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**University Examinations 2016/2017**

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

**BFC 3275: INTERMEDIATE ACCOUNTING II**

**DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Deka ltd issued a shs. 1,000,000 5 year bond with a stated with a stated interest rate of 10% on 1st January 2012. The market interest rate is 9% and interest is paid semi-annually on 1st July and 1st January each year. Deka ltd incurred bond issue costs of shs.20,000

Required:

1. Calculate the price of the bond (3marks)
2. Show the accounting entries for the issue of the bond and the payment of the first and second interest payment (6marks)

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1. Prepare a bond discount/premium amortization schedule for the bond using the effective interest rate method (10marks)
2. Describe how you would account and present the following transaction and events appearing in the books of Wamu Ltd at close of financial year.
3. A former employee has sued the company for wrongful dismissal and claims shs 3 million. The company legal advisor has given an opinion that the case is likely to go against the company and estimates that the company is likely pay shs. 2 million inclusive of legal costs. (3marks)
4. The company sells its goods through containers which it charges shs 200 per unit past experience shows that only 50% of the container deposit is claimed. The company has container deposit of shs. 400,000 for the current period. (4marks)
5. The company pays its employees’ salaries in arrears, shs 1,200,000 was in arrears on 31st December 2013 the year end. The salary components to be settled in the next period include net pay of shs.600,000 PAYEshs.200,000, NSSF 100,000 NHIF 200,000 (4marks)

**QUESTION TWO (20 MARKS)**

Air services ltd came into the possession of an air craft through a lease agreement for four years, from air craft leasing services (lessor). The aircraft was acquired on 1st January 2005 when the carrying amount of the asset was 6,840,000 in the books of aircraft leasing services. Air services incurred shs. 120,000 and aircraft leases services incurred shs. 132,000 in negotiation and subsequent securing the lease. The amount payable by air services is in four installments as follows:

Shs ,000

1st January 2005 4,200

31st December 2006 1,920

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31st December 2007 960

31st December 2008 540

31st December 2009 360

The cost of financing the lease is 12% for air services; depreciation of the asset is to be charged on a straight line method. The lessee air services has also given a guarantee of 5% of the cost of the asset to air craft leasing services at the end of the economic life of the leased asset

**Required:**

1. Determine the nature of the lease (4marks)
2. Prepare relevant journal entries in the books of the lessee (4marks)
3. Prepare a lease amortization schedule (4marks)
4. Explain the essential conditions for determining a finance lease (4marks)

**QUESTION THREE (20 MARKS)**

1. On May 1 Daba ltd, a consumer electronics firm, borrowed shs. 800,000 cash from Kenya national bank ltd, under a non-committed short-term line of credit arrangement and issued a 6-month, 12 % promissory note. Interest was payable at maturity.

Show the interest record the issue of note and payment of the principal amount and interest at maturity (4marks)

1. Health first a supplier of home health care products, introduced a new therapeutic chair carrying a 2-year warranty against defects. Estimates based on industry experience indicate warranty costs of 2% of sales during the first 12 months following the sale and 3% the next 12 months, totaling 9% that should be accrued in the year of sale. During the year 2013 its first year of availability health first sold shs. 5 million worth of the chairs

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**Required:**

Show the necessary accounting entries to recognize the warranty expenses and liability in the accounts of health first for the year ended 2013 (6marks)

1. Discuss four accounting concepts that underlie the preparation of financial statement

(4marks)

1. An asset which cost shs. 150, 000has a carrying amount of 100,000. Cumulative depreciation for tax purposes is 90,000 and the tax rate is 30%. Calculate the tax base of the asset, the differed tax asset or liability for the business (6marks)

**QUESTION FOUR (20 MARKS)**

Geru ltd. Contributes sh. 30 million annually to a pension scheme and treats the amount as being equivalent to annual service cost. On 1st January 2014 the actuarial valuation showed that the scheme had a surplus of sh. 170 million. The actuary recommended non-contribution to the scheme for three years then a resumption of annual contributions of sh. 20 million per annum for the following seven years before reverting to the standard annual contribution of sh.30 million. The average remaining service years of employees in the scheme on 1st January 2014 was ten years

**Required:**

For each of the remaining ten service years of the employees calculate the pension and pension liability or prepayment (10marks)

1. Describe the following terms (10marks)
2. Pension expense
3. Plan assets
4. Deferred tax liabilities
5. Share premium

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**QUESTION FIVE (20 MARKS)**

1. At the end of 2014 its first year of operation, the Aber limited reported shs.900,000 taxable income and shs. 760,000 pretax financial income as a result of a single temporary difference. Because of uncertain economic times, the company believes that only 80% of the deductible temporary difference will be realized. The tax rate for 2014 is 30% and no change has been enacted for future years.

Calculate the deferred tax asset/liability to be included in 2014 balance sheet (8marks)

1. Ntugi limited had a deferred tax a liability balance of sh. Million as at 1 July 2012. During the year ended 30 June 2013 , the following carrying amounts and tax bases were ascertained;

Carrying amount tax base

Shs. Shs.

Plant and equipment 300 200

Inventory 250 230

Receivables 300 320

Payables 400 420

Long-term debt 200 190

The relevant tax rate is 30 percent.

**Required:**

1. The deferred tax balance as at 30 June (8marks)
2. Distinguish between the following pairs of an asset (4marks)
3. Carrying value and tax base of an asset
4. Taxable income and pre-tax accounting income

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