

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

TUESDAY, 20 JUNE 2006

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) At every Annual General Meeting of a limited company, the:
 - (a) Accountant General lays financial statements before the company.
 - (b) Board of Directors of the company lays both the income statement and balance sheet before the company.
 - (c) Chief Financial Controller lays final accounts before the company.
 - (d) Executive Committee of the company lays both income statement and balance sheet before the company.
- (ii) The main reason for preparing a consignment account in the books of a consignor is to:
 - (a) ascertain the inventory sent to the consignor.
 - (b) determine the profit or loss made on a particular consignment.
 - (c) determine the commission payable to the consignee.
 - (d) ascertain the closing stock.
- (iii) The exclusion of would have no effect on the cash flow statement.
 - (a) the acquisition of an enterprise by issue of shares.
 - (b) disposal of a non-current asset.
 - (c) donation to a non profit making organisation.
 - (d) closing inventory.
- (iv) The loss of value of property, plant and equipment of a business in a given accounting period is:
 - (a) credited to the income statement.
 - (b) debited to the non-current account.
 - (c) debited to the income statement.
 - (d) credited to the trading account.
- (v) In a public sector entity that prepares accounts on cash basis, an advance to staff to undertake official tasks is initially recorded as:
 - (a) an asset.
 - (b) an expense.
 - (c) a liability.
 - (d) a loss.
- (vi) In presenting the Income Statement, the Income tax expense should be reported:
 - (a) as an extra ordinary item.
 - (b) after preference dividends.
 - (c) after operating profits.
 - (d) as a finance cost.

- (vii) AB Ltd issued 10,000 shares at Shs 1,200 each payable in one installment. The face value of each share was Shs 1,000. The double entry to record the above transaction would be:
- (a) Dr. Bank account and Cr. Share capital account with Shs 12 million.
 - (b) Dr. Bank account and Cr. Share capital account with Shs 10 million.
 - (c) Dr. Bank account with Shs 12 million and Cr. Share capital account with Shs 10million and share premium account with Shs 2 million
 - (d) Dr. Bank account and Cr. Share premium with Shs 12 million.
- (viii) A worsening cash ratio means:
- (a) an organisation is making more profits.
 - (b) an organisation is lowly capitalized.
 - (c) the organisation has more liabilities than assets.
 - (d) the organisation makes more sales.
- (ix) In manufacturing concerns, expenses should be apportioned properly among cost centres to avoid:
- (a) reporting wrong profit and loss figures.
 - (b) over stating or under stating the tax liability.
 - (c) over or under stating expenses of various cost centres in the organisation.
 - (d) under or over stating the operation expenses.
- (x) Commitments by a public sector organisation should be recorded:
- (a) in the vote book.
 - (b) only in the memorandum workings.
 - (c) in the cash book only.
 - (d) when invoices are submitted.
- (xi) IAS 1 deals with:
- (a) cash flow.
 - (b) property, plant and equipment.
 - (c) presentation of financial statements.
 - (d) revenue.
- (xii) Accruals concept means:
- (a) the accountant should account on cash basis.
 - (b) recognize only legally owned assets.
 - (c) all likely expenses should be accounted for.
 - (d) all likely expenses should be paid.

- (xiii) The vote book is used to:
- (a) control expenditure.
 - (b) control income.
 - (c) extract a trial balance.
 - (d) extract a balance sheet.
- (xiv) Fees received by a public accountant is:
- (a) debited to the client column in the cash book.
 - (b) credited to the cash sales account.
 - (c) debited to cash column in the cash book.
 - (d) credited to the reserves account.
- (xv) Which of the following is true in respect of partnership accounts?:
- (a) Interest on drawings is a business expense.
 - (b) Business net profit is ascertained after partner salaries.
 - (c) Interest on loans to partners is an appropriation item.
 - (d) Inventory drawn by a partner for personal use increases Net Profit of the business.
- (xvi) Which of the following is an asset?
- (a) Subscriptions paid in arrears.
 - (b) Prepaid income.
 - (c) Subscriptions paid in advance.
 - (d) Cash held by a professional on behalf of a client.
- (xvii) Which of the following is a prime cost in manufacturing accounts?
- (a) Salary for the factory manager.
 - (b) Depreciation of delivery van.
 - (c) Storage costs of work in progress.
 - (d) Electricity expenses.
- (xviii) is an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person.
- (a) A bill of exchange.
 - (b) A promissory note.
 - (c) A cheque.
 - (d) An accommodation bill.

(xix) Which of the following assumptions best explain the nature of the 'going concern concept' in respect of the preparation of financial statements?

- (a) All assets of an entity will realize their book values.
- (b) An entity will continue to be profitable.
- (c) An entity will continue in operational existence into the unforeseeable future.
- (d) An entity is solvent.

(xx) In adjusting net operating profit to net operating cash flows for the purposes of a cash flow statement, which of the following combinations are the correct adjustments?

- | Added to operating profit | Deducted from operating profits |
|-----------------------------------|---------------------------------|
| (a) Decrease in inventory | Profit on disposal of assets. |
| (b) Increase in trade payables | Depreciation for the year. |
| (c) Depreciation for the year | Increase in payables. |
| (d) Increase in trade receivables | Loss and disposal of assets. |

SECTION B**Question 2**

The trial balance of ZYM Manufacturing Company Limited as at 31 March 2005 is given below:

	U Shs DR	U Shs CR
Inventory as at 1 April 2004		
Raw materials	2,025,000	
Work in progress	1,800,000	
Finished goods	7,200,000	
Purchases of raw materials	20,250,000	
Carriage in wards	165,000	
Wages	4,050,000	
Salary for works manager	2,250,000	
Sundry factory expenses	510,000	
Factory light and power	375,000	
Advertising	897,750	
Sales net of returns		44,772,750
Office rent and Insurance	720,000	
Printing and Stationery	150,000	
Plant and machinery	18,300,000	
Factory land and buildings	15,900,000	
Trade receivables	6,007,500	
Cash and Bank	637,500	
Trade payables		6,750,000
Provision for Bad debts		150,000
Short term loan		2,100,000
Capital account		32,190,000
Miscellaneous office expenses	870,000	
Carriage out wards	90,000	
Discounts	210,000	165,000
Bad debts written off	270,000	
Office salaries	<u>3,450,000</u>	<u>-</u>
	<u>86,127,750</u>	<u>86,127,750</u>

Additional information:

- (i) Inventories as at 31 March 2005 were as follows:

	Shs
Raw materials	2,100,000
Work in progress	2,175,000
Finished goods	8,700,000

- (ii) Accrued expenses were as follows:

	Shs
Factory light and power	37,500
Wages	390,000
Office salaries	450,000

- (iii) Provision for bad debts is at 5% of trade receivables.
 (iv) Provision for depreciation on buildings and plant and machinery to be at 2% per annum and 12½ % per annum respectively. Apportion depreciation on buildings to administration 40% and to factory 60%.

Required:

Prepare ZYM's Income statement for the year ended 31 March 2005 and balance sheet as at that date.

(30 marks)

SECTION C

Question 3

Below are the financial statements of KB Investments Ltd. for the year ended 31 December 2005:

Income Statement for the year ended 31 December:

	2005	2004
	Shs million	Shs million
Revenue	4,550	3,875
Cost of Sales	(3,650)	(3,165)
	900	710
Other operating Income	<u>20</u>	<u>15</u>
	920	725
Administrative costs	(385)	(320)
Distribution costs	(60)	(50)
Other expenses	<u>(190)</u>	<u>(150)</u>
Profit before interest and tax	285	205
Interest payable	<u>(25)</u>	<u>(20)</u>
Profits before taxation	260	185
Taxation	<u>(85)</u>	<u>(60)</u>
Profit for the period	<u>175</u>	<u>125</u>

Balance sheet as at 31 December:

Assets:	2005	2004
Non-current assets	Shs million	Shs million
Property, plant and equipment	1,720	1,390
Investments	<u>10</u>	<u>10</u>
	<u>1,730</u>	<u>1,400</u>
Current assets		
Inventories	210	205
Trade receivables	20	20
Other current assets	20	20
Cash and cash equivalents	<u>20</u>	<u>35</u>
	<u>270</u>	<u>280</u>
Total assets	<u>2,000</u>	<u>1,680</u>
Equity and liabilities.		
Capital and reserves		
Ordinary share capital	95	95
Preference share capital	230	230
Share premium	5	5
Retained earnings	<u>610</u>	<u>470</u>
	<u>940</u>	<u>800</u>
Non-current liabilities		
Loans	325	20
Current liabilities		
Trade payables	300	300
Other payables	<u>435</u>	<u>560</u>
	<u>735</u>	<u>860</u>
Total equity and liabilities	<u>2,000</u>	<u>1,680</u>

Required:

Calculate the following ratios for each year:

- Current ratio.
- Acid test ratio.
- Return on capital employed.
- Return on owners' equity.
- Trade receivables turnover in days.
- Trade payables turnover in days.
- Gross profit percentage.
- Operating profit percentage
- Inventory turnover in days.
- Gearing.

Hint: For each calculation show the formula, workings and results.

(20 marks)

Question 4

Kasese Cement Ltd (KCL) consigned 10,000 bags of cement to John Kilama (JK) of Kampala on 1 February 2006. Each bag of cement cost Shs 23,000. KCL paid US\$ 20,000,000 for packing, freight and insurance. 250 bags were accidentally destroyed during transit. The insurance company paid Shs 5,000,000 directly to the consignors, in full settlement of the claim.

John Kilama took delivery of the consignment on 14 February 2006. On 30 April 2006, JK reported that 7,500 bags were sold at Shs 30,000 each, and had incurred expenses on rental of stores of Shs 6,000,000, advertisements Shs 5,000,000 and sales staff salaries Shs 8,400,000. JK is entitled to 5% commission plus 2% del credere. Steven Mukasa, who had bought 500 bags was only able to pay 90% of the amount due from him. In addition:

- JK reported a loss of 50 bags due to leakage.
- JK paid all the amount due by bank draft.
- the books were closed on 30 April 2006.

Required:

Prepare the following accounts in the books of MCL:

- | | |
|---|-----------|
| (a) Consignment to John Kilama account. | (7 marks) |
| (b) Goods sent on consignment account. | (2 marks) |
| (c) Abnormal loss account | (4 marks) |
| (d) John Kilama, Kampala account. | (5 marks) |
| (e) Income statement (Extract) | (2 marks) |

Note: Show the necessary workings.

(Total 20 marks)

Question 5

- (a) Give four functions of the Auditor General with regard to lower local governments.
- (6 marks)
- (b) Accounts Assistants have been recruited at lower Local Government and there is need to train them. They particularly requested for your help in posting cashbooks.

As a consultant, you are required to train these Assistants. The following transactions are to be used to demonstrate the cashbook entries:

Date	Item	Receipt / Cheque No	Code	Voucher No.	Amount
1.4.06	Local revenue received	123	8,000	-	2,00,000
1.4.06	Wages paid	-	7101	M1-06	140,000
2.4.06	Donor funds (cheque)	111	8001	-	4,000,000
3.4.06	Cheque for donor funds banked				
3.4.06	Night allowance paid	-	7106	M2-06	50,000
4.4.06	Seminar and workshop paid	00604 chq	7116	M3-06	1,744,200
5.4.06	Lunch allowance paid	00605 chq	7120	M4-06	432,000
8.4.06	Local Functions	-	7230	M5-06	97,000
10.4.06	Printing and stationery paid	-	7220	M6-06	103,000
13.4.06	Directly banked local revenue	00984	8002	-	800,000
16.4.06	Fuel paid by cash	-	7510	M8-06	150,000
13.4.06	Maintenance of building paid	00606 chq	7300	M7-06	300,000
17.4.06	Vehicle tyres paid	00607 chq	7520	M9-06	250,000
18.4.06	Computer expenses	00608 chq	7610	M10-06	200,000

Required:

In preparation for your presentation, post the above transactions through the cashbook and balance it off.

Hint: Show all the columns in the cashbook including totals column.

(14 marks)

(Total 20 marks)

SECTION D

Question 6

- (a) What is goodwill? Give three ways in which it may arise.

(5 marks)

- (b) Under what circumstance will court order for the dissolution of a partnership?

(5 marks)

(Total 10 marks)

Question 7

With the aid of examples, explain the following as used in the preparation of cash flow statements.

- (a) Cash flow from operating activities.
- (b) Cash flow from investing activities.
- (c) Cash flow from financing activities.
- (d) Cash and cash equivalents.

(10 marks)