

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 12 DECEMBER 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) Which of the following statements are true about double entry?
- (i) Always debit the account that has received the goods or service or money
 - (ii) Always credit the account that has received the goods or service or money.
 - (iii) Always debit the account that has given goods or service or money.
 - (iv) Always credit the account that has given goods or service or money.
- (a) (i) and (ii).
(b) (i) and (iii).
(c) (i) and (iv).
(d) (ii) and (iii).
- (ii) Which of the following statements are correct?
- (i) A creditor is a person who owes a firm money.
 - (ii) A debtor is a person who owes a firm money.
 - (iii) A creditor is a person to whom a firm owes money.
 - (iv) A debtor is a person to whom a firm owes money.
- (a) (i) and (ii).
(b) (ii) and (iii).
(c) (ii) and (iv).
(d) (i) and (iv).
- (iii) A credit note is issued to correct:
- (a) an overcharge.
 - (b) an undercharge.
 - (c) a liability.
 - (d) an asset.
- (iv) Which of the following statements are correct about the purchase of assets?
- (i) Always credit the asset account.
 - (ii) Always debit the asset account.
 - (iii) Debit bank or cash account.
 - (iv) Credit supplier account.

- (a) (i), (ii) and (iii)
 - (b) (i), (ii) and (iv)
 - (c) (ii), (iii), and (iv)
 - (d) (i), (ii), (iii) and (iv).
- (v) Which of the following is true about depreciation?
- (a) Debit the depreciation account and credit the expense account.
 - (b) Debit the asset account and credit the depreciation account.
 - (c) Debit the depreciation account and credit the asset account.
 - (d) Credit the depreciation account and credit the asset account.
- (vi) A motor vehicle valued in Mugaga's books at Shs 1,000,000 was sold on 1 January 2006 at Shs 1,300,000. Which of the following describes the correct journal entry?
- (a) Debit motor vehicle account with Shs 1,000,000.
Debit cash account with 300,000.
Credit sales of vehicle account with Shs 1,300,000.
 - (b) Debit cash account with Shs 1,300,000.
Credit motor vehicle account with Shs 1,000,000.
Credit sale of vehicle account with Shs 300,000.
 - (c) Debit cash account with Shs 1,000,000.
Credit vehicle account with Shs 1,300,000.
Credit sales of vehicle account with Shs 300,000.
 - (d) Debit cash account with Shs 1,300,000.
Credit vehicle account with Shs 300,000.
Credit sale of vehicle account with Shs 1,000,000.
- (vii) Which of the following statements are correct?
- (i) Prudence is to ensure that profit is not shown as being too low or assets shown at too high a value.
 - (ii) Realisation concept refers to the point at which profit is treated as being earned.
 - (iii) Materiality refers to recording something in a special way only if the amount is small.
 - (iv) Accrual concept relates to where net profit is the difference between revenues and expenditure.

- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (ii) and (iv).
 - (d) (i) and (iv).
- (viii) Which of the following items are capital items?
- (i) Delivery charges of new assets.
 - (ii) Redecorating existing office.
 - (iii) Interest on loan to purchase air conditioning machine.
 - (iv) Installation of machinery.
- (a) (i) and (iv).
 - (b) (i) and (iii).
 - (c) (ii) and (iii).
 - (d) (i) and (ii).
- (ix) The following are the uses of the journal except:
- (a) to record the purchase of goods for sale.
 - (b) the correction of errors.
 - (c) the writing off of bad debts.
 - (d) to record the purchase and sale of fixed assets on credit.
- (x) Which of the following statements are true about a reduction in provision for bad debts?
- (i) Debit the provision for bad debts account.
 - (ii) Credit the provision for bad debts account.
 - (iii) Debit profit and loss account.
 - (iv) Credit profit and loss account.
- (a) (i) and (ii).
 - (b) (i) and (iii).
 - (c) (i) and (iv).
 - (d) (ii) and (iv).
- (xi) The double entry for goods taken for own use is as follows:
- (i) Debit the drawings account.
 - (ii) Credit the drawings account.
 - (iii) Credit the purchases account.
 - (iv) Debit the purchases account.
- (a) (i) and (ii).
 - (b) (i) and (iii).
 - (c) (ii) and (iii).
 - (d) (iii) and (iv).

- (xii) Which of the following is true about error of principle?
- (a) Occurs when an incorrect figure is posted to the correct side of the correct account.
 - (b) This is when a transaction is entered in the wrong class of account.
 - (c) Arises when the correct amounts are entered but in the wrong person's account.
 - (d) Occurs when the bookkeeper omits to record the transaction.
- (xiii) The following statements are correct except:
- (a) a non-profit making organization, capital is represented by accumulated funds.
 - (b) accumulated funds are the difference between assets and liabilities.
 - (c) accumulated funds plus liabilities equal assets.
 - (d) accumulated funds equal liabilities plus assets.
- (xiv) The following items will appear in the appropriation account of a partnership except:
- (a) partners' salary.
 - (b) goodwill written off.
 - (c) interest to a partner when money lent is above his capital contribution.
 - (d) share of residual profit.
- (xv) The following statements are true about a partnership except:
- (a) current accounts are introduced to record the fluctuating part of the net worth.
 - (b) capital accounts can only show credit balances.
 - (c) current accounts can sometimes show debit balances.
 - (d) capital accounts usually record the fixed part of the original capital contribution.
- (xvi) Gross loss is:
- (a) found by deducting purchases from the figure of sales.
 - (b) an account in which profit is calculated.
 - (c) where cost of goods sold plus expenses is greater than the revenue.
 - (d) where the cost of goods sold exceeds the sales figure.

- (xvii) Olumonde Traders prepared a trial balance but on checking through, the Accounts Assistant found that rent of Shs 2,000,000 to Bichu was not provided for. What are the correcting entries?
- (a) Dr Trading account with Shs 2,000,000.
Cr Bichu with Shs 2,000,000.
 - (b) Dr Rental expense with Shs 2,000,000.
Dr Bichu with Shs 2,000,000.
Cr Bank with Shs 4,000,000.
 - (c) Dr Rental expense with Shs 2,000,000.
Cr Bichu with Shs 2,000,000.
 - (d) Dr Bichu with Shs 2,000,000.
Cr Rental expense with Shs 2,000,000.
- (xviii) Which of the following is not found in the nominal ledger?
- (a) Assets accounts.
 - (b) Suppliers accounts.
 - (c) Expenses accounts.
 - (d) Revenue accounts.
- (xix) Which of the following is **not** true about stock?
- (a) Low stock figure at close of period leads to a low profit margin.
 - (b) Low stock figure at close of period leads to high profit margin.
 - (c) A high stock figure at close of period leads to high profit margin.
 - (d) In periods of rising prices the profit margin will be high.
- (xx) The capital of a sole trader would change as a result of:
- (a) a creditor being paid by cheque.
 - (b) raw materials being purchased in cash.
 - (c) withdrawing cash from the bank for use in business.
 - (d) taking goods out of stock for personal use.

SECTION B**Question 2**

The following trial balance was extracted from the books of Mukwasi Ltd. on 31 December 2005:

	DR	CR
	Shs '000	Shs '000
Share capital		200,000
Share premium		50,000
6% loans		100,000
Purchases / sales	584,700	713,100
Returns inwards / outwards	1,135	1,795
Bad debts / provision	1,740	1,300
Rent and rates	5,250	
Electricity	2,100	
Salaries	61,200	
General expenses	13,305	
Debtors and creditors	81,300	45,900
Freehold buildings at cost	200,000	
Furniture and equipment at cost	100,000	
Provision for depreciation as at 1 January 2005		37,000
Stock at start	91,300	
Balance at Bank	14,775	
Loan interest	3,000	
Profit and loss as at 1 January 2005		10,710
	<u>1,159,805</u>	<u>1,159,805</u>

Additional information:

- Loan interest is paid on 1 January and 1 July each year.
- Provision for doubtful debtors is to be reduced by Shs 100,000.
- Rates paid in advance at 31 December 2005 amounted to Shs 250,000.
- Electricity due at 31 December 2005 amounts to Shs 355,000.
- Depreciation is to be charged on furniture and equipment at the rate of 10% per annum on cost.
- Stock on 31 December 2005 was valued at Shs 98,105,000.
- A dividend of Shs 20,000,000 was proposed for the year 2005.

Required:

- Prepare Mukwasi Ltd's Income Statement for the year ended 31 December 2005.

(10 marks)

(b) Prepare Mukwasi Ltd's Balance Sheet as at 31 December 2005.

(10 marks)
(Total 20 marks)

Question 3

On 1 January 2005 the financial position of Bwaise Golf Society was:

Assets	Shs '000	Liabilities	Shs '000
Equipment	6,250	Accumulated fund	11,000
Subscriptions due	1,750	Cash fees accosted	500
Cash at Bank	<u>3,500</u>		
	<u>11,500</u>		<u>11,500</u>

During the year ended 31 December 2005, the receipts and payments were as follows:

Receipts	Shs '000	Payments	Shs '000
1. January 2006 balance	3,500	Stationery	1,150
Subscriptions for previous year	1,000	Printing	4,000
Subscriptions for current year	7,000	New equipment	900
Subscriptions in advance for following year	1,250	Training ground hire	2,500
Entrance fees	7,200	Coach fees (including Shs 500,000 for previous year)	2,000
Receipts from advertising	2,750	General expenses	750
		Judge's fees and expenses	6,050
		31 December 2006 bank balance	<u>5,350</u>
	<u>22,700</u>		<u>22,700</u>

The following items are to be taken into account:

- Shs 900,000 is owing for subscription for the current year.
- The balance of subscriptions for previous year still outstanding is to be written off as bad debt.
- The balance of equipment at 1 January 2005 was depreciated by 20%.
- There is an amount of Shs 600,000 owing for printing expenses.

Required:

- (a) Prepare the income and expenditure statement for the year ended 31 December 2005 for Bwaise Golf Society. **(10 marks)**
- (b) Prepare the balance sheet for Bwaise Golf Society as at 31 December 2005. **(10 marks)**
- (Total 20 marks)**

Question 4

The following statement was received from the bank showing Manafwa's position during the month of December 2005.

Bank statement as at 31 December 2005:

Date	Particulars	Dr	Cr	Balance
		Shs	Shs	Shs
1-Dec	Balance b/d			8,051,000
3-Dec	Sundries		1,490,000	9,541,000
6-Dec	credit transfer (Musoba)		3,370,000	12,911,000
10-Dec	Drawings	2,800,000		10,111,000
12-Dec	Sundries		3,730,000	13,841,000
15-Dec	Dividend (Bank of Arua)		500,000	14,341,000
17-Dec	Sundries		3,908,000	18,249,000
19-Dec	Charges	170,000		18,079,000
21-Dec	Drawings	2,920,000		15,159,000
23-Dec	Sundries		4,545,000	19,704,000
29-Dec	drawings	2,770,000		16,934,000
30-Dec	Sundries		4,852,000	21,786,000

When checked against the cash book, the following discrepancies were revealed:

- (a) The Sundries item paid in on 12 December had been accidentally omitted altogether from Manafwa's cash book.
- (b) Three cheques drawn in the last few days of the month had not yet been presented by:

	Shs
Kongfu	850,000
Okott	31,000
Mukama	216,400

- (c) Musoba's credit transfer, the dividend and the bank charges had not previously been notified to Manafwa.

- (d) Cash paid in on December 31, Shs 3,011,000 does not appear on the bank statement.
- (e) Manafwa's bank deducted Shs 210,000 towards subscriptions for a magazine but the debit transfer had not yet reached his bank.

Required:

- (a) Items to be entered in the cash book and their treatment. **(10 marks)**
 - (b) Bank reconciliation statement for Manafwa as at 31 December 2005. **(10 marks)**
- (Total 20 marks)**

Question 5

- (a) What are control accounts and why are they important? **(4 marks)**
- (b) Mugulusi keeps sales ledger and purchases ledger control accounts. The following details relates to the month of November 2006.

Balance as at 1 November 2006

Sales ledger control account	14,721,000
Purchases ledger control account	17,874,500
Sales on credit	13,352,500
Receipts from trade debtors	14,353,500
Sales returns and allowances	1,351,000
Purchases on credit	21,903,000
Payment to the trade creditor	16,380,000
Discount received	367,500
Bad debts	420,000

Required:

Prepare sales control and purchases control accounts as at 31 November 2006.

- (c) Mr. Bada lost the whole of his stock by fire on 1 April 2001. The last time that a stock taking had been done was on 31 December 2000, the last balance sheet date, when it was Shs 1,950,000 at cost. **(8 marks)**

Purchases from then to 1 April 2001 were Shs 6,870,000 and sales for the period were Shs 9,600,000. All sales were made at a uniform profit margin of 20%.

Required:

Compute the value of goods destroyed by the fire and prepare the trading account of Mr. Bada for the period 1 January – 1 April 2001.

(8 marks)

(Total 20 marks)

SECTION C

Question 6

State whether the following transactions are capital or revenue expenditure:

- (a) The redecoration of the Club premises.
- (b) Wages of a workman on building an extension to the office.
- (c) Cost of rebuilding the wall of the office block.
- (d) Bar stocks.
- (e) Structural materials purchased for redesigning the warehouse.
- (f) Supply cost to buying computers to your office.
- (g) Debtor receivables.
- (h) Interest part on a loan to construct school premises.

(10 marks)

Question 7

Write brief explanatory notes on the following accounting concepts:

- (a) Cost.
- (b) Going concern.
- (c) Business entity.
- (d) Realisation.
- (e) Accruals.

(10 marks)