

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

PRINCIPLES OF ACCOUNTING II - PAPER 5

ATC(U) EXAMINATIONS

LEVEL 11 MODEL EXAMINATION PAPER

NOVEMBER 2001

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 Hours**
2. Attempt all questions in Section A and B, **two** questions in Section C and **one** question in Section D
3. Section A has 20 compulsory questions each carrying one mark
4. Section B has **one** compulsory question carrying 30 marks
5. Section C has **three** questions and only **two** are to be attempted. Each question carries 20 marks
6. Section D has **two** questions and only **one** is to be attempted. Each question carries 10 marks
7. Please read further instructions in the answer book

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SECTION A

Question 1

- (i) Which of the following statements is false?
- a) Goods sent to an agent on consignment continue to belong to the consignor until they are sold.
 - b) Money collected is passed to the consignor in its entirety.
 - c) The consignee (agent) sells the goods and collects the money due from customers.
 - a) Cash from consignment sales is credited to the consignor's account.
- (ii) The following are examples of cashflows from operating activities except:
- a) cash payments to suppliers for goods and services;
 - b) cash receipts from royalties, fees, commissions and other revenue;
 - c) cash payments to and on behalf of employees
 - d) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution).
- (iii) The primary responsibility for the preparation and presentation of the financial statements of a limited company lies with its:
- a) External Auditors
 - b) Management
 - c) Senior Accountants
 - d) Shareholders
- (iv) The following is **not** a difference between share capital and debentures, as far as accounting for limited companies is concerned:
- a) Debentures are often secured on company assets, unlike shares.
 - b) Shareholders can enforce payment of a dividend, just like debenture holders, in respect of interest.
 - c) Shareholders are members of the company, while debenture holders are creditors.
 - d) Debenture interest must be paid even if there are no profits, whereas dividends are only paid when profits allow.

- (v) As regards professional accounts, the receipt of money on behalf of a client is:
- a) Debited to the "receipts" column in the cash book
 - b) Debited to the respective accounts receivable account
 - c) Debited to the receivables sub-ledger in the general ledger
 - d) Debited to the "client" column in the cash book
- (vi) In preparing the financial statements of a limited company, the going concern concept is considered if:
- a) it is not expected to incur losses soon
 - b) it is not expected to continue operating
 - c) it is expected to continue operating in the foreseeable future
 - d) the company will never be wound up.
- (vii) All of the following constitute cashflows from investing activities except:
- a) cash payments to acquire plant, property, intangibles, equipment and other long-term assets;
 - b) cash advances and loans made to other parties (other than those by financial institutions).
 - c) Cash payments to acquire equity or debt instruments of other enterprises and interests in joint ventures.
 - d) Proceeds from sales of non-dealing securities.
- (viii) The following is **not** a benefit of an accounting conceptual framework:
- a) It provides a framework for developing and setting accounting standards
 - b) The influence of vested interests is minimised in the development of new accounting standards
 - c) Its fundamental accounting principles can be repeated in accounting standards
 - d) It provides a basis for resolving disputes over accounting treatment of items.
- (ix) Which of the following is false in respect to government accounting in Uganda?
- a) No distinction is made between non-current assets and day-to-day expenditure.
 - b) Government accounting is cash based.
 - c) There is no such thing as depreciation accounting.
 - d) Withdrawals from the consolidated fund must be authorised by the Auditor General.

- (x) Which one of the following statements is false?
- a) Cash equivalents are short-term, highly liquid investments that are readily convertible into cash.
 - b) "Cash" comprises cash on hand and fixed deposits.
 - c) Operating activities are the principal revenue-producing activities of the enterprise.
 - d) Financing activities are those activities that result in changes in size and composition of the equity capital and borrowings of the enterprise.
- (xi) Which one of the following statements is false?
- a) Bills of Exchange (BOE) are a guarantee that the debt will be honoured.
 - b) BOE are a form of evidence should the amount be disputed later.
 - c) BOE enables businesses to obtain money owing to them in advance of the date when the debtor is expected to clear his debt.
 - d) A BOE can be used to pay the creditor, or another person nominated by him.
- (xii) The amount of working capital would not be affected by one of the following transactions:
- a) Sale of long-term investments for cash at a loss.
 - b) Transfer of a long-term note for cash.
 - c) Issuance of a long-term note in exchange for cash.
 - d) Issuance of common stock of a corporation in exchange for non-current assets.
- (xiii) Authority to alter a company's share capital is granted by a company's:
- a) Memorandum of Association.
 - b) Annual General Meeting Minutes.
 - c) Articles of Association.
 - d) Senior Management Consultation meetings.
- (xiv) Monies received on application and allotment in respect of forfeited shares is:
- a) Credited to the application and allotment account.
 - b) Credited to the bank account.
 - c) Debited to the applications and allotment account.
 - d) Credited to the forfeited shares account.

- (xv) Which of the following is a non-cash exchange?
- Sale of a non-current asset for cash.
 - Purchase of a non-current asset paid for by the issuance of ordinary shares.
 - Purchase of a non-current asset with a long-term note payable.
 - Purchase of inventory for cash.
- (xvi) Kiboko Enterprises Ltd. reported cost of goods sold for Year 2000, of US\$600,000,000/=. Inventories decreased by US\$20,000,000/- during the year, and accounts payable increased by US\$30,000,000/- during the year. What would be Kiboko Enterprise Ltd.'s cash paid to suppliers for year 2000?
- US\$550,000,000/=.
 - US\$590,000,000/=.
 - US\$600,000,000/=.
 - US\$610,000,000/=.
- (xvii) Which of the following ratios measures short-term solvency?
- Accounts payable equity to total assets.
 - Return on investment.
 - Age of receivables.
 - Current ratio.
- (xviii) For a company that has only common stock outstanding, total shareholders equity divided by the number of shares outstanding represents the:
- Book value per share
 - Price-earnings ratio
 - Return on equity
 - Stated value per share.
- (xix) Assume Butakika Ltd. holds the following assets at year-end and classifies as cash equivalents everything stipulated by IAS 7.

Assets	Amount (US\$'000)
Treasury Bills (< 3 months maturity)	80,000
Treasury Bills (> 3 months maturity)	20,000
Commercial Paper	40,000
Investment in marketable equity securities	100,000

What would be the total cash equivalents at year-end for Butakika Ltd.?

- a) UShs. 80,000,000
 - b) UShs.100,000,000
 - c) UShs.120,000,000
 - d) UShs.140,000,000
- (xx) Which of the following would not be a cash inflow from financing activities for Karen Courts Ltd.?
- a) Cash from issuing Karen Courts Common stock.
 - b) Cash from issuing Karen Courts preferred stock
 - c) Cash from issuing Karen Courts bonds payable.
 - d) Cash from sale of Kimara Ltd. common stock.

SECTION B

Question 2

The following information relates to Mrs. Catherine Obbo, who runs a cottage industry at her residence in Makindye, as at 30 June 2001.

	Shs'000	Shs.'000
Capital Account – Balance as at 1 July 2000		210,000
Current Account – Balance as at 1 July 2000		43,600
Expenses on school fees for niece	20,000	
Non-current assets at cost	240,000	
Accumulated Depreciation		96,000
Opening inventory:		
Materials	16,000	
Work-in-progress	12,600	
Finished Goods	86,000	
Accounts payable and receivable	61,200	18,000
Provision for doubtful debts		2,500
Sales		440,000
Purchases of materials	164,000	
Manufacturing wages	80,000	
Manufacturing expenses	41,600	
Administration expenses	27,900	
Selling and distribution expenses	42,800	
Cash at Bank and in hand	18,000	
	810,100	810,100

The following additional information is also available:

- i) Inventory on hand as at 30 June, 2001 were as follows:

	Shs '000
Materials	20,000
Work-in-progress	10,600
Finished Goods	78,000

- ii) Depreciation is to be provided on the non-current assets at 10% p.a. on cost. The annual depreciation charge is to be apportioned among manufacturing, administration, and selling and distribution expenses in the proportions of 8:1:1.

- iii) Bad debts of Shs.1,200,000 are to be written off, and increase the bad debts provision to Shs.3,000,000=.

- iv) Accruals and prepayments at 30 June 2001 were as follows:

	Accruals Shs.'000	Prepayments Shs.000
Administration Expenses	400	200
Salesmen Commissions and advances	1,400	200

Required:

- a) Prepare a manufacturing, trading and profit and loss account for the year to 30 June 2001, and a balance sheet as at that date.

(20 marks)

NB: Show all relevant workings.

- b)i) State and briefly describe the four major elements of manufacturing cost which are recognised in a manufacturing account giving relevant examples.

(8 marks)

- ii) The above four cost elements are broadly classified into two major categories. Describe these categories.

(2 marks)

(Total 30 marks)

SECTION C

Question 3

Write short notes on the following:

- (a) The consolidated Fund
- (b) Recurrent Expenditure
- (c) Fund Accounting
- (d) Fiduciary Fund
- (e) Commitment Accounting

(20 marks)

Question 4

Nutex (U) Ltd. a newly incorporated company, has decided to float its shares on the Uganda Stock Exchange. Its initial public offering (IPO) is 300,000 ordinary shares of UShs.1,000 each, payable as follows:

	Per Share (Shs)
On application (inclusive of premium) on 1 April 2001	750
On allotment on 30 April 2001	200
On first and final call on 31 May 2001	200

Applications were received for 360,000 shares, and the directors decided to deal with these as follows:

- i) To refuse allotment to applicants for 8,000 shares
- ii) To give full allotment to applicants for 22,000 shares
- iii) To allot the remainder of the available shares pro rata among the other applicants.
- iv) To utilise the surplus received on applications in part payment of amount due on allotment.

An applicant, to whom 800 shares had been allocated, failed to pay the amount due on the first and final call and his shares were declared forfeit on 31 July, 2001. These shares were re-issued on 3 September 2001, as fully paid at UShs.900 per share.

Required:

Prepare ledger accounts to record the above transactions.

(20 marks)

Questions 5

The summarised balance sheets and income statements for the year ended 31 December, 2000, of Kasamba Ltd. and Tuko Ltd. are given below:

BALANCE SHEETS AS AT 31 DECEMBER, 2000

	Kasamba Ltd		Tuko Ltd	
	UShs.000	UShs.'000	UShs.'000	UShs.'000
Non-current Assets (Net)		80,000		40,000
Current Assets				
Inventory	114,000		60,000	
Accounts Receivable	44,000		40,000	
Cash	<u>22,000</u>		<u>20,000</u>	
	180,000		120,000	
Current Liabilities	<u>60,000</u>	<u>120,000</u>	<u>60,000</u>	<u>60,000</u>
Net Assets employed		<u>200,000</u>		<u>100,000</u>
Fully paid ordinary share capital		190,000		90,000
Revenue Reserves		<u>10,000</u>		<u>10,000</u>
		<u>200,000</u>		<u>100,000</u>

**INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2000**

	Kasamba Ltd		Tuko Ltd	
	UShs.'000	UShs.'000	UShs.'000	UShs.'000
Sales		320,000		240,000
Opening Inventory	78,000		40,000	
Purchases	<u>228,000</u>		<u>170,000</u>	
	306,000		210,000	
Closing inventory	<u>(114,000)</u>		<u>(60,000)</u>	
Cost of Sales		<u>192,000</u>		150,000
Gross profit for the year		128,000		90,000
General expenses		<u>(12,000)</u>		<u>(78,000)</u>
Net profit		<u>16,000</u>		<u>12,000</u>

**STATEMENT OF CHANGES IN EQUITY (EXTRACT)
FOR THE YEAR ENDED 31 DECEMBER, 2000**

	. Tuko Ltd. Kasamba Ltd	Tuko Ltd
Revenue reserves b/f	6,000	2,000
Net profit for the period	16,000	12,000
Dividends paid	<u>(12,000)</u>	<u>(4,000)</u>
Revenue reserves c/f	<u>10,000</u>	<u>10,000</u>

Required:

(a) Compute the following ratios for each company.

- | | | |
|-------|------------------------------|------------------|
| (i) | Return on Net Assets | (3 marks) |
| (ii) | Gross and Net profit margins | (4 marks) |
| (iii) | Current ratio | (2 marks) |
| (iv) | Quick ratio | (2 marks) |
| (v) | Inventory turnover | (3 marks) |

(b) Describe briefly the main conclusions that you would draw from a comparison of the ratios which you have computed for each company

(6 marks)

(Total 20 marks)

SECTION D

Question 6

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Explain each of these attributes.

(10 marks)

Question 7

In order to meet their objectives, financial statements are prepared in consideration of several conventions or concepts.

Briefly describe the various concepts underlying the preparation of financial statements.

(10 marks).