



Kasarani Campus  
Off Thika Road  
Tel. 2042692 / 3  
P. O. Box 49274, 00100  
NAIROBI  
Westlands Campus  
Pamstech House  
Woodvale Grove  
Tel. 4442212  
Fax: 4444175

**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY  
UNIVERSITY EXAMINATION, 2018/2019 ACADEMIC YEAR  
SECOND YEAR, FIRST SEMESTER EXAMINATION  
FOR THE DEGREE OF BACHELOR OF SCIENCE  
(BUSINESS ADMINISTRATION)**

Date: 10th April, 2018  
Time: 8.30am -10.30am

**KAC 201 – INTERMEDIATE ACCOUNTING II**

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Explain the following terms (8 Marks)
- i) Accrued liabilities
  - ii) Notes payable
  - iii) Obligations for warranties
  - iv) Notes payable
- b) Using suitable examples explain the difference between gain and loss contingencies (6 Marks)
- c) Explain any three differences between a bond and a bank loan (6 Marks)
- d) Explain any three features of a finance lease (6 Marks)
- e) Explain the term sale and lease back (4 Marks)

**QUESTION TWO (20 MARKS)**

The following transactions relate to Kazi traders in the month of March 2018

- i) Cash sales 258,000
- ii) Credit sales to Kazana Ltd 452,000
- iii) Credit sales to Jasho traders 658,000
- iv) Credit note to Kazana ltd for goods returned 28,500
- v) Trade discount to Jasho traders 1.5%
- vi) Payment by Kazana Ltd 125,000 by cheque

- vii) Cash sales to Utawala retailers 65,000
- viii) Credit sales to Umoja traders 850,000
- ix) Cash discount offer to Umoja traders amount to 1% if the account is settled within 30 days
- x) Debit note to Umoja traders 57,500
- xi) Payment by Jasho traders 255,000

Required:

- a) Pass journal entries to record the above transactions (10 Marks)
- b) Determine the balance on payables for the month (6 Marks)
- c) Prepare an extract of statement of financial position to record the payables as they would appear (4 Marks)

**QUESTION THREE (20 MARKS)**

Salama limited has an authorized share capital of 1,000,000 shares each with a par value of ksh 10. The directors issued 500,000 shares by private placement as follows.

- i) Selling price ksh 20 per share
- ii) First installment on Application ksh 10 per share
- iii) First call ksh 5 per share
- iv) Second call Ksh 5 per share

The following were the results of the issue

- i) 720,000 applications were received and allocations were prorated
- ii) The extra applications were refunded
- iii) First call received ksh 2,350,000
- iv) While the second call received ksh 2,510,000

Required:

- a) Prepare journal entries to record the share issue (10 Marks)
- b) Prepare an extract of the statement of financial position to record the share capital, share premium and any calls in arrears (10 Marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain any four advantages of bonds as a long term debt (8 Marks)
- b) Kiriri Ltd has issued a bond with the following terms  
 Face Value 1,000,000  
 Coupon Rate 8%  
 Market rate 6%  
 Term 7 years

Required:

- i) Determine the discount / premium at the time of issue (3 Marks)
- ii) Amortize the bond over the term (7 Marks)
- iii) Pass the necessary journal entries to record issuance and amortization for the first year (2 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Explain any four advantages of leasing (8 Marks)
- b) Jamii Ltd hires out individuals plant on long term operating leases. On 1 Jan 2001 it entered into a seven year lease on a mobile crane. The terms of the lease are shs. 1,750,000 payable on 1 Jan 2001, followed by six rentals of shs. 700,000, paid on 1 Jan 2001 to 2007. The crane will be returned to Jamii on 31 Dec 2007. The crane cost shs.880, 000 and has a 25 year useful with no residual value.

**Required:**

- a) Calculate the annual rental income that will be claimed by Jamii Ltd (6 Marks)
- b) Prepare extracts from the income statement and the balance sheet of Jamii Ltd for 2001 and 2002 (6 Marks)