

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: THURSDAY 04/11/2021**

**2.30 P.M - 4.30 P.M.**

**INSTRUCTIONS**

- **Answer question one and any other two questions**

**Question One**

- a) Describe any four components of a complete set of financial statements. (6 marks)
- b) Avenue Ltd share capital and profit details for the year 2020 are as follows:
- i) Ordinary share capital as at 1<sup>st</sup> January 2020 was Sh.15 million made up of shares of Sh.5 par value
- ii) The company made a rights issue of 2 new ordinary shares for every 10 ordinary shares as at 1<sup>st</sup> April 2020. The rights price per share was Sh.42.50 while the market price per share as at the same date was sh.48.
- iii) Further, the company issued 500,000 ordinary shares at full market value on 1<sup>st</sup> July 2020.
- iv) The profit after tax for the year 2020 amounted to Sh.2.1 million.

Required:

The basic earnings per share (EPS) for the year ended 31<sup>st</sup> December 2020. (6 marks)

- c) ABC Limited made a provision of Sh.230,000 for corporation tax on profits for the year ended 31 December 2019. In February 2020 the corporation tax liability was finalized at sh.240,000

and amount due paid in March 2020. The corporation tax payable in the year to 31 December 2020 was estimated at sh.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 1<sup>st</sup> January 2020, an entity's had an opening telephone accrual balance brought forward of Sh.5, 000. The entity received a bill of Sh.20,000 for the year ended 31<sup>st</sup> December 2020 but made a payment of Sh.15,000.

Required:

Journal entry to record the telephone accrual for the year 2020. (6 marks)

### Question Two

a) Using illustrations, distinguish between provisions and contingencies. (4 marks)

b) FM 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 2020 for the company was Sh.500,000.

5. The appropriate tax rate is 30%

Required;

- i) Differentiate between current tax and deferred tax as per IAS 12 income taxes (4 marks)  
 ii) Journal to record deferred tax liability and the deferred tax account as at 31<sup>st</sup> December 2020  
 (12 marks)

### Question Three

a) A company issues Sh.1,000,000 face value of seven-year bonds when the market interest rate is 5%. The sales proceeds are Sh. 942,136 and the bond pays 4% interest annually.

Required:

- i) What is the interest payment on the bonds each year? (2 marks)  
 ii) What amount of interest expense on the bonds would be reported in the first two years of issuance, using the effective interest rate method, and determine the carrying amount of the bonds at the end of the first two years? (14 marks)  
 iii) Using illustrations, distinguish between changes in accounting policy and changes in accounting estimates. (4 marks)

### Question Four

The following trial balance relates to Global Limited at 31 March 2021.

|   | Sh.'000' | Sh.'000 |
|---|----------|---------|
| Equity shares of 50 cents each                        |          | 50,000  |
| Share premium   |          | 20,000  |
| Retained earnings at 1 April 2020                     |          | 11,200  |
| Land and buildings – at cost (land Sh.10 million)     | 60,000   |         |
| Plant and equipment – at cost                         | 94,500   |         |
| Accumulated depreciation at 1 April 2020: – buildings |          | 20,000  |
| – plant and equipment                                 |          | 24,500  |
| Inventory at 31 March 2021                            | 43,700   |         |
| Trade receivables                                     | 42,200   |         |
| Bank  |          | 6,800   |
| Deferred tax  |          | 6,200   |
| Trade payables  |          | 35,100  |
| Revenue   |          | 550,00  |
|   |          | 0       |

|                         |               |               |
|-------------------------|---------------|---------------|
|                         | 430,80        |               |
| Cost of sales           | 0             |               |
| Distribution costs      | 21,500        |               |
| Administrative expenses | 31,600        |               |
| Bank interest           | 700           |               |
| Current tax             | <u>1,200</u>  |               |
|                         | <u>725,00</u> | <u>725,00</u> |
|                         | <u>0</u>      | <u>0</u>      |

The following additional information is relevant:

1. On 1 April 2020, an independent valuer valued the land at Sh.12 million
2. Plant and equipment is depreciated at 20% per annum using the reducing balance method. The buildings estimated useful life is 25 years. The company accounting policy is to charge a full year's depreciation in the year of purchase and none in the year of disposal. All depreciation is charged to cost of sales, but none has yet been charged on any non-current asset for the year ended 31 March 2021.
3. Global estimates that an income tax provision of Sh.27.2 million is required for the year ended 31 March 2021 and at that date the liability to deferred tax is Sh.9.4 million.

The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2020

4. The management has proposed a dividend of Sh.0.20 for each share for the year ended 31 March 2021.

Required:

- i) The statement of comprehensive income for the year ended 31 March 2021. (10 marks)
- ii) The statement of changes in equity as at 31 March 2021. (3 marks)
- iii) The statement of financial position as at 31 March 2021. (7 marks)

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