

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II – PAPER 5

THURSDAY, 17 JUNE 2010

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) the concept of reporting all probable expenses of a given accounting period is known as:
- (a) accrual.
 - (b) prudence.
 - (c) materiality.
 - (d) going concern.
- (ii) Which of the following is **NOT** prepared on accrual basis?
- (a) Statement of financial reporting.
 - (b) Statement of comprehensive income.
 - (c) Statement of cash flows.
 - (d) Statement of recognised gains and losses.
- (iii) Mukasa bought a shirt at a mark up of 25%. What was the margin on this shirt?
- (a) $33\frac{1}{3}\%$
 - (b) 50%
 - (c) 25%
 - (d) 20%
- (iv) Which of the following statements is true about inventory turnover?
- (a) Inventory turnover = $\frac{\text{Cost of sale}}{\text{Average inventory}}$
 - (b) Inventory turnover = $\frac{\text{Average inventory}}{\text{Cost of sales}}$
 - (c) Inventory turnover = $\frac{\text{Turnover}}{\text{Average inventory}}$
 - (d) Inventory turnover = $\frac{\text{Trade receivables}}{\text{Average sales}}$
- (v) Which of the following statements is **NOT** true?
- (a) Direct costs can be traced to the items being manufactured.
 - (b) Factory overheads are costs in the factory for products and are traced to the items being manufactured.
 - (c) A manufacturing account is an account in which production cost is calculated.
 - (d) Work in progress comprises of items not completed at the end of the period.

- (vi) Royalties in a manufacturing concern are considered under:
- (a) factory overheads.
 - (b) work in progress.
 - (c) prime costs.
 - (d) administration expenses.
- (vii) Which of the following is/are **NOT** debited to the appropriation account of a partnership?
- (i) partners' salaries.
 - (ii) interest on capital.
 - (iii) interest on drawings.
 - (iv) goodwill
- (a) (i).
 - (b) (ii).
 - (c) (iii).
 - (d) (ii) and (iv).
- (viii) Which of the following is the correct order for the disbursement of profits on realisation of assets upon dissolution of a partnership?
- (a) Pay debts and liabilities to third parties, then pay each partner amounts due on advances, and finally the balance according to their profit sharing ratios.
 - (b) Pay creditors, then settle partners' current accounts, then advances due on their accounts and the residue in their profit sharing ratios.
 - (c) Settle partners' capital balances, then creditors and finally partners' advances due on their accounts.
 - (d) Pay debts and then agree on new profit sharing ratios.
- (ix) Which of the following is true about public limited companies?
- (a) Shareholders are held personally liable for the debts of the company in excess of the nominal value of their shares.
 - (b) They are listed on securities exchange.
 - (c) Their shares are not easily transferable.
 - (d) They are mainly for the rich individuals.
- (x) Which of the following is true about debenture holders?
- (a) They are paid last when the company winds up.
 - (b) They are paid a high dividend.
 - (c) They are not shareholders in the company.
 - (d) They are the directors of the company.

- (xi) The following are types of capital reserves for a company **EXCEPT**:
- (a) profit prior to incorporation.
 - (b) share premium.
 - (c) revaluation surpluses.
 - (d) retained earnings.
- (xii) Which following is **NOT** debited to the consignment account in the books of the consignor?
- (a) Proceeds from sales.
 - (b) Cost of goods.
 - (c) Transport costs.
 - (d) Consignee's disbursements.
- (xiii) Del credere commission, as applied in consignment accounting, is:
- (a) an additional commission for good work done.
 - (b) an additional commission paid to an agent who guarantees the debts incurred by the customers supplied by him / her.
 - (c) a commission for selling all the stock of goods consigned to an agent.
 - (d) an additional commission for exceeding the targeted sales.
- (xiv) In reference to discounting of bills, noting charges are borne by the:
- (a) drawer.
 - (b) drawee.
 - (c) acceptor.
 - (d) payee.
- (xv) The dividend pay out is obtained by dividing:
- (a) dividend per share by earnings per share.
 - (b) dividend per share by share price.
 - (c) dividends by earnings per share.
 - (d) proposed dividends by interim dividends paid out.
- (xvi) Which of the following is **FALSE** about a statement of cash flows?
- (a) Cash equivalents are liquid investments that are not readily convertible into known amounts of cash.
 - (b) Cash comprises of cash on hand and demand deposits.
 - (c) Cash flows are in flows and outflows of cash and cash equivalents.
 - (d) Investing activities are the acquisition and disposed of long-term assets and other investments not included in cash equivalents.

- (xvii) The following are examples of financing activities under IAS 7: Statement of Cash Flows **EXCEPT**:
- (a) cash proceeds from the issue of shares.
 - (b) cash receipts from the repayment of advances and loans made to other parties other than financial institutions.
 - (c) cash proceeds from the issue of debentures.
 - (d) Cash repayments of amounts borrowed.
- (xviii) A bonus issue of shares affects the:
- (a) statement of financial position.
 - (b) statement of comprehensive income.
 - (c) statement of cash flows.
 - (d) bank reconciliation statement.
- (xix) The is responsible for the budget at the district local government.
- (a) Chief Finance Officer
 - (b) Chairperson LC V
 - (c) Chief Internal Auditor
 - (d) Chief Administrative Officer
- (xx) What is virement as regards to revision of estimates?
- (a) Re-allocation of approved funds between votes under the same sub-program but not including transfers from employee costs and other charges.
 - (b) Re-allocation of approved funds between employee costs and other charges.
 - (c) Additional funds required for recurrent expenditure.
 - (d) Re-allocation of approved funds, among different votes.

SECTION B**Question 2**

- (a) Under IAS 7: Statement of Cash Flows, explain any **five** items that fall under investing activities.

(10 marks)

- (b) The following financial statements were prepared for Friendship Industries Ltd for the period ended 31 December:

Statement of financial position

	2009	2008	Net change
	Shs million	Shs million	Shs million
Current assets:			
Cash	1,011	1,163	(152)
Accounts receivable	1,012	957	55
Inventory	3,984	3,277	707
Prepaid expenses	<u>155</u>	<u>178</u>	<u>(23)</u>
Total current assets	<u>6,162</u>	<u>5,575</u>	<u>587</u>
Non-current assets:			
Land	510	510	-
Buildings	3,680	3,680	-
Equipment	8,798	8,555	243
Less accumulated depreciation	<u>(3,443)</u>	<u>(2,891)</u>	
	<u>5,355</u>	<u>5,664</u>	<u>-</u>
Total non-current assets	<u>9,545</u>	<u>9,854</u>	<u>(309)</u>
Total assets	<u>15,707</u>	<u>15,429</u>	<u>278</u>
Equity and liabilities:			
Current liabilities:			
Accounts payable	3,588	3,325	263
Salaries and wages unpaid	85	75	10
Income tax payable	55	50	5
Interest payable	62	74	(12)
Other accrued liabilities	<u>1,126</u>	<u>1,104</u>	<u>22</u>
Total current liabilities	<u>4,916</u>	<u>4,628</u>	<u>288</u>
Non-current liabilities:			
Long term debt	3,075	3,575	(500)
Equity:			
Common stock	3,750	4,350	(600)
Retained earnings	<u>3,966</u>	<u>2,876</u>	<u>1,090</u>
Total equity and liabilities	<u>15,707</u>	<u>15,429</u>	<u>278</u>

Statement of comprehensive income:

	Shs million	Shs million
Revenue		23,598
Cost of goods sold		<u>(11,456)</u>
Gross profit		12,142
Salaries and wages	4,123	
Depreciation expenses	1,052	
Other operating expenses	<u>3,577</u>	
Total operating expenses		<u>8,752</u>
Operating profit		3,390
Other revenues / (expenses)		
Profit on sale of equipment	205	
Interest expenses	(246)	<u>(41)</u>
Profit before tax		3,349
Income tax expense		<u>(1,139)</u>
Net profit		<u><u>2,210</u></u>

Required:

Using the direct method, generate the following cash flows:

- (i) Cash received from customers. (2 marks)
 - (ii) Cash paid to suppliers. (4 marks)
 - (iii) Cash paid to employees. (2 marks)
 - (iv) Cash paid for other expenses. (3 marks)
 - (v) Cash paid for interest expenses. (2 marks)
 - (vi) Cash paid for income taxes. (2 marks)
 - (vii) Investing activities. (3 marks)
- (Total 30 marks)**

SECTION C**Question 3**

- (a) Write short notes on each of the following in relation to debentures:
- (i) Fixed debenture. **(2 marks)**
 - (ii) Floating debenture. **(2 marks)**
 - (iii) Naked debentures. **(2 marks)**
- (b) The following trial balance was extracted from the books of Suburi Ltd for the year ended 31 May 2010:

	Shs '000'	Shs '000'
Authorized and issued share capital of Shs 1,000 per share		80,000
Share premium		10,000
6% debentures		20,000
Freehold property at cost	70,000	
Furniture and fittings at cost	4,000	
Inventory at year end	28,950	
Wages and salaries due		350
Provision for bad debts 1 June 2009		400
Provision for depreciation on furniture and fittings		1,200
Trade receivables	15,000	
Trade payables		9,280
Balance at bank	27,200	
Debenture interest due		600
Rates paid in advance	50	
Profits at 1 June 2009		3,300
Net profit for the year	-	20,070
	<u>145,200</u>	<u>145,200</u>

Note:

The directors have proposed a transfer Shs 12 million to the general reserve and a dividend of 10% on issued share capital.

Required:

Prepare a statement of financial position for Suburi Ltd as at 31 May 2010.
(10 marks)

- (c) Mafagio Ltd, a manufacturer, has provided the following information for the period to 31 May 2010:

Inventory 1 June 2009 at cost:	Shs '000'
Raw materials	29,000
Finished goods	77,100
Inventory 31 May 2010:	
Raw materials	34,000
Finished goods	65,100
Purchases of raw materials	73,000
Carriage on raw materials	2,200
Sale of finished goods	198,000
Direct factory wages	29,200
Factory expenses	18,800
Work in progress (at factory cost):	
1 June 2009	11,020
31 May 2010	15,600

Required:

Calculate the prime cost and the cost of manufacturing as at 31 May 2010.

(4 marks)

(Total 20 marks)

Question 4

- (a) In relation to consignment accounting, write short notes on the following:
- (i) consignor. **(2 marks)**
 - (ii) consignee. **(2 marks)**
- (b) Bamburi Ltd sent 500 tons of cement to Amin Stores Ltd on consignment basis. The consignee is entitled to 5% commission plus expenses. The cost of cement was Shs 120,000 per ton. Amin Stores Ltd paid the following expenses:
- Railway freight and handling Shs 1 million.
 - Godown rent and insurance Shs 1.5 million.

Bamburi Ltd drew on the consignee a draft for Shs 30 million which was duly accepted. It was discounted for Shs 28,650,000.

Later, Amin Stores Ltd reported that the entire consignment had been sold for Shs 76 million.

Required:

- (i) Prepare journal entries in the books of the consignor. **(10 marks)**
- (ii) From the books of Bamburi Ltd, extract ledger accounts for:
- Consignment to Amin Ltd. **(3 marks)**
 - Amin Stores Ltd **(2 marks)**
 - Goods sent on consignment. **(1 mark)**
- (Total 20 marks)**

Question 5

- (a) Give **two** limitations of ratio analysis in the interpretation of financial performance. **(4 marks)**
- (b) Below are summarized financial statements for Masaka Ltd as at 31 December 2009:

Statement of Comprehensive Income

	Shs million	Shs million
Turnover		3,600
Cost of sales		<u>(3,120)</u>
Gross profit		480
Distribution costs	108	
Administrative costs	<u>120</u>	<u>(228)</u>
		252
Other operating income		<u>18</u>
		270
Interest payable		<u>(62)</u>
Profit on ordinary activities before tax		208
Tax		<u>(88)</u>
Profit after tax		120
Retained profit brought forward		<u>430</u>
		550
Preference dividend paid	10	
Ordinary dividend proposed	<u>60</u>	<u>(70)</u>
Retained profit carried forward		<u>480</u>

Abridged Statement of Financial Position:

	Shs million	Shs million
Non-current assets:		
Land and buildings	2,000	
Less depreciation	<u>(560)</u>	1,440
Plant	160	
Less depreciation	<u>40</u>	<u>120</u>
		1560
Current assets:		
Inventory	360	
Trade receivables	420	
Bank	<u>60</u>	<u>840</u>
Total assets		<u>2,400</u>
Capital and liabilities:		
Ordinary share capital	600	
8% preference shares	<u>120</u>	720
Retained earnings		<u>480</u>
		1200
7% debentures		840
Current liabilities:		
Trade payables	84	
Bank overdrafts	128	
Current taxation	88	
Proposed dividend	<u>60</u>	<u>360</u>
		<u>2,400</u>

Note:

- (i) The market price of ordinary shares at 31 December 2009 was Shs 3 million.
- (ii) The number of ordinary share issued were 150,000.

Required:

Calculate the following:

- (i) Current ratio. (2 marks)
- (ii) Acid test ratio. (2 marks)
- (iii) Net profit after tax ratio. (2 marks)
- (iv) Return on capital employed. (2 marks)
- (v) Trade receivables collection period. (2 marks)
- (vi) Debt equity ratio. (2 marks)
- (vii) Earnings per share. (2 marks)
- (viii) Interest cover. (2 marks)

(Total 20 marks)

SECTION D

Question 6

The Local Governments Financial and Accounting Regulations, 1998, spell out the duties of the sub-county chief as an accounting officer.

Required:

Explain any **five** duties of a sub-county chief.

(10 marks)

Question 7

Under the Local Governments Financial and Accounting Regulations, 1998, explain any **five** duties of a public officer of administration concerned with the receipt, custody, disbursement or documentation of money, or with stores.

(10 marks)