

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

TUESDAY, 11 DECEMBER 2007

INSTRUCTIONS TO CANDIDATES:

1. Time Allowed: **3 hours**
2. Attempt **all** questions in Sections **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) Which of the following formulae is true about the acid test ratio?
- (a)
$$\frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$$
 - (b)
$$\frac{\text{Current assets} - \text{bad debts}}{\text{Current liabilities}}$$
 - (c)
$$\frac{\text{Assets} - \text{inventories}}{\text{Current liabilities}}$$
 - (d)
$$\frac{\text{Currents assets}}{\text{Current liabilities}}$$
- (ii) Which of the following forms part of the prime cost in manufacturing accounts?
- (a) Depreciation expense.
 - (b) Factory wages.
 - (c) Transport cost of delivering factory machine.
 - (d) Commissions.
- (iii) Which of the following is a non-current asset in a balance sheet?
- (a) Investments in shares.
 - (b) Revalued land.
 - (c) Bank loan.
 - (d) Trade receivables.
- (iv) Goods bought by a company to be sold at a later stage can also be known as:
- (a) sales.
 - (b) purchases.
 - (c) purchases returns.
 - (d) sales returns.

- (v) Which of the following is **NOT** a public sector accounting practice in Uganda?
- (a) Appropriations in Aid retained by an entity do not form part of the gross budget allocation to the entity.
 - (b) Money cannot be drawn from the consolidated fund other than by warrant from the Auditor General.
 - (c) Proposals for supplementary appropriations are based on budget out-turn for the last fiscal year.
 - (d) Only nationally accepted legal tender is accepted by the administrations.
- (vi) In the absence of a partnership deed, the partners can share profits / losses:
- (a) in the proportion of their respective capital contributed.
 - (b) equally after adjustment for partners' loans.
 - (c) equally after adjustment for partners' transactions.
 - (d) in the ratios provided.
- (vii) Which of the following will reduce the capital of a sole proprietor?
- (a) Profit on the disposal of fixed assets.
 - (b) Repayment of a long outstanding bank loan.
 - (c) Goods given to the proprietor's son.
 - (d) Profits from income statement for the year.
- (viii) Which of the following best suits preference shares in a limited company?
- (a) The holders of these shares attend annual general meetings.
 - (b) These shares earn dividends to the holders.
 - (c) These shares earn a fixed rate of dividends.
 - (d) These shares also empower the holders to control the operations of a company.
- (ix) A trial balance will **NOT** balance when one of the following transactions occurs.
- (a) A payment from John B is credited to John K.
 - (b) Purchase of goods for resale is debited to motor vehicles account.
 - (c) A credit sale is completely left out of the books.
 - (d) A purchases return is only posted to the return outwards account.

- (x) Partners' salaries in partnership accounts are reflected or accounted for in the:
- (a) profit and loss account.
 - (b) partnership manufacturing account.
 - (c) income statement as an expense.
 - (d) appropriation account.
- (xi) In the Jab club accounts for the year ended 30 September 2006, it is given that subscriptions in arrears as at 1 October 2005 were Shs 7,200,000 and Shs 4,100,000 as at 30 September 2006. It is also given that subscriptions received during the period to 30 September 2006 were Shs 10,500,000. You are **required** to determine which of the following will be the subscriptions to be taken to the income and expenditure statement for the period ended 30 September 2006.
- (a) Shs 7,400,000.
 - (b) Shs 13,600,000.
 - (c) Shs 11,300,000.
 - (d) Shs 6,900,000.
- (xii) Which of the following is **FALSE** about the public sector?
- (a) Since they are basically non-profit oriented they need not balance their revenues and expenditure.
 - (b) The audit of public sector entities is one of the auditor generals' main duties.
 - (c) The performance measure is mainly by use of effectiveness, efficiency and economic criteria.
 - (d) Every administrative unit keeps proper books of accounts and other records.
- (xiii) The recognition of all revenues earned and expenses incurred to earn the revenues in the same accounting period is provided for in the ... concept.
- (a) produce.
 - (b) consistency.
 - (c) accruals.
 - (d) going concern.
- (xiv) A company which decides to retain a portion of its profits for purposes of future capital investments is generally creating a reserve.
- (a) revenue
 - (b) capital
 - (c) general
 - (d) capital redemption

- (xv) Goodwill usually arises when a:
- (a) partner dies.
 - (b) business is located in a better and central place.
 - (c) business winds up.
 - (d) business is sold as a going concern.
- (xvi) Which of the following is true about ratios?
- (a) They are calculated from cash flow statements
 - (b) They are not realistic because they are based on historical data.
 - (c) They form part of financial statements.
 - (d) They give a true picture of the business' worth.
- (xvii) Which of the following is **FALSE**?
- (a) Corporation tax is an expense in partnership accounts.
 - (b) A loss in a limited company is reflected in the accounts as a reduction from retained earnings.
 - (c) A trial balance is a list of balances as at a given date.
 - (d) Corporation tax is charged on business profits only.
- (xviii) In consignment accounts, abnormal loss is credited to the:
- (a) consignment account.
 - (b) goods sent on consignment account.
 - (c) abnormal loss account.
 - (d) consignee account in the books of consignor.
- (xix) In partnership accounts, one of the purposes of the partners' current accounts is to:
- (a) record salaries to be paid to the partners.
 - (b) have an account equivalent to share capital account.
 - (c) record proportionate share of revaluation surplus on non-current assets.
 - (d) record depreciation expenses on non-current assets.
- (xx) Which of the following will be treated as an investing activity when preparing a cash flow statement under **IAS 17**: Cash Flow Statements?
- (a) Installation fees of plant and machinery in a factory.
 - (b) Cost of replacing a broken part of factory machinery.
 - (c) The issue of shares to finance future non-current assets.
 - (d) Payment of dividends declared by the directors.

SECTION B**Question 2**

Mima, Nina and Dida were in partnership sharing profits in the ratio of 4:3:2. Their balance sheet at 31 March 2005 was as follows:

	Shs '000	Shs '000
Non-current Assets:		
Freehold property	12,000	
Plant & machinery	<u>4,940</u>	16,940
Current Assets:		
Inventory	7,432	
Trade receivables	5,220	
Prepaid expenses	100	
Cash at bank	<u>3,708</u>	<u>16,460</u>
		<u>33,400</u>
Capital Accounts:		
Mima	12,000	
Nina	9,000	
Dida	<u>6,000</u>	27,000
Current Accounts:		
Mima	1,000	
Nina	500	
Dida	<u>750</u>	2,250
Current Liabilities:		
Trade payables	3,950	
Accrued expenses	<u>200</u>	<u>4,150</u>
		<u>33,400</u>

Mima retired on 1 April 2005 and for the purpose of her retirement goodwill was valued at Shs 7,200,000. The continuing partners who share profits in the proportion of 3:2 do not wish to open a goodwill account in the books.

Mima drew her balance on her current account on 1 April 2005 and it was agreed to pay the balance on her capital account over a period of four years, payable in yearly installments with interest at 12% per annum.

On 5 April 2005 Nina and Dida agreed to admit Nina's daughter, Pim, as partner. Nina was to surrender one-third of her share of profits to Pim and transfer one-third of her capital to the daughter, Pim.

The following were the bank transactions during the year ended 31 March 2006:

	Shs '000'
Cash from trade receivables	45,000
Payments for credit purchases	31,000
Expenses	4,500
Pim's salary	1,200
Purchase of motor bike	1,800
Drawings:	
Nina	2,000
Dida	1,650
Pim	450
Sale of machine (cost Shs 700,000, book value Shs 300,000)	500

On 31 March 2006, bank balance was Shs 5,608,000, trade receivables were Shs 6,000,000, trade payables amounted to Shs 4,800,000; accrued expenses Shs 400,000; and pre-paid expenses Shs 82,000. Inventory was Shs 6,850,000.

Depreciation is to be written off the book values of assets on the following basis:

Free hold property	2½%
Plant & machinery	10%
Motor bike	25%

The second installment due to Mima was paid on 1 April 2006.

Required:

Prepare the following:

- (a) Income statement for the period ended 31 March 2006 and balance sheet as at that date. **(20 marks)**
- (b) (i) capital accounts. **(4 marks)**
(ii) current accounts. **(5 marks)**
(iii) Mima's loan account. **(1 mark)**
- (Total 30 marks)**

SECTION C**Question 3**

Jupiter Co Ltd. issued 50,000 ordinary shares of Shs 10,000 each payable as follows:

Shs 1,500 on application.

Shs 2,000 on allotment.

Shs 3,000 on first call and

Shs 3,500 on second and final call.

Applications received were for 93,000 shares and allotment was made as follows: 10,000 applicants were fully allotted; 80,000 applicants were allotted 40,000 shares; 3,000 applicants were not allotted any share. All calls were made on their respective due dates and moneys duly received.

Required:

Prepare:

- (a) (b) a cash book to record the above transactions. **(15 marks)**
 - (c) (d) the ordinary share capital account. **(5 marks)**
- (Total 20 marks)**

Question 4

Zigidi Productions Ltd. of Kampala sent 500 copies of music CDs to Serengeti Traders in Mbale on consignment basis. The consignee is entitled to 5% commission plus expenses. The cost to Zigidi productions Ltd is Shs 600 per copy. Serengeti traders paid the following expenses:

Transport	Shs 5,000
Rent and insurance	Shs 7,500
Labour	Shs 3,500

Zigidi Productions Ltd. drew on the consignees a draft for Shs 150,000 which they duly accepted. The draft was discounted for Shs 143,250. Serengeti traders later reported that the entire consignment was sold for Shs 390,000. By the reporting date, 20% of the sales had not yet been received by Serengeti Traders.

Required:

- (a) Prepare journal entries to record the above transactions (ignore dates). **(16 marks)**
 - (b) Prepare a balance sheet extract at the end of transactions. **(4 marks)**
- (Total 20 marks)**

Question 5

Katanga City Council had a very difficult period during the previous financial year. During the year to 30 June 2006, the only transfer from the consolidated fund was Shs 3,500,000,000; collections from trade licenses were Shs 640,000,000 and donations from the World Bank were Shs 700,000,000. In that same period the council incurred expenses shown in the scheduled below:

Date	Code	Details	Amount (Shs '000)
24 July 2005	005	Pick-up double cabin	21,000
04 Sept. 2005	003	Salaries for two months	410,000
15 Oct. 2005	006	Medical equipment	250,000
28 Oct. 2005	007	Medical drugs	100,000
14 Nov. 2005	009	Zziwa Construction Co.	650,000
20 Dec. 2005	001	Office expenses	150,000
04 Jan. 2006	002	Consultancy and audit fees	550,000
15 April 2006	004	Motor vehicle maintenance	340,000
18 April 2006	008	Fuel expenses	720,000
20 May 2006	010	Computer accounting system	880,000
25 June 2006	003	Salaries for nine months	1,500,000

An analysis of the accounting records at the council hall offices revealed the following:

- (a) The medical equipment figure reported above was understated by Shs 230 million, while the actual figures for the following expenses were as follows:

	Amount (Shs '000)
Pick-up double cabin	25,000
Medical drugs	95,000
Consultancy and audit fees	710,000
Fuel expenses	700,000

- (b) Zziwa Construction Co. was paid an additional Shs 175,000,000 on 16 June 2005
- (c) Tender fees for the financial year amounted to Shs 155,000,000.

Required:

Prepare the following:

- (a) Cash book. **(15 marks)**
- (b) Revenue account. **(5 marks)**
- (Total 20 marks)**

SECTION D

Question 6

Briefly explain the terms “public and private company” and clearly distinguish between the two.

(10 marks)

Question 7

Briefly explain the term “receipts and payments account”. In what ways does it differ from income and expenditure account?

(10 marks)