

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 14 DECEMBER 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) A cheque paid in the current period for wages accrued in the previous period is debited to:
 - (a) Income Statement and credited to Bank account.
 - (b) Bank account and credited to Income Statement.
 - (c) Bank account and credited to Wages account.
 - (d) Wages Payable account and credited to Bank account.
- (ii) Which of the following are recorded on the same side of a trial balance?
 - (a) Prepayments, sales, returns inwards, accruals and expenses.
 - (b) Incomes, carriage inwards, capital and bank balance.
 - (c) Expenses, returns outwards, cash, receivables and payables.
 - (d) Fees, sales, returns outwards, loans and accruals.
- (iii) The going concern concept presupposes that a business:
 - (a) Is struggling and there is need for urgent action to ensure it continues to operate.
 - (b) Is due for audit.
 - (c) Has been audited and the auditors were not satisfied with the financial records.
 - (d) Shows no indications that operations will not continue in the foreseeable future.
- (iv) Which of the following should not be included in the purchases of a business entity?
 - (a) Purchase of office furniture.
 - (b) Trading items bought on credit.
 - (c) Purchases of items that were previously included in Sales.
 - (d) Trading items bought for cash.
- (v) A debit balance on the retained earnings account means that a firm has:
 - (a) Liabilities exceeding assets.
 - (b) Assets exceeding liabilities.
 - (c) Been making profits in the recent past.
 - (d) Been making losses in the recent past.
- (vi) The interest on a loan advanced to the firm by a partner is debited to:
 - (a) Interest Payable account and credited to Income Statement.
 - (b) Income Statement and credited to the Current account.
 - (c) Appropriations account and credited to Capital account.
 - (d) Current account and credited to Income Statement.

- (vii) What is the total value of purchases for the year ended 31 December 2003, given the following information?

	Shs.
Trade payables at 31 December 2002	15,000,000
Trade payables at 31 December 2003	3,000,000
Total payments to credit suppliers during the year ended 31 December 2003	44,250,000
Returns outwards during the year	3,750,000

- (a) Shs. 60,000,000.
 (b) Shs. 36,000,000.
 (c) Shs. 31,500,000.
 (d) Shs. 52,500,000.
- (viii) A form accompanying goods sent by a supplier is known as:
- (a) Goods received note.
 (b) Invoice.
 (c) Delivery note.
 (d) Credit note.
- (ix) Which of the following are revenue expenditures?
- (i) Purchase of a new computer.
 (ii) Partitioning the Operations Manager's office.
 (iii) Paying road licences for delivery vans.
 (iv) Purchase of new tyres for the delivery van.
- (a) (ii), (iii) and (iv).
 (b) (i) and (ii).
 (c) (iii) and (iv).
 (d) (iii).
- (x) require information provided by financial statements of an entity in order to regulate it.
- (a) The Members of Parliament and the public.
 (b) Government and its agencies.
 (c) Lenders and suppliers.
 (d) Bank of Uganda and Uganda Revenue Authority.
- (xi) ABC Traders' opening capital was Shs 44,700,000, closing capital Shs 27,720,000 and drawings Shs 8,040,000 for the year ended 30 June 2004. This implies that the:
- (a) Loss for the year was Shs 8,940,000.
 (b) Loss for the year was Shs 16,980,000.
 (c) Profit for the year was Shs 8,940,000.
 (d) Profit for the year was Shs 19,680,000.

- (xii) Partners' salaries for performance of some extra duties are accounted for as:
- (a) An appropriation of profits.
 - (b) A business expense.
 - (c) Part of cost of sales.
 - (d) Additional capital to the partnership.

Use the following information to answer questions (xiii) to (xvi).

XYZ Ltd maintains a provision for bad debts at 5% of total trade receivables. On 1 January 2003 the Provision for Bad Debts account had a balance of Shs. 900,000. The trade receivables balance before adjustment for bad debts was Shs. 30,000,000 at 31 December 2003. The finance manager has recommended that bad debts amounting to 9% of total receivables be written off, and a provision for discounts allowed of 3% be created.

- (xiii) Calculate the increase in the provision for bad debts at 31 December 2003.
- (a) Shs. 465,000.
 - (b) Shs. 600,000.
 - (c) Shs. 1,365,000
 - (d) Shs. 1,500,000.
- (xiv) What is the provision for discounts allowed as at 31 December 2003?
- (a) Shs. 409,500.
 - (b) Shs. 778,050.
 - (c) Shs. 819,000.
 - (d) Shs. 900,000.
- (xv) Derive the value of trade receivables to be included under current assets in the balance sheet at 31 December 2003.
- (a) Shs. 25,156,950.
 - (b) Shs. 27,300,000.
 - (c) Shs. 25,035,000.
 - (d) Shs. 25,116,000.
- (xvi) What is the bad debts expense to be included in the income statement?
- (a) Shs. 4,065,000.
 - (b) Shs. 3,984,000.
 - (c) Shs. 2,700,000.
 - (d) Shs. 3,165,000.

- (xvii) Where a suspense account is created to enable the preparation of draft financial statements, the balance on that account appears under:
- (a) Non-current assets.
 - (b) Capital and reserves.
 - (c) Non-current liabilities or assets.
 - (d) Current assets or liabilities.
- (xviii) In the absence of a Partnership Agreement:
- (a) No partner is entitled to remuneration.
 - (b) Profits and losses are shared in accordance with the partners' capital or current account balances.
 - (c) The firm cannot indemnify a partner in respect of personal liabilities incurred in the conduct of the firm's business.
 - (d) The senior partner can introduce a person into the firm with or without the consent of other partners.
- (xix) Which of the following elements are used to measure the financial position of a business?
- (i) Income.
 - (ii) Expenses.
 - (iii) Assets.
 - (iv) Liabilities.
 - (v) Equity.
- (a) (i) and (ii).
 - (b) (i), (ii), (iii) and (iv).
 - (c) (iii), (iv) and (v).
 - (d) (i), (ii), (iii), (iv) and (v).
- (xx) The Issued Capital of a company is;
- (a) Always the same as the Authorised Capital.
 - (b) The same as Preference Share Capital.
 - (c) Equal to the reserves of the company.
 - (d) None of the above.

SECTION B**Question 2**

RPG Ltd had the following balances at 30 June 2003:

	Shs '000
Inventory (1 July 2002)	19,040
Carriage inwards	3,810
Sales	321,000
Purchases	174,820
Salaries	69,420
Motor vehicle operating expenses	38,100
Carriage outwards	4,732
Trade receivables	31,800
Trade payables	24,960
Provision for bad debts (1 July 2002)	1,820
Motor vehicles (1 July 2002):	
Cost	21,400
Depreciation	9,630
Cash at bank	10,748
Share capital	20,000

Additional information:

- (i) Closing Inventory amounted to Shs. 21,970,000.
- (ii) Accrued expenses:

	Shs '000
Carriage outwards	126
Motor vehicle operating expenses	1,360
Salaries	4,580
- (iii) Prepaid expenses:

	Shs'000
Carriage inwards	200
Motor vehicle operating expenses	490
- (iv) During the year, a motor vehicle worth Shs. 4,800,000 was purchased, and a motor vehicle purchased in August 1999 at Shs. 4,000,000 was sold for Shs. 1,260,000.
- (v) Provide for bad debts at 3% of trade receivables.
- (vi) Depreciation is provided for at 20% per annum. A full year's charge is made in the year of purchase and none in the year of disposal.

Required:

- (a) Prepare an Income Statement for RPG Ltd for the year ended 30 June 2003. **(12 marks)**
- (b) Prepare the Balance Sheet for RPG Ltd as at 30 June 2003.

(8 marks)
(Total 20 marks)

Question 3

Paul Biga is concerned that the balance appearing on his Cash Book does not correspond to that shown on the bank statement. He has approached you for advice. On checking the bank statement and other records, you have ascertained the following:

- (i) The following cheques have been entered in the Cash Book but have not yet been debited by the bank:

Payee:	Shs.
M. Kato	625,000.
R. Kasoma	603,500.
N. Baheka	121,300.

- (ii) Standing orders for insurance of Shs. 240,000 and motor vehicle maintenance expenses of Shs. 190,000 entered on the bank statement have not yet been entered in the Cash Book.
- (iii) The bank has charged Shs. 29,400 for ledger fees and paid interest of Shs. 43,600 on Paul's account.
- (iv) A cheque drawn for Shs. 127,000 has been entered in the cashbook as Shs. 172,000, and the debit side of the Cash Book has been undercast by Shs. 200,000.
- (v) Two of Paul's customers, Jane Nyanja and Albert Kunihiro have settled their accounts of Shs. 146,500 and Shs. 196,500 respectively by paying directly into the bank. Paul has not yet recorded these transactions.
- (vi) Cheques from Yiga Matovu of Shs. 636,000, Maria Birungi - Shs. 85,600 and Grace Akello - Shs. 125,000 paid into the bank have not yet been credited on Paul's account.
- (vii) The Cash Book (bank column) shows a debit balance of Shs. 1,130,000.

Required:

- (a) Prepare an Adjusted Cash Book (10 marks)
- (b) Prepare a Bank Reconciliation Statement. (7 marks)
- (c) Briefly explain why a bank reconciliation statement should be prepared at the end of each accounting period. (3 marks)

(Total 20 marks)

Question 4

- (a) Briefly explain the advantages of keeping a Petty Cash Book in addition to the main Cash Book.

(3 marks)

- (b) Daffodil Ltd operates its Petty Cash Book on the imprest system. The imprest amount is Shs. 960,000 every month.

At 31 May 2004 the Petty Cash till held Shs. 232,400 in cash. During the month of June 2004, the following transactions took place:

Date	Shs
June 1 Cash received to restore imprest	?
June 2 Paid Kaka Ltd for repairs on office equipment	49,200
June 3 Reimbursed J. Kato's travelling expenses	28,200
June 4 Paid TT Service Station for petrol	32,400
June 8 Paid Bex Stationers for stationery	30,000
June 9 Reimbursed P. Matovu's travelling expenses	18,000
June 11 Paid Moto FM for adverts	44,500
June 13 Paid Joint Fuel Station for petrol	40,800
June 14 Reimbursed T. Okello's travelling expenses	17,800
June 17 Paid Penguin Bookshop for reams of paper	38,500
June 17 Paid Kaka Ltd for repairs of computers	13,200
June 17 Paid Radio Ten for adverts	20,500
June 20 Paid TT Service Station for petrol	18,000
June 21 Paid Kaka Ltd for repairs on office equipment	10,800
June 22 Paid Penguin Bookshop for pens, paper and paper clips	22,800
June 23 Paid Joint Fuel Station for petrol	47,700
June 24 Reimbursed S. Kazibwe's travel expenses	22,600
June 26 Paid Quality Television for advertisements	96,500
June 30 Received cash to restore imprest for July	?

Required:

Prepare a Petty Cash Book with analysis columns for expenditure on repairs, motor expenses, travelling expenses, stationery, and advertising for the month of June 2004 and balance it off as at 30 June 2004.

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

Question 5

Dual Trust Ltd is a dynamic company in Uganda dealing in general merchandise. A trial balance is extracted at the end of each quarter, and an income statement and balance sheet prepared. For the quarter ended 30 June 2004, however, the trial balance would not balance, the credits exceeding the debits by Shs. 5,357,500.

You have been approached for help, and after inspection of the ledgers you discover the following errors:

- (i) Sales daybook had been undercast by Shs. 750,000.
- (ii) Purchase of a motor vehicle on credit from Car and Supplies Ltd for Shs. 32,950,000 had been completely omitted from the books.
- (iii) Credit sales of Shs. 1,875,000 to J. Bingi had been debited in error to J. Bangi's account.
- (iv) A rent account had been undercast by Shs. 2,500,000.
- (v) Sale of a motor vehicle Shs 2,700,000 (its book value) had been credited in error to sales account.
- (vi) A cheque of Shs. 1,125,000 paid to L. Banda had been correctly entered in the Cash Book, but had not been entered in Banda's account.
- (vii) Cash withdrawn from the bank of Shs. 750,000 had been entered on the credit side of the Cash Book in the cash column, and in the bank column on the debit side.
- (viii) A sale of goods to B. Musisi for Shs. 690,000 was correctly entered in the sales day book but entered in the personal account as Shs. 960,000.
- (ix) Discounts received of Shs. 202,500 from Perfect Supplies Ltd, a credit supplier, had been correctly entered in the book of original entry and ledger thereon, but had not been posted to Perfect Suppliers' account.
- (x) A credit note for Shs. 1,275,000 from another supplier had been posted to the wrong side of his account.

Required:

- (a) Show the journal entries necessary to correct the errors. (Narratives are not required)
(10 marks)
- (b) Draw up a suspense account after the errors described have been corrected.
(6 marks)
- (c) The net profit had previously been calculated at Shs. 13,500,000 for the quarter ended 30 June 2004. Compute the corrected net profit.
(4 marks)
(Total 20 marks)

SECTION C**Question 6**

General Mouldings Ltd deals in the manufacture of paper boxes for the packaging of different products for its clients. During the year ended 31 December 2003, the company ordered for a machine from Machines Supplies Ltd. Details of the contract are as given below:

The machine cost Shs. 25,750,000. The supplier paid delivery costs of Shs. 2,500,000, and fixed the machine at the premises of General Mouldings Ltd at Shs. 1,200,000.

General Mouldings did not have sufficient funds and therefore requested the supplier to pay Shs. 510,000 as maintenance fees for the machine for the first year of operation which the company promised to pay back at a later date.

As part of a separate contract, the supplier overhauled the existing assembly line at Shs. 8,118,000. The supplier then invoiced General Mouldings Shs. 38,078,000.

The bank, that advanced the loan to buy the machine, insisted that General Mouldings Ltd should insure the machine, and the insurance premium for 2003 was Shs. 4,500,000. General Mouldings Ltd paid interest on the loan of Shs. 1,500,000 for the year ended 31 December 2003.

The machine is to be depreciated using the straight-line method. It is expected to have a useful of 8 years, with a residual value of Shs. 8,500,000. The company charges a full year's depreciation in the year it acquires its machinery and none in the year of disposal.

The General Manager of General Mouldings Ltd has limited knowledge in accounting and particularly the difference between capital and revenue expenditure. He has now approached you for advice.

Required:

- (a) Classify the above costs either as capital or revenue. **(7 marks)**
- (b) What was the depreciation charge for the machine for the year ended 31 December 2003? **(2 marks)**
- (c) State two alternative methods, General Mouldings Ltd can use, to depreciate the machine. **(1 mark)**

(Total 10 marks)

Question 7

(a) Briefly explain the accounting treatment of the following by non-trading organizations:

(i) Life Membership Subscription Fees.

(2 marks)

(ii) Membership Entrance Fees.

(2 marks)

(b) Distinguish between a Receipts and Payments account, and Income and Expenditure account of a non-trading organisation.

(6 marks)

(Total 10 marks)