

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 11 DECEMBER 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

Question 1

- (i) Which of the following statements is **FALSE**?
 - (a) Liabilities are the total money owned for the assets supplied to the business.
 - (b) A debtor is a person who owes money to the business for goods or services supplied.
 - (c) A creditor is a person to whom money is owed for goods or services.
 - (d) Capital is the total of resources supplied to a business by its owner.
- (ii) Which of the following items are liabilities?
 - (i) Office machinery.
 - (ii) Loan from a friend.
 - (iii) Money owed for goods.
 - (iv) Bank overdraft.
 - (a) (i), (ii) and (iii).
 - (b) (ii), (iii) and (iv).
 - (c) (i), (iii), and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (iii) Which of the following statements is **FALSE**?
 - (a) A debit entry is usually an asset or an expense.
 - (b) A credit entry is a liability, capital or income.
 - (c) To increase liabilities, debit a liability account.
 - (d) To increase capital, credit the capital account.
- (iv) The following statements reflect actions taken in respect of goods initially sold on credit and finally settled by cash **EXCEPT**:
 - (a) debiting customer's account.
 - (b) crediting sales account.
 - (c) debiting cash account.
 - (d) debiting the purchases account.
- (v) Which of the following statements is **FALSE** about capital?
 - (a) Drawings increase capital.
 - (b) A loss decreases capital.
 - (c) A profit increases capital.
 - (d) Owners can decrease capital.

- (vi) The order in which assets should be shown in the balance sheet is:
- Fixed assets, Non-current assets, Inventory, Cash.
 - Non-current assets, Inventory, Trade receivables, Cash.
 - Fixed assets, Trade receivables, Inventory, Cash.
 - Non-current assets, Trade receivables, Inventory, Cash.
- (vii) Customers' personal accounts are found in the:
- general journal.
 - purchases journal.
 - sales ledger.
 - general ledger.
- (viii) In most cases, the balances on the sales ledger accounts are:
- contras.
 - credit balances.
 - nominal balances.
 - debit balances.
- (ix) Which of the following statements is **FALSE**?
- Debit notes are entered into the returns inwards day book.
 - A credit note is a document sent to a customer showing allowance given by a supplier in respect of unsatisfactory goods.
 - A debit note is a document sent to a supplier showing allowance to be given for unsatisfactory goods.
 - A credit note may be used to correct an overcharge.
- (x) Musumbukano had the following ledger balances extracted from his books for the month of November 2007:

	Shs '000
November 1: balance b/d	335,400
Total for November:	
Discount allowed	15,000
Cash and cheques received	448,500
Sales day book	575,000
Bad debt written off	5,750
Returns inwards	10,500

What was Musumbukano's closing balance as at 30 November 2007?

- Shs 335,400,000.
- Shs 430,650,000.
- Shs 215,000,000.
- Shs 425,000,000.

- (xi) The total of the discounts allowed column in the cash book is posted to the:
- credit side of the discounts allowed account.
 - credit side of the discounts received account.
 - debit side of the discounts allowed account.
 - debit side of the discounts received account.
- (xii) Which of the following statements is **FALSE**?
- In a profit making organisation trading and profit and loss account is prepared while non-profit making organization an income and expenditure account is prepared.
 - A profit organization prepares net loss while non-profit organisation prepares deficit of income over expenditure.
 - A profit organization prepares a net profit while a non-profit organisation prepares excess income over expenditure.
 - A profit organization prepares a net loss while non-profit organisation prepares excess income over expenditure.
- (xiii) Which of the following statements about errors is **FALSE**?
- An error of commission arises when wrong amounts are entered but in the correct account.
 - An error of principle occurs when a transaction is entered in the wrong class of account.
 - Compensating errors are errors which cancel each other out.
 - An error of omission occurs when the book-keeper omits to record a transaction.

The following information relates to Lubengo, a sole trader, who does not keep books on double entry basis. Use it to answer questions (xiv) and (xv).

	30 November 2006	30 November 2007
	Shs '000	Shs '000
Cash at bank	36,500	43,500
Furniture	15,000	12,500
Inventory	58,000	65,500
Cash in hand	1,500	2,000
Receivables	74,500	
Payables	47,000	

Sales for the year ended 30 November 2007 amounted to Shs 288,000,000; cash received from debtors during the year amounted to Shs 270,500,000.

Purchases for the year ended 30 November 2007 amounted to Shs 203,000,000; cash paid to creditors amounted to Shs 194,500,000.

There were no bad debts and discounts incurred.

- (xiv) Calculate the amount of receivables as at 30 November 2007.
- (a) Shs 55,500,000.
 - (b) Shs 92,000,000.
 - (c) Shs 47,000,000.
 - (d) Shs 74,500,000.
- (xv) Calculate Lubengo's capital at 30 November 2006.
- (a) Shs 160,000,000.
 - (b) Shs 223,500,000.
 - (c) Shs 138,500,000.
 - (d) Shs 125,000,000.
- (xvi) The following entries are **NOT** passed during the disposal of an asset?
- (a) Debit asset disposal account and credit asset account.
 - (b) Debit provision for depreciation account and credit asset disposal account.
 - (c) Debit cash book and credit asset disposal account.
 - (d) Debit asset disposal account and credit cash book.
- (xvii) Sundre, a sole trader purchased a new Delivery Van for Shs 60,000,000 on 30 November 2004. Using the reducing balance method at 20% per annum, what is the net balance on the Van account as at 30 November 2007?
- (a) Shs 24,000,000.
 - (b) Shs 12,000,000.
 - (c) Shs 38,400,000.
 - (d) Shs 30,720,000.
- (xviii) The following terms are applied to those who buy goods on credit from Manafwa traders. 10% trade discount on buying at least 20 items each at Shs 500,000. A 2½% discount if you pay within the credit period. Assuming Mako bought 15 items and paid within the credit period, how much did he pay?
- (a) Shs 8,775,000.
 - (b) Shs 6,581,250.
 - (c) Shs 9,750,000.
 - (d) Shs 7,312,500.

- (xix) Which of the following is **NOT** a revenue expenditure?
- (a) Legal charges on the acquisition of new office premises.
 - (b) Carriage cost on purchases.
 - (c) Carriage cost on sales.
 - (d) Fire insurance premium.
- (xx) Which of the following statements is **FALSE**?
- (a) A drawer is the person making out the cheque.
 - (b) A drawer is the bank on which the cheque is drawn.
 - (c) A payee is a person to whom the cheque is paid.
 - (d) A direct debit is payment made out of the payer's account direct to the payee account on the payer's instructions.

SECTION B**Question 2**

Odoch started business on 1 November 2007 with the following assets:

	Shs '000'
Motor vehicles	32,500
Furniture and fittings	11,500
Premises	210,000
Cash at bank	23,750
Cash at hand	1,750

The following transactions occurred during the month of November 2007.

- 1 Purchases by cheque Shs 12,500,000 and cash Shs 177,000
 - 2 Purchases on credit from Babirye Shs 21,775,000.
 - 6 Cash sales Shs 4,237,000, postage by cash Shs 12,000, and telephone connection fee by cheque Shs 125,000.
 - 8 Cleaning materials by cash Shs 127,000, sales on credit to Richard Shs 21,125,000.
 - 10 Repairs to broken window cash Shs 625,000.
 - 13 Cash sales Shs 8,625,000, paid 7,000,000 into the bank.
 - 16 Purchases on credit from Babirye Shs 8,000,000.
 - 20 Cash sales Shs 8,190,000, paid into bank Shs 5,000,000.
 - 22 Paid wages to casual workers cash Shs 162,500.
 - 23 Drew cash for personal use by cheque Shs 5,000,000.
 - 29 Postage cash Shs 17,000, sales on credit to Mwalimu Shs 2,750,000.
 - 30 Wages by cash Shs 375,000, advertising by cheque Shs 605,000.
- Closing inventory on 30 November 2007 was Shs 2,750,000.

Required:

- (a) Write up the various accounts needed in the books of Odoch.
(15 marks)
 - (b) Extract the Trial Balance as at 30 November 2007.
(5 marks)
- (Total 20 marks)**

Question 3

The trial balance extracted from the books of Kambarage, a trader, as at 31 December 2006 was as follows:

	Dr Shs '000'	Cr Shs '000'
Capital		560,950
Furniture and Equipment (Cost 105,000,000)	82,000	
Motor Vans (Cost 85,000,000)	56,000	
Purchases	1,814,550	
Rent and rates	40,000	
Salaries	198,450	
Bad debts	14,050	
General expenses	53,100	
Bank balance	15,400	
Sales		2,281,100
Provision for doubtful debt 1 January 2006		13,450
Opening inventory	436,300	
Trade receivables	214,450	
Trade payables		158,200
Drawings	89,400	-
	<u>3,013,700</u>	<u>3,013,700</u>

Additional information:

- Closing inventory at 31 December 2006 was Shs 471,400,000.
- Rates paid in advance at 31 December 2006 amounted to Shs 3,000,000.
- General expenses unpaid at 31 December 2006 Shs 8,300,000.
- Provision for doubtful debts is to be adjusted to Shs 12,000,000.
- A new van was purchased at a cost of Shs 50,000,000 on 31 December 2006. The amount due on the new van was payable on 1 January 2007. No entries had been made in the books in respect of this transaction when the Trial Balance at 31 December 2006 was extracted.
- Depreciation is to be charged on furniture and equipment at the rate of 5% per annum on cost and the vans at the rate of 25% per annum on cost.

Required:

- Prepare the Income Statement for the year ending 31 December 2006.
(10 marks)
- Prepare the Balance Sheet as at 31 December 2006.
(10 marks)
(Total 20 marks)

Question 4

Wesonga and Mukwasi are in partnership, sharing profits and losses in the ratio of 3:2. Their trial balance as at 30 June 2007 was as follows:

	Dr Shs '000s'	Cr Shs '000s'
Gross profit		36,075
Salaries	3,925	
Heating and lighting	2,450	
Rates	2,175	
Provision for bad debts		3,200
Discounts	1,200	1,000
Vehicle expenses	3,625	
Advertising	3,000	
Cash in hand	825	
Cash at bank	5,625	
Trade payables and receivables	25,600	11,250
Inventory	34,975	
Motor vehicles	20,000	
Land and buildings	47,500	
Goodwill	10,500	
Current Accounts balances:		
Wesonga		875
Mukwasi	525	
Drawings:		
Wesonga	7,500	
Mukwasi	6,975	
Bank loan		10,000
Capital Accounts:		
Wesonga		64,000
Mukwasi	-	50,000
	<u>176,400</u>	<u>176,400</u>

Additional information:

- Depreciate the motor vehicles at 10% on cost.
- Carry forward Shs 1,000,000 of the advertising costs.
- The bank loan was made to the partnership on 1 July 2006 at the rate of 7% per annum.
- Mukwasi is entitled to a salary of Shs 2,500,000 per annum.
- Interest on capital is at 5% per annum. Wesonga brought in Shs 9,000,000 of his capital on 1 January 2007.

Required:

Prepare:

- (a) an income statement for the period ended 30 June 2007.
- (b) an appropriation account for the partnership for the year ended 30 June 2007.
- (c) the current accounts of the partners.
- (d) the balance sheet as at 30 June 2007.

(Total 20 marks)**Question 5**

Katugugu is a sole trader who does not operate a full double entry system. The following figures have been extracted from her books as at:

	30 June 2006	30 June 2007
	Shs '000'	Shs '000'
Cash at bank	3,650	4,350
Office furniture	1,500	1,250
Cash in hand	150	200
Inventory	5,800	6,550

Additional information:

- (a) Trade receivables on 30 June 2006 amounted to Shs 7,450,000 and sales for the year ended 30 June 2007 were Shs 28,800,000. During the year ended 30 June 2007 cash received from debtors amounted to Shs 27,050,000.
- (b) Trade payables on 30 June 2006 amounted to Shs 4,700,000 and purchases for the year ended 30 June 2007 amounted to Shs 20,300,000. During the year ended 30 June 2007 cash paid to creditors amounted to Shs 19,450,000.
- (c) During the year ended 30 June 2007 no bad debts were incurred and there were also no discounts received and discount allowed.
- (d) Drawings for the year amounted to Shs 6,350,000.

Required:

Compute:

- (a) the amounts of trade receivables and payables as at 30 June 2007.
- (b) Katugugu's capital as at 30 June 2006 and 30 June 2007.
- (c) Katugugu's net profit for the year ended 30 June 2007.

(Total 20 marks)

SECTION C

Question 6

- (a) List **four** ways in which the cash book balance may not agree with the bank statement balance. **(4 marks)**
- (b) Murungi's data in his cash book and bank dealings for the month of November 2007 were as follows:
- (i) Cash in bank as per bank statement on 30 November 2007 was Shs 1,271,800.
 - (ii) Cheques received and paid into the bank but not yet entered in the bank statement Shs 632,750.
 - (iii) Cheques drawn and entered in the cash book but not yet presented to the bank Shs 935,500.
 - (iv) Interest charged by the bank but not yet entered in the cash book Shs 77,000.
 - (v) On 30 November 2007 the bank columns of the cash book showed a debit balance of Shs 1,046,050.

Required:

- (i) Prepare Murungi's adjusted cash book. **(3 marks)**
 - (ii) Prepare a bank reconciliation statement as at 30 November 2007. **(3 marks)**
- (Total 10 marks)**

Question 7

- (a) What is a Petty Cash Imprest System? **(2 marks)**
 - (b) What are the advantages of the Imprest System? **(6 marks)**
 - (c) What is a Petty Cash Voucher? **(2 marks)**
- (Total 10 marks)**