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 (30 MARKS)

a) Briefly explain the criteria for a lease to qualify to be a capital lease (6marks)

b) Lessor rents a building to Lessee for 3 years starting on January 1, 2012. Both the cost and the selling price to Lessor are sh.250,000. There will be three lease payments beginning January 1, 2012. The building 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.

Required:

(*a*) What type of lease is this? Why? (3marks)
(*b*) Compute the annual rental. (4marks)
(*c*) Prepare entries for both Lessor and Lessee for 2012. (7marks)
(*d*) Prepare an amortization table. (6marks)

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

Question TWO (20MARKS)

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) 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)

Question THREE (20MARKS)

a) Wema Health suppliers of in –home health products, introduced a new therapeutic chair carrying a two year warranty against defects. During the month of December 2007, its first month of availability Wema sold Ksh.2million worth of chairs. Industry experience indicates the following probability distribution for the potential warranty costs.

Warranty cost	Probability
2008	
Ksh.	
50,000	20%
60,000	50%
70,000	30%
2009	
70,000	20%
80,000	50%
90,000	30%

An arrangement with a service firm requires that costs for the two-year warranty period be settled at the end of 2008 and 2009. The risk free rate is 5%.

Required

a) Applying the cashflow approach at the end of 2007, calculate the estimated warranty liability for both 2008 and 2009. (10marks)

b) With reference to IAS 19 (Retirement benefits costs), explain the following terms; (10marks)

i) Current service cost
ii) Experience adjustments
iii) Vested employee benefits
iv) Accrued benefit valuation methods
v) Past service cost

Question FOUR (20MARKS)

a), On January 1st, 2015, Diamond trust bank issued sh.8000, 000 of 11% bonds, dated January 1st. Interest is payable semiannually on June 30th and December 31. The bonds mature in four years. The market yield for bonds of similar risk and maturity is 10%.

Required

i) Determine the price of the bond and prepare a journal entry at issuance. (6marks)
ii) Prepare an amortization schedule. (10marks)
iii) Record interest on the first interest date. (4marks)

Question FIVE (20MARKS)

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)