

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF COMMERCE AND BACHELOR OF ENTREPRENEURSHIP AND ENTERPRISE
MANAGEMENT

BCOM 213: INTERMEDIATE ACCOUNTING II

STREAM: BCOM 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 questions

QUESTION ONE

- (a) Discuss the derecognition of liabilities in the financial statements. [4 marks]
- (b) Primeway company issues \$7,000,000, 6%, 5-year bonds dated January 1, 2017 on January 1, 2017. The bonds pay interest semiannually on June 30 and December 31. The bonds are issued to yield 5%.

Required:

What are the proceeds from the bond issue and accounting entry to be made. [5 marks]

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- (c) The following trial balance has been taken from MAW ltd on 30 April 2021, after the preparation of the trading and profit and loss account for the year.

	Dr	Cr
Ordinary shares (£1)		310,000
10% preference shares		100,000
10% debenture 2010		120,000
Profit for year ended 20/4/2021		137,000
Profit for year ended 30/4/2020		120,000
Stock	250,000	
Premises	300,000	
Plant and machinery	200,000	
Motor vehicles	70,000	
Office equipment	30,000	
Depreciation provisions:		
Premises		118,000
Plant and machinery		100,000
Motor vehicles		60,000
Office equipment		50,000
Debtors	445,000	
Creditors		17,000
Provision for bad and doubtful debt		16,000
Prepayments	6,000	
Accruals		18,000
Bank		<u>12,000</u>
	<u>1,331,000</u>	<u>1,331,000</u>

Required:

- (i) Prepare the appropriation section of the comprehensive income statement (income statement) and prepare a balance sheet (statement of financial position), taking into account the following:
- Corporation tax of kshs. 40,000 is to be allowed for
 - The preference share dividend is to be paid
 - An ordinary share dividend of 15% is declared
 - Interest on the debenture needs to be account for [16 marks]
- (ii) Describe some of the notes that may be included in the financial statements above. [4 marks]

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QUESTION TWO

- (a) XYZ ltd issued 1,000,000 shares of kshs 10 par. The issue price was kshs 15 payable on application only. Show the journal entries required in the issuer books. [5 marks]
- (b) Describe the classification of reserves in accounting [6 marks]
- (c) Anso company ltd had 300,000 shares of common stock outstanding at January 1, 2019.
- Anso company had 10,000 shares of nonconvertible noncumulative preferred stock as at January 1, 2019. The rate of dividend was 10% and nominal rate is 10 per share
 - Anso had kshs. 1,000, 000 of 8% convertible bonds as at January 1, 2019
 - Net income for 2019 is kshs. 750
 - On September 1, the company sold an additional 36,000 shares of common stock
 - Each bond is convertible into 40 shares of common stock
 - There are 20,000 stock warrants that allows the holders to convert each warrant into share of common stock at an exercise price of \$36 per warrant
 - Average market price of Anso's stock in 2019 was ksh. 36 per share
 - Anso's tax rate is 40%

Required:

Calculate basic EPS and Diluted EPS for Anso Co. ltd for 2019. [9 marks]

QUESTION THREE

- (a) Using examples describe three temporary differences in differed taxation. [6 marks]
- (b) Masaku enterprises acquired sh. 4,000,000 eight year bank loan from Fedha bank on January 1, 2016 at an annual interest rate of 10%. The terms of the loan repayment were; equal annual installment payments.

Required: Loan amortization schedule [14 marks]

QUESTION FOUR

- (a) At the end of last year (2019), ABC Ltd, reported a balance of kshs. 650,000 in retained earnings and it had 400,000 outstanding common shares at an average issue price of kshs. 10 per share. In 2020, the following financial information was made available by the company's new CFO in hopes that you can make sense of it:

Total revenues: Kshs. 350,000

Total expenses: Kshs. 198,000

100,000 new common shares issues at kshs. 10 per share

Kshs. 125,000 of dividends declare

A share bonus issue of 1 for 100

Net income from 2019 financial statement was understated by kshs. 12,500 due to a clerical error

Required:

Prepare the company's statement of changes in equity. [8 marks]

- (b) Chemical limited is a company that operates in the pharmaceutical industry. Due to technological changes in the manufacturing process and a small change in their product, the company decided to replace its existing plant, which is less than two years old, with a more modern plant.

Details regarding the old plant are as follows:

	Kshs.
Original cost	450000
Accumulated depreciation to 31 December 2009	(67500)
Carrying amount at 31 December 2009	382500

Additional information:

1. Deprecation is written off on the old plant at 15% per annum on the straight line method to nil residual values. The tax authorities grants a wear and tear allowance on the full cost of plant over five years, not apportioned from the data on which it was brought into use.
2. On 30 June 2010 the old plant was withdrawn from the process and was sold for kshs 461, 000, resulting in a taxable capital profit of kshs. 101 250. On 1 July 2010 a new plant with a const price of kshs, 800,000 was brought into use in the production of its income.

The tax base of the new plant at 31 December 2010 amounted to kshs. 480,000

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3. The directors decided to depreciated the newly acquired plant over 4 years on the straight line method.
4. The company had a profit before tax of kshs 1000000 for the year ended 31 December 2010 before taking the above into account.
5. Dividend income of kshs 30,000 (exempt from tax) and fines of kshs 9000 (not deductible for tax purposes) are included in the profit of kshs. 1 000 000.

Required:

- (i) Calculate the profit, exempt from tax, on the sale of the old plant. [2 marks]
 - (ii) Calculate the carrying amount of the new plant at 31 December 2010. [2 marks]
 - (iii) Calculate the current normal tax and deferred tax for the year ended 31 December 2010. [8 marks]
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