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University Examinations 2024/2025

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN EDUCATION

BFC 3275: INTERMEDIATE ACCOUNTING II

DATE: JANUARY 2025 **TIME: 2 HOURS**

INSTRUCTIONS: *Answer question **one** and any other **two** questions*

QUESTION ONE (30 MARKS)

a) Discuss the importance of Financial Accounting in the Public Sector today.(8 marks)

b) The following information was extracted from the books of Rada Ltd as at 31st August, 2023:

	Shs. Dr.	Shs. Cr.
Stock 1.9.2022	500,000	
Buildings	16,000,000	
Debtors	11,900,000	
Purchases	28,000,000	
Administration Expenses	10,160,000	
Creditors		4,1800,000
Miscellaneous income		6,650,000

Sales		62,000,000
General Reserves		1,000,000
Land	20,0000,000	
Retained Earnings		5,000,000
Bank	13,240,000	
Cash	240,000	
Share capital 1,000,000 ordinary shares shs. 20 par value		20,000,000
10% preference share shs 20, per value 500,000 shares		10,000,000
15%, 5 year Bank loan		10,000,000
Furniture ' s c Plant & Machineries	2,500,000	
Sales & Marketing expenses	14,000,000	
	1,790,000	
	118,830,000	**118,830,000**

Other transactions

i. Stocks as at 31.8.2022 shs. 600,000
ii. Provide shs. 2,000,000 as depreciation on fixed assets.
iii. Included in Account of sales is shs. 8,500,000 on account of VAT (value added tax) and no entry has been made in the books.
iv. Interest on Bank loan has also accrued and has not been paid Shs.1,175,000 and shs.750,000 to be accrued as director's fees and audit fees respectively.
v. Corporate tax to be determined at 30%.
vi. On 30.6.2023 a Kenyan obtained orders in court to be paid shs.1,750,000 for injuries by company vehicle at 12% interest. As at the close of books the company had not
vii. Discharged this liability. No adjustments had been made in the books.
viii. As at 31.8.2023 warranty claims against products defects amounted to shs. 1,320,000. No adjustments had been made in the books of the company.
ix. No dividends were declared but directors proposed to transfer shs. 2,000,000 to General reserves.

x. Salaries, Items of NSSF, NHIF, Income tax, Helb, SACCO remittances, union dues amounting to Sh300,000 for the month of August have not been adjusted in the books nor remitted.

Required:

a) Calculate the third-party liabilities due to Upendo Ltd as at 31 August 2023. (4 marks)

b) Income statement for the year ended 31st August, 2023. (9 Marks)

c) Balance sheet as at 31.8.2023. (9 Marks)

QUESTION TWO (20 MARKS)

Barcelona Ltd issued a five-year bond with a face value of shs. 800,000, 8% coupon rate of interest on 1st January 2018. The Bond is issued to yield (Market Rate) at 10%, with interest payable annually on 30th December. Bond issue cost shs. 100,000

Required:

a) Calculate the issue price for the 8%, five-year Bonds. (3 Marks)

b) Show journal entries to record issuance of bonds on 1.1.2018. (3 Marks)

c) Prepare schedule for amortization premium/discount any. Use straight-line method. (8 marks)

d) Prepare journal entries to record the first interest payment on the bonds on 30.12.2018. (3 Marks)

e) Show the position of the bond in the balance sheet of Kids as at 31.12.2018. (3 Marks)

QUESTION THREE (20 MARKS)

Arsenal Ltd has the following shareholders equity section as at 30 September 2024:

	SHS
Preference shares shs.100, par,8% cumulative and voting 10,000 shares issued and paid up	1,000,000
Ordinary shares shs.20 par 100,000 shares authorized, 70,000 shares issued and paid up	1,400,000
Preference share premium	50,000
Ordinary share premium	700,000
Retained earnings	3,000,000
Total shareholders funds	6,150,000

Other information

1. There are no dividends arrears on preference shares. Company made a profit after tax of 6 million shillings for the year to 30.9.2021.
2. In the year ended 30th September 2021, Directors of Arsenal Ltd declared dividends as follows:
   20% cash dividends on ordinary share capital
   10% stock dividend on ordinary shares. The fair or market value of ordinary share on the date of stock declaration was shs. 5 per share.
3. A participating of dividend of shs.10 to each preference share held as at 30.9.2021 and preference divided paid.
4. In order to familiarize shareholders with the company new products, the board declared product dividend of one litre of perfume to every ordinary share held as at 30.9.2021. the cost of perfume is shs. 28 per litre pack and the wholesale price is shs. 40 per the one litre pack. Any gain or loss is already included in the earning reported. This excludes shares from stock dividends. Product dividends were computed at wholesale price.
   Ignore withholding taxes.
   AGM was held on 22.10.2021 and approved dividends as proposed by the directors.

Required:

a) Compute the dividends payable. (4 Marks)

b) Journal entries to record dividends payable (4 Marks)

c) Journal entries to record payment of dividends. (4 Marks)

d) Discuss the rights entitled to ordinary shareholders. (4 Marks)

e) Highlight four types of dividends issued by the Kenyan companies. (4 Marks)

QUESTION FOUR (20 MARKS)

a) (i) Define a capital lease. (2 Marks)

(ii) Highlight the characteristics of a capital lease. (3 Marks)

b) (i) Differentiate between a liability and a commitment. (2 Marks)

(ii) Distinguish between liabilities depended on results and third—party liabilities, giving relevant examples (4 Marks)

c) Explain with examples, forms of loss contingencies as has been highlighted by the International Accounting Standards (IAS 37). (6 Marks)

d) Discuss three ways of accounting and reporting loss contingencies. (3 Marks)

QUESTION FIVE (20 MARKS)

a) QPR Ltd has decided to acquire a piece of equipment costing 240,000 with a useful life of 5 years. The equipment is expected to have no salvage value at the end of the useful life and the company uses straight-line depreciation method on all fixed assets. The company has two financing options available, leasing or borrowing. The loan has an interest rate of 15% requiring equal year-end instalments to be paid. The lease would be set at a level that would amortize the cost of the equipment over the lease period and would provide the lessor with a 14% return on capital. The company's corporation tax is 40%.

Required:

i) Compute the annual lease payments. (3 Marks)

ii) Compute the present value of cash out flows under lease financing. (5 Marks)

iii) Explain the merits and demerits of leasing finance compared to outright purchase of

assets. (4 Marks)

b) Discuss four users of accounting information highlighting their interests thereof. (4 Marks)

c) Compare and contrast between Ordinary Share capital with Preference share capital. (4 Marks)