GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS

JANUARY-APRIL 2026 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 201

COURSE TITLE: INTERMEDIATE ACCOUNTING II

DATE:APRIL 2026 **TIME: 2 HOURS**

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY.**
2. SECTION B: ANSWER ANY OTHER **TWO** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. 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) Define a liability. **[2 Marks]**

b) To be classified as a capital lease by the lessee, the lease must meet one of four criteria. List these four criteria. **[8 Marks]**

c) Matunda Ltd. is authorized to issue 2,000,000 shares of Sh.10 par value common stock and 250,000 shares of Sh.20 par preferred stock. During 2015, its first year, the company had the following stock transactions:

Jan 10 Issued 800,000 shares of stock at Sh.16 per share

Feb 1 Issued 2,000 shares of preferred stock for land having a fair market value of Sh.250,000

Mar 1 Issued 2,000 shares of preferred stock for cash at Sh.240 per share

July 1Issued 200,000 shares of stock for land. The land had an asking price of Sh.1,800,000. the stock is currently selling on a national exchange at Sh.16.50 per share.

Required:

Prepare journal entries to record the transactions. **[15 Marks]**

d) Describe any 5 examples of liabilities in a firm. **[5 Marks]**

SECTION B: ANSWER ANY TWO QUESTIONS

Question Two

a) Write short notes on the following terms as used in accounting for liabilities:

Earned Capital **[4 Marks]**

Capital Stock **[4 Marks]**

Par value of a share **[4 Marks]**

No-Par-Stock **[4 Marks]**

Limited Liability of Stockholders **[4 Marks]**

Question three

a) On January 2020, Ley Leasing Company and Kale Company, lessee signed a 3 non-cancelable lease for an asset with an estimated economic life of 3 years. The agreement

involved no collection uncertainties, and the lessor performance is complete. The three lease payments were sh 182,780 each, payable January 1, 2021, 2022 and 2023. The fair market value at the inception of the lease was sh 500,000 which is also the carrying value (cost) on the lessor's books. The lease does not contain a renewal or bargain purchase option, and the asset reverts to the lessor at the end of the 3 year period. The lessee incremental borrowing rate is 10% and the asset is depreciated using the straight line method for book purposes. The asset residual value is sh. 0 (zero). The accounting year ends December 31 for each party.

Required:

i. Pass the journal entries in the first year to record the lease and the initial payment. **[8 Marks]**

ii. Prepare the lease amortization schedule. **[12 Marks]**

Question Four

On July 1, year 2025, Mariane Company issued bonds with a face amount of Sh.8,000,000 maturing in four years. The coupon interest rate was 9% payable semi-annually on June 30 and December 31. The bonds were issued to yield 10% compounded semi-annually.

a) Compute the proceeds received for the bonds. **[6 Marks]**

b) Prepare journal entries to record the the issuance of the bonds **[14 Marks]**

Question five

Listed below are selected transactions for Comfy Company relating to current liabilities during the current fiscal year 2024.

Jan 10 Purchased merchandise for Sh.500,000. A 2% discount is offered by suppliers. Comfy records purchases and accounts payable net of discounts and uses the periodic inventory system

Jan 19 Paid Sh.333, 200 on invoice of January 10. The invoice was billed to Comfy for Sh.340,000 and was paid within the discount period.

Jan 31 Paid balance of January 10 invoice, Sh.160,000, after the discount period

April 1 Issued a one – year promissory note to supplier in settlement of an invoice for Sh.200,000 dated March 31. The invoice was recorded net of 2% purchases discount; that is Sh.196,000. The face amount

of the note was Sh.223,360, including interest at 15% on Sh.196,000 for one year. The note was recorded at face amount.

June 30The company sells service contracts on its products and credits Deferred Service Contract Revenue when payments from customers are received. For the current year, Sh.148,000 of the service contract revenue is considered realized.

Required;

Prepare journal entries to record the transactions above. **[20 Marks]**