

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

TUESDAY, 17 JUNE 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) Accounting is concerned with the following **EXCEPT**:
- (a) recording data.
 - (b) business resources.
 - (c) classifying and summarizing data.
 - (d) communicating data.
- (ii) Which the following statements about the accounting equation is **NOT** correct?
- (a) $\text{assets} = \text{capital} + \text{liabilities}$.
 - (b) $\text{assets} - \text{capital} = \text{liabilities}$.
 - (c) $\text{capital} - \text{liabilities} = \text{assets}$.
 - (d) $\text{assets} - \text{liabilities} = \text{capital}$.
- (iii) A document sent to the supplier by the buyer showing details of the goods returned to the supplier is known as:
- (a) invoice.
 - (b) proforma invoice.
 - (c) credit note.
 - (d) debit note.
- (iv) The journal proper is used to record:
- (i) the purchase and sale of fixed assets on credit.
 - (ii) the purchase and sale of goods on credit.
 - (iii) opening entries for a new set of books.
 - (iv) returns outwards.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (i) and (iii).
 - (d) (ii) and (iv).
- (v) Which of the following statements is **FALSE**?
- (a) Personal accounts record debtors and creditors.
 - (b) Sales ledger records suppliers' personal accounts.
 - (c) Real accounts record property.
 - (d) Nominal accounts record expenses, incomes and capital.

- (vi) According to the realization concept profit is said to be earned at the time when the;
- (a) order is received.
 - (b) customer pays for the goods.
 - (c) goods are passed to the customer and incurs liability.
 - (d) goods are sold by the buyer.
- (vii) Kumasi's records showed the following for month ending 31 May 2008:

	Shs '000'
Sales	14,250
Opening inventory	2,345
Closing inventory	3,620
Carriage inwards	285
Purchases	10,680

The cost of goods sold was:

- (a) Shs 9,915,000.
 - (b) Shs 9,405,000.
 - (c) Shs 9,250,000.
 - (d) Shs 9,690,000.
- (viii) Kiwani operates a supermarket, which of the following are **NOT** capital expenditures?
- (i) Fire insurance.
 - (ii) Rent.
 - (iii) Purchase of motor van.
 - (iv) Purchase of furniture.
- (a) (i) and (iii).
 - (b) (i) and (ii).
 - (c) (i) and (iv).
 - (d) (ii) and iv).
- (ix) A credit balance in the cash book account would mean:
- (a) we have more cash in hand.
 - (b) some money has been stolen.
 - (c) we have spent more than we received.
 - (d) errors have been made on the account.

- (x) A contra entry is where:
- (a) cash is paid directly into the bank account.
 - (b) both cash and capital are affected.
 - (c) cash is withdrawn and banked immediately.
 - (d) double entry is completed within the cash book.
- (xi) Discounts allowed in the cash book are posted to the:
- (a) debit side of the discounts allowed account.
 - (b) credit side of the discounts allowed account.
 - (c) credit side of the discounts received account.
 - (d) debit side of discounts received account.
- (xii) The balances in the sales ledger account are usually:
- (a) debit balances.
 - (b) credit balances.
 - (c) red account balances.
 - (d) contra balances.
- (xiii) Which of the following statements about bank reconciliation is **FALSE**?
- To get the balance as per:
- (a) bank statement you start with balance as per adjusted cash book, add unpresented cheques and less uncredited cheques.
 - (b) overdraft bank statement you start with overdraft as per cash book, add uncredited cheques and less unpresented cheques.
 - (c) bank statement you start with balance as per cash book, add uncredited cheques and less unpresented cheques.
 - (d) cash book you start with balance as per bank statement, add uncredited cheques and less unpresented cheques.
- (xiv) A firm bought a machine for Shs 50 million. It was expected to be used for 6 years and be sold for Shs 5 million. However, the machine was sold at the end of the same year for Shs 25 million without charging depreciation for that year.
- Which of the following statement is true about the accounting treatment for the above transactions?
- (a) Credit the income statement with Shs 2.5 million.
 - (b) Debit the income statement with Shs 17.5 million.
 - (c) Credit the income statement with Shs 7.5 million.
 - (d) Debit the income statement with Shs 25 million.

(xv) A debit balance brought down on the insurance account means we:

- (a) paid that insurance in advance.
- (b) owe that insurance at that date.
- (c) have paid too little insurance.
- (d) have paid too much insurance.

(xvi) Mugulusi had the following data from his records:

Capital 31 May 2007 Shs 260,750,000

Capital 31 May 2008 Shs 161,700,000

Drawings Shs 46,900,000

Which of the following statements is true?

- (a) Profit for the year was Shs 52,150,000.
- (b) Loss for the year was Shs 55,650,000.
- (c) Loss for the year was Shs 52,150,000.
- (d) Profit for the year was Shs 58,800,000.

(xvii) Which of the following is **NOT** a book of original entry?

- (a) Sales day book.
- (b) Purchases day book.
- (c) Cash book.
- (d) General ledger.

(xviii) The following are part of the double entry system **EXCEPT** the;

- (a) trial balance.
- (b) balance sheet.
- (c) income statement.
- (d) trading account.

(xix) Which of the following statements about errors is **FALSE**?

- (a) An error of commission arises when correct amounts are entered, but in the wrong person's account.
- (b) An error of commission arises when wrong amounts are entered but in a correct personal account.
- (c) An error of principle occurs when a transaction is entered in the wrong class of account.
- (d) An error of original entry occurs when an incorrect figure is posted to the correct side of the correct account.

(xx) Which of the following errors will be disclosed by the trial balance?

- (a) Purchases from Okello entered in Akello's account.
- (b) An error on a sales invoice.
- (c) An overcast of the total on the sales account.
- (d) Carriage outwards debited in the purchases account.

SECTION B

Question 2

Francis started business on 20 March 2008 with capital of Shs 10,000,000 in cash.

20 March: Bought radios in cash Shs 4,250,000.

21 March: Cash sales for the day were Shs 2,300,000.

Bought Hi-fi equipment for resale Shs 1,125,000 in cash.

22 March: Paid for hire of stall (rent account) Shs 500,000 in cash.

Deposited on electricity (light and heat account) Shs 250,000 in cash.

Purchased batteries for sale Shs 500,000 in cash.

23 March: Cash sales for the day Shs 4,300,000.

24 March: Banked Shs 5,000,000 for safe keeping.

Cash purchases for Shs 800,000 of hi-fi equipment for resale.

25 March: Cash sales for the day Shs 2,900,000.

Required:

Enter the above data in the relevant accounts and prepare a trial balance as at 26 March 2008.

(20 marks)

Question 3

The following trial balance was extracted from the books of Mugabi as at 31 May 2008.

	Dr. Shs '000'	Cr. Shs '000'
Purchases and sales	108,984	178,900
Sales and purchases returns	2,900	5,064
Carriage inwards	720	
Carriage outwards	1,300	
Inventory 1 June 2007	18,600	
Rent and rates	5,680	
Insurance	592	
Light and heat	6,520	
Discounts allowed and received	500	344
Commissions paid and received	4,380	9,876
Salaries	23,416	
Trade receivables and payables	11,040	4,000
Land and buildings	43,000	
Furniture and fittings	5,000	
Motor vehicles	5,920	
Drawings	6,500	
Cash in hand	552	
Cash at bank	10,980	
Loan from Peter		20,000
Capital		<u>38,400</u>
	<u>256,584</u>	<u>256,584</u>

Inventory at 31 May 2008 was Shs 21,800,000.

Required:

Prepare the:

- (a) income statement for the year ended 31 May 2008. **(11 marks)**
 - (b) balance sheet as at 31 May 2008. **(9 marks)**
- (Total 20 marks)**

Question 4:

Wogasi is a sole trader who does not keep a complete set of books on a full double entry system. From his records, however, the following figures have been extracted.

	31 May 2007	31 May 2008
	Shs '000'	Shs '000'
Inventory	7,920	8,640
Receivables	29,000	32,320
Payables	16,560	22,520

Additional information during the year:

1. Cash received from debtors amounted to Shs 89,840,000.
2. The trade receivables total of Shs 32,320,000 was arrived at after writing off bad debts amounting to Shs 1,640,000 and allowances for discounts of Shs 2,680,000.
3. Cash paid to creditors amounted to Shs 68,760,000.
4. The trade payables total of Shs 22,520,000 was arrived at after allowing for discounts received amounting to Shs 1,880,000.
5. Expenses for the year amounted to Shs 10,000,000.

Required:

- (a) Calculate the total sales for the year ended 31 May 2008.
(7 marks)
 - (b) Calculate the total purchases for the year ended 31 May 2007.
(6 marks)
 - (c) Prepare Wogasi's income statement for the year ended 31 May 2008.
(8 marks)
- (Total 20 marks)**

Question 5

Magoha and Sendi are in partnership sharing profits and losses equally. The following information was extracted from their books as at 31 May 2008:

Trial Balance as at 31 May 2008

	Dr Shs '000'	Cr Shs '000'
Capital: 1 June 2007		
Magoha		34,028
Sendi		27,576
Drawings : Magoha	8,240	
Sendi	7,920	
Building at cost	24,000	
Plant at cost less depreciation	11,200	
Motor van at cost less depreciation	1,600	
Inventory 1 June 2007	9,904	
Receivables	15,752	
Payables		11,360
Purchases	129,984	
Sales		189,556
Rates and insurance	5,800	
Wages	32,840	
Bad debts	1,720	
Provision for doubtful debts		1,260
Discounts received		2,448
Discounts allowed	3,352	
Bank balance	9,336	
General expenses	3,588	
Motor van running expenses	992	
	<u>266,228</u>	<u>266,228</u>

Additional information:

1. Inventory as at 31 May 2008 was Shs 11,936,000.
2. The provision for bad debts is to be adjusted to Shs 1,580,000.

Required:

Prepare the:

- (a) income statement for the year ended 31 May 2008. **(12 marks)**
 - (b) appropriation account. **(2 marks)**
 - (c) Current accounts for Magoha and Sendi for the year ended 31 May 2008. **(6 marks)**
- (Total 20 marks)**

SECTION C

Question 6

- (a) State the book of original entry and the type of ledger in which each of the following can be entered:
- (i) Bank payment.
 - (ii) Sales invoice.
 - (iii) Returns inwards.
 - (iv) Closing inventory.
 - (v) Sales credit note.

(10 marks)

Question 7

State the accounting concept applied in each of the following accounting treatments and why:

- (a) The cost of a punch has been charged to an expense account, although in fact it could be in use for five years.
- (b) Mukwasi, a sole trader, has sold his main house but has not recorded anything in his books.
- (c) A car was bought for Shs 1 million and recorded in the books as such. However, this car is worth Shs 4 million on the open market.
- (d) The growth of the organization depends on the management team. However, their value is never recorded in the books of accounts.

(10 marks)