# TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

**UNIVERSITY EXAMINATION FOR:**

BCOM/BBA

BAC4202: INTERMEDIATE ACCOUNTING TWO

END OF SEMESTER EXAMINATION

**SERIES:**DEC 2016

**TIME:**2HOURS

**DATE:**Pick DateDEC2016

**Instructions to Candidates**
You should have the following for this examination
-*Answer Booklet, examination pass and student ID*
This paper consists of **FIVE** questions. Attemptquestion ONE (Compulsory) and any other TWO questions.
**Do not write on the question paper.**



**QUESTION ONE**

a) Details of the issued and fully paid share capital of XYZ Limited as at 1.1.2015 are as follows:

| | |
|---|---|
| 80,000 7% Cumulative preference shares of sh.10 each | sh.800, 000 |
| 4200,000 ordinary shares of sh. 10 each | 42,000, 000 |
| | 42,800, 000 |

On 1.8.2015 the company issued 20, 000 7% cumulative preference shares and 600,000 ordinary shares. The post tax net profit for the year to 31. 12. 2015 was sh. 27,320,000 for the group of which sh.740, 000 was attributable to minority interest in the subsidiary. The profit has been consolidated for the whole year. All the shares in issue at 31.12.2015 ranked for dividends.

Required:

i) Basic earnings per share ( 4marks)
ii) Diluted earnings per share. (6marks))

b) Briefly explain the components of a company's annual pension expense. (6marks)

c) A sh. 40,000 bond that pays interest of 6% semiannually is sold to yield the market rate of 8%. The bonds mature in three years.

Required:

Prepare an amortization schedule. (10 marks)

d) Briefly explain any four types of bonds. (4marks)

## QUESTION TWO

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. (16 marks)

b) Distinguish between defined contribution plan and defined benefit plan. (4marks)

## QUESTION THREE

a) On January 1, 2010, Lessor rents a machine to Lessee 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

(i) Calculate the annual rental. (6marks)
(ii) Determine the amount to be capitalized by Lessor. (4marks)
(iii) Determine the amount to be capitalized by Lessee. (4marks)

b) Briefly explain any four features of a finance lease. (6marks)

## QUESTION FOUR

a) With reference to deferred taxation, explain the term timing differences. (10marks)

b) Explain FIVE actuarial assumptions made by actuaries when valuing a defined benefit scheme. (10marks)

**QUESTION FIVE**

a) For years 2012 and 2013, Company T had regular income of sh.50, 000 and sh.70, 000, respectively. During 2012 it had additional income of sh.10, 000 from services performed on account which it did not collect until 2013. Company T uses the accrual method of accounting for accounting purposes and the cash method for tax purposes. The tax rate for both years is 20%.

(i) Is the sh.10, 000 differences temporary or permanent? (2marks)
(ii) What is accounting income and taxable income for each year? (8marks)
(iii) Prepare journal entries for each year. (6marks)

b) Explain any two types of temporary differences. (4marks)