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**University Examinations 2015/2016**

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

**BFC 3275: INTERMEDIATE ACCOUNTING II**

**DATE: AUGUST, 2016 TIME: HOURS**

**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 redemption of the bond at the end of the eighth interest payment period. (6 Marks)
3. Distinguish between the following pairs of terms. (10 Marks)
4. Current tax liability and deferred tax liability
5. Tax Base of an asset and carry value of an asset
6. Projected benefit obligation and plan assets
7. Registered bond and bearer bond
8. Stated interest rate and effective interest rate

**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

4000,000 ordinary share @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 31.3.2013 shs. 1,600,000
2. Depreciation of shs. 3,000,000 is to be provided on fixed assets
3. Included in 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 3. 2013 interest for the first semi annual period had not been paid.
5. Corporate tax rate is 30%
6. On 31.3. 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 31.3.2013.
8. On 31st 3. 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 31.3.2013(5 Marks)
2. Prepare the company’s income statement (trading profit and loss) for the year ended 31st 3. 2013. (9 Marks)
3. Prepare a statement of financial position (balance sheet) for the year ended 31.3.2013

(6 marks)

**QUESTION THREE (20 MARKS)**

1. In 2010, Kago Ltd. commenced manufacturing and selling electronic decoders with a two year warranty. Industry experience indicates that 20% of all decoders sold will need repairs in the first year and 10% will need repairs in the second year. The average repair cost is shs. 100 per unit. The number of units sold in 2010 and 2011 was 40,000 and 50,000 respectively. Actual repair costs were shs. 200,000 in 2010 and shs. 300,000 in 2011 assume all repair costs involved cash expenditure.

Show the necessary accounting entries to recognize warranty expenses and warranty liability in the period 2010 and 2012 the above transations showing the balance sheet extracts for the years 2009 and 2010. (8 Marks)

1. The following information relates to Imenti investment co.ltd, defined benefit pension plan for the year 2012;
2. Service costs shs. 640,000
3. Actual and expected return shs. 140,000
4. Unexpected loss on plan assets related to year 2012 disposal of an asset shs. 160,000
5. Amortizaton of past service cost shs. 20,000
6. Annual interest on pension obligation shs. 200,000

**Required:**

1. What amount should Imenti Co. ltd report as pension expense in its 2012 income statement? (5 Marks)
2. Show the journal entry to record the pension expense. (2 Marks)
3. Describe the components of pension expense. (5 Marks)

**QUESTION FOUR (20 MARKS)**

On January 1, 2013, Saba Ltd. leased a copier from Nane Ltd had purchased the equipment from 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 charges.

(8 Marks)

1. Prepare a lease amortization schedule. (8 Marks)
2. Explain the essential conditions for determining a capital/finance lease. (4 Marks)

**QUESTION FIVE (20 MARKS)**

1. Bright Ltd disclosed the following reserves in its published financial statements at 31 December 2011:

Share Premium Revaluation Reserve Retained earnings

Sh’000 Sh’000 Sh’000

440 720 817

During 2012 the following occurred:

1. Bright Ltd issued 100,000 additional 10 cents ordinary shares at 65 cents 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.1m to sh.1.2m.
3. Bright Ltd made a 5 for 1 bonus issue of shares on its existing 1 million (including the additional shares in 1 above) ordinary shares of 10 cents 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 their published accounts for the year ended 31 December, 2012. (12 Marks)

1. Angela an employee of Rafiki Industries Ltd. is expected to retire in 2025 after 40 years in service. Her retirement period is expected to be 20 years.At the end of 1995, 10 years after being hired her salary is shs. 100,000, the interest rate is 6%. The company actuary projects Angela’s salary to be shs. 400,000. The company has a defined benefit pension plan that specifies annual retirement benefits equal to:

1.5 x service years x final year’s salary

1. What is Rafiki Industries Ltd Projected Benefit Obligation with respect to Angela? (6 Marks)
2. In relation to accounting for pension liabilities distinguish the following terms prior service cost and current service cost. (2 Marks)