**QUESTION ONE**

Susan’s Shoe Shop opened on January 1. The following transactions took place during the first month:

1. Deposited Ksh.30,000 in the firm’s checking account.

2. Purchased shoes, boots, socks, and other inventory for Ksh.45,000 on account.

3. Purchased display shelving, chairs, and other fixtures for Ksh.10,000 cash and Ksh.40,000 on account. Assume a useful life of five years.

4. Obtained Ksh.20, 000 and signed a three-year, Ksh.20,000 bank loan at 8% annual interest.

5. Had sales revenue during January of Ksh.75, 000. Of this amount, Ksh.25,000 was received in cash and the balance was on account.

6. The cost of the merchandise sold in item 5 was Ksh.32,000.

7. Paid Ksh.10,000 to each of two different creditors.

8. Signed an application for a one-year insurance policy and paid the year’s premium of Ksh.2,400.

9. Paid three employees a monthly salary of Ksh.2,000 each.

10. Collected Ksh.35,000 from (accounts receivable) customers.

***Required***

a. Analyse these transactions, including any appropriate adjustments, using the basic accounting equation.

b. Prepare a simple income statement for the firm.

c. Identify any significant missing elements in your income statement.

d. Prepare a simple statement of financial position (balance sheet) for Susan’s Shoe Shop.

**QUESTION TWO**

Susan’s Sweets, a candy shop, opened on January 1, 2012, with the following transactions:

1. Susan deposited Ksh.100,000 in cash on January 1, 2012, and began business as a sole proprietorship.

2. Susan transferred a rental agreement for commercial premises to the candy shop. She personally had paid Ksh.20,000 rent for the next six months on December 31 of the prior year, and now transferred all rights under the six- month agreement. This agreement is renewable for another six months on July 1. (Note: Increase owners’equity capital account.)

3. Susan purchased candy and other “sweetments”at a cost of Ksh.40,000 in cash.

4. Susan purchased store fixtures at a cost of Ksh.15,000, paying Ksh.5,000 in cash and the balance on account. These store fixtures have a useful life of five years, with no expected salvage value.

5. The six-month rental agreement expired. She renewed it for another six months and paid Ksh.20,000.

6. During the first year of operations, Susan’s sales totaled Ksh.132,000 on account.

7. Collections from customers totaled Ksh.130,500.

8. During the first year, her other operating expenses were Ksh.37,300 on account. In addition, she received “salaries” of Ksh.10,000, which were really a with- drawal or drawing.

9. At the end of the first year, Susan’s Sweets had Ksh.2,000 of inventory.

10. Record depreciation for the first year.

11. Record the adjustment to prepaid rent.

Required

a. Use the basic accounting equation to show the effects of the transactions and any necessary accruals during Susan’s first year of business.

b. Based on that analysis, prepare a statement of financial position/ balance sheet and an income statement for the first year.

**QUESTION THREE**

The Western Fittings Corporation began business on July 1, 2012. The following transactions occurred during its first six months:

1. Three individuals each invested Ksh.30,000 in exchange for capital stock.

2. One year’s rent was paid for Ksh.12,000 on July 1.

3. On August 1, several pieces of property, plant, and equipment were purchased for Ksh.75,000 on account.

4. During the six months, clothing, boots, and accessories were purchased for Ksh.60,000 cash.

5. The corporation had sales revenue of Ksh.85,000, of which Ksh.35,000 has not yet been collected in cash.

6. The cost of the clothing, boots, and accessories sold in item 5 was Ksh.55,250.

7. Employees were paid Ksh.24,000 in wages.

8. The corporation paid utilities and telephone expenses of Ksh.5,000.

Required

a. Analyse and record these transactions using the basic accounting equation.

b. Record the above transactions in the journal and ledgers, and also the following adjustments for the six months ended December 31, 2012: rent expense and depreciation expense. Assume a 10-year life and zero residual value. c. What is the net income (loss) for the six months ended December 31, 2012? Draw a statement of financial position.