

# **THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

## **ATC(U) EXAMINATIONS**

### **LEVEL ONE**

#### **PRINCIPLES OF ACCOUNTING 1 – PAPER 1**

**MONDAY, 17 JUNE 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.

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## SECTION A

### Question 1:

- (i) Which of the following is true about a multi-part purchase order set?
- (i) One copy is sent to the supplier.
  - (ii) One copy is kept in purchasing department or warehouse.
  - (iii) One copy is sent to the customers.
  - (iv) One copy is sent to the accounts department.
- a) (iii) and (iv).  
b) (i), (ii) and (iv).  
c) (i), (iii) and (iv).  
d) (i), and (iii).
- (ii) Which of the following would have a debit balance in the ledgers?
- a) A liability or an expense.
  - b) An amount owed by an organization.
  - c) Amount owed to an organization.
  - d) An asset or revenue.

Use the following information to answer questions (iii) and (iv) below:

	Shs '000
Purchases	200,000
Returns outwards	4,000
Returns inwards	8,000
Carriage inwards	6,000
Carriage outwards	5,000
Opening inventory	4,000
Closing inventory	2,000
Margin	20%

- (iii) Compute the cost of goods sold:
- (a) Shs. 204,000,000
  - (b) Shs. 208,000,000
  - (c) Shs. 200,000,000
  - (d) Shs. 198,000,000

- (iv) What was the value of gross sales?
- (a) Shs. 244,800,000
  - (b) Shs. 255,000,000
  - (c) Shs. 252,800,000
  - (d) Shs. 263,000,000
- (v) If Shs. 4,000,000 was added to purchases instead of being added to non-current assets:
- (a) Only the net profits would be understated.
  - (b) Only the net profit would be overstated.
  - (c) Both gross and net profit would be overstated.
  - (d) Both gross and net profit would be understated.
- (vi) Bad debts recovered are treated as .....in the income statement.
- (a) Revenue.
  - (b) Cost of sales.
  - (c) Other operating income.
  - (d) Distribution costs.
- (vii) Which of the following will not affect the balancing of a trial balance?
- (i) Purchase of a new delivery van debited to the distribution expenses.
  - (ii) A credit note from a supplier debited to returns inwards.
  - (iii) A sale of goods to Lucky Traders entered in Lack Traders account.
  - (iv) The total of discounts allowed column in the cashbook of Shs 232,800 had not been posted to the general ledger.
- (a) (i) and (ii).
  - (b) (i) and (iii).
  - (c) (i), (iii) and (iv).
  - (d) (ii), (iii) and (iv).
- (viii) An error of principle would occur if:
- (a) Plant and machinery purchased was credited to the equipment account.
  - (b) Plant and machinery purchased was debited to the purchases account.
  - (c) Plant and machinery purchased was debited to the equipment account.
  - (d) Plant and machinery purchased was debited to the correct account but with the wrong amount.

- (ix) Which of the following is a book of prime entry and part of the double entry system?
- (a) General journal.
  - (b) Purchases journal.
  - (c) The purchase ledger.
  - (d) Cash book.
- (x) Mr. Bichu earns rental income. On 1 January 2000 he was owed Shs 850,000 by his tenants. During the year rent received amounted to Shs. 12,500,000. Rent received in advance as at 31 December 2000 amounted to Shs 1,200,000.

What was Mr. Bichu's rental income for the year ending 31 December 2000?

- (a) Shs. 12,150,000.
  - (b) Shs. 12,500,000.
  - (c) Shs. 10,450,000.
  - (d) Shs. 12,850,000.
- (xi) Derive the credit sales for the year ending 30 June 2001 from the following information:

	<b>Shs</b>
Trade receivables at 1 July 2000	10,000,000
Trade receivables at 30 June 2001	9,000,000
Total receipts (including cash sales of Shs 5,000,000) during the financial year ending 30 June 2001	85,000,000

- (a) Shs 8,000,000
  - (b) Shs 86,000,000
  - (c) Shs 79,000,000
  - (d) Shs 84,000,000
- (xii) Which of the following errors would cause a difference between the payables control account and the list of balances in the purchases ledger?
- (i) A supplier's account has been balanced off incorrectly.
  - (ii) An invoice for Shs. 37,000 has been entered into the purchases day book as Shs. 39,000.
  - (iii) An invoice omitted from the purchases day book.
- (a) (i) only.
  - (b) (i) and (iii).
  - (c) (i) and (ii).
  - (d) (i), (ii) and (iii).

- (xiii) Which of the following best describes a trial balance?
- (a) Shows the financial position of the business.
  - (b) It is a special account.
  - (c) Shows all entries recorded in the books of accounts.
  - (d) It is the list of balances of the books of accounts.
- (xiv) Which of the following is false?
- a) Partners' salaries are an appropriation of profits.
  - b) Auditors' fees are an appropriation of the company profits.
  - c) If margin is 40% then mark up is 66 2/3%.
  - d) Audit fees are an administration expense.
- (xv) Which of the following are an appropriation of profits of a limited company?
- (i) Debenture interest.
  - (ii) Proposed dividends.
  - (iii) Transfer to reserves.
  - (iv) Directors' remuneration.
- (a) (i) and (ii).
  - (b) (ii) and (iii).
  - (c) (i) and (iv)
  - (d) (ii), (iii) and (iv).
- (xvi) If a partnership maintains fixed capital accounts then the partners' shares of profits must be:
- (a) Debited to capital accounts.
  - (b) Credited to capital accounts.
  - (c) Debited to partners' current accounts.
  - (d) Credited to the partners' current accounts.
- (xvii) A firm bought a machine on 1 January 2000 at Shs 32,000,000. It is depreciated at the rate of 25% per annum using the reducing balance method.
- What is its book value at 31 December 2001?
- (a) Shs 18,000,000.
  - (b) Shs 24,000,000.
  - (c) Shs 16,000,000.
  - (d) Shs 32,000,000.

(xviii) The double entry for Shs. 50 million taken out of the cash till and banked is :

- (a) Debit cash column Shs. 50m: Credit bank column Shs. 50m.
- (b) Debit cash column Shs 50m: Credit cash column Shs. 50m.
- (c) Debit bank column shs. 50m: Credit cash column Shs. 50m.
- (d) Debit bank column Shs. 50m: Credit bank column Shs. 50m.

(xix) Which of the following is a mismatch?

- (a) Limited company.
- (b) Partnership.
- (c) Sole proprietor.
- (d) Owners and management.

(xx) A sales account is:

- (a) Credited with the total sales made including VAT.
- (b) Credited with the total sales made excluding VAT.
- (c) Debited with the total sales made including VAT.
- (d) Debited with the total sales made excluding VAT.

**SECTION B**

**Question 2:**

- a) Distinguish between a partnership and a limited company. **(4 marks)**
- b) Olanya, Kapere and Bbosa operate a partnership business. They share profits and losses in the ratios 5/10, 3/10 and 2/10 respectively.

For the year ended 31 December 2001, they had the following amounts on their fixed capital accounts:

	<b>Shs</b>
Olanya	6,000,000
Kapere	4,000,000
Bbosa	2,000,000

They agreed on a 10% interest per annum on their capital accounts, effective 1 January 2001.

The following information is also available:

- Partnership salaries of Shs. 3,000,000 for Kapere and Shs 1,000,000 for Bbosa are to be charged.
- The net profit of the partnership before taking into account the above, was Shs. 25,200,000.

**Required:**

Prepare the appropriation account of the partnership for the year ended 31 December 2001.

**(6 marks)**

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- (c) JK Tours and Travel Ltd extracted the following from its books of accounts as at 30 June 2001:

	Shs.'000
Buildings at cost	105,000,000
Motor vehicles at cost	62,500,000
Fixtures at cost	11,500,000
Non-current assets replacement reserve	8,000,000
General reserve	6,000,000
Inventory	16,210,000
Trade receivables	14,175,000
Bank	X
Proposed dividends	5,000,000
Trade payables	9,120,000
Accumulated depreciation:	
Fixtures	3,750,000
Buildings	22,000,000
Motor vehicles	15,350,000
Income statement results	(3,000,000)
10% Debentures	40,000,000
Issued share capital	100,000,000
Authorised share capital	200,000,000
Revenue reserves at 1 July 2000	8,163,000

**Required:**

Prepare a balance sheet as at 30 June 2001.

**NB:** (You are to ascertain the bank balance)

**(10 marks)**  
**(Total 20 marks)**



**Question 3**

The following balances were extracted from the ledgers of Kingo as at 30 June 2001 by a trainee accounts assistant. The trainee prepared the trial balance shown below.

	<b>DR</b>	<b>CR</b>
	Shs. 000s	Shs. 000s
Sales	530,780	
Purchases		388,650
Discount allowed	1,454	
Discount received		1,973
Carriage outwards		5,328
Carriage inwards	2,444	
Returns inwards		1,866
Returns outwards	2,449	
Rates, rent and insurance		15,769
Heating and lighting	6,324	
Postage and stationery		7,660
Advertising	13,765	
Salaries and wages		44,970
Loan interest		1,650
Bad debts	2,088	
Trade receivables	26,550	
Trade payables		36,887
Cash on hand	515	
Bank overdraft		3,466
Inventory as at 1 July 2000		12,306
Equipment at cost	141,450	
Accumulated depreciation		55,320
Loan	13,500	
Drawings		20,800
Capital as at 1 July 2000	49,214	
Inventory at 30 June 2001		14,521

Additional information as at 30 June 2001 is as follows:

- Rent and rates have been prepaid by Shs 750,000.
- Loan interest is accrued by Shs 150,000.
- Equipment is to be depreciated at 10% per annum using the straight-line method.

On analyzing the trial balance you discover that some entries have not been properly made.

**Required:**

- (a) Prepare a revised Trial Balance as at 30 June 2001. (6 marks)
  - (b) Show the adjusted accounts of Rent, Rates and Insurance, Loan Interest and Accumulated Depreciation. (4 marks)
  - (c) Prepare the income statement for the year ending 30 June 2001. (10 marks)
- (Total 20 marks)**

**Question 4**

- (a) Distinguish between Receipts and Payments account and Income and Expenditure account. (4 marks)
- (b) Some residents of Naalya Housing Estate set up Naalya Community Development Club to promote agriculture and assist in community development. The Treasurer of the club has prepared a receipts and payments account as shown below:

	Shs '000
<b>Receipts:</b>	
Opening balance	1,752
Seed sales	3,368
National gardening show:	
Ticket sales to non members	800
Lawn mower sales	7,600
Subscriptions received	<u>14,380</u>
	<b><u>27,900</u></b>
<b>Payments:</b>	
National gardening show	
Purchase of tickets and brochures	7,200
Seed purchases	3,800
Lawn mower purchases	10,800
Fees for show	980
Rent for club premises	1,000
Club magazines	780
Secretarial expenses	1,880
Architects' fees for proposed club building	<u>2,000</u>
	<b><u>28,440</u></b>

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The club executive committee has now decided that members should receive an income and expenditure account for the year ending 31 December 2001 and balance sheet as at that date.

The following additional information is given:

i) Club assets and liabilities as at:

	1.1.2001	31.12.2001
Land bought at Shs 4,000,000 in 1995:		
Current market value	10,000,000	11,000,000
Inventory of seeds at cost	500,000	1,120,000
Receivables - lawn mower sales	800,000	2,740,000
Membership subscriptions:		
Advance	480,000	780,000
Payables - Lawn mower suppliers	1,600,000	340,000
Seed growers	220,000	680,000

ii) The Club sells lawn mowers at cost price to its members, however, the club never holds any inventories of unsold lawn mowers.

iii) Membership benefits include a ticket and transport to the National Gardening Shows.

**Required:**

(i) Derive the Club's accumulated fund as at 1 January 2001.

**(4 marks)**

(ii) Prepare the Club's income and expenditure account for the year ended 31 December 2001.

**(6 marks)**

(iii) Prepare the Club's Balance Sheet as at 31 December 2001.

**(6 marks)**

**(Total 20 marks)**

**Question 5**

Fimbo has a shop in Kikuubo, Kampala and he operates a current account with Centenary Bank where he deposits his receipts and pays some of his suppliers.

Recently Fimbo applied for a loan to expand his business but the bank wants the financial statements of his current business. He has not been keeping proper books of accounts but is able to remember some information about his business.

Fimbo has approached you to help him prepare the financial statements. You obtained the following information:-

- (i) Assets and liabilities at
- |                   | 1.6.2000  | 31.5.2001 |
|-------------------|-----------|-----------|
|                   | Shs. '000 | Shs. '000 |
| Inventory at cost | 21,150    | 17,800    |
| Trade receivables | 18,800    | 11,550    |
| Prepaid rates     | 375       | 450       |
| Bank balance      | -         | 5,950     |
| Trade payables    | 16,950    | 19,600    |
| Accrued rent      | 250       | 350       |
| Bank overdraft    | 10,500    | -         |
- (ii) Business transactions for the year ended 31 May 2001 all effected through his bank account were as follows:
- |                                | Shs. '000 |
|--------------------------------|-----------|
| Shop assistants' wages         | 17,000    |
| Suppliers of accessories       | 125,700   |
| Rent, rates, and electricity   | 5,050     |
| Other operating overheads      | 3,730     |
| Interest on loan from relative | 12,500    |
- (iii) Goods costing Shs. 3,000,000 were withdrawn from the business for his own usage.
- (iv) Mark up on goods is 40% on cost.
- (v) Shop fixtures and fittings at cost as at 1 June 2000 were Shs. 14,500,000 and one year later Shs 20,500,000. There were no sales of non-current assets during the year.

Accumulated depreciation as at 1 June 2001 was Shs. 4,350,000. The annual depreciation expense is at the rate of 10% based on the cost of the assets at the year-end and still held in the business.

- (vi) The source of all cash received was from trade receivables, except for the loan from the relative. All receipts were banked intact except for Shs. 26,000,000 which was withdrawn by Fimbo for personal use.

**Required:**

As a trainee accounting technician, help Fimbo to:

- (a) Prepare a summary of the business bank account for the year ended 31 May 2001. **(6 marks)**
- (b) Prepare the business' income statement for the year ended 31 May 2001 and Balance sheet as at that date. **(14 marks)**
- (Total 20 marks)**

**SECTION B**

**Question 6**

- (a) (i) Define the term intangible assets? **(1 mark)**
- (ii) Give and explain two types of intangible assets **(2 marks)**
- (b) (i) Define the term depreciation. **(1 marks)**
- (ii) Give and explain two methods of depreciation. **(2 marks)**
- (c) Distinguish between financial accounting and book keeping. **(4 marks)**
- (Total 10 marks)**

**Question 7**

- (a) Distinguish between capital expenditure and revenue expenditure. *(2 marks)*
- (b) Classify the following as either capital or revenue expenditure.
- (i) Carriage inwards on machinery bought.
  - (ii) Putting extra headlights on motor van.
  - (iii) Painting outside of a new building.
  - (iv) Cost of rebuilding warehouse wall that had fallen.
  - (v) Building extension to a warehouse.
  - (vi) Carriage costs of purchases.
  - (vii) Legal costs of collecting debts.
  - (viii) Fire insurance premium for a chemical manufacturing factory.
  - (ix) Cost of assembling new machine.
  - (x) Cost of software for use with micro computer.
  - (xi) Cost of paper used by the computer.
  - (xii) Wages of computer operators.
  - (xiii) Cost of adding extra memory to the micro computer.
  - (xiv) Cost of floppy discs used during the year.
  - (xv) Cost of adding air conditioning to the computer room.
  - (xvi) Acquisition of patent rights.

*(8 marks)*

*(Total 10 marks)*