

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 13 DECEMBER 2005

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) Which of the following will reduce the value of cost of sales?
 - (a) Goods returned by customers.
 - (b) Goods returned to suppliers.
 - (c) Transport costs for goods purchased.
 - (d) Transport costs for goods delivered to customers.
- (ii) In a company that is 'limited by guarantee':
 - (a) The shareholders are obliged to contribute towards the company's losses up to the limits guaranteed.
 - (b) On winding up, the shareholders are required to contribute towards the company's shortfall in the ratio of their shareholding.
 - (c) The shareholders can only pay the unpaid balances on their shareholding to cover the company's shortfall during winding up.
 - (d) Shareholders will pay up to the guaranteed amount to meet the company's shortfall during winding up.
- (iii) Which of the following is prepared on an accrual basis?
 - (a) Receipts and payments account.
 - (b) Cash book.
 - (c) Income statement.
 - (d) None of the above.
- (iv) Credit notes issued by a firm will be entered in the firm's:
 - (a) Sales account.
 - (b) Returns inwards journal.
 - (c) Returns inwards account.
 - (d) Returns outwards journal.
- (v) Which of the following are false? A bank reconciliation statement is:
 - (i) part of the double entry system.
 - (ii) not part of the double entry system.
 - (iii) sent by the firm to the bank.
 - (iv) posted to the ledger accounts.
 - (a) (i), (iii) and (iv).
 - (b) (i) and (ii).
 - (c) (i), (ii) and (iv).
 - (d) (ii), (iii) and (iv).

- (vi) Errors are corrected via the journal because it:
- (a) saves the book-keeper's time.
 - (b) saves entering them in the ledger.
 - (c) is easier to do so.
 - (d) provides a good record explaining the double entries.
- (vii) If it is required to maintain fixed capitals then the partners' share of profit must be:
- (a) Debited to capital accounts.
 - (b) Credited to capital accounts.
 - (c) Debited to partners' current accounts.
 - (d) Credited to partners' current accounts.

Use the following information to answer questions (viii) and (ix):

John and Jill are in partnership sharing profits and losses equally. On 1 January 2004, John had Shs. 6,000,000 capital and Jill Shs. 3,000,000. Their drawings for the year amounted to Shs. 1,800,000 and Shs. 1,200,000 respectively. The net trading profit for the year ended 31 December 2004 amounted to Shs. 5,400,000 after charging interest on capital at 5% per annum. No interest is chargeable on drawings, and the partners do not maintain separate current accounts.

- (viii) What is the profit share for each partner?
- (a) Shs. 2,700,000.
 - (b) Shs. 1,800,000 for John and Shs. 1,200,000 for Jill.
 - (c) Shs. 2,475,000.
 - (d) Shs. 1,200,000.
- (ix) What is the closing balance on each partners' capital account?

	John	Jill
	Shs. '000'	Shs. '000'
(a)	4,200	1,800
(b)	6,675	4,275
(c)	6,975	4,425
(d)	7,200	4,650

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

A manager is entitled to 5% commission on the net profits of a firm after charging such commission. The income statement for the firm for the year ended 31 December 2004 is summarised below:

	Shs.		Shs.
Salaries and wages	1,354,500	Gross profit	4,200,000
Transport	588,000	Discounts received	21,000
General expenses	483,000		
Bad debts	535,500		
Bank charges	21,000		
Depreciation	409,500		
Balance – Net profit	829,500		
	<u>4,221,000</u>		<u>4,221,000</u>

- (x) Calculate the amount of the manager's commission.
- Shs. 41,475.
 - Shs. 39,500.
 - Shs. 210,000.
 - Shs. 21,000.
- (xi) What is the correct net profit after charging the manager's commission?
- Shs. 788,025.
 - Shs. 790,000.
 - Shs. 619,500.
 - Shs. 808,500.
- (xii) The financial statement that measures the performance of a business is:
- Income Statement.
 - Balance Sheet.
 - Cash Flow Statement.
 - Statement of Changes in Equity.
- (xiii) The users of financial statements who are interested in information about the stability and profitability of an organisation are:
- Governments and their agencies.
 - The public.
 - Employees.
 - Lenders and suppliers.
- (xiv) A provision for doubtful debts is created:
- When credit customers fail to pay.
 - To provide for possible bad debts.
 - When credit customers cease to trade.
 - To write off bad debts.

- (xv) Where a business gives permission to a person to collect amounts owing direct from its bank account, the transaction is called when preparing a bank reconciliation statement.
- (a) a standing order.
 - (b) an unpresented cheque.
 - (c) a direct credit.
 - (d) a direct debit.
- (xvi) Which of the following statements is false?
- (a) In the absence of a partnership deed, profits and losses are to be shared equally.
 - (b) Partnerships must maintain fixed capital accounts.
 - (c) The liability of a limited partner is limited to the capital he has contributed to the firm.
 - (d) Partners are not entitled to salaries in the absence of a partnership agreement.
- (xvii) The accounting equation for a non-trading organisation is:
- (a) Assets = Capital + Liabilities.
 - (b) Assets – Liabilities = Surplus.
 - (c) Assets = Reserves + Liabilities.
 - (d) Assets = Accumulated Fund + Liabilities.
- (xviii) Which of the following are shown in the appropriation account of a limited company?
- (i) Debenture interest.
 - (ii) Proposed dividends.
 - (iii) Transfer to reserves.
 - (iv) Directors' remuneration.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (i) and (iv).
 - (d) (ii) and (iv).
- (xix) The cost of putting goods into a saleable condition is charged to:
- (a) Income Statement.
 - (b) Balance Sheet.
 - (c) Returns outwards account.
 - (d) Statement of Changes in Equity.
- (xx) Which of the following are personal accounts?
- (i) Furniture.
 - (ii) Insurance.

- (iii) Trade receivables.
- (iv) Trade payables.
- (a) (i) and (ii).
- (b) (ii) and (iii).
- (c) (iii) and (iv).
- (d) (i) and (iv).

SECTION B

Question 2

You have been asked to prepare a trial balance for Zebra Traders and you have been given the following figures as at 31 October 2005:

	Shs.
Trade payables	4,926,000
Provision for bad debts	253,000
Expenses	9,552,000
Salaries	4,154,500
Wages	7,205,000
Purchases	32,187,000
Bank overdraft	6,598,000
Depreciation	1,000,000
Discounts allowed	962,500
Equipment	9,500,000
Capital	2,500,000

You have also been given the following information:

- (a) Trade receivables amounting to Shs. 253,000 were written off as bad debts but no posting had been made to the personal account.
- (b) Trade receivables amounting to Shs. 7,598,000 have been omitted.
- (c) Discounts received shown in the cash book amounting to Shs. 406,500 had not been posted to the general ledger.
- (d) The figure for wages should have been Shs. 12,205,000.
- (e) The figure for drawings had been omitted.

Required:

- (a) Prepare a revised trial balance from the above figures and include the figure of drawings which had been omitted.
(10 marks)
- (b) Prepare an income statement for Zebra Traders for the year ended 31 October 2005 and a balance sheet as at that date.

(10 marks)
(Total 20 marks)

Question 3

Kipandu is a successful businessman operating a wholesale shop in down town Kampala.

- (i) Below are the transactions that went through the business bank account for the year ended 31 December 2004:

Receipts:	Shs
Trade receivables	132,776,000
Loan from his uncle	9,800,000

Payments:	Shs
Trade payables	103,204,500
Rent	5,775,000
Rates	3,115,000
Electricity	4,200,000
General expenses	1,312,500
Drawings	22,893,500

- (ii) The following are his closing balances at 31 December 2003 and 31 December 2004:

	31 December 2003	31 December 2004
	Shs.	Shs.
Inventory	34,655,000	37,860,000
Trade receivables	22,575,000	21,560,000
Bank balance	1,417,000	3,493,000
Trade payables	14,060,000	18,472,500
Accrued rent	400,000	600,000
Prepaid rates	500,000	625,000
Furniture (NBV)	6,250,000	5,700,000

- (iii) All sale proceeds were banked intact except for Shs. 34,668,000 out of which Kipandu paid salaries and wages of Shs. 19,699,200, purchased goods for resale for Shs. 10,778,800, bought a car for his private use at Shs. 4,000,000 and also contributed towards his friend's wedding ceremony.

Required:

Prepare Kipandu's income statement for the year ended 31 December 2004 and a balance sheet as at that date.

(20 marks)

Question 4

Sacred Images Ltd. depreciates its motor vehicles at the rate of 20% per annum on straight line basis for each month of ownership. The following details were extracted from the company's books for the year ended 31 December 2004;

Motor vehicles	Date acquired	Cost Shs. '000
625 MAA	1 January 2001	28,800
512 MAB	1 October 2001	19,200
125 MAC	1 July 2002	24,000
643 MAD	1 April 2003	33,600
784 MAE	1 August 2004	25,600

Motor vehicle 512 MAB was sold for Shs. 4,800,000 on 30 June 2004 while motor vehicle 625 MAA was sold for Shs. 8,800,000 on 30 September 2004.

Required:

Prepare the following accounts for Sacred Images Ltd during the year ending 31 December 2004:

- (a) Motor vehicles account. **(6 marks)**
 - (b) Provision for depreciation on motor vehicles account. **(10 marks)**
 - (c) Motor vehicles disposal account. **(4 marks)**
- (Total 20 marks)**

(Hint: Show the necessary workings).

Question 5

Breezy Bookshop Ltd. sells different items of stationery to various customers. The bookshop had the following price list for some of the items for the month of August 2005:

Ruled paper	Shs. 5,400 per ream
Duplicating paper	Shs. 4,700 per ream
Photocopying paper	Shs. 8,500 per ream
Duplicating ink	Shs. 9,200 per bottle
Tracing paper	Shs. 53,400 per roll
Cartridges	Shs. 79,500 per piece

For the month of August 2005, the bookshop made the following sales:

- August 2 To Biina Stationers: 6 pieces of cartridges, 5 rolls of tracing paper and 7 reams of ruled paper, less 25% trade discount.
- August 4 To ATC Primary School: 24 reams of ruled paper, 18 reams of duplicating paper, 1 roll of tracing paper, less 15% trade discount.
- August 7 To Down Town Secretarial Bureau: 5 reams of photocopying paper, 3 pieces of cartridges, less 12½% trade discount.

- August 21 To St. Francis Kindergarten: 2 reams of duplicating paper and 2 bottles of duplicating ink.
- August 30 To Kikuubo Traders: 18 reams of photocopying paper, 15 reams of ruled paper, 15 reams of duplicating paper, 9 rolls of tracing paper and 6 pieces of cartridges, less 33 $\frac{1}{3}$ % .

Required:

- (a) Calculate the amount to be included on each invoice for each of the above sales.
- (10 marks)**
- (b) Enter the sales for the month of August 2005 for Breezy Bookshop Ltd. in the sales journal and post them to personal accounts.

(10 marks)

(Total 20 marks)

SECTION C

Question 6

You are a newly appointed accounts assistant of a medium-sized business firm. The manager of the firm has limited accounting knowledge and has come to you for advice. He is particularly interested in knowing the following:

- (i) Reasons why control accounts are maintained.
- (ii) What items should be posted in the control accounts.

Required:

Using your knowledge of control accounts, briefly explain to the manager of the firm;

- (a) Five reasons why control accounts are maintained.
- (5 marks)**
- (b) Five types of entries which are made in the receivables ledger control account, indicating whether each entry is a credit or debit.

(5 marks)

(Total 10 marks)

Question 7

Write brief explanatory notes on the following:

- (a) General journal. **(2 marks)**
- (b) Sales journal. **(2 marks)**
- (c) Returns inwards journal. **(2 marks)**
- (d) Purchases ledger. **(2 marks)**
- (e) General ledger. **(2 marks)**

(Total 10 marks)