TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BCOM/BBA

BAC4202: INTERMEDIATE ACCOUNTING TWO

SUPPLEMENTARY/SPECIAL EXAMINATION

SERIES: MARCH 2025

TIME: 2 HOURS

DATE: MARCH, 2025

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 the following classification of liabilities giving an example in each case.

   i) Contingent liabilities (2marks)

   ii) Current liabilities (2marks)

   iii) Non- current liabilities (2marks)

b) Briefly explain the treatment of loss contingencies as per IAS 37. (6marks)

c) 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. (14marks)

d) Distinguish between defined contribution plan and defined benefit plan (4marks)

Question TWO

a) On January 1, 2010, 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) Highlight the benefits of Leases. (8marks)

Question THREE

a) Distinguish between a defined contribution plan and a defined benefits plan. (4marks)

c) Briefly explain the components of a company's annual pension expense. (10marks)

d) 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) 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)

b) Distinguish between the following terms:

i) Temporary and permanent differences **(2 marks)**

ii) Callable and serial bonds **(2marks)**

iii) Convertible and term bonds **(2marks)**

iv) Deep discount and commodity bonds (2marks)

Question FIVE

a) Briefly state and explain the actuarial valuation assumptions that are used in pension schemes. (10marks)

b) 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	42,000, 000
	42,800, 000

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)