

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II– PAPER 5

TUESDAY, 16 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 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) Which of the following is prepared on accruals basis?
- (a) Statement of comprehensive income.
 - (b) Cash book.
 - (c) Statement of cash flows.
 - (d) Receipts and payments account.
- (ii) does **NOT** involve payment of cash:
- (a) A rights issue of shares
 - (b) An issue of shares at a discount
 - (c) A bonus issue of shares
 - (d) An issue of shares at a premium
- (iii) Capital employed can be derived by the following formulae **EXCEPT**:
- (a) non-current assets + current assets.
 - (b) non-current assets + current assets - current liabilities.
 - (c) non-current assets - current liabilities.
 - (d) non-current assets + current assets – (current liabilities + non-current liabilities).
- (iv) **IAS 7** deals with:
- (a) statement of cash flows.
 - (b) property, plant & equipment.
 - (c) presentation of financial statements.
 - (d) events after the reporting period.
- (v) Which of the following is **NOT** an accounting concept?
- (a) Consistency.
 - (b) Prudence.
 - (c) Going concern.
 - (d) Depreciation.
- (vi) Which of the following items forms part of the prime cost in manufacturing accounts?
- (a) Wages to the accounts assistant.
 - (b) Depreciation cost of delivery vans.
 - (c) Rent for the administration office.
 - (d) Wages to machine operators.

- (vii) Which of the following is **NOT** an investing activity in a statement of cash flows?
- (a) Redemption of shares during the period.
 - (b) Disposal of motor vehicles during the period.
 - (c) Purchase of land during the period.
 - (d) Purchase of furniture during the period.
- (viii) The person who writes a bill of exchange to a debtor is known as:
- (a) drawee.
 - (b) drawer.
 - (c) payee.
 - (d) acceptor.
- (ix) The profit before tax of a limited company is reflected in the:
- (a) statement of financial position.
 - (b) statement of comprehensive income.
 - (c) statement of cash flows.
 - (d) statement of cash flows and statement of comprehensive income.
- (x) Which of the following is prepared on a cash basis?
- (a) Income and expenditure account.
 - (b) Statement of comprehensive income.
 - (c) Receipts and payments account.
 - (d) Statement of financial position.
- (xi) Which of the following is **NOT** a working capital item in a statement of cash flows?
- (a) Increase in inventory.
 - (b) Increase in bank overdraft.
 - (c) Increase in trade receivables.
 - (d) Increase in trade payables.
- (xii) Interest on capital to partners is debited to:
- (a) current accounts and credited to the appropriation account.
 - (b) statement of comprehensive income and credited to current accounts.
 - (c) appropriation account and credited to current account.
 - (d) capital accounts and credited to interest receivable account.

- (xiii) Which of the following is **NOT** a method of calculating goodwill in partnership accounts?
- (a) Average annual profits.
 - (b) Revaluation of assets.
 - (c) Super profits.
 - (d) Valuation of inventory.
- (xiv) Which of the following statements is **FALSE**?
- (a) Profits in a partnership are always shared equally.
 - (b) Corporation tax is charged on business profits only.
 - (c) A trial balance is a list of balances.
 - (d) A loss in a limited company is a reduction in retained earnings.
- (xv) Which of the following is a current asset in a statement of financial position?
- (a) Trade payables.
 - (b) Trade receivables.
 - (c) Bank overdraft.
 - (d) Investment in shares.
- (xvi) Statutory expenditure means the following **EXCEPT**:
- (a) Expenditure charged on the consolidated fund by the constitution.
 - (b) Expenditure charged on the consolidated fund by an Act of Parliament.
 - (c) Expenditure charged on the consolidated fund under the Public Finance and Accountability Act.
 - (d) Expenditure of moneys appropriated or granted by an Appropriation Act or Supplementary Appropriation Act.
- (xvii) Under the control and management of public finance, the Minister for Finance is supposed to ensure that Parliament is kept informed of the following **EXCEPT**:
- (a) the state of the government's assets.
 - (b) current and projected state of the economy.
 - (c) finances of the Government of Uganda.
 - (d) fiscal policy of the Government of Uganda.

- (xviii) Subject to the provisions of the constitution, the Minister for Finance may raise loans for government for following purposes **EXCEPT** for the purpose of:
- (a) financing budget deficits.
 - (b) obtaining foreign currency.
 - (c) on-lending to an approved institution.
 - (d) financing the activities of the ruling political party.
- (xix) The formular for ascertaining the acid test ratio is:
- (a)
$$\frac{\text{Current assets}}{\text{Cash and cash equivalents}}$$
 - (b)
$$\frac{\text{Cash and cash equivalents}}{\text{Current liabilities}}$$
 - (c)
$$\frac{\text{Current assets}}{\text{Current liabilities}}$$
 - (d)
$$\frac{\text{Net assets}}{\text{Current liabilities}}$$
- (xx) The is the vote controller in a government aided secondary school.
- (a) bursar
 - (b) headteacher
 - (c) chairperson, Board of Governors
 - (d) chairperson, Parents Teachers Association.

SECTION B

Question 2

Apple & Pear have been in business together for the last 5 years dealing in second-hand shoes and clothes. Apple manages the clothes department while Pear manages the shoes department, trading under the name AP Partnership.

The partnership agreement provides for the following.

- (i) Apple is to receive $\frac{3}{5}$ of the profits while Pear is to receive $\frac{2}{5}$.
- (ii) Each partner is to be allowed 10% interest on capital.
- (iii) Each partner is to receive a commission of 5% of the profit of their respective department prior to any other appropriation of profit.

The following is the trial balance for AP Partnership for the year ended 31 December 2008:

	Shs '000'	Shs '000'
Capital accounts:		
Apple		350,000
Pear		200,000
Current accounts:		
Apple		50,500
Pear	6,250	
Drawings:		
Apple	27,500	
Pear	22,500	
Freehold shop premises	250,000	
Motor vehicles (at written down values)		
Clothes department	112,500	
Shoes department	87,500	
Purchases:		
Clothes department	397,500	
Shoes department	442,500	
Inventory 1 January 2008		
Clothes department	57,500	
Shoes department	77,500	
Sales:		
Clothes department		462,500
Shoes department		537,500
Wages:		
Clothes department	29,375	
Shoes department	36,750	
General expenses	5,750	
Rates	12,500	
Water & electricity	10,000	
Advertising	6,250	
Accounts receivable & payable	45,000	52,500
Bad debts (shoes department)	2,375	
Cash in hand	1,250	
Cash at bank	23,750	
Provision for doubtful debts (shoes department)	-	1,250
	<u>1,654,250</u>	<u>1,654,250</u>

Additional information:

1. Inventory at 31 December 2008 was.

	Shs '000'
Clothes department	90,000
Shoes department	110,000
2. The partners have agreed to apportion the following expenses between clothes and shoes departments respectively in the ratio:
 - rates 3:2
 - advertising 1:1
 - water and electricity 2:3
 - general expenses 1:1
3. Wages owing at 31 December 2008 amounted to Shs 625,000 for the clothes department and Shs 750,000 for the shoes department.
4. At 31 December 2008, Shs 250,000 for advertising had been paid for the following accounting period.
5. Provision for doubtful debts to be increased to 5% of the trade receivables of the shoes department, which amount to Shs 37,500,000 at 31 December 2008.
6. Motor vehicles of both departments are to be depreciated at 10% of the written down value at 1 January 2008.

Required:

Prepare:

- (a) a statement of comprehensive income for the clothes and shoes departments and for the business as a whole for the year ended 31 December 2008.

(18 marks)
 - (b) the partners' current accounts for the year ended 31 December 2008.

(5 marks)
 - (c) a statement of financial position for the business as at 31 December 2008

(7 marks)
- (Total 30 marks)**

SECTION C**Question 3**

The authorized and issued share capital of Safi Ltd on 31 December 2008 was Shs 150 million divided into 150,000 shares of Shs 1,000 each, fully paid. On 2 January 2009, the authorized capital was increased by a further 170,000 shares of Shs 1,000 each to Shs 320 million.

On the same date, 80,000 ordinary shares of Shs 1,000 each were offered to the public at Shs 1,250 per share payable as, Shs 600 on application (including the premium), Shs 350 on allotment and Shs 300 on 6 April 2009.

The lists were closed on 10 January 2009, and by that date applications for 130,000 shares had been received. Applications for 10,000 shares were rejected on allotment and the cash paid in respect thereof was returned. The remaining shares were then allotted to the remaining applicants pro rata to their original applications, the balance of the monies received on application being applied to the amounts due on allotment.

The balances due on allotment were received on 31 January 2009, with the exception of one allottee of 1000 shares and these were declared forfeited on 4 April 2009. These shares were re-issued as fully paid on 2 May 2009 at Shs 1,100 per share. The call due on 6 April 2009 was fully paid by the other shareholders.

Required:

- (a) Record the above transactions in the appropriate ledger accounts.
(16 marks)
 - (b) Show how the balances on such accounts will appear in the company's statement of financial position as at 31 May 2009.
(4 marks)
- (Total 20 marks)**

Question 4

Tonix Traders Ltd sells most of its goods through consignees. One of the consignees is Babi Ltd who operates in Mbarara town in Western Uganda. Babi Ltd is entitled to a commission of 10% of sales.

The following transactions were carried out between Tonix Traders Ltd and Babi Ltd in the three months commencing 1 January 2009 to 31 March 2009.

January: A consignment of 1,000 boxes of plates and cups each costing Shs 100,000 was sent to Babi Ltd. Tonix Traders Ltd paid the following amounts:

	Shs '000'
Packaging	2,000
Freight and transport	2,400
Insurance	1,000

Babi Ltd paid for carriage inwards of Shs 400,000 and offloading Shs 150,000.

February: Babi Ltd sold 600 boxes at Shs 160,000 each and paid carriage outwards Shs 600,000. Babi Ltd also incurred storage costs of Shs 350,000 and advertising Shs 400,000.

March: Babi Ltd sold 350 boxes at Shs 170,000 per box.
Babi Ltd sent account sales to Tonix Traders Ltd accompanied by a cheque for Shs 124 million after deducting its commission and payments made on behalf of the consignor, the balance remaining as a debt due to Tonix Traders Ltd.

Tonix Traders Ltd prepares separate profit or loss statements for consignment sales made through each consignee.

Required:

- (a) In the books of Tonix Traders Ltd, prepare the:
 - (i) goods on consignment account. **(5 marks)**
 - (ii) profit or loss statement for the three months ended 31 March 2009. **(5 marks)**
- (b) Tonix Traders Ltd's account in the books of Babi Ltd. **(5 marks)**
- (c) Briefly explain the **five** main differences between a consignment and a sale. **(5 marks)**

(Total 20 marks)

Question 5

- (a) Explain the importance of a statement of cash flows to a business entity. **(5 marks)**
- (b) the following are the comparative statements of financial position for Karim Limited for the periods ended 31 December:

	2008 Shs '000'	2007 Shs '000'
Assets		
Non- current assets:		
Land & buildings	950,000	550,000
Motor vehicles	460,000	350,000
Furniture & fixtures	<u>250,000</u>	<u>280,000</u>
	<u>1,660,000</u>	<u>1,180,000</u>
Current assets:		
Inventory	280,000	200,000
Trade receivables	140,000	160,000
Prepayments	60,000	80,000
Cash in hand & at bank	<u>-</u>	<u>30,000</u>
	<u>480,000</u>	<u>470,000</u>
Total assets	<u>2,140,000</u>	<u>1,650,000</u>
Equity & liabilities:		
Ordinary share capital	800,000	500,000
Share premium	200,000	150,000
Revaluation reserve	150,000	250,000
Retained profit	<u>180,000</u>	<u>150,000</u>
	<u>1,330,000</u>	<u>1,050,000</u>
Non-current liabilities:		
10% debentures	300,000	200,000
Bank loan	<u>60,000</u>	<u>100,000</u>
	<u>360,000</u>	<u>300,000</u>
Current liabilities:		
Trade payables	230,000	150,000
Interest payable	90,000	60,000
Tax payable	60,000	50,000
Bank overdraft	40,000	-
Proposed dividends	<u>30,000</u>	<u>40,000</u>
	<u>450,000</u>	<u>300,000</u>
Total equity & liabilities	<u>2,140,000</u>	<u>1,650,000</u>

Additional information:

1. Land and buildings were revalued upwards by Shs 100 million during the year. Additional land and buildings worth Shs 400 million were acquired during the year.
2. Depreciation of motor vehicles amounting to Shs 40 million was provided for in the statement of comprehensive income for the year, motor vehicles having a net book value of Shs 80 million were sold at a profit of Shs 30 million during the year.
3. Bonus shares of Shs 200 million were issued at par during the year by utilizing the revaluation reserve. Karim Limited's shares have par value of Shs 200.
4. Interest expense charged to the statement of comprehensive income for the year amounted to Shs 80 million.
5. Tax amounting to Shs 60 million was paid during the year.
6. The total dividend for the year (both interim and proposed) amounted to Shs 50 million.
7. The profit after tax for the year amounted to Shs 80 million.

Required:

Prepare a statement of cash flows, according to **IAS 7: Statement of Cash Flows**, for the year ended 31 December 2008.

(15 marks)**(Total 20 marks)****SECTION D****Question 6**

With specific reference to public sector accounting, briefly explain the following concepts:

- | | | |
|-----|------------------------|------------------|
| (a) | Budgetary accounting. | (3 marks) |
| (b) | Cash accounting. | (3 marks) |
| (c) | Commitment accounting. | (4 marks) |

(Total 10 marks)**Question 7**

Briefly comment on the significance of accounting ratios and their limitations.

(10 marks)