TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE AND
BACHELOR OF BUSINESS ADMINISTRATION

BAC 4204: INTERMEDIATE ACCOUNTING 11

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2019

TIME: 2 HOURS

DATE: AUGUST, 2019

Instructions to Candidates

You should have the following for this examination

-*Answer Booklet, examination pass and student ID*

This paper consists of FIVE questions. Question one is Compulsory. Answer any other two questions.

Do not write on the question paper.

Question ONE

a) 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)

b) High-rise ltd issues a 4-year, Sh.100, 000 bonds 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)

c, 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)

Question TWO

On January 1, 2015 Mombasa technologies ltd rents a machine to a merchant for 3 years. Both the cost and the selling price are ksh. 25,000. There will be three lease payments beginning January 1, 2015. The machine has a 3-year life with no salvage value. Lessor's target rate of return is 8% and Lessee is aware of this rate. There are no uncertainties regarding costs or collections.

(*a*) What type of lease is this? Why? (2marks)

(*b*) Compute the annual rental. (4marks)

(*c*) Prepare entries for both Lessor and Lessee for 2015 (7marks)

(*d*) Prepare an amortization table. (7marks)

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. (4 marks)

(ii) Calculate the ending value of the pension fund. (2marks)

(iii) Determine the amortization of the prior service costs. (3 marks)

(iv) Find the corridor amount. (3 marks)

(v) Determine the amortization of the unrecognized net pension loss. (4 marks)

(vi) Determine pension expense and prepare a journal entry. (4 marks)

Question FOUR

a) Distinguish between the following terms

i) Temporary and permanent differences (4marks)

ii) Deferred tax asset and deferred tax liability (4marks)

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% 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:

   i) Contingent liability (2 marks)

   ii) Committed lines of credit (2 marks)

   iii) Actuarial assumptions (2 marks)

   iv) Vested benefits (2 marks)

   v) Earnings per share (EPS) (2 marks)