



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC4202: INTERMEDIATE ACCOUNTING II

END OF SEMESTER EXAMINATION

SERIES: December 2024

TIME: 2 HOURS

DATE: Dec 2024

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 between a capital lease and an operating lease. (2marks)
- b) Highlight the salient features of a capital. (5marks)
- c) Explain the circumstances under which a bond is said to be sold at the following terms;
 - i) Par (1mark)
 - ii) Discount (1mark)
 - iii) Premium (1mark)

d) On January 1, 2020 ABC 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, 2020. 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.

- i) What type of lease is this? Why? (2marks)
- ii) Compute the annual rental. (4marks)
- iii) Prepare entries for both Lessor and Lessee for 2020 (7marks)
- iv) Prepare an amortization table. (7marks)

Question TWO

- a) Explain FIVE actuarial assumptions made by actuaries when valuing a defined benefit scheme. (10marks)
- b) Explain the following terms:
- i) Contingent liability (2marks)
 - ii) Lines of credit (2marks)
 - iii) Accrued expenses (2marks)
 - iv) Commercial paper (2marks)
 - v) Unearned revenues (2marks)

Question THREE

At the beginning of 2022, 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 2022, 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 2022, 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. (2marks)
- (ii) Calculate the ending value of the pension fund. (4marks)
- (iii) Determine the amortization of the prior service costs. (4marks)
- (iv) Find the corridor amount. (3marks)
- (v) Determine the amortization of the unrecognized net pension loss. (4marks)
- (vi) Determine pension expense and prepare a journal entry. (3marks)

Question FOUR

- a) Corporation X has Ksh.80, 000 of net income, 20,000 shares of common stock outstanding, and 1,000 shares of 7%, Ksh.100 par cumulative preferred stock, convertible into 4,000 shares of common stock.

Required:

Compute:

- i) Basic EPS (4marks)
 - ii) Diluted EPS (4marks)
- b) Briefly explain the importance of determining the earnings per share (EPS) of a company. (4marks)
- c) Briefly explain any FOUR temporary differences arising from deferred taxation. (8marks)

Question FIVE

a) Afya Bora Ltd introduced a new therapeutic chair carrying a two- year warranty against defects. During the month of December 2020, its first month of availability the company sold Ksh.4million worth of chairs. Industry experience indicates the following probability distribution for the potential warranty costs.

Warranty cost	2021	Probability
Ksh.		
100,000		20%
120,000		50%
140,000		30%
	2022	
140,000		20%
160,000		50%
180,000		30%

An arrangement with a service firm requires that costs for the two-year warranty period be settled at the end of 2021 and 2022. The risk-free rate is 5%.

Required:

Applying the cashflow approach at the end of 2020, calculate the estimated warranty liability for both 2021 and 2022. (10Marks)

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

- i) Current service cost (2marks)
- ii) Past service cost (2marks)
- iii) Experience adjustments (2marks)
- iv) Funded scheme (2marks)
- v) Unfunded scheme (2marks)