

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL II

#### PRINCIPLES OF ACCOUNTING II – PAPER 5

THURSDAY, 13 DECEMBER 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 **twenty** 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

## **SECTION A**

### **Question 1**

- (i) Which of the following is not a feature of consignment sales?
- a) The goods are owned by the trader (consignor) until they are sold.
  - b) The consignee's storage and other cost are non-refundable by the consignor.
  - c) The agent (consignee) receives a commission from the consignor for his work.
  - d) Consignees receive money from the customers on behalf of consignors.
- (ii) Which of the following statements is true in respect of partnership accounts?
- a) A partnership arises when at least two people working together as employees try to operate as a business.
  - b) Fluctuating capital account balances only change at the beginning of the partnership.
  - c) A limited partner is one whose liability is limited to the amount of his salary and interest.
  - d) Fixed capital accounts are those capital accounts which consist only of the amounts of capital actually paid into the firm.
- (iii) Ssamba Co. Ltd. is a small manufacturing concern producing exotic baby garments. Which of the following would constitute prime cost?
- (i) Salary of knitting machine operator.
  - (ii) Salary of factory supervision.
  - (iii) Costs of yarn and cotton.
  - (iv) Costs of maintaining the threading machine.
- a) (ii), (iii) and (iv).
  - b) (i), (ii) and (iv).
  - c) (i), (iii) and (iv).
  - d) (i), (ii) and (iii).

- (iv) The price-earnings ratio, used by investors to determine the viability of a company, is:
- a) Book value/number of outstanding shares.
  - b) Market price/earnings per share.
  - c) Book Value/ Earnings per share.
  - d) Market price/number of outstanding shares.
- (v) The partnership agreement governing the business of Nyakato and Nyangoma stipulates that they maintain fixed capitals. In this case, the partners' shares of profit must be:
- a) Credited to their current accounts.
  - b) Debited to their current accounts.
  - c) Credited to their capital accounts.
  - d) Debited to their capital accounts
- (vi) All of the following are classified as overhead expenses in manufacturing accounts, except:
- a) Costs of operating forklift trucks.
  - b) Rent and rates of the factory.
  - c) Depreciation of plant and machinery.
  - d) Hire of specialized machinery for a job.
- (vii) Which of the following statements is false?
- a) A bill of exchange is a form of evidence of the existence of a debt.
  - b) A bill of exchange guarantees that the debt will be honoured.
  - c) A bill of exchange enables business entities to obtain monies owed to them in advance of maturity dates.
  - d) A bill of exchange, when discounted, requires disclosure as a contingent liability at the balance sheet date.
- (viii) ... is calculated in a manufacturing account.
- a) The gross-profit on goods sold.
  - b) The production cost of goods completed in the period.
  - c) The production costs incurred in the period.
  - d) The total cost of goods produced and sold.

- (ix) Which of the following ratios is used to assess the efficiency of a company?
- a) Interest cover.
  - b) Dividend yield.
  - c) Return on capital employed.
  - d) Inventory turnover.
- (x) As a profitability ratio, return on capital employed is computed as:-
- a)  $(\text{Profit before interest and Tax}) / (\text{Total assets} - \text{current liabilities})$ .
  - b)  $(\text{Profit after Tax}) / (\text{Total assets} - \text{current liabilities})$ .
  - c)  $(\text{Profit before interest and Tax}) / \text{Total assets}$ .
  - d)  $(\text{Profit after tax}) / (\text{total assets} + \text{current liabilities})$ .
- (xi) Cutex Traders Ltd. publish their audited financial statements annually. Which of the following items would be included in the appropriation account of a limited company?
- i) Interest on long-term bank loan.
  - ii) Proposed dividend to ordinary shareholders.
  - iii) Transfers to general reserves.
  - iv) Remuneration to directors.
- a) (i) and (ii)
  - b) (ii) and (iii)
  - c) (i) and (iv)
  - d) (iii) and (ii)
- (xii) A del credere commission is given to:
- a) A consignee who does not guarantee bad debts.
  - b) A consignee who guarantees debts.
  - c) A consignee who suffers loss due to a disagreement between the buyer and seller.
  - d) A consignor who suffers bad debts.
- (xiii) Which of the following is not a major accounting concept?
- a) Materiality.
  - b) Consistency.
  - c) Accruals
  - d) Going concern.

- (xiv) Kaduggala Ltd's opening inventory was valued at Shs 6,000,000, and closing inventory was valued at Shs 10,000,000. Sales for the year amounted to Shs 80,000,000. The company's margin is 20%. What is Kaduggala's inventory turnover?
- a) 6 times.
  - b) 4 times.
  - c) 8 times.
  - d) 7.5 times.
- (xv) Money received on sale of forfeited shares is:
- a) Debited to the application and allotment account.
  - b) Credited to the forfeited shares account.
  - c) Debited to the respective call account.
  - d) Credited to the respective call account.
- (xvi) Which of the following statements does not constitute cash inflows from investing activities?
- a) Cash sales of outdated computers.
  - b) Cash sales of investments in BAT (U) Ltd.
  - c) Interest received on 91-day treasury bills.
  - d) Gains on the sale of investments in Uganda Clays Ltd.
- (xvii) An operating loss by a limited company is shown on the:
- a) Income statement only and excluded from the balance sheet.
  - b) Balance sheet as a deduction from share capital.
  - c) Balance sheet as an addition to share capital.
  - d) Balance sheet as a deduction from retained earnings
- (xviii) Which of the following is a non-cash transaction?
- a) Purchase of a long-term asset paid for by the issuance of shares of common stock.
  - b) Sale of a long-term asset for cash
  - c) Purchase of inventory on credit
  - d) Sale of ordinary shares for cash.

- (xix) The cash account of government ministries is called:
- a) Exchequer account.
  - b) Revenue account.
  - c) Paymaster general account.
  - d) Appropriations -In-Aid account.
- (xx) The major objective of the commitment control system in government budgetary control is to:
- a) Ensure that appropriations in aid are realistic.
  - b) Keep budgetary estimates at levels consistent with economic objectives.
  - c) Enable periodic expenditure and commitment control returns to be prepared.
  - d) Ensure that spending entities do not commit and/or spend public funds outside budget and cash allocations.

## SECTION B:

### Question 2

- (a) State clearly, the benefits of a cash flow statement, used in conjunction with other financial statements, to business analysis.

(6 marks)

- (b) Crescent Ltd acquired all of the shares of ABC Ltd for Shs 590,000,000. ABC Ltd had the following assets and liabilities:

	Shs '000
Inventories	100,000
Accounts Receivable	100,000
Cash	40,000
Property, plant and equipment	650,000
Trade payable	100,000
Long-term debt	200,000

#### Required:

Determine the net cash paid for the purchase of ABC Ltd.

(4 marks)

- (c) Below are the summarized financial statements of Great Lakes fishing Company Ltd.

**GREAT LAKES FISHING COMPANY LTD.**  
**Income Statement**  
**For the Year ending 31 December 2000.**

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	Shs ' 000	Shs ' 000
Trading profit		97,000
Expenses (general)	32,700	
Depreciation	17,000	
Loss on disposal of non-current assets	<u>2,300</u>	<u>(52,000)</u>
Profit before tax		45,000
Corporation tax		<u>(20,000)</u>
Profit after tax		25,000
Transfer to general Reserve	5,000	

Proposed dividends	<u>5,000</u>	<u>(10,000)</u>
Retained profit for the year		15,000
Retained profit b/f		<u>40,000</u>
Retained profit c/f		<u><b>55,000</b></u>

**GREAT LAKES FISHING COMPANY LTD.  
BALANCE SHEET  
AS AT 31 DECEMBER 2000**

	<b>1999</b>		<b>2000</b>	
	<b>Shs'000</b>	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>
<b>Non-current assets</b>				
Land and Buildings	60,000		60,000	
Less: Accumulated depreciation	<u>(7,500)</u>	52,500	<u>(10,000)</u>	50,000
Plant and machinery	65,000		173,500	
Less: Accumulated depreciation	<u>(10,000)</u>	55,000	<u>(21,000)</u>	152,500
Motor Vehicles	15,000		15,000	
Less: Accumulated Depreciation	<u>(7,500)</u>	<u>7,500</u>	<u>(8,500)</u>	<u>6,500</u>
		<u><b>115,000</b></u>		<u><b>209,000</b></u>
<b>Current Assets</b>				
Inventory	51,000		58,500	
Accounts receivable	90,000		108,000	
Bank	<u>69,000</u>		<u>2,500</u>	
	<u><b>210,000</b></u>		<u><b>169,000</b></u>	
<b>Less: Current Liabilities</b>				
Accounts payable	36,000		48,000	
Taxation	15,000		20,000	
Proposed dividends	<u>4,000</u>		<u>5,000</u>	
	<u><b>55,000</b></u>	<u>155,000</u>	<u><b>73,000</b></u>	<u>96,000</u>
		<u><b>270,000</b></u>		<u><b>305,00</b></u>
<b>FINANCED BY:</b>				
Ordinary share capital		150,000		150,000
Share premium account		10,000		10,000
General Reserve		35,000		40,000
Income statement		<u>40,000</u>		<u>55,000</u>
Shareholders' funds		235,000		255,000
UDB Loan (10%)		<u>35,000</u>		<u>50,000</u>
		<u><b>270,000</b></u>		<u><b>305,000</b></u>

**Additional information:**

During the year, plant and machinery, which had cost Shs 7,000,000 and was shown in the books at a written down value of Shs 4,000,000, was sold for Shs 1,700,000.

**Required**

Prepare a cash flow statement for Great Lakes Fishing Company Ltd., fully complying with the requirements of IAS 7. Please show all the necessary workings

**(20 marks)**

## SECTION C:

### Question 3

Mulindwa and Muwonge are in partnership, operating a hardware shop in down town Kampala. They share profits and losses equally, and own the building in which they operate.

The following is the trial balance extracted from their Books as at 31 December 2000.

	<b>DR</b>	<b>CR</b>
	<b>Shs'000</b>	<b>Shs'000</b>
Buildings (cost Shs 150,000,000)	100,000	
Furniture and fittings (new)	22,000	
Accumulated depreciation –fixtures		6,600
Accounts payable and receivable	32,486	22,300
Cash at Bank	1,354	
Opening inventory	83,958	
Sales and purchases	170,832	247,300
Carriage outwards	2,576	
Discounts allowed	230	
Nordic bank Interest	8,000	
Office expenses	4,832	
Salaries and wages	37,834	
Bad debts	1,006	
Provision for bad debts		800
Loan from Nordic Bank		80,000
Capital - Mulindwa		70,000
- Muwonge		59,000
Current accounts - Mulindwa		2,612
- Muwonge		596
Drawings - Mulindwa	12,800	
-Muwonge	11,300	
	<b><u>489,208</u></b>	<b><u>489,208</u></b>

The following additional information is also available:

- i) Closing inventory of hardware supplies are valued at Shs 112,680,000.

- ii) Wages of Shs 400,000 and office expenses of Shs 192,000 are due but not yet paid.
- iii) Furniture and fittings are depreciated at 10% p.a. on reducing balance basis; annual depreciation charge on buildings is Shs 2,000,000.
- iv) An analysis of the partnership's debt portfolio has necessitated a reduction in bad debts provision to Shs 640,000.
- v) Partnership salary of Shs 1,600,000 due to Mulindwa has not yet been recognized in the books.
- vi) Interest on drawings is due from the partners as follows:  
  
Mulindwa – Shs 360,000  
Muwonge – Shs 240,000
- vii) Interest on capital account balances is charged to the partnership at 10% p.a.

**Required:**

- (a) Prepare the partnership's income statement for the year ended 31 December 2000, and a balance sheet as at that date  
**(16 marks)**
- (b) Goodwill in an existing business may arise as result of several factors. State clearly the factors that may cause the purchaser of an existing business to pay more than the net worth of its assets  
**(4 marks)**  
**(Total 20 marks)**

**Question 4**

Lutaaya and company is a firm of lawyers. They maintain all clients' monies in a separate bank account used exclusively for that purpose. Periodically, they make any necessary transfers from "Client account" to "Office account".

On 1 January 2000, the balance at bank on Office account was Shs 2,250,000, and the balance at bank on client account was Shs 3,165,000, made up of the following credit balances:

	<b>Shs</b>
Isaac and Co.	150,000
Lucky Trust	345,000
Shaggy Exports Trust	1,050,000
Marley and Co.	<u>1,620,000</u>
	<u>3,165,000</u>

The receipts and payments for the first half of the month of January were as follows:

<b>Date</b>	<b>Transaction</b>
January 2	Received from Nina Interiors, Shs 315,000 for costs as rendered.
January 7	Paid Shs 15,000 for insurance premium for Isaac and Co.
January 8	Paid Shs 27,000 for repairs to premises managed under Lucky Trust.
January 11	Paid Shs 27,000 for advertisements re Marley and Co.
January 14	Authorised to draw Shs 105,000 on account of costs re Lucky Trust.
January 15	Authorised to draw Shs 360,000 on account of costs re Marley and Co.
January 15	Paid salaries, and drew petty cash of Shs 720,000 and 60,000 respectively.

**Required:**

(a) Write up the detailed cash book and the Clients' ledger accounts for the period.

**(13 marks)**

(b) Explain with workings:

- How much was transferred at the end of the half-month from the Clients' Bank Account to the Office Account indicating from which clients the amounts were due.
- The balance of cash held by the practice on behalf of clients, indicating amounts for each client.

**(7 marks)**

**(Total 20 marks)**

**Question 5**

The following information regarding the activities of Raga Holdings for the year ended 31 December 2000 has been presented to you.

	<b>Shs '000</b>	<b>Shs .'000</b>
Capital Account		914,000
Purchase of raw materials	516,000	
Fuel and light	42,000	
Administrative salaries	34,000	
Factory wages	118,000	
Carriage outwards	8,000	
Rent and rates	42,000	
Sales		964,000
Sales Returns	14,000	
General Office expenses	18,000	
Repairs to plant and machinery	18,000	
Inventory at 1 January 2000		
Raw Materials	42,000	
Work in progress	28,000	
Finished goods	46,000	
Freehold premises	820,000	
Plant and machinery	160,000	
Provision for depreciation on plant and machinery as at 1 January 2000		16,000
Cash at hand	22,000	
Accounts receivable / payable	<u>40,000</u>	<u>74,000</u>
	<u>1,968,000</u>	<u>1,968,000</u>

The following additional information is also available.

1. Inventory on hand as at 31 December 2000 were as follows:

	Shs
Materials	50,000,000
Work-in-progress	22,000,000
Finished Goods	42,000,000

2. Depreciation of 10% p.a. on a straight line basis is to be charged
3. Doubtful debt provision should be at 5% of accounts receivable.
4. 80% of fuel and light and 75% of rent and rates to be charged to manufacturing.

5. Fuel and light bills outstanding amount to Shs 8,000,000.
6. Rent and rates prepaid amount to Shs 10,000,000.
7. The market value of finished goods is Shs 764,000,000.

**Required:**

Prepare a manufacturing, trading and profit and loss account for the year to 31 December 2000, and a balance sheet as at that date. (20 marks)

**SECTION D**

**Question 6**

Write short notes on the following basic accounting concepts.

- (a) The cost concept.
- (b) The money measurement concept.
- (c) The going concern concept.
- (d) The business entity concept.
- (e) The realisation concept.

**(10 marks)**

**Question 7**

For each of the following accounting techniques, discuss the strengths and weaknesses of their application for budgetary control and accountability in public sector organizations:

- (a) Cash Accounting
- (b) Commitment Accounting

**(5 marks)**

**(5 marks)**

**(Total 10 marks)**