

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II - PAPER 5

**TUESDAY, 13 DECEMBER 2005**

#### **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) The value of work in progress at the end of an accounting period of a manufacturing concern will be ..... in ascertaining the cost of completed units during the period.
  - (a) Added to the cost of manufactured goods.
  - (b) Deducted from the cost of manufactured goods.
  - (c) Deducted from the cost of sales.
  - (d) Added to the cost of completed units during the period.
- (ii) A revaluation deficit on property, plant and equipment of a company is presented on the face of financial statements under:
  - (a) Accumulated reserves.
  - (b) Revenue reserves.
  - (c) Other reserves.
  - (d) Recurrent reserves.
- (iii) A company chooses to use the straight-line method to depreciate its property, plant and equipment. Which accounting concept should be applied in order for this company to have comparable accounting results in future financial statements?
  - (a) Prudence.
  - (b) Materiality.
  - (c) Consistency.
  - (d) Going concern concept.
- (iv) Which of the following does not qualify to be a depreciable asset?
  - (a) An asset purchased and expected to be used for a period of not less than one financial year.
  - (b) An asset with unlimited useful life.
  - (c) A car purchased for resale but management decides to use it to transport employees to work for the next four accounting years.
  - (d) None of these.
- (v) Which of the following is the main difference between sole proprietorship and a partnership?
  - (a) A sole proprietorship prepares an income statement.
  - (b) The partnership prepares a balance sheet.
  - (c) A proprietorship may make profits or losses during the given period.
  - (d) A partnership's profits or losses are shared between the partners.

- (vi) The company's share capital cannot be altered unless:
  - (a) The Articles of Association provides for it.
  - (b) A special Board Committee changes the Articles of Association to allow the change.
  - (c) The minority shareholders request for the change.
  - (d) Top management passes a resolution to allow the change.
- (vii) In accordance with IAS 7 – Cash Flow Statements, interest received on short term debt is classified under:
  - (a) Investing activities.
  - (b) Operating activities.
  - (c) Financing activities.
  - (d) Cash and cash equivalents.
- (viii) Which of the following statements are correct about consignments?
  - (a) For each consignment to an agent, a separate consignment account is prepared.
  - (b) One consignment account is maintained for all consignments to the agent.
  - (c) The agent suffers some expenses he incurs relating to the consignment.
  - (d) Unsold inventories held by the agent at the end of a period revert to the agent.
- (ix) An increase in the current ratio with a simultaneous reduction in quick ratio indicates that the enterprise;
  - (a) Has accumulated lots of inventories during the year that has not been sold.
  - (b) Had a lot of inventory during the year and sold it off.
  - (c) Had very few inventories at the beginning and end of year.
  - (d) Has a lot of uncollected money from credit customers.
- (x) Which of the following items are not required to be disclosed on the face of financial statements of a limited liability company according to IAS 1 "Presentation of Financial Statements"?
  - (i). Depreciation.
  - (ii). Sales revenue.
  - (iii). Staff costs.
  - (iv). Authorised share capital.
  - (v). Finance costs.
  - (a) (iv) and (v).
  - (b) (i) and (iv).
  - (c) (v).
  - (d) None of the above.

- (xi) Which of the following costs does not form part of total cost of manufacturing to be transferred to income statement?
- (a) Rent of the factory floor.
  - (b) Depreciation cost of delivery van.
  - (c) Wages for casual labourers.
  - (d) Cost of inventory of opening work in progress.
- (xii) Which of the following is not a source of finance in terms of a cash flow statement?
- (a) Share premium arising from issue of shares during the period.
  - (b) Share capital arising from issue of shares during the period.
  - (c) Undistributed profit for the period.
  - (d) Redemption of shares during the period.
- (xiii) Where a partnership deed provides for interest on drawings by partners, it is treated as income to the partnership business. How would you account for interest on drawings?
- (a) As part of sales revenue to the partnership.
  - (b) Additional capital.
  - (c) As an appropriation of profits.
  - (d) As other income to the partnership.
- (xiv) The party who writes a bill of exchange to the debtor is known as:
- (a) A drawee.
  - (b) A drawer.
  - (c) A payee.
  - (d) Acceptor.
- (xv) Which of the following is true about money received by an advocate on behalf of his client?
- (a) Credited to the client's column in the cashbook.
  - (b) Debited to the receipts column in the cash book.
  - (c) Debited to the client's column in the cashbook.
  - (d) Credited to the receipts column in the cash book.
- (xvi) Which of the following is a precise disadvantage of Line-item budgeting over programme budgeting in public sector accounting?
- (a) It fails to indicate the planned level of activity for each service.
  - (b) It does not control incomes and expenditures.
  - (c) It fails to indicate/identify amounts allocated to each line-item.
  - (d) It does not show the variances for each item.

- (xvii) Donco Ltd has just redeemed 450,000,000 of 8% redeemable debentures. The funds for the redemption were raised by issuing ordinary shares.

Which of the following statements explains the effect of these transactions on the company's capital gearing ratio?

- (a) Equity has decreased and debt increased, thus gearing ratio has increased.
  - (b) Equity has increased and debt decreased, thus gearing has decreased.
  - (c) Equity and debt are unchanged, thus gearing has not changed.
  - (d) Equity and debt have both changed, thus gearing has changed.
- (xviii) Urgent and unforeseen expenditure that has been authorised is met from the ..... fund of government.
- (a) Consolidated.
  - (b) Social security.
  - (c) Contingencies.
  - (d) General.
- (xix) All the items listed below were used in the calculation of net profit from operating activities.

	Shs
Profit on disposal of assets	40,000
Depreciation charge	980,000
Increase in inventory	130,000
Decrease in trade receivables	100,000
Increase in payables	80,000

What will be the effect of these items on the cash flow statement?

- |                                       | Shs       |
|---------------------------------------|-----------|
| (a) Addition to operating profit      | 890,000   |
| (b) Addition to operating profit      | 990,000   |
| (c) Subtraction from operating profit | 890,000   |
| (d) Addition to operating profit      | 1,070,000 |
- (xx) The responsibility for providing the Parliament of Uganda with the information regarding government finances, new developments in the economy, and fiscal policy planning lies with?
- (a) The Accountant General.
  - (b) The Secretary to the Treasury.
  - (c) The Speaker of Parliament.
  - (d) The Minister of Finance, Planning and Economic Development.

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

The following information was extracted from the books of B (U) Ltd for the year ended 31 December 2004.

	Shs million
Authorised ordinary share capital (800,000 shares of Shs 1,000 per share)	800.00
Issued and fully paid ordinary shares (400,000 shares of Shs 1,000 per share)	400.00
Other reserves	200.00
Retained earnings	800.00
10% loan capital	400.00
Freehold property (net book value)	480.00
Motor vehicles (net book value)	370.00
Office furniture (net book value)	200.00
Plant and machinery (net book value)	630.00
Trade payables	238.40
Trade receivables	400.00
Inventories as at 31 December 2004	1,000.00
Short term investments	120.00
Bank overdraft	878.40
Corporation tax	176.00
Dividends payable	107.20

Additional information:

	Shs million
1. Sales (all on credit)	<u>4,000.00</u>
Profits before interest on loan capital	440.00
Interest on loan capital	<u>40.00</u>
Profit before tax	400.00
Corporation tax	<u>176.00</u>
Profit before tax	224.00
Less ordinary dividends proposed	<u>107.20</u>
Retained profit c/f (included in retained earnings)	<u>116.80</u>

The dividends were proposed and declared during the year but were not paid by the balance sheet date.

- The total purchases and cost of sales for the year ended 31 December 2004 were Shs. 2,160 million and Shs 3,000 million respectively.
- The market price of B (U) Ltd's ordinary shares as at 31 December 2004 was Shs 5,000 per share and the company estimated the current value of its freehold property at Shs 1,100 million.

**Required:**

- (a) Prepare the company's Balance Sheet from the information provided above for the year ended 31 December 2004. (10 marks)
- (b) Compute the following ratios:
- (i) Return on capital employed. (2 marks)
  - (ii) Current ratio. (2 marks)
  - (iii) Liquidity ratio. (2 marks)
  - (iv) Number of days trade receivable are outstanding. (2 marks)
  - (v) Proprietary ratio. (2 marks)
  - (vi) Inventory turnover. (2 marks)
  - (vii) Dividend yield ratio. (2 marks)
  - (viii) Price earnings ratio. (2 marks)
- (c) Comment briefly on the liquidity position of B (U) Ltd as at 31 December 2004. (4 marks)

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

Comic Ltd offered 40,000 ordinary shares of Shs. 10,000 each to the public at Shs. 12,500 each payable as follows, Shs 6,000 on application (including premium), Shs 3,500 on allotment and Shs 3,000 on call.

A total of 65,000 shares were applied for, and applications of 5,000 shares did not receive allotment, thus monies in respect of these shares were returned.

All shares were allocated to the remaining applicants', pro-rata to their original applications, the balance of the monies received on application were applied to the amounts due on allotment.

The balances due on allotment were duly received with the exception of one applicant who had been allotted 500 shares. They were declared forfeit but re-issued as fully paid at Shs 11,000 per share. The only call made was duly paid by the other shareholders.

**Required:**

Post Journal entries to record the above transactions and prepare share capital account, share premium account, forfeited shares account and call account.

**(20 marks)**

**Question 4**

A and B have been in business sharing profits and losses in the ratio 67% and 33% respectively. Their interest on capital was 10% and there was no interest on drawings.

On 1 January 2004, C and D were admitted into business under the following terms:

- New profit and loss sharing ratio was A: 50%, B: 25% C: 17% and D: 8%.
- C was to be paid a salary of Shs 6 million per annum. The interest arrangements remained the same.

Below is the firm's trial balance as at 31 December 2004:

	Dr Shs '000'	Cr Shs '000'
Inventories on 1 January 2004	75,000	
Sales revenue		484,350
Wages	40,000	
Purchases	277,000	
Overheads & training expenses	47,200	
Capital accounts & Drawings :A	10,000	30,000
:B	9,000	16,000
:C	-	12,000
:D	-	9,000
Non current assets at cost	60,000	
Accumulated depreciation (1 January 2004)		20,000
Trade receivables	38,000	
Trade payables		27,600
Allowance for doubtful debts		1,400
Cash & bank balances	<u>44,150</u>	<u>-</u>
	<u>600,350</u>	<u>600,350</u>

Additional information:

- Inventories at 31 December 2004 was Shs 69.1 million.
- Accrued expenses not recorded in the books were Shs 1.2 million.
- Included in the sales revenue and trade receivables balance is Shs 6 million in respect of goods sent to a customer on a sale or return basis. These goods were also included in closing inventory at cost.
- The depreciation charge for the year ended 31 December 2004 was Shs 8 million.
- The allowance for doubtful debts is to be increased to Shs 5 million.

**Required:**

Prepare the partnership income statement and a balance sheet as at 31 December 2004.

**(20 marks)**



**Question 5**

The balance sheets of Mega Ltd at 31 March 2004 and 31 March 2005 are given below:

	<b>2004</b> Shs '000'	<b>2005</b> Shs '000'
<b>Non Current Assets</b>		
Property, plant and equipment	2,432,000	3,230,000
<b>Current Assets</b>		
Inventories	456,000	532,000
Trade receivables	570,000	532,000
Cash at bank	<u>76,000</u>	<u>114,000</u>
	<u>3,534,000</u>	<u>4,408,000</u>
<b>Equity &amp; Liabilities</b>		
Issued share capital	760,000	836,000
Share premium	889,200	965,200
Revaluation reserves	-	380,000
Retained earnings	912,000	1,124,800
10% debentures (2010)	<u>380,000</u>	<u>570,000</u>
	<u>2,941,200</u>	<u>3,876,000</u>
<b>Current Liabilities:</b>		
Trade payables	304,000	266,000
Taxation	152,000	190,000
Bank overdraft	<u>136,800</u>	<u>76,000</u>
	<u>592,800</u>	<u>532,000</u>
	<u>3,534,000</u>	<u>4,408,000</u>

Additional information:

- A further Shs 190,000,000 of 10% debentures were received on 1 April 2004. Interest on loan is paid after every six months of the financial period.
- Interim dividends amounted to Shs 190,000,000.
- Sale proceeds of plant during the year amounted to Shs. 95,000,000.
- The tax charge for the year was Shs 190,000,000.
- Property, Plant and Equipment Schedule:**

	Land Shs '000'	Buildings Shs '000'	Plant & Equipment Shs '000'	Total Shs '000'
Cost / Valuation:				
At 1 April 2004	760,000	1,140,000	1,292,000	3,192,000
Additions			950,000	950,000
Disposals			(380,000)	(380,000)
Revaluations	<u>380,000</u>	<u>-</u>	<u>-</u>	<u>380,000</u>
At 31 March 2005	<u>1,140,000</u>	<u>1,140,000</u>	<u>1,862,000</u>	<u>4,142,000</u>

## Depreciation:

At 1 April 2004	-	152,000	608,000	760,000
Charge for the year	-	22,800	433,200	456,000
Disposals	-	-	(304,000)	(304,000)
At 31 March 2005	-	<u>174,800</u>	<u>737,200</u>	<u>912,000</u>

## Net Book Value :

31 March 2005	<u>1,140,000</u>	<u>965,200</u>	<u>1,124,800</u>	<u>3,230,000</u>
31 March 2004	<u>760,000</u>	<u>988,000</u>	<u>684,000</u>	<u>2,432,000</u>

**Required:**

Prepare Mega Ltd's Cash Flow Statement for the year ended 31 March 2005 in accordance to IAS 7 (using the indirect method).

**(20 marks)**

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

What is the role of each of the following in public sector accounting?

- (a) The Accountant General. **(4 marks)**
- (b) The Auditor General. **(3 marks)**
- (c) The Public Accounts Committee of Parliament. **(3 marks)**

**(Total 10 marks)**

**Question 7**

With reference to Bills of Exchange, explain the terms bankruptcy and accommodation bills giving relevant examples.

**(10 marks)**