LAIKIPIA UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2023/2024 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BCOM 222: INTERMEDIATE ACCOUNTING II

STREAM: ***TIME: 2 HRS***

DAY: FRIDAY [2.30-4.30 P.M] ***DATE: 12/04/2024***

THIS QUESTION PAPER CONSISTS OF FIVE (5) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.

Instructions:

1. Answer question one (compulsory) and any other two questions
2. Show all working on the answer sheet
3. Do not write anything on the question paper

Question 1

a). The following balances were extracted from the general ledge of Tulia Wholesalers Ltd on 30th June 20x5 after the preparation of the Trading Account.

	Shs
11% preference share capital	1,000,000
Ordinary share capital	3,500,000
Land and buildings (cost shs 5,750,000)	6,000,000
Equipment (Cost shs 400,000)	280,000
Motor vehicles (cost shs 860,000)	602,000
Goodwill (Cost shs 800,000)	775,000
10% debentures (repayable year 20 x 10	1,500,000
Stock at 30 June 20 x 5	1,361,000
Salaries and wages	462,000
Directors' remuneration	315,000
Motor vehicles expenses	406,000
Rates and insurance	146,500
General expenses	28,000
Debenture interest	75,000
Debtors	930,500
Creditors	568,500
Cash at bank	419,500
General reserves	250,000
Share premium	700,000
Interim ordinary dividends paid	175,000
Fixed assets (land and building)	
Revaluation reserve at 1 July 20 x 3	250,000
Profit and loss account at 30 June 20 x 4	847,000
Gross profit for the year	3, 360,000

Additional information:

1. Authorized share capital
   40,000 11% preference shares of kshs 25 each at par
   500,000 ordinary shares of kshs 10 each at par
   (All issued shares are fully paid). During the year 100,00 ordinary shares were issued at a premium of 20%.
   No record has been made in regard to the issues. The new shares do not rank for dividend in the year.
2. The policy of the company regarding depreciation is;

Not to depreciate land and building but to revalue the buildings at the end of every two years. The market value as at 30 June 20X5 has been agreed with valuation experts at kshs 6,300,000.

To depreciate motor vehicles at the rate of 25 percent on reducing balance.

To depreciate equipment at the rate of 10% on cost using the straight-line depreciation method.

3. The interest on debentures is paid semi-annually on 1 July and 1 January. The company makes provision for interest accrued during a financial year but is not yet paid.
4. Goodwill is written off at the rate of 3.125%, per annum on cost.
5. The directors propose that the preference dividend and also a final ordinary dividend which will bring the total dividend on ordinary shares for the year to shs 1.50 per share be paid. The directors also propose to transfer kshs 100,000 to general reserve.
6. The corporation tax on the profit for the year estimated at kshs 2502,000.
7. The company has decided to write off debts of kshs 30,500 which it considers bad. Whereas doubtful debts loss has previously been recognized when specific accounts are known to be uncollectible, the company now proposes to establish and maintain (with effect from the current year) a general provision for doubtful debts at 4 per cent of debtors.
8. Rates include an amount of kshs 96,000 paid to be municipality for the 12 months to 31 December 20x5.
9. Casual labourers have not yet been paid kshs 45,000 is respect of the services rendered during the last two weeks of June 2005.
10. Sales in the year amounted to kshs 5,400,000 while purchase were kshs 2,100,000

Required

i) Income statement for the year ended 30 June 20x5 **(10 marks)**

ii) Financial position as at 30 June 20 x 5 **(8marks)**

b). Accounting error are the mistake that occur in the process of accounting. There are both procedural (Book Keeping) and arithmetical error.

Required

Explain the errors that would not affect the trial balance and why (**6 marks)**

c). A liability will be reported in a company's accounts if it owes others. Liabilities must be settled over time through the transfer of economic benefits.

Required

Explain the following liabilities giving examples of each

i) Short term liabilities **(2 marks)**

ii) Long term liabilities **(2 marks**)

iii) Contingent liabilities **(2 marks**)

QUESTION 2

a). SPOON LTD has ksh 360,000 shares on issue, which is divided into 18,000 shares. The whole capital was issued as follows;
On application shs 15, on allotment kshs 5, on 1st call shs 3 and final call shs 2.
On application 24,000 applicants applied and management decided to issue 3 shares for every 4 applied for. No money was refunded but was used for allotment. On first call, Sichega, a shareholder failed to pay his 1000 shares. These were forfeited and sold at shs 15 each.
Assume the whole exercise ended on 31st December 2022.

Required:

i) Pass journal entries **(5 marks)**
ii) Show ledger accounts **(5 marks)**
iii) Extract a financial position **(3 marks)**

b). In preparation of accounting statements, IAS - 1.36 requires that comparative information for the previous period for all the amounts reported shall be disclosed.

Required

With examples, explain why these disclosures are important. **(7 marks)**

QUESTION 3

a). Malimali financial position as on 31st December 20x8 was as follows:

	Shs (000)
Net assets	360,000
Investment (Market value kshs 600,000)	800
Debtors	1,200
Cash and bank balances	400
	362,400
Financed by:	
Issued 960,000 ordinary shares shs 100 each	96,000
Preference shares Redeemable on 1st Jan 20 x 9 at premium of 10%	40,000
Capital reserve (share premium)	140,000
Balance; Appreciation A/C	76,000
Current Liabilities	10,400
	362,000

On 1st January 20 x 9, the board of directors resolved to redeem the preference shares under the terms of the issue and in order to finance the redemption, do the following.

i. Sell the investment at the current market price
ii. Issue 20,000 ordinary shares at 210/= each
iii. Issue 500,000 debenture stocks of kshs 2,000 each at par valve
iv. Make a bonus issue of one ordinary share for every four held on 31st December 2008.
v. Utilize the capital reserves available in dealing with the above.

Required.

i) Pass journal entries for the above transactions **(6marks)**
ii) Prepare the new financial position after the exercise **(6marks)**

b). A limited company's profits are normally appropriated as follows: payment of taxation, dividends and the rest is left as a reserve. Reserves may be divided into general reserves or capital reserves

Required.
With examples, explain;
i) General reserves **(2 marks)**
ii) Capital reserves **(2marks)**
iii) Show how each type of reserve can be utilized **(4marks)**

QUESTION 4

(a) On 1/1/201, 9 XYZ Ltd. Bought equipment at a cost of kshs 5,000,000, and depreciates it on a straight-line basis over 5 years. For tax purposes, equipment is depreciated at 25%, straight line per annum on the qualifying tax base. Tax losses may be carried back against taxable profits of the previous five years. In the year 2018 the enterprises taxable profit was 2,500,000. Profit in subsequent years are expected to average the year 2018 profit. The corporation tax rate is 30%.

Required

Show the deferred tax impacts for year 2019 to 2024. **(10 marks)**

b). Organizations need funds for their operations. Sources of funds can be, internal and external, permanent and temporary, long term and short term.

Required
Giving examples, differentiate between the following sources of funds.
i) Internal and external **(3marks)**
ii) Permanent and temporary **(3marks)**
iii) Long term and short term **(3marks)**