

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL I

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

THURSDAY, 13 DECEMBER 2001

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A, any **three** questions in Section B and **one** question in Section C.
3. Section A has **twenty** compulsory multiple-choice questions, each carrying 1½ marks.
4. Section B has **four** questions and only **three** are to be attempted. Each question carries 20 marks.
5. Section C has **two** questions and only **one** is to be attempted. Each question carries 10 marks.
6. Please read further instructions on the answer booklet.

SECTION A

Question 1:

- (i) Which of the following is not true about a multi-part purchase order set?
- a) Sent to supplier: To place, or confirm an earlier telephone order.
 - b) Sent to customer: Confirming order.
 - c) Kept in purchasing department or warehouse: For reference and to compare with supplier's advice and delivery notes.
 - d) Accounts department: To match against invoice and goods received note when delivered.
- (ii) Which of the following is not true about credit notes?
- a) A credit note is used by the seller to cancel part or all of previously issued invoice(s)
 - b) The total amount payable to the seller is the value of unpaid invoice minus the credit note.
 - c) May be treated as negative invoice.
 - d) A credit note issued by a supplier may require an upward adjustment in the invoice value.
- (iii) Which of the following is false?
- a) A trade discount is a reduction in the cost of goods.
 - b) Discount received is debited to the income statement
 - c) Discount allowed is debited to the income statement.
 - d) Cash discount is a reduction in the amount payable to the supplier.
- (iv) Pay Quick Ltd purchased goods worth Shs. 22,000,000. The supplier offered a 10% trade discount, and an additional 2.5% cash discount if payment is made within 20 days.

Calculate the amount Pay Quick Ltd will pay if cash was paid on the 20th day.

- a) 19,305,000
- b) 19,800,000
- c) 21,450,000
- d) None of the above.

- (v) All of the following are classified as capital expenditure except:
- a) customs duty charged on an imported machine.
 - b) costs of adding extra storage capacity to a mainframe computer used by the business.
 - c) wages of machine operators.
 - d) solicitors' fees in connection with the purchase of leasehold premises.
- vi) Which of the following is not a source document?
- a) Wages document.
 - b) Journal vouchers.
 - c) Purchase credit note.
 - d) Sales daybook.
- vii) A product purchased at a cost of Shs 50,000 was sold at Shs 66,500. Compute the profit margin.
- a) 24.8%.
 - b) 24%.
 - c) 33%.
 - d) 42.8%.
- viii) Which of the following statements are correct?
- i) Bank reconciliations are necessary to keep control over cash balances.
 - ii) Depreciation provides a fund for future purchase of property, plant and equipment.
 - iii) Crediting the wrong account will not cause a difference in the trial balance.
- a) (i), (ii) and (iii).
 - b) (ii) and (iii).
 - c) (i) and (ii).
 - d) (i) and (iii).
- ix) The capital of a sole trader would change as a result of:
- a) a creditor being paid by cheque.
 - b) raw materials being purchased on credit.
 - c) non-current assets being purchased on credit.
 - d) taking goods for personal use

x) Bad debts recovered are:

- a) credited to the trading account.
- b) a charge in the trading account.
- c) credited to the profit and loss account.
- d) a charge in the profit and loss account.

xi) Net profit was calculated as being Shs. 10,200,000= . It was later discovered that capital expenditure of Shs. 3,000,000 had been treated as revenue expenditure and a revenue receipt of Shs. 1,400,000= has been treated as a capital receipt.

The correct net profit should have been Shs:

- a) 5,800,000=.
- b) 14,600,000=.
- c) 11,800,000=.
- d) 8,600,000=.

xii) You are given the following information:

Accounts receivable as at 1 January 2001	Shs. 10,000,000.
Accounts receivable as at 31 December 2001	Shs 9,000,000.
Total receipts during 2001 were Shs 85,000,000 (including cash sales of Shs 5,000,000).	

What are the credit sales for the year 2001?

- a) Shs 81,000,000.
- b) Shs 86,000,000.
- c) Shs 79,000,000.
- d) Shs 84,000,000.

xiii) If a purchase return of Shs. 48,000 has been wrongly posted to the debit side of the sales returns account, but has been correctly entered in the supplier's account, the total of the trial balance would show:

- a) The debit side to be Shs. 96,000= more than the credit side.
- b) The debit side to be Shs. 48,000= more than the credit side.
- c) The credit side to be Shs. 96,000= more than the debit side.
- d) The credit side to be Shs. 48,000= more than the debit side

- xiv) A credit balance on a ledger indicates:
- a) A liability or revenue.
 - b) A liability or an expense.
 - c) An amount owing to the organisation.
 - d) An asset or an expense.
- xv) An organisation's cash book (bank column) has an opening credit balance of Shs. 485,000. The following transactions took place.
- i) Cash sales Shs. 1,450,000= including VAT of Shs. 150,000.
 - ii) Receipts from credit customers of Shs. 2,240,000.
 - iii) Payments to creditors of Shs. 1,800,000= less 5% cash discount.
 - iv) Dishonoured cheque from a customer amounting to Shs. 250,000=.

The resulting balance in the bank column of the cash book should be:

- a) Shs 1,155,000 debit.
 - b) Shs 1,405,000 debit.
 - c) Shs 1,245,000 debit.
 - d) Shs 1,305,000 debit.
- xvi) A cheque issued by a banker and drawn upon itself is known as:
- a) A standing order.
 - b) A bank draft.
 - c) A direct debit.
 - d) A bill of exchange.
- xvii) Which of the following statements are correct?
- i) Payment for goods is made by credit card. This is a credit transaction.
 - ii) Cash received in settlement of a debt is a cash transaction.
 - iii) A sale of goods in which the customer is allowed 30 days to pay is a credit transaction.
- a) All the above.
 - b) (iii) only.
 - c) (i) and (iii).
 - d) (i) and (ii).

- xviii) Mukasa bought a continuing business, whose assets were valued as follows:

	Shs
Buildings	50,000,000
Motor vehicles	15,000,000
Fixtures	5,000,000
Inventory	40,000,000

He paid Shs 140,000,000. This means:

- a) He paid Shs 40,000,000 for goodwill.
 - b) The buildings cost him Shs 30,000,000 more than their book value.
 - c) He paid Shs 30,000,000 for goodwill.
 - d) He made an arithmetical mistake.
- xix) Which of the following are personal accounts?
- i) Buildings.
 - ii) Wages.
 - iii) Debtors.
 - iv) Creditors.
- a) (i) and (iv) only.
 - b) (ii) and (iii) only.
 - c) (iii) and (iv) only.
 - d) (ii) and (iv) only.
- xx) Where there is no partnership agreement then profits and losses:
- a) Must be shared in same proportion as capital.
 - b) Must be shared equally.
 - c) Must be shared equally after adjusting for interest on capital.
 - d) None of the above.

SECTION B

Question 2:

- a) Explain the concept of self-balancing ledger.

(4 marks)

- b) Explain the following:

- (i) A credit balance in Accounts Receivable Control Account.
- (ii) A debit balance in Accounts Payable Control Account.

(2 marks)

- c) The following information was extracted from the books of Bichu Trading Company for the month of May 2001.

		Shs.'000
Sales ledger balances 1 May 2001	Dr	624,200
	Cr	6,420
Purchases ledger balance 1 May 2001	Dr	3,220
	Cr	522,420
Receipts from credit customers		663,040
Payments to credit suppliers		592,500
Credit sales		734,380
Cash sales		252,040
Interest charged to credit customers		300
Customers' cheques dishonoured		6,300
Discounts receivable		28,320
Credit purchases		435,520
Discounts allowable		30,420
Returns inwards		15,640
Returns outwards		8,420
Bad debts written off		11,160
Sales ledger debits transferred to purchases ledger		2,400
Sales ledger balances 31 May 2001	Cr	7,920
Purchases ledger balances 31 May 2001	Dr	4,380
Provision for bad debts		12,480

Required:

From the above information, prepare the accounts receivable ledger and accounts payable ledger control accounts for the month of May, 2001.

(14 marks)

(Total 20 marks)

Question 3

Bin Ltd depreciates its equipment at the rate of 20% per annum on cost for each month of ownership. Its financial year begins on 1 January every year.

An extract from Bin Ltd's balance sheet as at 31 December 1997 showed the following balances in respect of equipment;

	Shs. '000
Equipment	20,000
Less: Depreciation	<u>6,500</u>
	<u>13,500</u>

The following transactions took place during the year ending 31 December 1998:

On 1 March 1998 purchased equipment costing Shs.3,000,000 by cheque.

On 3 June 1998 bought a piece of equipment for Shs. 900,000 paying by cash.

On 31 August 1998, sold equipment for Shs. 2,100,000 which had been bought on 1 September 1996 for Shs. 3,000,000.

On 31 December 1998, equipment which had cost Shs 1,000,000 on 1 April 1997 was traded in for new equipment costing Shs 2,000,000. The trade in allowance being Shs 600,000. The difference was paid by cheque.

Required:

Prepare the following for the year ending 28 February 1999:

- a) Equipment account.
- b) Provision for depreciation account.
- c) Disposal of equipment account.
- d) Balance sheet (Extract).

(20 marks)

Please show all your workings.

Question 4:

The following is a list of balances taken from the ledger accounts of Mr. Ofwono, a sole trader, as at 31 July 2001.

	Shs
Inventory at 1 August 2000	5,830,000
Plant and machinery at cost	36,420,000
Accumulated depreciation	14,568,000
Purchases	48,760,000
Sales	101,890,000
Discounts allowed	1,324,000
Discounts received	1,150,000
Returns to suppliers	531,000
Returns from customers	761,000
Wages and salaries	15,300,000
Other operating expenses	21,850,000
Accounts payable - trade	4,380,000
Accounts receivable - trade	6,340,000
Cash on hand	199,000
Cash at bank	2,197,000
Drawings	8,465,000
Capital	24,927,000

The following additional information as at 31 July 2001 is provided:

- a) Inventory at close of business was valued at Shs. 6,140,000.
- b) Some operating expenses have been prepaid by Shs 172,000 and others have been accrued by Shs 233,000.
- c) Plant and machinery has to be depreciated at 20% per annum on cost.
- d) Other operating expenses include the following:

Carriage inwards	Shs 650,000
Carriage outwards	Shs 1,540,000

Required:

Prepare Mr. Ofwono's business income statement for the year ended 31 July 2001 and balance sheet as at that date

(20 marks)

Question 5

The summary of the bank column in the cash book of Ssebagala Ltd for the year ending 30 November 2001 is as follows:

	Shs. '000
Opening balance	1,654
Receipts	<u>332,478</u>
	334,132
Payments	<u>316,735</u>
Closing balance	<u><u>17,397</u></u>

Your investigation of the accounting records for this period revealed the following information:

- a) Cheques paid to suppliers of Shs. 1,435,000= have not yet been presented to the bank, and cheques paid into the bank of Shs. 1,620,000= on 30 November 2001 have not yet been credited to the company's bank account.
- b) Standing orders entered into the bank statement have been omitted from the cash book in respect of lease payments on company car for 12 months at Shs. 96,000= per month and annual insurance of Shs. 150,000=.
- c) Bank charges of Shs. 452,000= shown in the bank statement have not been entered in the cashbook.
- d) A cheque drawn for Shs. 127,000= has been entered in the cashbook as Shs. 172,000= and a cashbook page on the receipts side has been under added by Shs. 200,000=.
- e) A cheque for Shs. 238,000 has been debited to the company's bank account in error by the bank.
- f) The bank statement shows a favourable balance as at 30 November 2001 of Shs. 15,465,000=.

Required:

- a) Prepare a bank reconciliation statement as at 30 November 2001 together with a corrected cash book position.
(15 marks)
- b) What are the major uses of Bank Reconciliation Statements?

(5 marks)

(Total 20 marks)

SECTION C

Question 6

- a) What is a partnership deed? **(2 marks)**
 - b) Give four contents of a formal partnership deed **(5 marks)**
 - c) Distinguish between partner's capital and current accounts. **(3 marks)**
- (Total 10 marks)**

Question 7:

- a) Briefly explain four sources of capital for starting a business. **(4 marks)**
- b) Tonio S.M. had the following balances as at 30 June 2001:

	Shs '000		Shs '000
Land	200,000	Motor vehicles	55,000
Inventory	45,000	Loan from bank	70,000
Equipment	75,000	Cash in hand	5,000
Accounts receivable	27,000	Bank overdraft	20,000
Accounts payable	35,000		

Required

Use the above information to:

- (i) Arrange the above items into non-current assets, current assets, non-current liabilities and current liabilities. **(3 marks)**
 - (ii) Calculate Tonio S.M.'s capital using the accounting equation. **(1 mark)**
 - (iii) Prepare Tonio S.M.'s balance sheet as at 30 June 2001. **(2 marks)**
- (Total 10 marks)**