

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING I – PAPER 1

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 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.

SECTION A

Question 1

- (i) Which of the following statements is **NOT** correct about returns inwards?
- (a) The inventory of goods is increased by the goods returned.
 - (b) The returns inwards account is credited with the amount of goods returned.
 - (c) Trade receivables are reduced by the amount of goods returned.
 - (d) Trade receivables account is credited with the amount of the goods returned.
- (ii) The following items are debited in the statement of comprehensive income **EXCEPT**:
- (a) wages.
 - (b) advertising.
 - (c) drawings.
 - (d) salaries of staff.
- (iii) Which of the following is **NOT** true about the trial balance?
- (a) A trial balance may balance with some errors.
 - (b) Balancing the trial balance proves that the books are correct.
 - (c) Balancing the trial balance may not detect errors of omission.
 - (d) Items recorded in the accounts on the debit side should be equal to the items on the credit side.
- (iv) Which of the following statements is **NOT** true about carriage inwards?
- (a) Carriage inwards is the cost of transporting goods to the customers of the business.
 - (b) Carriage inwards cost is added to purchases.
 - (c) Carriage inwards is the cost of transporting to goods into the firm.
 - (d) Carriage inwards increases the cost of sales by increasing the value of purchases.
- (v) Which of the following is **NOT** an accounting convention?
- (a) Materiality.
 - (b) Accruals.
 - (c) Prudence.
 - (d) Consistency.

- (vi) Which of the following is **NOT** true about the realisation concept?
- (a) Profit is earned when goods or services are passed to the customer.
 - (b) Profit is earned when a customer incurs a liability for the goods or services.
 - (c) Profit is earned when the order for goods or services is received.
 - (d) Profit is earned when goods and services exchange hands.
- (vii) Which of the following is **NOT** a book of original entry?
- (a) Cash book.
 - (b) General journal.
 - (c) Returns day book.
 - (d) Sales ledger.
- (viii) Mulege is an accounts assistant who uses the imprest system in accounting for imprest. His imprest for the month of November was Shs 2 million and he spent Shs 1.5 million during the month. How much will he be reimbursement for the month of December?
- (a) Shs 1,500,000.
 - (b) Shs 500,000.
 - (c) Shs 2,000,000.
 - (d) Shs 1,250,000.
- (ix) Which of the following is **NOT** true about banking?
- (a) A payee is a person to whom a cheque is paid.
 - (b) A drawer is the bank on which the cheque is drawn.
 - (c) A current account is a bank account used for regular payments.
 - (d) A direct debit payment is made out of the payer's bank direct to the payee's bank on payer's instructions.
- (x) Which of the following statement is **NOT** true about discounts?
- (a) Discounts allowed are given to encourage customers pay quickly.
 - (b) Discounts received are received from suppliers when the firm pays quickly.
 - (c) Discounts received are debited in discount received account.
 - (d) Discounts allowed are an expense.
- (xi) Which of the following items is **NOT** a revenue expenditure?
- (a) legal charges for debt collection.
 - (b) carriage on purchases and sales.
 - (c) interest on a loan to purchase an air conditioner.
 - (d) delivery charges on new assets.

- (xii) Which of the following statements is **NOT** true?
- (a) Trade discounts are given to encourage buying in bulk and an entry should be made in the double entry records.
 - (b) Cash discounts can be discounts allowed or discounts received.
 - (c) Cash discounts are reflected in the double entry system.
 - (d) Cash discounts encourage early payments.
- (xiii) A computer was purchased at Shs 5 million and was to be depreciated over 3 years on straight line basis with an expected residual value of Shs 2 million. It was sold for Shs 1.5 million. How much profit or loss was made on disposal?
- (a) Profit Shs 500,000
 - (b) Loss Shs 500,000
 - (c) Profit Shs 2,000,000
 - (d) Loss Shs 2,000,000
- (xiv) Last year the trade receivables were Shs 20 million and a provision for bad debts of 2% was made. This year the trade receivables are Shs 25 million and a provision of 2% is to be maintained. How much is the provision for the current year?
- (a) Shs 500,000
 - (b) Shs 400,000
 - (c) Shs 100,000
 - (d) Shs 450,000
- (xv) Which of the following is **NOT** true about bad debts recovered?
- (a) To reinstate the debt, debit the trade receivables account.
 - (b) To reinstate the debt, credit the bad debts recovered account.
 - (c) When payment is received, debit bank account.
 - (d) when payment is received, credit trade receivables account.
- (xvi) Mwese, a sole trader in Kikuubo hires a shop at Shs 24 million per annum, payable three months in advance. He entered the shop on 1 July 2009 and made a deposit of 12 million. His accounting year ends on 30 November. How much money will be recognised in his income statement as rent for the year to 30 November 2009?
- (a) Shs 10 million.
 - (b) Shs 12 million.
 - (c) Shs 24 million.
 - (d) Shs 1 million.

- (xvii) Which of the following statements is **NOT** true about goods taken for home use from the business?
- (a) Credit the purchases account with the amount of goods taken.
 - (b) Debit the cash account with the amount of goods taken.
 - (c) Debit the drawings account with amount of goods taken.
 - (d) The goods withdrawn affect the profits made for the period.
- (xviii) Which of the following items is **NOT** included in the calculation of gross profit for the period?
- (a) Carriage inwards.
 - (b) Returns outwards.
 - (c) Carriage outwards.
 - (d) Returns inwards.
- (xix) A purchase of a motor van for Shs 10 million had been entered, in error, in the motor expenses account. What type of error is this?
- (a) Error of original entry.
 - (b) Compensating error.
 - (c) Error of commission.
 - (d) Error of principle.
- (xx) Okello wants to establish a construction business. He expects his profit margin to be 25%. What is his expected profit mark-up?
- (a) 16.7%
 - (b) 33.3%
 - (c) 50%
 - (d) 20%

SECTION B**Question 2**

The following transactions took place between 1 - 30 November for Mukasa:

- 1 Balances b/f:
 - Cash in hand Shs 1,266,000
 - Cash at bank Shs 23,904,000
- 2 Paid the following accounts by cheque less discount of 5% in each case:
 - Muntu Shs 480,000.
 - Mukama Shs 1,560,000.
 - Mwalye Shs 2,640,000.
- 4 Kamiti paid Mukasa a cheque of Shs 588,000.
- 6 Cash sales paid directly into the bank Shs 294,000.
- 7 Paid insurance by cash Shs 390,000.
- 9 The following trade debtors paid their account after deducting $2\frac{1}{2}\%$ discount:
 - Abdul Shs 960,000
 - Gabriel Shs 3,840,000
 - Gupta Shs 3,120,000.
- 12 Paid motor expenses cash Shs 600,000
- 18 Cash sales Shs 588,000
- 21 Paid salaries by cheque Shs 720,000
- 23 Paid rent by cash 360,000.
- 28 Received a cheque for Shs 3,000,000 being loan from Makwasi.
- 30 Paid for stationery by cheque Shs 162,000.

Required:

Write up the cash book of Mukasa, open and post accounts for discounts received and discounts allowed.

(20 marks)**Question 3**

- (a) Give **three** main reasons why the bank statement balance may differ from the cash book balance at any one time.

(6 marks)

- (b) At the close of business on 31 October 2009, Mawingo's cashbook showed a debit balance of Shs 5,085,600 which did not agree with the bank statement.

The following were the causes of disagreement:

- (i) Cheques issued but not presented:
 - Agnes Shs 575,500.
 - Andrew Shs 1,187,500.
 - Mwaka Shs 190,000.
- (ii) Lodgment at 30 October not credited by bank Shs 925,750.
- (iii) Traders' credits not entered in cash book:
 - Buffo Shs 28,750.
 - Wangwe Shs 83,000.
- (iv) Standing order for Shs 52,500 for water to NWSC had been paid by the bank but not entered in the cash book.
- (v) Bank charges of Shs 21,100 had been made by the bank.

Required:

Prepare:

- (a) the adjusted cash book.

(6 marks)

- (b) a bank reconciliation statement as at 31 October 2009 for Mawingo.

(8 marks)

(Total 20 marks)

Question 4

Mustafa carries on a retail business in Owino market and the balances extracted from his books for the period ending 30 November 2009 were as follows:

	Dr. '000'	Cr '000'
Sales		120,000
Purchases	105,000	
Sales and purchases returns	1,500	1,860
Opening inventory	30,000	
Provision for bad debts		240
Wages and salaries	9,000	
Rates	1,800	
Telephone	300	
Shop fittings at cost	12,000	
Van at cost	9,000	
Trade receivables and payables	2,940	2,100
Bad debts	60	
Capital		53,700
Bank balance	900	
Drawings	5,400	

Additional information:

- (i) Inventory at 30 November 2009 was valued at Shs 36 million.
- (ii) Accrued wages Shs 1.5 million
- (iii) Rates prepaid Shs 150,000
- (iv) The provision for bad debts to be increased to 10% of trade receivables.
- (v) Telephone account outstanding Shs 66,000.
- (vi) Depreciation:
 - Shop fittings 10% per annum.
 - Van 20% per annum on cost.

Required:

Prepare a:

- (a) statement of comprehensive income for the period to 30 November 2009.
(12 marks)
 - (b) statement of financial position as at 30 November 2009.
(8 marks)
- (Total 20 marks)**

Question 5

- (a) State **six** items to be included in a partnership deed.
(6 marks)
- (b) Odoi and Oguti are in partnership sharing profits and losses in the ratio of 2:1. Their accounts are made for the year ended 31 October 2009 as follows:

Current accounts balances 1 November 2008	Shs '000'
Odoi	1,200 (Cr)
Oguti	1,050 (Dr)
Drawings during the year ended 31 October 2009	
Odoi	1,050
Oguti	6,000

Interest on capital

Odoi	5% of Shs 39 million
Oguti	5% of Shs 21 million

- Oguti's annual salary is Shs 3 million.
- Net profit to be shared after charging interest on capital and allowing for Oguti's salary is Shs 16.2 million.

Required:

Prepare the partners':

(i) appropriation account.

(7 marks)

(ii) current accounts.

(7 marks)

(Total 20 marks)

SECTION C

Question 6

(a) Describe the causes of asset depreciation.

(8 marks)

(b) Describe the accounting treatment for depreciation in the statement of comprehensive income and statement of financial position?

(2 marks)

(Total 10 marks)

Question 7

(a) Outline **five** books of original entry.

(5 marks)

(b) List the main uses of the journal in book-keeping.

(5 marks)

(Total 10 marks)