

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

TUESDAY, 12 DECEMBER 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.

SECTION A

Question 1

- (i) Which of the following is not an accounting concept?
 - (a) Going concern.
 - (b) Depreciation.
 - (c) Realisation.
 - (d) Consistency.
- (ii) Which of the following items will form part of the prime cost in manufacturing accounts?
 - (a) Salaries of factory cleaners.
 - (b) Carriage inwards of raw materials.
 - (c) Depreciation of plant and machinery.
 - (d) Rent for the factory building.
- (iii) According to IAS 7: Cash Flow Statements, the item classified as a financing activity is:
 - (a) cash payment to acquire shares of another company.
 - (b) cash receipts from sale of goods.
 - (c) cash receipts from sale of debentures of another company.
 - (d) cash payments to shareholders to redeem their shares in the company.
- (iv) Interest on drawings by the partners is debited to:
 - (a) current accounts and credited to the appropriation account.
 - (b) income statement and credited to current accounts.
 - (c) appropriation account and credited to current accounts.
 - (d) capital accounts and credited to interest receivable account.
- (v) Which of the following statements is true?
 - (a) A partner who devotes more time to the business than other partners is entitled to get a salary.
 - (b) An amount spent on replacing a worn out part of a machine is capital expenditure.
 - (c) A partnership firm stands to be dissolved if the business which is carried on becomes illegal.
 - (d) A joint venture is a partnership under the Partnership Act.

- (vi) Which of the following statements correctly defines working capital?
- (a) Non-current assets plus current assets.
 - (b) Current assets plus current liabilities.
 - (c) Non-current assets plus current assets minus current liabilities.
 - (d) Current assets minus current liabilities.
- (vii) Which of the following items does not appear under the heading 'reserves' on a company's balance sheet?
- (a) Share premium account.
 - (b) Revaluation account.
 - (c) Plant replacement provision.
 - (d) Declared dividends.
- (viii) In accordance with IAS 1: Presentation of Financial Statements, dividends proposed after the end of the accounting period but not yet paid, should be accounted for as;
- (a) part of shareholders' equity or included as notes to the financial statements.
 - (b) a separate balance sheet item under long term liabilities.
 - (c) an expense before arriving at the net profit for the year.
 - (d) payables in the balance sheet.
- (ix) IAS 7: Cash Flow Statements, requires the cash flow statement (Indirect method) to open with a computation of net cash from operating activities, arrived at by adjusting net profit before taxation. Which of the following lists consists only of items which might appear in such computation?
- (a) Depreciation, increase in receivables, increase in payables, proceeds from the sale of equipment and increase in inventories.
 - (b) Increase in payables, decrease in inventories, profit on the sale of machinery, depreciation and decrease in receivables.
 - (c) Increase in payables, proceeds from the sale of equipment, depreciation, decrease in receivables and increase in inventories.
 - (d) Depreciation, interest paid, proceeds from the sale of equipment and decrease in inventories.
- (x) The responsibility of auditing government-owned parastatals lies with:
- (a) The Accountant General.
 - (b) The Auditor General.
 - (c) Both the Accountant General and Auditor General.
 - (d) Firms of Certified Public Accountants with practicing certificates Issued by the Institute of Certified Public Accountants of Uganda.

- (xi) Which of the following formulae represents the Capital Gearing ratio.
- (a) $\frac{\text{Long-term debt} + \text{preference shares}}{\text{Shareholders equity}}$.
 - (b) $\frac{\text{Shareholders equity}}{\text{Long-term debt} + \text{preference shares}}$.
 - (c) $\frac{\text{Long-term debt} + \text{preference shares}}{\text{Shareholders equity} + \text{long-term debt}}$.
 - (d) $\frac{\text{Shareholders Equity} + \text{long-term debt}}{\text{Long-term debt} + \text{preference shares}}$.
- (xii) Which of the following statements is false about consignment of goods?
- (a) The relationship between a consignor and consignee is that of principal and agent.
 - (b) The consignee of goods is responsible for any loss or destruction of goods in his possession.
 - (c) A consignment of goods is not a sale of the goods.
 - (d) A consignee of goods is entitled to claim any expenses he has incurred from the consignor.
- (xiii) Which of the following statements is false?
- (a) A bill of exchange contains an unconditional order to a certain person to pay a certain sum of money.
 - (b) A bill of exchange payable otherwise than on demand can be made payable to the bearer.
 - (c) No accounting entry is passed in the books of the drawee when a bill receivable is either discounted at the bank or endorsed to some other party.
 - (d) An accommodation bill is drawn and accepted for genuine trade transactions.
- (xiv) A debit balance brought down on a packing materials account represents:
- (a) money payable to third parties for packing materials.
 - (b) money receivable from third parties for packing materials.
 - (c) inventories of packing materials not yet used.
 - (d) a loss made on the purchase of packing materials.
- (xv) Where there is no partnership agreement ,profits and losses must be shared:
- (a) in the same proportion as the capital contributed.
 - (b) equally after adjusting for interest on capital.
 - (c) equally.
 - (d) None of the above.

- (xvi) Which of the following is not the duty of the Monitor of Finance under the Public Finance and Accountability Act?
- (a) Supervise and monitor the public finances.
 - (b) Advise government on the total resources to be allocated and how to be distributed to the public sector.
 - (c) Coordinate the international and intergovernmental financial and fiscal relations.
 - (d) Require the accounting officer of any public organization to supply information in a prescribed manner.
- (xvii) Which of the following constitutes the Accountant General's duty?
- (a) Examine, inquire into and audit the accounts of all accounting officers.
 - (b) Establish and maintain an audit committee for the respective institutions.
 - (c) Ensure that adequate provisions exist for the safe custody of public funds, property and accounting documents.
 - (d) Confirm that expenditure and receipts shown in the accounts have been dealt with in accordance with proper authority and confirms to authority governing it.
- (xviii) Which of the following statements is true of a non-current asset?
- (a) It is expected to be realized in the normal course of the organisation's operation cycle.
 - (b) It is held primarily for trading purposes and expected to be realized within 12 months.
 - (c) It is acquired for continued use within the business.
 - (d) Is a cash or cash equivalent which is not restricted in its use.
- (xix) Under the Public Finance and Accountability Act, the authority to raise money by loan on behalf of government shall vest in the :
- (a) Parliament.
 - (b) Minister of Finance.
 - (c) Local Council Chairperson.
 - (d) Accounting Officer.
- (xx) Which of the following is not a major objective of financial statements?
- (a) Providing information regarding the financial position of the business.
 - (b) Providing information regarding the performance of the business.
 - (c) Enabling users to assess the performance of management to aid decision making.
 - (d) Helping to assess the going concern status of a business.

SECTION B**Question 2**

Mukasa and Musoke entered into a partnership agreement on 1 July 2005, trading as Kampala Fish Vendors. Their business involved buying fish from fishermen at the shores of Lake Victoria, make it into fillet, pack it in packages of 1/2 kg and 1 kg, and deliver to various supermarkets in Kampala on cash terms.

They maintained a business account at Stanbic Bank, Kampala Road Branch, in which they banked all the business moneys after paying off some expenses in cash. The partnership agreement provided for the following:

- Profits and losses to be shared in the ratio 2:1 to Mukasa and Musoke respectively, after allowing for interest on capital.
- Interest on capital at 10%.
- Musoke was to receive a salary of Shs 9,000,000 per annum.

A summary of the bank statements and the cash transactions has been obtained from the partners.

Bank statements:

Receipts	Shs '000
Capital introduced	
Mukasa	88,000
Musoke	50,000
Total cash banked from sales	318,000

Payments	
Purchase of Deep freezers	63,000
Purchase of Delivery Van	25,000
Purchase of furniture and fittings	9,300
Rent of Warehouse	9,300
Wages	30,000
Purchase of packing materials	5,000
Salary for Sales Manager	20,000
Purchase of fish	245,000
Water and electricity expenses	4,000
Repairs	1,500
Insurance	1,300
Motor Vehicle expenses	4,600

Expenses paid for in cash from the daily takings before banking.

	Shs '000	
Motor vehicle expenses	3,200	
Wages	3,700	
Sundry expenses	625	
Drawings- Mukasa	185	per week
Musoke	150	per week

The following information is also available:

- (a) During the year to 30 June 2006, discounts allowed to customers were Shs 3,100,000 while discounts received from suppliers amounted to Shs 1,300,000.
- (b) On 30 June 2006, amounts owing to suppliers and by customers were Shs 45,800,000 and Shs 39,000,000 respectively.
- (c) Bifuna supermarket, which owed the firm Shs 5,000,000, was wound up during the year. The amount was written off because there was no hope of recovering it in future.
- (d) Prepayments made during the year were:
Electricity Shs 600,000
Insurance Shs 150,000
- (e) The inventory on hand as at 30 June 2006 was Shs 30,100,000.
- (f) The warehouse has been occupied since 1 July 2005 at an annual rental of Shs 12,500,000.
- (g) Cash sales for the week ending 30 June 2006 amounting to Shs 2,000,000 had not yet been banked.
- (h) Depreciation is to be charged on straight line basis on cost as follows:
Delivery van 20% p.a
Deep freezers 10% p.a
Furniture and fittings 10% p.a

Required:

Prepare the:

- (a) cash book (6 marks)
 - (b) income statement for the year ended 30 June 2006. (12 marks)
 - (c) partners' capital and current accounts. (4 marks)
 - (d) balance sheet as at 30 June 2006. (8 marks)
- (Total 30marks)**

Assume the year has 52 weeks and show all your workings.

SECTION C**Question 3**

The balance sheets of Kibati Ltd as at 31 December were as follows:

	2004	2005
	Shs '000	Shs '000
ASSETS		
Non-current Assets		
Property, plant & equipment	1,314,000	1,980,000
Investments at cash	<u>180,000</u>	<u>90,000</u>
	1,494,000	2,070,000
Current Assets		
Inventory	144,000	198,000
Receivables	198,000	324,000
Cash at Bank	<u>36,000</u>	<u>54,000</u>
	<u>378,000</u>	<u>576,000</u>
	<u>1,872,000</u>	<u>2,646,000</u>
EQUITY & LIABILITIES		
Called up share capital	540,000	684,000
Share premium	360,000	540,000
Revaluation	180,000	360,000
Retained earnings	<u>360,000</u>	<u>342,000</u>
	1,440,000	1,926,000
Non-current Liabilities		
10% Debentures	180,000	270,000
Current liabilities		
Trade payables	126,000	144,000
Bank overdraft	72,000	234,000
Proposed dividend	<u>54,000</u>	<u>72,000</u>
	<u>252,000</u>	<u>450,000</u>
	<u>1,872,000</u>	<u>2,646,000</u>

Additional information for the year ended 31 December 2005:

- (a) Investments which had cost Shs 90 million, were sold off during the year for Shs 72 million.
- (b) During the year, tangible assets with a net book value of Shs 144 million were sold for Shs 108 million. The Depreciation charge for the year on all property, plant and equipment held at the end of the year was Shs 180 million.
- (c) Shs 90 million of 10% Debentures were issued on 1 January 2005. All interest to 31 December had been paid.
- (d) The company's called up share capital at 31 December 2004 consisted of 540,000 shares of Shs 1000 each. Another 144,000 shares were issued at a price of Shs 2,250 per share.
- (e) No interim dividends were paid during the year.
- (f) Freehold land and buildings were revalued upwards by Shs 180 million during the year.
- (g) The profits before tax for the year were Shs 54 million. However, there is no tax payable since the company has overpaid tax over the years.

Required:

Prepare the company's cash flow statement for the year ended 31 December 2005 complying with IAS 7: Cash Flow Statements.

(20 marks)

Question 4

Kamba and Company Advocates have been in practice for the last ten years. Their books of accounts for year ended 30 November 2006 show the following information:

Balance Sheet

	Shs '000	Shs '000
Assets		
Non-current assets:		
Motor vehicles		1,128,000
Equipment		213,000
Furniture and fittings		<u>72,000</u>
		1,413,000
Current assets:		
Fees in arrears	360,000	
Office bank balance	909,000	
Client's bank balance	<u>2,346,000</u>	
	<u>3,615,000</u>	
Client's account balance	2,346,000	
Accrued rent	102,000	
Accrued salaries	<u>99,000</u>	
	<u>2,547,000</u>	
Net current assets		<u>1,068,000</u>
Total assets less current liabilities		<u>2,481,000</u>
Financed by:		
Capital account		<u>2,481,000</u>

The details of receipts and payments for the year ended 30 November 2006 are given as follows:

	Shs'000		Shs '000
Receipts		Payments	
Fees for services rendered	2,644,000	Salaries and wages	720,000
Disbursements		Telephone and postage	219,000
Transport	45,000	Water and electricity	105,000
Stationery	36,000	Printing and stationery	114,000
Miscellaneous	36,000	Office rent	672,000
Deposit for buying		Transport and travel	168,000
clients' land	1,152,000	Motor vehicle expenses	294,000
Deposit for criminal case		Miscellaneous expenses	156,000
from clients	972,000	Purchases of equipment	447,000
		Office repairs	54,000
		Drawings	450,000
		Deposit on sale of land	
		contract for clients	690,000

Additional information:

- (i) Fees in arrears amounted to Shs 960 million.
- (ii) Depreciation is provided for on reducing balance method at 12½%, 15% and 25% on furniture and fittings, equipment and motor vehicles respectively.
- (iii) Accrued expenses amounted to Shs 15 million, Shs 81 million and Shs 84 million for telephone, rent and salaries respectively.
- (iv) Disbursements for stationery Shs 15 million, transport Shs 9 million and miscellaneous Shs 3 million have been charged to clients' account.
- (v) An interim fee note of Shs 375 million was debited to the clients' account for the criminal cases.

Required:

Prepare:

- (a) Kamba and Company Advocates' income and expenditure statement for the year ended 30 November 2006.

(15 marks)

- (b) the clients' account for the year ended 30 November 2006.

(5 marks)

(Total 20 marks)

Question 5

Kasilina Ltd has an authorized share capital of Shs 100,000,000 divided into 20,000 ordinary shares of Shs 5,000 each.

All the shares were issued at par, payments being made as follows;

	Shs
On application	500
On allotment	1,500
First call	2,000
Second call	1,000

Applications were received for 32,600 shares. It was decided to refund application moneys on 2,600 shares and to allot the shares on the basis of two for every three applied for. The excess application monies sent by the successful applicants is not to be refunded but is to be held and applied to reduce the amount payable on allotment.

The calls were made and paid for in full with the exception of one member holding 100 shares who paid neither the first nor the second call and another member who did not pay the second call on 20 shares. After requisite action by the directors, the shares were forfeited. They were later re-issued to Mr. Mukasa at a price of Shs 4,000 per share.

Required:

Draft the ledger accounts to record the transactions.

(20 marks)

SECTION D**Question 6**

Define and explain the relevance of the following accounting concepts:

- (a) Going concern
- (b) Accruals
- (c) Substance over form
- (d) Historical cost

(10 marks)

Question 7

Give any **five** duties of the Accountant General as per section 7 of the Public Finance and Accountability Act, 2003.

(10 marks)