

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 20 JUNE 2006

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 $1\frac{1}{2}$ 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) The double entry for a reduction in the provision for bad debts is:
- (a) Dr Income statement with the amount of the reduction.
Cr Provision for bad debts account.
 - (b) Dr Provision for bad debts account.
Cr Income statement with the amount of the reduction.
 - (c) Dr Income statement with the amount of the provision.
Cr Provision for bad debts account.
 - (d) Dr Provision for bad debts account.
Cr Income statement with the amount of the provision.
- (ii) Capital expenditure is:
- (a) the extra capital introduced by the proprietor.
 - (b) the costs of running a business on a day-to-day basis.
 - (c) money spent on buying non-current assets or adding value to them.
 - (d) money spent on the disposal of non-current assets.
- (iii) Which of the following statements are correct?
- (i) A public limited liability company has unlimited share capital.
 - (ii) A public limited liability company has no minimum number of shareholders.
 - (iii) The minimum number of shareholders in a private company is seven.
 - (iv) A private company does not restrict the right to transfer its shares.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (ii) and (iv).
 - (d) None of the above.
- (iv) Furniture purchased for use in business from Ears Ltd. on credit would be debited to:
- (a) ears ltd. account and credited to furniture account.
 - (b) furniture account and credited to ears ltd. account.
 - (c) purchases account and credited to ears ltd account.
 - (d) purchases account and credited to Bank or Cash account.
- (v) The responsibility for the preparation of financial statements of a limited liability company lies with the:
- (a) Secretary.
 - (b) Directors.
 - (c) Chief Accountant.
 - (d) Finance Manager.

- (vi) The main source of information for the Sales Returns Journal is obtained from:
- (a) credit notes sent out.
 - (b) invoices sent out.
 - (c) invoices received.
 - (d) debit notes received.
- (vii) Trade discounts appear on the:
- (a) invoice only.
 - (b) debit side of cash book of the seller.
 - (c) credit side of cash book of the buyer.
 - (d) discounts allowed account.
- (viii) A business firm charges depreciation each year:
- (a) to ensure that there is enough money in the firm to replace the asset.
 - (b) to reduce the profit to discourage excessive drawings.
 - (c) because the law requires them to do so.
 - (d) to spread the cost of the asset over its productive life.
- (ix) The information for control accounts is obtained from:
- (a) financial statements.
 - (b) ledgers.
 - (c) books of original entry.
 - (d) bank statements.
- (x) The book value of machinery in a firm's books on 1 January is Shs 12,375,000. Two years later, the book value is Shs 6,187,500. What is the straight line depreciation rate each year?
- (a) 50%.
 - (b) $13 \frac{1}{3}\%$.
 - (c) 25%.
 - (d) 12.5%.
- (xi) Which of the following items is not usually included in the trial balance at the end of the accounting period?
- (a) Opening inventory.
 - (b) Closing inventory.
 - (c) Non-current assets bought on credit.
 - (d) Cash sales.

- (xii) A limited partnership is one which has:
- (a) all members with limited liability.
 - (b) all members with unlimited liability.
 - (c) all members contributing the same amount of capital.
 - (d) at least one member with unlimited liability.
- (xiii) When goods for resale are purchased and a 3-months post-dated cheque is issued immediately, then it is a:
- (a) cash transaction.
 - (b) credit transaction.
 - (c) bank transaction.
 - (d) none of the above.
- (xiv) Which of the following statements is correct?
- (a) Customers' personal accounts are found in the purchases ledger.
 - (b) Suppliers' personal accounts are found in the sales ledger.
 - (c) The cash book is a book of original entry.
 - (d) A sales journal is part of the double entry system.
- (xv) During a year, a retail trader made a gross profit of Shs 7,200,000 which is 20% of the cost of goods sold. The sales figure for the year is
- (a) Shs 36,000,000.
 - (b) Shs 43,200,000.
 - (c) Shs 46,800,000.
 - (d) Shs 50,400,000.
- (xvi) Joan, a retail trader had capital amounting to Shs 1,570,000 on 1 January 2005. During the year, she made cash drawings of Shs 52,500 per month. She also took goods worth Shs 160,000 for personal use in October 2005. At 31 December 2005, she ascertained that her capital was Shs. 1,879,000. What was Joan's profit for the year ended 31 December 2005?
- (a) Shs 1,099,000.
 - (b) Shs 939,000.
 - (c) Shs 790,000.
 - (d) Shs 309,000
- (xvii) Which of the following is not recorded in the General Journal?
- (a) Purchase of goods on credit.
 - (b) Purchase of non-current assets on credit.
 - (c) Opening entries of a new business.
 - (d) Correction of errors in the ledger.

(xviii) Which of the following is not an expense of a business during an accounting period?

- (a) Carriage outwards.
- (b) Discounts allowed.
- (c) Purchase of goods for resale.
- (d) Purchase of packaging materials.

(xix) Which of the following leads to an increase in cost of sales?

- (a) Returns outwards.
- (b) Returns inwards.
- (c) Carriage outwards.
- (d) Carriage inwards.

(xx) Which of the following accounts are found in the nominal ledger?

- (a) Suppliers' personal accounts.
- (b) Customers' personal accounts.
- (c) Non-current assets and expenses accounts.
- (d) Returns inwards and returns outwards accounts.

SECTION B**Question 2**

The following trial balance was extracted from the books of Kimm, a sole trader.

Trial Balance as at 30 June 2004

	Dr	Cr
	Shs'000	Shs'000
Purchases and sales	205,875	345,195
Carriage	12,860	
Rent	9,055	
Salaries	66,050	
Drawings	19,500	
Bad debts	2,175	
Provision for bad debts		325
Rates and insurance	7,500	
Stationery	7,500	
Promotion and advertising	3,325	
Trade receivables and payables	30,300	16,175
Motor vehicles (at cost)	145,000	
Accumulated depreciation on motor vehicles		47,500
Inventory	29,800	
Capital		132,710
Retained earnings at 1 July 2003		55,250
Land and buildings	37,500	
Fixed deposit account	17,750	
Cash in hand	460	
Cash at bank	2,505	
	<u>597,155</u>	<u>597,155</u>

Additional information:

- Inventory at 30 June 2004 was valued at Shs 33,880,000.
- Sales invoices amounting to Shs 2,180,000 were found after the trial balance had been prepared and had not been posted anywhere.
- Goods worth Shs 420,000, drawn by Kimm for personal use, had not been accounted for.
- An invoice for radio advertisements, run in April 2004, of Shs 325,000 was received on 1 July 2004.
- Stationery is accrued by Shs 525,000 and salaries have been prepaid by Shs 2,200,000.
- Shs 3,025,000 of carriage represents carriage outwards.
- Motor vehicles are to be depreciated at 20% per annum on cost.
- Provision for bad debts to be increased by Shs 10,000.

Required:

Prepare Kimm's income statement for the year ended 30 June 2004 and a balance sheet as at that date.

(20 marks)

Question 3

- (a) Kimani is a wholesaler based in Busia, Uganda. During the year ended 31 December 2004, he sold all his goods at 25% above cost. The following information was extracted from his books at 31 December 2004.

	Shs
Inventory 1 January 2004	30,109,600
Inventory 31 December 2004	38,491,000
Sales	183,000,000

Kimani dealt in a single product, whose purchase price per unit was Shs. 3,050.

Required:

Ascertain, for the year ended 31 December 2004, the:

- (i) cost of goods sold. (2 marks)
 - (ii) value of purchases. (3 marks)
 - (iii) profit or loss made by Kimani. (2 marks)
- (b) The following information is available relating to year ended 31 December 2005 for Kimani:
- (i) The purchase price per unit increased by Shs 1,450, but his purchases increased by 25% compared with 2004.
 - (ii) Closing inventory at 31 December 2005 was made up of 9,500 units and all were purchased in 2005.
 - (iii) His expenses were made up of the following:
 - Operating expenses were 15% of sales.
 - Fixed expenses were Shs 15,200,000.
 - Manager's commission was 5% of the net profits remaining after such commission was deducted.
 - (iv) Sales for the year ended 31 December 2005 were Shs. 447,200,000.

Required:

Prepare a statement showing the profit or loss for Kimani for the year ended 31 December 2005. Show all your workings.

(13 marks)

(Total 20 marks)

Question 4

- (a) Define the term partnership.

(2 marks)

- (b) Ann, Ben, and Dan are in partnership sharing profits and losses in the ratio 4:3:1 respectively. Their Partnership Agreement provides for 5% per annum on capital and drawings. Interest is charged on drawings prorata to time.

Ben and Dan are entitled to an annual salary of Shs 6,000,000 and Shs 12,000,000 respectively. The following summarized trial balance was extracted from the books of the partnership at 31 December 2004.

	Shs '000s	Shs '000s
Net assets	41,625	
Net profit for the year		29,625
Capital Accounts: Ann		15,000
Ben		13,500
Dan		1,500
Current Accounts: Ann		4,500
Ben		1,500
Dan		3,000
Drawings: Ann	12,000	
Ben	9,000	
Dan	6,000	
	<u>68,625</u>	<u>68,625</u>

Ann made her drawing in a lumpsum on 31 December 2004. Ben and Dan made their drawings in two equal installments on 31 May and 30 September 2004.

Required:

- (i) Prepare a profit appropriation statement for the year ended 31 December 2004.

(6 marks)

- (ii) Prepare, in columnar form, the partners' capital and current accounts for the year ended 31 December 2004.

(12 marks)**(Total 20 marks)**

Question 5

The following income and expenditure statement was prepared for the Kagera Gold Club.

Income and Expenditure Statement for the Year ended 30 June 2005			
Expenditure	Shs	Income	Shs
Wages – Golf course attendants	2,347,500	Subscriptions for 2005	3,255,000
Repairs to assets	297,500	Profit from Restaurant	2,032,500
Ground maintenance	572,500	Donations	300,000
Manager's expenses	345,000		
General expenses	925,000		
Depreciation of assets	775,000		
Surplus	325,000		
	<u>5,587,500</u>		<u>5,587,500</u>

The Golf Club operated a restaurant which sold food and drinks to members at a profit. The income statement for the restaurant was as given below:

Income Statement for the Restaurant for the year ended 30 June 2005			
	Shs		Shs
Opening Inventory	1,240,000	Sales	14,070,000
Purchases	10,020,000		
Closing Inventory	(1,395,000)		
	9,865,000		
Gross profit c/d	4,205,000		
	<u>14,070,000</u>		<u>14,070,000</u>
Expenses		Gross profit b/d	4,205,000
Restaurant expenses	612,500		
Chef's wages	1,560,000		
Net profit	2,032,500		
	<u>4,205,000</u>		<u>4,205,000</u>

The following information was taken into account in preparing the above financial statements:

- (i) Restaurant balances as at:
- | | 30 June 2004 | 30 June 2005 |
|-----------------------|--------------|--------------|
| | Shs | Shs |
| Inventories | 1,240,000 | 1,395,000 |
| Creditors of supplies | 735,000 | 850,000 |
| Accrued expenses | 62,500 | 90,000 |
- (ii) General expenses accrued at 30 June 2005 Shs 162,500.
- (iii) Balance at bank on 30 June 2004 was Shs 1,310,000.
- (iv) Non-current assets for the Club at 30 June 2004 were valued at Shs 16,375,000.

- (v) Subscriptions owing from members amounted to Shs 137,500 on 30 June 2004, and Shs 165,000 on 30 June 2005. Subscriptions amounting to Shs 100,000 for 2006 were received on 20 June 2005.

Required:

- (a) Reconstruct the Receipts and Payments Account for Kagera Gold Club for the year ended 30 June 2005. (17 marks)
- (b) Compute the Accumulated Fund for Kagera Golf Club as at 30 June 2004. (3 marks)
- (Total 20 marks)

SECTION C

Question 6

Briefly explain the following terms:

- (a) Preference shares (2 marks)
- (b) Cumulative preference shares (2 marks)
- (c) Authorised share capital. (2 marks)
- (d) Issued share capital. (2 marks)
- (e) Reserve capital. (2 marks)
- (Total 10 marks)

Question 7

Briefly explain the following:

- (a) Financial accounting. (2 marks)
- (b) Cost Accounting. (2 marks)
- (c) Management Accounting. (2 marks)
- (d) Book-keeping. (2 marks)
- (e) Private Accounting. (2 marks)
- (Total 10 marks)