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**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**SECOND YEAR SECOND SEMESTER EXAMINATION FOR**

**THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2208: INTERMEDIATE ACCOUNTING II**

**DATE: AUGUST 2015 TIME: 2 HOURS**

**INSTRUCTIONS: ATTEMPT QUESTION ONE AND ANY OTHER TWO QUESTIONS.**

**QUESTION ONE**

1. Using clear examples explain the following:
2. Current maturities [2 marks]
3. Notes payable [2 marks]
4. Obligations for warranties [2 marks]
5. Accrued restricting costs [2 marks]
6. Differentiate between gain and loss contingencies and clearly

explain how each is treated in the accounts. [6 marks]

1. A company begins production on a new machine in July 2008

and sells 100 units at Sh.5,000 each by its year-ending December

31, 2008. Each machine is under one year warranty and the

company has estimated, from past experience with a similar

machine, that the warranty costs will probably average Sh.20 per

unit. Further as a result of parts replacements and services

rendered in compliance with warranties, the company incurs

Sh.4,000 in warranty costs in 2008 and Sh.16,000 in 2009.

Required:

Prepare journal entries to show how the above warranties will

be recorded using:

1. Expense warrants approach [5 marks]
2. Cash basis method [3 marks]
3. Explain the following as used in relation to bonds:
4. Face value [1 mark]
5. Maturity date [1 mark]
6. Coupon interest rate [1 mark]
7. Bond rate [1 mark]
8. Three year bonus are issued at face value of Sh.100,000 on

January 1, 2007, with a stated interest of 8%, interest paid

annually on 31 December. Calculate the issue price of the

bond, market interest rate of 8% . [4 marks]

**QUESTION TWO**

1. Discuss the merits and demerits of leasing. [10 marks]
2. Differentiate between operating lease and financing lease. [10 marks]

**QUESTION THREE**

ABC Ltd Company offered 100,000 ordinary shares of £1 each

at par payable as under:

£0.35 on application

£0.35 on allotment

£0.30 on first and final call

Applications were received for 120,000 shares, on July 2005,

applications for 10,000 shares were rejected and application

money was refunded to unsuccessful applicants. Allotment

was made on July 10 2005 and applicants for 20, 000 shares

were allotted one half of the number for which they had applied,

excess application money being used to reduce the amount due

on allotments.

On 15 July all money due on allotment was received. The first

and final call was made on 1st September 2005 and all money

due on calls was received on 10th September.

Required:

Show the entries necessary to record the above in the company’s

bank account and ledger, balancing of at the end of September, 2005.

[20 marks]

**QUESTION FOUR**

1. Explain the various types of preference shares. [10 marks]
2. Explain the following:
3. Authorized capital [2 marks]
4. Issued capital [2 marks]
5. Subscribed capital [2 marks]
6. Call in arrears [2 marks]
7. Allotment of shares [2 marks]

**QUESTION FIVE**

Swan Ltd hired hires out individual plans on long term operating

lease. On 1 January 2001 it entered into a seven year lease on a

mobile crane. The terms of the lease are Shs.1,750,000 payable

on 1 January 2001, followed by six rentals of Shs.700,000, paid

on January 2001 to 2007. The crane will used and returned to

Swan Ltd on 31 December, 2007. The crane cost Sh.8,880,000

and has a 25 year useful time with no residual value.

Required:

1. Calculate the annual rental income that will be claimed by

Swan Ltd. [12 marks]

1. Prepare extracts from the income statement and the balance

sheet of Swan Ltd for 2001 and 2002. [8 marks]