

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II– PAPER 5

TUESDAY, 8 DECEMBER 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 Sections **A** and **B**, any **two** questions from Section **C** and any **one** from 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** and only **two** questions are to be attempted. Each question carries 20 marks.
6. Section **D** has **two** questions and only **one** question is to be attempted. Each question carries 10 marks.
7. Please read further instructions on the answer book.

SECTION A

Question 1

- (i) Where partners maintain fixed capital accounts, the partners' shares of profits must be:
 - (a) debited to capital accounts.
 - (b) credited to capital accounts.
 - (c) debited to current accounts.
 - (d) credited to current accounts.

- (ii) An allowance for doubtful debts is created:
 - (a) to write off bad debt.
 - (b) to provide for possible bad debts.
 - (c) when debtors become bankrupt.
 - (d) when debtors' businesses cease.

- (iii) The assumption that the effects of transactions and other events are recognised when they occur, not when the cash flows, is called
 - (a) going concern.
 - (b) prudence.
 - (c) accruals.
 - (d) historic cost.

- (iv) The issued share capital of a company is:
 - (a) always the same as total shareholding.
 - (b) always the same as the authorized capital.
 - (c) equal to reserves and ordinary capital.
 - (d) the same as preference share capital.

- (v) The valuation technique under which assets are recorded at the amount that would be received in an orderly disposal is:
 - (a) realization value
 - (b) current cost
 - (c) historic cost
 - (d) present value

- (vi) Goodwill usually arises when a:
 - (a) business is wound up.
 - (b) partner dies.
 - (c) business is sold as a going concern.
 - (d) business is located in a better and central place.

- (vii) In consignment accounts, abnormal loss is credited to the;
- (a) consignee's account in the books of the consignor.
 - (b) consignment account.
 - (c) abnormal loss account.
 - (d) goods sent on consignment account.
- (viii) A credit balance of Shs 200 million on the cash column of the cash book would mean:
- (a) Shs 200 million was overspent.
 - (b) Shs 200 million was underspent.
 - (c) The cash book is undercast by Shs 200 million.
 - (d) Shs 200 million was stolen.
- (ix) The audited originals and copies of vouchers and used receipts of local government may be disposed of in years.
- (a) 6.
 - (b) 8.
 - (c) 10.
 - (d) 5.
- (x) The value of closing inventory at the end of a period is best determined by:
- (a) inventory counting.
 - (b) valuation of the inventory.
 - (c) deducting sales from the cost of goods.
 - (d) deducting goods sold from opening inventory.
- (xi) Virement allocation of funds by local authorities is the reallocation of:
- (a) funds between items with the same sub-group including employee costs.
 - (b) funds within votes or between votes.
 - (c) approved funds under the same sub-programme excluding employee costs.
 - (d) funds between different votes.
- (xii) The local purchase orders (LPO) for the district local authorities are signed by the:
- (a) Chief Administrative Officer and Chief Internal Auditor.
 - (b) Chief Finance Officer and Chief Internal Auditor.
 - (c) Chief Administrative Officer and LCV Chairperson.
 - (d) Chief Administrative Officer and Chief Finance Office.

- (xiii) Which of the following statements is **NOT** true about a consignee?
- (a) Owns goods sent to an agent.
 - (b) Sells goods on behalf of the owners.
 - (c) Is an agent for goods sent to him or her.
 - (d) Deducts expenses and commissions and remits money to the owner(s).
- (xiv) Which of the following statements is **NOT** true about a bill of exchange?
- (a) The debtor to whom the bill is drawn is the drawee.
 - (b) The creditor who draws the bill is the drawee.
 - (c) The person to whom the bill is to be paid is a payee.
 - (d) When the bill is accepted, the drawee becomes the acceptor.
- (xv) Which of the following item(s) will **NOT** appear on the realisation account when a partnership is being dissolved?
- (a) Assets.
 - (b) Goodwill.
 - (c) Liabilities.
 - (d) Discounts.
- (xvi) Which of the following is **NOT** classified under prime cost for a manufacturing concern?
- (a) Direct materials.
 - (b) Direct expenses.
 - (c) Direct labour.
 - (d) Depreciation of plant and machinery.
- (xvii) Which of the following item(s) will **NOT** be analyzed as part of production cost for a manufacturing concern?
- (a) Selling and distribution expenses.
 - (b) Royalties.
 - (c) Factory overheads.
 - (d) Cost of raw materials.
- (xviii) Which of the following is **NOT** a liquidity ratio?
- (a) Debt to equity.
 - (b) Current.
 - (c) Quick.
 - (d) Cash.

- (xix) Inspirations Co. Ltd issued 50,000 ordinary shares of Shs 1,000 each at a premium of Shs 2,000 per share. The cash received was correctly recorded but the full amount was credited to the share premium account.

Which of the following journal entries is needed to correct this error?

- | | Shs '000' | Shs '000' |
|-------------------------|------------------|------------------|
| (a) Debit share capital | 100,000 | |
| Credit cash account | | 100,000 |
| (b) Debit share premium | 100,000 | |
| Credit share capital | | 100,000 |
| (c) Debit share capital | 150,000 | |
| Credit share premium | | 150,000 |
| (d) Debit share capital | 100,000 | |
| Credit share premium | | 100,000 |
- (xx) The three major classifications of activities in a statement of cash flows are:
- (a) revenue, expenses and net income.
 - (b) operating, investing and financing.
 - (c) opening balance, closing balance and net change.
 - (d) inflows, outflows and net balance.

SECTION B**Question 2**

- (a) Write short notes on each of the following in relation to company accounts:
- (i) Shareholder. **(3 marks)**
- (ii) Debentures. **(3 marks)**
- (b) The following trial balance was extracted from the books of Mugisa Ltd on 30 November 2009.

	Dr Shs '000'	Cr Shs '000'
Authorized and issued share capital, 200,000 ordinary shares of Shs 3,000 per share		600,000
6% debentures		120,000
Free hold property at cost	795,000	
Furniture and fittings at cost	36,000	
Trade receivables	56,850	
Trade payables		38,790
Preliminary expenses	6,000	
Opening inventory	56,790	
Provision for bad debts b/d		900
Debenture interest 31 May 2009	3,600	
Provision for depreciation on furniture and fittings		18,000
Bank overdraft		1,470
Wages and salaries	70,080	
Rent and rates	4,950	
General expenses	15,360	
Bad debts	4,530	
Profit from previous year		44,220
Purchases	494,220	
Sales	-	720,000
	<u>1,543,380</u>	<u>1,543,380</u>

Additional information:

- (i) Inventory at 30 November 2009 was valued at Shs 62,220,000.
- (ii) Provision for bad debts to be adjusted to Shs 1,050,000.
- (iii) Depreciation at 5% per annum on cost to be charged on furniture and fittings.
- (iv) Rates paid in advance at 30 November 2009 amounted to Shs 225,000.
- (v) Wages outstanding at 30 November 2009 amounted to Shs 720,000.

- (vi) One fifth of the balance on preliminary expenses account is to be written off.
- (vii) The outstanding debenture interest to be paid on 30 November 2009.
- (viii) The directors recommend a dividend of 12% on share capital.

Required:

- (i) Prepare a statement of comprehensive income for Mugisa Ltd for the year ended 30 November 2009.

(12 marks)

- (ii) Prepare a statement of financial position for Mugisa Ltd as at 30 November 2009.

(12 marks)**(Total 30 marks)****SECTION C****Question 3**

- (a) What is the importance of the following ratios to stakeholders?

- (i) Liquidity.
- (ii) Profitability.
- (iii) Efficiency.
- (iv) Capital structure.
- (v) Investment.

(10 marks)

- (b) The production costs for Sabuni Soap Works Ltd for the year ended 30 November 2009 were as follows.

	Shs '000'
Opening inventory of raw materials	15,000
Closing inventory of raw materials	21,000
Raw materials purchased	240,000
Direct manufacturing wages	630,000
Royalties	4,500
Indirect wages	270,000
Rent (factory)	13,200
Depreciation of plant and machinery in factory	12,000
General indirect expenses.	9,300

Required:

Prepare a manufacturing account for the year ended 30 November 2009.

(10 marks)**(Total 20 marks)**

Question 4

- (a) Write short notes on each of the following items as used under **IAS 7**:
Statement of Cash Flows:

- (i) Operating activities. **(2 marks)**
 (ii) Investing activities. **(2 marks)**
 (iii) Financing activities. **(2 marks)**

- (b) The following information relates to the accounts of Draru Ltd for the years ended 30 November 2008 and 2009.

Statement of financial position as at 30 November:

	2008		2009	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets at cost	25,950		33,510	
Less depreciation	<u>8,670</u>	17,280	<u>11,715</u>	21,795
Current assets:				
Inventory	11,160		10,812	
Trade receivables	14,688		15,003	
Bank balance	<u>1,632</u>	<u>27,480</u>	<u>-</u>	<u>25,815</u>
		<u>44,760</u>		<u>47,610</u>
Equity and liabilities:				
Share capital	30,000		30,000	
Retained profits	<u>4,476</u>	34,476	<u>8,040</u>	38,040
Current liabilities:				
Trade payables	6,216		5,562	
Bank overdraft	-		348	
Taxation	2,568		1,860	
Proposed dividends	<u>1,500</u>	<u>10,284</u>	<u>1,800</u>	<u>9,570</u>
		<u>44,760</u>		<u>47,610</u>

Statement of compressive income for the year ended 30 November 2009

	Shs '000'
Profit on ordinary activities after charging depreciation of Shs 3,045,000	7,224
Tax on profits on ordinary activities	<u>(1,860)</u>
	5,364
Retained profits b/f	<u>4,476</u>
Proposed divided	9,840
Retained profits c/f	<u>(1,800)</u>
	<u>8,040</u>

Required:

Prepare Draru Ltd's statement of cash flows for the year ended 30 November 2009 using the indirect method under IAS 7.

(14 marks)

(Total 20 marks)

Question 5

Explain the following as used under public sector accounting.

- (a) Supplementary estimate. **(2 marks)**
- (b) Excess expenditure. **(2 marks)**
- (c) Currency point **(2 marks)**
- (d) Financial year **(2 marks)**
- (e) Two duties of the Auditor General **(2 marks)**
- (f) Value for money audit. **(2 marks)**
- (g) Vote on account. **(2 marks)**
- (h) Books maintained by each local government council. **(5 marks)**
- (i) Revenue account. **(1 mark)**

(Total 20 marks)

SECTION D

Question 6

Briefly explain any **five** provisions commonly found in a partnership deed.

(10 marks)

Question 7

Write short notes on each of the following as they relate to bills of exchange:

- (a) Drawer.
- (b) Drawee.
- (c) Dishonoured bills.
- (d) Retired bills.
- (e) Acceptor.

(10 marks)