

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

TUESDAY, 19 JUNE 2007

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) The responsibility of auditing the books of Government aided secondary schools under the Local Governments Financial and Accounting Regulations, 1998 lies with:
- (a) the Auditor General.
 - (b) the Chief Internal Auditor of the District.
 - (c) any Certified Public Accountant approved by the District Council.
 - (d) any Certified Public Accountant approved by the Board of Governors.
- (ii) Which of the following statements are correct?
- (i) A company might make a rights issue if it wishes to raise more equity capital.
 - (ii) A rights issue might increase the share premium account whereas a bonus issue is likely to reduce it.
 - (iii) A bonus issue will reduce the gearing (leverage) ratio of a company.
 - (iv) A rights issue will always increase the number of shareholders in a company whereas a bonus issue will not.
- (a) (i) and (ii).
 - (b) (i) and (iii).
 - (c) (ii) and (iii).
 - (d) (ii) and (iv).
- (iii) Which of the following statements are correct about financial statements of limited liability companies?
- (i) In preparing cash flow statements, either the direct or indirect method may be used and both lead to the same figure of net cash from operating activities.
 - (ii) Loan notes can be classified as current or non current liabilities.
 - (iii) Financial statements must disclose a company's total expense for staff costs and for depreciation if material.
 - (iv) A company must disclose, by note, details of all adjusting events allowed for in the financial statements.
- (a) (i), (ii), and (iii).
 - (b) (ii) and (iv).
 - (c) (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).

- (iv) Any amounts due from government on loans or guarantees are to be charged to:
- (a) The Treasury.
 - (b) The Consolidated Fund.
 - (c) The Exchequer.
 - (d) Appropriations in Aid.
- (v) In consignment accounts, *del credere* commission is allowed to the consignee to bear:
- (a) normal loss.
 - (b) abnormal loss.
 - (c) sales in excess of a specific amount.
 - (d) loss on account of bad debts.
- (vi) Interest on drawings in partnership accounts constitutes:
- (a) an increase in the partners' capital.
 - (b) a business expense.
 - (c) a business income.
 - (d) an increase in the partners' current accounts.
- (vii) ATC Co. Ltd issued 50,000 ordinary shares of Shs 1,000 each at a premium of Shs 2,000 per share. The cash received was correctly recorded but the full amount was credited to the ordinary share capital account. Which of the following journal entries is needed to correct this error?

	Shs '000	Shs '000
(a) Dr Share Premium Cr Share Capital	100,000	100,000
(b) Dr Share Capital Cr Share Premium	100,000	100,000
(c) Dr Share Capital Cr Share Premium	150,000,	150,000,
(d) Dr Share Capital Cr Cash Account	100,000	100,000

- (viii) Which of the following statements is **FALSE** about a Statutory Instrument made under the Public Finance and Accountability Act, 2003?
- (a) It shall be laid before Parliament as soon as possible before its publication in the Gazette.
 - (b) It is subject to annulment by Parliament by resolution after 21 days after its being laid before Parliament.
 - (c) It will cease to have effect after it is annulled by Parliament and no further instrument can be made.
 - (d) It will cease to have effect after it is annulled by Parliament but without prejudice to its previous operation.
- (ix) The double entry necessary to record interest earned on partners' capital accounts balances is:
- (a) Dr Partners' current accounts.
Cr profit and loss appropriation account.
 - (b) Dr profit and loss appropriation account.
Cr cash.
 - (c) Dr profit and loss appropriation account.
Cr Partners' capital accounts.
 - (d) Dr profit and loss account.
Cr Partners' capital accounts.
- (x) If the owner of a business takes goods from inventory for his personal use, the accounting concept to be considered when accounting for the transaction is the:
- (a) prudence concept.
 - (b) separate entity concept.
 - (c) money measurement concept.
 - (d) capitalisation concept.
- (xi) In manufacturing accounts, the amount realized from the sale of scrap and other by-products is included in:
- (a) sales account.
 - (b) purchases account.
 - (c) manufacturing account.
 - (d) expenses account.

- (xii) Which of the following costs does **NOT** form part of the prime costs of a manufacturing concern?
- (a) Depreciation of plant and machinery.
 - (b) Amounts paid for raw materials.
 - (c) Salaries for factory workers.
 - (d) Cost of spare parts to replace worn out parts.
- (xiii) When an advocate receives money from a client but **NOT** in respect of payments against services rendered, the appropriate accounting entries are:
- (a) Dr Client's personal account.
Cr Cash book (Clients' column).
 - (b) Dr Client's personal account.
Cr Cash book (Office column).
 - (c) Dr Cash book (Clients' column).
Cr Client's personal account.
 - (d) Dr Cash book (Office column).
Cr Client's personal account.
- (xiv) Which of the following statements is **FALSE** about a bill of exchange?
- (a) It can be negotiated to another person in settlement of a debt.
 - (b) It can be discounted to a commercial bank.
 - (c) There is usually a condition that must be fulfilled before any payment is made.
 - (d) A cheque is a special type of bill of exchange.
- (xv) Which of the following is **NOT** an investing activity in a cash flow statement?
- (a) Cash proceeds from issuing debentures.
 - (b) Cash receipts from the repayment of loans made to third parties.
 - (c) Cash receipts from the sale of property.
 - (d) Cash payments to acquire property.
- (xvi) Which of the following ratios is applied to calculate the Dividend yield?
- (a) $\frac{\text{Earnings per share}}{\text{Dividends per share}}$
 - (b) $\frac{\text{Profits after Tax}}{\text{Number of equity shares}}$
 - (c) $\frac{\text{Current Market Value per share} \times 100\%}{\text{Dividend per share}}$
 - (d) $\frac{\text{Dividend per share}}{\text{Current Market Value per share} \times 100\%}$

- (xvii) The acid test ratio can be ascertained by dividing:
- (a) current assets by liquid assets.
 - (b) current liquid assets by current liabilities.
 - (c) current assets by current liabilities.
 - (d) net assets by current liabilities.
- (xviii) Which of the following appear in a company's statement of changes in equity?
- (i) Profit on disposal of property.
 - (ii) Surplus on revaluation of property.
 - (iii) Equity dividends proposed after balance sheet date.
 - (iv) Issue of share capital.
- (a) (ii) and (iv).
 - (b) (i) and (iv).
 - (c) (iii) and (ii).
 - (d) (i), (ii), (iii) and (iv).
- (xix) Which of the following concepts tends to understate the value of assets and overstate profits during times of inflation?
- (a) Prudence.
 - (b) Realisation.
 - (c) Materiality.
 - (d) Historical cost.
- (xx) During a year, a business sold inventory which had cost Shs 30 million. The inventory held at the beginning of the year was Shs 3 million and at the end of the year Shs 5 million. What was the annual inventory turnover?
- (a) 7.5 times.
 - (b) 5 times.
 - (c) 3 times.
 - (d) 10 times.

SECTION B**Question 2**

Mr. Bakayana, trading as Bakayana Furniture Dealers, commenced business on 1 January 2006. His business involves making high class pure mahogany furniture for the market in Kampala.

The following balances were extracted from his records on 31 December 2006.

	Shs '000'
Plant and Machinery (cost 1 January 2006)	150,000
Motor vehicles (cost 1 January 2006)	75,000
Loose tools (cost at various dates during the year)	22,500
Sales	425,000
Raw materials	107,500
Direct factory wages	97,500
Electricity bills	12,500
Indirect factory wages	20,000
Machinery repairs	4,000
Motors vehicle expenses	30,000
Rent and insurance	29,000
Administrative staff salaries	77,500
Administrative general expenses	22,500
Sales and distribution staff salaries	32,500
Capital	305,000
Receivables	41,250
Payables	28,000
Cash at Bank	20,000
Cash in hand	1,250
Drawings	15,000

Additional information:

- (i) The estimated useful life for plant and machinery is 10 years with nil residual value, while that for motor vehicles is 4 years with nil residual value. Depreciation is provided for using the straight line method.
- (ii) Electricity charges outstanding at 31 December 2006 amounted to Shs 2,500,000 and insurance prepaid on the same date totaled Shs 2,000,000.
- (iii) Inventories at 31 December 2006:

Raw materials	Shs 17,500,000
Finished goods	Shs 25,000,000
- (iv) The valuation of W.I.P (work in progress) at 31 December 2006 was fixed at Shs 30,750,000.

- (v) $\frac{2}{3}$ of the electricity, and rent and insurance costs are to be allocated to factory costs and $\frac{1}{3}$ to administration expenses.
- (vi) Motor vehicle expenses are to be allocated equally to factory costs and administration expenses.
- (vii) Goods manufactured during the year are to be transferred to the income statement at Shs 237,500,000.
- (viii) The policy of the business is not to depreciate loose tools but to write them off in the year of purchase.

Required:

Prepare the following:

- (a) Manufacturing account for the year ended 31 December 2006. (11 marks)
 - (b) Income statement for the year ended 31 December 2006 (9 marks)
 - (c) Balance sheet as at 31 December 2006. (10 marks)
- (Total 30 marks)**

SECTION C**Question 3**

Visions Uganda Ltd. sold goods valued at Shs 100,000,000 to Cheyo Ltd. on 1 August 2006 and drew upon them a three months bill of exchange for that amount. Cheyo Ltd. accepted the bill. On 31 October 2006 Cheyo Ltd. expressed their inability to meet the bill and offered to pay Visions Uganda Ltd. Shs 20,000,000 in cash and to accept a fresh bill for the balance plus interest at 10% per annum for three months. Visions Uganda Ltd. agreed to the proposal and the bill was renewed. This amount was paid by Cheyo Ltd. on 31 January 2007.

Required:

Show the relevant entries in the ledgers of:

- (a) Visions Uganda Ltd. (10 marks)
 - (b) Cheyo Ltd. (10 marks)
- (Total 20 marks)**

Question 4

The summarized financial records of Mabira Trading Ltd. for the years 2005 and 2006 are given below;

Income Statements for the year ended 31 December:

	2005	2006
	Shs '000'	Shs '000'
Sales	400,000	560,000
Less cost of sales	<u>(300,000)</u>	<u>(420,000)</u>
Gross profit	100,000	140,000
Less		
Administration expenses	(76,000)	(92,000)
Debentures interest	<u>-</u>	<u>(8,000)</u>
Net profit	<u>24,000</u>	<u>40,000</u>

Balance Sheets as at 31 December:

	2005	2006
	Shs '000'	Shs '000'
Non-current assets (cost less depreciation)	220,000	280,000
Inventories	40,000	60,000
Receivables	50,000	56,000
Cash at Bank	<u>-</u>	<u>10,000</u>
Total assets	<u>310,000</u>	<u>406,000</u>
Capital	200,000	200,000
Retained earnings	60,000	82,000
8% Debentures	-	100,000
Payables	30,000	24,000
Bank overdraft	<u>20,000</u>	<u>-</u>
	<u>310,000</u>	<u>406,000</u>

Inventory at 1 January 2005 was Shs 100,000,000.

Required:

(a) Calculate the following for 2005 and 2006:

- (i) Inventory turnover.
- (ii) Gross profit percentage.
- (iii) Net profit percentage.
- (iv) Quick/acid test ratio.
- (v) Return on capital employed.
- (vi) Current ratio.

(15 marks)

- (b) Explain briefly the limitations of using ratios as a basis for analyzing business performance.

(5 marks)

(Total 20 marks)

Question 5

On 1 October 2006, Roofing Ltd., based in Kampala, sent on consignment 10,000 corrugated iron sheets to Mawa Ltd., a Company based in Arua. Each iron sheet was valued at Shs 25,000 and this was at a mark-up of 25%. Roofing Ltd. paid the following amounts:

Transport charges	Shs 30,000,000
Insurance	Shs 8,000,000

During transit, one of the trucks was involved in an accident and 1,000 of the iron sheets were totally destroyed. National Insurance Corporation paid a total of Shs 12,000,000 in compensation for this loss.

The rest of the consignment arrived in Arua on 7 October 2006 and Mawa Ltd. paid Shs 3,600,000 for offloading and carriage to the store. The store was rented at Shs 2,000,000 per month from 1 October 2006.

During the three months up to December 2006, Mawa Ltd. paid the following amounts:

Selling expenses	Shs 15,000,000
Staff salaries	Shs 10,000,000

On the night of 1 December 2006, there was a fire on part of the store and 1,000 iron sheets were damaged. Unfortunately the store had not been insured against fire, so the insurance company did not compensate the company.

By 31 December, Mawa Ltd. had sold 5,000 iron sheets at Shs 150,000,000 and charged a commission of 5% on sales. On the same date, Mawa Ltd. sent a bank draft to Roofing Ltd. for the amount so far due from them.

Required:

Prepare:

- (a) Consignment to Mawa Ltd. account in the books of Roofing Ltd. **(8 marks)**
- (b) Goods destroyed account in the books of Roofing Ltd. **(3 marks)**
- (c) Roofing Ltd's account in the books of Mawa Ltd. **(3 marks)**
- (d) Reconciliation of consignment closing inventory. **(6 marks)**

(Total 20 marks)

SECTION D**Question 6**

- (a) In relation to central government accounts, what is a Vote Book and what is its purpose?

(4 marks)

- (b) During the month of December 2006, the Ministry of Education had allocated Shs 2 billion towards the construction and refurbishment of universal secondary education schools.

The following transactions took place during the month:

1. 1 Dec. Ordered for desks and chairs from Wampewo Furniture Ltd. for Shs 400,000,000 (L.P.O. 10224).
2. 3 Dec. Paid Mugendo Ltd. Shs 25,000,000 for transporting the desks and chairs to the various schools (Payment Voucher No. 250)
3. 10 Dec. Paid Wampewo Furniture Ltd. Shs 100,000,000 as part payment for the desks and chairs earlier ordered and delivered (Payment Voucher 251).
4. 10 Dec. Ordered for windows and doors for the incomplete structures from Ndeeba Furniture Ltd. (L.P.O 10225) for Shs 120,000,000.
5. 12 Dec. Paid a further installment of Shs 100,000,000 to Wampewo Furniture Ltd. (Payment Voucher 252)
6. 20 Dec. Paid Ndeeba Furniture Ltd. Shs 120,000,000 in settlement for the doors and windows earlier ordered (Payment Voucher 253).

Required:

Complete a Vote book page in the recommended format.

(6 marks)**(Total 10 marks)****Question 7**

- (a) Under what circumstances may a partnership be dissolved?

(5 marks)

- (b) What is the rule in *Garner Vs Murray* in dissolution of partnerships?

(3 marks)

- (c) What entries are passed if goodwill is not to be recorded in the books upon admission of a new partner?

(2 marks)**(Total 10 marks)**