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**University Examinations 2015/2016**

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

**BFC 3275: INTERMEDIATE ACCOUNTING II**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

The following trial balance relates to Bena limited as at 31 March 2012:

**Sh.000. Sh.000.**

Revenue 213,800

Cost of sales 143,800

Closing inventory 10,500

Distribution costs 10,000

Administrative expense 12,400

Rental income from investment property 1,200

Financial cost 500

Land and building-valuation 63,000

Plant and equipment-cost 36,000

Investment-cost 16,000

Accumulated depreciation-plant and equipment 16,800

Trade receivables 21,500

Bank balance 900

Ordinary Shares capita (Sh. 25 each) 20,000

10% redeemable preference shares (Sh. 100 each) 10,000

Deferred tax 5,200

Revaluation reserve 21,000

Retained earnings as at 1st April 2012 17,500

318,200 318,200

Additional information:

1. The land and buildings were revalued at Sh. 15 Million and Sh. 48 million respectively on 1 April 2012 creating the reserve of Sh. 21 million. On this date, the buildings had a remaining life of 15 years. Depreciation is provided on strategic line basis. Plant is depreciated at 12.5% reducing balance. All depreciation is a cost of sales expense.
2. On 31 March 2013, a qualified surveyor valued the investment property at Shs. 13.5 million. The company uses the fair valuation model for its investment property.
3. Finance costs include overdraft charges and full year’s preference dividend and ordinary dividend of sh. 4 per share that was paid in September 2012.
4. Income tax for the year to 31 March 2013 has been estimated at Sh. 8 million. The deferred tax should be based on taxable temporary differences of Sh. 12 million at a rate of 30%.

**Required:**

Prepare the following statements for publication

1. A statement of comprehensive income for the year ended 31 March 2013 (18 Marks)
2. A statement of financial position as at 31 March 2013 (12 Marks)

**QUESTION TWO (20 MARKS)**

1. Explain and distinguish the following accounting terms (10 Marks)
2. Market interest and stated interest rate (2 Marks)
3. Plan assets and Projected benefit obligation (2 Marks)
4. Secured bond and unsecured (2 Marks)
5. defined contribution plan and Defined benefit plan (2 Marks)
6. Carrying value and tax base of an asset (2 Marks)
7. Peza Limited purchased equipment for Sh.8 million 1 January 2010. Depreciation is provided on a straight line basis at the rate of 25% per annum. During the four years from 1 January 2010 to 31 December 2013 the profit after tax and allowed wear and tear charges for tax purpose were as follows:

Period Profit after tax Allowable wear and

tear charges

1 Jan 2010 – 31 Dec 2010 1,600,000 40% on cost

1 Jan 2011 – 31 Dec 2012 1,800,000 30% on cost

1 Jan 2012 – 31 Dec 2013 1,900,000 20% on cost

1 Jan 2013 – 31 Dec 2014 1,700,000 10% on cost

Corporation tax rate 30%

**Required:**

1. Taxable profits (4 Marks)
2. Temporary differences (2 Marks)
3. Deferred tax account (4 Marks)

**QUESTION THREE (20 MARKS)**

1. A company sells compact stereo systems with a two year warranty. Past experience indicates that 4% of all sets sold will need repairs in the first year and 6% will need repairs in the second year. The average repair cost is shs. 60 per unit. The number of units sold in 2013 and 2014 was 12,000 and 11,000 respectively. Actual repair was shs. 30,000 in 2013 and shs. 84,000 in 2014 assume all repair costs involved cash expenditures.

**Required:**

Show the necessary accounting entries to record the above transactions showing the balance sheet extracts for the years 2013 and 2014. (8 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. (8 Marks)

**QUESTION FIVE (20 MARKS)**

1. Kenyan ltd sold a shs. 10 million 5 year 10% bond on 1st January, 2013 for 9,264,000, the bond discount amortization for each interest period is shs. 73,600 at the end of the 7th period Kenyan recalled the bond and retired at 102 after paying the semi annual interest.

**Required:**

1. Calculate the carrying value of the bond at the redemption date (3 Marks)
2. Show the necessary accounting entries to record the redemption of the bond at the end of the 7th period. (4 Marks)
3. Patrick an employee of Meru Central is expected to retire in 2020 after 35 years in service. Her retirement period is expected to be 15 years. At the end of 1990, 10 years after being hired her salary is shs.90, 000, the interest rate is 7%. The company actuary projects Patrick’s salary to be shs.320, 000. The company has a defined benefit pension plan that specifies annual retirement benefits equal to:

2% x service years x final year’s salary

1. What is Meru Central Ltd. Projected Benefit Obligation with respect to Patrick? (6 Marks)
2. Differentiate between Projected Benefit Obligation (PBO) and Accumulated Benefit Obligation (ABO) (2 Marks)
3. For measurement purposes current liabilities can be divided in to three categories explain the following categories of liabilities giving examples for each. (6 Marks)
4. Known Liabilities
5. Estimated Liabilities
6. Contingent Liabilities