

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

THURSDAY, 12 DECEMBER 2002

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 statements are correct?
- (i) If payment for goods is made by credit card, then it 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) (i), (ii) and (iii)
 - (b) (i) and (ii)
 - (c) (i) and (iii)
 - (d) (iii) only.
- (ii) Lumbugu Ltd wishes to buy goods from Wasswa Ltd. Which of the following is the most likely flow of documents to complete the purchase?
- (a) Purchase order, delivery note, goods received note, cheque requisition, invoice.
 - (b) Goods received note, purchase order, delivery note, invoice, cheque requisition.
 - (c) Purchase order, delivery note, goods received note, invoice, cheque requisition.
 - (d) Purchase order, goods received note, delivery note, cheque requisition, invoice.
- (iii) A form accompanying goods sent by a supplier is known as:
- (a) Goods Received Note.
 - (b) Invoice.
 - (c) Credit Note.
 - (d) Delivery Note.
- (iv) Which of the following is not an effective security procedure?
- (a) A key must be inserted into a cash register before it can be operated. Keys are held by authorized personnel only.
 - (b) Cash is counted by a responsible person who works on the cash register.
 - (c) The cash reconciliation should be performed by a responsible person who neither operates the cash register nor counts the cash.
 - (d) Cash should be banked as promptly as possible.

- (v) A company operates its petty cash using the imprest system. The imprest amount is Shs. 2,500,000. At the end of a particular period the five analysis columns were totalled to give the following amounts:

Column

1. Shs 261,900
2. Shs 452,700
3. Shs 69,400
4. Shs 128,100
5. Shs 143,800

How much cash would be required to restore the imprest amount for the following period?

- (a) 1,055,900.
 - (b) 2,500,000.
 - (c) 452,700.
 - (d) 1,444,100.
- (vi) Which of the following are revenue expenditures?
- (i) Purchase of a new delivery van.
 - (ii) Redecorating the transport manager's office.
 - (iii) Paying the road licenses for a fleet of vehicles.
 - (iv) Purchase of a new exhaust for a van.
- (a) (ii), (iii) and (iv).
 - (b) (iii) and (iv).
 - (c) (i) and (ii).
 - (d) (iii).
- (vii) Your cashbook shows an overdrawn bank balance of Shs 5,650,000 at 31 December 2002. On comparing this with your bank statement on the same date; you discover that:
- A cheque for Shs. 570,000 drawn by you on 29 December 2002 has not yet been presented for payment.
 - A cheque for Shs. 920,000 from a customer, which was paid into the bank on 24 December 2002, was dishonoured on 31 December 2002.
- The correct bank balance to be shown in the balance sheet at 31 December 2002 is:
- (a) Shs 7,140,000 overdrawn.
 - (b) Shs 6,570,000 overdrawn.
 - (c) Shs 6,000,000 overdrawn.
 - (d) Shs 5,300,000 overdrawn.

- (viii) Which of the following is a current liability?
- (a) Capital.
 - (b) Credit customers.
 - (c) Bank overdraft.
 - (d) Amount due from Uganda Revenue Authority.
- (ix) Which of the following occurrences does not account for a credit balance on a credit customer's account?
- (a) Returns outwards have not been taken into account.
 - (b) A sales invoice has been erroneously posted to another customer's account.
 - (c) A sales invoice has been paid twice.
 - (d) A cheque from a customer had the wrong amount.
- (x) A company receives news that a major customer has been declared bankrupt. Its debt had been provided for as doubtful earlier in the year. The entries required to write it off are:
- (a) Debit bad and doubtful debts, credit the customer.
 - (b) Debit customers, credit bad and doubtful debts.
 - (c) Debit the customer, credit provision for doubtful debts.
 - (d) Debit provision for doubtful debts, credit customers.
- (xi) A debit balance of Shs. 100,000 on a cash account shows that:
- (a) Cash has been over spent by Shs 100,000.
 - (b) There was Shs 100,000 cash in hand.
 - (c) Shs 100,000 was the total of cash paid out.
 - (d) The total of cash received was less than Shs 100,000.
- (xii) Given a purchases invoice showing 5 items of Shs. 800,000 each, less trade discount of 25% and cash discount of 5%, if paid within the credit period. How much would you pay for the goods?
- (a) Shs 2,800,000.
 - (b) Shs 2,850,000.
 - (c) Shs 2,600,000.
 - (d) Shs 570,000.
- (xiii) If a provision for depreciation account is being utilised then the entries for the year's depreciation would be:
- (a) Debit income statement, credit provision for depreciation account.
 - (b) Debit asset account, credit income statement.
 - (c) Debit provision for depreciation account, credit asset account.
 - (d) Debit provision for depreciation account, credit income statement.

- (xiv) Which of the following should be entered in the journal?
- (i) Payment for cash purchases.
 - (ii) Fixtures bought on credit.
 - (iii) Credit sale of goods.
 - (iv) Sale of surplus machinery.
- (a) (i) and (iv).
(b) (ii) and (iii).
(c) (iii) and (iv).
(d) (ii) and (iv).
- (xv) Which of the following is subject to amortisation?
- (a) Investments.
 - (b) Plant.
 - (c) Goodwill
 - (d) Library.
- (xvi) In a business organization, an “Accumulated Fund” would be known as:
- (a) Preferred shares.
 - (b) Capital.
 - (c) Net current assets.
 - (d) Total assets.

Use the following information to answer questions (xvii) – (xx).

The balance sheet of KKL at 1 January 2001 gave its total trade receivables as Shs 13,000,000 and there was a provision of 8% against bad debts. During the year, bad debts written off amounted to Shs 972,000 and a debt of Shs 252,000 written in the previous year was paid in full. These have not yet been accounted for. At 31 December 2001, KKL's total trade receivables were Shs 14,000,000. Provision for bad debts was increased to 10% and a provision for discounts allowed of 5% was created.

- (xvii) What was the value of provision for bad debts at 1 January 2001?
- (a) Shs 1,302,800.
 - (b) Shs 1,300,000.
 - (c) Shs 1,130,435.
 - (d) Shs 1,040,000.

- (xviii) What is the provision for bad debts charge for the year ending 31 December 2001?
- (a) Shs 260,000.
 - (b) Shs 262,800.
 - (c) Shs 288,000.
 - (d) Shs 360,000.
- (xix) Compute the provision for discounts allowed:
- (a) Shs 638,260.
 - (b) Shs 634,860.
 - (c) Shs 598,860.
 - (d) Shs 586,260.
- (xx) What is the value of net trade receivables that will appear in the balance sheet as at 31 December 2001?
- (a) Shs 11,970,000.
 - (b) Shs 11,073,800.
 - (c) Shs 11,138,940.
 - (d) Shs 11,068,900.

SECTION B**Question 2**

- (a) What are non-profit making organisations? What accounts do they prepare for the information of their members? **(2 marks)**
- (b) Explain the meaning of accumulated fund. **(2 marks)**
- (c) Kansanga Youth Association provides social facilities for its members and publishes a quarterly journal. At 31 December 2000, it possessed the following assets and liabilities:

	Shs '000
Assets:	
Premises	20,000
Furniture and fittings	8,800
Long term investments	24,000
Cash	5,500
Subscriptions owing	360
Advertising owing	600
Liabilities:	
Subscriptions for 2001	500

The summarized receipt and payments for the year ended 31 December 2001 was:

	Shs '000		Shs '000
Receipts		Payments	
Balance at 1.1.2001	5,500	Rates, telephone etc	5,680
Entrance fees	1,200	Secretary's salary	12,100
Annual subscriptions:		Printing and stationery	1,760
2000	360	Repairs to premises	1,040
2001	33,500	Lecture fees	520
2002	300	New typewriter	1,700
Journal advertisements	7,600	Long term investments	8,000
Journal sales	8,400	Printing journal	14,700
Telephone charges recovered	240	Extension to premises (payment on account)	8,000
Interest on investments	1,920	Balance c/d	5,520
	<u>59,020</u>		<u>59,020</u>

Additional information:

- (i) On 31 December 2001 Shs. 960,000 was due to the society for journal advertising, and Shs. 1,300,000 was owing to the journal printer. There were no arrears of subscriptions.
- (ii) In November 2001 the total cost of the premises extension was agreed at Shs. 13,000,000.

Required:

Prepare the income and expenditure account of the Association for the year ended 31 December 2001 and a balance sheet as at that date.

(16 marks)**(Total 20 marks)****Question 3**

Below is a summary of Lukago's bank account for the year-ended 30 November 2002.

	Shs 000		Shs 000
Balance b/d	810	Accounts payable	58,974
Accounts receivable	75,872	Rent	3,300
Bal c/d	1,204	Rates	1,780
		Sundry expenses	750
		Drawings	<u>13,082</u>
	<u>77,886</u>		<u>77,886</u>

All of the business takings have been paid into the bank with the exception of Shs. 19,260,000 which he used to pay wages of Shs. 10,944,000, drawings of Shs. 2,132,800 and purchases of Shs. 5,988,000.

The following additional information is available:

	30.11.2002	30.11.2001
	Shs 000	Shs 000
Inventory	27,724	30,288
Accounts payable	11,248	14,778
Accounts receivable	18,062	17,248
Rates prepaid	420	450
Rent owing	300	-
Fixtures at valuation	5,000	4,500

Required:

- Draw up the accounts receivable and accounts payable control accounts.
- Compute the amount of the opening capital.
- Prepare the income statement the year ended 30 November 2002.
- Prepare a balance sheet as at 30 November 2002.

(20 marks)

Question 4

(a) Write short notes on each of the following:

- (i) Error of commission.
- (ii) Error of original entry

(4 marks)

(b) Show the journal entries (including narrations) necessary to correct the following transactions which appeared in the books of Mrs. Ochunde:

- (i) A sale of goods for Shs. 670,000 to Mawanga has been entered to Muwanga's account.
- (ii) The purchase of a machine on credit from Mwana Mugimu for Shs. 4,390,000 has been completely omitted from the books.
- (iii) The purchase of a machine for Shs. 7,600,000 had been entered in the machine expenses account.
- (iv) A sale of Shs. 221,000 to Eliphazi had been entered in the books, as Shs. 212,000 in both accounts.
- (v) A commission received for Shs. 270,000 had been entered in error in the sales account.
- (vi) A receipt of cash from T. Boom of Shs. 770,000 had been entered on the credit side of cashbook and the debit side of T. Boom's account.
- (vii) A purchase of goods for Shs. 200,000 had been entered on the debit side of the drawings account.
- (viii) Discount allowed of Shs. 700,000 had been debited to the Discount Received account.

(16 marks)

(Total 20 marks)

Question 5

A company bought a non-current asset for Shs. 200,000,000. It was estimated that the asset would be used for 8 years. After exactly 3½ years, the asset was suddenly sold off for Shs 112,500,000. The firm provides for a full year's depreciation in the year of purchase and none in the year of disposal.

Required:

(a) Prepare the non-current assets, provision for depreciation and non-current assets disposal accounts for each of years 1,2,3 and 4 using:

- (i) Straight-line depreciation method.
- (ii) Reducing balance method at the rate of 25% per annum.

(13 marks)

b) What is the purpose of depreciation? In what circumstances would each of the two methods in (a) above be preferred?

What is the meaning of the net figure of non-current assets in the balance sheet at the end of year 2?

(5 marks)

- (c) If an asset was bought at the beginning of year 1, but was not used until year 2, how would you account for its depreciation?

(2 marks)

(Total 20 marks)

SECTION C

Question 6

- (a) Distinguish between a limited partner and a quasi partner.

(2 marks)

- (b) Rambo and Silvester own a grocery shop. Their first financial year ended on 31 December 2001.

The following balances were extracted from their books on that date.

	Rambo Shs	Silvester Shs
Capital	60,000,000	48,000,000
Partnership salaries	9,000,000	6,000,000
Drawings	12,860,000	13,400,000

- The firm's net profit for the year was Shs. 32,840,000.
- Interest on capital is to be allowed at 10% per annum.
- Profits and losses are to be shared equally.

Required:

Prepare the firm's appropriation account and the partners' current accounts.

(8 marks)

(Total 10 marks)

Question 7

Write short notes on each of the following:

- (a) Bank Reconciliation. **(2 marks)**
- (b) Bank statements. **(2 marks)**
- (c) Unpresented cheques. **(2 marks)**
- (d) Uncredited cheques. **(2 marks)**
- (e) Direct debits. **(2 marks)**

(Total 10 marks)