

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

PRINCIPLES OF ACCOUNTING 1 – PAPER 1

ATC(U) MODEL EXAMINATION PAPER

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 1¹/₂ 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) Assets may be ascertained as follows:-
- a) Capital + liabilities + profit + drawings.
 - b) Capital + profit + drawings – Liabilities.
 - c) Capital + liabilities – drawings + profits.
 - d) Capital + drawings – liabilities – profits.
- (ii) Which of the following is a current liability?
- a) Capital.
 - b) Debtors.
 - c) Bank overdraft.
 - d) Amount due from Uganda Revenue Authority.
- (iii) A credit balance on a ledger indicates:-
- a) An asset or an expense.
 - b) A liability or an expense.
 - c) An amount owing to the organisation.
 - d) A liability or revenue.
- (iv) Which of the following is incorrect:
- (a) Partners' salaries are an appropriation of profits.
 - (b) Directors' fees are an appropriation of company profits.
 - (c) If the margin is 40% then the mark-up is $66\frac{2}{3}\%$.
 - (d) None of the above.
- (v) From the following information, compute the cost of goods sold:-

	Shs 000s
Purchases	10,000
Returns outwards	200
Returns inwards	400
Carriage inwards	300
Carriage outwards	250
Closing stock	100

a) 9,800,000
b) 10,000,000
c) 9,950,000
d) 10,550,000

vi) The Bank column in the cash book of Jazz Ltd., at 30 June 2000 shows a credit balance of Shs.565,000 at the bank. On comparing this with the bank statement on the same date, you discovered that:-

- (i) A cheque for Shs. 57,000 drawn by you on 29 June 2000 has not yet been presented for payment.
- (ii) A cheque of Shs. 92,000 from a customer which was deposited in the Bank on 24 June 2000 was dishonoured on 30 June 2000.

You are required to compute the correct bank balance as at 30 June 2000.

- a) 714,000 (overdrawn)
- b) 657,000 (overdrawn)
- c) 473,000 (overdrawn)
- d) 53,000 (overdrawn)

vii) Which of these errors would be disclosed by a trial balance?

- a) A cheque of Shs. 85,000 from Kibuuka entered in his account as Shs.58,000.
- b) Selling expenses had been debited to sales account.
- c) Credit sales of Shs. 300,000 entered in the relevant accounts as Shs.30,000.
- d) A purchase of Shs. 250,000 was omitted from the books.

viii) If Shs. 800,000 was added to purchases instead of being added to fixed assets:

- a) Only the net profit would be understated.
- b) Only the net profit would be overstated.
- c) It would not affect net profit.
- d) Both gross and net profits would be understated.

ix) The debit side of a trial balance is greater than the credit side by Shs.50,000. This could be due to:-

- a) A purchase of goods for Shs. 50,000 being omitted from a creditor's account.
- b) A sale of goods for Shs. 50,000 being omitted from a debtor's account.
- c) An invoice of Shs. 25,000 for electricity being credited in the electricity account.
- d) A receipt of Shs. 50,000 from a debtor being omitted from the cashbook.

- x) You are given the following information:-

	Shs.
Debtors at 1.7.1999	10,000
Debtors at 30.6.2000	9,000
Total receipts during year ending 30.6.2000 (including cash sales of Shs.5,000)	85,000

Derive the credit sales for the year ended 30.6.2000:

- (a) 81,000
- (b) 86,000
- (c) 79,000
- (d) 84,000

- xi) A company operates its petty cash using the imprest system. The imprest amount is Shs.250,000. At the end of a particular period, the five analysis columns had the following totals:-

	Shs.
Column A	26,190
Column B	45,270
Column C	6,940
Column D	12,810
Column E	14,380

How much cash would be required to restore the imprest amount for the following period?

- (a) 250,000
- (b) 105,590
- (c) 144,410
- (d) 355,590

- xii) What is the correct treatment of bad debts recovered in the final accounts of a business.
- a) A credit in the trading account.
 - b) A charge in the trading account.
 - c) A credit in the profit and loss account.
 - d) A charge in the profit and loss account.

xiii) Which of the following statements are correct?

- 1) An increase in a provision for bad and doubtful debts is debited to the profit and loss account.
- 2) A reduction in a provision for bad and doubtful debts is credited to the profit and loss account.
- 3) A provision for doubtful debts is shown as a deduction from debtors in the balance sheet.
- 4) An increase in provision for doubtful debts will have a credit balance in the profit and loss account.

- a) 1 and 2.
- b) 1, 2 and 4.
- c) 1 and 4.
- d) 1, 2 and 3.

xiv) A business has Shs.110,000 worth of machinery at cost. Its policy is to provide for depreciation at the rate of 20% per annum on the straight line basis. The total provision now stands at Shs.70,000. The business sold part of the machinery which it purchased exactly two years ago at Shs.30,000 for Shs. 19,000/=.

Compute the profit/loss on disposal of the machinery.

- a) Loss of 1,000.
- b) Profit of 1,000.
- c) Profit of 7,000.
- d) Profit of 11,000.

xv) A credit balance on a rent payable account means:-

- a) We owe that rent at that date.
- b) We have paid that rent in advance at that date.
- c) We have paid too much rent.
- d) We have paid all rent.

xvi) If cost price is Shs.90,000 and selling price is Shs.120,000, then:-

- (i) Mark up is 25%.
- (ii) Margin is $33\frac{1}{3}\%$.
- (iii) Margin is 25%.
- (iv) Mark up is $33\frac{1}{3}\%$.

- a) i and ii.
 - b) iii and iv.
 - c) i and iii.
 - d) ii and iv.
- xvii) If a partnership maintains fixed capital accounts then the partners' share of losses would be:-
- a) Debited to their capital accounts.
 - b) Credited to their capital accounts.
 - c) Debited to their current accounts.
 - d) Credited to their current accounts.
- xviii) Which of the following are shown in the appropriation account of a limited company:
- (i) Debenture interest.
 - (ii) Proposed dividend.
 - (iii) Transfer to reserve.
 - (iv) Directors' remuneration.
- (a) (i) and (ii)
 - (b) (ii) and (iii)
 - (c) (i) and (iv)
 - (d) (ii), (iii) and (iv)
- xix) A company wishes to pay dividends from available profits. Its net profit is Shs.26,600,000. There are 20,000 8% preference shares of Shs.1,000 each, and 50,000 ordinary shares of Shs.1,000 each. Shs.5,000,000 is to be transferred to general reserves. What is the dividend per share?
- a) 20%.
 - b) 40%
 - c) 10%
 - d) 60%.
- xx) Achan & Co. owes Mbata Ltd. for some goods they recently bought. Achan & Co. are settling the invoice early and are getting a discount. What is the correct double entry for the discount in the books of Mbata Ltd?
- a) Debit Mbata Ltd and credit Bank.
 - b) Debit Mbata Ltd, debit Discount Received and Credit bank.
 - c) Debit Achan Ltd.and credit discount allowed.
 - d) Debit discount allowed and credit Achan Ltd.

SECTION B

Question 2:

- a) Why is it necessary to prepare bank reconciliation statements. **(4 marks)**
- b) The bank balance in the books of Shea Garage for the month ended 30 June 2000 was Shs. 894,680/=. Subsequently the following were discovered:-
- 1) Cheque No. 176276 dated 3 June 2000 for Shs.310,840 in favour of KIZEA Ltd has been correctly recorded in the bank statement, but entered in the cash book as Shs.301,840.
 - 2) Bank charges of Shs.169,560 and bank interest of Shs.109,100 were entered in the bank statement on 23 June 2000, but not included in the cash book.
 - 3) The bank statement shows that a cheque for Shs.29,310 received from Lukyamuzi was credited by the bank on 9 June 2000. It was dishonoured on 26 June 2000. No adjusting entries have been made in the cashbook.
 - 4) Cheque No.177145 for Shs. 15,100 paid to Beggar Ltd. had been recorded twice in the cashbook.
 - 5) Cheques received in the last few days of June 2000 totalling Shs.1,895,600 and recorded in the cash book were entered in the bank statement on 2 July 2000.
 - 6) A Cheque of Shs. 395,800 paid to KL Ltd. on 20 June 2000 was debited by the bank on 5 July 2000.
 - 7) A cheque of Shs.210,100 has been credited in the bank statement on 26 June 2000 but not yet recorded in the cash book.
 - 8) A standing order payment of Shs.15,000 on 17 June 2000 for Bible Publications has been recorded in the bank statement but is not in the cash book.

Required:

- (i) Prepare the adjusted cashbook and derive the balance to be included in Shea Garage's balance sheet as at 30 June 2000. **(10 marks)**
 - (ii) Prepare a bank reconciliation statement as at 30 June 2001 for Shea Garage. **(6 marks)**
- (Total 20 marks)**

Question 3:

Mundu, a sole trader, has very limited accounting knowledge. In the absence of his accounts clerk, he extracted the following trial balance as at 31 December 2000 from his business accounting records.

	Dr	Cr
	Shs.'000	Shs.'000
Stock in trade at 1.1.2000		10,700
Stock in trade at 31.12.2000	7,800	
Discounts allowed		310
Discount received	450	
Provision for doubtful debts	960	
Purchases	94,000	
Purchases returns	1,400	
Sales		132,100
Sales returns	1,100	
Property: at cost	70,000	
Provision for depreciation on property	3,500	
Motor vehicles: at cost	15,000	
Provision for depreciation on motor vehicles	4,500	
Capital – Mundu		84,600
Balance at bank	7,100	
Trade debtors		111,300
Trade creditors	7,600	
Administrative expenditure	16,600	
Drawings	9,000	
	<u>239,010</u>	<u>339,010</u>

Required:

- (a) Prepare a corrected trial balance as at 31 December 2000. **(8 marks)**

- (b) After redrafting the above trial balance, but before preparing the financial statements for the year ended 31 December 2000, the following were discovered:-
- i) The correct valuation of the stock in trade at 1 January 2000 is 12,000,000, apparently some stock lists had been misplaced.
 - ii) A credit note for Shs.210,000 has now been received from AB Ltd., this relates to goods returned in September 2000 by Mundu. However, by 20 December 2000, AB Ltd. had not accepted that the goods were not of merchantable quality and the returns have not yet been recorded in Mundu's books.
 - iii) Trade sample goods were sent to MASABA in November 2000. These were free samples, but were charged wrongly at Shs.1,000,000 to MASABA. A credit note has now been prepared to rectify the error, but has not yet been accounted for.
 - iv) In December 2000, Mundu painted the inside walls of his stock room using materials costing Shs.150,000 which are included in the purchases figure in the above trial balance. Mundu estimates that he saved Shs.800,000 by doing all the painting himself.

Required:

Prepare the journal entries necessary to amend the transactions in (i) to (iv) above.

(12 marks)

(Total 20 marks)

Question 4:

Mwanga wants to obtain a bank loan for the expansion of his business and this has necessitated the preparation of financial statements for the year ended 31 August 2000. As a result, the following information has been obtained after careful research.

- (i) Mwanga's business assets and liabilities are as follows:-

	1 Sept. 1999	31 Aug. 2000
	Shs.'000	Shs.'000
Stock in trade	8,600	16,800
Debtors for sales	3,900	4,300
Creditors for purchases	7,400	8,900
Rent prepaid	300	420
Electricity accrued	210	160
Balance at bank	2,300	1,650
Cash in hand	360	330

- (ii) All takings have been banked after deducting the following payments:-

	Shs.
Cash drawings (estimated)	8,000,000
Casual labour	1,200,000
Purchase of goods for resale	1,800,000

Note: Takings have been the source of all amounts banked.

- (iii) Cheque payments during the year ended 31 August 2000 have been summarised as follows:-

	Shs.'000
Purchases	101,500
Rent	5,040
Electricity	1,390
Delivery costs (to customers)	3,000
Casual labour	6,620

- (iv) It has been established that a gross profit of $33\frac{1}{3}\%$ on cost has been obtained on all goods sold.
- (v) Despite his apparent lack of precise accounting records, Mwanga is able to confirm that he has taken out of the business during the year under review goods for his own use costing Shs.600,000/-

Required:

- a) Prepare a computation of total purchases for the year ended 31 August 2000. (4 marks)
- b) Prepare Mwanga's Business Income Statement for the year ended 31 August 2000 and a balance sheet as at that date. (16 marks)

(Show your workings)

(Total 20 marks)

Question 5:

- a) What is depreciation? (1 mark)
- b) Give three causes of depreciation. (3 marks)
- c) List and briefly explain three methods of calculating depreciation. (6 marks)
- d) A business whose financial year ends on 31 December, purchased a machine for Shs.5,000,000 on 1 January 1997. The machine was to be depreciated by 10 equal installments.

On 4 January 1999, the machine was sold for Shs.3,760,000. It was replaced with a new machine costing Shs.6,000,000 on the same day. The new machine is depreciated at the rate of 10% on cost per annum.

Ignoring any depreciation in the year of sale, show the relevant entries for each of the following accounts for the years ended 31 December 1997, 1998 and 1999.

- (i) Machinery (3 marks)
- (ii) Provision for depreciation (4 marks)
- (iii) Machinery disposal (3 marks)

(Total 20 marks)

SECTION C

Question 7:

- a) Distinguish between capital and revenue expenditure. **(4 marks)**
b) Classify the following as either capital or revenue items.
- i) Purchase of leased premises.
 - ii) Annual depreciation of leased premises.
 - iii) Solicitors' fees in connection with the purchase of leasehold premises.
 - iv) The cost of adding extra storage capacity to a mainframe computer used by the business.
 - v) Computer repairs and maintenance costs.
 - vi) Profit on sale of office building.
 - vii) Revenue from sale of credit cards.
 - viii) Cost of new machinery.
 - ix) Customs duty charged on imported machinery.
 - x) Costs of installing new machinery in a business's premises.
 - xi) The wages of machine operators.
 - xii) Donations towards the construction of a new building. **(6 marks)**

(Total 10 marks)

Question 7:

Distinguish between the following and state their accounting treatment:-

- (a) Cash and trade discounts.
- (b) Bad debts and provisions for bad debts.
- (c) Depreciation and appreciation of property, plant and equipment
- (d) Tangible assets and intangible assets.
- (e) A debit balance and a credit balance.

(Total 10 marks)