



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2011/2012

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

HBC 2116: INTERMEIDATE ACCOUNTING II

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: *Answer all questions*

QUESTION ONE (30 MARKS)

- a. Maja Corporation issued, sh. 4,000,000 face value, 10%, 4 year bonds on 2nd January 2009. The bonds are dated 1st January 2009, call for semi-annual interest payments on 30.6 and on 31.12 and are issued to yield 12%. Bond issue costs sh. 200,000.
- Compute the amount received for the bonds. (2 Marks)
 - Prepare an amortization schedule for premium/discount on bonds payable using the straight line method. (10 Marks)
 - Prepare journal entries to record the issuance of bonds and the first six months interest expense. (3 Marks)
 - Assuming the bonds are retired on 1st January 2012 at sh. 3,950,000, compute the gain or loss on early retirement of the bonds. (3 Marks)
- b. Highlight and explain clearly the following.
- Secured bonds (1 Mark)
 - Convertible bonds (1 Mark)
 - Redeemable bonds (1 Mark)
 - Callable bonds (1 Mark)
 - Fixed yield bonds (1 Mark)
 - Floating rate bonds (1 Mark)
- c. Highlight the differences between debt and equity capital (4 Marks)
- d. Explain (i) Bonds issued at a premium (2 Marks)
(ii) Bonds issued at a discount (2 Marks)

QUESTION TWO (10 MARKS)

Mwende Ltd acquired a track under a lease agreement dated 2.1.07 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.
3. Mwende 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 Mwende 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 (15 MARKS)

- a. The following items were listed as liabilities on the balance sheet of Kono Ltd on 31.12.010.

Accounts payable	sh.280, 000
Notes payable	sh .420, 000
Cumulative preference dividends in arrears	sh. 100, 000
Bonds payable	sh.1, 500,000
Accruals	sh. 96,000
Mortgage	<u>sh. 5,600,000</u>
	<u>Sh.7,996,000</u>

Required:

- i. What is the general rule for determining whether a liability is classified as current or non-current. (2 Marks)
 - ii. Under what conditions may any of Kono's company liabilities may be classified as non-current. (3 Marks)
 - iii. With examples explain the term: Contingency liability and warranty liabilities. (4 Marks)
- b. In the year ended 31.12.11 the city council of Mengi had the following for the months of December and November, unpaid salaries and wages.

Net salaries	sh. 200,000,000
Income Tax –PAYE	sh.100, 000,000
Laptrust-pensions	sh.180, 000,000
N.S.S.F	sh. 20,000,000
Staff co-operative deductions MECICO	sh. 60,000,000
Staff bank loan deductions	sh. 45,000,000
Staff welfare deductions	sh. 5,000,000
Staff union deductions	sh. 2,000,000
Higher education loans	
Board deductions	sh. 2,500,000

National hospital insurance fund deductions sh.960, 000,000

Required:

- a. Compute the total accrual outstanding on account of salaries. (2 Marks)
- b. Distinguish the term accrual and third party liabilities in the context of accounting giving examples in each case (4 Marks)

QUESTION FOUR (15 MARKS)

Njema Ltd was formed on 2.1.011 with authorized shares capital of 500,000 ordinary shares of sh. 10 each per value and 8% preference share capital of 250,000 preference shares of sh. 10 each per value. On 2.1.11, 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 used for sh.10, 8 each. All money from issues were fully received through the company's bank account. The company traded during the year ending on 31.12.11 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
Equipments	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. Sh. 530,000 be assessed as the corporate tax due to Kenya Revenue Authority 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.50 (50cts) for every preference share held.

Required: prepare for Njema Ltd.

- a. Journal entries to record the share or profit appropriations for the year ended 31.12.11. (4 Marks)
- b. Profit appropriation account for the year ended 31.12.11. (6 Marks)
- c. Balance sheet as at 31.12.11 (5 Marks)