



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: AUGUST 2024

TIME: 2 HOURS

DATE: AUG.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) Briefly explain any five types of bonds. (10marks)
- b) Explain the accounting treatment given to contingent liabilities in different books of accounting as per IAS 37. (4 marks)
- c) ABC 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. (6 marks)
- ii) Prepare an amortization schedule for the bond. (10 marks)

Question TWO

- a) High-rise Ltd 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. (6 marks)

b) Briefly explain any four types of short term liabilities (8marks)

c) 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. 2016 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 (3marks)
- ii) Diluted earnings per share. (3marks)

Question THREE

a) Lessor rents a building to Lessee for 3 years starting on January 1, 2014. Both the cost and the selling price to Lessor are Ksh.25, 000. There will be three lease payments beginning January 1, 2014. 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.

- i) Compute the annual rental. (4 marks)
- ii) Prepare an amortization table. (10marks)

b) Explain any three characteristics of a Capital lease (6marks)

Question FOUR

a) Explain Four actuarial assumptions made by actuaries when valuing a defined benefit scheme. (4marks)

b) Distinguish between the following terms:

- i) Deferred tax asset (2marks)
- ii) Deferred tax liability (2marks)

c) 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)

Question FIVE

a) At the beginning of 2020, Company J had an unrecognized net pension gain of Ksh25,000. At that time its PBO was Ksh.200,000 and its pension fund balance was Ksh.210,000. The average remaining service life of its employees is 20 years.

Required:

- i) What is the corridor amount? (2marks)
 - ii) How much should the amortization be this year? (4marks)
 - iii) How much of the net gain is still unrecognized after this year's amortization? (4marks)
- b) Briefly explain the components of a company's annual pension expense. (10 marks)