BCOB YR II SEM I

UNIT CODE: BCOB2208

UNIT TITLE: INTERMEDIATE ACCOUNTING II

DATE: 7TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

(a) Distinguish between funded and unfunded pension plans (2 marks

(b) Distinguish between pension and provident plans (2 marks)

i. Distinguish between a contingent liability and a provision (3 marks)

ii. What qualifies a lease as a capital lease? Name and explain FOUR qualities (4 marks)

(c) Ukunda Ltd leases from Natinal Bank Ltd a truck to enable start a water delivery business for kshs 3,000,000 on 1st January, 2011. The lease provides for an interest of 8% per annum for 4 years. The banks pays VAT tax 16% installs a tank for ferrying the water for kshs 200,000

The company pays insurance of kshs 50,000 for the first year, and employs a driver for kshs 20,000 per month. Sales for 2011 were kshs 5,000,000 and the cost of the water sold was kshs 1,000,000. The company depreciates its truck on a straight line basis at 25%.

Explain how the following transactions should be recorded

i. Lease transaction on 1st Jan 2011 in the books of the lessee (Ukunda) and the lessor (Bank) and 31 December 2011 (8 marks)

ii. What are FOUR advantages of leasing in contrast to buying capital assets (4 marks)

iii. What is the cost of the truck that should be capitalized (3 marks)

iv. Prepare the income statement for year ended 31st December 2011 and balance sheet for Ukunda Ltd showing how all these transactions are recorded (4 marks)

QUESTION TWO

Mwanachi Ltd borrowed kshs 500,000, a mortgaged bond form Chris bank at an interest rate of 12% for 20 years on January 1st 2010 payable semi annually. The terms provide for semiannual installment payments of 33,231.

(a) Prepare a repayment schedule for the first 4 years (8 marks)

(b) Show the journal entries for the borrowing in the books of Mwananchi company Ltd on January, 1st 2010 and interest accrual as at January 31st 2010 (4 marks)

(c) Prepare the liabilities side of the balance sheet showing the transaction in (b) (4 marks)

(d) Different between a Mortgage bond form convertible bond (2 marsk)
(e) What are the three main characteristics of a liability (2 marks)

QUESTION THREE

On January 2014, Derrick Ltd bought an equipment at Kshs 5,000,000 and depreciates it on a straight line basis. The company policy on Depreciation is at 25% per year. The tax Act recognizes the equipment qualities for 30% per year on written Down value
The company makes profits as follows
Year 1 loss of Kshs 500,000
Year 2 profit of kshs 200,000
Year 3 profit of 3,000,000
Year 4 profit 2,000,000

Required:

(a) Prepare the current and deferred tax for the 4 year (15 marks)
(b) There are THREE methods used in accounting for Deferred Tax. Identify and explain them (5 marks)

QUESTION FOUR

(a) The following data relates to two companies based in the Nairobi. The following information is given pertaining to the company A and B

Details	Company A	Company 2
Existence from inception	4 years	100 years
[illegible]	3,600,000	320,000,000

them (5 marks)

QUESTION FOUR

(a) The following data relates to two companies based in the Nairobi. The following information is given pertaining to the company A and B

Details	Company A	Company 2
Existence from inception	4 years	100 years
Profit/losses	3,600,000	320,000,000
Market price per share	Ksh 1000	Ksh 75
No. of shares to buy	1,500	2,000

Your have kshs 150,000 to invest. Which company will you invest in? (15 marks)

(c) What is a bond? Explain what is a discount and a premium in bond issues. What is the difference between a bond and a treasury bill? (5 marks)

QUESTION FIVE

Jukumu company Ltd has developed a design of a toy care and they are sure it will sell because it s affordable to most people. They need money urgently to produce and market the car. On January 2015 they borrow the funds by:

i. Issue a kshs 500,000 , 11% 10 years bond. The bond sell at face value and interest is payable yearly.

ii. Issue ksh 1,000,000 ,10% bond for 886,996. Interest is payable on January. Jukumu uses the straight line method of amortization

Required

(a) For the 11% bond, prepare journal entries for the following items

i. The ~~insurance~~ issuance of the bond on 1st January 2015 (2 marks)

…pense on 31st December, 2015 (2 marks)

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Required

(a) For the 11% bond, prepare journal entries for the following items

i. The issuance ~~insurance~~ of the bond on 1st January 2015 (2 marks)

ii. Accrue the interest expense on 31st December, 2015 (2 marks)

iii. The payment of interest on 1st January 2016 (2 marks)

(b) For the 10%, 10 year bond,

i. Show the journal entries showing the issuance of the bonds on January 1, 2015 (2 marks)

ii. Prepare the entry for the redemption of the bonds at 101 on January (2 marks)

iii. 1,2017 after paying interest due to this date. The carrying value of the bonds at redemption was kshs 920,897 (2 marks)

iv. For the kshs 1,000,000 bond prepare an amortization schedule of the discount over the first five years and show the record kept of the interest payable and bond discount at year end (8 marks)