

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

ATC(U) EXAMINATIONS

JUNE 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 $1\frac{1}{2}$ 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) Profit earned in the current period is given by: -
- a) Increase in net assets – drawings – capital introduced.
 - b) Increase in net assets + drawings – capital introduced.
 - c) Decrease in net assets – drawings + capital introduced.
 - d) Decrease in net assets + drawings + capital introduced.
- (ii) Ssenyondo is preparing his first set of accounts. He is confused about the various items in the balance sheet. Advise Ssenyondo as to which of the following he would classify as current assets.
- (i) Stock.
 - (ii) Creditors.
 - (iii) Debtors.
 - (iv) Interest payable.
- a) All the above.
 - b) (i), (ii) and (iii).
 - c) (ii), (iii), (iv).
 - d) (i) and (iii).
- (iii) Which of the following is a capital expenditure?
- a) Repairs to motor vehicles.
 - b) Painting of new building.
 - c) Costs of fixing new tyres of a car.
 - d) Carriage on returns outwards.
- (iv) A debit balance on a ledger indicates: -
- a) An asset or an expense.
 - b) A liability or an expense.
 - c) An amount owing to the organization.
 - d) A liability or revenue.

- (v) Which of the following is not part of costs of sales?
- a) Carriage outwards.
 - b) Carriage inwards.
 - c) Returns outwards.
 - d) Purchases.
- (vi) Salim's cashbook indicates that his bank balance is Shs.160,000. However, his bank statement has a different amount. After considering the following items, calculate the balance on his bank statement.
- (i) A cheque that Salim paid into the bank for Shs.40,000 is not yet credited on his account.
 - (ii) A cheque for Shs.60,000 paid to Morine has not yet been presented.
 - (iii) Shs.15,000 has been deducted as bank charges.
- a) Shs. 185,000.
 - b) Shs. 135,000.
 - c) Shs. 165,000
 - d) Shs. 225,000.
- (vii) Which of the following are not errors of principle?
- (i) Motor vehicle expenses entered in motor vehicles account.
 - (ii) Purchases of machinery entered in purchases account.
 - (iii) Sales of Shs.250,000 to Mugabe completely omitted from the books.
 - (iv) Sales to K. Ssemondo entered to K. Ssemamda's account.
- a) (ii) and (iii).
 - b) (i) and (ii).
 - c) (iii) and (iv).
 - d) (i) and (iv).
- (viii) If goods are taken for personal use by a sole trader:
- a) Debit drawings account, credit purchases account.
 - b) Debit purchases account, credit drawings account.
 - c) Debit drawings account, credit stock account.
 - d) Debit sales account, credit stock account.

- (ix) If creditors at 1 July 1999 were Shs.250,000 and Shs. 420,000 at 30 June 2000. The payments made to creditors during the year were Shs. 3,200,000. Determine the value of credit purchases for the year ended 30 June 2000.

- a) Shs. 3,030,000.
- b) Shs. 3,370,000.
- c) Shs. 3,160,000.
- d) None of these.

- (x) The opening balance in the debtors' control account of Lukyamuzi Ltd. at 1 June 2000 was Shs.6,478,000. During June 2000, Lukyamuzi Ltd. made sales of Shs.53,998,000. Half of these sales were for cash. At the end of June, Lukyamuzi Limited's customers owed Shs.10,492,000.

How much cash did Lukyamuzi Ltd. receive from its credit customers during June?

- a) Shs. 58,012,000.
- b) Shs. 49,984,000.
- c) Shs. 31,013,000.
- d) Shs. 22,985,000.

- (xi) Given a cash float of Shs.200,000. If Shs.146,000 is spent in the period, how much will be reimbursed at the end of the period.

- a) Shs. 200,000.
- b) Shs. 54,000.
- c) Shs. 254,000.
- d) Shs. 146,000.

- (xii) When the final accounts are prepared, the bad debts account is closed off by a transfer to the: -

- a) Balance sheet.
- b) Profit and loss account.
- c) Trading accounts.
- d) Provision for bad debts.

- (xiii) If the purchase of a non-current asset was debited to the purchases account, then: -
- a) Net profit would be overstated.
 - b) Net profit would be understated.
 - c) Non-current assets would be overstated.
 - d) None of these.
- (xiv) On 1 January 2000, a company paid Shs.1,500,000 for rent covering a period of eighteen months to 30 June 2001. What is the charge for rent in the income statement for the year ended 31 December 2000?
- a) Shs. 1,000,000.
 - b) Shs. 1,250,000.
 - c) Shs. 1,500,000.
 - d) Shs. 500,000.
- (xv) Which of the following is not included in the shareholders' funds of a limited company?
- a) The share premium.
 - b) Surplus on revaluation.
 - c) Long-term debt.
 - d) Retained profit.
- (xvi) Which of the following is the most likely flow of documents to complete the purchase cycle?
- a) Purchase order, delivery note, Goods Received Note (GRN), cheque requisition and invoice.
 - b) Purchase order, GRN, delivery note, cheque requisition, and invoice.
 - c) GRN, purchase order, delivery note, invoice, cheque requisition.
 - d) Purchase order, delivery note, invoice, GRN and cheque requisition.
- (xvii) A firm bought a machine for Shs.3,200,000. It is to be depreciated at a rate of 25% using the reducing balance method. What would its net book value be after 2 years?
- a) Shs. 1,600,000.
 - b) Shs. 2,400,000.
 - c) Shs. 1,800,000.
 - d) None of the above.

- (xviii) The word debit means:-
- a) To receive.
 - b) To give.
 - c) Balance on the right hand side of an account.
 - d) Balance on the left hand side of an account.
- (xix) Which of the following statements are false? A bank reconciliation statement: -
- (i) Reconciles the bank statement and the cashbook.
 - (ii) Corrects the bank statement only.
 - (iii) Corrects the cashbook only.
 - (iv) Identifies bank fraud, if any.
- a) (i), (ii), and (v).
 - b) (i) and (ii).
 - c) (i), (ii) and (iv).
 - d) (ii), and (iii).
- (xx) What should happen if the balance on suspense account is of material amount?
- a) Should be written off to the balance sheet.
 - b) Carry forward to the balance sheet.
 - c) Find the errors before finalising the financial statements.
 - d) Write off to income statement.

SECTION B

Question 2:

- (a) Enter the following items in the Petty Cashbook of Boom Traders for the month of June 2000; use analysis columns for office expenses, motor expenses, cleaning expenses and casual labour. The cash float is Shs.350,000. At 30 June 2000, balance off the Petty Cashbook and restore the original imprest.

June 2000	Shs.'000	
1 Akol – Casual Labour	12	
2 Letter head	22	
2 Unique motors – motor repairs	30	
3 Cleaning materials	16	
3 Envelopes	14	
3 Petrol	8	
7 Mukasa – Casual labour	15	
7 Mrs. Modo – cleaner	7	
7 Paper clips	2	
13 Petrol	11	
14 Type writer repairs	1	
16 Petrol	9	
16 Motor taxation	50	
16 Mwanga – casual labour	21	
16 Mrs. Modo – cleaner	10	
22 Odongo – casual labour	19	
23 Copy paper	7	
28 Flat cars – motor expenses	21	
30 Petrol	12	
30 Boss – casual labour	16	(15 marks)

- b) Given the following information: -

- (i) Notes and coins in the petty cash book amount to Shs 120,550.
- (ii) Total value of I owe you (IOU's) was Shs. 470,000
- (iii) The total value of voucher payments out of petty cash was Shs.1,350,000.
- (iv) Total value of vouchers for receipts of cash into petty cash was shs. 860,450.

Required:

Determine the imprest amount.

(5 marks)
(Total 20 marks)

Question 3

- (a) (i) Define a book of original entry. (2 marks)
- (ii) List six books of original entry. (3 marks)
- (iii) State the Accounting Equation. (1 mark)

- (b) Show the journal entries necessary to record the following transactions: -

- April 1: Bought fixtures on credit from Tumukunde Traders for Shs.50,000,000.
- April 4: We took goods worth Shs.500,000 out of the business stock for personal use without paying for them.
- April 9: Shs.28,000 of goods taken by us were returned back into stock.
- April 12: Magulu owes us Shs.500,000. He is unable to pay the debt. We agreed to take some office equipment from him at that value to offset the debt.
- April 18: Some of the fixtures bought from Tumukunde Traders for Shs.20,000,000 are found to be unsuitable and have been returned to them for full allowance.
- April 24: A debt owed to us by Moses of Shs.680,000 is written off as a bad debt.
- April 30: Bought office equipment from Super Office Ltd. for Shs.80,000,000 and paid a cheque to cover 40% of the cost.

(14 marks)
(Total 20 marks)

Question 4:

- a) Distinguish between a Receipts and Payments account and Income and Expenditure account. 2 marks
- b) State three weaknesses of the Receipts and Payments account. 3 marks
- c) The following is a summary of the receipts and payments of the Muyenga Rotary Club for the year ended 31 December 2000.

Dr	Receipts and Payments Account		Cr
	Shs.'000		Shs.'000
Cash and bank balance b/d	210	Secretarial expenses	163
Sales of competition tickets	437	Rent	1,402
Members subscriptions	1,987	Visiting speakers expenses	1,275
Donations	177	Donations to charities	35
Refund of rent	500	Competition prizes	270
Balance c/d	13	Stationery and printing	179
	<u>3,324</u>		<u>3,324</u>

The following valuations are also available: -

	31.12.1999	31.12.2000
	Shs.'000	Shs.'000
Equipment (original cost Shs. 1,420,000/=)	975	780
Subscription in arrears	65	85
Subscription in advance	10	37
Owing to suppliers of competition prizes	58	68
Stock of competition prizes	38	46

Required:

- (i) Derive the accumulated fund of Muyenga Rotary Club as at 1 January 2000. (4 marks)
 - (ii) Write the following accounts for the year-ended 31 December 2000:
 - The subscription account.
 - The competition prizes account. (4 marks)
 - (iii) Prepare an income and expenditure account for Muyenga Rotary Club for the year ended 31 December 2000. (7 marks)
- (Total 20 marks)**

Question 5:

The following balances have been extracted from the books of Bwino and Sawuti trading in partnership and sharing profits and losses in the ratio of 3:2 respectively, for the year ended 30 September 2000;

	Shs.'000
Printing, stationery and postage	3,500
Sales	322,100
Stock in hand 1.10.1999	23,000
Purchases	208,200
Rent and rates	10,300
Heat and light	8,700
Staff salaries	36,100
Telephone charges	2,900
Motor vehicle running expenses	5,620
Discounts allowed	950
Discounts received	370
Sales returns	2,100
Purchases returns	6,100
Carriage inwards	1,700
Carriage outwards	2,400
Fixtures and fittings at cost	26,000
Provision for accumulated depreciation- fixtures & fittings	11,200
Motor vehicle at cost	46,000
Provision for accumulated depreciation- motor vehicles	25,000
Provision for doubtful debts	300
Drawings:	
Bwino	24,000
Sawuti	11,000
Current account balances 1.10.1999	
Bwino (credit)	3,600
Sawuti (credit)	2,400
Capital account balances 1.10.1999	
Bwino	33,000
Sawuti	17,000
Debtors	9,300
Creditors	8,400
Balance at bank	7,700

Additional information:

- i) Shs.10, 000,000 is to be transferred from Bwino's capital account to the newly opened Bwino loan account on 1 July 2000. Interest at 10% per annum on the loan is to be credited to Bwino.
- ii) Sawuti is to be credited with a salary at the rate of Shs.12,000,000 per annum from 1 April 2000.
- iii) Stock on hand at 30 September 2000 has been valued at cost at Shs.32,000,000.
- iv) Telephone charges due at 30 September 2000 amounted to Shs.400,000 and rent of Shs.600,000 was prepaid at that date.
- v) During the year-ended 30 September 2000 Sawuti took goods costing Shs.1,000,000 for personal use.
- vi) Depreciation is to be provided for at the following annual rates on the straight-line basis.

Fixtures	10%
Motor vehicles	20%

Required:

- a) Prepare the Partnership Income statement for the year-ended 30 September 2000.
- b) Prepare the partners capital and current accounts at that date.

(20 marks)

SECTION C

Question 6:

Distinguish between the following terms as used in accounting:

- (a) Accrual and prudence concepts. **(4 marks)**
- (b) Revaluation reserve and share premium. **(4 marks)**
- (c) Profit margin and profit mark up. **(2 marks)**

(Total 10 marks)

Question 7:

- (a) Give two advantages of a control account. **(2 marks)**
- (b) Write short notes on the following: -
 - i) Errors of commission.
 - ii) Errors of principle.
 - iii) Transposition errors.
 - iv) Compensating errors.

(8 marks)
(Total 10 marks)