

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

MONDAY, 16 JUNE 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

SECTION A

Question 1

- (i) Which of the following best explains Revenue recognition as an accounting convention?
 - (a) Revenues are recognized when customers make orders for the supply of goods.
 - (b) Revenues are recognized when an invoice is raised by the supplier.
 - (c) Revenues are recognized when goods are supplied to and accepted by customers with reservations.
 - (d) Revenues are recognized when goods are supplied to and accepted by the customer.
- (ii) The company's share capital cannot be altered unless:
 - (a) A special resolution by a special board committee is passed to that effect.
 - (b) The minority shareholders request the majority shareholders to do it on their behalf.
 - (c) The Articles of Association as revised by a Special Board Committee allows it.
 - (d) The Articles of Association provides for it.
- (iii) What is the Appropriation Act in Public Sector Accounting?
 - (a) Is the law passed by the parliament to control government expenditure.
 - (b) Is the amount of money allocated and passed by parliament for use to a particular government ministry in a financial year.
 - (c) Is the government's annual budgeted revenue and expenditures.
 - (d) None of these.
- (iv) Which of the following best defines the term Return on Capital Employed (ROCE)?
 - (a) The rate at which profit after tax can cover total shares and reserves of a company expressed as a percentage.
 - (b) The number of times profit before interest and tax can cover total shares and reserves expressed as a percentage.
 - (c) $\frac{\text{Net profit after tax}}{\text{Capital Employed}} \times 100$
 - (d) $\frac{\text{Profit before Interest and tax}}{\text{Capital Employed}} \times 100$

Use the following information to answer questions (v) to (viii)

Telkom Ltd imported a machine on 1 March 2002 at a cost of Shs 15,000,000/=. Clearing charges were Shs 2,572,000. The machine was inspected at the customs entry point in the country, by the company's Engineer who was paid a travel allowance of Shs 500,000. The Engineer was also paid a salary advance of Shs 500,000 on the day he left for the inspection assignment. Other additional installation, transportation and testing costs amounted to Shs 8,500,000. Telkom's policy is to depreciate machines at 12.5% per annum on a straight line basis.

- (v) What is the cost of the machine that will be recorded in Telkom Ltd's books?
- (a) Shs 23,500,000.
 - (b) Shs 26,072,000.
 - (c) Shs 26,572,000.
 - (d) Shs 27,072,000.
- (vi) If the machine was first put to use on 1 April 2002, what was the depreciation charge for the year ended 31 December 2002
- (a) Shs 4,060,800.
 - (b) Shs 2,491,125.
 - (c) Shs 4,000,800.
 - (d) Shs 2,538,000.
- (vii) What would be the book value of the machine as at 31 December 2003?
- (a) Shs 17,771,800.
 - (b) Shs 17,096,800.
 - (c) Shs 20,759,275.
 - (d) Shs 21,196,875.
- (viii) What would be the profit/(loss) on disposal if the machine was to be sold on 25 December 2002 at Shs 27,000,000 considering that the Engineer accounted for all the allowance?
- (a) Shs (2,466,000).
 - (b) Shs 2,919,125.
 - (c) Shs (2,919,125).
 - (d) Shs 2,466,000.

- (ix) In accordance with IAS 7 – Cash Flow Statements, an investment whose maturity periods is 80 days is classified under:
- (a) Cash and cash equivalents.
 - (b) Financing activities.
 - (c) Investing activities.
 - (d) Operating activities.
- (x) The following information was extracted from the books of Juwa Kali Trading business as at 31 March 2003.

	Shs '000'
Cash sales	28,500
Profit for the year	5,000
Depreciation	950
Increase in inventory	1,000
Decrease in trade receivables	500
Decrease in trade payables	1,200
Payments to employees	10,000
Payment for expenses	5,000

Which of the following is the net cash flow from operating activities, assuming use of the direct method?

- (a) Shs 7,650.
 - (b) Shs 13,500.
 - (c) Shs 21,150.
 - (d) Shs 18,500.
- (xi) The responsibility for providing the Parliament of Uganda with the information regarding government finances, new developments in the economy and fiscal policy planning lies with?
- (a) The Secretary to the Treasury.
 - (b) The Director of Accounts in the Ministry of Finance.
 - (c) The Speaker of the parliament.
 - (d) The Minister of Finance.
- (xii) Districts maintain their books of account on:
- (a) Cash basis.
 - (b) Accrual basis.
 - (c) Modified cash basis.
 - (d) Cash and cash accruals.

- (xiii) Using FIFO method of stock valuation, determine the value of stock at the end of the business on 1 February 2003.
 - (a) Shs 2,050 million.
 - (b) Shs 2,150 million.
 - (c) Shs 2,100 million.
 - (d) Shs 1,750 million.
- (xiv) The price-earnings ratio, used by investors to determine the viability of a company, is:
 - (a) Book Value/Number of Outstanding Shares.
 - (b) Market Price/Earnings Per Share.
 - (c) Book Value/ Earnings Per Share.
 - (d) Market Price/Number of Outstanding Shares
- (xv) The bank account on which Municipalities and Town Councils deposit local revenue collections before being shared in accordance with the Local government Act 1997 is called:
 - (a) Operation Bank Account.
 - (b) Agency Account.
 - (c) General Fund Account.
 - (d) General Revenue Collection Account.
- (xvi) The proposed dividends of a limited company will only be paid after:
 - (a) The directors of the company have authorized.
 - (b) The authorization by the shareholders of the company.
 - (c) An adhoc committee has reviewed the company's operations.
 - (d) The company's auditors have authorized.
- (xvii) Cash outflows from investing activities would include payments for all the following except:
 - (a) Operational assets.
 - (b) Investments in debt and equity securities.
 - (c) Purchase of treasury stock.
 - (d) Loans to other parties.
- (xviii) Monies received on application and allotment in respect of forfeited shares is:
 - (a) Credited to the application and allotment account.
 - (b) Credited to the bank account.
 - (c) Debited to the applications and allotment account.
 - (d) Credited to the forfeited shares account.

- (xix) Which of the following statements is false regarding a bill of exchange?
- (a) A bill of exchange is a form of evidence of the existence of a debt.
 - (b) A bill of exchange guarantees that the debt will be honoured.
 - (c) A bill of exchange enables business entities to obtain monies owed to them in advance of maturity dates.
 - (d) A bill of exchange, when discounted, requires disclosure as a contingent liability at the balance sheet date.
- (xx) As regards professional accounts, the receipt of money on behalf of a client is:
- (a) Debited to the “receipts” column in the cash book.
 - (b) Debited to the respective debtors account.
 - (c) Debited to the receivables sub-ledger in the general ledger.
 - (d) Debited to the “client” column in the cash book.
- (xxi) Which of the following items are both not shown in the appropriation section of the Income Statement of a limited company?
- (a) Proposed dividends & Debenture interest.
 - (b) Transfer to reserves & corporation tax.
 - (c) Profit & loss account & gross profit.
 - (d) Director’s remuneration & gross profit.

SECTION B**Question 2**

Sula and Ali are partners in the manufacturing business sharing profits and losses in the ratio of 3:2 respectively. The following is their trial balance as at 31 December 2002:

	Shs '000'
Inventory as at 31 December 2001:	
Raw materials	85,650
Finished goods	294,800
Premises (cost Shs 700,000,000)	600,000
Bank	131,530
Trade payables	194,500
Trade receivables	284,450
Office equipment (cost Shs 220,000,000)	180,000
Machinery (cost Shs 507,000,000)	332,000
Purchase of Raw materials	351,486
Sales commission	78,600
General expenses	94,400
Office salaries	62,850
Rent	70,000
Wages – factory	454,700
Delivery van expenses	25,000
Lighting and Heating: Office	11,100
Factory	28,590
Sales	1,605,000
Drawings: Sula	51,360
Ali	34,240
Capital: Sula	824,736
Ali	549,824
Carriage in wards	39,054

Additional information:

(i) Inventory as at 31 December 2002:

	Shs
Raw materials	90,500,000
Finished goods	31,200,000
Work in progress.	Nil

- (ii) Depreciation charge is as follows:

	Shs
Machinery	20,000,000
Office equipment	15,000,000
Premises	10,000,000

Depreciation is shared between the office and factory in the ratios of 35:65 for machinery and 55:45 for premises respectively:

- (iii) Sula is an office manager while Ali is a part time factory engineer who were paid Shs 22,800,000 and Shs 15,000,000 respectively. These figures are included in the office salaries and factory wages respectively. Accrued factory wages amounted to Shs 3,050,000.
- (iv) The general expenses figure includes Shs 38,000,000 relating to office expense. Accrued office general expense as at 31 December 2002 was Shs 160,000.
- (v) The rent figure includes Shs 22,000,000 relating to office rent and prepaid office rent for the year ended 31 December 2002 is Shs 3,080,000.
- (vi) The partners earn 10% per annum on capital account and they pay 5% per annum as interest on drawings. They maintain flexible capital accounts.

Required:

- (a) Prepare the partnership's income statement for the year ended 31 December 2002.

(15 marks)

- (b) Prepare the partners' capital accounts (in columnar form) and the partnership's balance sheet as at 31 December 2002.

(15 marks)

SECTION C

Question 3

Matina – Uganda Ltd has been in existence for the last 5 years. Its authorized ordinary share capital of Shs 1,000 each is Shs 200 million and the issued and fully paid shares as at 31 December 2002 was Shs 120million. In March 2003 the board decided to issue the balance of Shs 80million share capital at a price of Shs 1,500 each.

Applications were invited from the public on 20 March 2003. On 29 March 2003 a total of 100,000 applications were received. The terms were as follows:

	Shs
On application (29 March 2003)	500
On allotment (including share premium) (15 April 2003)	800
On first and final call (20 May 2003)	200
	<u>1,500</u>

All calls were made and paid in full except for one member who failed to pay the first and final call on 1,000 shares allotted to him. The board members decided to forfeit these shares which were later issued to Mr. Makoma at Shs 800 each.

Required:

Show the ledger accounts recording all the above transactions, and the relevant balance sheet extract after all the transactions had been completed.

(20 marks)

Question 4

Below are the principal financial statements of Blue Nile Ltd, a company dealing in general merchandise:

Income Statement for the Year Ended 31 May

	2003	2002
	Shs '000s	Shs '000s
Turnover	<u>248,967</u>	<u>86,538</u>
Earnings before interest & tax	(15,799)	6,570
Interest	(6,408)	(3,393)
Taxation	<u>(99)</u>	<u>(927)</u>
Earnings after interest & tax	(22,306)	2,250
Dividends	<u>(225)</u>	<u>(1,170)</u>
Retained earnings for the year	<u><u>(22,531)</u></u>	<u><u>1,080</u></u>

Balance Sheet as at 31 May

	2003 Shs '000s	2002 Shs '000s
Non-current Assets:		
Property, plant & equipment	135,450	103,644
Depreciation	<u>(45,279)</u>	<u>(39,582)</u>
	90,171	64,062
Goodwill	4,500	6,000
Current Assets:		
Inventories	18,027	24,975
Trade receivables	80,874	74,646
Cash	<u>648</u>	<u>3,179</u>
	<u>194,220</u>	<u>172,862</u>
Equity & Liabilities:		
Ordinary shares	28,000	17,667
Redeemable preference shares		3,780
Share premium	6,477	2,990
Retained earnings	17,489	40,020
Non-current Liabilities:		
Long-term loan	41,542	26,379
Current Liabilities:		
Trade payables	60,228	59,301
Bank overdraft	39,249	19,566
Corporation tax	863	972
Dividends	<u>372</u>	<u>2,187</u>
	<u>194,220</u>	<u>172,862</u>

Additional Information:

On 31 May 2003 equipment which had cost Shs 7,000,000 with an accumulated depreciation of Shs 3,500,000 was sold off at Shs 3,000,000. These transactions have already been made in the company's books.

Required:

- (a) Prepare the company's cash flow statement in accordance with IAS 7 as at 31 May 2003.

(16 marks)

- (b) Briefly explain why the cash and bank balance for the year ended 31 May 2003 was not the same as the retained earnings for the year.

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

Question 5

The following information was extracted from the books of Care Clinic which is operated by Dr. Care Nankya at 31 March 2003.

Cash Book for the year ended 31 March 2003

Dr	Shs 000		Cr	Shs 000
Balance b/f	10,800	Salaries	23,500	
Fees	25,000	Surgery expenses	3,000	
Donations	4,000	Rent & taxes	500	
Miscellaneous receipts	300	Insurance	200	
Interest from EADB bonds	9,000	Office expenses	800	
		Drawings	2,400	
		Balance c/d	18,700	
	<u>49,100</u>		<u>49,100</u>	

Additional information:

(i)	31 March 2002	31 March 2003
EADB bonds (face value – Shs 100,000,000)	80,000	80,000
Fees received in advance	200	600
Fees outstanding	7,000	10,000
Accrued salaries	1,000	1,500
Furniture	2,000	1,980
Land & building	200,000	196,000
Medical instruments	3,500	3,900
Inventory of medicines	300	100
Accrued surgery expenses	200	300

(ii) Depreciation expense charge at the year ended 31 March 2003 was as follows:

	Shs
Building	3,750
Furniture	120
Medical instruments	<u>100</u>
	<u>3,970</u>

Required:

- (a) Explain the treatment of accrued income and expenses by professionals. (2 marks)
 - (b) Prepare Care Clinic's Fees, Furniture and Medical Instruments Accounts. (3 marks)
 - (c) Prepare Care Clinic's Statement of Affairs as at 1 April 2003. (2 marks)
 - (d) Prepare Care Clinic's Income & Expenditure account for the year ended 31 March 2003 and Balance Sheet as at that date. (13 marks)
- (Total 20 marks)**

SECTION D

Question 6

Define and explain the relevance of the following accounting concepts:

- (a) Prudence (2 marks)
 - (b) Going concern (2 marks)
 - (c) Accruals (2 marks)
 - (d) Historical cost (2 marks)
 - (e) Substance over form (2 marks)
- (Total 10 marks)**

Question 7

Explain the following terms:

- (a) Consolidated fund. (3 marks)
 - (b) Recurrent expenditure. (2 marks)
 - (c) Development expenditure. (2 marks)
 - (d) Proprietary funds (3 marks)
- (Total 10 marks)**