**QUESTION ONE**

Omollo and Kirui began operations of their furniture repair shop (Furniture Refinishers, Inc.) on January 1, 2012. The annual reporting period ends December 31. The following is an incomplete trial balance on January 1, 2013:

|  |  |  |
| --- | --- | --- |
| Account | Debit | Credit |
|  | Ksh. 000 | Ksh. 000 |
| Cash | 5,000 |  |
| Accounts receivable | 4,000 |  |
| Supplies | 2,000 |  |
| Small tools | 6,000 |  |
| Equipment | ? |  |
| Accumulated depreciation (on equipment) |  | ? |
| Other assets (non current) | 9,000 |  |
| Accounts payable |  | 7,000 |
| Notes payable |  | ? |
| Wages payable |  | ? |
| Interest payable |  | ? |
| Income taxes payable |  | ? |
| Unearned revenue |  | ? |
| Contributed capital (15 million shares) |  | 15,000 |
| Retained earnings |  | 4,000 |
| Service revenue |  | ? |
| Deppreciation expense |  | ? |
| Wages expense | ? |  |
| Interest expense | ? |  |
| Income tax expense | ? |  |
| Other expenses | ? |  |
|  |  |  |
| TOTAL | 26,000 | 26,000 |

**Transactions during 2013 follow:**

*a.* Borrowed Ksh.20, 000,000 cash on July 1, 2013, signing a one-year, 10 percent note payable.

*b.* Purchased equipment for Ksh.18, 000,000 cash on July 1, 2013.

*c.* Sold 5,000,000 additional shares of capital stock for cash at Ksh.1 market value per share at the beginning of the year.

*d.* Earned Ksh.70, 000,000 in revenues for 2013, including Ksh.14, 000,000 on credit and the rest in cash.

*e.* Incurred remaining expenses of Ksh.35, 000,000 for 2013, including Ksh.7, 000,000 on credit and the rest paid with cash.

*f.* Purchased additional small tools, Ksh.3, 000,000 cash.

*g.* Collected accounts receivable, Ksh.8, 000,000.

*h.* Paid accounts payable, Ksh.11, 000,000.

*i.* Purchased Ksh.10, 000,000 of supplies on account.

*j.* Received a Ksh.3, 000,000 deposits on work to start January 15, 2014.

*k.* Declared and paid a cash dividend, Ksh.10, 000,000.

**Data for adjusting entries:**

*l.* Depreciation for 2013, Ksh.2, 000,000.

*m.* Interest accrued on notes payable (to be computed).

*n.* Wages earned since the December 24 payroll but not yet paid Ksh.3, 000,000.

*o.* Income tax expense was Ksh.4, 000,000, payable in 2014.

***Required:***

1. Set up T-accounts for the accounts on the trial balance and enter beginning balances. (9 mks)

2. Prepare journal entries for transactions (a*)* through (k*)* and post them to the T-accounts. (10 mks)

3. Journalize and post the adjusting entries (l*)* through (p*)*. (6 mks)

**QUESTION TWO**

a. Define **accounting.** (3 mks)

b. Briefly distinguish financial accounting from managerial accounting. (3 mks)

c. The accounting process generates financial reports for both internal and external users. Identify and briefly expound on FOUR users of accounting information. (4 mks)

d. Briefly distinguish investors from creditors. (2 mks)

e. Define the following, giving an example in each case; (4 mks)

* Expense.
* Revenue.
* Asset.
* Liability

f. Explain what each of the following accounting terms means.

* Accrual principle. (1 mk)
* Going concern/ continuity assumption. (1 mk)

**QUESTION THREE**

D company sells computer products and services. The following is a simplified balance sheet from a recent year.

|  |  |
| --- | --- |
| D LTD  Statement of financial position as at January 30, 2010 | |
| **ASSETS** |  |
| **Current assets** |  |
| Cash | 8,352 |
| Short term investments | 740 |
| Receivables and other assets | 6,443 |
| Inventories | 867 |
| Other | 3,749 |
|  | **20,151** |
| **Non- current assets** |  |
| Property, plant and equipment | 2,277 |
| Long term investments | 454 |
| Other non-current assets | 3,618 |
| **Total assets** | **26,500** |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** |  |
| **Current liabilities** |  |
| Account payable | 8,309 |
| Other short term obligations | 6,550 |
|  | **14,859** |
| **Long term liabilities** | **7,370** |
| **Stockholders’ equity** |  |
| Contributed caital | 11,189 |
| Retained earnings | 20,986 |
| Other stockholder equity items | (27,904) |
| **Total Stockholders’ equity and Liabilities** | 26,500 |

Assume that the following transactions (in millions of shillings) occurred during the remainder of 2010 (ending on January 29, 2011):

*a.* Borrowed Ksh.30 from banks due in two years.

*b.* Lent Ksh.250 to affiliates, who signed a six-month note.

*c.* Purchased additional investments for Ksh.13,000 cash; one-fifth were long term and the rest were short term.

*d.* Purchased property, plant, and equipment; paid Ksh.875 in cash and Ksh.1,410 with additional long-term bank loans.

*e.* Issued additional shares of stock for Ksh.200 in cash.

*f.* Sold short-term investments costing Ksh.10,000 for Ksh.10,000 cash.

*g.* D declared and paid Ksh.52 in dividends during 2009.

***Required:***

1. Prepare a journal entry for each transaction. (3 mks)
2. Create T-accounts for each balance sheet account and include the January 30, 2009, balances. Post each journal entry to the appropriate T-accounts. (3 mks)
3. Prepare a statement of financial position from the T-account ending balances for D at January 29, 2010, based on these transactions. (3 mks)
4. Compute D’s current ratio for 2009 (year ending on January 29, 2010). What does this suggest about the company? (3 mks)
5. Based on the activities for the year ended January 29, 2010, prepare the investing and financing sections of a statement of cash flows. (3 mks)

**QUESTION FOUR**

a. Define the following terms;

* Control accounts.
* Memorandum accounts.
* Sales ledger control accounts.
* Purchases ledger control accounts. (4 mks)

b. From the following data, construct the sales ledger control account for the month of June 2012. (4 mks)

Balances of trade receivables as at 1 June 22,323

Balances of trade receivables as at 30 June 13,123

For the month of June 2012:

Credit sales 213,753

Cash book entries representing receipts from trade receivables 199,131

Discounts allowed 15,435

Returns inwards 7,887

Bad debts 500

c. From the following data, construct the purchases ledger control account for the month of July 2018. (3 mks)

Balances of trade payables at 1 July 2018 997

Balances of trade payables at 31 July 2018 123

For the month of July 2018:

Credit purchases for month 4,113

Cash book entries for payments of trade payables 4,898

Discounts received 89

d. Briefly describe each of the following terminology in accounting; (4 mks).

* Error of omission.
* Error of commission.
* Transposition error.
* Suspense account.

**QUESTION FIVE**

a) During 2011, Dorothy’s Ceramics Shop had sales revenue of Ksh.70, 000, of which Ksh.25, 000 was on credit. At the start of 2011, Accounts Receivable showed a Ksh.4, 000 debit balance, and the Allowance for Doubtful Accounts showed a Ksh.300 credit balance. Collections of accounts receivable during 2011 amounted to Ksh.19,000. Data during 2011 follows:

a. On December 31, 2011, an Account Receivable (Toby’s Gift Shop) of Ksh.700 from a prior year was determined to be uncollectible; therefore, it was written off immediately as a bad debt.

b. On December 31, 2011, on the basis of experience, a decision was made to continue the accounting policy of basing estimated bad debt losses on 2.5 percent of credit sales for the year.

Required:

* 1. Give the required journal entries for the two items on December 31, 2011. (3 mks)
  2. Show how the amounts related to Accounts Receivable and Bad Debt Expense would be reported on the income statement and balance sheet for 2011. Disregard income tax considerations. (3 mks)
  3. On the basis of the data available, does the 2.5 percent rate appear to be reasonable? Explain. (3 mks)

b. Explain the equation for the income statement. What are the three major items reported on the income statement? (3 mks)

c. Explain the equation for the balance sheet. Define the three major components reported on the balance sheet. (3 mks)

**QUESTION SIX**

The following are the accounts of Unique Ad, an agency that develops marketing materials for print, radio, and television. The agency’s first year of operations just ended on January 31, 2014.

Accounts Payable Ksh. 19,400

Accounts Receivable 24,900

Advertising Service Revenue 165,200

Cash 1,800

Equipment Rental Expense 37,200

Marketing Expense 6,800

Office Rent Expense 13,500

Owner’s Capital 5,000\*

Salaries Expense 86,000

Salaries Payable 1,300

Supplies 1,600

Supplies Expense 19,100

Withdrawals 0

\*Represents the initial investment by the owner.

***Required***

1. Prepare the income statement, statement of owner’s equity, and balance sheet

for Unique Ad. (15 marks)