

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL ONE

#### PRINCIPLES OF ACCOUNTING 1 - PAPER 1

**THURSDAY, 09 DECEMBER 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 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 1½ 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, before you attempt any questions.

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**SECTION A**

**Question 1**

- (i) Mawazo Ltd had an overdraft of Shs 17,600,000 at the start of November 2010. Mawazo Ltd allows its customers up to 40 days to pay their invoices. The following transactions took place during the month of November 2010.

November 3: Sold goods worth Shs 40 million on credit to a customer who always takes the full credit period.

November 8: Paid suppliers Shs 32 million.

November 20: Sold goods worth Shs 48 million for cash and allowed 5% discount.

November 28: Shs 12 million was received from a customer who was in dispute for a full settlement of the invoice of Shs 24 million.

Find how much Mawazo Ltd had in bank at the end of November 2010.

- (a) Shs 8,000,000
  - (b) Shs 10,400,000
  - (c) Shs 43,200,000
  - (d) Shs 48,000,000
- (ii) Which of the following statement(s) is / are true?
- (i) When payment for goods is made by a credit card, it is a credit transaction.
  - (ii) When cash is received in settlement of a debt, then it is a cash transaction.
  - (iii) When goods are sold and a customer is allowed 30 days to pay, then it is a credit transaction.
- (a) (i), (ii) and (iii).
  - (b) (i) and (ii).
  - (c) (i) and (iii).
  - (d) (iii).
- (iii) A form accompanying goods, sent by the supplier is known as:
- (a) a goods received note.
  - (b) an invoice.
  - (c) a credit note.
  - (d) a delivery note.

- (iv) A firm bought goods for Shs 382,500 and sold them for Shs 510,000. This means that:
- (i) Mark up is 25%.
  - (ii) Margin is  $33\frac{1}{3}\%$ .
  - (iii) Mark up is  $33\frac{1}{3}\%$ .
  - (iv) Margin is 25%.
  - (a) (i) and (ii).
  - (b) (i) and (iii).
  - (c) (iii) and (iv).
  - (d) (ii) and (iii).
- (v) Trade payables are:
- (a) current assets.
  - (b) non-current assets.
  - (c) current liabilities.
  - (d) non-current liabilities.
- (vi) Trade receivables are considered under:
- (a) statement of financial position.
  - (b) both statement of financial position and statement of comprehensive income.
  - (c) statement of comprehensive income.
  - (d) statement of changes in equity.
- (vii) The purchase of an accounting software is considered as:
- (a) capital expenditure.
  - (b) revenue expenditure.
  - (c) both revenue and capital expenditure.
  - (d) miscellaneous expense.
- (viii) Which of the following is **NOT** revenue expenditure?
- (a) Rent for premises.
  - (b) Repairs to machinery.
  - (c) Delivery charges on new assets.
  - (d) Redecorating existing offices.

- (ix) A debit balance on a ledger account indicates:
- (a) an asset or an expense.
  - (b) a liability or an expense.
  - (c) a liability or revenue.
  - (d) a liability.
- (x) An error of principle would occur if a motor vehicle purchased was:
- (a) credited to a non-current assets account.
  - (b) debited to the purchases account.
  - (c) debited to the non-current assets account.
  - (d) debited to the correct account but with a wrong amount.
- (xi) Which of the following is a book of original entry and part of the double entry system?
- (a) Sales day book.
  - (b) Purchases ledger.
  - (c) Cash book.
  - (d) Journal.
- (xii) Which of the following formulae would be used to compute a trader's net profit for the period?
- (a) Opening capital + drawings - capital introduced - closing capital.
  - (b) Closing capital + drawings - capital introduced - opening capital.
  - (c) Opening capital - drawings + capital introduced - closing capital.
  - (d) Closing capital - drawings + capital introduced - opening capital.
- (xiii) Which of the following is the correct treatment of bad debts recovered in the statement of comprehensive income?
- (a) A debit in the statement of comprehensive income.
  - (b) A charge in the statement of comprehensive income.
  - (c) A credit in the statement of comprehensive income.
  - (d) A charge in the statement of financial position.
- (xiv) The capital of a sole trader would change as a result of:
- (a) a creditor being paid his / her account by cheque.
  - (b) raw materials being purchased on credit.
  - (c) non-current assets being purchased on credit.
  - (d) wages being paid in cash.

- (xv) The opening balance at 1 October 2010 of Zulu Ltd, of the trade receivables account showed the total amount owed as Shs 25,912,000. During October, Zulu Ltd made sales of Shs 215,992,000. Half of these sales were cash. At the end of October, Zulu Ltd's customers owed Shs 41,968,000. How much cash did Zulu Ltd receive from their credit customers during October 2010?
- (a) Shs 232,048,000.
  - (b) Shs 199,936,000
  - (c) Shs 124,052,000
  - (d) Shs 91,940,000
- (xvi) The purchases day book can be best described as:
- (a) a list of purchases made on credit.
  - (b) part of the double entry system.
  - (c) a list of purchases made for cash.
  - (d) containing suppliers' accounts.
- (xvii) An invoice shows a total of Shs 12,800,000 less  $2\frac{1}{2}\%$  cash discount. If this was paid in time, the amount of the cheque paid would be:
- (a) Shs 11,840,000
  - (b) Shs 12,160,000
  - (c) Shs 12,480,000
  - (d) Shs 11,200,000
- (xviii) The total of the purchases day book is transferred to the:
- (a) debit side of the purchases account.
  - (b) credit side of the purchases day book.
  - (c) debit side of the purchases day book.
  - (d) debit side of the purchases ledger.
- (xix) Receipts and payments accounts for non-profit-making organisations do **NOT** show:
- (a) bank balances.
  - (b) receipts from sale of assets.
  - (c) the accumulated fund.
  - (d) cheques paid out during the year.
- (xx) Which of the following errors would be disclosed by the trial balance?
- (a) Error on a purchases invoice.
  - (b) Purchases from Kidu entered in Kadula's account.

- (c) Overcast of the total on the sales account.
- (d) Carriage outwards debited to sales account.

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

- (a) Why should a trial balance be prepared? **(2 marks)**
- (b) Give **six** errors that do not affect the trial balance. **(3 marks)**
- (c) The following account balances were extracted from the books of Zizu for the period ended 30 November 2010:

	<b>Shs</b> <b>'000'</b>
Purchases	148,000
Sales	224,000
Purchases returns	778
Sales returns	8,016
Opening inventory	35,402
Warehouse wages	1,004
Warehouse expenses	224
Discounts allowed	146
Discounts received	320
Lighting and heating	796
Travelling expenses	138
Repairs	74
Rent paid	1,800
Rent received	600
Commission received	744
Furniture and fittings	10,600
Plant and machinery	55,364
Motor vehicles	27,302
Trade receivables	2,706
Trade payables	48,532
Cash at hand	5,534
Cash at bank	18,872
Mortgage	12,000
Loan	4,000
Drawings	7,000
Capital	32,000

**Required:**

Extract a trial balance for Zizu as at 30 November 2010.

**(15 marks)**  
**(Total 20 marks)**

**Question 3**

Wolokoso carried out business as a retailer and the following account balances were extracted from his books for the period ended on 30 November 2010:

	<b>Shs '000'</b>
Capital	17,984
Drawings	4,800
Bad debts provision	424
Provision for bad debts	504
Bank overdraft	2,268
Carriage inwards	1,144
Carriage outwards	236
Shop equipment at cost	2,200
General expenses	844
Insurance	520
Lighting and heating	472
Motor vehicle at cost	2,880
Provision for depreciation on motor vehicles	576
Purchases	174,776
Rent	1,440
Sales	194,796
Inventory 1 December 2009	15,888
Trade receivables	11,352
Trade payables	6,772
Salaries	7,048
Upkeep of premises	200
Sales returns	780
Purchases returns	3,948
Motor vehicle running expenses	1,588
Cash at hand	256
Inventory 30 November 2010	16,784

Additional information:

- (i) The rent paid was only for nine months to 31 August 2010.
- (ii) Provision for bad debts is to be made up to Shs 552,000 and provision for discounts is to be created of 5% of remaining debtors.
- (iii) Insurance paid in advance at November 2010 amounted to Shs 120,000.
- (iv) An account due on repairs to the roof of the premises amounting to Shs 112,000 had been omitted from the books.



- (v) Depreciation of the motor vehicle is to be provided for at the rate of 20% per annum on cost.
- (vi) Provide a sum of Shs 400,000 in respect of depreciation of the shop equipment.

**Required:**

- (a) Prepare Wolokoso's statement of comprehensive income for the period ended 30 November 2010.  
**(12 marks)**
- (b) Prepare Wolokoso's statement of financial position as at 30 November 2010.  
**(8 marks)**  
**(Total 20 marks)**

**Question 4**

- (a) Explain the following in relation to a non-profit-making organisation:
  - (i) Accumulated fund.  
**(1 mark)**
  - (ii) Why a receipts and payments account is not a satisfactory record of the organisation's activities.  
**(3 marks)**
- (b) The following figures were provided by the treasurer of the Lugogo Tennis Club and refer to the year ended 31 October 2010.  
**Shs '000'**

1 November 2009:

Cash balance	120,000
Rates due and unpaid	4,000
Subscriptions owing to the club	2,000

Receipts and payments for the year ended 31 October 2010 were as follows:

	<b>Shs '000'</b>
Subscriptions (including Shs 2 million arrears)	35,000
Tournaments (entrance fees received)	28,000
Tournament (cost of prizes)	16,000
Postage and stationery	4,000
Lighting and heating (club house)	12,000
Rates (including arrears for previous year Shs 4 million)	24,000
Cost of new roller, bought for cash	16,000
Repairs to netting	4,000
Club house decoration (expected to last 5 years)	20,00
Wages of part-time grounds man	100,000

On 31 October 2010, subscriptions of Shs 6 million due for the year had not been paid but were certain to be received. The rates paid included Shs 4 million for the first quarter of the year to 31 October 2011. The club's furniture and fittings are depreciated by Shs 8 million every year.

**Required:**

Prepare Lugogo Tennis Club's:

- (i) receipts and payments account as at 31 October 2010.
- (ii) income and expenditure account for the year ended 31 October 2010.

**(8 marks)**

**(Total 20 marks)**

**Question 5**

- (a) List the items that will appear in the current accounts of a partnership and whether they are debit or credit.

**(4 marks)**

- (b) Kato and Babirye are in partnership sharing profits and losses as: Kato  $\frac{3}{5}$  and Babirye  $\frac{2}{5}$ .

Their fixed capitals are:

- Kato: Shs 32,000,000
- Babirye: Shs 20,000,000

Interest of 5% to be paid on fixed capital.

Babirye to receive salary of Shs 1,600,000 per annum and 2% commission on the balance of trading profits after charging her salary but before changing interest on capital.

The balances on current accounts at 1 November 2009 were:

- Kato: credit Shs 1,680,000.
- Babirye: credit Shs 1,400,000.

Drawings during the year:

- Kato: Shs 8,000,000
- Babirye: Shs 7,200,000.

Trade profit for the year ended 31 October 2010 was Shs 21,600,000.

**Required:**

Prepare, in a columnar form, current accounts for the partners for the year ended 31 October 2010.

**(16 marks)**

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**(Total 20 marks)**

**SECTION C**

**Question 6**

List **five** items that may cause the bank statement balance **NOT** to agree with the cash book balance.

**(10 marks)**

**Question 7**

Classify the following as either revenue or capital expenditure:

- (a) Delivery charges on new assets.
- (b) Extension costs of new offices.
- (c) Legal charges for debt collection.
- (d) Interest on loan to purchase air conditioning.
- (e) Maintenance of machinery.
- (f) Repairs of assets.
- (g) Wages of store assistant.
- (h) Demolition costs to remove some debris before new construction can commence
- (i) Inspection and testing the fixed asset before use.
- (j) Carriage cost on sales.

**(10 marks)**