



# TECHNICAL UNIVERSITY OF MOMBASA

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SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BCOM/BBA

BAC4202: INTERMEDIATE ACCOUNTING TWO

END OF SEMESTER EXAMINATION

**SERIES:** Dec 2016

**TIME:** 2 HOURS

**DATE:** Pick Date Dec 2016

## Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

**Do not write on the question paper.**

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## Question ONE

- a) On January 1, 2010, NBK issued a 5-year, Sh.90, 000 bond with a stated annual rate of 10%. The market yield for bonds of similar risk and maturity is 8%.

Required

Prepare an amortization table. (12 marks)

- b) Seller-Lessee sells an asset to Buyer-Lessor on January 1, 2013, for \$100,000, and immediately leases it back for a 3-year period at a 10% interest rate. Seller-Lessee's original cost was \$80,000 (thus the gain on the sale is \$20,000) and the asset has no salvage value. Let's assume the criteria for a capital lease are *not* met and, accordingly, the lease is an operating lease.

Required:

- i) Compute the annual lease payment. (4marks)  
ii) Prepare journal entries for both lessor and lessee. (6marks)

- c) Briefly explain four characteristics of a finance lease. (8marks)

## Question TWO

a) A company wishes to issue a Sh.30, 000, 4-year bond that pays 8% interest compounded semiannually. Assume a market rate of 10% compounded semiannually.

Required:

Determine the selling price. (5marks)

b) Briefly explain the following types of leases

- i) Finance lease
- ii) Operating lease
- iii) Direct Financing Leases
- iv) Sales-Type Leases

(8marks)

c) A corporation had a net income of \$100,000, with 75,000 shares of common stock outstanding and no preferred stock. There were also 10,000 stock warrants outstanding enabling the holder to purchase 10,000 shares of \$100 par common stock at \$90. The average market price of the stock for the year has been \$100, while the closing price was \$110.

Required:

Determine diluted EPS. (7marks)

### Question THREE

a) Briefly explain the components of a company's annual pension expense. (10marks)

b) Company F has prior service costs of sh.100, 000 and it has five employees entitled to benefits for these prior services. Their remaining service years are as follows:

Employee	Remaining Years
1	5
2	1
3	4
4	4
5	6

Required

Determine the amortization using

i) The straight-line method. (4marks)

ii) Separate amortization fraction for each year. (6marks)

### Question FOUR

a) 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 5years was as follows: year1, 20% year 2, 30%, year 3, 30%, year 4, 40%, year 5, 45%

Required

- i) Compute the current tax for the year. (6marks)
  - ii) Calculate the reversing temporary difference for each year. (6marks)
- b) Briefly explain any Four types of short term liabilities (8marks)

**Question FIVE**

- a) Explain the following terms: (10marks)
  - i) Deferred taxes
  - ii) Lines of credit
  - iii) Vested benefits
  - iv) Commercial paper
  - v) Temporary differences
- b) Explain FIVE actuarial assumptions made by actuaries when valuing a defined benefit scheme. (10marks)