

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II – PAPER 5

THURSDAY, 12 DECEMBER 2002

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) The formula for calculating the acid test ratio is:
- a) $\frac{\text{Current assets}}{\text{Current liabilities}}$
 - b) $\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$
 - c) $\frac{\text{Current liabilities}}{\text{Current assets}}$
 - d) $\frac{\text{Current assets} - \text{cash}}{\text{Current liabilities}}$
- (ii) Direct costs in manufacturing accounts are defined as those costs which:
- a) are included in factory overheads.
 - b) are incurred in the factory.
 - c) can be traced to an item being manufactured.
 - d) are incurred during production.
- (iii) Which of the following balance sheet items is not an asset?
- a) Land and buildings.
 - b) Investment in shares.
 - c) Machinery.
 - d) Loans from a development bank.
- (iv) How can purchases best be described?
- a) Goods paid for by the company.
 - b) Goods bought on credit.
 - c) Goods bought for resale.
 - d) All goods bought.
- (v) Which of the following is not a public sector accounting practice in Uganda?
- a) Spending is voted for specific purposes and appropriations are passed by parliament.
 - b) Proposals for supplementary appropriations are based on budget out-turn for the last fiscal year.
 - c) Appropriations in Aid retained by an entity do not form part of the gross budget allocations to the entity.
 - d) Money cannot be drawn from the consolidated fund other than by warrant from the Auditor General.

- (vi) Kirabo, Kityo, Kingonya and Kimera are in partnership but do not have a partnership agreement. They must therefore share profits and losses:
- a) In the same proportions as capital.
 - b) Equally.
 - c) Equally after adjusting for interest on capital.
 - d) Equally after deducting drawings.
- (vii) The amount of working capital would not be affected by one of the following transactions:
- a) Issuing ordinary shares in exchange for non-current assets.
 - b) Sale of long-term investments for cash at a loss.
 - c) Transfer of a long-term note for cash.
 - d) Issuing a long-term note for cash.
- (viii) The primary responsibility for the preparation and presentation of financial statements of a limited company lies with its:
- a) Ordinary shareholders.
 - b) Preference shareholders.
 - c) Senior Management Accountants.
 - d) Management.
- (ix) A trial balance can best be described as:
- a) An analysis of the financial position of the business.
 - b) An analysis of all the subsidiary ledger entries.
 - c) A list of all the balances in the general ledger.
 - d) A special journal book.
- (x) Which of the following are reflected in the appropriation section of the income statement of a partnership?
- (i) Transfers to reserves.
 - (ii) Interest on capital.
 - (iii) Partners' salaries.
 - (iv) Debenture interest.
- a) (ii), (iii) and (iv).
 - b) (i), (ii) and (iii).
 - c) (ii) and (iii).
 - d) (ii) and (iv).
- (xi) Canaan Reform Enterprises (CRE) runs a busy supermarket. For the year ended 31 December 2001, CRE reported cost of goods sold of Shs.300 million. Inventories decreased by Shs.10 million while credit suppliers increased by Shs.15 million during the year.
- How much did CRE pay to its suppliers during the year ended 31 December 2001?

- a) Shs. 306 million.
 - b) Shs. 195 million.
 - c) Shs. 300 million.
 - d) Shs. 275 million.
- (xii) Which of the following is false about non-profit public sector organisations in Uganda?
- a) Their performance is best measured using Effectiveness, Efficiency and Economy criteria.
 - b) The lack of a profit motive means that they do not need to balance their revenues and expenditures.
 - c) The audit of such organisations falls within the ambit of the Office of the Auditor General.
 - d) All government revenues and expenditures go into and out of the consolidated fund or specially established fund and spending can only be authorised by Parliament.
- (xiii) The application of accounting concepts and principles from period to period in the same manner is referred to as:
- a) Continuity.
 - b) Neutrality.
 - c) Consistency.
 - d) Comparability.
- (xiv) Kimeeza Gossip Ltd. had opening inventory worth Shs.24 million and closing inventory valued at Shs.40 million. Sales for the year ended 31 March 2002 were Shs.300 million. The company's gross margin for the last 5 years has been 20%.
- What was the value of Kimeeza Gossip Ltd's cost of goods available for sale for the year ended 31 March 2002?
- a) Shs. 280 million.
 - b) Shs. 265 million.
 - c) Shs. 240 million.
 - d) Shs. 200 million.
- (xv) Which of the following is not a way of changing the share capital of an existing limited liability company?
- a) Cancellation of shares not taken up.
 - b) Undertaking an initial public offer.
 - c) Increase in the authorised share capital.
 - d) Reverse stock splits.

- (xvi) Which of the following statements is false in reference to partnership accounts?
- a) Factors which contribute to goodwill cannot be valued.
 - b) The value of goodwill may change upwards and downwards over time.
 - c) The assessment of the value of goodwill is objective.
 - d) Goodwill cannot be realized separately from the business as an entity.
- (xvii) An operating loss by a limited company is reflected in:
- a) The balance sheet as a reduction from retained earnings.
 - b) The income statement and cash flow statement only.
 - c) The balance sheet as a reduction in capital.
 - d) In the appropriation account only.
- (xviii) The following features relate to consignment sales except:
- a) The goods are owned by the trader (consignor) until they are sold.
 - b) The consignee's storage and other costs 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.
- (xix) In preparing the financial statements of a limited company, the going concern concept is adopted if:
- a) The company will never be wound up.
 - b) It is expected to continue operating in the foreseeable future.
 - c) It is not expected to incur losses soon.
 - d) It is not expected to continue operating.
- (xx) M.K. Sports Centre had the following transactions relating to trade receivables for the year ending 30 June, 2002:

	Shs
Balance at 1 July 2001	64,000,000
Sales	44,000,000
Collections from credit customers	38,000,000
Bad debts written off during the year	20,000,000
General bad debts provision of 10% has to be made	

What is the value of trade receivables that appeared in the centre's balance sheet at 30 June 2002?

- a) Shs.42,000,000.
- b) Shs.24,000,000.
- c) Shs.50,000,000.
- d) Shs.45,000,000.

SECTION B**Question 2**

- a) State two advantages of a partnership over a sole proprietorship business.
(2 marks).
- b) Define goodwill as it relates to partnership accounts, and briefly describe the factors that may give rise to this asset.
(6 marks)
- c) The following is a list of balances extracted from the books of Kimera and Wasajja, trading in partnership at 30 September 2002. They share profits and losses in the proportions 3:2 respectively.

	UShs.'000
Printing, stationery and postages	7,000
Sales	644,200
Opening inventory	46,000
Purchases	416,400
Rent and rates	20,000
Heat and Light	17,400
Staff Salaries	72,200
Telephone charges	5,800
Motor vehicle running costs	11,240
Discounts allowable	1,900
Discounts receivable	740
Sales returns	4,200
Purchases returns	12,200
Carriage inwards	3,400
Carriage outwards	4,800
Furniture and fittings at cost	52,000
Provision for depreciation	22,400
Motor vehicles at cost	92,000
Provision for depreciation	50,000
Provision for doubtful debts	600
Drawings: Kimera	48,000
Wasajja	22,000
Current A/c balances 1 October 2001: Kimera	7,200
Wasajja	4,800
Capital A/c balances 1 October 2001: Kimera	66,000
Wasajja	34,000
Trade receivables	18,600
Trade payables	16,800
Balance at Bank	15,400

Additional Information:

1. Shs.20,000,000 is to be transferred from Kimera's capital account to a newly opened Kimera loan account effective 1 July 2002. Interest at 10% per annum on the loan is to be credited to Kimera.
2. Wasajja is to be credited with a salary at the rate of Shs.24,000,000 per annum from 1 April 2002.
3. Closing inventory on hand is valued at cost Shs.64,000,000.
4. Telephone charges accrued due at 30 September 2002 amounted to Shs.800,000 and rent of Shs.1,200,000 was prepaid at that date.
5. During the year ended 30 September 2002, Wasajja took goods costing Shs.2,000,000 for his own use.
6. Depreciation is to be provided at the following annual rates on the straight line basis:

Fixtures and fittings	10%
Motor vehicles	20%

Required:

Prepare the partnership's income statement for the year ended 30 September 2002 and a balance sheet as at that date.

(22 marks)
(Total 30 marks)

SECTION C

Question 3

Median Grocers Ltd. trades in the distribution of stationery supplies. You are provided with the following balance sheets as at 31 December as well as some additional information:

	2000	2001
	Shs.'000	Shs.'000
Non-current assets at cost	1,700	2,544
Less depreciation	<u>800</u>	<u>1,100</u>
	<u>900</u>	<u>1,444</u>
Inventory	150	260
Trade receivables	196	300
Bank	<u>150</u>	<u> </u>
	<u>496</u>	<u>560</u>
Trade payables	(160)	(260)
Taxation	(60)	(110)
Dividends	(40)	(40)
Bank overdraft	<u> </u>	<u>(100)</u>
	<u>(260)</u>	<u>(510)</u>
	<u>236</u>	<u>50</u>
Debentures	<u>(140)</u>	<u>(380)</u>
	<u>996</u>	<u>1,114</u>
Issued share capital	400	400
Income statement	<u>596</u>	<u>714</u>
	<u>996</u>	<u>1,114</u>

Extracts from the Income Statements for the years ended 31 December

	2000	2001
Sales (all on credit)	<u>1,760</u>	<u>2,400</u>
Gross Profit	760	1,064
Overheads	<u>600</u>	<u>740</u>
Net Profit	160	324
Interest	<u>20</u>	<u>76</u>
Profit before tax	140	248
Tax	<u>60</u>	<u>90</u>
Profit after tax	80	158
Dividends	<u>40</u>	<u>40</u>
Retained profit for the year	<u>40</u>	<u>118</u>

Required:

(a) Calculate and briefly comment on the following ratios for both years:

- (i) Gearing ratio.
- (ii) Interest cover.
- (iii) Inventory turnover (assume closing inventory levels = average inventory levels).
- (iv) Return on capital employed.
- (v) Credit customers payment period.

(15 marks)

(b) Briefly explain five limitations of ratio analysis.

(5 marks)

(Total 20 marks)

Question 4

a) Describe, with appropriate examples, the four major expense classifications in a manufacturing entity, as they would ordinarily appear in the income statement.

(8 marks)

b) Simolo Quality Products is a new manufacturing entity, whose balances as at 30 September, 2002 were extracted as follows:

	Shs.'000
Plant and machinery at cost on 1 October 2001	120,000
Motor vehicles at cost on 1 October 2001	60,000
Loose tools, at cost	18,000
Sales	340,000
Raw materials purchased	86,000
Direct factory wages	78,000
Light and power	10,000
Indirect factory wages	16,000
Machinery repairs	3,200
Motor vehicle running expenses	24,000
Rent and insurances	23,200
Administrative staff salaries	62,000
Administrative expenses	18,000
Sales and distribution staff salaries	26,000
Opening capital	244,000
Trade receivables	33,000
Trade payables	22,400
Balance at bank	17,000
Drawings	12,000

Additional information:

- (i) It is estimated that the plant and machinery will be used in the business for 10 years and the motor vehicles for 4 years, with nil residual value in both cases. The straight-line method of depreciation will be used.
- (ii) Light and power charges accrued at 30 September 2002 amounted to Shs.2,000,000 and insurances prepaid at that date were Shs.1,600,000.
- (iii) Inventories were valued at cost at 30 September 2002 as follows:

Raw materials	Shs.14,000,000
Finished goods	Shs.20,000,000
Work in progress	Shs.24,600,000
- (iv) Two thirds of the light and power, and rent and insurance costs are to be allocated to the factory costs.
- (v) Goods manufactured during the year are to be transferred to the income statement at Shs.190,000,000.
- (vi) Loose tools on hand on 30 September 2002 were valued at Shs.10,000,000.

Required:

Prepare Simolo Quality Products' manufacturing account and income statement for the year ended 30 September 2002.

(12 marks)
(Total 20 marks)

Question 5

- (a)
 - (i) Define a Bill of Exchange.
 - (ii) Briefly explain the terms Discounting of a Bill and Dishonour of a Bill.
- (6 marks)**
- (b) Karim is a businessman in Dubai who deals with Kumar, his agent in Kampala. During the year ended 31 December 2001, Karim sent goods to Kumar on a consignment basis. Details of the transactions are as follows:

2 Jan. 2001	Karim sent 100 cartons to Kumar in Kampala. These cartons cost Karim US \$ 8,000 each.
10 Mar.2001	Karim paid US \$ 80,000 for freight and insurance costs of the consignment.
30 Jun. 2001	Karim received US \$ 88,000 from his insurance company, being compensation for ten cartons that got lost during shipment to Kampala.
17 Nov. 2001	Karim received US \$ 800,000 from Kumar.
6 Jan. 2002	Karim received the following statement from Kumar:

Interim Account Sales**31 December 2001****Consignment of goods sold on behalf of Karim, Dubai: 80 cartons**

	US \$	US \$
Sales:		
80 cartons at US \$ 12,000 each		960,000
Charges:		
Distribution expenses (US \$ 800 per carton)	64,000	
Import duties (US \$ 400 per carton)	32,000	
Commission (5% x 960,000)	<u>48,000</u>	<u>(144,000)</u>
Net proceeds realised		<u>816,000</u>

Signed by: **Kumar**

Both Karim and Kumar's accounting year end is 31 December.

Required:

Prepare the following ledger accounts for the year ended 31 December 2001:

- (i) In the books of Karim:
- Goods sent on consignment.
 - Consignment to Kumar.
 - Consignee (Kumar) Account.

(10 marks)

- (ii) In the books of Kumar
- Consignor (Karim) Account
 - Commission Account

(4 marks)**(Total 20 marks)****SECTION D****Question 6**

Write short notes on the following as applied in public sector accounting:

- Commitment accounting.
- Fund accounting.
- Cash accounting.
- Accrual accounting.

(10 marks)**Question 7**

Write short notes on the following as applied in public sector accounting:

- Statutory expenditure.
- Voted expenditure.
- Supplementary expenditure.

(10 marks)