CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATIONS FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 212: INTERMEDIATE ACCOUNTING II

STREAMS: BCOM Y2S2 **TIME: 2 HOURS**

DAY/DATE: MONDAY 22/4/2013 **2.30 PM – 4.30 PM**

INSTRUCTIONS:

Attempt Question ONE and any other TWO questions

QUESTION ONE

(a) Briefly explain the five main components of a set of published financial statements. [2 Marks]

(b) In recent years, many companies have changed their accounting principles. What are the major reasons why companies change accounting methods? [4 Marks]

(c) Distinguish between a current liability and a contingent liability. Give an example for each type. [4 Marks]

(d) The following trial balance relates to Bahati limited as at 31 March 2013:

	Sh ‘000’	Sh ‘000’
Revenue		213 800
Cost of sales	143 800	
Closing inventory	10 500	
Distribution costs	10 000	
Administrative expense	12 400	
Rental income from investment property		1 200
Finance cost	5 000	
Land and building-valuation	63 000	
Plant and equipment-cost	36 000	
Investment-cost	16 000	
Accumulated depreciation-plant and equipment		16 800
Trade receivables	21 500	
Bank balance		900
Trade payables		11800
Ordinary Share capital(Sh.25 each)		20 000
10%redeemable preference shares(Sh.100 each)		10 000
Deferred tax		5 200
Revaluation reserve		21 000
Retained earnings as at 1 April 2012		17 500
	318 200	318 200
	======	======

Additional information:

1. The land and buildings were revalued at Sh.15 Million and Sh.48 million respectively on 1 April 2012 creating the reserve of Sh.21 million. On this date, the buildings had a remaining life of 15 years. Depreciation is provided on straight line basis, plant is depreciated at 12.5% reducing balance all. Depreciation is a cost of sales expense.

2. On 31 March 2013, a qualified surveyor valued the investment property at Shs.13.5 million. The company uses the fair valuation model for its investment property.

3. Finance costs include overdraft charges and full year’s preference dividend and ordinary dividend of Sh.4 per share that was paid in September 1012.

4. Income tax for the year to 31 March 2013 has been estimated at Sh.8million. The deferred tax should be based on taxable temporary differences of Sh.12 million at a rate of 30%.

Required:

Prepare the following statements for publication.

(i) A statement of comprehensive income for the year ended 31 March 2013.

[12 Marks]

(ii) A statement of financial position as at 31 March 2013 [8 Marks]

QUESTION TWO

(a) IAS 8 ("Accounting policies, Changes in Accounting Estimates and Errors") provides the guidelines for reporting accounting changes in financial statements.

Required:

Briefly explain the following types of accounting changes and also how each of the changes is reported in the financial statements.

(i) Change in accounting principle. [2 Marks]

(ii) Change in accounting estimate. [2 Marks]

(iii) Change in reporting entity. [2 Marks]

(b) Karibu limited acquired the following assets in January of 2009.

Equipment, estimated service life, 5 years; salvage value, Sh.15 000	Sh. 465 000
Building, estimated service life, 30 years; no salvage value	Sh. 780 000

The equipment has been depreciated using the sum-of-the-years' digits method for the first 3 years for financial reporting purposes. In 2012, the company decided to change the method of computing depreciation to the straight-line method for the equipment, but no changes was made in the estimated service life or salvage value. It was also decided to change the total estimated service life of the building from 30 years to 40 years, with no change in the estimated salvage value. The building is depreciated on the straight-line method.

Required:

(i) Prepare the journal entry to record depreciation expense for the equipment in 2012. [2 Marks]

(ii) Prepare the journal entry to record depreciation expense for the building in 2012. [2 Marks]

(c) Meza Limited purchased an equipment for Sh.4 million I January 2009. Depreciation is provided on a straight line basis at the rate of 25% per annum.
During the four years from 1 January 2009 to 32 December 2012 the profit after tax and allowed wear and tear charges for tax purpose were as follows:

Period	Profit after tax	Allowable wear and tear charges
1 Jan 2009 – 31 Dec 2009	800, 000	40% on cost
1 Jan 2010 – 31 Dec 2010	900, 000	30% on cost
1 Jan 2011 – 31 Dec 2011	950, 000	20% on cost
1 Jan 2012 – 31 Dec 2012	850, 000	10% on cost

Corporation tax rate is 30%

Required:

(i) Taxable profits [2 Marks]

(ii) Temporary differences [4 Marks]

(iii) Deferred tax account. [4 Marks]

QUESTION THREE

(a) The following transactions relate to the year ending 31st December 2012

(i) Sport Pro Magazine sold 12, 000 annual subscriptions on August 1, 2012, for Sh.1,800 each. Prepare Sport Pro's August 1, 2012, journal entry and the December 31, 2012, annual adjustment entry. [3 Marks]

(ii) SGL Ltd had consumed electricity worth Ksh.50, 000 by the end of the year 31st December but the bill had neither been received nor paid for. Pass the entries in the company's account on 31st December 2012 [2 Marks]

(iii) A company purchased goods worth Ksh. 10 million from a supplier on 1st November and negotiated for 60 days credit terms. The supplier offered to give the company 2% discount if the company pays within 30 days. The company paid half the amount on 30th November and the rest in December 2012. [3 Marks]

(b) Bright ltd disclosed the following capital and reserves in its published financial statements at 31 December 2011:

Ordinary share capital	Share premium	Revaluation Reserve	Retained earnings
Sh '000'	Sh '000'	Sh '000'	Sh '000'
9,00	440	720	817

During 2012 the following occurred:

1. Bright Ltd issued 100 000 additional Sh. 1.00 ordinary shares at Sh. 1.65 each, fully paid and 200 000 8% Sh. 1 preference shares at Sh.1.20 each fully paid.
2. Bright Ltd revalued its freehold properties from a previous valuation of Sh. 1 million to Sh. 1.2 million.

3. Bright Ltd made a 5 for 1 bonus issue of shares on its existing Sh.1 million (including the additional shares in 1 above) ordinary shares of Sh, 1.00 each. These new shares ranked for dividends declared for 2012.

4. Bright Ltd made profits after tax of Sh.308 000. Final dividends proposed for the year were 20 cents per ordinary share together with a full year's dividend on the new preference shares. There were no interim dividends.

Required:

Prepare a statement of changes in equity to be included in the published accounts for the year ended 31 December 2012. [12 Marks]

QUESTION FOUR

(a) PC world limited sell computers with a two year warrant. In 2010, the company sold 2000 units at Sh. 30 000. Warrant cost is estimated at Sh 200 per unit. The actual warrant cost incurred was Sh. 150,000 and Sh. 250,000 for 1st and 2rd year of warrants respectively.

Required:

Pass the necessary journal entries to record the above transactions. [8 Marks]

(b) Distinguish between Convertible and Callable Bonds [2 Marks]

(c) Karibu Limited issued a 20%, 2 year Sh.800 000 Bond on 1st January2010. Interest is paid semi annually and the effective interest rate was 18%.

Required:

Using the effective interest method, show the journal entries to recognize interest expense. [10 Marks]
