

The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2018

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS

UNIT CODE:

UNIT TITLE: INTERMEDIATE ACCOUNTING II

DATE: DECEMBER, 2018

TIME:

INSTRUCTIONS:

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

QUESTION ONE

- (a) List and explain FOUR elements of alibility (4 marks)
- (b) ABC Ltd purchased goods with a list price of shs 960,000 on 1st January, 2016. The purchase terms indicated at 5% trade discount on the list price and a settlement discount of 2.5/10 net 60 days

The company paid suppliers on 9th January, 2016

Required:

- Compute the cash amount paid 9th January 2016 (4 marks)
- Show the journal entries to record the transaction on 1st January 2016 and 9th January 2016 (6 marks)

Compute the effective rate of the discount received and comment on its comparison with the overdraft rate of 24%

(c) Miachake Ltd purchased goods worth shs 240,000 from a credit supplier. The suppliers offered a 30 days credit for 60 days at an annual interest rate of 18%. The company honored the notes payable on the due date

Required:

- Compute the amount paid on maturity on the notes payable (4 marks)
 - Prepare the necessary journal entries (6 marks)
- (d) Briefly describe TWO types earnings per share (2 marks)

QUESTION TWO

- (a) Limpopo Ltd was listed on the stock exchange after successful initial public offer. As a result, the company has to comply with IAS33 (earnings per share) which requires all companies whose shares are publicly traded to compute and disclose their earnings per share.

The following is an extract of the company's income statement

Limpopo Ltd

Income statement for the year ended 30th June 2017

	Income statement continuing operations Shs 'Million'	Discontinued Operation Shs 'million'	Total Shs 'million'
Profit before tax	484	142	626
Tax	<u>145</u>	<u>(43)</u>	<u>(188)</u>
Profits after tax	<u>339</u>	<u>99</u>	<u>438</u>

The following additional information relates to the company for the year ended 30th June 2017:

- i. On 1st July, 2016, the company had an issued share capital of shs 180 million made up of 18,000,000 ordinary shares of shs 10 par value
- ii. On 1st October 2016, the company issued 3.6 million ordinary shares of shs 10 value at full market price
- iii. Due to the high market price of the ordinary shares, the company split its ordinary shares in the ratio of two fully ordinary shares of kshs 5 each for every one fully paid ordinary share of shs 10 held as at 1st December 2016

Required:

Compute the basic earnings per share (EPS) of the company for the year ended 30th June 2017 (10 marks)

- (b) The issued and fully paid share capital of a company on 31.12.2011 was:

- 400,000 7% preference shares of Shs 1 per share
- 4,000,000 ordinary shares of shs 1 per share

The post tax net profit for the year ended 31.12.01 was shs 372,000

On 1st October 2009, the company had issued shs 1.2m 6% convertible loan stock, 2012/2015 convertible per sh100 loan stock into ordinary shares of shs 1 per share as follows;

30 th September 2012	120
30 th September 2013	115
30 th September 2014	110
30 th September 2015	108

The tax rate for 2011 was 35%

Required:

- i. Compute the basic earnings per share (10 marks)

QUESTION THREE

- (a) Differentiate between the following
 - i. Participating and non participating preference share capital (4 marks)
 - ii. Cumulative and cumulative preference share capital (4 marks)
 - iii. Finance and operating leases (4 marks)
- (b) Briefly explain the following concepts with an example in each
 - i. Owners equity (4 marks)
 - ii. Accrual concepts (4 marks)

QUESTION FOUR

Amani Ltd leases a plant to babu Ltd the following information was relevant

The fair value of the plant was shs 20,000

The leases period was for FIVE years and commenced on 1st January 2015 and semiannual leases rentals were payable on 30th June and 31st December amounted to shs 2500. The implicit interest rate was 12% of per annum

Required

- (a) Prepare an amortization schedule where the leases are paid in semiannually in arrears and where they are paid semiannually in advance for 2015 (12 marks)
- (b) Determine the amount to be report in financial statement for the year 2015 (8 marks)

QUESTION FIVE

- (a) On 1st July 2008, Unity finance issued a shs 500 million convertible bond with a coupon rate of 6% per annum. The cash proceeds were 95% of par value and the bond will be redeemed on 30th June 2012 at 105%. Similar bonds without conversion option have an effective interest rate at 12%

Required:

- (a) Show relevant journal entries (4 marks)
- (b) Prepare an amortization schedule (8 marks)
- (c) Financial statement extracts for the year ended 30th June 2009, 2010, 2011 and 2012 (8 marks)