



**KISII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**

**SECOND YEAR EXAMINATION FOR THE AWARD OF THE**  
**BACHELORS DEGREE IN ACCOUNTING AND FINANCE**  
**FIRST SEMESTER 2023/2024**  
**[AUGUST-DECEMBER, 2023]**

**BBAM 212: INTERMEDIATE ACCOUNTING II**

**STREAM: Y2 S1**

**TIME: 2 HOURS**

**DAY: THURSDAY, 9.00 – 11.00 A.,M.**

**DATE: 16/11/2023**

**INSTRUCTIONS**

- 1. Do not write anything on this question paper.***
- 2. Answer Questions ONE and any other THREE Questions.***

**QUESTION ONE**

- a) Discuss the rights of ordinary shareholders as compared to preference shareholders **(4Marks)**.
- b) Reserves forms part of the equity capital of a company. Discuss in detail the classification of reserves giving clear examples. **(4Marks)**.
- c) Acompany in need of capital may issue its shares or debentures to the public. Explain the conditions under which a company may issue shares at a discount **(5Marks)**.
- d) UPWEKE Company Ltd. has an authorized ordinary share capital of Sh.20 million divided into 1,000,000 shares of Sh.20 each.

On 3 September 2017, the directors of the company issued 250,000 ordinary shares payable as follows:

Per share Sh

|   |    |
|---|----|
| On application (including premium) on 24 September 2017 | 13 |
| On allotment on 1 October 2017                          | 7  |
| On first and final call on 1 November 2017              | 5  |

**Additional information:**

1. Applications were received for 320,000 shares. The applicants for 20,000 shares who were unsuccessful were refunded their application monies. The rest of the shares were allotted on a pro rata basis. The excess application monies for the successful applicants were used to reduce the amount due on allotment.
2. The balance of the money due on allotment was received on the due date except for one allottee of 50,000 shares who failed to pay the allotment money. These shares were declared forfeited on 2 October 2017 and re-issued at Sh.22 per share to another member as fully paid.
3. The first and final call monies were received on the due date.

**Required:**

Journal entries, including narrations to record the above transactions

**(12 Marks)**

**(Total: 25 marks)**

**QUESTION TWO**

- a) Differentiate between finance lease and operating lease **(4Marks)**
- b) During the year ended 2022 Bank ltd redeemed 1000 sh.5 preference shares at par.

As at 31 December 2021 the statement of financial position revealed

|                                     |        |
|-------------------------------------|--------|
|                                     | Sh.    |
| Other assets                        | 13,000 |
| Bank                                | 7000   |
| Ordinary share capital              | 5000   |
| Redeemable preference share capital | 5000   |
| Statement of comprehensive income   | 7000   |
| Creditors                           | 3000   |

Required:

- i. Statement of financial position as 31 December 2022 if the company issued 1000 sh.5 new ordinary shares to carter for the redemption.
- ii. Statement of financial position as 31 December 2022 if no new were issued to carter for the redemption.

**(11Marks)**

**Total (15 marks)**

### **QUESTION THREE**

(i) Differentiate between redeemable preference shares and non- redeemable preference shares

(4Marks)

(ii) Clearly explain the legal requirements for accompany to redeem its shares

(4Marks)

(ii) Clay works ltd issued sh.100,000 6% debentures at par redeemable at sh.101,000four years later. Under these terms a sinking fund was to be built up by annual appropriations of sh.220, 000 out of profit and loss account which were invested with any income which had arisen on the fund. The investment draws an interest of 10%p.a

Required

a) Profit and loss account

**(3Marks)**

b) Sinking fund investment account

**(4Marks)**

**Total: 15Marks**

### **QUESTION FOUR**

The following Trading and Profit and Loss Accounts have been prepared for internal use by QATAR ltd

Trading and Profit and Loss Accounts for year ended 31 December 2022.

|  | Sh.000     | Sh.000     | Sh.000       |
|--|------------|------------|--------------|
| Sales                                    |            |            | 3,200        |
| Less Cost of Sales:                      |            |            |              |
| Opening Stock                            |            | 320        |              |
| Add Purchases                            |            | <u>920</u> |              |
|  |            | 1,240      |              |
| Less Closing Stock                       |            | <u>220</u> | <u>1,020</u> |
| Gross Profit                             |            |            | 2,180        |
| Distribution Costs:                      |            |            |              |
| Vehicles Expenses                        | 130        |            |              |
| Depreciation of Vehicles                 | 100        |            |              |
| Wages                                    | 500        |            |              |
| Selling Expenses                         | <u>120</u> | 850        |              |
| Administration Costs:                    |            |            |              |
| Salaries                                 | 470        |            |              |
| Depreciation of Office Equipment         | 40         |            |              |
| Discount Allowed                         | 30         |            |              |
| Bad Debts                                | 60         |            |              |
| Directors' Fees                          | 80         |            |              |
| Audit Fees                               | <u>50</u>  | <u>730</u> | <u>1,580</u> |
|  |            |            | 600          |
| Discount Received                        |            | 40         |              |
| Interest Received                        |            | 50         |              |
| Decrease in Provision for Doubtful Debts |            |            | 20           |
| Profit on Sale of Vehicles               |            | 10         | <u>120</u>   |
|  |            |            | 720          |
| Debenture Interest                       |            |            | <u>40</u>    |
| Net Profit before tax                    |            |            | 680          |
| Corporation Tax                          |            |            | <u>170</u>   |
| Net Profit after Tax                     |            |            | 510          |
| General Reserve                          |            | 50         |              |
| Ordinary Share Dividend                  |            | <u>200</u> | <u>250</u>   |
| Retained Profit for year                 |            |            | 260          |
| Add Retained Profit brought forward      |            |            | <u>40</u>    |
| Retained Profit carried forward          |            |            | <u>300</u>   |

**Required**

Prepare the Profit and Loss Account for external use.

**(15 Marks)**

**QUESTION FIVE**

(a) Explain the objectives of published accounts

**(6Marks)**

- (b) Explain the contents of director's report in published accounts **(6Marks)**  
(c) Explain the three main items contained in the auditor's report **(3Marks)**

**QUESTION SIX**

- a) State and explain three reasons why the amount of cash flows of a business firm during a given period may differ from the profits generated by the business firm during the same period. **(4Marks)**
- b) The following summarized balance sheets relate to Manu Ltd as at 31 December

|  | 2009           | 2010             |
|--|----------------|------------------|
|  | Sh. '000'      | Sh. '000'        |
| Land and buildings                           | 80,000         | 120,000          |
| Plant and machinery                          | 500,000        | 800,000          |
| Stock  | 100,000        | 75,000           |
| Debtors                                      | 150,000        | 160,000          |
| Cash at bank                                 | <u>20,000</u>  | <u>40,000</u>    |
|  | <u>850,000</u> | <u>1,195,000</u> |
| Issued ordinary share capital of sh. 10 each | 500,000        | 700,000          |
| Share premium                                | -              |                  |
| General reserve                              | 50,000         | 20,000           |
| Retained profit                              | 20,000         | 70,000           |
| Taxation                                     | 30,000         | 52,000           |
| Dividend                                     | 50,000         | 48,000           |
| Sundry creditors                             | 153,000        | 190,000          |
| Bills payable                                | 7,000          | 50,000           |
| Outstanding expenses                         | <u>850,000</u> | <u>5,000</u>     |
|  | <u>850,000</u> | <u>1,195,000</u> |

Additional information

1. Sh. 50,000,000 depreciation has been charged on plant and machinery during the year 2010.
2. A piece of machinery was sold for sh. 8,000,000 during the year ended 2010. It had originally cost sh. 12,000,000

***Required***

Manu's Ltd. cash flow statements for the year ended 31 December 2010

**(11Marks)**

**Total (15 marks)**