



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

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 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) A company wishes to issue s. 40,000 3 year bond that pays 6% interest compounded semi annully. The bond is sold to yield a market rate of 8%.

Required:

- i) Compute the selling price of the bond. **(6 marks)**
 - ii) Prepare an amortization schedule for the bond. **(10 marks)**
- b) The issued and fully paid share capital of Maendeleo Limited on 1st of January 2010 comprised of:
- | | |
|--------------------------------------------------------|---------------|
| 400,000 7% cumulative preference shares of sh. 10 each | sh. 4,000,000 |
| 3,000,000 ordinary shares sh. 10 each | 30,000,000 |

On 1st September 2010 a further 600,000 ordinary shares were issued and fully paid for in cash. The post tax profit for the period to 31st December 2010 was sh. 1,976,000.

Required:

Compute the earnings per share.

(8 marks)

c) Briefly explain the characteristics of finance lease.

(6 marks)

QUESTION 2

a) Briefly explain **FIVE** actuarial assumptions made by actuaries when valuing a defined benefit scheme. **(10 marks)**

b) Explain the following terms as used in pension schemes;

i) Vested benefits

(2 marks)

ii) Service cost

(2 marks)

iii) Experience adjustments

(2 marks)

iv) Current service cost

(2 marks)

v) Acturial valuation.

(2 marks)

QUESTION 3

Lessor rents a building to lessee for 3 years starting January 1st 2013. Both the cost and selling price to lessor are sh. 25,000. There will be three lease payments beginning January 1st, 2013. The building has a 3 year life with no salvage value. Lessor's target rate of return is 8%.

Required:

a) Compute the annual rental.

(3 marks)

b) Prepare entries for both lessor and lessee for 2013.

(7 marks)

c) Prepare an amortization schedule.

(10 marks)

QUESTION 4

a) Differentiate between temporary and permanent differences in accounting for income taxes.

(4 marks)

b) Discuss briefly any **FIVE** types of temporary differences.

(10 marks)

c) Highlight any **THREE** permanent differences.

(6 marks)

QUESTION 5

- a) The Gradowsky Corporation had net income of sh. 150,000 during 2012 with 10,000 shares of common stock outstanding. It also had 1,000 shares of non-convertible 5%, sh. 100 per preferred stock, and sh. 25,000 par 6% bonds convertible into 1,000 shares of common stock.

Required:

Compute basic and diluted EPS. Assume a 30% tax rate.

(8 marks)

- b) Briefly explain the following terms:
- i) Stock appreciation rights (SARS)
 - ii) Convertible bonds
 - iii) Earnings Per Share (EPS)
 - iv) Basic Earnings Per Share
 - v) Untidilutive securities
 - vi) Diluted earnings per share

(12 marks)