

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 21 JUNE 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 statements are correct?
- (i) If payment for goods is made by credit card, then it is a credit transaction.
 - (ii) Cash received in settlement of a debt is a cash transaction.
 - (iii) A sale of goods in which the customer is allowed 30 days to pay is a credit transaction.
 - (iv) If payment for goods is made by cheque, then it is a cash transaction.
- (a) (i) and (ii).
 - (b) (i) and (iii).
 - (c) (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (ii) Fox Ltd. wishes to buy goods from Penguin Ltd. Which of the following is the most likely flow of documents to complete the purchase?
- (a) Purchase order, delivery note, goods received note, cheque requisition, invoice.
 - (b) Invoice, goods received note, purchase order, delivery note, cheque requisition.
 - (c) Purchase order, delivery note, goods received note, invoice, cheque requisition.
 - (d) Purchase order, invoice, goods received note, delivery note, cheque requisition.
- (iii) Which of the following should be entered in the general journal?
- (i) Payment for cash purchases.
 - (ii) Fixtures bought on credit.
 - (iii) Credit sale of goods.
 - (iv) Sale of surplus machinery.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (iii) and (iv).
 - (d) (ii) and (iv).

Use the following information to answer questions (iv) – (viii).

The following extracts from the balance sheets of Brains Ltd. for the year ended 31 December.

	2004	2003
	Shs '000'	Shs '000'
Plant and Machinery (at cost)	256,700	204,000
Fixtures and fittings (at cost)	49,300	40,800
Other assets	<u>409,700</u>	<u>323,000</u>
	<u>715,700</u>	<u>567,800</u>
Share capital	255,000	170,000
Reserves	154,700	62,050
Current liabilities	137,700	118,150
Loans	51,000	119,000
Depreciation: -Plant and Machinery	91,800	76,500
-Fixtures and fittings	<u>25,500</u>	<u>22,100</u>
	<u>715,700</u>	<u>567,800</u>

On 28 December 2004, a machine tool which had cost Shs. 13,600,000 with accumulated depreciation of Shs. 10,200,000 was sold for Shs 5,100,000, and fixtures which had cost 8,500,000, with accumulated depreciation of Shs. 3,400,000 were sold for Shs. 1,700,000. These transactions have not yet been accounted for.

- (iv) Determine the value of plant and machinery purchased for the year ended 31 December 2004.
- Shs. 52,700,000.
 - Shs. 13,600,000.
 - Shs. 270,000,000.
 - Shs. 66,300,000.
- (v) Compute the depreciation charge for plant and machinery for the year ended 31 December 2004.
- Shs. 10,200,000.
 - Shs. 15,300,000.
 - Shs. 25,500,000.
 - Shs. 13,600,000.
- (vi) Derive the profit or loss on the machine tool sold on 28 December 2004.
- Shs. 1,700,000 (loss).
 - Shs. 1,700,000 (profit).
 - Shs. 8, 500,000 (loss).
 - Shs. 8,500,000 (profit).

- (vii) Derive the profit or loss on the fixtures sold on 28 December 2004.
- (a) Shs. 3,400,000 (loss).
 - (b) Shs. 3,400,000 (profit).
 - (c) Shs. 6,800,000 (loss).
 - (d) Shs. 6,800,000 (profit).
- (viii) Compute the depreciation charge for fixtures and fittings for the year ended 31 December 2004.
- (a) Shs. 6,800,000.
 - (b) Shs. 3,400,000.
 - (c) Shs. 25,900,000.
 - (d) Shs. 22,100,000.
- (ix) What is the fundamental principle of accounting for transactions?
- (a) Ledger accounting.
 - (b) Single entry.
 - (c) Book keeping.
 - (d) Double entry.
- (x) The following balances were extracted from the books of Sage Ltd. as at 31 December 2004, with the missing figure being long-term loan.

	Shs. '000'
Non current assets	1,350
Inventory	900
Bank	250
Cash	100
Trade receivables	500
Trade payables	875
Share capital	1,225
Share premium	125

Determine the value of the long-term loan.

- (a) Shs. 3,100,000.
 - (b) Shs. 1,225,000
 - (c) Shs. 875,000.
 - (d) Shs. 2,225,000.
- (xi) The interest payable account for Borowa Ltd. had a credit balance of Shs. 748,000 at 31 December 2002. During the year to 31 December 2003, Shs. 11,560,000 was paid for interest and the account had a credit closing balance of Shs. 867,000. What was the interest expense charged in the income statement for the year ended 31 December 2003?

- (a) Shs. 11,679,000.
 - (b) Shs. 11,560,000.
 - (c) Shs. 12,427,000.
 - (d) Shs. 12,308,000.
- (xii) Goods drawn from the business for the proprietor's own use are:
- (a) Debited to drawings account and credited to purchases account.
 - (b) Debited to purchases account and credited to drawings account.
 - (c) Debited to drawings account and credited to proprietor's account.
 - (d) Debited to trading account and credited to inventory account.
- (xiii) Which of the following is false?
- (a) A decrease in provision for bad debts is an income item.
 - (b) Provision for bad debts is credited to the trade receivables account.
 - (c) An increase in provision for bad debts is an expense item.
 - (d) Bad debts recovered are an income item.
- (xiv) The responsibility of preparing financial statements of a limited company lies with the:
- (a) Auditors.
 - (b) Directors.
 - (c) Chief Accountant.
 - (d) Shareholders.
- (xv) The role of a book-keeper is to:
- (a) Record financial information and prepare financial statements.
 - (b) Control petty cash.
 - (c) Record financial information and extract monthly trial balances.
 - (d) Set up a chart of accounts for a business and advise on internal controls.
- (xvi) The effect of the prudence concept is that:
- (a) Net profit is calculated as the difference between receipts and payments rather than revenue and expenses.
 - (b) Similar items should be treated in the same way from one accounting period to another.
 - (c) Losses should be provided for as soon as they are foreseen and profits should not be recorded until they are realized.
 - (d) Speculative investments should be avoided in favour of more prudent ones.

- (xvii) What is value of equity holders' funds from the following balance sheet extract?

	Shs. '000'
Ordinary share capital	850,000
Revaluation reserve	225,000
Retained earnings	102,000
8% Preference share capital	170,000

- (a) Shs. 850,000,000.
 (b) Shs. 952,000,000.
 (c) Shs. 1,347,000,000.
 (d) Shs. 1,177,000,000.
- (xviii) Which of the following is not an appropriation in partnership accounts?
- (a) Interest on loan advances to partners.
 (b) Interest on drawings.
 (c) Interest on current accounts.
 (d) Interest on capital accounts.
- (xix) Which of the following documents provides proof of payment for a business transaction?
- (a) Debit note.
 (b) Receipt.
 (c) Credit note.
 (d) Invoice.
- (xx) Which of the following is the correct posting to record cash purchases from Tromso Ltd?
- (a) Debit purchase; credit Tromso Ltd.
 (b) Debit Tromso Ltd; Credit purchases.
 (c) Debit purchases; Credit cash.
 (d) Debit cash; credit purchases.

SECTION B**Question 2**

The following receipts and payments account for the year ended 30 June, 2004 has been prepared from the current account bank statement for the Bataka Sports Club.

Receipts		Payments	
	Shs		Shs
1.7.2003 Balance b/f	2,550,000	30.6.2004	
30.6.2004:		Club house;	
Subscriptions	12,900,000	Rent	570,000
Bar sales	20,700,000	Maintenance	1,365,000
Donations	1,752,000	Annual dinner:	
Annual dinner:		Catering	975,000
Sale of tickets	705,000	Bar purchases	13,800,000
		Stationery and printing	372,000
		New sports equipment	3,694,500
		Hire of video films	133,500
		Wages and security expenses	7,050,000
		Petty cash	141,000
		Balance c/f	10,506,000
	<u>38,607,000</u>		<u>38,607,000</u>

Additional information:

- Balances as at 30 June

	2003	2004
	Shs '000'	Shs '000'
Club house at cost (bought 1.7.2001)	22,500	22,500
Bar inventories	2,760	3,540
Bank deposit account	900	1,095
Subscriptions received in advance	315	540
Payables for bar supplies	3,600	2,850
Petty cash float	45	15

- Depreciation is provided for annually as follows:
Club house – 10% on cost.
New sports equipment – 33 1/3% on cost.
- The petty cash float is used exclusively for postage.
- The only entry in the bank deposit account during the year ended 30 June 2004 concerns interest.
- One quarter of wages and security expenses, and one half of the club house costs, including depreciation of the club house, are to be apportioned to the bar.

Required:

Prepare Bataka Sports Club's Income Statement for the year ended 30 June 2004 and a balance sheet as at that date.

(20 marks)**Question 3**

The following trial balance was extracted from the books of Kimina Trading Company Ltd. as at 31 December 2004.

	Shs. '000'	Shs. '000'
Purchases and sales	502,000	878,000
Returns	1,625	2,375
Plant and machinery at cost	66,600	
Accumulated depreciation (Plant and Machinery)		7,500
Land and buildings at cost	400,000	
Inventory	102,600	
Trade receivables and payables	212,600	100,900
Provision for bad debts		15,000
Telephone expenses	14,000	
Electricity	4,200	
Staff expenses	77,400	
General expenses	23,500	
Retained earnings		10,000
Bank and cash balances	59,250	
Authorised and paid up share capital:		
40,000 ordinary shares		200,000
20,000 12% preference shares		100,000
10% loan stock		150,000
	<u>1,463,775</u>	<u>1,463,775</u>

Additional information:

- Accrued electricity amounted to Shs. 710,000.
- Loan interest for the year has not yet been paid.
- Provide for ordinary dividends of 30% and for preference dividends.
- Depreciate plant and machinery at 10% on cost.
- Telephone expenses paid in advance amounted to Shs. 750,000.
- Inventory at 31 December 2004 was Shs. 96,210,000.

Required:

- Prepare Kimina Trading company Ltd's income statement for the year ended 31 December 2004.

(10 marks)

- Prepare the Balance sheet as at 31 December 2004.

(10 marks)**(Total 20 marks)**

Question 4

Omoding is a dynamic businessman who deals in calculators, paper, pens and other stationery items as a sole trader. He has presented his source documents showing the transactions that took place in the month of December 2004, his first month of trading.

December

- 2 Started business with Shs. 24,000,000 in the bank.
- 3 Paid rent Shs. 4,800,000 for three months by cheque.
- 5 Purchased furniture Shs. 13,200,000 on credit from Solid Mahogany Ltd.
- 7 Purchased computers for office use from Systems Ltd for Shs. 16,000,000 and paid Shs. 8,000,000 by cheque.
- 10 Withdrew Shs. 4,000,000 from the bank for business use.
- 13 Made cash purchases for paper and pens of Shs 1,440,000 from Smith Stationers Ltd.
- 17 Opened his shop for first day of trading, and cash sales amounted to Shs. 2,600,000.
- 18 Bought calculators and reams of paper for Shs. 2,080,000 and paid by cheque. Cash sales on the same day amounted to Shs. 1,680,000.
- 21 Sales amounted to Shs. 2,688,000, one customer paid by cheque Shs. 424,000.
- 23 Bought paper, pens, and other items for resale for Shs. 4,096,000 from Crux Ltd. on credit.
- 30 Raised an invoice of Shs. 1,408,000 to Punchline Stationers for credit sales.

Required:

Prepare the necessary ledger accounts (in T format) to record the above transactions and extract a Trial balance for Omoding at the close of business on 30 December 2004.

(20 marks)

Question 5

A, B and C have been in partnership for a number of years with capital contributions of Shs. 80,000,000, Shs 48,000,000 and Shs. 24,000,000 respectively.

Below are the partners' current accounts for the year ended 31 December 2004:

Current Accounts							
	A	B	C		A	B	C
	Shs.	Shs.	Shs.		Shs.	Shs	Shs
	'000'	'000'	'000'		'000'	'000'	'000'
Bal b/f	-	-	210	Bal b/f	580	420	-
Drawings	20,800	17,020	12,150	Interest on capital	9,600	5,760	2,880
Share of balance	320	192	128	Salary	11,200	10,400	8,800
Balance c/f	<u>260</u>	<u>-</u>	<u>-</u>	Bal c/f	<u>-</u>	<u>632</u>	<u>808</u>
	<u>21,380</u>	<u>17,212</u>	<u>12,488</u>		<u>21,380</u>	<u>17,212</u>	<u>12,488</u>

Required:

- State the profit/loss sharing ratios the partners have agreed on for the division of profits or losses.
(2 marks)
 - Derive the partnership's net profit for the year ended 31 December 2004.
(9 marks)
 - What would the partners' shares in profits have been had the net profit for the year been Shs. 96,000,000?
(6 marks)
 - Explain briefly how partners share profits or losses in the absence of a formal agreement.
(3 marks)
- (Total 20 marks)

SECTION C**Question 6**

- Briefly explain four items that may appear in a bank reconciliation statement.
(4 marks)
 - Give and briefly explain four types of errors that do not affect the trial balance.
(6 marks)
- (Total 10 marks)

Question 7

State five users of financial statements (information) and briefly explain their information needs.

(10 marks)