

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II - PAPER 5

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 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, before attempting any question.

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SECTION A

Question 1

- (i) Which of the following relates to the dual aspect of accounting?
- (a) Assets = liabilities.
 - (b) Assets = capital - liabilities.
 - (c) Assets = capital + liabilities.
 - (d) Assets = liabilities - capital.
- (ii) Which of the following ratios do(es) **NOT** relate to the use of assets?
- (a) Assets/sales.
 - (b) Sales/non-current assets.
 - (c) Current ratio.
 - (d) Inventory turnover.
- (iii) Price earnings ratio is calculated as:
- (a) $\frac{\text{market price}}{\text{earnings per share}}$
 - (b) $\frac{\text{earnings per share}}{\text{market price}}$
 - (c) $\frac{\text{profit for the year}}{\text{earnings per share}}$
 - (d) $\frac{\text{dividends}}{\text{market price}}$
- (iv) The assumption that the effects of transactions and other events are recognised when they occur, not when cash flows is known as:
- (a) accruals.
 - (b) going concern.
 - (c) relevancy.
 - (d) completeness.
- (v) The valuation technique under which assets are recorded at the amount that would be received in an orderly disposal is:
- (a) current cost.
 - (b) present value.
 - (c) historic cost.
 - (d) realisable value.

- (vi) Which of the following is **NOT** a duty of a partner?
- (a) Being just and faithful to the other partners.
 - (b) Carrying on a competing business or using the property of the firm for private purposes.
 - (c) Being bound to act within the scope of his/her authority.
 - (d) Being bound to share profits/losses equally with the other partners.
- (vii) When a new partner is admitted in the partnership, the correct treatment for goodwill, using the revaluation method, is by:
- (a) debiting the goodwill account, and crediting the value of the goodwill to the old partners in their old profit sharing ratios.
 - (b) debiting the goodwill account, and crediting the value of the goodwill to the old partners in their new profit sharing ratios.
 - (c) debiting the value of the goodwill to the old partners in their old profit sharing ratios crediting goodwill.
 - (d) debiting the value of the goodwill to the old partners in their new profit sharing ratios, and crediting the value of the goodwill to the old partners in their old profit sharing ratios
- (viii) Which of the following is **NOT** considered under prime cost in manufacturing accounts?
- (a) Factory power.
 - (b) Cost of materials.
 - (c) Work in progress.
 - (d) Wages of operators.
- (ix) Which of the following is **NOT** classified under capital reserves of a limited company?
- (a) Profits prior to incorporation.
 - (b) Share premium and debenture premium.
 - (c) Revaluation of assets.
 - (d) Profit for the year.
- (x) Which of the following is true about virement warrants of funds?
- (a) To transfer funds between employee costs and other charges.

- (b) Transfer of funds between votes under the same programme.
- (c) To create a new post or alter on approved salary scale.
- (d) To implement a new policy.

- (xi) Which of the following is true about work in progress for a manufacturing concern?
- (a) If opening inventory of work in progress is bigger than closing inventory, there will be a decrease in the cost of manufactured goods.
 - (b) If opening inventory of work in progress is bigger than closing inventory, there will be an increase in the cost of manufactured goods.
 - (c) The cost of manufactured goods is given by prime cost plus over heads plus closing work in progress.
 - (d) The cost of manufactured good is given by prime cost plus over heads minus opening work in progress.
- (xii) Which of the following statements is **NOT** true about share capital?
- (a) Nominal capital is the face value of the shares which the company is authorized to issue by its memorandum of association.
 - (b) Issued capital is the nominal value of the shares which are issued to the public for subscription.
 - (c) Called up capital is part of the subscribed capital which has been paid.
 - (d) Paid up capital is part of the subscribed capital which has been paid up by shareholders.
- (xiii) 1,000 ordinary shares with a nominal value of Shs 4,000 are issued at Shs 10,000 each. Which of the following statements is **NOT** true about the accounting treatment for the above transaction?
- (a) Debit bank Shs 10,000,000.
 - (b) Credit ordinary share capital Shs 4,000,000.
 - (c) Debit ordinary share applicants Shs 6,000,000.
 - (d) Credit share premium Shs 6,000,000.
- (xiv) Which of the following items does **NOT** appear on the debit side of a consignment account?
- (a) Cost of goods sold.
 - (b) Transport cost.
 - (c) Agent's commission.
 - (d) Sales proceeds.

- (xv) Which of the following is true about a bill of exchange duly accepted?
- (a) Debit bills receivable account; credit the party from whom or on whose behalf the bill has been received.
 - (b) Debit the party from whom or on whose behalf the bill has been received; credit bills receivable account.
 - (c) Debit the drawer; credit the acceptor.
 - (d) Debit the drawee; credit the drawer.
- (xvi) The first step in evaluating a statement of cash flows should be to examine:
- (a) individual operating cash flow items.
 - (b) the major sources and uses of cash.
 - (c) individual investing cash flow items.
 - (d) individual financing cash flow items.
- (xvii) When preparing a statement of cash flows using the indirect method, depreciation for the year:
- (a) is subtracted from operating profit.
 - (b) is added back to operating profit.
 - (c) is ignored.
 - (d) does not arise.
- (xviii) Which of the following is **NOT** true about the investment of funds from the consolidated fund?
- (a) Invested with the bank at call.
 - (b) Invested subject to notice not exceeding twenty four months.
 - (c) Invested subject to notice not exceeding twelve months.
 - (d) Investment of trustee funds and approved by the minister.
- (xix) the authority to withdraw funds from the consolidated fund is given by the:
- (a) secretary to the treasury.
 - (b) minister.
 - (c) accountant general.
 - (d) governor of Bank of Uganda.
- (xx) Which of the following does **NOT** form part of agency accounts for local governments?
- (a) Works.
 - (b) Referral hospitals.
 - (c) Delegated staff salaries.

- (d) District hospitals.

SECTION B

Question 2

- (a) In respect of limited companies, briefly explain the following:

- (i) ordinary shares.
- (ii) preference shares.
- (iii) debentures.
- (iv) revenue reserves.
- (v) capital reserves.
- (vi) share premium.

(12 marks)

- (b) The following trial balance was extracted from the books of Dembe Ltd as at 31 October 2010:

	Dr Shs '000'	Cr Shs '000'
Share capital, authorized and issued 40,000 shares of Shs 4,000 per share		160,000
Share premium		40,000
6% debentures		80,000
Sales		570,480
Purchases	467,760	
Returns inwards	908	
Returns outwards		1,436
Bad debts	1,392	
Provision for doubtful debts.		1,040
Rent and rates	4,200	
Lighting and heating	1,680	
Salaries	48,960	
General expenses	10,644	
Trade receivables/payables	65,040	36,720
Freehold land and buildings at cost	160,000	
Furniture and equipment at cost	80,000	
Provision for depreciation on furniture 1 November 2009		29,600
Inventory 1 November 2009	73,040	
Bank balance	11,820	
Debenture interest	2,400	
Opening profit b/d		<u>8,568</u>
	<u>927,844</u>	<u>927,844</u>

Additional information:

- (a) Debenture interest is payable on 1 November and 1 May each year.
- (b) Provision for doubtful debts is to be reduced by Shs 80,000.
- (c) Rates paid in advance at 31 October 2010 amounted to Shs 200,000.
- (d) Lighting and heating due at 31 October 2010 amounted to Shs 284,000.
- (e) Depreciation is to be charged on furniture and equipment at the rate of 10% per annum on cost.
- (f) Inventory at 31 October 2010 amounted to Shs 78,484,000.
- (g) A dividend of Shs 16,000,000 is proposed for the year ended 31 October 2010.

Required:

Prepare, for internal use for Dembe Ltd, a statement of:

- (i) comprehensive income for the period ended 31 October 2010.
(10 marks)
- (ii) financial position as at 31 October 2010.

(8 marks)

(Total 30 marks)

SECTION C

Question 3

- (a) According to the Local Governments (Financial and Accounting) Regulations (Statutory Instruments Supplement), 2007, S.59, each local government council should maintain the following books of account:
 - (i) Cash book.
 - (ii) Journal.
 - (iii) General ledger and subsidy ledger.
 - (iv) Abstracts
 - (v) Asset registers.
 - (vi) Vote book.

Required:

State the information that is recorded in any **five** of the above books.

(10 marks)

- (b) Mahogane is a sub-accountant for Muyuge District Local Council. His supervisor has provided him with a bank statement for Muyuge Hospital for the month of October 2010 where the following are noted:

- (i) Balance as per bank statement Shs 3,500,000.
- (ii) Remittances in transit but not yet credited to the current account Shs 23,500,000.
- (iii) Cheques issued but not yet presented to the bank:
Medical stores Shs 15,000,000.
Wamma for firewood Shs 650,000.
Mukomozi Shs 2,500,000.
- (iv) Bank charges of Shs 500,000.
- (v) Standing order for water bills Shs 800,000 was paid by the bank.

Required:

Prepare a bank reconciliation statement for Mayuge hospital for the month of October 2010.

(10 marks)

(Total 20 marks)

Question 4

- (a) According to IAS7: Statement of Cash Flows, a statement of cash flows can be prepared under the following headings:
 - Operating activities.
 - Investing activities.
 - Financing activities.

Required:

State any **two** items under each of the above headings.

(6 marks)

- (b) The following information was extracted from the financial statements of Mwisho Ltd for the purpose of preparing a statement cash flows for the period ended 30 November 2010:

	Shs '000'
Cash received from sale of equipment	762
Cash paid to retire a long term debt	500
Cash paid for dividends	1,120
Cash paid for purchase of equipment	1,300
Net income for the period	2,210
Cash paid to retire stock	600
Cash balance as at 1 December 2009	1,163
Depreciation expense	1,052

Decrease in prepaid expenses	23
Gain on sale of equipment	205
Increase in accounts receivable	55
Increase in inventory	707
Decrease in accounts payable	263
Increase in salary and wages payable	10
Decrease in interest payable	12
Increase in income tax payable	5
Increase in other accrued liabilities	22
Cash balance at 30 November 2010	1,011

Required:

Using the indirect method of presentation, prepare a statement of cash flows for Mwisho Ltd for the period ended 30 November 2010.

(14 marks)

(Total 20 marks)

Question 5

- (a) List **four** ways in which goodwill can arise in the firm. **(4 marks)**
- (b) Goodwill in an existing business may arise as a result of several factors. State clearly the factors that may cause the purchaser of an existing business to pay more than the net worth of its assets. **(4 marks)**
- (c) Abbasi and Bwino are partners sharing profits and losses in the ratio 3:2. They admit Ceaser as a partner who is unable to bring in cash for goodwill but pays Shs 48 million as his capital. The goodwill of the firm is valued at Shs 27 million and the new ratio after admitting Ceaser is 5:2:2.

Required:

Prepare journal entries where goodwill is:

- (i) retained in the books on the admission of Ceaser. **(5 marks)**
- (ii) written off on the admission of Ceaser. **(7 marks)**

(Total 20 marks)

SECTION D

Question 6

Briefly explain any **five** limitations of accounting ratios.

(10 marks)

Question 7

Write short notes on each of the following costs in relation to manufacturing accounts:

- (i) Prime cost.
(ii) Factory overheads.
(iii) Production cost.
(iv) Total cost.
(v) Work in progress.

(10 marks)