

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

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

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM (ODEL) Y2S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 11/04/2023

11.30 A.M. – 1.30 P.M.

**INSTRUCTIONS:**

- Answer question ONE and any other TWO
- Do not write on the question paper

**QUESTION ONE**

- (a) Differentiate the following:
- (i) Deffered tax asset and deferred tax liability [4 marks]
- (ii) Capital reserves and revenue reserves [4 marks]
- (b) Using an illustration, differentiate between bonus issue and rights issue [4 marks]
- (c) Kamau Limited's trial balance for the year ended 31 December 2021 was as follows

Item	Sh '000'	Sh '000'
Revenue		320,250
Cost of sales	205,200	
Distribution costs	26,250	
Administrative expenses	28,500	
Finance costs	2,250	
Investment income		600
Ordinary shares sh. 0.50 each		90,000
6% debenture		37,500
Retained earnings 1 January 2021		6,450
Land	75,000	
Plant and equipment at cost	125,550	
Accumulated depreciation 1 January 2021 – Plant & equipment		50,550
Inventory	37,200	
Trade receivables	44,400	
Bank	29,850	
Deferred tax		1,800
Trade payables		67,050
	<u>574,200</u>	<u>574,200</u>

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### Additional Information:

- (a) On 31<sup>st</sup> December 2021, freehold land was revalued at a gain of sh. 5 million. The entry has not reflected in the books of account.
- (b) The directors propose to pay the ordinary shareholders a final dividend of sh. 1 per share for the year ended 31 December 2021
- (c) The current tax for the year ended 31<sup>st</sup> December 2021 is estimated at sh. 11 million. The company taxable temporary differences amounted to sh 3.5 million on 31<sup>st</sup> December 2021.
- (d) Plant and equipment are depreciated at 12.5% per annum on reducing balance basis. All depreciation is treated as an administration cost.
- (e) The applicable corporate tax is 30%

### Required:

- (i) Statement of comprehensive income [7 marks]
- (ii) Statement of financial position [6 marks]
- (iii) Statement of changes in equity [5 marks]

## QUESTION TWO

- (a) Giving examples to each, distinguish between a current liability and a contingent liability. [6 marks]
- (b) Huduma ltd provides paid vacations to its employees. At 31<sup>st</sup> December 2021, 30 employees had each earned 30 days of vacation time. The employee's average salary is sh 50,000 per month.

### Required:

Journal entry to record the accrued vacation pay. [6 marks]

- (c) A company provides a two years warranty for a new product. It sold 6000 units of the product at sh 1000 per unit by the end of 2020. From the past experience with a similar product, the company estimates that warranty costs will amount to 1% of the sales revenue by the end of the year. The company has paid out sh 50,000 in relation to the warrantee claims.

### Required:

Journalize the transactions assuming the company applies the accrual basis. [8 marks]

## QUESTION THREE

- (a) Explain any four components of a complete set of financial statement. [8 marks]
- (b) The balance brought forward for deferred tax asset as at 1<sup>st</sup> January 2019 for XYZ ltd was sh 6 million. The taxable temporary differences as at 31<sup>st</sup> December 2019 amounted to sh 32 million. The applicable corporate tax is 30%.

### Required:

Journal entries to record deferred tax liability for the year and deferred tax account as at 31<sup>st</sup> December 2018. [7 marks]

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- (c) With relevant illustrations, distinguish between financial liabilities at amortized cost and financial liabilities at fair value or loss. [5 marks]

### QUESTION FOUR

- (a) Explain the major reasons why companies change their accounting methods. [4 marks]
- (b) Differentiate between temporary differences and permanent differences. [4 marks]
- (c) Describe the nature of current liabilities and the conditions that must be met for classification of liabilities as current liabilities. [4 marks]
- (d) Faidha ltd was incorporated on 1<sup>st</sup> June 2020 and issued 1,000,000 sh. 100 ordinary shares at a price of sh 110 per share. The issue costs incurred amounted to shs 100,000

**Required:**

Journal entry to record issue of the ordinary shares. [4 marks]

- (e) The issued and finally paid share capital of Muoni limited as at 1<sup>st</sup> Jan 2021 comprised 4 m, 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 2021 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. [4 marks]

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