

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II - PAPER 5

**TUESDAY, 21 JUNE 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.

**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 the suppliers.
  - (c) Transport costs for goods purchased.
  - (d) Opening inventory.
- (ii) Which of the following items will not form part of the prime cost in manufacturing accounts?
- (a) Salary of the driver for the delivery van.
  - (b) Cost of raw materials.
  - (c) Cost of storage of work in progress.
  - (d) Direct labour.
- (iii) In preparing financial statements of a limited company, the going concern concept is adopted if it is:
- (a) expected to continue operating in the foreseeable future.
  - (b) not making losses.
  - (c) expected to continue operating for the next six months.
  - (d) expected to continue operating in the next 10 months of the financial period.
- (iv) The profit before tax of a limited company is reflected in the:
- (a) balance sheet only.
  - (b) balance sheet as an addition to capital.
  - (c) balance sheet as an addition to retained earnings.
  - (d) income statement and cash flow statement only.
- (v) The formula for calculating the price earnings (PE) ratio is:
- (a)  $\frac{\text{Market price per share}}{\text{Total earnings}} \times 100$
  - (b)  $\frac{\text{Market price per share}}{\text{Total number of shares}} \times 100$
  - (c)  $\frac{\text{Total market value of shares}}{\text{Earnings to preference share holders}} \times 100$
  - (d)  $\frac{\text{Market price per share}}{\text{Earnings per share}} \times 100$

- (vi) In Company accounts, the term “limited by guarantee” means:
- (a) The shareholders are obliged to contribute towards the company’s losses up to the limits guaranteed.
  - (b) At liquidation, the shareholders are required to contribute towards the company’s shortfalls 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 liquidation.
  - (d) Shareholders will pay up to the guaranteed figure to meet the company’s shortfalls during liquidation.
- (vii) Which of the following statements is true?
- (a) Cash from consignment sales is passed on to the consignor after deducting expenses incurred.
  - (b) All the cash from consignment sales is debited to the consignor’s account.
  - (c) Goods sent to an agent on consignment belong to the consignee.
  - (d) The agent sells the goods and the consignor collects money due from the customers in all circumstances.
- (viii) Which of the following statements is true about central government accounting?
- (a) There is no distinction between fixed assets and day today expenditure.
  - (b) It is accrual based only.
  - (c) There is no depreciation accounting.
  - (d) Withdrawals from the consolidated fund are authorized by the Accountant General.
- (ix) Which of the following is prepared on an accrual basis?
- (a) Receipts and payments account.
  - (b) Cash flow statement.
  - (c) Cash book.
  - (d) Income Statement.
- (x) A company X issues 10,000 shares to the public of Shs 5,500 each at Shs. 7,500 each to be paid in the following installments on:
- |                         |                     |
|-------------------------|---------------------|
|                         | Shs                 |
| • Application           | 3,250               |
| • Allotment             | 1,750               |
| • First call            | 1,500               |
| • Second and final call | <u>1,000</u>        |
|                         | <b><u>7,500</u></b> |

The balance on the share capital account after the second and final call will be:

- (a) Shs. 55,000,000.
  - (b) Shs. 75,000,000.
  - (c) Shs. 20,000,000.
  - (d) Shs. 32,500,000.
- (xi) Which of the following is true in respect of bills of exchange?
- (a) The creditor writes the bill of exchange.
  - (b) The debtor discounts the bill of exchange with the bank.
  - (c) The creditor accepts the bill of exchange.
  - (d) The debtor writes the bills of exchange.
- (xii) A bill of exchange can be retired when:
- (a) It is discounted with the bank.
  - (b) A new bill is drawn to replace the old one.
  - (c) It is negotiated to another person in payment of a debt.
  - (d) It is paid with discounting charges.
- (xiii) Which of the following is a working capital item?
- (a) Purchases paid for and sold in the current period.
  - (b) A payment of bank overdraft.
  - (c) Interest received during the period.
  - (d) A payment for materials used for manufacture of goods in the following financial period.
- (xiv) Assets are defined as Probable future:
- (a) economic expenses of an entity.
  - (b) economic sacrifices of an entity.
  - (c) economic benefits of an entity.
  - (d) losses of an entity.
- (xv) The accounting ratio which determines the efficiency of a company is:
- (a) Dividend cover.
  - (b) Interest cover.
  - (c) Asset turnover.
  - (d) Return on capital employed.
- (xvi) Which of the following is an underlying accounting assumption?
- (a) Prudence.
  - (b) Materiality.
  - (c) Accrual.
  - (d) Substance over form.

- (xvii) The authority to raise money by way of loans or guarantees on behalf of the government lies with the:
- (a) Minister of Finance, Planning and Economic Development.
  - (b) Parliament.
  - (c) Accountant General.
  - (d) President.
- (xviii) The major objective of the Commitment Control System in government budgetary control is to ensure that:
- (a) commitment control returns are prepared.
  - (b) spending entities do not commit public funds outside cash allocations.
  - (c) Appropriations in-Aid are realistic.
  - (d) budgetary estimates are consistent with economic objectives.
- (xix) The authority to open a public / official account in any bank lies with the:
- (a) Minister of Finance, Planning and Economic Development.
  - (b) Accountant General.
  - (c) Parliament.
  - (d) Auditor General.
- (xx) The rule in Garner Vs Murray states that the:
- (a) credit on a particular partner's account is shared by other partners.
  - (b) debit on one partner's account is shared by other partners in their original capital ratio.
  - (c) credit on one partner's account is shared by other partners in their last agreed capital ratio.
  - (d) debits on one partner's account is shared by the other solvent partners in their last agreed capital ratio.

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

Deal Ltd presented its Balance Sheets for the years ended 31 May 2004 and 2005 as follows:

	Notes	<b>2004</b> <b>Shs. '000</b>	<b>2005</b> <b>Shs. '000</b>
<b>Assets</b>			
Property, plant and equipment	1	640,000	850,000
Current Assets:			
Inventory		120,000	140,000
Trade receivables		150,000	140,000
Cash at bank		<u>20,000</u>	<u>30,000</u>
		<u>290,000</u>	<u>310,000</u>
<b>Total Assets</b>		<b><u>930,000</u></b>	<b><u>1,160,000</u></b>
<b>Equity and Liabilities</b>			
Equity:			
Issued share capital		200,000	220,000
Share premium		234,000	254,000
Revaluation reserve		-	100,000
Retained Earnings		<u>240,000</u>	<u>296,000</u>
		<u>674,000</u>	<u>870,000</u>
Non-current Liabilities:			
10% loan notes	2	100,000	150,000
Current Liabilities:			
Trade payables		80,000	70,000
Taxation		40,000	50,000
		<u>36,000</u>	<u>20,000</u>
Bank overdraft		<u>156,000</u>	<u>140,000</u>
<b>Total Equity and Liabilities</b>		<b><u>930,000</u></b>	<b><u>1,160,000</u></b>

**Notes:**

## 1. Movements in non-current assets:

Cost or Valuation:	Land	Building	Plant & Equipment	Total
	Shs. '000'	Shs. '000'	Shs. '000'	Shs. '000'
At 1 June 2004	200,000	300,000	340,000	840,000
Additions	-	-	250,000	250,000
Disposals	-	-	(100,000)	(100,000)
Revaluations	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
At 31 May 2005	<u>300,000</u>	<u>300,000</u>	<u>490,000</u>	<u>1,090,000</u>

## Depreciation:

At 1 June 2004	-	40,000	160,000	200,000
Provision for the year	-	6,000	114,000	120,000
Disposals	<u>-</u>	<u>-</u>	<u>(80,000)</u>	<u>(80,000)</u>
At 31 May 2005	<u>-</u>	<u>46,000</u>	<u>194,000</u>	<u>240,000</u>

## Net book values:

At 31 May 2005	<u>300,000</u>	<u>254,000</u>	<u>296,000</u>	<u>850,000</u>
At 1 June 2004	<u>200,000</u>	<u>260,000</u>	<u>180,000</u>	<u>640,000</u>

2. A further Shs. 50,000,000 of 10% loan notes was issued at par on 1 June 2004. Interest on all loan notes is paid on 30 November and 31 May each year.
3. The company paid a dividend of Shs. 50,000,000 during the year. Proposed dividends have not been recognized as liabilities in the balance sheets in accordance with IAS 10: Events After the Balance Sheet Date.
4. Plant sold during the year realized Shs. 25,000,000.
5. The tax charge for the year in the income statement was Shs. 50,000,000.

**Required:**

- (a) Give three distinctions between cashflow statements and income statements.  
(6 marks)
  - (b) Prepare a cash flow statement for Deal Ltd. for the year ended 31 May 2005 using the indirect method under IAS 7: Cash Flow Statements.  
(24 marks)
- (Total 30 marks)**

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

An accounts assistant in your office prepared draft financial statements for the year ended 31 May 2005 for Kat and Ken who are in partnership.

The draft financial statements reported a gross profit of Shs. 157,846,000 and a net profit of Shs. 51,024,000. It was, however, discovered that included in the expenses figure in the draft financial statements was a cash payment of Shs. 15,000,000 to each partner.

The balance on the partners' capital and current accounts as at 1 June 2004 were:

	<b>Kat</b>	<b>Ken</b>
	Shs '000	Shs '000
Capital account	125,000 (Credit)	70,000 (Credit)
Current account	34,568 (Credit)	23,741 (Debit)

The partnership deed provided for the following:

- (i) Interest on capital is 8% per annum.
- (ii) Salaries were Shs. 18,000,000 and Shs. 12,000,000 for Kat and Ken respectively.
- (iii) Share of profits and losses was  $\frac{2}{3}$  and  $\frac{1}{3}$  for Kat and Ken respectively.
- (iv) The partners' capital accounts are to be fixed.

**Required:**

- (a) Give four differences between a sole trader and partnership business.  
(4 marks)
  - (b) Prepare a corrected income statement as at 31 May 2005.  
(10 marks)
  - (c) Prepare the partners' current accounts as at 31 May 2005.  
(6 marks)
- (Total 20 marks)**



**Question 4**

Med Nursing Home has the following income and expenditure account for the year ended 31 March 2005.

Expenditure	Shs. '000	Income	Shs. '000
Salaries	23,500	Subscriptions	25,000
Surgery & Dispensary	3,000	Interest	9,000
Rent & taxes	500	Donations	4,000
Insurance	200	Miscellaneous receipts	300
Office expenses	800		
Depreciation on:			
Building	3,750		
Furniture	120		
Instruments	100		
Surplus	<u>6,330</u>		
	<u><u>38,300</u></u>		<u><u>38,300</u></u>

Additional information:	31 March 2004 Shs. '000	31 March 2005 Shs. '000
Government securities (face value Shs. 100,000,000)	80,000	80,000
Subscriptions in arrears	7,000	10,000
Subscriptions in advance	200	600
Salaries accrued	1,000	1,500
Furniture	2,000	1,980
Land and building	200,000	196,250
Instruments	3,500	3,900
Surgery expenses accrued	200	300
Inventory of medicines	300	300
Cash and Bank balance	?	18,700

**Required:**

Prepare Med Nursing Home's receipts and payments account and a balance sheet for the year ended 31 March 2005.

**(20 marks)**

**Question 5**

Ministry of Local Government had the following transactions during the financial year ended 30 June 2004.

- (i) Shs. 500,000,000 was authorized by Parliament and transferred to the ministry on 5 July 2003.
- (ii) The ministry paid Shs. 11,000,000 for a pick-up double cabin to be used by the technical department on 27 July 2003.
- (iii) Salaries for the past six months worth Shs. 220,000,000 were paid on 31 December 2003.
- (iv) On 3 January 2004 Shs. 400,000,000 was received by the ministry on behalf of government from the local councils for licences for the period ended 31 December 2003.
- (v) On 31 January 2004, the ministry purchased medical equipment worth Shs. 150,000,000 for KCC Clinic in Kawempe and paid cash.
- (vi) Parliament authorized an additional vote on 2 February 2004 worth Shs. 1,000,000,000 for the construction of a feeder road from Banda to Bweyogerere to reduce on the daily traffic congestion at Kireka.
- (vii) On 28 February 2004 Shs. 600,000,000 was paid to AB Construction Ltd. to do the work urgently since the problem at hand was serious.
- (viii) A motor cycle was bought on 1 March 2004 at Shs. 3,000,000 to monitor the construction work.
- (ix) A total of Shs. 150,000,000 was paid on 20 May 2004 to cover the cost of electricity, water, telephone and stationery for the Ministry.
- (x) The following payments were made on 28 June 2004:
  - Shs. 450,000,000 to AB Construction Ltd.
  - Shs. 50,000,000 for salaries and bonuses.
  - Shs. 40,000,000 for fuel and vehicle maintenance.
  - Shs. 10,000,000 for computer soft ware.

**Required:**

- (a) Prepare the Cash book, Revenue account, Consolidated Fund account, General expenses account and Capital assets account.  
(15 marks)
- (b) Comment on the closing balance on Consolidated Fund account and give two actions to be taken on it.  
(5 marks)

**(Total 20 marks)**

**SECTION D**

**Question 6**

Give the merits and demerits of ratio analysis.

**(10 marks)**

**Question 7**

Explain the following bases used in public sector accounting:

- (a) Cash accounting. **(2 marks)**
- (b) Accrual accounting. **(2 marks)**
- (c) Modified cash accounting. **(2 marks)**
- (d) Modified accrual accounting. **(2 marks)**
- (e) Commitment accounting. **(2 marks)**

**(Total 10 marks)**