



**KABARAK**

**UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2010/2011 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: ACCT 221**

**COURSE TITLE: INTERMEDIATE ACCOUNTING II**

**STREAM: Y2S2**

**DAY: WEDNESDAY**

**TIME: 2.00 – 4.00 P.M**

**DATE: 15/12/2010**

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**INSTRUCTIONS:**

1. Answer question **ONE** and any other **TWO** questions
2. Be neat and precise
3. Show all your workings

**PLEASE TURNOVER**

## QUESTION ONE

- (a) Identify and explain FIVE types of shortterm liabilities: (5 marks)
- (b) Using the information given below, indicate the effects on liabilities and shareholders equity. For no change, Indicate (0), for increase, (+) and for decrease (-):

	Assets	Liabilities	Equity
(i) Declaration of cash dividend			
(ii) Payment of cash dividend in (i)			
(iii) Retirement of bond Liability by issuance of stock.			
(iv) Issuance of a share for Land to be held as an investment.			

(5 marks)

- (c) The following trial balance of the Maxoil petroleum corporation at December 31<sup>st</sup>. 2009 has been adjusted, except that income tax expense has not been allocated.

### MAXOIL PETROLEUM CORPORATION TRIAL BALANCE DECEMBER 31<sup>ST</sup> 2009

	DR	CR
	Ksh '000'	Ksh '000'
Cash	675	
Accounts receivable (net)	1,695	
Inventory	2,185	
Property, plant and equipment (net)	8,660	
Accounts payable and accrued liabilities		1,895
Income tax payable		360
Deferred income tax		285
Common stock		2,300
Additional paid-in capital		3,675
Retained earnings 1/01/2009		3,350
Net sales, Regular		10,750
Cost of sales, Regular	5,920	
Cost of sales, plastics Division	1,650	
Net sales, plastics Division		2,200
Selling & Administrative expenses, plastic Division	2,600	
Selling & administrative expenses, plastic Division	660	
Interest Income, Regular		.65
Gain on litigation settlement		200
Depreciation adjustment from accounting change, regular	350	
Gain on disposal of plastic Division		150
Income tax expense (before intro period allocation)	835	
	25,230	25,230

Other Financial data for the year ended December 31,2009.

	Ksh
1. Estimated tax payment	475,000
Accrued tax	<u>360,000</u>
Total charged to income expense	<u>835,000</u>

The Ksh.835,000 does not reflect intra period Income tax allocation as is required for financial statement purposes.

2. Income tax expenses: Tax rate on all types of income, 40 percent. The gain from litigation settlement is a taxable gain and is considered unusual and Infrequent.
3. Discontinued operations: on October 31,2009 Maxoi1 sold its plastics Division for Ksh.2,950,000, when the carrying amount was ksh.2,800,000. For financial statement reporting, this sales was considered a disposal of a segment of a business, with measurement and disposal days as 31,October,2009.
4. Change in the depreciation method: on January 1, 2009, Maxoil changed to the 150 percent reducing balance method from the straight line method of depreciation for certain of its plant assets. The prefax cumulative effects of this accounting change was determined to be a change of Ksh.350,000. There was no change in depreciation method for income tax purposes.
5. Capital structure: Common stock, Ksh.10 per, traded on a natural exchange:

	Shares:
Outstanding at 1/1/2009	200,000
Issued on 7/1/2009	<u>30,000</u>
	<u>230,000</u>

Required:

Using the multiple-step format, prepare on Income statement for Maxoil for the year ended

December 31,2009; showing all components of Income tax expenses. (15 marks)

(a) State and explain two criteria for identifying a capital lease for the lessee (5 marks)

## QUESTION TWO

(a) Thorndike company paid January 2010 salaries of sh.20,000 and the NSSF payable by the Employees was sh. 8,000,000 The employers NSSF contribution for the same month amounted to sh.12,500,000

Required

(a) Journal entries to record:

(i) Salaries and employees deductions (4 marks)

(ii) Payroll taxes payable by the employer. (2 marks)

(iii) Remittance of payroll taxes. (4 marks)

(b) On November 2008, Goodhope Agency collected rent of Ksh.600,000 for the next six months. The Accounting period for the Agency ends on December 31<sup>st</sup> every year.

Required:

(i) Show the necessary entries required for the advance collection (6 marks)

(ii) Show the balance sheet extract for the current liability. (4 marks)

## QUESTION THREE

The case below describes a matter a company has to decide whether to be accounted for as

Liability, provision or contingent liability in accordance with IAS 37.(Provisions, contingent liabilities and contingent assets). The enterprises has 31 December as the year end; It is assumed by the management that a reliable estimate can be made

Out of any outflows expected:

(a) An enterprise operates an offshore oil field where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. 90 percent of the eventual

costs relate to the removal of the oil rig and restoration of damage caused by building it, and 10% a rise through extraction of oil. As the balance sheet days, the rig has been constructed but no oil has been extracted. (10 marks)

(b) On January 1, 2006 Gate crush Company issued sh.100,000 of percent bond changed January 1, 2006, which pays interest each December 31. The bond matures on December 31, 2010. Assuming market and stated rate is 7 percent.

(i) Compute Net proceeds of the bond. (3 marks)

(ii) Journal entries as at 1 Jan 2006 and 31<sup>st</sup> Dec 2006 (4 marks)

(iii) Journal entry as at 31<sup>st</sup> December 2010. (3 marks)

#### QUESTION FOUR

(a) In 2010, Wine Agency ltd. Discovered that certain products that had been sold during 2009 were incorrectly included in Inventory at 31<sup>st</sup> December at ksh. 13,000. Wine's accounting records for 2010 shows sales of 208,000, cost of sales ksh.173,000 including ksh.13,000 for error in opening Inventory, and Income taxes of Ksh.10,500.

Wine's 2009 Report were as follows:

Sales	ksh. 147,000
Cost of sales	ksh 100,000
Profit from ordinary Activities before tax.	47,000
Income taxes	(14100)
Net profit	<u>32,900</u>

2009 opening retained earnings was ksh.40,000 and closing retained earnings was ksh.60,000.

Wines Agency's Income tax rate was 30% for 2010 and 2009.

#### Required:

(i) Incorrect Income statement for 2010 (4 marks)

(ii) Corrected Income statement for 2010 and 2009 (4 marks)

(iii) Statement of Retained earnings for 2010 and 2009 (4 marks)

- (iv) Journal entries to correct the Fundamental error as at 31<sup>st</sup> December 2010. (4 1/2 marks)
- (b) Maritime company had 50,000 ordinary shares outstanding throughout 2009; net Income for the year was sh.600,000 and dividends applicable to preference shares, sh.80,000. Calculate the EPS for 2009, and show how you would report it on the Income statement. (4 marks)