



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF BUSINESS ADMINISTRATION
BACHELOR OF COMMERCE

BAC 4402: INTERMEDIATE ACCOUNTING II

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Three printed pages

QUESTION 1 (Compulsory)

- a) Explain **FOUR** conditions in which fulfilment of any one of them indicates a transfer of a material ownership interest and this requires the lease to be treated as a capital lease. **(6 marks)**
- b) Explain any **FOUR** types of bonds. **(4 marks)**
- c) A lessor rents a building to lessee for three years starting January 1st 2011. Both the cost and selling price to lessor are sh. 250,000. There will be three lease payments beginning January 1st, 2011. The building has a 3 year life with no salvage value. Lessor's target rate of return is 85.

Required:

- i) Compute the annual lease payments. **(2 marks)**
- ii) Prepare journal entries for both lessor and lessee for 2011. **(6 marks)**
- iii) Prepare an amortization schedule. **(6 marks)**

- d) Explain the following terms:
- i) Non-cancellable lease agreement. (2 marks)
 - ii) Contingent rent (2 marks)
 - iii) Guaranteed residual value. (2 marks)

QUESTION 2

A company wishes to issue sh. 40,000 3 year bond that pays 6% interest compounded semiannually. The bond is sold to yield a market rate of 8%.

Required:

- a) Compute the selling price of the bond. (4 marks)
- b) Prepare journal entries. (6 marks)
- c) Prepare an amortization schedule. (10 marks)

QUESTION 3

- a) The issued and fully paid share capital of Uchumi Ltd on 1st of January 2012 comprised of:
- 400,000 7% cumulative preference shares of sh. 10 each sh. 4000,000

3,000,000 ordinary shares sh. 10 each sh. 30,000,000

On 1st September 2012 a further 600,000 ordinary shares were issued and fully paid for in cash. The post tax profit for the period to 31st December 2012 was sh. 1,976,000

Required:

- i) Compute the earnings per share. (8 marks)
 - ii) Explain the importance and use of EPS. (4 marks)
 - iii) Explain the weakness associated with EPS. (4 marks)
- b) Under what conditions of bond issuance does the following arise:
- i) Discount on bonds payable. (2 marks)
 - ii) Premium on bonds payable (2 marks)

QUESTION 4

- a) List FIVE components that may form part of a company's annual pension expense. (5 marks)
- b) At the beginning of 2015, KPA had an unrecognized net pension gain of sh. 250,000. At that time its PBO was sh. 2000,000 and its pension fund balance was sh. 2,100,000. The average remaining service life of its employees is 20 years.

Required:

- i) What is the corridor amount **(3 marks)**
- ii) How much should the amortization be this year. **(6 marks)**
- iii) How much of the net gain is still unrecognized after this year's amortization. **(6 marks)**

QUESTION 5

- a) Explain any **FIVE** sources or examples of taxable temporary differences. **(10 marks)**
- b) Discuss the merits and demerits of full provision method of deferred tax provision. **(10 marks)**