

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II – PAPER 5

**MONDAY, 26 NOVEMBER 2012**

#### **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. This examination contains Sections **A**, **B C** and **D**.
3. Section **A** is bound separately from Sections **B C** and **D**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt the compulsory question in Section **B**, carrying 30 marks
6. Attempt **two** of the **three** questions in Section **C**. Each question carries 20 marks.
7. Attempt **one** of the **two** questions in Section **D**. Each question carries 10 marks.
8. Write your answer to each question on a fresh page in your answer booklet.
9. Please, read further instructions on the answer booklet, before attempting any question.

**SECTION B**

*This section has one compulsory question to be attempted.*

**Question 2**

- (a) Giving examples, explain the following in relation to a manufacturing account:
- (i) prime cost. **(2 marks)**
  - (ii) overheads. **(2 marks)**
  - (ii) office and administrative expenses. **(2 marks)**
  - (iii) selling and distribution expenses. **(2 marks)**
- (b) Bumali Ltd, a manufacturing company, has supplied the following information for the year ended 31 March 2012:

	Shs '000'
1 April 2011 balances b/d:	
Raw materials	200,000
Work in progress	180,000
Finished goods	208,000
Purchases of raw material	1,710,000
Direct labour	500,000
Indirect labor	160,000
Electricity	10,000
Other utilities	4,000
Depreciation on plant	100,000
Insurance on factory	10,000
Other factory overheads	10,000
Selling expenses	400,000
General and other expenses	100,000
Sales	2,000,000
Other revenues	200,000
31 March 2012 balances c/d:	
Raw materials	1,190,000
Work in progress	250,000
Finished goods	530,000

**Required:**

Prepare a manufacturing statement and a statement of comprehensive income for the period ended 31 March 2012, showing schedules for:

- (i) Prime cost. **(4 marks)**
- (ii) Factory overheads and cost of sales. **(6 marks)**

- (iii) Cost of manufactured goods. (4 marks)  
 (iii) Cost of sales. (3 marks)  
 (iv) Statement of comprehensive income. (5 marks)  
**(Total 30 marks)**

### SECTION C

*Attempt two of the three questions in this section*

#### Question 3

- (a) Distinguish between a partnership and a private limited company. (5 marks)
- (b) State **three** circumstances which may require the revaluation of partnership assets. (3 marks)
- (b) A and B have been in partnership for many years sharing profits and losses in the ratio 3:2 respectively. The following was their statement of financial position as at 31 March 2012:

	Shs '000'
Non-current assets:	
Land at cost	1,800
Plant and machinery	2,000
Motor vehicle	3,550
Office fittings	1,800
Current assets:	
Inventory	1,960
Trade receivables	2,130
Cash and bank balances	<u>900</u>
	<u>14,140</u>
Capital:	
A	6,000
B	4,000
Current account:	
A	1,980
B	1,200
Payables	<u>960</u>
Total capital and liabilities	<u>14,140</u>

On 1 April 2012, they decided to admit C as a partner on the condition that he contributed Shs 2 million as his capital and the new profit and loss sharing ratio is 3:2:1 between A, B and C respectively. They also agreed that the following revaluations should be recognized:

	Shs '000'
Land	5,000
Plant and machinery	1,500
Motor vehicle	3,000
Office fittings	2,000
Inventory	1,800
Trade receivables	1,900

**Required:**

Prepare the following accounts to record the above transactions before admitting C:

(i) Revaluation account. (8 marks)

(ii) Capital accounts. (4 marks)

(Total 20 marks)

**Question 4**

(a) Briefly explain **two** advantages of a statement of cash flows.

(4 marks)

(b) Mpenkoni Ltd has provided the following statement of comprehensive income for the period ended 30 April 2012:

	Shs '000'	Shs '000'	Shs '000'
Sales:			189,300
Cost of sales			
Opening inventory	29,000		
Purchases	<u>95,300</u>		
	124,300		
Less: Closing inventory	<u>(31,100)</u>		<u>(93,200)</u>
Gross profit			96,100
Expenses:			
Wages		28,700	
Power		2,400	
Rent		15,000	
Electricity		21,400	
Salaries		1,000	
Office expenses		950	
Loss on disposal of furniture		400	

	Shs '000'	Shs '000'	Shs '000'
Depreciation:			
Machinery		4,050	
Furniture		1,200	
Goodwill written off		2,000	
Preliminary expenses written off		1,000	
Provision for income tax		<u>9,000</u>	<u>87,100</u>
Net profit			9,000
Add balance b/d			<u>1,800</u>
			10,800
Transfer to general reserve		1,200	
Proposed dividend		7,800	

## Statement of financial position as at 30 April 2012:

	30.04.2011		30.04.2012	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets:				
Goodwill	6,000		4,000	
Furniture	13,500		10,800	
Machinery	<u>17,000</u>	36,500	<u>22,950</u>	37,750
Current assets:				
Inventory	29,000		31,100	
Trade receivables	8,000		8,300	
Cash in hand	300		400	
Cash at bank	7,500		11,300	
Prepaid expenses			250	
Advance payment of income tax	8,000		9,500	
Preliminary expenses	2,000	<u>54,800</u>	<u>1,000</u>	<u>61,850</u>
Total assets		<u>91,300</u>		<u>99,600</u>
Capital and liabilities:				
Equity share capital		60,000		65,000
General reserve		10,000		11,200
Trade payables		6,500		6,220
Outstanding expenses		200		380
Provision for taxation		8,000		9,000
Proposed dividend		<u>6,600</u>		<u>7,800</u>
Total capital and liabilities		<u>91,300</u>		<u>99,600</u>

## Additional information:

- (i) During the year, furniture of book value Shs 1,500,000 was sold for Shs 1,100,000 and new machinery costing Shs 10,000,000 was purchased.

- (ii) New equity shares were allotted at par for Shs 5,000,000.
- (iii) Taxation liability for the year ended 30 April 2012 was settled at Shs 8,000,000, the amount having already been paid. For the year 2012 advance tax of Shs 9,500,000 was paid.
- (iv) During the year dividend for 2011 Shs 6,600,000 was paid.

**Required:**

Prepare a statement of cash flows for the year ended 30 April 2012 using indirect method.

**(16 marks)**  
**(Total 20 marks)**

**Question 5**

The following balances were extracted from the books of Gaga Ltd as at 31 March 2012:

	Shs '000'	Shs '000'
Ordinary share capital		300,000
8% preference shares		100,000
7% debentures		200,000
General reserve		241,000
Land at cost	111,000	
Buildings at cost	222,000	
Plant and machinery at cost	764,000	
Retained earnings 1 April 2011		70,000
Share premium		40,000
Inventory 1 April 2011	70,000	
Sales & purchases	330,000	580,000
Discounts allowed and received	6,400	9,200
Trade receivables and payables	96,000	54,000
Accumulated depreciation on machinery 1 April 2011		171,000
Bank balance	15,000	
Carriage inwards	2,200	
Suspense account		800
Wages and salaries	64,200	
Lighting and power	5,800	
Debenture interest	14,000	
Directors' remuneration	25,600	
Interim dividends:		
Ordinary	11,000	
Preference	8,000	
Allowances for doubtful debts		3,000
Other administration expenses	<u>23,800</u>	<u>-</u>
	<u>1,769,000</u>	<u>1,769,000</u>

Additional information:

1. Inventory at 31 March 2012 was valued at Shs 82 million.
2. The suspense account balance of Shs 800,000 relates to cash received for the sale of some machinery on 1 April 2011. This machinery cost Shs 4 million and the depreciation accumulated thereon was Shs 3 million.
3. Wages owing at 31 March 2012 amounted to Shs 300,000.
4. Depreciation is to be provided on plant and machinery at 10% on cost.
5. The allowance for doubtful debts is agreed at 2.5% of trade receivables.
6. The directors agreed to transfer Shs 30 million to the general reserve.

**Required:**

Prepare a:

- (a) statement of comprehensive income for the year ended 31 March 2012 for internal use.  
(12 marks)
- (b) statement of financial position as at 31 March 2012.

(8 marks)

(Total 20 marks)

**SECTION D**

*Attempt one of the two questions this section.*

**Question 6**

Explain **five** duties of a Chief Finance Officer of a local government.

(10 marks)

**Question 7**

Explain **five** limitations of accounting ratios.

(10 marks)