

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COMMERCE

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM Y2S2 (ODEL)

TIME: 2 HOURS

DAY/DATE: TUESDAY 10/12/2024

2.30 P.M – 4.30 P.M.

INSTRUCTIONS:

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Answer question ONE and any other TWO questions.

Do not write anything on the question paper

QUESTION ONE

- a. Describe a liability highlighting its main characteristics. (4 marks)
- b. Mleyoma Limited presented the following Trial balance as at 31st Dec 2023.

	Sh. '000'	Sh. '000'
Revenue		5,920
Cost of sales	4,080	
Distribution cost	432	
Administrative expenses	584	
Land	4,200	
Building at cost	3,200	
Acc. Depreciation 1 Jan 2023		852
Motor vehicle at cost	5,120	
Acc. Depreciation 1 Jun 2023		992
Ordinary shares sh. 40 each 1 Jan 2023		4,000
Share premium		1,200
Retained earnings		3,852
10% debentures		<u>800</u>
	<u>17,616</u>	<u>17,616</u>

Additional information

1. The estimated corporation tax for the year was estimated at 400,000.
2. The debenture interest for the year is to be accrued as at 31st Dec 2023.
3. Depreciation is treated as an administrative expense and is provided on building and motor vehicle at 4% on straight line and 25% on reducing balance basis respectively.
4. The directors propose to pay the ordinary shareholders a final dividend of sh. 1 per share for the year ended 31st Dec 2023.

Required:

Statement of comprehensive income, statement of financial position and statement of changes in equity for the year ended 31st Dec 2023. (20 marks)

- c. Explain the types of accounting changes. (6 marks)

QUESTION TWO

- a. Kenyo limited began its operation on 1st Jan 2018. It acquired equipment at a cost of sh.40,000. The equipment depreciated on a straight line basis. The wear and tear allowance is granted at 50% on cost in the first year of operation, 30% of the cost in the second year of operation and 20% of the cost in the third year of operation. The company has been earning profit before tax of sh.50M for each of the five years ended 31st Dec 2022.

Required;

Income statement and statement of financial position extract showing the current tax and deferred tax for each of the 5 years. (14 marks)

- b. With the use of examples, differentiate between ‘financial liabilities at amortized cost’ and financial liabilities at fair value through profit or loss (FVTPL). (6 marks)

QUESTION THREE

- a) Using an illustration, differentiate between capital reserves and revenues reserves. (4 Marks)
- b) Describe any four components of a complete set of published financial statements of a company. (6 Marks)
- c) The following information was extracted from the records of the Mosi Ltd.
1. On 1st January 2023, the company had an issued and outstanding share capital of 150,000 ordinary shares of Sh. 10 each.
 2. On 1st April 2023, the company made a rights issue of one fully paid share at Sh.30 for every 3 ordinary shares held when the shares were trading at Sh.42 each.

3. On 1st October 2023, the company issued 100,000 ordinary shares at the market price.
4. The company reported profit after tax of Sh. 400,000 for the year ended 31st December 2023.

Required: Earnings per share for the year ended 31st December, 2023. (10 marks)

QUESTION FOUR

- a. Using an illustration, describe provisions and explain the criteria adopted in the recognition of provisions. (7 Marks)
- b. Mlio limited raises finance by issuing Sh.10 million 5% two –year debenture on 1st January 2022. The debenture will be redeemed at the end of two years. The effective rate of interest in the market is 8%.

Required: Explain how the bond is classified and show the journal entry in the books of Cheka Ltd on 1st January 2023 and subsequent measure at the end of the year. (7 Marks)

- c. Bakaki ltd provides a two year warranty for its new product. It sold 5000 units of the product at Sh. 3000 per unit by the end of the year. From the past experience with a similar product the company estimates that warranty costs will amount to 2% of the sales revenue by the end of the year. The company has paid out Sh. 40,000 in relation to the warranty claims.

Required: Journalize the transactions assuming the company applies the accrued basis. (6 marks)
