



# TECHNICAL UNIVERSITY OF MOMBASA

## *Faculty of Business & Social Studies*

### DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF BUSINESS ADMINISTRATION II  
BACHELOR OF COMMERCE II

## **BAC 4202 BAC 4227: INTERMEDIATE ACCOUNTING II**

END OF SEMESTER EXAMINATIONS

**SERIES:** AUGUST 2013

**TIME:** 2 HOURS

### **INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.  
***This paper consists of Three printed pages***
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### **QUESTION 1 (Compulsory)**

- a) ABC LTD made sales amounting to shss20m in the year 2012. The expense before Taxes amounted to shs. 12 million. During oheter year the company experienced an extra ordinary loss amounting to shs.3million when an earth quake destroyed the company's uninsured warehouse. The income tax rate is 30% and the loss is deductible for tax purpose.

Required: show the income statement extract to depict the intra period tax allocation.

- (8marks)**
- ii) Explain three objectives of financial reporting. **(6marks)**
- b) Pwani ltd issued 100,000 ordinary shares as the following terms.
- Application sh. 2.50
  - Allotment (including share premium of sh.1) sh.3.50
  - 1<sup>st</sup> call (I month after allotment) sh 3.50
  - 2<sup>nd</sup> and Final call (2 months after allotment) sh.2.00.

By 1<sup>st</sup> August 2012 Applications had been received for 200,000 shares. The directors relected applications for 80000 shares and refunded the monies on 15 August 2012 of the reminder the directors

allotted 5 shares for every 6 shares applied. Surplus application money were carried forward to allotment. Allotment took place on 20<sup>th</sup> August 2012 and the due amounts were received by 31<sup>st</sup> August 2005. The 1<sup>st</sup> & 2<sup>nd</sup> call were received by their due dates with the exception of those of 3000 shares which the directors declared forfeited on 20<sup>th</sup> November 2012 ,2000 of the forfeited share were re-issued as fully paid to another shareholder on 30<sup>th</sup> November 2012 for sh.9 per share.

**Required:** Write up the appropriate Journal a to record the above transaction and prepare the relevant ledger account with the exception of the cash account. **(16marks)**

## QUESTION 2

- a) What distinguishes current liabilities from long term liabilities? What is the purpose of reporting a liability item under either class. **(5marks)**
- b) Accounting to IAS 37, what is the meaning of the term ‘contingency’ and ‘contingent’ liability? **(5marks)**
- c) While auditing the financial statement of COAST) you found that the following contingencies have not been recorded in the accounting records:
  - I) In prior years the company had not accrued estimated claims for injuries to customers as a result of using the company’s products because such claims were covered by insurance. In the insurance. A reasonable estimate of outstanding claims at the end of the current year is sh.250,000.
  - II) A former employee has suey the company for sh. 500,00 because of dismissal on health grounds. Outside legal counsel does not think the suit has any merit but has suggested that the company pay the former employee an out of court settlement of sh.50,000 because the cost of defending the suit was estimated at sh.500,000, agreed and the former employee sign appropriate settlement papers.
  - III) A court has awarded sh.200,000 in damages to a client of COAST LTD in a case in which the client suffered brain damages as a result of using the company’s defective products. COAST LTD has appealed the decision to a higher court, which is expected to issue a decision for a year.
  - IV) The company for the first time sold on credit goods worth sh.300000 to a customer early in the year. The customer was declared bankrupt in the course of the year and the receiver manager appointed by the court has estimated that only 40% of liability may be behaviour when the pending claims are settled.
  - V) Management has requested your consent to record a provision for unspecified general business risks for sh.50000 by a debit to an expense account. **(10marks)**

Required: For each contingency described above, prepare a formal entry to record the contingency or briefly explain why an entry would not be made in accordance with generally accepted accounting principles.

## QUESTION 3

- a) The following selected transactions relate to liabilities of SHANGAI Electrical Co years ends on December 31.

2012

July: Received sh. 40000 refundable deposit from a major customer for mailing containers used to transport electrical equipments.

October 31: Required most of the mailing containers covered by the refundable deposit and a letter stating that the customer will retain containers represented. By sh. 2000 of the deposit and forfeits that amount. The cost of the forfeited containers was sh.1500.

Nov i: Borrowed sh. 7 million from city bank under line credit arrangement and issued a nine-month promissory Note. Interest rate of 12% was payable at maturity.

**Required.**

Prepare the appropriate journal entries to record these transactions. (6marks)

- b) Write short notes on the following primary qualities relating to presentation of financial statement.
- i) Understandability
  - ii) Comparability
  - iii) Reliability (6marks)
- c) XYZ LTD transferred some of its investments in marketable securities costing shs. 13.5m to shareholders by declaring a property dividend on 31.12.2012 to be distributed on Jan30 2013 to share holders on record on January 15.2013. On the date of declaration the securities had a market value of sh.30m.

Required: Journalise the above transactions. (8marks)

**QUESTION 4**

- a)i) 10year term bonus with a par value of sh.1m dated Jan 2013 bearing an annual interest rate of 10% payable semi-annually on January and July are sold on Jan as per the financial year ends on 31<sup>st</sup> Dec.

Required:

Journal entries to record the issue. (8marks)

- ii) On Nov 1<sup>st</sup> 2012 BC LTD collects sh.1m rent for the next 6months. Assuming that the company's financial year ends on 31<sup>st</sup> Dec make the financial entries to record receipt of cash and adjustment as at end of the year. (4marks)
- c) On 1<sup>st</sup> October 2012 xyz LTD signs a sh.2m one year non-interest bearing Notes but receives only sh 1.8m.  
Required.

- i) Determine effective interest rate. (4marks)
- ii) Write – up journal entries required on 1<sup>st</sup> October 2012 31.12.12 and 30<sup>th</sup> Sept 2013 using both the gross and net methods. (4marks)

**QUESTION 5**

a) Write short notes on the following qualitative characteristics of accounting information.

- i) Materiality
  - ii) Relevant
  - iii) Consistency
- (6marks)

b) XYZ LTD sold sh.40m of 10yrs Debenture bonds for sh.40.8m on Jan 2012 cost of issuing the bonds were sh.385000 the interest rate on the bonds was 10% paid semi-annually on Jan.1 and July 1.

Required.

- i) Issuance of the bond.
  - ii) Issue cost
  - iii) 1<sup>st</sup> semi- annual interest payment. (6marks)
- c) ABC LTD has through 10000 common shares outstanding throughout the year 2012. The net income after tax for the preferred dividend payable amounted sh.0.5m.

Required.

- i) Earning per share for the year 2012.
- ii) Show an income statement Extrans to disclose the E.P.S. (8marks)