**BUST 121: FUNDAMENTAL ACCOUNTING PRINCIPLES (SCHOOL BASED)**

1.

a. Accounting information has many users. List and expound on 4 users of accounting information. (6 mks)

b. Using a diagram illustrate and explain the conceptual framework of accounting. (8 mks).

c. Accounting would not be possible without assumptions, principles and standards that guide the profession. Discuss 3 assumptions, and 3 principles that must be observed in accounting. (6 mks).

d. Record the following transactions in a journal.

* The purchase, in cash of a motor vehicle for Ksh. 500,000.00.
* Purchase on credit of stock worth Ksh. 250,000.00.
* Sale of goods on credit worth Ksh. 130,000.00.
* The raising in cash of Ksh. 300,000.00 capital to start a business.
* Wages of Ksh. 50,000.00 due to an employee but that have not yet been paid. (10 mks)

2. ABC LTD is involved in cleaning of buildings. The trial balance for the company for the year ending 31 December 2010 is as shown below;

ABC LTD

Trial Balance

|  |  |  |
| --- | --- | --- |
|  | DR | CR |
| Cash | 4,750 |  |
| Accounts receivable | 2,592 |  |
| Prepaid insurance | 380 |  |
| Prepaid Rent | 200 |  |
| Cleaning Supplies | 152 |  |
| Cleaning Equipment | 3,875 |  |
| Accumulated Depreciation–Cleaning Equipment |  | 320 |
| Truck | 7200 |  |
| Accumulated Depreciation–Truck |  | 720 |
| Accounts Payable |  | 420 |
| Wages Payable |  | 295 |
| Unearned Cleaning Revenue |  | 1,690 |
| Capital |  | 15,034 |
| Withdrawals | 2,000 |  |
| Cleaning Revenue |  | 14,620 |
| Wages Expense | 5,680 |  |
| Rent Expense | 1,350 |  |
| Gas, Oil, and Other Truck Expenses | 580 |  |
| Insurance Expense | 380 |  |
| Supplies Expense | 2,920 |  |
| Depreciation Expense–Cleaning Equipment | 320 |  |
| Depreciation Expense–Truck | 720 |  |
|  | **33,099.00** | **33,099.00** |

Required:

1. Classify the above items as assets, Liabilities, Incomes, or expenses. (4 mks)
2. A statement of comprehensive incomes. (8 mks)
3. A statement of financial position. (8 mks)

3.

a. Highlight FOUR reasons why the cash book balance and the bank statement balance differ (4 mks).

b. Why is the bank reconciliation statement a necessary control over cash/ bank? (2 mks).

c. You are given the following transactions for a company.

CASH BOOK (BANK COLUMN)

|  |  |
| --- | --- |
| DR | CR |
| Dec 1 Bal B/f 2800.00 | Dec 8 Otieno 1600.00 |
| Dec 3 Kamau 1000.00 | Dec 20 Mathenge 700.00 |
| Dec 10 Okinyo 2000.00 | Dec 29 Abdallah 100.00 |
| Dec 30 Wafula 2000.00 | Dec 31 Bal C/D 4800.00 |
|  |  |

BANK STATEMENT

|  |  |  |  |
| --- | --- | --- | --- |
|  | DR (Ksh) | CR (Ksh) | Balance (Ksh) |
| Dec 1; Balance |  |  | 2,800.00 |
| Dec 3: Check deposit |  | 1,000.00 | 3,800.00 |
| Dec 8: Check 716 (Otieno) | 1,600.00 |  | 2,200.00 |
| Dec 10: Check deposit |  | 2,000.00 | 4,200.00 |
| Dec 11: Dishonoured Check | 2,000.00 |  | 2,200.00 |
| Dec 11: Service Charges | 30.00 |  | 2,170.00 |
| Dec 12: Auto pay Rent | 250.00 |  | 1,920.00 |
| Dec 20: Check 763 (Mathenge) | 700.00 |  | 1,220.00 |
| Dec 31: Bank interest |  | 50.00 | 1,270.00 |
| Dec 31: Credit Transfer- Commission received |  | 300.00 | 1,570.00 |
| Dec 31: Balance |  |  | 1,570.00 |
|  |  |  |  |

Required:

A bank reconciliation statement for the company. (14 mks)

4.

a. Define the term depreciation and explain 3 reasons why assets depreciate. (4 mks)

b. explain two depreciation methods that can be used to deprecate assets. (4 mks).

c. compute the depreciation expense for the following assets for the first two years. (6 mks)

* A vehicle that cost Ksh. 300,000, at a rate of 20% using straight line method.
* A vehicle that cost Ksh. 300,000, at a rate of 20% using the reducing balance method.

1. Journalize the depreciation expense that you have computed in part (c) above and post to the ledgers. (6 mks).

5. Pierot Theatre Company’s trial balance at the end of its current fiscal year is shown at the top of the next page.

**Pierot Theater Company**

**Trial Balance**

**June 30, 2010**

|  |  |  |
| --- | --- | --- |
|  | DR | CR |
| Land | 20,000 |  |
| Buildings | 400,000 |  |
| Accumulated depreciation- Buildings |  | 39,400 |
| Theatre Furnishings | 370,000 |  |
| Accumulated Depreciation–Theatre Furnishings |  | 65,000 |
| Office Equipment | 31,600 |  |
| Accumulated Depreciation–Office Equipment |  | 15,560 |
| Accounts Payable |  | 45,506 |
| Gift Books Liability |  | 41,900 |
| Mortgage Payable |  | 300,000 |
| Capital |  | 312,648 |
| Drawings | 60,000 |  |
| Ticket Sales Revenue |  | 411,400 |
| Theatre Rental Revenue |  | 45,200 |
| Usher Wages Expense | 157,000 |  |
| Office Wages Expense | 24,000 |  |
| Utilities Expense | 112,700 |  |
| Interest Expense | 27,000 |  |
| Cash | 31,800 |  |
| Accounts receivable | 18,544 |  |
| Prepaid insurance | 19,600 |  |
| Office supplies | 780 |  |
| Cleaning supplies | 3590 |  |
|  |  |  |
|  |  |  |
|  | **1,276,614** | **1,276,614** |

**Additional Information**

a. Expired insurance, Ksh.17,400.

b. Inventory of unused office supplies, Ksh.244.

c. Inventory of unused cleaning supplies, Ksh.468.

d. Estimated depreciation on the building, Ksh.14,000.

e. Estimated depreciation on the theater furnishings, Ksh.36,000.

f. Estimated depreciation on the office equipment, Ksh.3,160.

g. The company credits all gift books sold during the year to the Gift Books Liability account. A gift book is a booklet of ticket coupons that is purchased in advance as a gift. The recipient redeems the coupons at some point in the future. On June 30 it was estimated that Ksh.37,800 worth of the gift books had been redeemed.

h. Accrued but unpaid usher wages at the end of the accounting period, Ksh.860.

REQUIRED

* Adjustments to the trial balance using the additional information provided. (4 mks)
* A statement of comprehensive incomes. (8 mks)
* A statement of financial position. (8 mks)