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**JOMO KENYATTA UNIVERSITY**

**OF**

**AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**SECOND YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR THE**

**DEGREE OF BACHELOR OF COMMERCE**

**HBC 2208: INTERMEDIATE ACCOUNTING II**

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

**INSTRUCTIONS: ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE**

Kamara Ltd constructed for Amani Distributors a warehouse that was completed

and ready for occupancy on 1st January, 2010. A mani paid for warehouse by issuing

a Ksh.9,000,000, Five year, 8% bond on the same date. Interest was to be paid semi-

annually i.e. on 30th June and 31st December each year. Similar bonds were earning

interest as in rate of 10%.

Required:

1. Show the journal entry for Amani’s purchase of the warehouse on

1st January, 2010. [7 marks]

1. Amortization schedule for five year bond as at 1st January, 2010. [10 marks]
2. Suppose Amani had borrowed Ksh.9,000,0000 from City Bank at an

 interest rate of 16% and was to be repaid by 10 equal semi-annual

instalments.

Required

1. Amount to be paid in each instalment [5 marks]
2. Loan repayment schedule [8 marks]

**QUESTION TWO**

Uzima Ltd was registered with 400,000 ordinary shares of Sh.100 @. It offered half of them for public subscription as follows:

Shs.30 on application

Shs.50 on allotment (including premium)

Shs.30 on 1st Call

Shs.20 on 2nd and final Call

The processing went as follows:

350,000 applications were received

50,000 applications were rejected outright after and their money refunded

The remaining of applicants were made on pro-rata basis with excess many being transferred to allotment account.

All and other payments were duly received except for 800 shares whose allottees failed to pay 1st and 2nd calls and another 1,200 shares allottees failed to pay 2nd and final call

After due process, the 2,000 shares held by the defaulters were forfeited and later re-issued at sh.70 per share.

The company paid Sh.1,500,000 formation expenses to cash and bought fixed assets for Sh.12,000,000/ The rest of the money were held in the bank.

Required:

1. Ledger Accounts to account for the above transactions. [16 marks]
2. Company’s opening balance sheet. [4 marks]

**QUESTION THREE**

1. i) The concept of “Substance over firm” influences lease accepting.

Explain. [3 marks]

ii) Briefly explain FIVE characteristics of a finance lease. [5 marks]

1. Limited computer systems Ltd leased a computer from Mamlaka leasing

services on January 1,2010. Mamlaka paid Shs.62,548 for the computer

which was also its fair market value.

Lease terms were as follows:

Lease period was 3 years (6 semi-annual instalments)

Rental payments were made in advance

Economic life of the asset was 3 years

Implied interest rate was 12%

No residual value

Required:

1. Semi-annual instalment amount. [4 marks]
2. Amortization schedule to ascent for the lease. [8 marks]

**QUESTION FOUR**

Babu manufacturers has only one piece of property, plant and equipment whose

cost was Sh.1,500,000 and an estimated life of 5 years with no residual value.

The company uses straight line method. The equipment is to a class whose wear

and tear allowance 25%. The firm’s profit before tax were Sh.700,000, Sh.650,000, Sh.600,000, Sh.500,000 and Sh.400,000 for years one to Five respectively.

Required:

1. Financing Accountant’s Tax liability for the period. [5 marks]
2. Tax Assessor’s tax liability for the period. [5 marks]
3. Deferment tax account to account for the tax liabilities. [10 marks]

**QUESTION FIVE**

1. Tumbo Ltd manufactures and sales “Tum” both locally and internationally

at Sh.250 per unit. During the year ended 31//12/2013, the company sold

6,500 units. The past record shows that5% of units sold are found to be

defective and returned to Tumbo Ltd. The company gives a three year

warranty in returned goods are repaired at a cost of Sh.80 @.

Assume that 30% of the affected good were returned in the 1st year, 40%

in 2nd year and 20% in the last year.

Required:

Journal entries to record warranty and liabilities using:

1. Cash Accounting [5 marks]
2. Accrual Accounting [5 marks]
3. Briefly explain any FIVE reasons why leasing may be preferred to

outright purchase. [10 marks]