 20 par value each payable as follows

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

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

Required:

a) Journal entries to record the above transactions (12 marks)

b) Extracts from the statement of financial position of XYZ ltd immediately after the issue (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)

b) Adrian Limited acquired an item of plant on 1 April 2011, for Kshs. 480,000. At the end of the plant's useful life of eight years, it will have a residual value of Kshs. 0. For accounting purposes the plant is depreciated on a straight-line basis over its useful life. For tax purposes, the plant is depreciated over four years on the straight-line basis. On 31 March 2013, the plant was revalued to Kshs. 340,000. The directors have estimated that the useful life of the asset is five years.

Required

(a) Prepare the journal entry/ies to account for the revaluation of the asset. (4 marks)

(b) Determine the tax base of the asset immediately after the revaluation. (4 marks)

(c) Prepare the entry to adjust for deferred tax arising in the four years (4 marks)

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