

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

# **UNIVERSITY EXAMINATIONS 2014/2015**

**THIRD YEAR FIRST SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2116 : INTERMEDIATE ACCOUNTING 11**

**DATE: AUGUST 2014 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**MARKS SHALL BE AWARDED FOR CLEARLY SHOWN WORKINGS**

===========================================================

**QUESTION ONE**

Bubu manufacturers has only one piece of property, plant and equipment with a

cost of shs. 1 500 000 and an estimated life of 10 years with shs. 200 000 residual

value. The company uses straight line method to account for depreciation . The

equipment is in a class whose wear and tear allowance is 20% . The firm has not

income before depreciation and tax of shs. 700 000 , shs. 650 000, shs. 600 000,

shs. 450 000 and shs. 550 000 for years one to five respectively. The tax rate for

the 1st two years was 40% and the last 3 years 35%.

Required:

1. Financial account’s tax liability and tax assessors tax liability for the five year. [10 marks]
2. Deferred tax account to account for the differences in tax liability calculated above. [10 marks]
3. The journal entries to account for the above tax liabilities. [10 marks]

**QUESTION TWO**

The issued share capital of Toto ltd as at 31-12-2010 comprised of 40 000 ordinary

shares of shs. 10 and 8 000 7% preference shares of shs. 10@. It also had

retained profits amounting to shs. 600 000. During the year ended 31-12-2011, the

company floated a further 15 000 ordinary shares of shs. 10@ at shs. 15. The

shares were to be paid for as follows

shs.

Application 4.00

Allotment 6.00 (including premiums)

1St call 5.00

Applications were received for 25 000 shares and the management decided to

return application monies for 5 000 shares and the remaining were allotted prorata.

The excess monies were transferred to allotment account as advanced receipts.

All payment was dully made by the shareholders.

**Required:**

* Bank account [4 marks]
* Application account [2 marks]
* Allotment account [2 marks]
* Share capital account [4 marks]
* 1st call account [2 marks]
* The liability side of the balance sheet for the company as at 31-12-2011. [4 marks]

**QUESTION THREE**

On 1st April 2009, TUM Ltd entered into a lease agreement for a machine whose

estimated economic life was 4 years. the lease period was also four years after

which the machine was to be returned to the leasing company. The machine was

expected to have a zero residual value at the end of the lease. The machine had a

fair value of 280 000 at the inception of the lease. The implied interest rate was

10% and the lease payments were to be made in advance semi-annually.

Required:

1. Calculate the amount of each installment [5 marks]
2. Amortization schedule to account for the incurred interest [10 marks]
3. Calculate the amount of incurred interest at eh inception of the lease. [5 marks]

**QUESTION FOUR**

HBC 2116 Ltd borrowed 1 200 000 at an interest rate of 20% . The loan was to be

paid in 12 quarterly installments.

Required:

1. Quarterly interests for the first five quarter using reducing installment method. [10 marks]
2. Loan repayment schedule using a fix installment method [10 marks]

**QUESTION FIVE**

1. Tumbo Ltd produces and sells product “Tum.” both locally and internationally at shs. 200 per unit. During the year ended 31-12-2012, the company sold 10 000 units. The past records show that 5% of units sold are refund to be defective and returned under warranty and the company spends shs. 50 to repair them. The warranty period is three years. Assume that 25% of the affected units were returned in year, 30% in year two and 40% in year three.

Required:

Journal entries to record the warranty and liabilities using

1. Cash accounting [5 marks]
2. Accrual accounting [5 marks]
3. Briefly explain any 5 reasons why debt capital may be preferred over equity. [10 marks]