

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS  
RESIT/SPECIAL EXAMINATION**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE  
BCOM 213: INTERMEDIATE ACCOUNTING II**

**STREAMS: BCOM Y2S2**

**TIME: 2 HOURS**

**DAY/DATE: FRIDAY 05/11/2021**

**2.30 P.M – 4.30 P.M.**

**INSTRUCTIONS:**

- **ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.**

**Question One:**

a) With illustrations, distinguish between current liabilities and contingent liabilities. (6 marks).

b) The following information was extracted from the records of the Akili Ltd

1. On 1<sup>st</sup> January 2020, the company had an issued and outstanding share capital of 300,000 ordinary shares of Sh.20 each.
2. On 1<sup>st</sup> April 2020, the company made a rights issue of one fully paid share at Sh.60 for every 3 ordinary shares held when the shares were trading at Sh.84 each.
3. On 1<sup>st</sup> October 2020, the company issued 200,000 ordinary shares at the market price.
4. The company reported profit after tax of Sh.800,000 for the year ended 31<sup>st</sup> December 2020

Required:

Earning per Share for the year ended 31<sup>st</sup> December 2020 (8 marks)

c) Write short notes on non-financial liabilities. (4 marks)

d) The closing trial balance extract for Tayari Ltd at 31<sup>st</sup> December 2020 reflected an under provision of current tax of Sh.70,000 for the previous year ended 2019. The company directors

have estimated the provision for income tax for the current year ended 31<sup>st</sup> December 2020 at Sh.450,000. The company paid Sh.400,000 to the tax authority on 31<sup>st</sup> December 2020.

Required:

The income tax expense and the current tax payable. (6 marks)

e) At 30 April 2021 the non-current assets of Rainbow Ltd have a carrying amount of Sh.365,700 and a tax base of Sh.220,000. The balance brought forward on the deferred tax account at 1 May 2020 was Sh.33,000. The tax rate is 30%.

Required:

Journal to record the deferred tax entry for the year and the deferred tax account. (6 marks)

**Question Two:**

a) XYZ Ltd raise finances by issuing zero coupon bonds at par on 1<sup>st</sup> January 2019 with a nominal value of Shs. 10,000. The bonds will be redeemed after two years at a premium of Shs 1,449. The effective rate of interest is 7% and the financial year of the company ends on 31 Dec.

**Required:**

Present the journal entries to record the transactions, zero coupon bonds accounts payable and financial statements extracts for 31/12/2019 and 2020. (14 marks)

b) Using illustrations, describe what shareholders equity is and explain the key feature distinguishing it from liabilities. (6 marks)

**Question Three:**

a) Describe any four components of a complete set of financial statements. (6 marks)

b) The following balances and information are relevant as at 31<sup>st</sup> December 2020.

<b>Non-Current Assets</b>	carrying value
Land	200,000
Property, plant and equipment	100,000

<b>Current Assets</b>	
Inventory	55,000
Receivables	73,000

Additional information:

1. Land has not been revalued and is not subject to depreciation under IFRS nor under any local tax rules
2. The tax base for Property, plant and equipment is Sh.90,000
3. A general inventory write down of Sh.5,000 was made as at the year end.
4. The trade receivables balance in the accounts is made up of the following amounts:

Gross Receivables	80,000
Less specific provisions	<u>(7,000)</u>
	<u><u>73,000</u></u>

5. The balance on the deferred tax account on 1<sup>st</sup> January 2020 was Sh.3,600

Required:

- i) The tax base for each item listed and then the temporary difference. (8 marks)
- ii) The deferred tax account showing the provision for the year end. (6 marks)

#### Question Four:

The following trial balance was extracted from the books of accounts of Gate Limited as at 31<sup>st</sup> December 2020.

	Sh."000	Sh."000
	"	"
Building at cost (land: Sh.60 million)	170,000	
Accumulated Depreciation (1 January 2020)		22,000
Plant and equipment at cost	56,000	
Accumulated Depreciation (1 January 2020)		18,000
Ordinary Shares (Sh.10 each)		61,000
6% Debentures		25,000
Retained earnings (1 January 2020)		177,000
Revenue		216,000
Cost of sales	108,500	
Distribution cost	23,600	
Administrative expenses	44,000	
Inventory (31 December 2020)	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:

- i) 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.
- ii) The balance on current tax represents the under/over provision of the tax liability for the year ended 31 December 2020. The current tax estimate for the year ended 31<sup>st</sup> December 2020 is Sh.5 million. In addition the taxable temporary differences stood at sh.30 million. The applicable corporate tax rate is 30%
- iii) The management has proposed a dividend of Sh.0.50 for each share for the year ended 31 December 2020.

Required:

- a) The statement of comprehensive income for the year ended 31 December 2020. (10 marks)
  - b) The statement of changes in equity as at December 2020. (3 marks)
  - c) The statement of financial position as at 31 December 2020. (7 marks)
-