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 2025

TIME: 2 HOURS

DATE: APRIL, 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) Distinguish between Temporary and Permanent differences (2marks)

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

c) On 1 January 2009 Jasmine Ltd entered into an agreement to lease a machine that had an estimated life of four years. The lease period is also four years at which point the asset will be returned to the leasing company. Shrub is required to pay for all maintenance and insurance costs relating to the asset. Annual rentals of sh 25,000 are payable in advance from 1 January 2009. The machine is expected to have a nil residual value at the end of its life. The machine had a fair value of sh 80,000 at the inception of the lease. The lessor includes a finance cost of 10% per annum when calculating annual rentals.

Required:

i) Make journal entries in the books of Jasmine for the year ending 31 Dec 2009. (4 marks)

ii) Make a Profit and Loss account extract and a balance sheet extract as at 31 December 2009 (4 marks)

iii) Draft the amortisation schedule for the four years that the asset was existent in the books of Jasmine Ltd (10 marks)

QUESTION TWO

a) Briefly explain four characteristics of a finance lease. (8 marks)
b) Explain the terms accrued liabilities and unearned revenues. (2 marks)
c) Distinguish between
i) Operating lease and a finance lease. (4marks)
ii) Term and serial bonds (4marks)
d) Discuss contingencies and how they are reported on financial statements. (4marks)

QUESTION THREE

a) Watila ltd issues a 4-year, sh 100,000 bond with a contract rate of 8% payable semiannually (4%). The market rate is 10% payable semiannually (5%). The selling price is determined to be sh 93,552.

Required:

i) Record the transactions in the journal entry (6marks)
ii) Prepare an amortization schedule (14 marks)

QUESTION FOUR

a) State the conditions that must be met before a contingency can be charged against income. (2marks)
b) Explain the following terms:
   i) Permanent differences (2marks)
   ii) Temporary differences (2marks)
   iii) Current tax (2marks)
   iv) Deferred tax (2marks)
   v) Line of credit (2marks)
c) Briefly explain the following types of leases
   i) Finance lease (2marks)
   ii) Operating lease (2marks)

iii) Direct Financing Leases (2marks)

iv) Sales-Type Leases (2marks)

QUESTION FIVE

a) Kipindi ltd had net income of $110,000 in 2015 with 20,000 shares of common stock outstanding. There were also 1,000 shares of $100 par, 7% cumulative, convertible preferred stock outstanding as well. There shares can be converted into 2,000 shares of common stock.

Required:

i) Basic EPS (6 marks)

ii) Diluted EPS (6 marks)

iii) Indicate whether the following increase, decrease, or have no effect on retained earnings:

a) Declared cash dividend. (2 marks)

b) Declared stock dividend. (2 marks)

c) Recorded prior period adjustment (gain). (2 marks)

d) Revalued plant assets downward. (2 marks)