

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL ONE

#### PRINCIPLES OF ACCOUNTING I – PAPER 1

**MONDAY, 15 JUNE 2009**

#### INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.  
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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 **NOT** true about the double entry system?
  - (a) Always debit the account that receives goods or services.
  - (b) Credit what comes in and debit what goes out.
  - (c) Always credit the account that gives goods or services.
  - (d) Debit what comes in and credit what goes out.
- (ii) Which of the following statements is **NOT** true about debit and credit entries?
  - (a) An asset is always a debit entry.
  - (b) Income is always a credit entry.
  - (c) An expense is always a credit entry.
  - (d) Capital is always a credit entry.
- (iii) Which of the following transactions creates an increase in an asset in the business?
  - (a) Buying of goods for the owner by cheque.
  - (b) Paying off creditors by cheque.
  - (c) Withdrawal of some money from the business by the owner.
  - (d) Buying of goods on credit.
- (iv) What is the amount of capital given the following information:  
Buildings Shs 60million; Inventory Shs 11 million; Bank Shs 1.5 million;  
Loan from Mukasa Shs 2million; Withdraws Shs 3 million.
  - (a) Shs 73,500,000.
  - (b) Shs 67,500,000.
  - (c) Shs 70,500,000.
  - (d) Shs 72,500,000.
- (v) The value for closing inventory is found by:
  - (a) subtracting purchases from sales.
  - (b) balancing the inventory account.
  - (c) carrying out an inventory count.
  - (d) adding opening inventory to purchases then subtracting closing inventory.

- (vi) Which of the following is the correct order of presenting assets in the statement of financial position?
- (a) Buildings, inventory, trade receivables, cash.
  - (b) Trade receivables, buildings, inventory, cash.
  - (c) Buildings, inventory, cash, trade receivables.
  - (d) Buildings, trade receivables, inventory, cash.
- (vii) Goods sold on credit are entered in the:
- (a) purchases ledger.
  - (b) sales ledger.
  - (c) private ledger.
  - (d) general ledger.
- (viii) The total of discounts allowed is treated as:
- (a) an expense and credited to the discounts allowed account.
  - (b) an asset and debited to the discounts allowed account.
  - (c) an expense and debited to the discounts allowed account.
  - (d) income and credited to the discounts allowed account.
- (ix) What is the treatment of goods taken out of business for personal use by the owner?
- (a) Debit purchase's account; credit drawings account.
  - (b) Credit sales account; debit drawings account.
  - (c) Debit sales account; debit drawings account.
  - (d) Credit purchases account; debit drawings account.
- (x) A firm bought a machine for Shs 100 million. It was expected to be used for 6 years then sold for Shs 10 million. How much profit or loss will be made at the end of the six years upon selling the machine for Shs 5 million?
- (a) Profit Shs 5 million.
  - (b) Loss Shs 5 million.
  - (c) Profit Shs 6.7 million.
  - (d) Loss Shs 6.7 million.
- (xi) A debit balance brought down on the electricity account means that:
- (a) electricity has been paid for in advance by that amount.
  - (b) the firm has paid too little for electricity.
  - (c) the firm owes that amount for electricity at that date.
  - (d) the firm has underpaid that amount on that account.

- (xii) Which of the following does **NOT** affect the agreement of the trial balance?
- (a) Sales of Shs 202,000 entered as Shs 220,000.
  - (b) Rent account overcast by Shs 10 million.
  - (c) Rent account under cast by Shs 5 million.
  - (d) Goods purchased completely omitted from the books.
- (xiii) Which of the following entries does **NOT** go through the journal?
- (a) Sale of fixed assets on credit.
  - (b) Purchase of soap from Mukwano Enterprises on credit.
  - (c) Correction of errors.
  - (d) Writing off of bad debts.
- (xiv) At the close of the period ending on 31 March 2009, a firm had capital of Shs 60 million. Net profit for the year amounted to Shs 17 million and drawings amounted to Shs 10 million. What was the capital as at 1 April 2008?
- (a) Shs 33 million.
  - (b) Shs 67 million.
  - (c) Shs 53 million.
  - (d) Shs 57 million.
- (xv) Which of the following statements explains a contra entry?
- (a) Cash is deposited directly into the bank.
  - (b) Double entries into the cash book.
  - (c) Cash withdrawn and rebanked.
  - (d) Double entry is completed in the cash book.
- (xvi) Which of the following statements is **NOT** correct?
- (a) Returns inwards are deducted from sales in the trading account.
  - (b) Carriage inwards are deducted from purchases in the trading account.
  - (c) Returns outwards are deducted from purchases in the trading account.
  - (d) Prepayments are deducted from expenses in the income statement.

- (xvii) Which of the following statements is **NOT** correct?
- (a) A provision should be charged as an expense in the statement of comprehensive income.
  - (b) An increase in provision should be charged as an expense in the statement of comprehensive income.
  - (c) A new provision should be added to trade receivables in the statement of comprehensive income.
  - (d) A decrease in provision should be added back in the statement of comprehensive income.
- (xviii) Which of the following is **NOT** true about the reducing balance method for depreciation?
- (a) A higher charge for depreciation in early years.
  - (b) A lower charge for repairs and upkeep in early years.
  - (c) A lower charge for depreciation in later years.
  - (d) Uniform charge for depreciation in the early years and later years.
- (xix) Which of the following entries does **NOT** appear in the sales control account?
- (a) Returns outwards.
  - (b) Credit sales.
  - (c) Returns inwards.
  - (d) Cash receipts.
- (xx) Which of the following is **NOT** classified as capital expenditure?
- (a) Legal costs incurred on a transaction to acquire a new building.
  - (b) Carriage outwards costs incurred on the sale of machinery held for sale.
  - (c) Acquisition of non-current assets.
  - (d) Costs incurred in getting non-current assets ready for use.

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

- (a) Why should the trial balance always balance? (2 marks)
- (b) Suggest **three** factors which may cause the trial balance not to balance. (6 marks)
- (c) Mangoto, who had just been recruited as an accounting technician, was requested by his supervisor, Mr. Mumbo, to prepare a trial balance from the list of balances extracted from the ledger accounts. Mangoto prepared the trial balance shown below:

Trial Balance as at 31 May 2009

	Dr Shs '000'	Cr Shs '000'
Capital	79,824	
Sales		477,756
Stationery	4,800	
General expenses	10,980	
Motor expenses		17,904
Cash at bank	7,800	
Inventory 1 June 2008	30,672	
Wages and salaries		37,968
Rent and rates	42,000	
Office equipment	24,000	
Purchases	327,012	
Heating and lighting		8,832
Rent received	8,556	
Trade receivables	41,412	
Drawings		16,800
Trade payables		40,920
Motor vehicle	30,000	
Interest received	6,900	
Insurance	-	13,776
	<u>613,956</u>	<u>613,956</u>

Although the trial balance did balance, Mangoto had made some errors which were later discovered by his supervisor.

**Required:**

Identify the errors and draw up a corrected trial balance as at 31 May 2009.

(12 marks)  
(Total 20 marks)

**Question 3**

Manti carries on business as sole proprietor and the following balances were extracted from his books as at 31 May 2009:

	Dr Shs '000'	Cr Shs '000'
Capital		22,480
Drawings	6,000	
Bad debts and provision	530	630
Bank overdraft		2,835
Carriage inwards	1,430	
Carriage outwards	295	
Equipment at cost	2,750	
General expenses	1,055	
Insurance	650	
Lighting and heating	590	
Motor van at cost	3,600	
Provision for depreciation on motor van		720
Purchases	218,470	
Rent	1,800	
Sales		243,495
Inventory 1 June 2008	19,860	
Trade receivables	14,190	
Trade payables		8,465
Salaries	8,810	
Maintenance of premises	250	
Returns outwards / inwards	975	4,935
Van running expenses	1,985	
Cash in hand	320	-
<b>Total</b>	<b><u>283,560</u></b>	<b><u>283,560</u></b>

**Additional information:**

- (a) Inventory as at 31 May 2009 was valued at Shs 20,980,000.
- (b) Rent paid covers nine months to the end of February 2009.
- (c) Provision for bad debts to be increased to Shs 690,000 and provision for discounts to be created of 5% of the remaining trade receivables.
- (d) Insurance paid in advance as at 31 May 2009 amounted to Shs 150,000.
- (e) An account due for repairs to the roof of the premises amounting to Shs 140,000 had been omitted from the books.
- (f) Depreciation on motor van to be provided for at the rate of 20% per annum of cost.
- (g) Provide a sum of Shs 500,000 in respect of depreciation of the equipment.

**Required:**

Prepare a:

- (a) statement of comprehensive income for the period ending 31 May 2009. **(14 marks)**
- (b) statement of financial position for the period ended 31 May 2009. **(6 marks)**
- (Total 20 marks)**

**Question 4**

- (a) Explain the following terms as used in accounts:
- (i) incomplete records.
  - (ii) single entry.
  - (iii) statement of affairs.
- (6 marks)**
- (b) Musoke is a sole trader who does not keep a complete set of books on the double entry system. From his books, however, the following amounts have been extracted.

	<b>31 May 2008</b>	<b>31 May 2009</b>
	<b>Shs '000'</b>	<b>Shs '000'</b>
Inventory	11,880	12,960
Trade receivables	43,500	48,480
Trade payables	24,840	33,780

**Additional information**

- (i) For the year ended 31 May 2009, Musoke received cash payments from debtors amounting to Shs 134,760,000.
  - (ii) The trade receivables total of Shs 48,480,000 at 31 May 2009 was arrived at after writing off bad debts amounting to Shs 2,460,000 and allowing for discounts of Shs 4,020,000.
  - (iii) During the year ended 31 May 2009, Musoke made cash payments to creditors amounting to Shs 103,140,000.
- The trade payables total of Shs 33,780,000 was arrived at after allowing for discounts amounting to Shs 2,820,000.

**Required:**

- (i) Calculate the total sales. **(7 marks)**
  - (ii) Calculate the total purchases. **(7 marks)**
  - (iii) Prepare Musoke's statement of comprehensive income for the year ended 31 May 2009. **(6 marks)**
- (Total 20 marks)**



**Question 5**

- (a) In relation to partnership accounts, what items are entered in the capital and current accounts when fixed capital accounts are maintained?

**(4 marks)**

- (b) Musaku and Wolugo are in partnership, sharing profits and losses in the proportion of  $\frac{3}{5}$  and  $\frac{2}{5}$  respectively. Their fixed capitals are: Musaku Shs 40 million, Wolugo Shs 25 million.

The partnership agreement provides that interest of 5% per annum shall be paid on fixed capital, and Wolugo to receive a salary of Shs 2 million per annum and a 2% commission on the balance of trading profits after charging his salary but before charging interest on capital.

The credit balances on their current accounts at 1 January 2008 were Musaku Shs 2,100,000 and Wolugo Shs 1,750,000.

Drawings during the year were Musaku Shs 10 million and Wolugo Shs 9 million.

The trading profit for the year ended 31 December 2008 was Shs 27 million.

**Required:**

Prepare a current account for each partner for the year ended 31 December 2008.

**(16 marks)**

**(Total 20 marks)**

**SECTION C**

**Question 6**

Write short notes on each of the following:

- (i) Error of principle.
- (ii) Error of commission.
- (iii) Error of omission.
- (iv) Compensating error.
- (v) Error of original entry.

**(10 marks)**

**Question 7**

Explain the following terms as used in book-keeping:

- (a) Bank overdraft.
- (b) Direct debit.
- (c) Drawer.
- (d) Standing order.
- (e) Credit transfer.

**(10 marks)**