



THE MOMBASA POLYTECHNIC UNIVERSITY COLLEGE

Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

BACHELOR OF BUSINESS ADMINISTRATION

HBC 2113: INTERMEDIATE ACCOUNTING II

END OF SEMESTER EXAMS

SERIES: APRIL/MAY 2010.

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

1. The paper consists of **FIVE** questions.
 2. Answer Question **1** and any other **TWO** questions.
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Q.1 (a) KenGen Ltd. issued bonds with a par value of sh.600m on January 2010. The bonds mature after 10 years on 31 December 2019. They carry an interest at 6% p.a payable semi-annually on June 30, and December 31 Bonds of similar risk and maturity yield interest of 8% p.a.

Required:

- (i) Determine the price of the bonds as at January, 2010. (6 marks)
- (ii) Prepare the necessary journal entries to record the issuance of the bonds and the payment of interest in the year 2010. (8 marks)
- (iii) Show the amount to be shown in the balance sheet for each of the years 2010, 2011 and 2012 using the effective interest rate method. (10 marks)

(b) Explain any **THREE** features of a finance lease. (6 marks)

Q.2 (a) On March 1, 2009 Kwatate Technologies Ltd. borrowed sh.8 millions cash to fund a geological survey repayable after 6 month at an interest rate of 12% per annum.

Required:

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

(b) Kabanda Health, a supplier of healthcare products, introduced a new therapeutic chair carrying a two year warranty against defects. During December 2007, its first month of availability, Kabanda Health sold sh.20,000,000 of the chairs industry experience indicates the following probability distribution for the potential warranty costs.

Warranty costs	Probability
2008	
Sh.50,000	20%
Sh.60,000	50%
Sh.70,000	30%
2009	
Sh.70,000	20%
Sh.80,000	50%
Sh.90,000	30%

Risk free rate of interest is 5%

Required:

Determine the warranty liability of 31 December 2007 and show journal entries. (14 marks)

Q.3 A company entered into a 3 year non-cancellable lease of equipment on December 31 2000. The lease required rental payment of K£43000 on 31 December 2000, 2001 and 2002. The carrying value of the equipment is K£100,000 and has an estimated useful life of 4 years.

Required:

- (a) Determine the interest rate implicit in the lease. (4 marks)
- (b) Prepare the amortization schedule over the lease period. (14 marks)
- (c) Prepare the balance sheet extracts at the end of year 2000. (2 marks)

Q.4 A company acquired a fixed asset on 1st January 2000 at a cost of K£80,000. The company's depreciation policy is to depreciate the asset over 10 years on straight line basis with no residual value. The profit after depreciation is K£100,000 in each of the years 2001 to 2005. Corporation tax rate is 30% and capital allowances are 25% on the written down basis. No first year allowances are available.

Required:

- (i) Determine the corporation tax for each of the years. (8 marks)
- (ii) Determine deferred tax for each of the years. (8 marks)
- (iii) Show the balance sheet entries. (4 marks)

- Q.5 (a) With reference to deferred taxation, explain the term timing differences. (10 marks)
- (b) Explain **FIVE** actuarial assumptions made by actuaries when valuing a defined benefit scheme. (10 marks)