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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2020/2021 ACADEMIC YEAR**  
**SECOND YEAR, SECOND SEMESTER EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**(BUSINESS ADMINISTRATION)**

Date: 16<sup>th</sup> December, 2020

Time: 8.30am – 10.30am

**KAC 201 - INTERMEDIATE ACCOUNTING 11**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) What are current liabilities? Give three classifications of current liabilities and one example for each. (6 Marks)
- b) Explain the meaning of contingent liabilities and explain how they are accounted for. (6 Marks)
- c) Spade issued two separate groups of five-year bonds, each with a face value of Shs. 800,000. On January 1, 2013, the market interest rate for all three groups of bonds was 10% per year.
- i) Group A will pay 12% interest on June 30 and December 31, 2013 to 2017.
- ii) Group B will pay 8% interest on June 30 and December 31, 2013 to 2017.

Required;

1. For each of the two bonds, determine the value of the bonds. (6 Marks)
2. Journalize the issuance of each of the bonds on January 1 2013. (6 Marks)
3. Prepare a bond premium/discount amortization schedule for 12% bond using the effective interest method. (6 Marks)

**QUESTION TWO (20 MARKS)**

Eva and Judy are considering purchasing a water-drilling machine into their water drilling business. They have two alternatives of financing the purchase as shown below.

**Alternative one**

Purchase the machine whose current cash price is shs 2,400,000 through a finance lease from ABC Hydraulics Ltd. The terms of the lease will require 4 equal payments per year for each of the three years. No deposit required.

### **Alternative two**

Obtain the machine through Equal's Bank Loan scheme being advertised in the papers. Judy and Eva will be required to make a down payment of Shs. 900,000 and then meet four equal yearly payments of shs. 153, 436 each for the three years.

The market rate of interest is currently 10% per annum. Judy and Eva have been informed that as part of your social responsibility, you provide free consultancy service to small-scale businesspersons.

#### **Required;**

- a) Distinguish between finance lease and operating lease (6 Marks)
- b) The finance lease payments to be made by Eva and Judy if they opt for finances from ABC Hydraulics ltd. (6 Marks)
- c) What would be the advantages of leasing the machine to Eva and Judy (5 Marks)
- d) Give reasons why finance leases are referred to as "off balance sheet" finance. (3 Marks)

### **QUESTION THREE (20 MARKS)**

XYZ Co. made the following capital expenditures

	Shs
2011	31,500
2012	42,000
2013	15,750
2014 - 2019	No Capital Expenditure

Expenditure qualifies for a capital allowance of 25% (reducing balance). Asset life is expected to be restricted to 3 years, therefore depreciation is charged, on a straight-line basis, overtime period. Assets have no residual value. Corporation tax rates are as follows:

2011	50%
2012	45%
2013	40%
2014	35%
2015-2019	35%

#### **Required:**

Calculate the timing differences using the

- a) Liability Method (5 Marks)
- b) Deferral Method Accounting that reversals are accounted for
  - i) On an average method (5 Marks)
  - ii) On FIFO basis (5 Marks)
- c) Show the deferred taxation account using the liability method. (5 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Differentiate between the following;
- i) Taxable income and pretax income (4 Marks)
  - ii) Deferred tax asset and deferred tax liability (4 Marks)
- b) Highlight the various sections and the contents of published accounts. (6 Marks)
- c) Prepare a sales ledger control account from the following:

2020		£
May 1	Debit balances	64,200
	Totals for May 2020:	
	Sales journal	128,000
	Cash and cheques received from debtors	103,700
	Discounts allowed	3,950
	Debit balances in the sales ledger set off against credit balances in the purchases ledger	1,450
May 31	Debit balances	?
	Credit balances	500

**QUESTION FIVE (20 MARKS)**

A bookkeeper extracted a trial balance on 31 December 2019 that failed to agree by £3,300, a shortage on the credit side of the trial balance. A suspense account was opened for the difference. In January 2020, the following errors made in 2020 were found:

- i) Sales daybook had been undercast by £1,000.
- ii) Sales of £2,500 to J Church had been debited in error to J Chane account.
- iii) Rent account had been undercast by £700.
- iv) Discounts received account had been under cast by £3,000.
- v) The sale of a motor vehicle at book value had been credited in error to Sales account £3,600.

You are required to:

- a) Show the journal entries necessary to correct the errors. (8 Marks)
- b) Draw up the suspense account after the errors described have been corrected. (4 Marks)
- c) If the net profit had previously been calculated at£79,000 for the year ended 31 December 2019, show the calculations of the corrected net profit (8 Marks)