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**University Examinations 2014/2015**

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3275: INTERMEDIATE ACCOUNTING II**

**DATE: AUGUST 2015 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Tanga limited issued shs.5,000,000 of 10% term bonds on January 1, 2005 due on January 1, 2010, with interest payable each July 1 and January 1. Investors require an effective-interest rate of 11%

**Required:**

1. Calculate the bond proceeds (6 Marks)
2. Show the necessary journal entries to record the initial transaction and interest for the first semi-annual payment (4 Marks)
3. Tanga Ltd retires these bonds at shs.5,150,000 at end of eighth interest payment period after paying the semiannual interest

Required:

1. Calculate the carrying value of the bond at redemption date (4 Marks)
2. Show the necessary entries to record the redemption of the bond at the end of the eighth interest payment period (6 Marks)
3. Describe how you would account and present the following transaction and events appearing in the books of Wamu Ltd at close of financial year
4. 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 to pay shs.2 million inclusive of legal costs (3 Marks)
5. 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 (3 Marks)
6. 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, PAYE shs.200,000, NSSF shs.100,000, NHIF shs.200,000 (4 Marks)

**QUESTION TWO (20 MARKS)**

The following information was extracted from the books of Edu Ltd for the year ended 31st March 2013

Shs.’000’ Shs.’000’

Stock 1.4.2012 1,500

Land and buildings 36,000

Plant and machinery 44,000

Furniture and equipment 33,000

Motor vehicles 40,000

Purchases 60,000

Sales 174,000

Debtors 35,500

Creditors 6,000

Rental income 6,000

General reserves 4,000

Bank 45,000

Cash 22,000

4,000,000 ordinary shares@20 80,000

10%, 4,000,000 preference

shares @20 80,000

10% 5 year bonds 10,000

Retained earnings 4,000

Admin expenses 25,000

Sales and marketing

expenses 22,000

364,000 364,000

Other information

1. Stock as at 31/03/2013 shs.1,600,000
2. Depreciation of shs.3,000,000 is to be provided on fixed assets.
3. Included is sales is VAT at 16% which has not been adjusted in the books of accounts.
4. The five year bonds were issued on 1st October 2012 at par, interest payable semi-annually. On 31st March 2013 interest for the first semiannual period had not been paid.
5. Corporate tax rate is 30%.
6. On 31st March 2013, it was probable a case in court for injuries to a third party by the company vehicle would go against the company and this could cost shs.550,000
7. Warranty claims against the company products amounting to shs.450,000 had not been paid nor adjusted in the books of the company by 31st March 2013
8. On 31st March 2013 the board of directors proposed the following:

* 10% dividends on ordinary shares
* Preference dividend to be paid
* Shs.2,000,000 to be transferred to the general reserve account of the company

**Required:**

1. Show the company’s amount of current liabilities for the year ended 31st March 2013 (5 Marks)
2. Prepare the company’s income statement (trading profit and loss) for the year ended 31st March 2013 (10 Marks)
3. Prepare a statement of financial profit position (balance sheet) for the year ended 31st March 2013 (10 Marks)

**QUESTION THREE (20 MARKS)**

1. On May 1, Aba Ltd, a consumer electronics firm, borrowed shs.700,000 cash from First 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 entries to record the issue of note payment of interest at maturity (4 Marks)
2. Healthfirst, 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, its first year of availability Health first sold shs.5 million worth of the chairs.

**Required:**

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

1. (i) Discuss four accounting concepts and conventions that underlie the preparation of financial statement (4 Marks)

(ii) Distinguish the following terms:

1. Current liabilities and non-current liabilities
2. Current service cost and past service cost, the service cost is the Projected Benefit Obligation attributable to employee service in the current year and is the primary component of pension expense

Past service cost is the term used to describe the change in a defined benefit obligation for employee service in prior periods, arising as a result of changes to plan arrangements in the current period (i.e. plan amendments introducing or changing benefits payable, or curtailments which significantly reduce the number of covered employees)

1. Estimated liabilities and definite liabilities (6 Marks)

**QUESTION FOUR (20 MARKS)**

On January 1, 2013, Saba Ltd, leased a copier from Nane Ltd. Nane Ltd had purchased the equipment form Compuera Ltd at a cost of shs.718,619. The lease agreement specifies annual payments beginning January 1, 2013, the inception of the lease, and at each December 31 through 2018. The six-year lease term is equal to the estimated useful life of the copier. The interest rate is 10%.

**Required:**

1. Show the necessary accounting entries to recognize the lease at inception by Saba Ltd, and payment of the first two installment, depreciation amount and the finance charge (8 Marks)
2. Prepare a lease amortization schedule (8 Marks)
3. Explain the essential conditions for determining a capital/finance lease (4 Marks)

**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 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 (7 Marks)
2. Mewa Ltd provides lumpsum benefit payment on termination of services at the rate of 2% of final salary for each of the years of service. An employee current salary is 120,000 expected to grow at the rate of 6% p.a. compounded. The appropriate discount rate is 12% p.a. the employee is expected to leave employment at the end of year 5.

**Required:**

Show the amount of current service cost, interest cost and retirement obligation for each of the years 1-5 (7 Marks)

1. In relation to accounting for pension liabilities distinguish the following term:
2. Past service cost and current service cost
3. Accumulated benefit obligation and vested benefit obligation (6 Mark)