

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 16 DECEMBER 2003

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) The book of account in which the accounts of credit customers of a business are kept is known as:
- Sales ledger.
 - Purchases ledger.
 - Sales day book.
 - Returns inwards day book.
- (ii) Which of the following statements is correct?
- Management accountants prepare financial statements for use by outsiders.
 - Financial accountants prepare financial statements for both internal and external use.
 - The sole aim of auditors is to prepare financial statements for their clients.
 - Financial accountants prepare financial statements for external use.
- (iii) Which of the following is false about the journal?
- It is a book of prime entry.
 - It is part of the double entry system.
 - It is a check against errors and frauds by book-keepers.
 - It is a safeguard against making incomplete entries.
- (iv) In a purchase ledger control account, discounts received should be shown as:
- An increase in the amount owed by customer.
 - A decrease in the amount owed to suppliers.
 - A reduction in the amount owed by customers.
 - An increase in the amount owed to suppliers.
- (v) The Kibira Forest Conservation Association had the following balances in its subscriptions account:

	Arrears Shs.	Advance Shs.
Balance at 1.1.2000	11,700,000	18,000,000
Balance at 31.12.2000	14,940,000	6,660,000

The association collected a total of Shs. 123,660,000 in subscriptions from its members during the year. What is the amount of subscription income for the year ended 31 December 2000?

- Shs. 123,660,000.
- Shs. 109,080,000.
- Shs. 115,560,000.
- Shs. 138,240,000.

- (vi) Which of the following does not appear in the Adjusted Cash Book when reconciling the Bank Statement and Cash Book balances?
- Unpresented cheques.
 - Direct debits.
 - Bank charges.
 - Dishonoured cheques.
- (vii) A petty cash book:
- Is used in the place of the cash book.
 - Reduces the number of entries in the general ledger.
 - Is used for small cheque payments.
 - Is used when the cashier is too busy to enter the transactions in the cash book.
- (viii) Which of the following are Personal Accounts?
- Machinery.
 - Salaries.
 - Trade receivables.
 - Trade payables.
- (i) and (iv).
 - (iii) and (iv).
 - (ii) and (iii).
 - (ii) and (iv).
- (ix) Discounts received are:
- Deducted when the firm receives cash.
 - Given by the firm when it sells goods on credit.
 - Deducted by the firm when it pays its suppliers promptly.
 - Included in the income statement as an expense.
- (x) When closing inventory is understated the gross profit is:
- Overstated.
 - Not affected.
 - Understated.
 - None of the above
- (xi) X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2. Their profit for the year ended 30 November 2003 was Shs 9,830,000. How much did each partner get?

	X	Y	Z
	Shs	Shs	Shs
(a)	4,915,000	2,949,000	1,966,000
(b)	5,461,111	2,621,333	1,747,556
(c)	4,519,000	3,186,600	2,124,400
(d)	491,500	294,900	196,600

- (xii) When preparing financial statements the bad debts account is closed by a transfer to the:
- (a) Balance sheet.
 - (b) Provision for bad debts account.
 - (c) Income statement.
 - (d) Trade receivables account.
- (xiii) A company bought a machine on 1 January 2002 at Shs 30,000,000. Depreciation is charged at the rate of 30% per annum using the reducing balancing method. What will be the value of the machine's accumulated depreciation at 31 December 2003?
- (a) Shs. 12,000,000.
 - (b) Shs. 14,700,000.
 - (c) Shs. 18,000,000.
 - (d) Shs. 15,300,000.
- (xiv) ATC(U) Ltd bought a motor lorry for Shs. 35,000,000. The book keeper entered the transaction as a debit in the motor expenses account in error. This type of error is known as:
- (a) Error of commission.
 - (b) Compensating error.
 - (c) Error of original entry.
 - (d) Error of principle.
- (xv) Which of the following statements are correct?
- (i) Preference shareholders are entitled to dividends before the ordinary shareholders.
 - (ii) Ordinary shareholders are entitled to dividends whether or not the company makes profits.
 - (iii) Interim dividends are paid to the shareholders in the subsequent financial year.
 - (iv) Preference shareholders cannot receive dividends before the ordinary shareholders.
- (a) (i).
 - (b) (i) and (iii).
 - (c) (ii) and (iv).
 - (d) (i), (ii) and (iii).
- (xvi) Which of the following need not be recorded in the books of account?
- (a) The sale of goods for cash.
 - (b) Cash discounts allowed to customers.
 - (c) Trade discounts allowed to customers.
 - (d) The settlement of a liability by cheque.

- (xvii) Bully, an active partner, withdrew goods worth Shs 1,000,000 from the firm for his personal use. How would you account for this transaction in the books of the partnership?
- Debit drawings account and credit purchases account.
 - Debit Bully's current account and credit purchases account.
 - Debit the Bully's capital account and credit inventory account.
 - Debit drawings account and credit sales account.
- (xviii) The total of the sales journal is entered on:
- The credit side of the sales ledger control account.
 - The credit side of the sales account in the general ledger.
 - The debit side of the sales account in the general ledger.
 - The debit side of the sales day book.

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

Below is an account of Deeta, a credit customer of BNW Ltd. for the month of May 2003.

Dr		Deeta Account		Cr	
	Shs '000				Shs '000
May 1 Sales	5,361	May 13 Bank			2,766
May 12 Sales	2,370	May 27 Returns			1,179
May 30 Sales	4,815				

- (xix) What was the balance on Deeta's account at the close of business on 31 May 2003?
- A debit balance of Shs. 8,601,000.
 - A credit balance of Shs. 8,601,000.
 - A credit balance of Shs. 8,304,000.
 - A debit balance of Shs. 8,304,000.
- (xx) What was the balance on Deeta's account on 26 May 2003?
- A debit balance of Shs. 8,601,000.
 - A credit balance of Shs. 8,601,000.
 - A debit balance of Shs. 4,965,000.
 - A credit balance of Shs. 4,965,000.

SECTION B**Question 2**

The following is a receipts and payments account for the Wakulima Farmers' Association for the year ended 30 September 2001.

	Shs.'000'		Shs. '000'
Balance b/f	4,380	Entrance tickets to National Agricultural Show	18,000
Sale of fertilisers	8,420	Purchase of fertilisers	9,500
Sale of tickets to National Agricultural Show to non-members	2,000	Transport to Agricultural Show	2,450
Sale of Ox-ploughs	19,000	Purchase of Ox-ploughs	27,000
Subscriptions	35,950	Rent for premises	2,500
Balance c/f	1,350	Agricultural magazines for members	1,950
		Office Administrator's pay	4,700
		Grading of Association's land	5,000
	<u>71,100</u>		<u>71,100</u>

Additional information:

- (i) The Association sells Ox-ploughs to members at cost price and holds no stocks for unsold Ox-ploughs.
- (ii) Members are entitled to fully paid trips to the National Agricultural Shows.
- (iii) The following balances appeared in the Association's books as at

	1.10.2000	30.09.2001
	Shs. '000'	Shs. '000'
Inventories of fertilisers (cost)	1,250	2,800
Subscriptions in advance	1,200	1,950
Receivables for Ox-ploughs	2,000	6,850
Payables: Ox-ploughs	4,000	850
Fertilizers	550	1,700

- (iv) The Association owns a piece of land which it acquired five years ago at a cost of Shs. 10,000,000. The market value for the land was Shs. 35,000,000 at 1 October 2000 and Shs. 37,500,000 at 30 September 2001.

Required:

Prepare the Association's Income and Expenditure Account for the year ended 30 September 2001 and a balance sheet as at that date.

(20 marks)

Question 3

- (a) Explain the imprest system.

(5 marks)

- (b) ATC Ltd operates an imprest system and the imprest amount is Shs. 1,000,000 per week. The amount spent is replenished at the end of every week.

On 1 December 2003, a cash cheque equivalent to the amount of imprest was handed to Amanda, a petty cashier, to meet her disbursements for the week. She later recorded the following expenses:

- Dec. 1 Stationery Shs. 72,000; Telephone Shs. 40,000, Meals Shs. 35,000; Transport Shs. 25,000.
 Dec. 2 Transport Shs. 37,000; Telephone Shs. 50,000; Meals Shs. 45,000
 Dec. 3 Telephone Shs. 30,000; Stationery 75,000.
 Dec. 4 Meals Shs. 40,000; Telephone Shs. 30,000.
 Dec. 5 Transport Shs. 45,000; Meals 23,000; Stationery Shs. 50,000.
 Dec. 6 Stationery Shs. 10,000; Telephone Shs. 40,000; Transport Shs. 30,000.
 Dec. 6 Replenishment of imprest amount by cash.

Additional information:

- Stationery is supplied by ABC Stationers.
- Transport is provided by AK Transporters.
- Telephone services are provided by Kam Telecommunications.
- Meals are supplied by General Foods Ltd.
- The meals are consumed by the staff

Required:

Prepare ATC Ltd's petty cashbook using suitable headings for the week ending 6 December 2003.

(15 marks)**(Total 20 marks)**

Question 4

Sigma Car Hire Ltd commenced business on 1 January 2001. Its financial year-end is 31 December of every year.

The company owns some motor vehicles which it hires out to tourists and organisers of public and social functions. It depreciates its motor vehicles at the rate of 20% per annum on cost for each month of ownership.

During the years ended 31 December 2001 and 31 December 2002, the following motor vehicles were bought:

Date	Car No.	Amount (Shs '000')
2 January 2001	1	15,000
3 January 2001	2	20,000
1 March 2001	3	35,000
5 August 2001	4 (Second hand)	7,000
1 February 2002	5	40,000
31 March 2002	6	43,000
30 April 2002	7	47,000
1 December 2002	8	50,000

Car No 4 developed mechanical problems and was disposed off at Shs 3,000,000 on 31 May 2002.

All receipts and payments were by cheque.

Required:

Prepare the following:

- (a) Motor vehicles account for the two years. **(6 marks)**
- (b) Provision for depreciation account for the two years. **(11 marks)**
- (c) Motor vehicles disposal account. **(3 marks)**

Note: Show all your workings.

(Total 20 marks)

Question 5

You are a newly appointed Accounts Assistant of Omugo Retail Traders. You have been presented with the financial statements for the year ending 30 November 2003. The Income Statement shows a net profit of Shs 11,500,000.

On reviewing the books of account, you discover the following:

- (i) Furniture purchased on 5 November 2003 for Shs 200,000 was recorded in the repairs account.
- (ii) Credit purchases of 30 November 2003 for Shs 1,270,000 were omitted from the books.
- (iii) Discounts received of Shs 233,000 were not recorded anywhere in the books.
- (iv) A closing inventory sheet was understated by Shs 200,000.
- (v) Bank charges of Shs 100,000 and a standing order for Shs 300,000 for an account payable have not been recorded in the books.
- (vi) A provision of Shs 250,000 is to be made in respect of a doubtful debts.
- (vii) Bad debts of Shs 125,000 have not yet been written off.
- (viii) No provision has been made for an electricity charge due for Shs 125,000.
- (ix) The proprietor drew Shs 1,500,000 from the business's bank account and purchased a computer as a graduation gift to his wife. This transaction was not recorded in the books.
- (x) Returns inwards of Shs 65,000 were entered as Shs 56,000.
- (xi) No provision for depreciation was made on the furniture bought on 5 November 2003. The company depreciates furniture at the rate of 10% per annum on cost. A full year's depreciation is provided for in the year of purchase and none in the year of disposal.

Required:

Prepare:

- (a) Journal entries to record the above transactions. (Do not include narrations). **(11 marks)**
 - (b) A statement of corrected net profit / loss. **(9 marks)**
- (20 marks)**

SECTION C

Question 6

Explain five functions of accounting.

(10 marks)

Question 7

The following information relates Amaate Ltd. which, operates a dairy farm along the Kampala-Mbarara highway for the year ended 30 June 2003.

- (i) Incurred wages of Shs. 6,000,000. Of this amount, Shs. 1,125,000 was paid to workers who constructed a dip tank on the farm.
- (ii) Incurred animals related expenses amounting to Shs. 7,800,000 Of this amount, Shs. 3,650,000 was paid in respect of constructing a shed from where the animals are fed.
- (iii) Paid for milking machine an amount of Shs. 18,750,000. Of this amount, Shs. 3,635,000 was in respect of repairs to an older milking machine already on the farm.
- (iv) Paid for expenses to the district authorities Shs. 2,000,000. This amount includes Shs. 550,000 paid to the district engineer who designed the shed from where the animals are fed. The balance was for ground rates.
- (v) Transportation of milk to the market amounted to Shs. 5,817,000. This amount includes Shs. 1,070,000 in respect of transporting building materials for the shed referred to in (ii) above.

Required:

Classify each of the above items as either capital or revenue expenditure and indicate the amounts involved.

(10 marks)