

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 22 JUNE 2004

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) Purchases are goods:
- (a) bought on credit.
 - (b) paid for by cash or cheque.
 - (c) bought for use in the business.
 - (d) bought for resale.
- (ii) When opening inventory is understated:
- (a) Both gross profit and net profit are understated.
 - (b) Both gross profit and net profit are not affected.
 - (c) Both gross profit and net profit are overstated.
 - (d) Gross profit is overstated while net profit is understated.
- (iii) CPU Ltd., a vendor of soft drinks, bought a deep freezer to cool the drinks. How should the above transaction be recorded in the books?
- (a) Debit Cash Book and credit Property, Plant and Equipment.
 - (b) Debit Property, Plant and Equipment and credit Cash Book.
 - (c) Debit Purchases and credit Cash Book.
 - (d) Debit Cash Book and credit Purchases.
- (iv) Which of the following should not be called sales?
- (a) Items sold at a discount.
 - (b) Office furniture sold at a profit.
 - (c) Goods sold below cost price.
 - (d) Goods sold on credit.
- (v) Kingfisher, a sole trader, had the following balances on 31 December 2003:

	Shs
Fixtures	450,000
Prepaid rent	191,250
Cash at hand	2,250
Loan from bank	90,000
Bank Overdraft	67,500

What was his capital as at 31 December 2003?

- (a) Shs 486,000.
- (b) Shs 729,000.
- (c) Shs 474,750.
- (d) Shs 427,500.

- (vi) Purchases invoices are first entered in the:
- (a) cash book.
 - (b) purchases journal.
 - (c) sales account.
 - (d) purchases account.
- (vii) Which of the following statements are false?
- (i) Preference shareholders receive dividends before ordinary shareholders.
 - (ii) Preference shareholders are entitled to attend and vote at the Annual General Meeting.
 - (iii) Preference shareholders are the owners of the business.
 - (iv) Preference shareholders cannot receive dividends before tax has been paid.
- (a) (i) and (ii).
 - (b) (i) and (iv).
 - (c) (ii) and (iii).
 - (d) (ii) and (iv).
- (viii) A firm bought goods for Shs. 382,500 and sold them for Shs. 510,000. This means that:
- (i) Mark up is 25%.
 - (ii) Margin is $33\frac{1}{3}\%$
 - (iii) Mark up is $33\frac{1}{3}\%$
 - (iv) Margin is 25%.
- (a) (i) and (ii).
 - (b) (i) and (iii).
 - (c) (iii) and (iv).
 - (d) (ii) and (iii).
- (ix) Which of the following is not shown in the receipts and payments account?
- (a) Bank balances.
 - (b) Proceeds from the sale of non-current assets.
 - (c) Surplus.
 - (d) Purchase of treasury bills.

Use the following information to answer questions (x) and (xi).

A firm made the following purchases from Kuredita, one of its credit suppliers, during the month of October 2003:

1 October Shs 5,361,000.
 12 October Shs. 2,575,000.
 30 October Shs. 6,755,000.

On 20 October the firm paid Kuredita Shs. 6,797,000 by cheque and returned excess goods worth Shs. 1,715,000 to Kuredita on 27 October.

- (x) What was the balance on Kuredita's account at the close of business on 31 October 2003?
- (a) A credit balance of Shs 6,179,000.
 - (b) A debit balance of Shs 6,179,000.
 - (c) A credit balance of Shs 9,609,000.
 - (d) A debit balance of Shs 9,609,000.
- (xi) What was the balance on Kuredita's account on 26 October 2003?
- (a) A credit balance of Shs 1,139,000.
 - (b) A debit balance of Shs 1,139,000.
 - (c) A credit balance of Shs 6,179,000.
 - (d) A debit balance of Shs 6,179,000.
- (xii) Which of the following should be entered in the Journal Proper?
- (i) Credit purchases.
 - (ii) A motor van bought on credit.
 - (iii) Goods sold on credit.
 - (iv) Sale of obsolete machinery.
 - (a) (i) and (ii).
 - (b) (ii) and (iv).
 - (c) (ii) and (iii).
 - (d) (i), (ii), (iii) and (iv).
- (xiii) A credit balance on a rent account means that the firm:
- (a) paid too little rent.
 - (b) owes that rent at that date.
 - (c) has paid too much rent.
 - (d) has paid that rent in advance at that date.

Use the following information to answer questions (xiv) and (xv):

BMS Ltd sublets part of its premises to XYZ Ltd at Shs. 2,800,000 per annum. During the year ended 31 December 2003, the following cheques were received from XYZ Ltd:

15 April	Shs. 700,000
8 July	Shs. 700,000
25 October	Shs. 700,000

- (xiv) The rental income that appeared in the income statement at 31 December 2003 was:
- (a) Shs. 2,100,000 credit.
 - (b) Shs. 2,100,000 debit.
 - (c) Shs. 2,800,000 debit
 - (d) Shs. 2,800,000 credit.
- (xv) What was the balance on the rent receivable account on 31 December 2003?
- (a) A debit balance of Shs. 2,100,000
 - (b) A credit balance of Shs. 2,100,000.
 - (c) A credit balance of Shs. 700,000.
 - (d) A debit balance of Shs. 700,000.
- (xvi) The term working capital means:
- (a) Non-current Assets + Current Assets.
 - (b) Capital less drawings.
 - (c) The amount of capital invested by the proprietor.
 - (d) The excess of current assets over current liabilities.
- (xvii) ATC Ltd is listed on the Uganda Securities Exchange. The responsibility of preparing its financial statements lies with the:
- (a) Directors.
 - (b) Financial Accountant.
 - (c) Management Accountant.
 - (d) Auditors.
- (xviii) Generous Motors Ltd donated a motor vehicle to the Association of Accounting Technicians of Uganda (AATU) worth Shs 20 million. The Association's Treasurer would debit:
- (a) Motor Vehicle's account and credit Generous Motors Ltd.
 - (b) Motor Vehicle's account and credit Receipt and Payments account.
 - (c) Motor Vehicle's account and credit Accumulated Fund.
 - (d) Motor Vehicle's account and credit Income and Expenditure account.

- (xix) Which of the following would necessitate the preparation of a bank reconciliation statement?
- (i) Cheques drawn by the firm in favour of suppliers have been paid by the bank.
 - (ii) Cash paid into the bank by the firm has not yet been recorded by the bank.
 - (iii) Telegraphic money transfer from USA to the firm's bank account has not yet been notified to the firm.
 - (iv) An error made by the bank.
- (a) (ii) and (iii).
 - (b) (i), (iii) and (iv).
 - (c) (ii) (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (xx) Raul a partner in R&R Certified Public Accountants did not receive his salary of Shs 120,000,000 for the year ended 31 May 2004. How should his salary be accounted for in the firm's books?
- (a) Dr. Income Statement and Cr. Salary account.
 - (b) Dr. Income Statement and Cr. Raul's Current account.
 - (c) Dr. Partners' salary account and Cr. Cash Book.
 - (d) Dr. Income Statement and Cr. Cash Book.

SECTION B**Question 2**

The following trial balance has been extracted from the books of Mr. Cosmos, a sole trader:

Trial Balance as at 31 December 2003

	Dr	Cr
	Shs '000	Shs '000
Sales		414,234
Purchases	247,050	
Carriage	15,432	
Bad debts	2,631	
Provision for bad debts		390
Transport	3,990	
Lighting and heating	19,866	
Stationery	9,003	
Drawings	23,400	
Salaries	79,260	
Trade receivables	36,360	
Trade payables		19,413
Inventory at 1 January 2003	35,781	
Cash	531	
Bank	3,006	
Equipment at cost	174,000	
Accumulated depreciation		57,000
Capital		<u>159,273</u>
	<u>650,310</u>	<u>650,310</u>

Additional information:

- (i) Equipment is depreciated at 15% per annum.
- (ii) Carriage on purchases amounted to Shs. 6,633,000. It is included in the figure of carriage.
- (iii) Lighting is accrued by Shs. 630,000.
- (iv) The provision for bad debts is to be increased by Shs. 120,000.
- (v) Heating expenses have been prepaid by Shs. 2,640,000.
- (vi) Inventory at 31 December was Shs. 40,653,000.

Required:

Prepare an Income Statement for the year ended 31 December 2003 and a balance sheet as at that date.

(20 marks)

Question 3

- (a) Give three advantages of control accounts.

(3 marks)

- (b) The following information was obtained from the books of Gama Trading Co. for the year ended 31 December 2001.

	Shs '000	Shs '000
Balances b/f:		
Trade payables	280 (Dr)	52,420 (Cr)
Trade receivables	300 (Cr)	32,200 (Dr)
Sales:		
Credit		322,900
Cash		413,868
Purchases:		
Credit		595,920
Cash		17,328
Total receipts from credit customers		306,816
Total payments to credit suppliers		587,436
Discounts allowed		6,650
Discounts received		4,240
Refunds to cash customers		6,200
Sales ledger balance set off against purchases ledger balance		104
Bad debts written off		950
Increase in provision for bad debts		108
Returns outwards		6,960
Returns inwards		1,750
Closing balances:		
Trade receivables		170 (Cr)
Trade payables		330 (Dr)

Required:

Draw up the Trade Receivables and Trade Payables Control Accounts.

(17 marks)**(Total 20 marks)**

Question 4

On 1 January 2003, Martins Construction Ltd had the following balances on some of its accounts:

	Shs '000
Rent and Insurance Account:	
Accruals	7,800
Prepayments	5,250
Plant and Machinery (at cost)	37,900
Provision for depreciation of plant and machinery	16,520

During the financial year, Martins Construction Ltd.

(i) Paid rent by cheque	18,500
(ii) Paid Insurance by cheque	10,000
(iii) Traded in a machine whose:	
Original cost was	16,500
Accumulated depreciation was	10,700
Part exchange allowance	3,850
(iv) Paid balance on new machine by cheque	19,500

The closing balances at 31 December 2003, were:

Rent and Insurance:	
Accruals	8,300
Prepayments	6,500
Plant and Machinery (at cost)	?
Provision for depreciation of Plant and Machinery	13,650

Required:

Prepare the following accounts:

- | | |
|--|-------------------------|
| (a) Rent and Insurance. | (7 marks) |
| (b) Plant and Machinery. | (5 marks) |
| (c) Provision for Depreciation of Plant and Machinery. | (4 marks) |
| (d) Machine Disposal Account. | (4 marks) |
| | (Total 20 marks) |

Hint:

Clearly indicate the amounts to be transferred to the Income Statement of Martins Construction Ltd.

Question 5

(a) Briefly explain the following:

- (i) General partner.
- (ii) Limited partner.
- (iii) Dormant partner.

(6 marks)

(b) How are the following treated in the absence of a partnership agreement?

- (i) Partnership profits and losses.
- (ii) Partners' salaries.
- (iii) Interest on partners' drawings.
- (iv) Interest on partners' capital.

(4 marks)

(c) Kin and Kith are in partnership sharing profits and losses in the ratio 11:9 respectively. During the financial year ended 31 December 2003, the partnership made a net profit of Shs 136,880,000.

The partners have agreed on the following appropriation scheme:

- (i) Interest to be allowed on capital at 10% per annum.
- (ii) Interest to be charged on drawings at 10% per annum.

The following information is also available as at 31 December 2003:

	Kin Shs'000	Kith Shs'000
Capital accounts	232,000	192,000
Salaries payable	32,000	26,000
Drawings	36,050	27,150
Interest to be charged on drawings	4,550	2,570
Current Accounts as at 1 January 2003	8,750 (Credit)	420 (Debit)

Required

(i) Prepare the Partnership's Appropriation Account for the year ended 31 December 2003.

(4 marks)

(ii) Prepare, in columnar form, the partners' Current Accounts for the year ended 31 December 2003.

(6 marks)

(Total 20 marks)

SECTION C

Question 6

“Financial Statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements”, ***IASB’s Framework for the Preparation and Presentation of Financial Statements***.

Required:

Briefly explain each of the elements of financial statements. Give two examples of each element.

(10 marks)

Question 7

Briefly explain each of the following:

- (a) Authorised share capital.
- (b) Ordinary shares.
- (c) Preference shares.
- (d) Bonus issue of shares.
- (e) Debentures.

(10 marks)