

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL ONE

#### PRINCIPLES OF ACCOUNTING 1 – PAPER 1

**TUESDAY, 9 DECEMBER 2008**

#### 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 is true about purchase of goods on credit?
- (a) Stock of goods and creditors increase.
  - (b) Stock of goods increases while creditors decrease.
  - (c) Stock of goods and creditors decrease.
  - (d) Stock of goods decreases while creditors increase.
- (ii) Which of the following is **NOT** a liability?
- (a) Creditors for goods.
  - (b) Prepaid rent.
  - (c) Capital.
  - (d) Loan.
- (iii) Calculate the amount of capital given the following information:
- |                        | <b>Shs million</b> |
|------------------------|--------------------|
| Furniture and fittings | 30                 |
| Inventories            | 10                 |
| Rent owing             | 5                  |
| Prepaid insurance      | 8                  |
| Bank                   | 15                 |
| Loan from Kinobe       | 7                  |
- (a) Shs 16 million.
  - (b) Shs 51 million.
  - (c) Shs 43 million.
  - (d) Shs 41 million.
- (iv) A debit entry in the income statement would imply:
- (a) a profit.
  - (b) capital.
  - (c) a loss.
  - (d) an asset.
- (v) Which of the following are part of the double entry system?
- (a) Trading account and profit and loss account.
  - (b) Balance sheet and trial balance.
  - (c) Income statement and balance sheet.
  - (d) Balance sheet and trading account.

- (vi) In which ledger are individual accounts of customers found?
- (a) General ledger.
  - (b) Sales ledger.
  - (c) Creditors ledger.
  - (d) Purchases ledger.
- (vii) in which type of day book are debit notes listed?
- (a) Returns inward.
  - (b) Purchases.
  - (c) Returns outward.
  - (d) Sales.
- (viii) A machine costs Shs 25 million and will be kept and used for 5 years and then sold at an estimated amount of Shs 5 million. Using the reducing balance method at the rate of 40%, what will be the depreciation charge in the 3<sup>rd</sup> year?
- (a) Shs 4,000,000.
  - (b) Shs 2,880,000.
  - (c) Shs 5,000,000.
  - (d) Shs 3,600,000.
- (ix) Last year a provision for bad debts of 2% was made on debtors totaling Shs 100 million. This year the debtors have increased to Shs 120 million and a similar provision of 2% is to be made. How much provision for bad debts will be charged to the income statement this year?
- (a) Shs 400,000.
  - (b) Shs 2,400,000.
  - (c) Shs 2,000,000.
  - (d) Shs 4,600,000.
- (x) The closing entry in the bad debts account is transferred to the:
- (a) provision for bad debts account.
  - (b) income statement.
  - (c) balance sheet.
  - (d) trading account.
- (xi) Which of the following is the correct treatment for drawings?
- (a) Debit purchases account; credit drawings account.
  - (b) Debit drawings account; credit stock account.
  - (c) Debit drawings account; credit purchases account.
  - (d) Debit sales account; credit stock account.

- (xii) For the year ending 31 October 2008, the ledger accounts for Penguin Ltd show a debit balance of Shs 16 million for rates. However, Shs 12 million was prepaid as at 31 October 2008. What figure of rates should be reflected in the income statement for Penguin Ltd for the year ended 31 October 2008?
- (a) Shs 4 million.
  - (b) Shs 28 million.
  - (c) Shs 12 million.
  - (d) Shs 16 million.
- (xiii) Calculate the capital at the beginning of the year from the following information:
- |                              |                 |
|------------------------------|-----------------|
| Capital at close of the year | Shs 100 million |
| Net profit for the year      | Shs 20 million  |
| Drawings during the year     | Shs 5 million   |
- (a) Shs 75 million.
  - (b) Shs 85 million.
  - (c) Shs 115 million.
  - (d) Shs 95 million.
- (xiv) An error has been discovered that the sales account was under-cast by Shs 10,000. The accounting treatment to correct this error would be to:
- (a) credit suspense account Shs 10,000; debit sales Shs 10,000.
  - (b) debit sales account Shs 10,000; credit suspense 10,000.
  - (c) debit suspense account Shs 10,000; credit sales account Shs 10,000.
  - (d) credit suspense account Shs 10,000; debit purchases account Shs 10,000.
- (xv) Which of the following statements is true?
- (a) Returns inwards are offset against purchases while returns outwards against sales.
  - (b) Returns inwards are added to cost of sales while returns outwards are added to cost of purchases.
  - (c) Returns inwards are an income while returns outwards are an expense.
  - (d) Returns inwards are offset against sales while returns outwards against purchases.

- (xvi) Using the following information, calculate the closing balance on the purchases ledger account.

|                                    | Shs '000' |
|------------------------------------|-----------|
| Balance brought forward            | 20,000    |
| Totals for the period              | 40,000    |
| Returns outwards                   | 5,000     |
| Cash and cheques paid to creditors | 37,000    |
| Discount received                  | 1,500     |

- (a) Shs 16,500,000.  
 (b) Shs 21,500,000.  
 (c) Shs 3,000,000.  
 (d) Shs 18,500,000.
- (xvii) Which of the following statements is **NOT** true?
- (a) A credit note is sent to a customer showing an allowance given for unsatisfactory goods.  
 (b) A debit note is sent to the customer showing an allowance for unsatisfactory goods.  
 (c) A debit note is sent to the supplier showing an allowance for unsatisfactory goods.  
 (d) Credit notes are applicable to returns inwards.
- (xviii) A company's current financial position would be shown by the:
- (a) income statement.  
 (b) cash flow statement.  
 (c) balance sheet.  
 (d) statement of owners' equity.
- (xix) A group of individuals formed a new company with initial capital of Shs 500 million. What is the effect of this on the company's accounting equation?
- (a) An increase in revenue.  
 (b) A decrease in liability.  
 (c) An increase in liability.  
 (d) An increase in capital contribution.
- (xx) A credit balance on an account in the sales may mean that a:
- (a) customer has paid his account in full twice by mistake.  
 (b) debtor's balance has been written off as bad.  
 (c) discount is allowed for prompt payment.  
 (d) debtor has returned goods after he has paid his account.

**SECTION B****Question 2**

The following trial balance was extracted from the books of Majorie for the year ended 31 December 2007:

|  | Dr             | Cr             |
|--|----------------|----------------|
|  | Shs '000'      | Shs '000'      |
| Capital  |                | 71,200         |
| Drawings   | 4,000          |                |
| Premises (leased premises to run for 10 years from 1 January 2007) | 20,000         |                |
| Advertising  | 552            |                |
| Motor vans   | 3,752          |                |
| Purchases and sales  | 273,984        | 294,288        |
| Opening inventories  | 8,144          |                |
| Debtors and creditors  | 59,592         | 38,280         |
| Insurance  | 812            |                |
| Bad debts  | 148            |                |
| Returns inwards / outwards   | 268            | 1,612          |
| Furniture and fittings   | 4,440          |                |
| Telephone expenses   | 180            |                |
| Rates and water  | 448            |                |
| Wages  | 11,392         |                |
| Lighting and heating   | 408            |                |
| Postage  | 596            |                |
| Cash   | 1,452          |                |
| Bank   | 15,212         | -              |
|  | <u>405,380</u> | <u>405,380</u> |

**Additional information:**

- Inventories as at 31 December 2007 was valued at Shs 38,580,000.
- An appropriate rate for amortization should be written off against leased premises.
- 20% per annum should be written off motor vans (cost Shs 6 million).
- 10% per annum should be written off furniture and fittings.
- Wages accrued amounted to Shs 136,000.
- A provision for bad debts of Shs 920,000 is to be created.

**Required:**

- Prepare an income statement for the year ended 31 December 2008.  
(12 marks)
  - Prepare a balance sheet as at 31 December 2008.  
(8 marks)
- (Total 20 marks)**

**Question 3**

- (a) Give **three** reasons why the cash book bank balance may not be the same as the bank statement balance at any particular date. **(6 marks)**
- (b) On 31 December 2008, Temangalo's cash book showed a positive balance in the bank of Shs 1,616,960 but at the same date the monthly statement from his bank showed a balance of Shs 1,702,000. The difference between the two balances was found to be due to the following:
- (i) On 10 December, a charge of Shs 5,800 for foreign exchange commission had been made by the bank. Temangalo had forgotten to account for it in his cash book.
  - (ii) An annual subscription to the Association of Accounting Technicians of Uganda of Shs 21,000 had been paid by standing order on 21 December. This had also been over looked by Temangalo.
  - (iii) Cheques for Shs 101,200, and Shs 169,800 drawn in favour of Apollo and Milton respectively had not been presented for payment to the bank.
  - (iv) A cheque of Shs 159,160 from Stephen paid into the bank on 15 December had been returned marked "Refer to the Drawer". No entry of this dishonoured cheque had been made in the cash book.

**Required:**

- (i) Prepare the adjusted cash book for Temangalo. **(8 marks)**
- (ii) Prepare a bank reconciliation statement for Temangalo as at 31 December 2008.

**(6 marks)**  
**(Total 20 marks)**

**Question 4**

- (a) State **six** major provisions that should be included in any partnership agreement.

**(6 marks)**

- (b) Sseddembe and Kudembe are in partnership sharing profits and losses in the ratio 2:1. The following information was extracted from their books.

|                     |                           |                       |
|---------------------|---------------------------|-----------------------|
| 1 January 2007      | Current Accounts balances |                       |
|                     | Sseddembe                 | Shs 16 million Cr     |
|                     | Kuddembe                  | Shs 14 million Dr     |
| 31 December 2007    | Drawings during the year  |                       |
|                     | Sseddembe                 | Shs 140 million       |
|                     | Kuddembe                  | Shs 80million         |
| Interest on capital | Sseddembe                 | 5% of Shs 520million  |
|                     | Kuddembe                  | 5% of Shs 280 million |
| Salary              | Kuddembe                  | Shs 40 million        |

Net profit to be divided after charging interest on capital and paying Kuddembe's salary is Shs 216million.

**Required:**

Prepare:

- (i) a profit and loss appropriation account for the partnership.

**(7 marks)**

- (ii) partners' current accounts in columnar form.

**(7 marks)****(Total 20 marks)****Question 5**

- (a) How does a receipts and payments account differ from an income and expenditure account?

**(8 marks)**

- (b) At the end of the financial year the Treasurer of Wagadugu Club submitted the following statement to the members:

|                              | Shs '000'     |                         | Shs '000'     |
|------------------------------|---------------|-------------------------|---------------|
| Subscriptions                | 12,800        | Cost of drinks          | 800           |
| Sales of dance tickets       | 3,200         | Printing and stationery | 600           |
|                              |               | Rent                    | 400           |
| Proceeds from sale of drinks | 1,200         | Furniture               | 6,000         |
|                              |               | Dance expenses          | 1,800         |
|                              |               | Sundry expenses         | 600           |
|                              | -             | Balance                 | 7,000         |
|                              | <u>17,200</u> |                         | <u>17,200</u> |



**Additional information:**

- (i) No subscriptions were paid in advance.
- (ii) No depreciation on the furniture is to be charged.
- (iii) Shs 200,000 worth of stationery was unused at 31 December 2007.
- (iv) Shs 400,000 for rent was owing at 31 December 2007.

**Required:**

Prepare the income and expenditure account for the year ended 31 December 2007.

**(12 marks)**  
**(Total 20 marks)**

**SECTION C**

**Question 6**

- (a) Distinguish between revenue and capital expenditure. **(4 marks)**
- (b) Classify as either revenue or capital expenditure:
  - (i) The building of an extension to a club's dressing room.
  - (ii) The decoration of a club's premises.
  - (iii) Salary for factory constructor.
  - (iv) Interest on money borrowed.
  - (v) Purchase of a software for office operations.
  - (vi) Wages for employees.

**(6 marks)**  
**(Total 10 marks)**

**Question 7**

Explain the following terms as used under depreciation accounting:

- (a) Depletion.
- (b) Depreciation.
- (c) Inadequacy.
- (d) Obsolescence.
- (e) Reducing balance method.

**(10 marks)**