

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM Y2S2

TIME: 2 HOURS

DAY/DATE: FRIDAY 12/4/2024

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: Answer question One and any other Two Questions

QUESTION ONE

- a) The following multiple-choice questions have only one correct answer. Select either A,B,C or D to pick your answer.
- i) Which of the following statements best describes a constructive obligation? (2 marks)
- (a) An obligation that derives from explicit or implicit contract terms
 - (b) An obligation that derives from an entity's actions established pattern of past practice or published policies that creates a valid expectation that an entity will discharge those responsibilities.
 - (c) An obligation that exists because there is another person or entity having a legal claim to payment.
 - (d) All of them.
- ii) Equity is the: (2 marks)
- (a) Total amount due by an entity to its creditors
 - (b) The share capital and liabilities of an entity
 - (c) Total amount of cash contributed by the owners of the entity
 - (d) Residual interest in the assets of the entity after deducting all its liabilities.

iii) Current tax for current and prior periods is recognized, to the extent that the amounts paid exceed the amount due as a (2 marks)

- (a) Liability
- (b) A deferred tax liability
- (c) An asset
- (d) A deferred tax asset.

b) The expenses recognized in the Statement of Profit or Loss and other Comprehensive Income should be analysed either by nature or by function. Describe while using illustrative cases. (5 marks)

c) Describe what a liability is and using practical examples distinguish between current liabilities and non-current liabilities. (6 marks)

d) 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.(5 marks)

e) In 2023, an entity reported a profit before income of Sh 120,000. In the previous year (2022) income tax on that year's profits had been estimated at Sh. 30,000. The applicable tax rate is 30%.

Required:

Calculate tax payable and the charge for 2023 if the tax due on 2022 profits was subsequently agreed with the tax authorities as:

- i) Sh. 35,000 (4 marks)
- ii) Sh.25,000 (4 marks)

QUESTION TWO

The following information was extracted from the books of Kababa Limited for the year ended 31st March 2024.

	Shs. '000'	Shs '000'
Stock 1.4.2023	1,500	
Land and buildings	36,000	
Plant and Machinery	44,000	
Furniture and equipment	33,000	

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Motor vehicles	40,000	
Purchases	60,000	
Sales		174,000
Debtors		
	35,500	
Creditors		6,000
Rental income		6,000
General reserves		4,000
Bank	45,000	
Cash	22,000	
4,000,000 ordinary share @ 20		80,000
5% 4,000,000 preference share @ 20		80,000
6% 5-year bonds		10,000
Deferred tax		500
Retained earnings		3,500
Admin expenses	25,000	
Sales and marketing expenses	22,000	
	<u>364,000</u>	<u>364,000</u>

Additional information:

1. Stock as at 31.3.2024 Shs 1,400,000
2. Depreciation of Shs 2,000,000 is to be provided on property, plant and equipment
3. The five-year bonds were issued on 1st October 2023 at par. Interest payable semi-annually.
4. On 31.3.2024, it was probable a case in court for injuries to a third party by the company vehicle would go against the company and this could cost shs. 450,000.
5. On 31.3.2024 the board of directors proposed the following:
 - 10% dividends on ordinary shares
 - Preference dividend to be paid
 - Shs. 2,000,000 to be transferred to the general reserve account of the company.
6. The required provision for income tax for the year ended 31 March 2024 is Shs. 2 million. The difference between the carrying amounts of the net assets and their (lower) tax base at 31 March 2024 is 5 million. The applicable corporate tax rate is 30%.

Required:

- i) Prepare the statement of profit or loss and other comprehensive income for the year ended 31 March 2024. (10 marks)
- ii) Prepare the statement of changes in equity for the year ended 31 March 2024. (2 marks)
- iii) Prepare the statement of financial position as at 31 March 2024. (8 marks)

QUESTION THREE

- a) Easy Ltd has an asset which cost Sh. 100,000. In 2023, the carrying value of the asset was Sh.80,000 but it was revalued to Sh.150,000. The cumulative depreciation for tax purposes on the asset was Sh.30,000. The applicable tax rate is 30%.

Required

- (i). Distinguish between current tax and deferred tax. (2 marks)
 - (ii).The tax base of the asset, deferred tax liability and the journal to record deferred tax expense. (8 marks)
- b) True Ltd issued Ksh. 10 million 5% Bonds on 1 January 2021, incurring Sh. 200,000 issue costs. The bonds were repayable on 31 December 2023. The effective interest rate of 8.85% was applicable.

Required:

- (i). Initial recognition of the bond
- (ii).Extract of statement of financial position at the end of each year showing the closing Liability the total which will be expensed to the statement of comprehensive income over the three-year period. (10 marks)

QUESTION FOUR

- a) Distinguish contingent liabilities from provisions and also describe the criteria required to be met before a provision can be recognized. (10 marks)
- b) Taji limited had 5,000,000 ordinary shares of 25 cents each in issue as at 1st January 2023. During the year, the entity issued the following:
- (i). Sh.1,000,000 of 14% convertible loan, convertible in three years' time at the rate of 2 shares per Sh.10 of convertible loan.

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(ii).Sh.2,000,000 of 10% convertible loan, convertible in one year's time at the rate of 3 shares per Sh. 5 of convertible loan.

The total earnings in 2023 were Sh. 1,750,000. The applicable rate of income tax is 30%.

Required:

The basic and diluted earnings per share.

(10 marks)

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