

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II - PAPER 5

**TUESDAY, 22 JUNE 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) Financial statements are most commonly prepared in accordance with the following accounting model:
  - (a) Models and concepts of capital and capital maintenance.
  - (b) Current cost model and concept of physical capital maintenance.
  - (c) Recoverable historical cost and the nominal financial capital maintenance concept.
  - (d) Present value model and concept of financial capital maintenance.
- (ii) Which of the following would help a company with high gearing to reduce its gearing ratio?
  - (a) Making a bonus issue of shares.
  - (b) Paying dividends on its equity shares.
  - (c) Making a rights issue of equity shares.
  - (d) Issuing further long-term loan notes.
- (iii) Which of the following statements is false? An asset should be classified as a current asset when it:
  - (a) Is expected to be realised in the normal course of the organisation's operating cycle.
  - (b) Is held primarily for trading purposes and expected to be realised within twelve months.
  - (c) Is a cash or cash equivalent which is restricted in its use.
  - (d) It resulted from past transactions or other past events.
- (iv) Which of the following items can be presented either on the face of the balance sheet or in the notes to the financial statements according to IAS1: Presentation of Financial Statements?
  - (a) Number of shares issued and fully or not fully paid.
  - (b) Property, plant and equipment.
  - (c) Issued capital and reserves.
  - (d) Inventories and investment properties.
- (v) The value of opening work in progress of a manufacturing concern will be added to the ..... in ascertaining the cost of completed units during an accounting period.
  - (a) cost of manufactured goods.
  - (b) raw materials purchased.
  - (c) operating costs incurred.
  - (d) opening inventory of raw materials.

- (vi) Which of the following statements are correct?
- (i) Preference shareholders are entitled to dividends before corporation tax.
  - (ii) Preference shareholders earn a varying rate of dividends.
  - (iii) Ordinary shareholders are entitled to dividends after preference shareholders.
  - (iv) Interim dividends are paid in the subsequent financial year.
- (a) (i), (ii), and (iv).  
(b) (i) and (ii).  
(c) (i).  
(d) (iii).
- (vii) According to IAS 7: Cash Flow Statements, the repayment of the capital element of a loan is classified under:
- (a) Financing activities.
  - (b) Operating activities.
  - (c) Investing activities.
  - (d) Cash and cash equivalents.
- (viii) You have been approached by a trader with no accounting background. He wants advice on the value of his closing inventory. He has presented to you the following facts:
- Inventory cost per unit is Shs. 106.1.  
Current market price per unit of the inventory is Shs. 100.1.  
Average price per unit of inventory is Shs. 103.1  
The standard manufacturing cost per unit of inventory is Shs. 111.1.
- What is the value of inventory at the end of the year?
- (a) Shs. 106.1 per unit.
  - (b) Shs. 100.1 per unit.
  - (c) Shs. 103.1 per unit.
  - (d) Shs. 111.1 per unit.
- (ix) The current ratio is ascertained by dividing:
- (a) Current assets by liquid assets.
  - (b) Current assets by current liabilities.
  - (c) Net assets by total assets.
  - (d) Liquid assets by current liabilities.

- (x) The interest on a loan advanced by a partner is debited to:
- (a) Interest payable account and credited to income statement.
  - (b) Appropriations account and credited to capital account.
  - (c) Income statement and credited to the current account.
  - (d) Current account and credited to income statement.
- (xi) Which of the following applies to both promissory notes, and bills of exchange?
- (a) They both have three parties, i.e. drawer, drawee and payee.
  - (b) They are all negotiable instruments.
  - (c) They are all drawn payable on demand.
  - (d) Dishonour of any of them requires immediate notice by the holder.
- (xii) **A** writes a bill of exchange on **B** who returns it duly accepted. **A** discounts it to **C** at 5% discounting charges. Which of the following gives the correct entries in the books of '**B**'?
- (a) Dr: Bills Payable account and Cr: B's account.
  - (b) Dr: A's account and Cr: Bills Receivable account
  - (c) Dr: A's account and Cr: Bills Payable account.
  - (d) Dr: Bills Payable account and Cr: A's account.
- (xiii) On dissolution of a partnership, the share of losses on realisation among partners will be debited to:
- (a) Realisation account and credited to Partners' Capital accounts.
  - (b) Partners' Capital accounts and credited to Realisation account.
  - (c) Income Statement and credited to Realisation account.
  - (d) Realisation account and credited to Income Statement
- (xiv) The main difference between a completed consignment at the balance sheet date and an incomplete one is that:
- (a) The consignee will have to submit an account sales to the consignor.
  - (b) The unsold inventory has to be valued and carried down to the following period.
  - (c) The profit or loss on the consignment will have to be ascertained by preparing a consignment account.
  - (d) The consignee will be a debtor for the cash received but not yet accounted for to the consignor.

- (xv) The revaluation surplus on property, plant and equipment of a company is presented on the face of a balance sheet prepared in accordance with IAS 1: Presentation of Financial Statements under:
- (a) Reserves.
  - (b) Revenue reserves.
  - (c) Accumulated profits.
  - (d) Revaluation reserves.
- (xvi) What entries are passed to record dissolution expenses in partnership accounts?
- (a) Debit bank and credit realisation account.
  - (b) Debit capital account and credit bank account.
  - (c) Debit realisation account and credit capital account.
  - (d) Debit realisation account and credit bank account.
- (xvii) The purpose of the Vote Book in Public Sector Accounting is to:
- (a) Transfer monthly expenses per vote to enable ledger posting.
  - (b) Provide a basis for posting the cashbook.
  - (c) Ensure all committed funds are known.
  - (d) Ensure the actual expenditure equals the budgeted amounts.
- (xviii) The accounting system which recognises transactions at the time orders are received or made is called:
- (a) Cash accounting.
  - (b) Commitment accounting.
  - (c) Orders driven accounting.
  - (d) Output oriented accounting.
- (xix) The Minister of Finance has the powers to wind up a fund in public interest and direct the payment of the balance of such a fund to:
- (a) Exchequer.
  - (b) Consolidated fund.
  - (c) Treasury.
  - (d) Appropriations in Aid.
- (xx) The responsibility of auditing large state corporations in Uganda lies with:
- (a) The Accountant General.
  - (b) Firms of Certified Public Accountants.
  - (c) The Auditor General.
  - (d) Both the Auditor General and the big four firms of Certified Public Accountants.

**SECTION B****Question 2**

The following list of account balances was extracted from the books of account of AB Manufacturing Concern as at 31 March 2004.

	<b>Shs.</b>
Capital	2,310,000
Drawings	1,164,000
Bank loan	9,915,000
Trade payables	2,450,000
Purchases of raw materials	10,361,000
Trade receivables	4,050,000
Patents at cost	200,000
Plant and machinery at cost	12,000,000
Factory land and building at cost (land cost Shs 3,000,000)	10,600,000
Inventories as at 31 March 2003:	
Raw materials	1,135,000
Work in progress	1,120,000
Finished goods	1,480,000
Wages	870,000
Salary of works manger	456,000
Sundry factory expenses	534,000
Factory light & power	250,000
Advertising	2,600,000
Office rent & Insurance	1,500,000
Printing & stationery	700,000
Miscellaneous office expenses	220,000
Office salaries	1,230,000
Accumulated depreciation as at 31 March 2003:	
Buildings	1,824,000
Patents	80,000
Plant & machinery	4,500,000
Balance at Bank	425,250

Additional information:

	<b>Shs</b>
(i) Inventories as at 31 March 2004:	
Raw materials	1,400,000
Work in progress	2,800,000
Finished goods	5,800,000
(ii) Accrued expenses were:	
Factory light and power	25,000
Wages	26,000
Office salaries	300,000

- (iii) Depreciation is on straight line basis at the following rates;  
Buildings at 4% per annum.  
Plant and machinery at 12.5%.  
Patents at 20% per annum.
- (iv) All sales were made on credit. The opening balance of trade receivable was Shs. 1,073,750. Bad debts of Shs. 31,750 were written off during the year. A total of Shs. 26,840,000 was collected from credit customers during the year.
- (v) Allow 10% interest on capital to be treated under office expenses.
- (vi) A salary of Shs. 321,000 is to be allowed to Mr. AB. This is to be allocated  $\frac{2}{3}$  to factory and  $\frac{1}{3}$  to office.

**Required:**

- (a) Prepare AB Manufacturing Concern's manufacturing account. **(10 marks)**
  - (b) Prepare an income statement for the year ended 31 March 2004. **(10 marks)**
  - (c) Prepare a balance sheet as at 31 March 2004. **(10 marks)**
- (Total 30 marks)**

**SECTION C****Question 3**

Mr Nice is a businessman in Kampala. He sent a consignment of goods to Miss Nalwoga, his agent in Mbale. During the financial year ended 31 March 2003, the details of the transactions were as follows:

- (i) On 10 April 2002, 1,200 boxes were sent to Nalwoga at original cost of Shs. 15,000 each.
- (ii) Nalwoga paid transport of Shs. 749,000, off-loading of Shs. 299,600 and storage of Shs. 449,400 on 12 April 2002.
- (iii) On 25 June 2002, 800 boxes were sent to Nalwoga at a cost higher than that in April 2002 by 20%.
- (iv) Mr. Nice paid Shs. 500,000 for transportation of a consignment on 26 June 2002.
- (v) Miss Nalwoga paid for off-loading of Shs. 199,800 and storage of Shs. 299,700 on 1 July 2002.
- (vi) 50 boxes of inventory got lost while in transit in the month of June 2002.
- (vii) The sales report by Nalwoga to Mr. Nice during the period ended 31 March 2003 was as follows:

Month	May 2002	July 2002	Dec. 2002	March 2003
Boxes sold	800	500	80	100
Selling price per box	Shs. 36,000	Shs 22,000	Shs 25,000	Shs. 26,000
Boxes returned to Mr. Nice	-	-	-	470
Bank drafts sent to Mr. Nice	-	Shs 34 million	-	Shs 10.3 million

- (viii) The boxes were issued to customers on a first in first out basis.
- (ix) Miss Nalwoga also paid a total of Shs. 100,000 in distribution expenses and she made monthly payments of Shs. 20,000 for security.

**Required:**

Prepare the following ledger accounts in the books of Mr. Nice for the year ended 31 March 2003:

- (a) Goods sent on consignment account (2 marks)
  - (b) Consignment to Nalwoga's account. (11 marks)
  - (c) Nalwoga's account. (5 marks)
  - (d) Cashbook. (2 marks)
- (Total 20 marks)**



**Question 4**

(a) Give six causes of internally generated goodwill. **(6 marks)**

(b) Songa and Tino are in partnership sharing profits and losses in the ratio 3:2. On 31 March 2004 their account balances was as follows:

	Shs '000
Land and buildings	71,000
Motor vehicles	15,000
Office equipment	5,000
Capital accounts: Songa	20,000
Tino	10,000
Trade payables	13,000
Inventories	6,000
Trade receivables	6,500
Cash & bank balances	4,500

Additional information:

(i) For the last three years, the partnership profits were as follows:

Year	Shs '000
2001-2002	28,000
2002-2003	35,000
2003-2004	30,000

(ii) Songa was paid a salary of Shs. 9 million in the year ended 31 March 2002. His salary increased by 10% for the next two years.

(iii) Interest on capital was 5% per annum, the expected rate of return was estimated at 12% while the risk factor was assessed at 3%.

**Required:**

Calculate the value of Goodwill for the partnership as at 31 March 2004 using:

(i) Super-profit method.

(ii) Average profit approach on the basis of 2 years purchase of last three years.

**(14 marks)**  
**(Total 20 marks)**

**Question 5**

Decox Ltd has an authorised capital of Shs. 100,000,000 divided into 20,000 ordinary shares of Shs. 5,000. The Company issued all its shares at par in the following instalments:

	Shs.
On application	500
On allotment	1,500
First call	2,000
Final call	<u>1,000</u>
	<b><u>5,000</u></b>

The following transactions took place:

- (i) A total of 32,600 shares were applied for. Money received from unsuccessful applicants for 2,600 shares was refunded. The remaining shares were allotted on the basis of two for every three applied for. The excess money received on application from successful applicants was held and utilised on allotment. The amounts due on allotment were duly received.
- (ii) All calls were paid for in full except for one member with 100 shares who did not pay for any call and another member who did not pay for final call on 20 shares. The directors of Decox Ltd agreed that all these shares be forfeited and were later re-issued to Ms. Vicky at a price of Shs 4,000 each.

**Required:**

Post the above transactions in Decox's Ltd's ledger accounts and prepare a balance sheet extract.

**(20 marks)**

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

Explain the following:

- (a) Going Concern.
- (b) Accruals basis of accounting.
- (c) Consistency of presentation.
- (d) Materiality.
- (e) Prudence concept.

**(10 marks)**

**Question 7**

Briefly explain five techniques used in public sector accounting.

**(10 marks)**