



GRE TSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY – AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 201

COURSE TITLE: INTERMEDIATE ACCOUNTING II

DATE: 2 AUGUST 2023

TIME: 8:00 AM – 11:00 AM

INSTRUCTIONS TO CANDIDATES

- a) SECTION A IS **COMPULSORY**.
- b) SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
- c) **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
- d) ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A: COMPULSORY

Question One

a) Company XYZ leases a piece of equipment with a fair value of Kshs. 10,000,000 and an estimated useful life of 5 years. The lease agreement specifies annual lease payments of Kshs. 2,500,000 and transfers ownership of the equipment to Company XYZ at the end of the lease term.

(i) Determine whether this lease should be classified as an operating lease or a finance lease.

[10 Marks]

(ii) Prepare the lease amortization schedule assuming the effective interest rate is 10% **[15 Marks]**

b) A lease is an agreement conveying the right to use property, plant or equipment usually for a stated period of time and with periodic repayments. Explain five advantages of leasing. **[10 Marks]**

c) Explain the term contingent gain and give two examples. **[5 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

a) Explain the meaning of Bonds Payable and explain two types of bonds payable.

[8 Marks]

b) Company A issues a 10,000,000 bond with a coupon rate of 6% and a maturity period of 5 years in the year 2016. The bond effective interest rate is 8%.e market rate 10%.

Required:

Prepare the bond amortization schedule

[12 Marks]

a)

Question three

a) Explain the concept of present value in accounting. How is present value calculated and why is it important in financial decision making?

[8 Marks]

b) Write short notes on the following:

a) Unearned revenues

[4 Marks]

b) Accounts Payable

[4 Marks]

c) Sales tax payable

[4 Marks]

Question Four

a) Explain the importance of shareholders' equity for both the company and its stakeholders.

[8 Marks]

b) Describe the key components of shareholders' equity.

[12 Marks]

Question five

A company has a nominal capital of Kshs 10,000,000 divided into 100,000 ordinary shares of Kshs. 100 each. The whole of the capital is to be issued at par on the following term:

Payable on application sh. 30.00 per share

Payable on allotment sh.40.00 per share

First call sh.20.00 per share

Second call sh.20.00 per share

The applications were received for 100,000 shares and these were allotted to the applicant.

The calls have been made and paid in full by the members.

i) Show the journal entries (including cash) recording issue up the shares. [10 Marks]

ii) Show the appropriate balance sheet entries relating to the issue of the shares.

[10 Marks]

i)

ii)