

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

MONDAY, 16 JUNE 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) Jojo purchased equipment worth Shs. 5,000,000 on 1 January 2002. Its estimated useful life is 5 years and its residual value is Shs. 500,000. The depreciation charge would be recorded as:
- (a) Dr Depreciation expense a/c with Shs. 1,000,000.
Cr Accumulated depreciation a/c with Shs. 1,000,000.
 - (b) Dr Depreciation expense a/c with Shs. 900,000.
Cr Income statement with Shs. 900,000.
 - (c) Dr Depreciation expense a/c with Shs. 900,000.
Cr Accumulated depreciation a/c with Shs. 900,000.
 - (d) Dr Accumulated depreciation a/c with Shs. 1,100,000.
Cr Depreciation expense a/c with Shs. 1,100,000.
- (ii) A person to whom an entity owes money is called a:
- (a) Creditor.
 - (b) Customer.
 - (c) Debtor.
 - (d) Shareholder.
- (iii) What is the fundamental principle of accounting transactions?
- (a) Concept of ledger accounting.
 - (b) Concept of single entry.
 - (c) Double entry concept.
 - (d) Book-keeping.
- (iv)

K K Company Ltd
Income Statement
As at 31 December 2000

	Shs. '000'
Sales	40,000
Cost of sales	<u>22,000</u>
Gross profit	18,000
Less trading expenses	<u>12,000</u>
Net profit	<u>6,000</u>

Calculate the profit mark-up and margin for KK Company Ltd.

- (a) Mark-up = 55%; Margin = 45%.
- (b) Mark-up = 45%; Margin = 82%.
- (c) Mark-up = 27%; Margin = 15%.
- (d) Mark-up = 82%; Margin = 45%.

- (v) A partnership deed may provide for payment of salaries to partners for performance of some extra duties. The partners' salaries would be accounted for as:
- (a) A business expense.
 - (b) Part of cost of sales.
 - (c) An appropriation of profits.
 - (d) Not part of appropriation of profits.
- (vi) Unsold goods at the end of the financial year as accounted for in the Balance Sheet and / or Income Statement as:
- (a) A balance of inventory in hand in the balance sheet.
 - (b) A deduction from goods available for sale in the income statement and as a balance of inventory in hand in the balance sheet.
 - (c) A deduction from gross profit and balance of goods available for sale in the income statement.
 - (d) A balance and deduction from goods available, for sale at cost in the income statement.

Use the following statements to answer questions (vi) – (viii).

Kampala Cool Club was founded in 1 January 2001 with 200 members. The annual subscription per member is Shs. 75,000. By the end of that year, 5 members had not paid their dues, 13 had paid a year in advance. 70% of the net annual subscription is used to meet the Club's expenses.

- (vii) Calculate the subscription received during the year 2001.
- (a) Shs. 15,600,000.
 - (b) Shs. 15,000,000.
 - (c) Shs. 14,400,000.
 - (d) Shs. 14,625,000.
- (viii) Compute the amount transferable to the accumulated fund.
- (a) Shs. 3,744,000.
 - (b) Shs. 4,500,000.
 - (c) Shs. 3,120,000.
 - (d) Shs. 3,600,000.
- (ix) A businessman uses the term net profit, what is the comparable term used by the treasurer of a non-profit making organisation?
- (a) Surplus of income over expenditure.
 - (b) Accumulated fund.
 - (c) Gross profit.
 - (d) Surplus of expenditure over income.

- (x) Which of the following is an error of principle?
- (a) Purchase of goods from Ondoga is credited to Odongo's account.
 - (b) Receipt of cash of Shs. 989,000 is entered in the books of account as Shs. 998,000.
 - (c) A purchase of a motor vehicle is debited to purchases account.
 - (d) A transaction is not recorded in the books of account.
- (xi) Which of the following is a mismatch?
- (a) Trade receivables.
 - (b) Cash and Bank.
 - (c) Bank overdraft.
 - (d) Investment in 182 days treasury bills.
- (xii) Mr. Bingo sublets his market stall at an annual rental of Shs. 312,000 payable quarterly in arrears. During the year 2002 the tenant paid the rent due from him on 25 March, 30 June and 29 September but at 31 December he had not yet paid the quarter's rent due. At the beginning of the same year, advance rent was Shs. 50,000. Compute the balance on the Rent account.
- (a) Shs. 128,000 Cr.
 - (b) Shs. 28,000 Dr.
 - (c) Shs. 128,000 Dr.
 - (d) Shs. 28,000 Cr.
- (xiii) Which of the following is not a capital expenditure?
- (a) Construction of a commercial building.
 - (b) Overhauling a car engine to increase life of the vehicle.
 - (c) Partition of an office building to maintain the rental value.
 - (d) Purchase of furniture and fittings to improve rental value.
- (xiv) Which of the following is false about financial accounting?
- (i) Financial accounting is futuristic in nature and uses probability estimates in guiding management.
 - (ii) It is based on historical data and can be used by management as a reference for the future decisions.
 - (iii) Used mainly by external users, under prescribed formats.
 - (iv) It is not a legal requirement to have financial statements prepared for a company.
- (a) (i) and (iii).
 - (b) (ii) and (iv).
 - (c) (i) and (iv).
 - (d) (ii) and (iii).

- (xv) The following balances are extracted from the books of Eyalama Enterprises Ltd as at 31 December 2002 with the missing figures for Directors' loans.

	Shs (million)
Non current assets	54
Trade accounts payable	35
Inventories	36
Bank overdraft	10
Trade accounts receivable	20
Share capital	5
Revaluation reserve	15
Retained earnings	34

Determine the balance for the Directors' loans.

- (a) Shs 22,000,000.
 (b) Shs 21,000,000.
 (c) Shs 11,000,000.
 (d) None of the above.
- (xvi) Which of the following errors affect the trial balance?
- (a) Error of omission.
 (b) Casting error.
 (c) Error of principle.
 (d) Error of transposition.
- (xvii) Which of the following is false about the uses of financial statements?
- (a) Required when evaluating a business for sale to another.
 (b) Prepare for use by management of the company when reporting to the Institute of Certified Public Accountants of Uganda.
 (c) For filling of tax returns to Uganda Revenue Authority on which taxes assessed are based.
 (d) Required by shareholders in evaluating the profitability of the business.
- (xviii) Which of the following is true of a Certified Public Accountant in Uganda?
- (a) Must have completed ATC(U) examinations and in good standing with ICPAU.
 (b) A person who has attained a professional qualification outlined under the Accountants Statute 1992 and has enrolled as a member of ICPAU.
 (c) A person who has set up an audit firm and accounts audited by him / her are recognised by Uganda Revenue Authority for tax purposes.
 (d) A person of high integrity and interpersonal skills with accounting related training from an institution of higher learning.

- (xix) Which of the following is false?
- (a) A decrease in provisions for bad debts is an income item.
 - (b) An increase in provision for bad debts is an expense item.
 - (c) Bad debts recovered are an income item.
 - (d) Provision for bad debts are credited to the accounts receivable account.
- (xx) Drawings of goods are:
- (a) Debited to purchases account and credited to personal account.
 - (b) Debited to income statement and credited to drawings account.
 - (c) Debited to purchases account and credited to inventory account.
 - (d) Debited to drawings account and credited to purchases account.

SECTION B**Question 2**

ATC Ltd is a company operating in Uganda. The following trial balance was extracted from the company's books as at 31 December 2002.

	Shs. '000'	Shs. '000'
Purchases & sales	100,400	175,600
Returns inwards & outwards	325	475
Provision for bad debts		3,000
Rent and rates	2,800	
Electricity expenses	840	
Salaries	15,480	
General expenses	4,700	
Accumulated Depreciation: Furniture & Fittings		1,500
Trade payables and receivables	42,520	20,180
Furniture & Fittings (cost)	13,320	
Building – cost	80,000	
Inventory	20,520	
Income statement		2,000
Bank	11,850	
Authorised capital (issued & paid up capital)		
Shs. 1,000 Ordinary shares		40,000
Shs. 1,000 9% Preference shares		20,000
5% Debentures (Shs. 1,000)		<u>30,000</u>
	<u>292,755</u>	<u>292,755</u>

You are also provided with the following information:

- (i) Accrued electricity expenses amounted to Shs. 142,000.
- (ii) Depreciation on furniture and fittings at 10% per annum on cost.
- (iii) Debenture interest has not been paid for the year.
- (iv) Rent and rates paid in advance Shs. 150,000.
- (v) Closing inventory Shs. 19,242,000.
- (vi) Declared dividends for ordinary shares at 30% and preference shares.

Required:

Prepare:

- (a) ATC Ltd's income statement for the year ended 31 December 2002.
(10 marks)
 - (b) Balance sheet as at 31 December 2002.
(10 marks)
- (Show all necessary workings)
- (Total 20 marks)**

Question 3

- (a) What is the purpose of preparing bank reconciliation statements? **(3 marks)**
- (b) The cashbook of Top Traders Ltd for the period ended 31 March 2003 showed a favourable balance of Shs 18,916,000. This did not agree with the bank statement balance for the same period. On further examination, the following discrepancies were discovered:
- (i) A cheque of Shs 1,092,000 paid into the bank had been entered in the cashbook.
 - (ii) A cheque of Shs 820,000 received from Supplies Ltd was debited by the bank on 10 March 2003.
 - (iii) A standing order for payment of security expenses amounting to Shs 234,000 had not been entered into the cash book.
 - (iv) Nina Mukasa, a credit customer, who received a cash discount of 5% on her account of Shs 1,200,000 paid the company a cheque on 12 March 2003. The bookkeeper, in error, entered the gross amount in the cash book.
 - (v) A cheque received from Market Traders Co. on 20 March 2003 for Shs 300,000 was returned unpaid by the bank on 2 April 2003.
 - (vi) On 25 March 2003, a credit customer deposited Shs 2,300,000 to the company's bank account. The company was advised by the bank on 3 April 2003.
 - (vii) Cheques for Shs 3,910,000 sent to credit customers on 28 March 2003 were not recorded by the bank until 2 April 2003.
 - (viii) A cheque of Shs 258,000 paid to Shah & Company was returned unpaid, because of an error made while writing the cheque.
 - (ix) Cheques amounting to Shs 2,400,000 received from upcountry customers were paid into the bank on 30 March 2003 but were credited on 4 April 2003.
 - (x) Bank charges of Shs 53,200 were not entered in the cashbook.

Required:

- (i) Show the necessary adjustments in the books of Top Traders Ltd. **(10 marks)**
- (ii) Prepare a bank reconciliation statement as at 31 March 2003. **(6 marks)**
- (iii) What is the bank balance figure that will appear in the balance sheet as at 31 March 2003?

(1 mark)
(Total 20 marks)

Question 4

The proprietor of Mpala Traders did not keep proper books of accounts. The following information relates to his business for the year ended 31 December 2001.

Assets	Shs. '000'
Cash & bank	541,000
Trade receivables	194,000
Inventory	989,000
Furniture & fittings	250,000
Motor van	600,000

Liabilities	
Trade payables	1,240,000

		Cash Book	
Receipts	Shs '000'	Payments	Shs '000'
Cash sales	6,943,000	Credit suppliers	5,988,000
Receipts from credit customers	1,236,000	Drawings	700,000
		Rent, rates & insurance	540,000
		Light & heat	42,000
		Motor van expenses	226,000
		Repairs & renewals	17,000
		Shop fittings (new)	50,000
		Refunds to customers on cash sales	3,000
		General expenses	84,000

The following information is available as at 31 December 2001:

- (i) Inventory was valued at Shs. 910,000, trade receivables were Shs. 136,000 and trade payables were Shs 1,570,000.
- (ii) Light and heat outstanding was Shs. 11,000.
- (iii) Rates and insurance prepaid were Shs. 30,000.
- (iv) Depreciation: Furniture & fittings 10%.
Motor van over 5 years

Required:

Prepare Mpala Traders Income Statement for the year ended 31 December 2001 and Balance Sheet as at that date.

(Show all the necessary workings)

(20 marks)

Question 5

Magimoto retired from government service and started business on 1 May 2003. The following transactions are for the month of May 2003.

- May 1 Deposited his retirement cheque of Shs 15,000,000 on the business account.
- May 2 Brought in furniture from his house for business use valued at Shs 200,000.
- May 3 Paid Shs 200,000 by cheque for shop partitions.
- May 4 Withdrew cash of Shs 5,000,000 from the bank, paid from it Shs 600,000 for a trading licence, purchased goods for Shs 4,000,000.
- May 6 Sold goods for cash of Shs 1,000,000 and deposited the amount immediately into the bank account.
- May 7 Purchased goods for Shs 4,500,000 on credit from Kato Mukasa, Shs 2,500,000 from Mwamba and Shs 1,000,000 from Kentunda.
- May 9 Purchased second hand equipment for Shs 1,500,000 by cheque.
- May 12 Goods returned to kato Mukasa for Shs 500,000.
- May 13 Sold goods on credit for Shs 500,000 to Seya, Shs 600,000 to Muko and Shs 900,000 to Akello.
- May 16 Paid Mwambu Shs 1,000,000, Kentunda Shs 400,000 and Kato Mukasa Shs 3,000,000 by cheques.
- May 31 Acquired equipment valued at Shs 6,000,000 from House & Equipment Ltd, paid by cheque Shs 3,000,000, traded in old equipment at an agreed value of Shs 1,400,000 and agreed to pay the balance in July 2003.

Required:

- (a) Prepare ledger accounts (T-accounts) to record the above transactions in the books of Mwagimoto for the months of May 2003.

(16 marks)
 - (b) Balance off the accounts and extract a trial balance as 31 May 2003.

(4 marks)
- (Total 20 marks)**

SECTION C

Question 6

State five users of financial statements and briefly explain their information needs.
(10 marks)

Question 7

Write short notes on the following:

- (a) General journal.
- (b) Purchases journal.
- (c) Sales ledger.
- (d) General ledger.