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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2024/2025ACADEMIC YEAR
SECOND YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 12th April, 2024
Time: 11.30am –1.30pm

KAC 201 - INTERMEDIATE ACCOUNTING 11

INSTRUCTIONS TO CANDIDATES

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

QUESTION ONE (30 MARKS)

CASE STUDY

Following are selected transactions or events of Alpine Company relating to its first month of operation.

01-June	Alpine borrowed Sh.75,000 via a note payable bearing interest at 1% per month. This note and all accrued interestare due at the end of July.
10-June	Purchased Sh.15,000 of inventory, terms 2/10, n/30. The purchase was initially recorded at the net amount. Theobligation was not paid during June.
15-June	The company adopted an employee health insurance plan. The total estimated cost is Sh.75 per day. None of thiscost was funded during June.
20-Jun	Sold goods for Sh.65,000 cash. Alpine offers a warranty on the goods and anticipates that total warranty costwill be 2% of sales.
25-Jun	One of Alpine's vehicles was involved in an accident. Alpine expects to be held responsible for an estimated Sh.7,500 in damages.
25-Jun	At month end, it was estimated that employees are owed for $11,500 in accrued wages. In addition, Sh.275 wasspent on warranty service work.

Required:

a) Prepare initial journal entries necessary to record the above transactions or events. (8 marks)

b) Prepare month-end adjusting journal entries that are deemed appropriate related to the above transactionsor events. (8 marks)

c) Prepare the current liability section of the company's balance sheet as of the end of the month. The onlyobligations are those related to the above transactions or events. (6 marks)

d) Identify the four requirements that must be met before a liability is accrued for future compensated absences. (4 marks)

e) Give the accounting definition of a contingency and identify three characteristics of a contingency. (4 marks)

QUESTION TWO (20 MARKS)

a) Discuss the possible advantages of leasing. (8 marks)

b) On January 1, 2016, the Bow Company leased manufacturing equipment from the Stern Company. The following information about this lease is available:

Non-cancelable term of the lease:	10 years, with no bargain purchase option
The economic life of the equipment:	15 years
Fair value (cost to the lessor) of the equipment:	Sh. 375,000
Lease payments, due at the end of each year:	Sh. 55,000
Bow Company's incremental borrowing rate (The implicit rate is not known by Bow):	12%
Bow Company's depreciation method:	straight-line
Present value factor for an ordinary annuity of 10 years at 12%:	5.650223
Present value factor for a single sum at the end of 10 years at 12%:	0.321973

Required

i) Classify the lease from the lessee's viewpoint. (8 marks)

ii) Prepare the Bow Company's journal entry for the lease for 2016. (4 marks)

QUESTION THREE (20 MARKS)

The Hester Co. was incorporated in 2018 in Kenya. Its charter authorizes the corporation to issue 1,000,000 of Sh. 1 par value common stock and an additional 25,000 shares of 4 percent, Sh. 20 par value cumulative convertible preferred stock. The transactions relating to the company's stock during 2000 are as follows:

Feb.	12	Issued 100,000 shares of common stock for Sh. 125,000.
	20	Issued 3,000 shares of common stock for accounting and legal services. The services were billed at Sh. 3,600.
Mar.	15	Issued 120,000 shares of common stock to Morris in exchange for a Building and land valued at Sh. 100,000 and Sh. 25,000 respectively.
Apr.	2	Purchased 20,000 shares of common stock for treasury at Sh. 1.25 per Share.
Jul.	1	Issued 25,000 shares of preferred stock for Sh. 500,000.
Sep.	30	Sold 10,000 of the shares in treasury for Sh. 1.5 per share.
Dec.	31	The company reported a net income of Sh. 40,000 for 2010, and the board Declared dividends of Sh. 25,000, payable on January 15, to stockholders on record on January 8. Dividends included preferred stock cash dividends for half a year.

Required:

a) Prepare the journal entries necessary to record these transactions. (8 marks)

b) Close the income summary and cash dividends declared accounts to retained earnings. (4 marks)

c) Following the December 31 entry to record dividends, show dividends payable for each class of stock. (2 marks)

d) Prepare the stockholders' equity section of the balance sheet as of 31st December 2010. (6 marks)

QUESTION FOUR (20 MARKS)

ABC Corporation issued Sh. 100,000 of 8 percent term bonds on January 1, 2013, due on January 1, 2018, with interest payable each July 1 and January 1. The investors required an effective interest rate of 10 percent.

Required;

a) The amount of premium on the above issues hence the amount of proceeds received by ABC Corporation out of this issue. (5 marks)

b) The total cost of borrowing. (1 mark)

c) Bond discount amortization schedule based on the effective interest rate method. (8 marks)

d) Show journal entries to record:
   i) The issuance of its bonds at a discount on January 1, 2016. (2 marks)
   ii) The first interest payment on July 1, 2013, and amortization of the discount. (2 marks)
   iii) The interest expense accrued on December 31, 2013, and amortization of the discount. (2 marks)

QUESTION FIVE(20 MARKS)

a) Describe the various kinds of dividends. (8 marks)

b) Kingston presented the following selected information. The company has a calendar year-end.
   1. Before considering the effects of dividends, if any, Kingston's net income for 2017 was Sh.1,250,000.
   2. Before considering the effects of dividends, if any, Kingston's net income for 2018 was Sh.1,500,000.
   3. Kingston declared Sh.375,000 of dividends on November 15, 2017. The date of record was January 15, 2018. The dividends were paid on February 1, 2018.
   4. Kingston declared Sh.375,000 of dividends on November 15, 2017. The date of record was January 15, 2018. The dividends were paid on February 1, 2018.
   5. Stockholders' equity, on January 1, 2017, was Sh.2,500,000. No transactions impacted stockholders' equity throughout 2017 and 2018, other than the impact of earnings and dividends on retained earnings.

   Required:

   i) Prepare journal entries, if needed, to reflect the dividend declaration, the date of record, and the date of payment. (5 marks)
   ii) How much was net income for 2017 and 2018? (2 marks)
   iii) How much was total equity at the end of 2017 and 2018? (2 marks)
   iv) Is total "working capital" reduced on the date of declaration, date of record, and/or date of payment? (3 marks)