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**University Examinations 2015/2016**

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE

OF

 BACHELOR OF COMMERCE

**BFC 3275: INTERMEDIATE ACCOUNTING II**

**DATE: APRIL 2016 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. What is a liability and how are liabilities classified and presented in the statement of financial position (6 marks)
2. The shareholders equity of Matata Ltd as at 31.12.2012 was as follows:

|  |  |
| --- | --- |
| 50,000 ordinary share of Shs. 20 authorized  | 400,000 |
| Issued and paid 20,000 shares @20  |  |
| Share premium  | 700,000 |
| Retained earnings  |  |
| Shareholders’ equity  |  |

Transactions affecting shareholders equity during 2012 are as follows:

1. March 31st A 3 for 2 stock split proposed by the board was approved by share holders

vote. The 10,000 new shares were distributed to shareholders.

1. April 1st The company purchased 3000 shares of its ordinary shares on the open

market at Shs. 40 per share.

1. July 1st The company reissued 2000 shares of treasury stock at 50/= the company

Issued for cash 20,000 shares previously unissued shs. 13.30/= par value at a price of shs. 49/=

1. Dec 1st A cash dividend of shs. 1 per share was declared payable on 30th Dec. to

ordinary shareholders on record in Dec 15th.

1. Dec 23rd A 10% stock dividend was declared, the dividend shares are to be

distributed on Jan 15 of the following year. The market price of the shares on Dec. 22nd was Sh. 50/=

1. The net income the year ended 31st December 2012 amounted to shs. 180,000 after

extra-ordinary loss of shs. 50,000

**Required:**

1. Prepare journal entries to record the transactions affecting shareholders equity account during the year. (10 marks)
2. Prepare an income statement for year 2012 and indicate the Earnings per share (EPS)

(4 marks)

1. Prepare a statement of retained earnings for the year ending 31str Dec. 2012. (4 marks)
2. Explain the following terms (6 marks)
3. Estimated liabilities and definite liabilities.
4. Preference shares and equity shares.
5. Premium and discount on bond payable

**QUESTION TWO (20 MARKS)**

1. Explain and distinguish the following accounting terms (10 marks)
2. Asset and Liability
3. Operating Lease and Finance Lease
4. Bearer bond and registered bond
5. Current income tax liability and deferred tax liability
6. Carrying value and tax base of an asset.
7. Ntugi Limited had a deferred tax liability balance of Sh. 20 million as at 1 July 2012. During the year ended 30 June 2013, the following carrying amounts and tax bases were ascertained:

|  |  |  |
| --- | --- | --- |
|  | Carrying amount  | Tax base  |
|  | Shs. 000 | Shs. 000 |
| Property plant and equipment  | 300 | 200 |
| Inventory  | 250 | 230 |
| Receivables  | 300 | 320 |
| Payables  | 400 | 420 |
| Long term debt  | 200 | 190 |

The relevant tax rate is 30%.

Required:

The deferred tax balance as at 30 June 2013 and the relevant journal entry to record the change in deferred tax liability (10 marks)

**QUESTION THREE (20 MARKS)**

1. Karibu Limited issued a 15%, 4 year Sh.800,000 Bond on 1st January 2010. Interest is paid semi annually and the effective interest rate was 13%. The entire bond was bought by Lewa investment ltd.

**Required:**

1. Calculate the issue proceeds of the bond (4 marks)
2. Using the effective interest method, prepare a bond discount/premium amortization schedule. (10 marks)
3. At the end of 2013, its first year of operation, the Aber limited reported Shs. 450,000 taxable income and shs. 380,000 pretax financial income as a result of a single temporary difference. Because of uncertain economic times, the company believes that only 75% of the deductible temporary difference will be realized. The tax rate for 2013 is 30% and no change has been enacted for future years. Calculate the deferred tax asset/liability to be included in 2013 balance sheet. (6 marks)

**QUESTION FOUR (20 MARKS)**

Air services ltd came into the possession of an air craft through a lease agreement for four years, from air craft leasing services (Lessor). The aircraft was acquired on 1 Jan, 2005 when the carrying amount of the asset was 6,840,000 in the books of aircraft leasing services. Air services incurred shs. 120,000 and aircraft leases services incurred shs. 132,000 in negotiation and subsequent securing the lease. The amount payable by air services is in four installments as follows:

|  |  |
| --- | --- |
|  | Shs. 000 |
| 1st January 2005 | 4,200 |
| 31st December 2006 | 1,920 |
| 31st December 2007  | 960 |
| 3st December 2008 | 540 |
| 31st December 2009 | 360 |

The cost of financing the lease is 12% for air services; depreciation of the asset is to be charged on a straight line method. The lessee air services has also given a guarantee of 5% of the cost of the asset to air craft leasing services at the end of the economic life of the leased asset.

**Required:**

1. Determine the nature of the lease (2 marks)
2. Prepare relevant journal entries in the books of the lessee to recognize the first THREE lease payments for (6 marks)
3. Prepare a lease amortization schedule (8 marks)
4. Describe the essential conditions to determine a finance lease (4 marks)

**QUESTION FIVE (20 MARKS)**

1. The following is a summary of the actuary and trustee reports relatingto a pension scheme for the period 2011.

|  |  |
| --- | --- |
|  | Shs. 000 |
| Opening benefit obligation  | 800 |
| Service cost for the period  | 82 |
| Interest cost, 6% | 48 |
| Loss on PBO  | 46 |
| Benefits paid  |  |
|  |  |
| **Plan assets** |  |
| Opening balance  | 600 |
| Return on plan assets 10%(9% expected) | 60 |
| Cash contributions  | 96 |
| Benefits paid  |  |
|  |  |

A prior service cost was incurred in the beginning of previous period of shs. 120,000 due to a plan amendment increasing the projected benefit Obligation (PBO) in that period. At the start of 2011, the company had a net-loss other comprehensive income of Shs. 110,000 the average remaining life of active employee in that fund is 20 year.

Required:

1. Calculate the company’s pension expense for 2011 (8 marks)
2. The accounting entries to recognize the pension expense for the period (4 marks)
3. Differentiate between Projected Benefit Obligation (PBO) and Accumulated Benefit Obligation (ABO). (2 marks)
4. Describe three levels of contingent liabilities and show the accounting process for each (6 marks)