CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM (ODEL) TIME: 2 HOURS

DAY/DATE: WEDNESDAY 07/08/2024 8.30 A.M. – 10.30 A.M.

INSTRUCTIONS

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

Question One

a) Describe any three salient features or conditions that assist determine when to classify a liability as a current liability and not as a non-current liability. (6 marks)

b) The par value of the ordinary shares of an entity is Sh.2.50 per share. The entity issued 500,000 ordinary shares at Sh.3.50 per share.

Required:

Journal entries to recognize the issue of the shares in the books of the entity. (6 marks)

c) A bank provides an entity with a five-year loan for Sh.10,000,000 with fixed interest payable annually in arrears at a rate of 6% of the principal amount. The bank charges the entity a fee of Sh. 50,000 for paperwork.

At what amount should the entity measure the loan on initial recognition? Show the journal entry to record the transaction. (6 marks)

d) AB Ltd bought an equipment for Sh. 100,000 at the beginning of a year. In the income statement, the equipment's depreciation expense of Sh. 10,000 is to be recognized each year for ten years while on the tax return, the asset is to be depreciated at Sh.20,000 per year for five years. The firm's applicable tax rate is 30 per cent.

Required:

The equipment's carrying value, tax base and the deferred tax liability at the end of first year. (6 marks)

e) King Ltd.'s outstanding ordinary shares as at 1st January 2023 were 2,500,000 ordinary shares par value Sh. 1. in addition, the company had issued convertible debt of Sh. 1,000,000 with interest rate of 8%. The debt is convertible in 2 years at the rate of 1 ordinary share for every Sh.4.00 of a convertible debt.

The company's profit after tax for the year ended 31st December 2023 was Sh.800,000.

The applicable tax rate is 30%.

i Distinguish between a basic earnings per share and diluted earnings per share (2 marks)

ii Calculate both basic EPS and diluted EPS (4 marks)

Question Two

a) A liability definition can be visualized through a past, present and future time continuum. Explain using illustrations. (4 marks)

b) Bright Ltd recognized a tax liability of Sh.290,000 in its financial statements for the year ended 31 December 2022. The tax return filed in I-Tax system revealed that the tax due for 2022 was Sh.280,000 for which payment was made on I March 2023 to KRA. The directors of the company estimate that the tax due on the profits for the year to 31 December 2023 will be Sh.320,000. The company has no deferred tax liability.

Required:

i The profit or loss tax charge {Or the year ended 31 December 2023 (4 marks)

ii The entity to recognize the payment of income tax (2 marks)

iii Statement of financial position extract as at 31st Dec 2023 showing the current tax (4 marks)

c) Using illustrations, distinguish between provisions and contingent liabilities. (6 marks)

Question Three

a) Write short notes on the key constituents of a complete set of financial statements. (6 marks)

b) A company issues a 7-year, 4% coupon bond with a face value of Sh. 1,000,000 at an effective interest market interest rate of 5% resulting in sales proceeds of Sh.942, 136. The interest is payable annually at the end of each year.

Required:

i Journal to record the issue of the bond. (2 marks)

ii Journal entries to record finance cost for the first four years of bond issuance (6 marks)

iii Extract of statement of financial position first four years of bond issuance. (6 marks)

Question Four

Generations Ltd.'s trial balance as at 30 September 2023 was as follows

	Sh	Sh
Sales		602,00
Share premium		50,00
Trade payables		29,000
Trade receivables	24,600	
6% Loan (repayable 2024)		140,000
Administrative expenses	91,000	
Cash and cash equivalents	43,000	
Distribution costs	46,000	
Dividend paid 1 June 2023	25,000	
Inventory at 30 September 2022	84,000	
Provision for deferred tax at 30 September 2022		40,000
Purchases	285,000	
Land and buildings at cost	500,000	
Equity shares sh. 1 each, fully paid		300,000
Plant and equipment at cost	211,000	
Provision of depreciation at 30 September 2022 – buildings		45,000
Plant and equipment		80,000
Retained earnings at 30 September 2022		32,000
Loan interest	8,400	
	1,318,000	1,318,000

Additional information:

i Inventory at 30 September 2023 was Kshs. 93,000

ii There were no sales of non-current assets during the year ended 30 September 2023;

iii The income tax due for the year ended 30 September 2023 is estimated at Kshs. 24,000. The deferred tax provision needs to be increased by Kshs. 15,000

iv Depreciation is charged on buildings using the straight-line method at 3% per annum. The cost of land included in land and buildings is Kshs. 200,000. Buildings depreciation is treated as an administration expense;

v Plant and equipment is depreciated using the reducing balance method at 20%. Plant and equipment depreciation is regarded as a cost of sales.

Required: Suitable statement of comprehensive income, Statement of changes in equity and statement of financial position for publication. (20 Marks)

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