CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA & EMBU

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE & BACHELOR OF PURCHASING AND SUPPLY MANAGEMENT

BBAM 212/BCOM 213: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM/BBAM **TIME: 2 HOURS**

DAY/DATE: THURSDAY 04/08/2016 **5.30 PM – 7.30 PM**

INSTRUCTIONS:

1. (a) Explain the treatment of commitments in accounting for liabilities. [5 marks]

   (b) Explain the types of current liabilities likely to be found in balance sheet citing examples. [8 marks]

   (c) On January 1, 2013 Connor issued ksh 900,000 in 5 years at nominal rate of 6% bond. The effective market interest rate was 7%. Calculate the issue price of the bond and record the recognition of the interest expense in the first year in both books of issue and investor. (Use straight line) [10 marks]

   (d) Differentiate between temporary and permanent differences. [2 marks]

   (e) Differentiate between long bonds and serial bonds. [2 marks]

   (f) Explain the recording of term notes payable in the balance sheet. [3 marks]

2. (a) XYZ Ltd issued 6,000,000 ordinary shares at ksh. 20 par value each payable as follows

	ksh
On application	3
On allotment	8 (including premium)
On first call	7
On second & final call	4

7000000 shares were applied for and 1000000 shares were rejected and application monies refunded. All monies were received when due except 1000 shares whose holder failed to pay second and final call and were forfeited.

Required:

(i) Journal entries to record the above transactions [12 marks]

(ii) Extracts from statement of financial position after the issue [3 marks]

(b) Explain the differences between basic earning per share and diluted earning per share. [5 marks]

3. (a) The following errors were noticed after the accounts were made on 31st December 2014

(i) A three year insurance policy was purchased for ksh. 200000 on July, 2014 and was expensed in full
(ii) Accrued expenses at the end of 2014 amounted to ksh 350000. The accountant did not make end of year adjustment.
(iii) Depreciation of ksh 200000 was not recorded in the year 2014
(iv) The accountant used to record interest when received. The company bought ksh. 100,000 bond of 8% dated October 1, 2014 and is paid semiannually.

Required:

Prepare necessary correcting entries for the transactions identified. [4 marks]

(b) The following trial balance was extracted from the books of Faulu Ltd on 31st December, 2015

	ksh '000'	ksh '000'
Ordinary share capital		15,000
Share premium		800
10% debenture		1,000
General reserve		1,000
Revenue reserve (1st January 2015)		1,620
8% Redeemable preference shares		8,000
Copy rights	2,500	
Stock (1st January 2015)	2,790	
Purchases/ sales	2,480	
Salaries	22,180	
Rates and insurance	1,700	

Debtors fee	500	
Trade receivable payable	2,400	2,010
Provision for bad debts		280
Financial assets	8,000	
Bank balance	1,278	
Building	17,000	
Motor vehicle	3,100	
Furniture	1,500	
Accumulated depreciation – motor vehicle		450
-Furniture		300
Investment income		550
Cash	3,132	
	68,930	68,930
	======	=====

Additional Information:

1. Non-current assets are depreciated at 10% p.a reducing balance
2. Allowance for bad debts to be maintained at 5%
3. Transfer ksh. 50,000 to general reserve
4. Accrue debenture interest and preference dividends
5. Corporation tax is at 30%
6. A dividend of 10% on ordinary capital should be paid
7. A lawsuit has been launched by a terminated staff. The probability of loosing the case is high and a terminal value of ksh 1,000, 000 is likely to be paid.

Required:

A statement of comprehensive income and statement of financial position as at the end of the year suitable for publication. [16 marks]

4. (a) The following transactions relate to Chuka ltd as at the end of 31st December 2014.

(i) The company has consumed electricity worth ksh.. 50,000 by the end of the year but the bill has not yet been received or paid.

(ii) A customer paid ksh 70,000 for goods which he wants delivered in March next year.

(iii) The company provides a 1 year warranty for a new product. It sold 6000 units each at 1000/=. The company estimates that warranty cost will amount to 1% of sales revenue. The warranty costs proved ksh 30000 by end of year.

Required:

Determine the differed tax asset or liability in each entry and post the accounting entry. [6 marks]

(b) Discuss the typical financial annual reports contents. [10 marks]

(c) Explain the treatment of contingent liabilities in accounting. [4 marks]
