



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: APRIL 2022

TIME: 2 HOURS

DATE: APRIL 2022

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.

QUESTION ONE

- a) Distinguish the following terms as used in accounting.
- i) Long-term liabilities versus short-term liabilities (2marks)
 - ii) Accrued liabilities versus unearned revenues (2marks)
 - iii) Finance lease and operating lease (2marks)
 - iv) Funded scheme and Unfunded scheme (2marks)
 - v) Committed and Non-committed lines of credit (2marks)
- b) A Sh.40,000 bond that pays interest of 6% semiannually is sold to yield the market rate of 8%. The life of the bond is 3 years.

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) Explain the accounting treatment given to contingent liabilities in different books of accounting as per IAS 37 (4marks)

Question TWO

- a) On January 1, 2019, 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. (3marks)
 (iii) Determine the amount to be capitalized by Lessee. (3marks)
- b) Distinguish between the following terms
- i) Committed and non committed lines of credit (4marks)
 ii) Contingent liabilities and estimated liabilities (4marks)

Question THREE

- a) Distinguish between the two types or categories of employment benefit plan. (4marks)
 b) Briefly explain the components of a company's annual pension expense. (10marks)
 c) 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 Separate amortization fraction for each year. (6marks)

Question FOUR

- a) Details of the issued and fully paid share capital of XYZ Limited as at 1.1.2016 are as follows:

80,000 7% Cumulative preference shares of sh.10 each	sh.800, 000
4200,000 ordinary shares of sh. 10 each	<u>42,000, 000</u>
	<u>42,800, 000</u>

On 1.8.2016 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 31.12.2016 ranked for dividends.

Required:

- i) Basic earnings per share (4marks)
- ii) Diluted earnings per share. (6marks))
- b) Briefly explain any five types of bonds. (10marks)

Question FIVE

- a) Explain the following terms
 - i) Accounts payable (2marks)
 - ii) Trade notes payable (2marks)
 - iii) Advance collections (2marks)
 - iv) Current service cost (2marks)
 - v) Vested benefits (2marks)
- b) Briefly state and explain the actuarial valuation assumptions that are used in pension schemes. (10marks)