

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATION**

EXAMINATION FOR THE AWARD OF DIPLOMA IN ACCOUNTING

DIAC 0221: INTERMEDIATE ACCOUNTING II

STREAMS: DIAC

TIME: 2 HOURS

DAY/DATE: TUESDAY 29/08/2023

8.30 A.M – 10.30 A.M.

INSTRUCTIONS:

- Answer question one and any other two

Question one

(a)ABC limited declared a 3 for 2 bonus issue. The extract of the company statement of financial position prior to issue of bonus shares is as follows:

Equity item	Sh.'000'
Ordinary Share Capital (Sh. 0.5 each)	2,500
Share premium	1,500
Revaluation reserve	1,500
Retained profit	5,500
	11,500
	11,500

Required

Entry to record the transaction and extract of the statement of financial position after the issue

(10 Marks)

b) SGL Ltd had consumed electricity worth Sh.50,000 by the end of the year 31st December 2017 but the electricity bill had neither been received nor paid for.

Required:

Journal entry to record the transaction in the company's books financial year end (5 Marks)

(c) Highlight the key features of liabilities (8 marks)

(d) Identify and explain a full set of financial statements (7 marks)

Question two

(a) Discuss factors that give rise to deferred taxation according to IAS 12 (10 marks)

(b) Rashford Limited acquired an item of plant on 1 April 2015, for Kshs. 500,000. At the end of the plant's useful life of eight years, it will have a residual value of Kshs. 0. For accounting purposes, the plant is depreciated on a straight-line basis over its useful life. For tax purposes, the plant is depreciated over four years on the straight-line basis. On 31 March 2018, the plant was revalued to Kshs. 380,000. The directors have estimated that the useful life of the asset is five years.

Required

(i) Prepare the journal entries to account for the revaluation of the asset. (4 marks)

(ii) Determine the tax base of the asset immediately after the revaluation. (2 marks)

(iii) Prepare the entry to adjust for deferred tax arising in the four years (4 Marks)

Question three

a) Define the below terms as per the IFRS (4 Marks)

b) Kilifi Ltd issued 7,000,000 ordinary shares of 20 par value each payable as follows
Shs

On application	5
On allotment	9(including premium)
On first and final call	6
On second and final call	3

6,400,000 ordinary shares were applied for and 300,000 shares were rejected and application monies were refunded.

Required:

a) Journal entries to record the above transactions (12 marks)

b) Extracts from the statement of financial position of Kilifi Ltd immediately after the issue (4 marks)

Question four

(a)Kampala Limited trial balance for the year ending 30th June,2020 is as tabulated below:

Item	Sh.'000'	Sh.'000'
Revenue		420,250
Cost of sales	305,200	
Distribution costs	26,000	
Administrative expense	30,500	
Finance costs	3,050	
Investment incomeS		350
Ordinary shares Sh.0.50 each		92,000
6% Debenture		37,500
Retained Earnings 1 July 2017		7,250
Land	80,000	
Plant and Equipment at cost	130,550	
Accumulated Depreciation 1 July 2017-Plant and Equipment		56,550
Inventory	32,200	
Trade receivables	46,350	
Bank	30,850	
Deferred tax		6,800
Trade payables		64,000
	<u>684,700</u>	<u>684,700</u>

Additional Information

1. On 30 June 2020, freehold land was revalued at a gain of Sh.1.5million. The entry has not been reflected in the books of account yet.
2. Plant and equipment are depreciated at 12% per annum on reducing balance basis. All depreciation is treated as an administration cost
3. The directors propose to pay the ordinary shareholders a final dividend of Sh.0.7 per share for the year ended 30 June 2020.
4. The applicable corporate tax rate is 25%

Required: Statement of comprehensive income and statement of financial position for the year ended 30 June 2020 (16 Marks)

(b) Discuss two methods of implementing a change in accounting policy and estimate (4 marks)
