SIR ARTHUR LEWIS COMMUNITY COLLEGE

ACADEMIC YEAR (2024/2025) – SEMESTER TWO

END OF SEMESTER EXAMINATION

ALTERNATE

COURSE CODE	**:**	ACC302
COURSE TITLE	**:**	Intermediate Financial Accounting II
LECTURER(S)	**:**	F. Beerom-Henry
DATE	**:**	
TIME	**:**	
DURATION	**:**	1 hr 15 mins
STUDENT ID #	**:**	____________________

GENERAL INFORMATION AND INSTRUCTIONS

- Students must sign **IN** and **OUT** on the examination class list.
- Write your ID number **ONLY** on each page of your answer booklet.
- This paper has 3 extended response questions.
- Answer ALL questions.
- Begin each question on a new page.
- Number all answers clearly and accurately.
- Use of non-financial calculator required.
- Show all workings.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO

Instructions: Answer ALL questions.
Begin each question on a new page and number all answers clearly and accurately.

Question 1

A.

Complete the following decision map for the various categories of debt/equity investments. Place your answer on the foolscap provided.

	Description of Investment	**Classification / Treatment**
1.	Equity or debt investment acquired where the intent is to sell to realize changes in the value of the investment	
2.	Debt investment acquired where the intent is to collect cash flows (interest & dividends) and to sell to realize changes the value of the investment	
3.	Debt investment acquired with the intent to collect contractual cash flows (principal & interest) and to hold to maturity	
4.	Investment (20% - 50%) acquired to influence company decision	
5.	Equity investment acquired where the intent is to collect cash flows (interest & dividends) and to sell to realize changes the value of the investment	

(5 marks)

B.

On March 1, 2023 Alfred Corp. purchased 5,000 ordinary shares of Stanley Ltd., a publicly traded company for $264,000. This represented less than 2% of Stanley's portfolio.

Alfred 's business model is to collect dividend cash flows for now and sell the shares if or when the share price reaches $54 per share.

During 2023, Stanley Ltd. paid cash dividends of $3.00 per share.

At the end of 2023, due to a temporary downturn in the market, the shares had a market value of
$45 per share.

The market rebounded in September 2024. Alfred Corp. sold 1,000 Stanley Ltd. shares for $55 each. The market value of shares at the end of 2024 was $54.60.

Required: ***[Show all workings]***

i. Prepare Alfred's journal entries for the investment purchase, the dividend and the year-end adjustment for 2023. **(11 marks)**

ii. Prepare Alfred's journal entries for the sale and the year-end adjustment for 2024. **(15 marks)**

C.

On January 1, 2024 Alfred Corp. purchased 30% of Clarke Inc. 200,000 outstanding ordinary shares for $520,000. All the other outstanding shares were widely held.

Financial information relating to Clarke Inc.:

Dividends declared and paid December 2024 - $190,000

Net income for year ended December 2024 - $280,000

Required:
Prepare all necessary journal entries for Alfred Corp. for 2024 relating to its investment in Clarke Inc. **(9 marks)**

TOTAL 40 MARKS

Question 2

Alfred Inc. reported pretax financial income of $80,000 for 2024. The following additional data was provided by the accountant for the same year.

- Depreciation for tax purposes exceeded book depreciation by $16,000.
- Rent revenue reported for tax purposes exceed what was reported on the income statement by $27,000.
- Fines for environmental violations off $11,000 were reported on the income statement.
- The tax rate of 30% has not changed for several years and is not expected to change in the future.
- There were no deferred taxes at the beginning of the year.

Required:
A. Prepare a schedule starting with pretax financial income and compute income tax payable (current tax expense). **(6 marks)**

B. Prepare the journal entry to record income taxes for 2024. **(9 marks)**

TOTAL 15 MARKS

Question 3
The accountant for Alfred Corp. has provided the following data for the company's defined-benefit pension plan for 2024:

Fair value of plan assets January 1, 2024	$546,200
DBO balance as determined by actuary January 1, 2024	560,000
Past service cost, effective January 3, 2024	120,000

Discount (interest) rate on bonds	9%
Service cost for the year	$58,000
Employer annual contributions to the plan	65,000
Actual return on plan assets	52,000
Benefits paid to retirees	40,000

Required:
(a) Using the above data for Alfred Corp., prepare the pension work sheet for 2024. Be sure to use Dr and Cr annotations next to your values on the pension worksheet. **(11 marks)**

(b) Prepare the journal entry to reflect the accounting for the company's pension plan for the year ending December 31, 2024. **(4 marks)**

TOTAL 15 MARKS

END OF EXAMINATION