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**University Examinations 2015/2016**

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

**BFC 3275: INTERMEDIATE ACCOUNTING II**

**DATE: APRIL 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Deka ltd issued a shs. 1,000,000 5 year bond with a stated interest rate of 10% on 1st January 2012, the market interst rate is 9% and interest is paid semi-annually on 1st July and 1st of January each year. Deka Ltd incurred bond issue costs of shs. 20,000.

Required:

1. Calculate the price of the bond (3 marks)
2. Show the accounting entries for the issue of the bond and the payment of the first and second interest payment (6 marks)
3. Prepare a bond discount/premium amortization schedule for the bond using the effective interest rate method (10 marks)
4. Describe how you would account and present the following transaction and events appearing in the books of Wamu Ltd at close of financial year.
5. A former employee has sued the company for wrongful dismissal and claims shs. 3 million, the company legal advisorhas givne an opinion that the case is likely to go against the company and estimates that the company is likely pay shs. 2 million inclusive of legal costs. (3 marks)
6. The company sells its goods through containers which it charges shs 200 per unit past experience shows that only 50% of the container deposit is claimed. The company has container depost of shs. 400, 000 for the current period. (4 marks)
7. The company pays its employees’ slaries in arrears, shs. 1,200,000 was n arrears on 31st December 2013 the year end. The salary components to be settled in the next period include net pay of shs. 600,000, PAYE shs. 200,000, NSSF shs. 200,000 (4 marks)

**QUESTION TWO (20 MARKS)**

The following information was extracted from the books of Edu Ltd for the year ended 31st Markch 201

|  |  |  |
| --- | --- | --- |
|  | Shs ‘000’ | Shs ‘000’ |
| Stock 1.4.2012 | 1,500 |  |
| Land and buildings | 36,000 |  |
| Plant and machinery | 44,000 |  |
| Furniture and equipment | 33,000 |  |
| 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 | 2,000 |  |
| 4,000,000 ordinary share @20 |  | 80,000 |
| 10% 4,000,000 preference shares @ 20 |  | 80,000 |
| 10% 5 year bonds |  | 10,000 |
| Retained earnings |  | 4,000 |
| Admin expenses | 25,000 |  |
| Sales and marketing expenses |  |  |
|  |  |  |

Other information

1. Stock as at 31.3.2013 shs. 1, 600, 000
2. Deperciation of shs. 3, 000, 000 is to be provided on fixed assets
3. Included in sales is VAT at 16% which has not been adjustded in the books of account
4. The five year bonds were issued on 1st October 2012 at par. Interest payable semi-annually. On 31.3.2013, interst for the first semi annual period had not beed paid.
5. Corporate tax rate is 30%
6. On 31.3.2013, 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 costs shs. 550,000.
7. Warranty claims against the company products amounting to shs. 450,000 had not been paid nor adjusted in the books of the company by 31.3.2013.
8. On 31.3.2013, the board of directors proposed the following:

* 10% dividends on ordinary shares
* Preference dividends to be paid
* Shs 2,000,000 to be transferred to the general reserve account of the company

**Required:**

1. Show the company’s amount of current liabilities for the year ended 31.3.2013 (10 marks)
2. Prepare the company’s income statement (trading profit and loss) for the year ended 31.3.2013
3. Prepare a statement of financial postion (Balance sheet) for the year ended 31.3.2013

**QUESTION THREE (20 MARKS)**

1. On May 1, Daba Ltd, a consumer electronics firm, borrowed shs. 800,000 cash from Kenya National Bank Ltd, under a non-commited short-term line of credit arrangements and issued a 6-month, 12% promissory note. Interest was payable at maturity.

Show the entries to record the issue of note and payment of the principal amount and interest at maturity (4 marks)

1. Healthfirst, a supplier of home health care products, introduced a new therapeutic chair carrying a 2-year warranty against defects. Estimates based on industry experience indicate warranty costs of 2% of sales during the first 12 monts following the sale and 3% the next 12 montsh, totaling 9% that should be accrued in the year of sale. During the year 2013, its first year of availability Healthfirst sold shs. 5 million worth of the chairs.

**Required:**

Show the necessary accounting entries to recognize the warranty expenses and liability in the accounts of healthfirst for the year ended 2013 (6 marks)

1. Discuss four accounting concepts that underlie the preparation of financial statement (8 marks)
2. Distinguish the following terms:
3. Defined contribution plan and Defined benefit plan
4. Plan Asset and projected benefit obligation
5. Deferred tax asset and Deferred tax liabilities (6 marks)

**QUESTION FOUR (20 MARKS)**

Air services ltd came into the possession of an air craft through a lease agreement for four years, from air craft leasing services (Lessor). The aircraft was acquired on 1st Jan, 2005 when the carrying amount of the asset was 6,840,000 in the books of aircraft leasing services. Air services incurred shs. 120,000 and aircraft leases services incurred shs. 132,000 in negotiation and subsequent security the lease. The amount payable by air sevices is in four installments as follows:

|  |  |
| --- | --- |
|  | Shs, 000 |
| 1st January 2005 | 4,200 |
| 31st December 2006 | 1,920 |
| 31st December 2007 | 960 |
| 31st December 2008 | 540 |
| 31st December 2009 | 360 |

The cost of financing the lease is 12% for air services; depreciation of the asset is to be charged on a straight line method. The lessee air services has also given a guarantee of 5% of the cost of the asset to air craft leasing services at the end of the economic life of the leased asset.

Required:

1. Determine the nature of the lease (2 marks)
2. Prepare relevant journal entries in the books of the lessee to recognize the first THREE lease payments for (6 marks)
3. Prepare a lease amortization schedule (8 marks)
4. Describe the essential conditions to determine a finance lease (4 marks)

**QUESTION FIVE (20 MARKS)**

1. At the end of 2014, its first year of operation, the Aber limited reported shs. 900,000 taxable income and shs. 760,000 pretax financial income as a result of a single temporary difference. Because of uncertain economic times, the company believes that only 80% of the deductible temporary difference will be realized. The tax rate for 2014 is 30%, and no change has been enacted for future years.

Calculate the deferred tax asset/liability to be included in 2014 balance sheet (5 marks)

**Required:**

Show the amount of current service cost, interest cost and retirement obligation for each of the years 1-5 (10 marks)

1. Avon Ltd funds its defined pension plan by contributing each year, the years sevice cost plus a portion of the prior service cost. Cash of shs. 4.6million was contributed to the pension fund at the end of 1996. Plan assets at the beginning of 1996 was valued at shs. 35 million. The expected rate of return on investiment of those assets was 9% but actual return in 1996 was 10%. Retirement benefit of shs.3.6 million was paid by the end of 1996 to retired employees.

**Required:**

Determine the value of the company’s pension plan assets at the end of 1996. (5 marks)