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: THURSDAY 07/08/2025 **8.30A.M. –10.30 A.M**

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

QUESTION ONE

a) Differentiate following terms as used in IAS 12- Income Taxes.

i) Deferred tax liabilities and deferred tax assets. (4 marks)

ii) Distinguish between a current liability and a contingent liability. Give an example for each type (4 marks)

a) State three characteristics that define a liability. (3 marks)

1. Chuka limited presented the following extract of assets and liabilities that showed in their statement of financial position as at 31st Dec 2024.

Asset	**Carrying amount (Sh)**
Property, plant and equipment	16,000,000
Inventory	5,000,000
Trade receivables	4,000,000
Trade payables	5,000,000
Bank and cash balances	3,000,000

Additional information:

1. The value for tax purposes of property plant and equipment is Sh.10 million.
2. The company made a write-down for obsolete inventories of Sh. 1 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 1st January 2024 for Plus Ltd was Sh.400,000.

5. The appropriate tax rate is 30%

Required;

i) Differentiate between current tax and deferred tax as per IAS 12 income taxes. (5 marks)

ii) Journal to record deferred tax liability and the deferred tax account as at 31st December 2017 (8 marks)

b) Explain how the IAS needs an entity to structure the content of Financial Statements. (6 marks)

QUESTION TWO

a) Explain six requirements that financial statements should have to give a fair presentation and have compliance with IFRSs. (6 marks)

b) Millennials Ltd receives an annual subscription from customers on 1st January, 2018. A subscriber paid Sh. 60,000 for the year. Required:

i. Show the entries expected for the first three months of the year. (6 marks)

c) Tech Ltd a company that sells laptops provides a two-year warranty for a new product. It sold 100 units of the product at Sh. 20,000 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 1% of the sales revenue by the end of the year. The company has paid out Sh. 20,000 in relation to the warrantee claims.

Required: Journalize the transactions assuming the company uses the accrual basis. (8 marks)

QUESTION THREE

c) The following balances were extracted from the books of Kasaya Limited as at 30 September 2010:

	Sh. '000'
Land and buildings (net book value)	5,000
Plant and machinery (net book value)	8,600
Motor vehicles (net book value)	2,000
Inventory	6,000
Ordinary share capital (Sh.50 par value)	10,000
10% preference share capital (Sh.100 par value)	9,000
10% debentures	8,000
Corporation tax	500
Interim ordinary dividend paid	2,000

Other operating expenses	1,550
Distribution costs	6,000
Administrative expenses	13,000
Accounts payable	19, 000
Other operating income	4,000
Gross profit	25,000
Debenture interest paid	400
Preference dividend paid	450
Accounts receivable	20,000
Cash at bank	4,100
Capital redemption reserve	6,000
Share premium	4,000
Revenue reserves (1 October 2009)	3,000

Additional Information:

1. The balance on the corporation tax account represents an over provision of tax for the previous year. Tax expense for the current year is estimated at Sh.3 million.
2. On 15 September 2010, the directors of the company proposed to pay the dividend due to the preference shareholders and to also pay a final dividend of Sh.2 million to the ordinary shareholders.
3. A building whose net book value is Sh.5 million is to be revalued to Sh.9 million.

Required:

a) Income statement for the year ended 30 September 2010. (8 marks)
b) Statement of financial position as at 30 September 2010. (8 marks)

a) In recent years many companies have changed their accounting principles. Name four motivation for these changes in accounting methods. (4 marks)

QUESTION FOUR

a) Explain the major general purpose financial statements as defined by the IAS. (4 marks)

b) Explain the two methods for accounting for warrantee costs. (4 marks)

c) State four conditions that are to be met for liabilities to be classified as current. (4 marks)

d) The following is the equity of Chuka traders Ltd. As at January 2024;
- Share capital (Ordinary shares) Ksh. 1,000,000
- Retained earnings; Ksh. 300,000
- Revaluation reserve; Ksh. 50,000

Additional information during the year 31st December 2024:

1. The company made a profit after tax of Ksh. 200,000
2. A dividend of Ksh. 80,000 was delayered and paid during the year
3. A revaluation surplus of Ksh. 20,000 was recognized.
4. Additional ordinary shares worth Ksh. 500,000 were issued during the year

Required

i. Prepare the statement of changes in equity for the year ended 31st December 2024. (8 marks)

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