



**The Co-operative University of Kenya**

**END OF SEMESTER EXAMINATIONS DECEMBER-2019**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE  
BUSINESS (YR IV SEM II)**

**UNIT CODE: HCOB 2208**

**UNIT TITLE: INTERMEDIATE ACCOUNTING II**

**DATE: 9<sup>th</sup> DECEMBER 2019**

**TIME: 9:00 AM – 11:00 AM**

**INSTRUCTIONS:**

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

**QUESTION ONE**

- (a) Parker Holdings had an issued share capital of 2,000,000 ordinary shares at 1 January 2019. The nominal value was £0.25 and the market value £1 per share. On 30 September 2019 the company made a rights issue of **1 for 4** at a price of £0.80 per share. The post-tax earnings were **£4.5Million** and **£5Million** for **2018** and **2019** respectively.

**Required:**

- (i) Calculate the basic earnings per share for 2019. (5 Marks)
- (ii) Restate the basic earnings per share for 2018. (4 Marks)
- (b) Discuss **FOUR** features of a bond (8 marks)
- (c) Define an obligating event and state **TWO** ways in which it can arise (4 Marks)
- (d) Peddle ltd has the following capital structure in its books as at **31<sup>st</sup> December 2019**:

	Sh.'000'
Ordinary Share Capital (at sh. 10 each)	20,000
General Reserves	85,000

On the same date, the directors declared a bonus issue of two shares for every one held at sh. 15 each.

**Required**

Prepare Journal entries to record the bonus issues and draw up a Statement of Financial Position Extract (9 marks)

### QUESTION TWO

- (a) Robbin Plc leased a cleaning equipment on 1<sup>st</sup> January 2015 on the following terms; Annual lease rentals were sh. 50,000 and should be paid at the beginning of every year; Guaranteed residual value was sh. 12,000; Implicit interest rate was 12% while the incremental borrowing rate was 14%; The lease period is five years while the economic life of the asset is five years; The asset should be depreciated using the sum of digits methods while interest should be spread throughout the period using the effective interest method.

#### Required

- (b) Prepare an amortization schedule, journal entries and extracts of the Income statement and Statement of Financial Position for the six years (20 marks)

### QUESTION THREE

On 1<sup>st</sup> January 2016, Indigo Ltd. issued an 8 % sh. 32 Million Term bond of sh. 950 each for a period of **four** years. The yield rate was 7.5%.

#### Required

- (a) Prepare journal entries in the books of Indigo Ltd to record the relevant transaction relating to this bond for the four year period (16 marks)
- (b) Prepare extracts of the Income statement and Statement of Financial Position for the four years (4 marks)

### QUESTION FOUR

- (a) Define the following terms as per 1AS 12- Income Taxes
- i. Tax Base of an asset (2 marks)
  - ii. Current Tax (2 marks)

(b) Karafuu Ltd. bought a production machine on 1<sup>st</sup> January 2015 for sh, 2,500,000. It had a useful life of **8 years** and it was to be depreciated on a **straight line basis**. Details of the Profit Before Tax (PBT) and the capital allowances, on the machine, as agreed with the tax authority for the five subsequent years of its economic life are as shown below:

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
PBT (sh. '000')	7,000	9,300	12,544	14,720	20,300
Capital allowances (sh. '000')	500	450	325	280	150

The corporation tax rate is **30%**

### **Required**

i. Compute the deferred tax liability (or asset) for the **first five-year period**

(6 marks)

ii. Prepare the Deferred tax account over the **first five-year period** and **extracts** of the Statement of Profit or Loss and Statement of Financial Position for the same period

(10 marks)

### **QUESTION FIVE**

(a) Briefly explain the recognition criteria for a provision (IAS 37) (3 Marks)

(b) Black Plc. bought a cleaning equipment on **7<sup>th</sup> December 2019** for **sh. 350,000** on credit. Freight cost were sh. 10,000. Payments regarding to this asset were made by Black plc. on **20<sup>th</sup> December 2019**.

### **Required**

Prepare journal entries in the books of Black Plc. assuming that the asset was bought on the following terms:

i. FOB Shipping (4 marks)

ii. FOB Destination (4 marks)

(c) Edward Ltd has the following capital structure in it books as at **31<sup>st</sup> December 2019**

	<b>Sh. '000'</b>
4% Preference Share Capital (par = sh.90)	50,000

Ordinary Share Capital (Par = sh.10)

20,000

As at the end of the year, the company declared dividends of **sh.12 Million** and the **Preference shares are non-cumulative.**

### **Required**

Compute the dividends payable to the preference and ordinary shareholders on the assumption that:

- (i) The preference shares are **partially participating** up to a maximum rate of rate of **7%** after the ordinary shareholders receive their share of matching dividend of **2%**.(5 marks)
  
- (ii) The preference shares are **fully participating** after the ordinary shareholders receive their share of matching dividend of **2%** (4 marks)