

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 19 JUNE 2007

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

- (i) Which of the following statements is **FALSE**?
- (a) Reserves are appropriations of profits.
 - (b) Provisions are appropriations of profits made after the profits have been calculated.
 - (c) Provisions are charges against the profits and assist in the calculation of correct profits.
 - (d) Provisions include provision for bad debts, provision for discounts, etc.
- (ii) Which of the following is true about bank reconciliation?
- (a) When you start with the bank statement balance you add unpresented cheques and deduct uncredited cheques.
 - (b) When you start with the cash book balance you add uncredited cheques and deduct unpresented cheques.
 - (c) When you start with the cash book balance, you add unpresented cheques and add uncredited cheques.
 - (d) When you start with an overdraft cash book balance you add unpresented cheques and deduct uncredited cheques.
- (iii) Which of the following errors would be disclosed by the trial balance?
- (a) Carriage outwards debited to sales account.
 - (b) Overcast of sales account total.
 - (c) Error on a purchases invoice.
 - (d) Purchase from Mwanga entered in Muwanga's account.
- (iv) Which of the following statements is **FALSE**?
- (a) An increase in an asset is debited and a decrease in an asset is credited.
 - (b) An increase in a liability is credited while a decrease in a liability is debited.
 - (c) An increase in capital is debited while a decrease in capital is credited.
 - (d) An increase in capital is credited while a decrease in capital is debited.
- (v) Revenue is said to be earned when:
- (i) goods or services are posted to the customer.
 - (ii) the order is received.
 - (iii) the customer pays for the goods or services.
 - (iv) the customer incurs liability for the goods or services.

- (a) (i) and (ii)
 - (b) (i) and (iii)
 - (c) (i) and (iv)
 - (d) (i), (iii) and (iv)
- (vi) A sole trader sold his house, but has not recorded anything about it in the business records. Which accounting concept is used in the accounting treatment of the above transaction?
- (a) Materiality.
 - (b) Business entity.
 - (c) Realisation.
 - (d) Money measurement.
- (vii) A debt has been written off as bad even though there is still a chance that the debtor may eventually be able to pay. What accounting concept is applied to the above statement?
- (a) Prudence.
 - (b) Materiality.
 - (c) Going concern.
 - (d) Subjectivity.
- (viii) Which of the following is true about accounts?
- (a) Personal accounts record credit customers and expenses.
 - (b) Real accounts record expenses.
 - (c) Nominal accounts record property and expenses.
 - (d) Nominal accounts record expenses, income and capital.
- (ix) Which of the following information will **NOT** be found in the sales ledger control account?
- (a) Opening trade receivables.
 - (b) Returns inwards.
 - (c) Returns outwards.
 - (d) Cash received.
- (x) The double entry for bad debts recovered is:
- (a) Debit trade receivables account and credit bad debts recovered account.
 - (b) Credit trade receivables account and debit bad debts recovered account.
 - (c) Debit trade receivables account and credit cash account.
 - (d) Credit trade receivables account and credit cash account.

- (xi) Mukwasi paid our firm by cheque, Shs 10 million on 20 May 2007. This amount was correctly entered in the cash book but was entered by mistake in the account of Makwasi. This is an error of:
- (a) principle.
 - (b) commission.
 - (c) original entry.
 - (d) omission.
- (xii) A purchase of a motor van at Shs 10 million has been entered in the motor expenses account. This error is corrected by:
- (a) debiting motor van Shs10 million and crediting motor expenses Shs 10 million.
 - (b) debiting motor expenses Shs 10 million and crediting motor van Shs 10 million.
 - (c) debiting motor van Shs 20 million and crediting motor expenses Shs 20 million.
 - (d) credit motor van Shs 10 million and crediting motor expenses Shs 10 million.
- (xiii) Which of the following is **NOT** a capital expenditure?
- (a) Wages of workers for construction of an extension to a firm's factory.
 - (b) Cost of rebuilding a wall of a factory.
 - (c) Purchase of record player for use in the Club.
 - (d) Purchase of a line selection spirit duplicator.
- (xiv) Musoke took goods worth Shs 200,000 from the shop for personal use. What is the correct accounting treatment for this transaction?
- (a) Debit purchases account, credit drawings account.
 - (b) Debit drawings account, credit purchases account.
 - (c) Debit sales account, credit inventory account.
 - (d) Debit drawings account, credit inventory account.
- (xv) In the income statement, returns outwards should be:
- (a) added to cost of goods sold.
 - (b) deducted from sales.
 - (c) deducted from purchases.
 - (d) added to sales.

- (xvi) Mulemesa bought a machine for Shs 20 million expected to be used for 5 years and thereafter be sold for Shs 4 million. What is the depreciation charge in the 3rd year using reducing balance method at 20% per annum on cost?
- (a) Shs 2.56 million.
 - (b) Shs 1.64 million
 - (c) Shs 3.2 million.
 - (d) Shs 2.048 million.
- (xvii) Insurance account was overstated by Shs 8 million for the year ended 31 March 2007. This error was discovered when the financial statements were being prepared. It will be corrected by:
- (a) Debiting suspense Shs 8 million, crediting insurance Shs 8 million.
 - (b) Debiting insurance Shs 8 million, crediting suspense Shs 8 million.
 - (c) Crediting income statement with Shs 8 million.
 - (d) Crediting suspense account with Shs 8 million.
- (xviii) Which of the following do **NOT** affect agreement of the trial balance?
- (i) Sales of Shs 35 million to Sawuli entered on his account as Shs 30 million.
 - (ii) Electricity account overstated by Shs 10 million.
 - (iii) Purchase of Shs 85 million from Mugwanya completely omitted from the books.
 - (iv) Error on sales invoices of Shs 28 million being entered in the books.
- (a) (i) and (ii).
 - (b) (i) and (iii).
 - (c) (iii) and (iv).
 - (d) (ii) and (iv).
- (xix) Avua had an imprest float of Shs 1,000,000. If Shs 600,000 was spent in the period, how much would be reimbursed at the end of the period?
- (a) Shs 400,000.
 - (b) Shs 600,000.
 - (c) Shs 800,000.
 - (d) Shs 1,000,000.
- (xx) Credit notes are entered in the:
- (a) returns outwards book.
 - (b) returns outwards account.
 - (c) purchases account.
 - (d) returns inwards book.

SECTION B**Question 2**

- (a) Masumbukano bought goods from various suppliers on credit. Mention **eight** ways in which he can pay these suppliers.

(4 marks)

- (b) On 1 May 2007, Masumbukano's cash book had the following balances:

Cash Shs 2,514,000

Bank Shs 22,110,000

The transactions for the month were as follows:

- 03 May Received a cheque from Malo Shs 1,776,000.
- 07 May Paid wages in cash Shs 612,000.
- 08 May Paid Musani by cheque Shs 1,266,000 in full settlement of his account of Shs 1,344,000.
- 10 May Received Shs 876,000 cash for sale of damaged inventory.
Paid Owino Shs 6,138,000 by cheque in full settlement of his account of the Shs 6,306,000.
- 12 May Paid Mukasa, the shopkeeper Shs 624,000 as wages in cash.
- 15 May Received a cheque of Shs 3,000,000 from KAGS Ltd.
- 18 May Paid Shs 126,000 cash to purchase postage stamps.
- 19 May Paid wages of Shs 612,000 in cash.
- 21 May Withdrew Shs 1,200,000 from bank for office use.
- 24 May Paid Mundu Shs 2,574,000 by cheque.
- 25 May Paid wages of Shs 630,000 in cash.
- 26 May Received Shs 1,902,000 from Tina in full settlement of her account of the Shs 1,950,000, and paid it into bank on the same day.
- 31 May Paid Shs 1,560,000 into bank.

Required:

- (i) Prepare Masumbukano's cash book as at 31 May 2007.

(14 marks)

- (ii) Explain how the discounts will be treated in the financial statements.

(2 marks)**(Total 20 marks)**

Question 3

Wezabusa is a retail trader in Kiyembe. His trial balance for the year ended 31 May 2007 was as given below:

	Dr. Shs '000'	Cr Shs '000'
Capital 1 June 2006		51,200
Land and buildings	40,000	
Motor vehicles (cost Shs 9,600,000)	4,800	
Drawings	11,200	
Inventory	7,280	
Bank overdraft		768
Sales		114,080
Purchases	88,800	
Motor expenses	2,480	
Sundry expenses	848	
Wages	12,480	
Trade receivables	6,560	
Trade payables		9,680
Insurance and rates	1,280	
	<u>175,728</u>	<u>175,728</u>

The following additional information is provided:

- (i) Inventory at 31 May 2007 was Shs 14,560,000.
- (ii) A provision for bad debts of 5% on trade receivables at 31 May 2007 is to be created.
- (iii) Rates prepaid at 31 May 2007 amounted to Shs 96,000.
- (iv) Depreciation is to be provided on motor vehicles at 20% on cost.
- (v) Motor expenses bill for May 2007 Shs 208,000 was owing at 31 May 2007.
- (vi) Sundry expenses included Shs 120,000 for private telephone bill of Wezabusa.
- (vii) A cheque for Shs 2,000,000 was paid to a creditor on 31 May 2007 but had not been entered in the books at the time of extracting the trial balance.

Required:

Prepare the income statement and balance sheet for Wezabusa for the year ended 31 May 2007.

(20 marks)

Question 4

- (a) Distinguish between an Income and Expenditure Account and Receipts and Payments Account.

(4 marks)

- (b) Mugulusi Recreational Club records at the beginning of the period showed cash Shs 840,000, equipment Shs 1,480,000 and subscriptions outstanding for the previous year Shs 32,000.

Additional information for the year ended 31 December 2006:

	Shs
Receipts:	
Subscriptions (including those outstanding at 1 January 2006)	784,000
Darts	288,000
Bank interest	20,000
Payments:	
Rent and rates	640,000
New darts	28,000
Light and heat	168,000
Repairs to pool table	36,000
Sundry expenses	48,000

Others:

- (i) Subscriptions of Shs 24,000 were outstanding for the year ended 31 December 2006.
- (ii) Equipment to be depreciated by Shs 108,000.
- (iii) Shs 56,000 was outstanding for light and heat.
- (iv) Shs 40,000 rent was paid in advance.

Required:

Prepare the:

- (i) Receipts and Payments Account.
- (ii) Income and Expenditure account for the Club for the year ended 31 December 2006.
- (iii) Balance sheet of the Club as at 31 December 2006.

(16 marks)**(Total 20 marks)**

Question 5

Kaggwa and Kamese were partners sharing profits and losses in the ratio of 2:1 respectively.

The following trial balance was extracted from their records as at 31 March 2007:

	Dr Shs '000'	Cr Shs '000'
Capital: Kaggwa		87,563
Kamese		61,537
Drawings: Kaggwa	16,940	
Kamese	12,530	
Purchases	313,040	
Sales		403,830
Repairs to buildings	5,341	
Opening inventory	43,008	
General expenses	10,458	
Motor vehicle	6,300	
Motor vehicle expenses	2,079	
Trade receivables	36,246	
Trade payables		27,909
Freehold land and building	59,500	
Furniture and fittings	9,660	
Wages and salaries	58,912	
Discounts allowed	7,266	
Discounts received		5,607
Rates and insurance	1,652	
Bad debts	2,429	
Provision for bad debts		896
Balance at bank	1,981	-
	<u>587,342</u>	<u>587,342</u>

Additional information:

- (i) Closing inventory at 31 March 2007 amounted to Shs 59,157,000.
- (ii) Wages and salaries outstanding at 31 March 2007 Shs 1,743,000.
- (iii) Provision for bad debts to be increased to Shs 1,148,000.
- (iv) The item repairs to building, Shs 5,341,000, includes Shs 3,360,000 in respect of alterations and improvements to the building.
- (v) Rates and insurance paid in advance amounted to Shs 392,000.
- (vi) Kaggwa withdrew goods valued at Shs 1,330,000 (selling price) for own use. Kamese paid motor vehicle expenses for the firm out of his own

pocket amounting to Shs 553,000. No entries had been made in the books for these two transactions.

Required:

Prepare the income statement and balance sheet for the partnership for the year ended 31 March 2007.

(20 marks)

SECTION C

Question 6

State whether the items below:

- (a) are capital or revenue expenditure.
- (b) appear in income statement and / or balance sheet.
 - (i) Wages of Shs 23,300,000 paid to employees in a warehouse.
 - (ii) Wages paid to workers involved in redesigning the warehouse Shs 1,400,000.
 - (iii) Structural materials purchased for the redesigning programme Shs 3,000,000.
 - (iv) Forklift trucks bought for Shs 3,400,000.
 - (v) Purchase of goods for resale after warehouse capacity had increased Shs 14,000,000.

(Total 10 marks)

Question 7

Write short notes on each of the following:

- (i) Three classes of ledger accounts.
- (ii) Double entry.
- (iii) Profit.

(Total 10 marks)