

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

MONDAY, 17 JUNE 2002

INSTRUCTIONS TO CANDIDATES:

1. Time Allowed: **3 hours**
2. Attempt **all** questions in Section **A** and **B**, any **two** questions in Section **C** and **one** question in Section **D**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 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) A manufacturing account is used to determine:-
- (a) The production costs paid during the year.
 - (b) The production cost of goods completed.
 - (c) The production cost of goods sold.
 - (d) The total cost of goods produced.
- (ii) Which of the following statements about accounting concepts or principles are correct:
- 1 The money measurement concept requires that items in accounts are initially measured at their historical cost.
 - 2 In order to achieve comparability, it may sometimes be necessary to override the prudence concept.
 - 3 To facilitate comparison between different entities, it is helpful if accounting policies and changes in them are disclosed.
 - 4 To comply with the law, the legal form of a transaction must always be reflected in financial statements.
- (a) 1 and 4.
 - (b) 3 only.
 - (c) 2 and 3.
 - (d) 1 and 3.
- (iii) The following are extracts from the books of Katongole and Sons Ltd as at 31 March 2002:

	SHS' 000
Inventories	10,500
Trade payables	5,600
Land and Buildings	25,000
Cash at Bank	4,200
Loan from DC Bank	12,000

Assuming there are no other accounts, what constitutes the business capital?

- (a) Shs 13,700,000.
- (b) Shs 46,100,000.
- (c) Shs 12,100,000.
- (d) Shs 22,100,000.

- (iv) If a limited company becomes insolvent, the liability of an ordinary shareholder is limited to:
- (a) The amount paid on shares subscribed to.
 - (b) The outstanding amount on shares subscribed to.
 - (c) The nominal value of shares held.
 - (d) The market value of shares held.
- (v) Which of the following items are shown in the Appropriation Section of the Income Statement of a limited liability company?
- 1. Directors' remuneration.
 - 2. Proposed dividends.
 - 3. Debenture interest.
 - 4. Transfers to reserves.
- (a) 2 and 4.
 - (b) 1, 2 and 4.
 - (c) 2 and 3.
 - (d) 2, 3 and 4.
- (vi) K. K. Holdings plan to expand their business empire by purchasing a business with the following values: investments - Shs. 90 million; furniture and fittings - Shs 18 million, motor vehicles - Shs. 40 million, and trading inventories worth Shs 32 million. A price of Shs. 240 million has been quoted by the sellers. This implies that:
- (a) The seller had over valued the business.
 - (b) There is an undisclosed bank balance.
 - (c) The quoting price of the investments is understated by Shs 60 million.
 - (d) K.K. Holdings is being asked to pay Shs. 60 million for goodwill.
- (vii) The following are examples of cashflows from operating activities except:
- (a) Cash payments to suppliers for goods and services.
 - (b) Cash receipts from royalties, fees, commissions and other revenue.
 - (c) Cash payments to and on behalf of employees.
 - (d) Cash receipts from the repayment of advances and loans made to other parties (other than those of a financial institution).

- (viii) If the opening capital of a business was Shs 39,000,000 and closing capital is Shs 5,700,000, then
- (a) Profit for the year was Shs. 6,800,000.
 - (b) Loss for the year was Shs. 6,800,000.
 - (c) Loss for the year was Shs. 12,500,000.
 - (d) Loss for the year was Shs. 18,200,000.
- (ix) Which of the following statements is false with respect to consignment accounts?
- (a) Goods sent to an agent on consignment continue to belong to the consignor until they are sold.
 - (b) Cash from consignment sales is credited to the consignor's account.
 - (c) The agent sells the goods and collects the money due from customers.
 - (d) Cash from consignment sales is passed on to the consignor without any deductions.
- (x) Authority to alter a company's share capital is granted by a company's:
- (a) Senior management consultation meetings.
 - (b) A special committee of the Board.
 - (c) The articles of association.
 - (d) The memorandum of association.
- (xi) Money received by a professional on behalf of a client is:
- (a) Debited to the respective receivables account.
 - (b) Debited to the client column in the cashbook.
 - (c) Debited to the receipts column in the cashbook.
 - (d) Credited to the receivables account in the general ledger.
- (xii) In the case of limited companies, the following is the correct order of priority of payments.
- (a) Debenture interest, all share dividends.
 - (b) Preference share dividends, debenture interest, and ordinary share.
 - (c) All share dividends, debenture interest.
 - (d) Debenture interest, preference share dividends, ordinary share dividends.

- (xiii) Assuming that a purchase of furniture and fittings worth Shs. 10,000,000 was wrongly entered into the books of Limsey (U) Ltd as purchases.
- (a) Only net profit would be understated.
 - (b) Only net profit would be overstated.
 - (c) There would be no effect on net profit.
 - (d) Both net profit and gross profit would be understated.
- (xiv) Which one of the following statements is false in respect to central government accounting?
- (a) Withdrawals from the consolidated are authorized by parliament.
 - (b) There is no depreciation accounting.
 - (c) It is cash based.
 - (d) No distinction is made between fixed assets and day-to-day expenditure.
- (xv) Which of the following criteria is required for recognition to occur?
- (a) Relevance.
 - (b) Reliability.
 - (c) Timeliness.
 - (d) Materiality.
- (xvi) Which of the following is a cash equivalent?
- (a) Company employee receivables.
 - (b) Commercial paper.
 - (c) Money orders.
 - (d) Share certificates.
- (xvii) Which financial statement is not prepared on an accrual basis?
- (a) Cashflow statement.
 - (b) Balance sheet.
 - (c) Income statement.
 - (d) Statement of changes in equity.
- (xviii) Monies earlier received on application and allotment in respect of forfeited shares is:-
- (a) Credited to the forfeited shares account.
 - (b) Credited to the bank account.
 - (c) Credited to the applications and allotment account.
 - (d) Debited to the applications and allotment account.

(xix) Which of the following ratio's measures short-term solvency?

- (a) Age of receivables.
- (b) Current ratio.
- (c) Return on investment.
- (d) Creditors' equity to total assets.

(xx) Probable future sacrifices of economic benefits are termed as:

- (a) Assets
- (b) Losses.
- (c) Expenses.
- (d) Liabilities.

SECTION B

Question 2

- (a) State the essential components of a Partnership Agreement (4 marks)
- (b) Define the following as used in accounting of partnerships:
- (i) Current Accounts.
 - (ii) Appropriation of Profits.
 - (iii) Drawings Accounts.
 - (iv) Capital Accounts.
- (4 marks)
- (c) It is stated that the application of the rule in **Garner vs. Murray** to dissolution of partnerships involving an insolvent partner violates the principles of natural justice and equity. Briefly state the rule, highlighting the extent of violation of the above principles. (4 marks)
- (d) Kelly, Linda and Mande have been trading as a partnership sharing profits and losses in the ratio of 5:3:2. Their balance sheet as at 30 June, 2000 appeared as follows:

Kelly, Linda and Mande Balance Sheet as at 30 June 2000

Non-Current Assets	Shs '000	Shs '000	Shs '000	Shs '000
Land & Buildings				30,000
Furniture & Fittings				7,600
Motor Vans				<u>2,400</u>
				40,000
Current Assets				
Inventory			11,000	
Accounts Receivable			7,400	
Bank Balance			<u>2,800</u>	
			21,200	
Current Liabilities				
Accounts Payable			<u>11,200</u>	<u>10,000</u>
				<u>50,000</u>
Financed by:	Kelly	Linda	Mande	
Capital Accounts	24,000	16,000	8,000	48,000
Current Accounts	4,000	3,600	(5,600)	<u>2,000</u>
				<u>50,000</u>

On 1 July 2000, it was agreed to dissolve the partnership. The following assets were liquidated and realised the stated amounts:

	Shs '000
Land & Buildings	16,000
Inventory	10,000
Accounts Receivable	6,000
Furniture & Fittings	5,000
Motor Vans	2,200

Mande has been declared insolvent as of the date of dissolution.

Required:

Prepare the Realisation, Bank and Capital accounts of the partnership on dissolution to reflect the above transactions.

(18 marks).
(Total 30 marks)

SECTION C:

Question 3

- (a) State the broad objective of a cash flow statement.
(2 marks)
- (b) Three major types of information included in a cashflow statement under IAS 7 include operating activities, investing activities, and financing activities.

For each of these, give a clear definition and give two (2) examples of such cashflows.

(12 marks)

- (c) Broadly, financial statements set out to portray critical information about the financial fortunes of the company.

Describe the nature of this information, briefly stating the specific financial statement that meets particular needs.

(6 marks)
(Total 20 marks)

Question 4.

The summarized financial statements of Tito Ltd and Kato Ltd., for the year ended 31 December 2001, are given below:

Balance Sheets as at 31 December 2001.

	TITO LTD		KATO LTD	
	Shs '000	Shs '000	Shs '000	Shs '000
Non-current assets - net		40,000		20,000
Current Assets:				
Inventories	57,000		30,000	
Receivables	22,000		20,000	
Cash	<u>11,000</u>		<u>10,000</u>	
	90,000		60,000	
Less current liabilities	<u>30,000</u>		<u>30,000</u>	
		<u>60,000</u>		<u>30,000</u>
Net assets employed		<u>100,000</u>		<u>50,000</u>
Ordinary share capital (fully paid)		95,000		45,000
Revenue reserves		<u>5,000</u>		<u>5,000</u>
		<u>100,000</u>		<u>50,000</u>

Income Statements for the year ended 31 December 2001.

	TITO LTD		KATO LTD	
	Shs '000	Shs '000	Shs '000	Shs '000
Sales		160,000		120,000
Opening inventory	39,000		20,000	
Purchases	<u>114,000</u>		<u>85,000</u>	
	153,000		105,000	
Closing inventory	<u>(57,000)</u>		<u>(30,000)</u>	
Cost of Sales		<u>96,000</u>		<u>75,000</u>
Gross Profit		64,000		45,000
General Expenses		<u>(56,000)</u>		<u>(39,000)</u>
Net profit		<u>8,000</u>		<u>6,000</u>

Statement of changes in Equity for the year ended 31 December, 2001.

	TITO LTD	KATO LTD.
	SHS' 000	SHS' 000
Opening balance	3,000	1,000
Net profit for period	8,000	6,000
Less: Dividends paid	<u>(6,000)</u>	<u>(2,000)</u>
	<u>5,000</u>	<u>5,000</u>

Required:

(a) Compute the following accounting ratios for each company:

- | | | |
|-------|------------------------------|------------------|
| (i) | Return on Net Assets | (3 marks) |
| (ii) | Gross and Net Profit Margins | (4 marks) |
| (iii) | Current Ratio | (2 marks) |
| (iv) | Quick Ratio | (2 marks) |
| (v) | Inventory turnover | (3 marks) |

(b) Briefly describe the conclusions you would draw from a comparison of the ratios which you have computed for each company.

(6 marks)
(Total 20 marks)

Question 5

Wankye Enterprises (U) Ltd., a newly incorporated company, has decided to float its shares on the Uganda Securities Exchange. Its initial public offering (IPO) is 150,000 Shs 1,000 ordinary shares at Shs 1,150 each, payable as follows:

	Per Share (Shs)
• On application (inclusive of premium on 1 April 2000)	750
• On allotment on 30 April 2000	200
• On first and final call on 31 May 2000	200

Applications were received for 180,000 shares, and the directors decided to deal with these as follows:

- (i) To refuse allotment to applicants for 4,000 shares
- (ii) To give full allotment to applicants for 11,000 shares.
- (iii) To allot the remainder of the available shares prorata among the other applicants in part payment of amounts due on allotment.

An applicant, to whom 400 shares had been allocated, failed to pay the amount due on the first and final call and his shares were declared forfeit on 31 July 2000. These shares were re-issued on 3 September 2000, as fully paid at Shs 900 per share.

Required:

Prepare the ledger accounts to record the above transactions in the books of Wankye Enterprises (U) Ltd.

(20 marks)

SECTION D:

Question 6

Distinguish between public sector accounting and private sector accounting in Uganda.

(10 marks)

Question 7

In order to meet the information needs of their users, financial statements are prepared basing on several diverse conventions/concepts.

Briefly describe the various concepts underlying the preparation of financial statements.

(10 marks)