

TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS STUDIES
BACHELOR OF BUSINESS ADMINISTRATION, BACHELOR OF COMMERCIAL
(Y2, S2)
BAC 4202: INTERMEDIATE ACCOUNTING 11
END OF SEMESTER EXAMINATIONS
SERIES: MAY, 2016
TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of section A and B
- Section A is Compulsory. Answer any Two questions in section B
- Mobile phones are not allowed into the examination room
- Cheating leads to disqualification
- This paper consists of Two printed pages

QUESTION ONE

- a) A company issues a 4-year, Sh.100, 000 bond with a contract rate of 8% payable semiannually. The market rate is 10% payable semiannually.

Required:

- i) Compute the selling price of the bond and prepare a journal entry at issuance. (6marks)

 - ii) Prepare an amortization schedule for the bond. (10marks)
- b) Distinguish between the following terms
- i) Finance lease versus operating lease (2marks)
 - ii) Long-term liabilities versus short-term liabilities (2marks)
 - iii) Accrued liabilities versus unearned revenues (2marks)
 - iv) Callable bonds versus convertible bonds (2marks)
- c) On May 1, Eder Fabrication borrowed sh.700, 000 and issued a nine-month promissory note. Interest was discounted at issuance at a 12% discount rate.

Required:

- i) Prepare the journal entry for the issuance of the note and the appropriate adjusting entry for note at maturity. (5marks)
- ii) Compute the effective interest rate for the note. (1mark)

QUESTION TWO.

- a) Company Z had net income of sh.150, 000 during 2014, with 10,000 shares of common stock outstanding. It also had 1,000 shares of nonconvertible 5%, sh.100 par 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. (6marks)

- b) On January 1, 2015, Machines and equipment supplies ltd rents a machine to a merchant for 3 years. Both the cost and the selling price are sh.30, 000. The salvage value at the end of the 3-year period is sh.5, 000, which is *unguaranteed* by Lessee. The interest rate, which is known to both parties, is 10%, and the lease meets all the conditions required to be a capital lease.

Required

- (a) Calculate the annual rental. (6marks)
- (b) Determine the amount to be capitalized by Lessor. (4marks)
- (c) Determine the amount to be capitalized by Lessee. (4marks)

QUESTION THREE

At the beginning of 2012, Company K had a PBO of sh.2000, 000 and a pension fund balance of sh.2,300,000. It also had an unrecognized net pension loss of sh.350,000 and prior service costs of sh.240,000. During 2012, service cost was sh.150,000 and the settlement rate was 10%. The actual rate of return on the pension fund was also 10%, but the expected rate was only 8%. Also during 2012, the company contributed sh.250, 000 to the fund and paid out benefits of sh.130,000. There were no changes in actuarial assumptions during the year, and the average remaining service years of the employees is 20.

Required

- (i) Calculate the ending PBO.
- (ii) Calculate the ending value of the pension fund.
- (iii) Determine the amortization of the prior service costs.
- (iv) Find the corridor amount.
- (v) Determine the amortization of the unrecognized net pension loss.
- (vi) Determine pension expense and prepare a journal entry. (20marks)

QUESTION FOUR

- a) Distinguish between the following terms
 - i) Temporary and permanent differences (4marks)
 - ii) Deferred tax asset and deferred tax liability (4marks)
- b) Pwani ltd purchased a fixed asset in January 2014 for sh.600, 000. The asset was depreciated on a straight line basis based on cost over a 5 year period without salvage value. The capital allowance was as follows:

Year 1 50 %, Year2. 35%, Year3. 20%

The company made an average profit before tax of sh.500,000 in each of the five years. The tax rate for each of the 5 years was as follows: year1. 20% year2. 35%, year 3.30%, year4. 40%, year5. 45%

Required

- i) Compute the current tax for the year. (6marks)
- ii) Calculate the reversing temporary difference for each year. (6marks)

QUESTION FIVE

- a) Briefly explain any Five types of short term liabilities (10marks)
- b) Explain the following terms:(10marks)
 - i) Contingent liability

- ii) Committed lines of credit
- iii) Actuarial assumptions
- iv) Vested benefits
- v) Earnings per share (EPS)