



The Co-operative University Of Kenya
END OF SEMESTER EXAMINATION AUGUST, 2019

EXAMINATION FOR THE BACHELOR OF COMMERCE
(BCOM YII SEM II)

UNITCODE: HBC 2208

UNIT: INTERMEDIATE ACCOUNTING 11

AUGUST 2019

Answer questions **ONE** and any other **TWO**.

QUESTIONS ONE

a) Explain the following terms:

- (i) Earnings per share (EPS) **(2mks)**
- (ii) Diluted earnings per share (Diluted EPS) **(2mks)**
- (iii) Taxable income **(2mks)**
- (iv) Deferred tax liabilities **(2mks)**
- (v) Leases **(2mks)**

b) Explain **FIVE** the indicators of the finance lease **(5mks)**

c) On 1st April 2017 Bush Co. entered into an agreement to lease a machine that had an estimated life of four years, at which the asset will be returned to the leasing company. Annual rentals of \$5000 are payable in arrears from 31st March 2018. The machine is expected to have a nil residual value at the end of its life. The machine had a fair value of \$14,275 at the inception of the lease. The lesser includes a finance cost of 15% per annum when calculating annual rentals.

Required:

- (i) Classify this type of a lease **(2mks)**
- (ii) Present accounts for the lease in the financial statements of Bush for the year Ended 31st March 2018? **(8mks)**



CUCK is ISO 9001: 2008 Certified

d) Discuss the **FIVE** types of current liabilities (5mks)

QUESTIONS TWO

a) On July 1st 2018, Master wear industries issued 700,000 of 12% bonds dated July 1st. Interest is payable semi-annually on June 30th and December 31st. The bond matures in three years. The market yields for the bonds of similar risk and maturity is 14%. The entire bond issue was purchased by united intergroup co.

Required:

(i) Calculate price of the bond. (3mks)

(ii) State if the bond was issued at a discount or premium. (2mk)

(iii) Show the amortization table. (6mks)

b) Discuss **THREE** methods of income statement liability method under the deferred tax (IAS 12) (9mks)

QUESTIONS THREE

a) a) The financial manager of ABC expected earnings before interest and taxes of kshs.50,000 in the current financial year and pay interest of 10% as long-term loan of kshs.200,000. The company has 100,000 ordinary shares and the tax rate is 20%. The financial manager is currently examining two scenarios

A case where EBIT is 25% less than expected and

A case where EBIT is 25% more than expected.

Required: Compute the EPS under the three cases and the degree of financial gearing for both scenarios 1 and 2 (10mks)

b) (i) Identify the criteria used to account for and disclose gain and loss contingencies and give at least three examples. (6mks)

(ii) Discuss **FOUR** characteristics of a bond and give examples of bonds (4mks)

QUESTIONS FOUR

a) Mugumo ltd began operation on 1st Jan 2008. He acquired a plant on the same date at a cost of shs.20M. The plant on the same date is depreciated on a straight line basis at the rate of 20% p.a. WTA for the first year of the operation was at 50% of the cost, 30% of the cost in the second year of operation. Mugumo ltd has been earning profit before tax of shs.100M per year for each of the five years ended 31st Dec 2012. Assume corporation tax rate of 30% for each of those five years.

Required:



Prepare the P & L Extract and the balance sheet extract using the method recommended by IAS
12 (10mks)

b) Discuss **FIVE** certain types of income recognized in determining accounting profit but are not
accessed for tax purposes (10mks)

QUESTIONS FIVE

a) Provided the following information for Mega ltd;

- Fair value of the lease = 13.5M
- Inception year – 1st Jan 2008
- Annual lease payment = 5M
- Guaranteed residual value = 1M
- Lease period = 3 yrs
- Discounting rate = 10%
- Present value of minimum lease payment = 13,185,575

Required;

- (i) Classify the type of lease (2mks)
- (ii) Journalize the lease (2mks)
- (iii) Provide the payment schedule of the lease (6mks)

b) Explain **FIVE** the functions of Finance Manager (10mks)

