

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

TUESDAY, 9 DECEMBER 2008

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) What is the express meaning of the term “matching principle”?
 - (a) The revenue and expenses incurred in a period are equal.
 - (b) The revenue and relevant expenses in a period are equal.
 - (c) The revenue and relevant expenses in a given period are correlated and compared.
 - (d) The revenue and relevant expenses are equal.
- (ii) Which of the following has an incremental effect on the capital of a business?
 - (a) Closing inventory.
 - (b) Opening inventory.
 - (c) Insurance expenses incurred.
 - (d) Work in progress.
- (iii) In the books of a consignor, the consignment account would:
 - (a) determine the profit or loss on a consignment.
 - (b) determine the commission payable to the consignee.
 - (c) give the closing stock.
 - (d) ascertain the stock sent to the consignor.
- (iv) A bonus issue of shares would affect the:
 - (a) balance sheet.
 - (b) income statement.
 - (c) cash flow statement.
 - (d) cash and bank balance.
- (v) Which of the following items does **NOT** appear in a company's cash flow statement?
 - (i) Proposed dividends.
 - (ii) Profit on disposal of an asset.
 - (iii) Dividends received.
 - (iv) Proceeds from the sale of a motor vehicle.
 - (v) Bad debts written off.
 - (a) (i) and (ii).
 - (b) (i), (ii) and (v).
 - (c) (ii), (iii) and (v).
 - (d) (ii), (iii), (iv) and (v).

- (vi) A loss in value of non-current assets of a business in a given accounting period is:
 - (a) debited to the assets account.
 - (b) debited to the income statement.
 - (c) credited to the trading account.
 - (d) credited to the income statement.
- (vii) Money advanced to employees to perform official duties is recorded in the books of accounts as:
 - (a) an expense.
 - (b) a liability.
 - (c) a loss.
 - (d) an asset.
- (viii) Which of the following is charged to the income statement after operating profits?
 - (a) Income tax expense.
 - (b) Accrued loan interest.
 - (c) Directors' expenses.
 - (d) Purchases of supplies.
- (ix) Which of the following is important when ascertaining the prime cost of manufacturing?
 - (a) Inventory valuation.
 - (b) Preparation of financial statements.
 - (c) Property, plant and equipment.
 - (d) Revenue recognition.
- (x) In manufacturing accounts, expenses should be correctly allocated to cost centres to avoid:
 - (a) distorting the profits or loss figures.
 - (b) tax liabilities.
 - (c) overstating operating expenses.
 - (d) reporting wrong cost centre performance.
- (xi) In the public sector, cash accounting reports commitments in the:
 - (a) cash book.
 - (b) notebook.
 - (c) summary of invoices.
 - (d) memorandum column.

- (xii) The price-earnings ratio, used by investors to determine the viability of a company, is obtained by dividing the:
- (a) book value of shares by the number of outstanding shares.
 - (b) market price of shares by earnings per share.
 - (c) book value of shares by earnings per share.
 - (d) market price of shares by the number of outstanding shares.
- (xiii) The vote book **CANNOT** be used to:
- (a) control expenditure.
 - (b) record expenditure.
 - (c) record commitments.
 - (d) extract a trial balance.
- (xiv) In partnership accounts:
- (a) business net profit is ascertained after charging partners salaries.
 - (b) interest on loans to partners is not an appropriation item.
 - (c) interest on drawings is a business expense.
 - (d) Goods withdrawn by a partner are debited to the partner's capital account.
- (xv) The concept of reporting all probable expenses of a given accounting period is also known as:
- (a) accruals.
 - (b) prudence.
 - (c) materiality.
 - (d) entity.
- (xvi) In professional practitioners' accounts, the clients' money is debited to the clients' column of the cash book in the:
- (a) client's books.
 - (b) books of the professional.
 - (c) final accounts.
 - (d) books of the consignor.
- (xvii) The mathematical definition of the acid test ratio is the:
- (a) current liquid asset per current liability.
 - (b) current asset per liquid liability.
 - (c) current asset per current liability.
 - (d) net assets per current liabilities.

- (xviii) In manufacturing accounts, the cost of raw materials forms part of:
- (a) production cost entirely.
 - (b) prime cost.
 - (c) overhead costs.
 - (d) trading costs.
- (xix) The drawer of a bill exchange is the:
- (a) supplier of the bill.
 - (b) customer to the bill.
 - (c) addressee on the bill.
 - (d) receiver of the bill.
- (xx) Which of the following can be prepared from a trial balance?
- (a) Income and expenditure statement only.
 - (b) Trading account, balance sheet and cash flow statement.
 - (c) Income statement and balance sheet.
 - (d) Income statement, balance sheet and cash flow statement.

SECTION B**Question 2**

The following is a trial balance of Kim Plastics Ltd as at 30 September 2008:

	Dr Shs	Cr Shs
Purchase of raw materials	20,250,000	
Carriage inwards	165,000	
Wages	4,050,000	
Salary of factory manager	2,250,000	
Factory lighting and power	885,000	
Advertising	897,750	
Sales		44,615,250
Office rent and insurance	720,000	
Miscellaneous office expenses	1,020,000	
Discounts	210,000	165,000
Carriage outwards	90,000	
Bad debts	112,500	
Office salaries	3,450,000	
Plant and machinery	18,300,000	
Factory land and buildings	15,900,000	
Sundry debtors / creditors	6,007,500	6,750,000
Cash at bank	637,500	
Inventory 1 October 2007		
Raw materials	2,025,000	
Work in progress	1,800,000	
Finished goods	7,200,000	
Short term loan		2,100,000
Capital		32,190,000
Provision for bad debts	-	150,000
	<u>85,970,250</u>	<u>85,970,250</u>

Additional information:

1. Inventories as at 30 September 2008 are as follows:

Shs '000'

Raw materials	21,000
Work in progress	2,175
Finished goods	8,700

2. Provisions are to be made follows:

Doubtful debts	5%
Depreciation - Buildings	2%
- Plant and machinery	12.5%

Required:

Prepare Kim Plastics Ltd's manufacturing account, income statement and balance sheet.

(30 marks)

SECTION C

Question 3

- (a) Mega Properties Ltd sent 1,000 shirts to Miller Stores in Kigali, Rwanda, on consignment basis. The consignees are entitled to receive 5% commission plus expenses. Each shirt cost Mega Properties Ltd Shs 10,000.

Miller Stores incurred the following expenses:

Transport costs Shs 220,000

Rent and insurance Shs 520,000

Mega Properties Ltd, drew on the consignees a draft for Shs 2,200,000 which was duly accepted. It was discounted for Shs 2,100,000. Later Miller Stores reported that the entire consignment had been sold for Shs 13 million.

Required:

Prepare the consignment account and Miller Stores' account in the books of Mega Properties Ltd.

(10 marks)

- (b) Originally, businesses took on very simple forms. However, with time, limited companies came into existence, because of the need to have more people investing in one business and to limit liability. This was considered a more suitable position compared to that provided by partnerships.

Required:

Give **five** differences between a partnership and a limited liability company.

(10 marks)

(Total 20 marks)

Question 4

The following information was extracted from the books of Mono Ltd and Vono Ltd.

Income statement for the period ended 30 September 2008

	Mono Ltd		Vono Ltd	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Sales		120,000		80,000
Less cost of sales				
Opening inventory	22,500		25,000	
Purchases	<u>91,000</u>		<u>50,000</u>	
	113,500		75,000	
Closing inventory	<u>(17,500)</u>	<u>96,000</u>	<u>(15,000)</u>	<u>60,000</u>
Gross profit		24,000		20,000
Operating expenses:				
Depreciation	3,000		1,000	
General expenses	<u>6,000</u>	<u>9,000</u>	<u>9,000</u>	<u>10,000</u>
Net profits		<u>15,000</u>		<u>10,000</u>

Balance Sheet as at 30 September 2008

	Mono Ltd		Vono Ltd	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets:				
Equipment at cost	20,000		10,000	
Less depreciation to date	<u>6,000</u>	14,000	<u>8,000</u>	2,000
Current Assets:				
Inventory	17,500		15,000	
Trade account receivables	20,000		25,000	
Bank	<u>2,500</u>	40,000	<u>5,000</u>	45,000
Current Liabilities:				
Trade account payable		<u>(10,000)</u>		<u>(5,000)</u>
Total net assets		<u>44,000</u>		<u>42,000</u>
Equity and liabilities				
Ordinary shares capital		36,000		38,000
Retained earnings		15,000		10,000
Drawings		<u>(7,000)</u>		<u>(6,000)</u>
Total equity and liabilities		<u>44,000</u>		<u>42,000</u>

Required:

(a) Calculate, for each of the two companies, the following ratios:

- (i) Acid test ratio.
- (ii) Inventory turnover.
- (iii) Rate of return on capital.
- (iv) Receivables: sales ratio.

(16 marks)

(b) Which of the two companies is more efficient? Give reasons.

(4 marks)

(Total 20 marks)

Question 5

During the financial year ended June 2008, Katanga District Council had the following transactions recorded:

1. On 2 July 2007, the District Council members sat and resolved to borrow Shs 150 million from Bobo Bank to construct a public library at the district headquarters. The bank approved the loan request and released the funds on 15 July 2007.
2. On 20 July 2007, the central government released a conditional grant of Shs 550 million for repairing the road network in the Municipal Council area.
3. On July 28 2007, an unconditional grant of Shs 700 million was released by the central government for use in the financial year ended 30 June 2008.
4. The district incurred the following expenditure in the year ended 30 June 2008:

	Shs '000
Building materials for the library	22,000
Cost of hiring a road excavator	12,500
Wages for the road works	10,250
Salaries for medical workers	26,000
Payment to Zome Contractors	180,200
Purchase of school equipment	120,000
Electricity charges	82,200
Office administration	155,400
Insurance costs for office building	46,200
Architectural work of the library	12,000
Contractual fees to Roto Contrators	86,500
Stocking the library	44,200
Telephone expenses	30,250

	Shs '000
Workshops	55,400
General salaries	142,500
Kuku Consult (fees)	40,000
Road work supervisors	19,920
Technical advisors	10,500
Traffic signs	79,600
Cost of the bridge	109,960
Second payment to Zome Contractors	56,150
Miscellaneous road capital expenditure	29,109

Additional information:

1. The district made a total collection of revenues from taxes and rates of Shs 155,200,000.
2. Zome Contractors were contracted to repair the road network while Roto Contractors to build the library.
3. The cost of technical advisors was allocated to both library and road works in the ratio of 1:3 respectively.
4. Kuku Consult was hired to oversee the quality of work on the library building.

Required:

- (a) Prepare the following bank accounts; general revenue collection, general fund and capital bank account.

(9 marks)

- (b) Prepare a summarized report on:
- (i) funds from Bobo Bank.
 - (ii) conditional grants.
 - (iii) unconditional grants.

Include in the above report, the likely actions to be taken by the Chief Finance Officer regarding fund utilization.

(11 marks)**(Total 20 marks)**

SECTION D

Question 6

Briefly explain following terms:

- (a) Preference shares.
- (b) Bills of exchange.
- (c) Equity shares.
- (d) Bonus issue of shares.
- (e) Consignments.

(10 marks)

Question 7

Briefly explain the following terms as used in public sector accounting:

- (a) Expenditure vote.
- (b) Generally accepted accounting practice.
- (c) Propriety.
- (d) Cash in transit.
- (e) Unallocated stores.

(10 marks)