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UNIVERSITY EXAMINATIONS 2023/2024

SECORD YEAR SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF
COMMERCE

BFC 3275: INTERMEDIATE ACCOUNTING II

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Neno Ltd issued a 15%, 4year Sh.800,000 Bond on 1st January 2010. Interest was paid semi-annually and the effective interest rate was 12 p.a. The entire bond was bought by Lewa investment ltd.

Required

- (i) Calculate the issue proceeds of the bond (6marks)
 - (ii) Show the accounting entry for the issue of the bond by Neno Ltd (4marks)
 - (iii) Using the effective interest method, prepare a bond discount/ premium amortization schedule. (10 marks)
- b) Distinguish the following terms (10marks)
- (i) Finance lease and Operating lease
 - (ii) Fair value and carrying value
 - (iii) Projected benefit obligation and Plan assets
 - (iv) Serial bond and term bond
 - (v) Contingent liability and estimated liability

QUESTION TWO (20MARKS)

The following information was extracted from the books of Edu Ltd for the year ended 31st march 2013



	Shs'000'	Shs'000'
Stock 1.4.2012	1,500	
Land and buildings	36000	
Plant and machinery	44,000	
Furniture and equipment	33,000	
Motor vehicles	40,000	
Purchases	60,000	
Sales		174,000
Debtors	35,500	
Creditors		6,000
Rental income		6,000
General reserves		4,000
Bank	45 , 000	
Cash	22,000	
4000.000 ordinary share @20		80,000
101% 4,000,000 preference shares		80,000
10% 5 year bonds		10,000
Retained earnings		4,000
Admin expenses	25,000	
Sales and marketing expenses	22,000.	-----
	<u>364.000</u>	<u>364 000</u>

Other information

1. Stock as at 31.3.2013 shs.1,600,000
2. Depreciation of shs. 3,000,000 is to be provided on fixed assets
3. Included is sales is VAT at 16% which has not been adjusted in the books of accounts
4. The five year bonds were issued on 1st October 2012 at par. interest payable semi-annually. On 31st 3. 2013 interest for the first semi annual period had not been paid.
5. Corporate tax rate is 30%
6. On 31.3.2013, it was probable a case in court for injuries to a third party by the company vehicle would go against the company and this could cost shs. 550,000.
7. Warranty claims against the company products amounting to shs. 450,000 had not



been paid nor adjusted in the books of the company by 31.3.2013.

8. On 31st 3.2013 the board of directors proposed the following

- 10% dividends on ordinary shares
- Preference dividend to be paid
- Shs 2,000,000 to be transferred to the general reserve account of the company

Required

- (a) Show the company's amount of current liabilities for the year ended 31. 3.2013
(5mark)
- (b) Prepare the company's income statement (trading profit and loss) for the year ended 31st 3.2013
(9marks)
- (c) Prepare a statement of financial position (balance sheet) for the year ended 31.3.2013
(6marks)

QUESTION THREE (20MARKS)

(a) In 2010, Kago Ltd. Commenced manufacturing and selling electronic decoders with a two-year warranty. Industry experience indicates that 20% of all decoders sold will need repairs in the first year and 10% will need repairs in the second year. The average repair cost is shs. 100 per unit. The number of units sold in 2010 and 2011 was 40,000 and 50,000 respectively. Actual repair costs were shs 200,000 in 2010 and shs. 300,000 in 2011 assume all repair costs involved cash expenditure.

Show the necessary accounting entries to recognise warranty expenses and warranty liability in the period 2010 and 2012 the above transactions showing the balance sheet extracts for the years 2009 and 2010. (12marks)

(b) An asset which cost shs. 150,000 has a carrying amount of 100,000. Cumulative depreciation for tax purposes is 90,000 and the tax rate is 30%. Calculate the tax base of the asset, the deferred tax asset or liability for the business (8marks)

QUESTION FOUR (20MARKS)

On January 1, 2013, Saba ltd. leased a copier from Nane ltd. Nane ltd had purchased the equipment from Compuera ltd at a cost of shs.718,619. The lease agreement specifies annual payments beginning January 1, 2013, the inception of the lease, and at each



December 31 through 2018. The six-year lease term is equal to the estimated useful life of the copier. The interest rate is 10%.

Required

- i. Show the necessary accounting entries to recognize the lease at inception by Saba Ltd (lessee), and prepare a lease amortization schedule (12marks)
- ii. Explain the essential conditions for determining a capital/finance lease (8marks)

QUESTION FIVE (20 MARKS)

- (a) Discuss FIVE accounting concepts that provide the basis for preparation of financial statements (10marks)
- (b) The Following information relates to Imenti investment co. ltd, defined benefit pension plan for the year 2012:
 - i. Service costs Shs. 640,000
 - ii. Actual and expected return shs. 140,000
 - iii. Unexpected loss on plan assets related to year 2012 disposal of an asset shs. 160,000
 - iv. Amortization of past service cost shs. 20,000
 - v. Annual interest on pension obligation shs. 200,000

Required

- i. What amount should Imenti co. ltd. report as pension expense in its 2012 income statement? (6marks)
- ii. Describe the main elements in pension expense (4marks)

