

BFC 3275: INTRREDIATE ACCOUNTING 2

READING ASSIGNMENT

Answer all Questions

Submit by 30th May 2021

Question One

(a) Define and clearly explain the accounting treatment of the following:

- (i) Secured bonds (1 Mark)
- (ii) Convertible Bonds (1 Mark)
- (iii) Redeemable Bonds (1 Mark)
- (iv) Callable Bonds (1 Mark)

(b) In the year ended 31.12.2019, KPLC, Embu Office made shs. 500 million from sales of electricity to Embu County customers. Included in the sales account was:

20% collection on account of power generating companies

12% collection on account of value added tax (KRA).

- (i) Determine the sales account in KPLC – Embu books of account. (2 Marks)
- (ii) Determine the amount payable to each of the KPLC Embu office third parties as at 31.12.2019. (2 Marks)
- (iii) Record the above transactions in the books of KPLC – Embu. (2 Marks)

Question Two

Maxwell Ltd acquired a truck under a lease agreement dated 2.1.2014 whose details are as follows:

1. The lease has a term of 6 years and is non-cancellable.
2. At the commencement of the lease, the fair market value of the truck is sh. 3,000,000 and it has no residual value after its useful life.
3. Maxwell Ltd has to insure the truck at an annual cost of sh. 15,000 payable together with the lease rental.
4. The discount rate for Maxwell Ltd and the Lessor is 8%.

Required:

- (i) Prepare the journal entry to record the lease in the books of the lessee. (2 Marks)
- (ii) Prepare the journal entry to record the first lease payment. (2 Marks)
- (iii) Compute and show the lease amortization schedule in books of accounts Mwende Ltd. (6 Marks)

Question Three

Delta Ltd was formed on 2.1.2018 with authorized share capital of 500,000 ordinary shares of sh.10 each par value and 8% preference share capital of 250,000 preference shares of sh.1- each par value. On 2.1.2018, 450,000 ordinary shares were issued for public subscription, together with 250,000, 8% preference share. Ordinary shares were issued for sh.12 each and preference shares were issued for sh 10 each. All money from issues were fully received through the company's bank account. The company traded during the year ending on 31.12.208 and the results were as follows:

	Sh.
Stock	2,400,000
Premises	5,200,000
Trade Creditors	1,950,000
Trade Debtors	1,500,000
Motor Vehicles	4,000,000
Cash	69,000
Provision for doubtful debts	75,000
Equipments	2,700,000
Ordinary Share Capital	4,500,000
Share Premium	1,100,000
Preferences share capital	2,500,000
Provision for depreciation:	
On motor vehicles	1,000,000
Equipment	360,000
Prepayments	700,000
Accruals	680,000
10% bonds, 5 year, interest payable annually	2,000,000
Bank Overdraft	290,000
Net profit	2,114,000

For the year ended 31.12.11 results, directors have agreed that:

1. Shs. 530,000 be assessed as the corporate tax due to KRA for the year.
2. Ordinary dividends be paid at 10% on ordinary share capital.
3. 8% preference dividends be paid
4. Sh. 200,000 be transferred to the general reserves.
5. Ordinary shareholders be given stock dividends one stock dividend for every 10 ordinary shares held.
6. Preference shareholders be given participating dividends of sh.0.50 (50cts) for every preference share held.

Required:

Prepare for Delta Ltd:

- (a) Journal entries to record the share or profit appropriations for the year ended 31.12.2018
(4 Marks)
- (b) Profit appropriation account for the year ended 31.12.2018 (3 Marks)
- (c) Balance sheet as at 31.12.2018 (4 Marks)