

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

TUESDAY, 14 DECEMBER 2004

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) Which of the following is the most appropriate definition of profit?
 - (a) The excess of gains and losses over the expenses incurred.
 - (b) The excess of all revenues and gains over costs incurred.
 - (c) The excess of revenues earned and gains over expenses incurred to earn the revenues.
 - (d) The difference between revenues and expenses incurred to earn the revenues.
- (ii) Which of the following costs is classified as a prime cost of a manufacturing plant?
 - (a) Salary of a factory manager.
 - (b) Cost of transporting finished goods.
 - (c) Storage costs of raw materials.
 - (d) Depreciation charge.
- (iii) The book used to record the programme approved estimates, virements or reallocations for the lower local government expenditure is the:
 - (a) Cash Book
 - (b) Vote Book
 - (c) Expenditure Register.
 - (d) Budget Book.
- (iv) Which of the following would increase a sole trader's capital?
 - (a) Under-valuing the opening inventory.
 - (b) Under-valuing the closing inventory.
 - (c) Over-valuing the opening inventory.
 - (d) Use of trading inventory by the proprietor as drawings.
- (v) Which of the following does not apply to a partnership in lieu of the Partnership Deed?
 - (a) No interest on partners' loan.
 - (b) No interest on partners' capital.
 - (c) No partner is entitled to salary.
 - (d) Equal share of profits and losses.

- (vi) When are the capital accounts of a partnership said to be fluctuating?
- (a) Partners' capital accounts are maintained in a columnar format.
 - (b) All entries for transactions affecting partners in the partnership are passed through their capital accounts.
 - (c) A current account is maintained in the partnership books.
 - (d) All partners' drawings are passed through the partners' capital accounts.
- (vii) Which of the following is a mismatch in the given list of accounting ratios?
- (a) Dividend yield ratio.
 - (b) Earnings per share.
 - (c) Return on capital employed.
 - (d) Price earnings ratio.
- (viii) Which of the following formulae is false?
- (a) Debt Ratio $= \frac{\text{Total Assets}}{\text{Total Liabilities}}$.
 - (b) Capital Gearing Ratio $= \frac{\text{Long Term Debt}}{\text{Total Capital}}$
 - (c) Asset Turn Over $= \frac{\text{Sales}}{\text{Total Assets} - \text{Current Assets}}$.
 - (d) Return on Share Capital $= \frac{\text{Profits Before Tax}}{\text{Share Capital} + \text{Reserves}}$
- (ix) A company can only redeem its own shares when;
- (a) All shares were issued at a premium.
 - (b) The shares were forfeited and no other person was willing to buy them.
 - (c) All shares to be redeemed were fully paid for.
 - (d) The company redeeming has excessive funds.
- (x) A sale on consignment means;
- (a) The trader sells goods to customers directly in a foreign country.
 - (b) Goods are transported to the customer and payment deferred.
 - (c) Goods are sold, to customers in the home country only.
 - (d) Goods are sent to an agent who sells them to the customers.

- (xi) Events occurring after the balance sheet date are both favourable and unfavourable:
 - (a) transactions that occur after the publication of the financial statements.
 - (b) events that occur between the balance sheet date and the date of external audit.
 - (c) events that occur between the balance sheet date and the date when the Board of Directors approve the financial statements.
 - (d) events that occur after the balance sheet date.
- (xii) A retired bill of exchange is:
 - (a) where the bank pays off a bill of exchange before the maturity date.
 - (b) the acceptor pays a bill of exchange before the maturity date.
 - (c) when the drawer discounts a bill of exchange with a financial institution.
 - (d) when any third party pays a bill of exchange before the maturity date.
- (xiii) A sale of Shs 100,000 made by a consignee is debited to in the consignor's books.
 - (a) Consignee's account and credited to Consignment account.
 - (b) Consignment account and credited to Consignee's account.
 - (c) Cash Book and credited to Consignee's account.
 - (d) Consignee's account and credited to Consignment account.
- (xiv) The best accounting treatment of assets taken over by the partners while the partnership is being dissolved is to:
 - (a) Charge the net book value of the assets to the partners' drawings account.
 - (b) Credit the partnership income statement with the agreed takeover value.
 - (c) Debit the agreed take over value of the assets to partners' capital accounts.
 - (d) Debit the market value of assets to the partners' capital accounts.
- (xv) A debit balance on the partnership realization account means that the:
 - (a) The book value of assets to be realized is lower than the amounts realized from them.
 - (b) The partners are to share losses in their old sharing ratio.
 - (c) The book value of assets to be realized is more than the amounts realized.
 - (d) The partnership business has public goodwill.

- (xvi) Unless the Memorandum or Articles of Association of a limited company clearly states otherwise, the preference share capital is assumed to be;
- (a) Owners' equity.
 - (b) Cumulative in nature.
 - (c) With varying rate of dividend.
 - (d) Paid dividend only when the company makes profits.
- (xvii) The only accounting entry made in the books of the company when a shareholder sells his/her shares is:
- (a) Debit Cash Book and credit Share Application and Allotment account.
 - (b) Recognise the new shareholder in the shareholders' registry.
 - (c) Debit Cash Book and credit the Share Capital account.
 - (d) Issue a new share certificate.
- (xviii) The responsibility of issuing cheque books for the Treasury account to user ministries / departments lies with:
- (a) The Auditor General.
 - (b) Bank Managers of respective banks with which the ministries bank.
 - (c) Commissioner of Accounts.
 - (d) Accounting Officer.
- (xix) Early payment of salaries to employees of a Ministry is charged to the:
- (a) Personal Emoluments Sub-programme.
 - (b) Salary Advance Revolving Fund.
 - (c) Vote Book.
 - (d) Salary Advances Register.
- (xx) If a remittance is dispatched by the Paying Officer on or before the 30 June of a financial period and the Receiving Officer receives it after that date; the entry to be made in the Journal by the Receiving Officer will be:
- (a) Debit Cash account and credit Cash in Transit account.
 - (b) Debit Cash in Transit account and credit the Appropriate Revenue account.
 - (c) Debit Revenue account and credit Cash in Transit account.
 - (d) Debit Cash in Transit account and credit Cash account.

SECTION B**Question 2**

Mina Auto Parts Manufacturing Co. Ltd was registered with a nominal ordinary share capital of Shs. 1 billion divided into shares of Shs. 1,000 each. 400,000 shares had been issued and fully called.

Below is the company's trial balance as at 31 March 2004:

	Shs '000	Shs '000
Inventory (1 April 2003)	186,420	
Salaries and Wages (Factory Shs 109,740,000)	122,740	
Manufacturing expenses	19,240	
Purchases and Sales	718,210	1,169,540
Machinery repairs	8,610	
Carriage Inwards	4,910	
Carriage Outwards	9,260	
Advance payment of Corporation Tax	14,290	
Bank loan (at 18%)		50,000
Interest on loan	4,500	
Receivables and Payables	164,400	92,220
Retained Earnings 1 April 2003		8,640
Cash and Bank	108,780	
Leasehold Factory	164,210	
Plant and Machinery	128,400	
Loose Tools	12,500	
Share Capital		400,000
Calls in Arrears	1,000	
Rates & Electricity (Factory Shs. 14,210,000)	17,610	
Directors' fees and remuneration	12,000	
Auditors' fees	1,250	
Office furniture	5,000	
Commission	8,640	
Returns	12,640	9,810
Preliminary Expenses	6,000	
Transfer fees		400
	<u>1,730,610</u>	<u>1,730,610</u>

Additional information:

- (i) Write off $\frac{1}{3}$ of preliminary expenses.
- (ii) Allowance for depreciation is;
 - Plant and machinery 15% per annum.
 - Office salaries Shs. 10% per annum.
- (iii) Inventory was valued at Shs. 124,840,000 and loose tools at Shs. 10,000,000.

- (iv) Accrued expenses were:
- Manufacturing wages Shs. 1,890,000.
 - Office salaries Shs. 1,200,000.
- (v) Allowance for doubtful debts was Shs. 8,500,000 and provision for discounts on debts was Shs. 3,120,000.
- (vi) Provide for corporation tax at the rate of 30%.
- (vii) The directors proposed dividend at 15% for the year ending 31 March 2004 after transferring 5% of net profit to general reserves.

Required:

Prepare an Income Statement and a Balance Sheet for Mina Auto Parts Manufacturing Co. Ltd for the year ended 31 March 2004.

(30 marks)**SECTION C****Question 3**

Amina and Kintu are partners, who share profits and losses in the ratios 3:2, respectively. Their Balance Sheet as at 30 November 2003 appeared as under:

	Shs 000	Shs 000
Non-Current Assets:		
Land and Buildings		250,000
Plant and Machinery		350,000
Furniture and Fixtures		<u>15,000</u>
		615,000
Current Assets:		
Inventory	90,000	
Trade Receivables	70,000	
Bank	<u>50,000</u>	
		<u>210,000</u>
		<u>825,000</u>
Equity and Liabilities:		
Capital and Reserves:		
Capital Accounts: Amina		300,000
Kintu		300,000
Reserves		150,000
Current Liabilities:		
Trade payables		<u>75,000</u>
		<u>825,000</u>

Additional information:

On 1 December 2003 Musoke was admitted as a partner on the following terms:

- (i) Musoke paid Shs. 150,000,000 as his capital and Shs. 50,000,000 as his share of goodwill which was retained in the business.
- (ii) It was agreed to revalue certain assets before admitting Musoke as follows:
 - Land and buildings Shs. 300,000,000.
 - Plant and Machinery Shs. 325,000,000.
 - Furniture and Fixtures Shs. 20,000,000.
 - Inventory Shs. 80,000,000.
- (iii) The profits and losses sharing ratio for Amina, Kintu and Musoke was agreed at 2:2:1 respectively.

Required;

- (a) Prepare the following accounts from the information:
 - (i) Revaluation account.
 - (ii) Capital accounts.
 - (iii) Bank account.

(15 marks)

- (b) Prepare the Balance Sheet as at 1 December 2003.

(5 marks)**(Total 20 marks)****Question 4**

ATC Ltd trades in home utility equipment. The following financial statements were extracted from its books.

Income Statements for the years ended 31 December:

	2003	2002
	Shs '000	Shs '000
Credit sales	<u>2,400</u>	<u>1,760</u>
Gross profit	1,114	760
Expenses	<u>740</u>	<u>600</u>
Net Profit	374	160
Interest Expenses	<u>76</u>	<u>20</u>
Profit before taxation	298	140
Taxation	<u>90</u>	<u>60</u>
Profit after taxation	208	80
Dividends	<u>40</u>	<u>40</u>
Retained earnings for the year	<u>168</u>	<u>40</u>

ATC Ltd's Balance Sheet as at 31 December	2003	2002
	Shs '000	Shs '000
Non-Current Assets	2,044	1,200
Accumulated depreciation	<u>(600)</u>	<u>(300)</u>
	<u>1,444</u>	<u>900</u>
Current Assets:		
Inventory	210	100
Trade receivables	250	146
Bank	<u>-</u>	<u>100</u>
	<u>460</u>	<u>346</u>
Total Assets	<u>1,904</u>	<u>1,246</u>
Equity and Liabilities:		
Issued Share Capital	400	400
Income Statement	614	446
Debentures	<u>380</u>	<u>140</u>
	<u>1,394</u>	<u>986</u>
Trade Payables	260	160
Taxation	110	60
Dividends	40	40
Bank Overdraft	<u>100</u>	<u>-</u>
	<u>510</u>	<u>260</u>
Total Equity and Liabilities	<u>1904</u>	<u>1,246</u>

Required:

State the formula and calculate the following accounting ratios from the information given above for each of the two years.

- (i) Return on capital employed.
- (ii) Return on investment.
- (iii) Gross profit ratio.
- (iv) Net profit ratio.
- (v) Current ratio
- (vi) Quick ratio
- (vii) Gearing ratio.
- (viii) Inventory turnover.
- (ix) Trade receivables collection period in days.
- (x) Trade payables payment period in days.

(20 marks)

Question 5

- (a) Briefly explain the following expenditure items, as used in The Public Finance and Accountability Act, 2003.

(i) Statutory expenditure. **(2 marks)**

(ii) Vote. **(2 marks)**

- (b) The approved budget for Mpala Town Council for the year ending 30 June 2004 is as follows:

Code	Details	Estimate Shs. 000
001	Finance and Administration	150,000
002	Medical Staff Emoluments	90,000
003	Field Allowances	55,000
004	Road Works Maintenance	400,000
005	Office Equipment acquisition	170,000
006	Motor Vehicle Costs	250,000

During the period July to December 2003, the following transactions occurred:

- (i) The medical staff emoluments paid for the five months ending November 2003 were Shs. 37,500,000.
- (ii) The Finance Committee of Mpala Town Council approved a revised estimate for the road maintenance in October 2003 to Shs. 500,000,000.
- (iii) The following costs were paid by the end of November 2003:

	Shs. 000
Finance and Planning cost	150,000
Field allowances	55,000
Vehicle expenses	240,000

- (iv) Acquired office equipment at Shs 100,000,000 and fully paid for it less retention money of Shs. 6,000,000 by November 2003.
- (v) Shs. 150,000,000 has so far been paid for Road maintenance; another contract has been signed with Socks Construction Co. Ltd., for Shs. 300,000,000.
- (vi) The Local Council 5 Chairman of Mpala Town Council has requested for the interim results on the above activities.

Required:

Prepare a properly ruled Vote Book for the 6 months ending 31 December 2003 to record the above transactions in accordance with the Local Government Financial Reporting Regulations.

(16 marks)
(Total 20 marks)

SECTION D

Question 6

As part of the audit team of a limited liability company which floated its shares on the Uganda Securities Exchange recently, a potential investor with no accounting knowledge approaches you for an explanation of all stages involved in the issue of shares payable by installments.

Required:

Explain to the potential investor the various stages of issue of shares to the public payable by installments including a first and second call.

(10 marks)

Question 7

The directors of Public Limited Companies are required by the Companies Act to prepare and present financial statements to various stakeholders. These financial statements serve different purposes.

Required:

- (a) Give six differences between a cash flow statement and an income statement.

(6 marks)

- (b) Give two limitations of Cash Flow Statements.

(4 marks)

(Total 10 marks)