

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II - PAPER 5

MONDAY, 15 DECEMBER 2003

#### 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

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## SECTION A

### Question 1

- (i) During the 2003 – 2004 Budget Speech, the Minister of Finance, Planning & Economic Development announced that Ministry of Health was authorized a gross sum of Shs 500,000,000 for its recurrent expenditure. The Ministry's budget shows that its Appropriations-in-Aid for the period is Shs 27,980,000.

What is the value of funds expected from the consolidated fund during the financial year 2003 – 2004?

- (a) Shs 527,980,000.
  - (b) Shs 500,000,000.
  - (c) Shs 472,020,000.
  - (d) Shs 427,200,000.
- (ii) The financial statement that records the annual income and expenditure of a municipal council is called:
- (a) Income and expenditure account.
  - (b) Revenue account.
  - (c) Receipts and payments account.
  - (d) Revenue and expenditure account.
- (iii) The responsibility of reporting on the financial statements of a limited company lies with the:
- (a) Finance Director.
  - (b) Shareholders.
  - (c) Auditors.
  - (d) Board of Directors.
- (iv) ..... results in an increase in cashflows.
- (a) Matured treasury bills.
  - (b) An issue of bonus shares.
  - (c) Directors' fees.
  - (d) Revaluation of property, plant and equipment.
- (v) When a company makes a rights issue of equity shares, which of the following effects will the issue have?
- (i) Gearing ratio is increased.
  - (ii) Share premium account is reduced.
  - (iii) Working capital is increased.
  - (iv) Investments are increased.
- (a) (i), (ii) and (iv).
  - (b) (iii) and (iv).
  - (c) (iii) only.
  - (d) (ii) only.

- (vi) Which of the following items will not appear in a company's cash flow statement?
- (i) Proposed dividend.
  - (ii) Profit on disposal of an asset.
  - (iii) Dividend received.
  - (iv) Proceeds from the sale of a motor vehicle.
  - (v) Bad debts written off.
- (a) (i), (ii) and (v).
  - (b) (ii), (iii) and (v).
  - (c) (ii), (iii), (iv) and (v).
  - (d) (i) and (ii).
- (vii) Which of the following items will cause a business' net profit to fall?
- (i) Financing the business by issuing ordinary shares.
  - (ii) The occurrence of sales returns.
  - (iii) Increasing salary of a full time partner.
  - (iv) Understatement of closing inventory.
- (a) (i), (ii) and (iii).
  - (b) (ii), (iii) and (iv).
  - (c) (i), (ii), (iii) and (iv)
  - (d) None of the above.
- (viii) Which of the following will improve a company's acid test ratio?
- (a) An increase in the provision for bad debts.
  - (b) Sale of a used computer on credit.
  - (c) An increase of returns inwards.
  - (d) Repayment of a long-term loan.
- (ix) Which of the following is correct?
- (a) Transactions and other events should be accounted for and presented in accordance with their legal form.
  - (b) Financial statements should disclose all items in money value.
  - (c) Revenues and costs are recognized in the books of account when money is paid or received.
  - (d) Accounting policies should consistently be applied from one period to another.
- (x) Depreciable assets are:
- (a) Assets which have limited useful lives.
  - (b) Assets purchased and only sold when their sales price increases.
  - (c) Assets expected to be used within one accounting period.
  - (d) Items from which a company can derive economic value in future.

- (xi) The figures below relate to the profits extracted from the books of Makosa Co. Ltd:

Year	Amount (Shs)
2000	45,000,000
2001	60,000,000
2002	75,000,000

The directors of Makosa Co Ltd. agreed to sell the company to Zinco Ltd who investigated and discovered that the salary of one director, amounting to Shs. 24,000,000 per annum was not accounted for in arriving at the figures given above.

What is the value of goodwill? (Use a 2 year purchase average profits method).

- (a) Shs 72,000,000.
  - (b) Shs 120,000,000.
  - (c) Shs 60,000,000.
  - (d) Shs 36,000,000.
- (xii) Which of the following is the most appropriate order of settlement of the following accounts on dissolution of a partnership?
- (i) Advances made by the partners to the business.
  - (ii) Debts due to third parties.
  - (iii) The partners share profits in their profit sharing ratio.
  - (iv) Partners' capital balances other than their advances.
- (a) (i), (ii), (iii) and (iv).
  - (b) (ii), (i), (iv) and (iii).
  - (c) (ii), (iv), (i) and (iii).
  - (d) (iii), (iv), (i) and (ii).
- (xiii) Which of the following is correct about bills of exchange?
- (a) Bills are a guarantee that a debt will be honoured.
  - (b) The liability to honour the bill of exchange lies on the drawee.
  - (c) Noting charges on bills of exchange are charged to the drawer of the bill.
  - (d) Discounting charges on bills of exchange discounted are charged to the acceptor of the bill.
- (xiv) Which of the following is false?
- (a) Goods sent to an agent on consignment continue to belong to the consignee until they are sold.
  - (b) Del credere commission is paid to an agent who accepts to pay for any bad debts.
  - (c) The agent stores the goods until they are sold.
  - (d) When goods are consigned, Debit Consignment Account and Credit Goods Sent on Consignment Account.



- (xv) International Accounting Standard (IAS) 1 is called:
- Intangible Assets.
  - Property, Plant and Equipment.
  - Presentation of Financial Statements.
  - Events after the Balance Sheet Date.
- (xvi) Which of the following is a combination of profit and loss account items in manufacturing accounts?
- Factory wages, sales, depreciation of factory building and interest on loan.
  - General expenses, depreciation of tools, postage and insurance of distribution vans.
  - Commissions, provision for depreciation, allowances to the accountant and distribution costs.
  - None of the above.
- (xvii) What is the total value of purchases for the year ended 31 December 2002, from the following information?
- |  | Shs        |
|--|------------|
| Trade payable at 31 December 2001  | 10,000,000 |
| Trade payable at 31 December 2002  | 2,000,000  |
| Total payments to credit suppliers during the year ended 31 December, 2002 | 29,500,000 |
| Returns outwards during the year   | 2,500,000  |
- Shs. 24,000,000.
  - Shs. 40,000,000.
  - Shs. 21,000,000.
  - Shs. 19,000,000.
- (xviii) Which of the following is a mismatch in a business organisation?
- Withdrawal of a cheque from the bank for petty cash.
  - A cash sale made and banked by the cashier.
  - Trade receivables used to settle trade payables.
  - A cheque received and banked on the same day.
- (xix) The premium on the reissue of forfeited shares is debited to:
- Application and allotment account and credited to share premium account.
  - Forfeited shares account and credited to calls account.
  - Share capital and credited to forfeited shares account.
  - Forfeited shares account and credited to share premium account.

(xx) The current ratio:

- (a) Measures the adequacy of current assets to meet current liabilities.
- (b) Tests whether an organization has sufficient resources to meet its current liabilities.
- (c) Tells us how the current assets are financed.
- (d) Tells us how the assets of an organization are financed.

### SECTION B

#### Question 2

The following trial balance was extracted from the books of Cool Ltd for the year ended 30 June 2003:

	Shs '000'	Shs '000'
Land at cost	302,000	
Buildings – cost	1,660,000	
Accumulated depreciation at 30 June 2002		204,000
Office Equipment - cost	360,000	
Accumulated depreciation at 30 June 2002		58,000
Motor vehicles – cost	336,000	
Accumulated depreciation at 30 June 2002		124,000
Trade receivables	162,000	
Provision for doubtful debts		3,600
Sales		2,720,000
Purchases	1,620,000	
Inventory at 1 July 2002	306,000	
Distribution costs	292,000	
Administrative expenses	318,000	
Loan Interest	10,000	
Dividends paid:		
Final for the year ended 30 June 2002	96,000	
Interim for the year ended at 30 June 2003	72,000	
Cash at Bank	28,000	
10% loan (issued in 1998 and redeemable in 2012)		200,000
Trade payables		164,000
Called up share capital – ordinary shares of Shs. 500 each		240,000
Share premium account		494,000
Accumulated Profits 30 June 2002		1,354,400
	<u>5,562,000</u>	<u>5,562,000</u>

#### Additional Information:

- (i) Closing inventory was Shs. 332,000,000.
- (ii) Bad debts written off but not recorded were Shs. 1,200,000 and a further provision for doubtful debts of Shs. 2,400,000 was made. The

company's policy is to include both bad debts written off and provision for doubtful debts in the administrative expenses.

(iii) Accruals and payments:	Prepayments	Accruals
	Shs. 000	Shs 000
Distribution costs	12,000	24,000
Administrative expenses	14,000	38,000
Loan interest	-	10,000

- (iv) Depreciation charged on cost at the following rates:

Land	Nil
Buildings	2% per annum.
Office Equipment	15% per annum.
Motor vehicles	25% per annum.

Depreciation is apportioned equally between distribution and administrative expenses.

- (iv) Invoices for credit purchases amounting to Shs. 3,600,000 for which goods were delivered on 22 June 2003, were received on 10 July 2003, whereas invoices for credit sales amounting to Shs. 1,400,000 for goods delivered to customers on 25 June 2003 were dated 5 July 2003 in error and sent to customers in July 2003. These transactions have only been reflected in the closing inventory and nowhere else.

- (v) Provide for the corporation tax rate of 30%.

**Required:**

Prepare the Cool Ltd's Income Statement for the year ended 30 June 2003 and a Balance Sheet as at that date.

(30 marks)

### SECTION C

#### Question 3

Abel, Ben and Cobra are in partnership sharing profits and losses in the ratio 3:2:1. The partnership's financial year ends on 30 September every year. The summarized partnership balance sheet at 30 September 2003 is shown below:

	Shs. 000
Net assets	<u>32,000</u>
Capital accounts:	
Abel	12,000
Ben	12,000
Cobra	<u>8,000</u>
	<u>32,000</u>

**Additional information:**

- (i) On 31 March 2003, Abel retired leaving Ben and Cobra to continue in business from 1 April 2003 sharing profits in the ratio 2:1.

On 31 March 2003:

- Goodwill was valued at Shs. 12,000,000.
- Land revalued upwards by Shs. 120,000.
- Balance due to Abel remained in the partnership as an interest free loan.

- (ii) On 1 July 2003, Doti joined the partnership, and from this date the profit-sharing ratio became 2:1:1. Doti brought in Shs. 6,000,000 as capital, plus a further Shs. 3,000,000 for  $\frac{1}{4}$  share of the goodwill valued at Shs. 12,000,000 on this date. The total profit for the year ended 30 September 2003 was Shs. 12,000,000.
- (iii) A bad debt of Shs. 600,000 charged in arriving at the profit of Shs 12,000,000 should be related to the six months ended 31 March 2003.
- (iv) Apart from the adjustment in (iii) above, the profits should be divided as follows:
- Six months ended 31 March 2003 60%
  - Three months ended 30 June 2003 20%
  - Three months ended 30 September 2003 20%
- (v) The partners' drawings for the year were:

	Abel	Ben	Cobra	Doti
	Shs	Shs	Shs	Shs
	'000'	'000'	'000'	'000'
Six months ended 31 March 2003	1,000	800	600	-
Three months ended 30 June 2003	-	600	600	-
Three months ended 30 September 2003	-	800	600	500

- (vi) No Goodwill account is maintained in the partnership records.

**Required:**

- (a) Calculate the partnership profit figures for the three periods during the year ended 30 September 2003.
- (3 marks)
- (b) Prepare the partners' capital accounts for the year ended 30 September 2003 from the information given above. Balance off the accounts at the end of each of the three partnership periods. Show the relevant workings.

(17 marks)  
(Total 20 marks)



**Question 4**

The following information was extracted from the books of Muko Industries Ltd. for the year ended 31 October 2003:

- (i) Bills receivable from Deta Ltd at 1 November 2002 was Shs 1,300,000.
- (ii) On 30 November 2002, Muko Industries Ltd wrote off Shs. 1,300,000 owed by Deta Ltd as bad.
- (iii) On 15 December 2002, Deta Ltd paid Shs. 1,200,000 cash in full and final settlement of the dues to Muko Industries Ltd.
- (iv) On 3 January 2003, Muko sold goods to Deta Ltd worth Shs. 2,500,000 which were paid by cheque of Shs. 400,000 and a Bill of Exchange for Shs. 2,100,000 at one month. Muko Industries Ltd discounted the Bill of Exchange at Stand Bank for Shs. 2,068,000.
- (v) The Bill was dishonoured on 4 February 2003 and Muko Industries Ltd was called upon to take it up. Muko Industries Ltd paid noting charges of Shs. 2,000.
- (vi) Deta Ltd met its obligation of Shs. 2,100,000 on 10 February 2003 with a new bill at two months for the same amount paid, noting charges on the old bill and interest of Shs. 63,000 on the new bill.
- (vii) On 10 April 2003 Deta Ltd paid Shs. 1,100,000 cash on the bill and accepted a fresh bill at 3 months for Shs. 1,050,000 including interest.
- (viii) On 10 July 2003, Deta Ltd becoming insolvent paid a compensation of 50% of its debt.

**Required:**

- (a) Prepare the necessary ledger accounts in the books of Muko Industries Ltd.  
(15 marks)
  - (b) Give five differences between a bill of exchange and a cheque.  
(5 marks)
- (Total 20 marks)**

**Question 5**

- (a) Give five responsibilities of the Accountant General as stipulated in The Public Finance and Accountability Act, 2003  
(10 marks)
- (b) The following transactions were extracted from the records of Nkono Municipal Council for two weeks of February 2003. All receipts are banked at the end of the week, where applicable.

Date	Description	Shs '000'
1.2.2003	Cash at bank	76,000
3.2.2003	Withdrew cash from bank to pay casual workers. They were paid on 4 February 2003.	4,500
4.2.2003	Paid Councillors' allowances for meeting held on 3 February 2003 by cheque.	3,000

5.2.2003	GTZ remitted a conditional grant for regarding of roads by telegraphic transfer to the Council's bank account.	150,000
6.2.2003	Received unconditional grant from Danida by cheque.	10,000
7.2.2003	Cash receipts from trading licences.	7,000
7.2.2003	Banked receipts of 1 – 7 February 2003.	
10.2.2003	Bought office computers by cheque.	15,000
11.2.2003	Remitted withholding tax to URA by cheque.	5,000
12.2.2003	Sale proceeds of motor vehicles by cheque.	30,000
13.2.2003	Paid ICPAU examinations fees for accounting staff by cheque.	10,000
13.2.2003	Received market fees collections by cash.	4,000
14.2.2003	Received taxi park fees by cash	6,500
14.2.2003	Banked receipts of 10-14 February 2003.	

**Required:**

Prepare a cashbook for the above transactions and balance it off on 14 February 2003.

**Note:** Ignore the receipt, voucher and cheque numbers columns

(10 marks)

(Total 20 marks)

**SECTION D****Question 6**

- (a) Briefly explain the term ratio analysis. (2 marks)  
 (b) Give four advantages and four disadvantages of ratio analysis.

(8 marks)

(Total 10 marks)

**Question 7**

IAS 7: **Cash Flow Statements** describes the format of presentation of a cash flow statement.

**Required:**

Using examples, state and describe the three major elements of cash flow statements.

(10 marks)