

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING I – PAPER 1

MONDAY, 28 NOVEMBER 2011

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 book, before attempting any question.

SECTION A**Question 1**

- (i) Which of the following is **NOT** true about the double entry of a transaction?
 - (a) Every transaction affects two items and should therefore be entered twice.
 - (b) A debit entry is always an asset or an expense.
 - (c) An increase in an asset is a debit entry.
 - (d) A reduction in capital is a credit entry.
- (ii) Which of the following is an example of a nominal account?
 - (a) Motor vehicles.
 - (b) Rent paid.
 - (c) Musoke, a debtor.
 - (d) Mustafa, a creditor.
- (iii) A person who owes a firm money is a:
 - (a) creditor.
 - (b) debtor.
 - (c) supplier.
 - (d) consumer.
- (iv) Which of the following is **NOT** true about credit notes?
 - (a) Credit notes are always printed in red.
 - (b) A credit note may be issued when an error has been made on an invoice.
 - (c) Credit notes can serve as invoices.
 - (d) A credit note may be issued where goods have been damaged in some minor way.
- (v) Which of the following is a current liability?
 - (a) Capital.
 - (b) Trade receivables.
 - (c) Bank overdraft.
 - (d) Mortgage loan.
- (vi) Which of the following items would be classified as revenue expenditure?
 - (i) Purchase of a new delivery van.
 - (ii) Redecorating the transport manager's office.
 - (iii) Payment of road fund licenses for a fleet of vehicles.
 - (iv) Purchase of a new exhaust pipe for a van.

- (a) (i), (ii), (iii) and (iv).
 (b) (ii), (iii) and (iv)
 (c) (i) and (ii)
 (d) (iii) only.
- (vii) Pompey Ltd owes Volts Ltd for some goods it purchased recently. Pompey Ltd wishes to settle the invoice early and get a discount. The correct double entry to record the above transaction in the books of Volts Ltd., would be to debit:
- (a) Volts Ltd; credit bank, credit discounts received.
 (b) Volts Ltd; debit discounts received, credit bank.
 (c) bank; credit discounts allowed, credit Pompey Ltd.
 (d) bank; debit discounts allowed, credit Pompey Ltd.
- (viii) Which of the following is a book of prime entry and part of the double entry system?
- (a) Journal.
 (b) Cash book.
 (c) Sales day book.
 (d) Purchases ledger.
- (ix) A purchase of a motor vehicle for Shs 25 million has been debited in error to the motor expenses account. This type of error is an error of:
- (a) principle.
 (b) commission.
 (c) original entry.
 (d) complete reversal of entries.
- (x) Mawazo Social Club had the following assets and liabilities as at 1 January 2011.

	Shs '000'
Furniture	2,400
Projector and other visual aids	1,200
Library of reference books	2,000
Printing bill due	250
Members subscriptions received in advance	200

Calculate the accumulated fund for the club.

- (a) Shs 5,150,000.
 (b) Shs 6,050,000.
 (c) Shs 5,600,000.
 (d) Shs 450,000.

- (xi) The following details relate to Muzanganda Social Club subscriptions for the period ended 31 October 2011:

Subscriptions outstanding for the previous year shs 8 million

Subscriptions for the year ended 31 October 2011 including the

outstanding of the previous period Shs 196 million

Subscriptions outstanding for the year ended 31 October 2011 Shs 6 million.

Calculate the amount of income to be transferred to the income and expenditure statement for the period ended 31 October 2011.

- (a) Shs 198 million.
 - (b) Shs 210 million
 - (c) Shs 194 million.
 - (d) Shs 196 million.
- (xii) Which of the following does **NOT** appear in a sales ledger control account?
- (a) Total sales for the period.
 - (b) Cash received from customs for the period.
 - (c) Returns outwards to suppliers.
 - (d) Returns inwards from customers.
- (xiii) The source of the credit purchases that are shown in the purchases ledger control account is:
- (a) total of purchases day book.
 - (b) total of returns outwards day book.
 - (c) cash book bank column.
 - (d) cash book cash column.
- (xiv) A company received news that one of their major customers had been declared bankrupt, and was therefore not able to pay his debts. His debt had been provided for as doubtful earlier in the year.

The entries now required are:

- (a) Debit bad and doubtful debts; credit accounts receivable.
- (b) Debit accounts receivable; credit bad and doubtful debts.
- (c) Debit accounts receivable; credit provision for doubtful debts.
- (d) Debit provision for doubtful debts; credit accounts receivable.

- (xv) Which of the following is the correct treatment for a trader who takes items out of his business' stock for own use?
- (a) Debit drawings account, credit purchases account.
 - (b) Debit purchases account, credit drawings account.
 - (c) Debit drawings account, credit sales account.
 - (d) Debit sales account, credit purchases account.
- (xvi) In the trading account carriage inwards are:
- (a) offset against sales.
 - (b) offset against purchases.
 - (c) added to purchases.
 - (d) added to sales.
- (xvii) Which of the following errors would lead to a difference between the balance of the creditors control account and the total balance in the purchases ledger?
- (i) A creditor's account has been balanced off incorrectly.
 - (ii) An invoice for Shs 37,000 has been entered into the purchases day book as Shs 39,000
 - (iii) An invoice has, in error, been omitted from the purchases day book.
- (a) (i) only
 - (b) (i) and (ii)
 - (c) (i) and (iii)
 - (d) (i), (ii) and (iii).
- (xviii) You are given the following information:
- Trade receivable at 1 January 2010 Shs 10 million
Trade receivable at 31 December 2010 Shs 9 million
Total receipts during 2010 (including cash sales of Shs 5 million) Shs 85 million.
- Compute the figure for sales, on credit, during 2010.
- (a) Shs 81 million.
 - (b) Shs 86 million.
 - (c) Shs 79 million.
 - (d) Shs 84 million.

- (xix) Credit transfer in banking refers to:
- (a) an amount paid by someone directly into a firm's bank account.
 - (b) a cheque which has been sent but has not yet gone through the bank account of payee.
 - (c) a cheque found to be worth nothing.
 - (d) instructions to pay money to someone's account.
- (xx) A firm bought a motor vehicle for Shs 50 million. It is expected to be used for 6 years and then sold for Shs 5 million. What would be the depreciation charge in year 4 if the straight line method is used?
- (a) Shs 7 million.
 - (b) Shs 8 million
 - (c) Shs 7.5 million.
 - (d) Shs 6.75 million.

SECTION B

Question 2

Mwangi set up business with capital of Shs 9 million made up of land and buildings Shs 6 million, furniture and fittings Shs 1.2 million and the rest in cash which he banked except for shs 150,000.

The following transactions took place during the month of October 2011:

- 1 Bought goods for resale on credit from Samson Shs 339,600.
- 12 Paid, by cheque, for rates Shs 90,000, electricity Shs 33,000, telephone Shs 21,000.
- 13 Bought materials for use in packaging goods for resale by cheque Shs 756,000.
- 19 Cash sales Shs 288,000, credit sales to Mahogany Shs 90,000.
- 24 Paid for postage Shs 33,000 cash, traveling expenses Shs 25,000, cash, and bought goods for resale, Shs 1,650,000 on credit from Longoro.
- 29 Sent invoice to Moses for goods sold to him on credit for Shs 300,000 and received invoice from Rovon for goods supplied by him for resale on credit Shs 270,000.

Required:

- (a) Prepare and balance off the ledger accounts to record the above transactions in the books of Mwangi.
(12 marks)
 - (b) Extract a trial balance for Mwangi as at 29 October 2011.
(8 marks)
- (Total 20 marks)**

Question 3

- (a) State and explain **two** reasons why a petty cash book is prepared **(4 marks)**
- (b) The following is a summary of petty cash transactions for Bakaluba, a trader in Mukono for the month of October 2011.

Date	Transaction	Amount Shs '000'
1	Received from the chief cashier	9,000
3	Cleaning	300
4	Postage	150
6	Ribbon for typewriter	180
8	Petrol	1,500
10	Lunch	900
12	Telephone	630
13	Typing paper & envelopes	540
15	Kamunda - payment on account for credit purchases	600
17	Cleaning office	330
19	Telephone charges	280
20	Soft drinks	240
22	Postage stamps	90
24	Petrol	600
25	Okolong – payment on account for credit purchases	1,200
27	Cleaning materials	180
28	Parking fees	300
29	Sundry expenses	210
30	Stationery	390

Required:

Prepare a petty cash book for Bakaluba for the month of October analyzed under the following headings: cleaning, motor expenses, stationery, postage and sundry expenses. Post the entries in the general ledger and personal ledgers

(16 marks)

Question 4

The following balances were extracted from the books of Sematiko at 31 October 2011:

	Shs '000'
Capital	10,059
Inventory 1 November 2010	2,720
Petty cash	55
Bank overdraft	2,522
Trade receivables	7,009
Trade payables	6,735
Motor van (cost Shs 2,000,000)	1,500
Drawings	2,459
Fixtures and fittings (cost Shs 4,000,000)	3,800
Purchases	33,436
Provision for bad debts	162
Sales	50,261
Purchases returns	120
Carriage inwards	546
Rent and rates	626
Salaries and wages	5,226
General expenses	920
Interest on bank overdraft and bank charges	56
Carriage outwards	720
Discounts allowed	65
Discounts received	59
Returns inwards	240
Freehold buildings	10,300
Bad debts	240

Additional information:

- (a) Inventory on 31 October 2011 was valued at Shs 4,270,000
- (b) Wages and salaries outstanding at 31 October 2011 Shs 426,000.
- (c) Rates paid in advance at 31 October 2011 Shs 100,000.
- (d) The provision for bad debt is to be increased to Shs 260,000.
- (e) Depreciation to be charged as follows:
 - Motor van 25% per annum on cost
 - Fixtures and fittings 5% per annum on cost

Required:

Prepare, for Sematiko for the year ended 31 October 2011, a statement of:

(a) comprehensive income. (12 marks)

(b) financial position. (8 marks)

(Total 20 marks)

Question 5

(a) What are the reasons for keeping a current account as well as a capital account for each partner? (3 marks)

(b) A capital account of a partner can only show a credit balance. Do you agree with this statement? Explain. (3 marks)

(c) Under what circumstances would a current account of a partner show a debit balance? (3 marks)

(d) Sam and Edgar are in partnership sharing profits and loss in the ratio 2:1.

The following information is provided for the partnership for the year ended 31 October 2011:

	Shs '000'
Current account balance 1 November 2010	
Sam	4,000
Edgar	3,500
Drawings during the year	
Sam	35,000
Edgar	20,000
Interest on capital	
Sam 5% of Shs 130,000,000	
Edgar 5% of Shs 70,000,000	
Salary Edgar	10,000
Net profit to be divided after charging interest on capitals, and paying Edgar's salary	74,000

Required:

Prepare, for the year ended 31 October for the partnership, the:

- (i) appropriation account.
- (ii) partners' current accounts.

(11 marks)
(Total 20 marks)

SECTION C

Question 6

- (a) What is meant by 'bank reconciliation statement'? **(2 marks)**
- (b) Explain why the bank statement balance may differ from the cash book balance.

(8 marks)

(Total 10 marks)

Question 7

Briefly explain each of the following in relation to not-for-profit organisations:

- (i) Subscriptions.
- (ii) Accumulated fund.
- (iii) Income and expenditure account.
- (iv) Receipts and payments accounts.
- (v) Donations.

(10 marks)