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# KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY UNIVERSITY EXAMINATION, 2016/2017 ACADEMIC YEAR SECOND YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE (BUSINESS ADMINISTRATION)

Date: 10<sup>th</sup> August, 2016. Time: 3.30pm – 5.30pm

# **KAC 201 - INTERMEDIATE ACCOUNTING II**

#### INSTRUCTIONS TO CANDIDATES

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

#### **QUESTION ONE (30 MARKS)**

a) Describe earning per share (EPS) and indicate its importance in business.

(9 Marks)

b) i) Differentiate between the terms 'useful life' and 'lease term' as Used in lease agreements.

(4 Marks)

ii) Describe any four features of finance lease.

(8 Marks)

c) i) Describe a pension scheme showing clearly what is meant by the term Funding.

(5 Marks)

ii) In relation to accounting for retirement benefit plans, differentiate Between Fund Account and statements of Net Assets.

(4 Marks)

#### **QUESTION TWO (20 MARKS)**

- a) Describe the following in relation to pension accounts;
  - i) Statement of participants

(4 Marks)

ii) Funding policy.

(2 Marks)

iii) Actuarial methods and assumptions

(2 Marks)

b) You have been provided with the following information relating to Pumziko Pension Fund for the year ended on 30<sup>th</sup> November, 2015:

	Kshs. '000'
Fund Investments	89,632
Current Assets	412
Current Liabilities	384
Contributions- Employer	9,600
-Employee	4,800
Income	15,156
Payments:-Pensions	3,360
Operational Expenses	504
Investment Disposal Profit	3,048
Investment Disposal Loss	852
Change in the value of Investments	2,296
Accumulated fund as at 1 <sup>st</sup> December, 2014	59,476

#### Required;

i) Statement of changes in net assets for the year ended on 30<sup>th</sup> November, 2015

(8 Marks)

ii) Statement of net assets as at 30<sup>th</sup> November, 2015.

(4 Marks)

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

- a) In relation to accounting for lease, describe the following;
  - i) Leveraged lease

(6 Marks)

ii) Operating lease

(4Marks)

b) Jachshow Limited entered a leasing agreement on 31<sup>st</sup> December, 2010for a plant costing Sh. 18,984,000. The lease required the payment of an annual rent of Sh. 5,444,000 payable in advance. The period of the Lease was 4 years. It was assumed that the useful life of the plant was 4 years and there was to be no scrap value at the end of that period. The plant was to be depreciated on the basis of straight line method. The Accounting period of the lessor and lessee ended on 31<sup>st</sup> December each year.

## Required;

The charges to the profit and loss account of the Lessee for the years 2011 to 2014 on the basis if actuarial method.

(10 Marks)

#### **QUESTION FOUR (20 MARKS)**

a) Describe the following items stating how they are treated in the Computation of earnings per share (EPS);

i) Minority interest

(4 Marks)

ii) Preference dividends

(4 Marks)

iii) Ordinary dividends

(4 Marks)

b) The information below shows the summarized profit and loss account of Silverline Limited for the year ended on 31st December 2015.

	Kshs. '000'
Profit after taxation	4080
Less minority interest	72
	4008
Add extra ordinary item	<u>792</u>
	4800
Less preference dividends (including arrears)	<u>1260</u>
	3540
Less ordinary dividends	3000
Retained earnings for the year	540
Retained earnings brought forward	<u>2660</u>
Retained earnings carried forward	3200

The Company had as at 1<sup>st</sup> January, 2015 an issued share capital of 500,000 Ordinary shares and Sh. 6,000,000 7% preference shares. The company made a bonus issue of 1 for 5 ordinary shares on 31<sup>st</sup> March, 2015.

Required; Compute Earnings per share.

(8 Marks)

# **QUESTION FIVE (20 MARKS)**

a) Describe your understanding of capitalization of borrowing costs, highlighting the necessary conditions for the capitalization to commence.

(8 Marks)

Shontex Limited whose financial year ends on 31<sup>st</sup> December was involved in Several long term construction and asset purchase activities during the year 2015. On 1<sup>st</sup> January, 2015, a Sh.2,000,000 advance payment was made to Gires Ltd for equipment to be delivered to Shontex on 1<sup>st</sup> July, 2015. The equipment was Delivered as scheduled and the final Sh. 2,000,000 payment was made on that date. Shontex Ltd borrowed the Sh.2,000,000 advance payment and the Sh.2,000,000 final payment at 12% rate of interest. On 1<sup>st</sup> April, 2015, a construction was started as an addition to the current plant facilities. The addition is to be completed on 1<sup>st</sup> March 2019 at an estimated cost of Sh. 40,000,000. Cash payments made during year 2015 relating to the construction project were as follows;

1 <sup>st</sup> May, 2015	4,800,000
1 <sup>st</sup> JULY, 2015	1,600,000
1 <sup>st</sup> August, 2015	3,600,000
1 <sup>st</sup> October, 2015	20,000,000
1 <sup>st</sup> November, 2015	2,400,000
	32,400,000

Shontex Ltd, established a line of credit for the construction project that allowed the Company to borrow up to Ksh. 40,000,000 at 13% rate of interest during 2015 and 2016. The total interest costs incurred during year 2015 amounted to Kshs. 2,000,000.

#### Required;

i) Determine the total interest to be capitalized for year 2015 in the books of Shontex Ltd.

(10 Marks)

ii) Interest to be charged to the profit and loss account.

(2 Marks)