

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL ONE

#### PRINCIPLES OF ACCOUNTING I – PAPER 1

**MONDAY, 18 JUNE 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** and **C**.
3. Section **A** is bound separately from Sections **B** and **C**.
4. Attempt all the 20 multiple choice questions in Section **A**. Each question carries 1½ marks.
5. Attempt **three** of the **four** questions in Section **B**. Each question carries 20 marks.
6. Attempt **one** of the **two** questions in Section **C**. Each question carries 10 marks.
7. Write your answer to each question in a separate answer booklet.
8. Please, read further instructions on the question paper and answer booklet, before attempting any question.

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## SECTION B

*Attempt three of the four questions in this section.*

### Question 2

- (a) Druga is a businessman in Arua town with annual turnover of over Shs 100 million. He has heard about the need to prepare a trial balance as a basis for preparing financial statements. He has now come to you for advice.

**Required:**

Explain to Druga:

- (i) why a trial balance is prepared.

**(2 marks)**

- (ii) whether the balancing of the trial balance proves that the books of account are correct.

**(2 marks)**

- (b) The following account balances were extracted from the books of Druga as at 30 November 2011.

Warehouse wages Shs 8,500,000, office salaries Shs 17,500,000, trade receivables Shs 24,625,000, trade payables Shs 48,615,000, furniture and fittings Shs 2,500,000, commission received Shs 17,550,000, capital Shs 40,000,000, drawings Shs 15,000,000, returns outwards Shs 750,000, returns inwards Shs 2,500,000, rent and rates Shs 4,500,000, light and heat 6,000,000, carriage inwards Shs 485,000, carriage outwards Shs 726,000, opening inventory Shs 15,750,000, cash in hand Shs 425,000, cash at bank Shs 16,646,000, sales Shs 174,047,000, purchases Shs 111,605,000, motor vehicles Shs 14,200,000, land and buildings Shs 50,000,000 and loan from the bank Shs 10,000,000.

**Required:**

Prepare a trial balance for Druga as at 30 November 2011.

**(16 marks)**

**(Total 20 marks)**

**Question 3**

Ndyabona carries on business as a retailer and has provided the following balances as at 30 November 2011.

	Shs '000'
Capital account	17,984
Drawings	4,800
Bad debts	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
Light and heating	472
Motor van at cost	2,880
Provision for depreciation on motor van	576
Purchases	174,776
Rent	1,440
Sales	194,796
Opening inventory	15,888
Trade receivables	11,352
Trade payables	6,772
Salaries	7,048
Upkeep of premises	200
Sales returns	780
Purchases returns	3,948
Van running expenses	1,588
Cash in hand	256

Additional information:

- (i) Closing inventory at 30 November 2011 was Shs 16,784,000.
- (ii) Rent paid was for only 9 months up to 31 August 2011.
- (iii) The provision for bad debts is to be increased to Shs 552,000 and a provision for discounts is to be made at 5% of the remaining trade receivables.
- (iv) Insurance paid in advance at 30 November 2011 amounted to Shs 120,000.
- (v) An account due for repairs to the roof of premises amounting to Shs 112,000 had been omitted from the books.

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

**Required:**

Prepare the following financial statements for Ndyabona for the year ended 30 November 2011:

- (a) a statement of comprehensive income. (12 marks)
  - (b) a statement of financial position. (8 marks)
- (Total 20 marks)**

**Question 4**

- (a) Briefly explain why it is necessary to prepare a bank reconciliation statement. (6 marks)
- (b) Mudomo's bank column of his cash book showed a debit balance of Shs 6,000,000 on 31 May 2012. The bank statement received from his bank on the same date showed a credit balance of Shs 11,800,000.

On comparing the bank statement and the cash book, the following transactions had not been accounted for in the cash book and/ or bank statement:

- (i) The bank had credited Mudomo's account with interest of Shs 960,000. The cashier had not yet captured this transaction in the cash book.
- (ii) Shs 1,040,000 appearing on the bank statement was for a credit customer who had directly deposited the amount in Mudomo's bank account but had not notified Mudomo to make an entry in his cash book.
- (iii) The bank had charged Mudomo's account with Shs 120,000 for ledger fees. This was reflected on the bank statement but an entry had not yet been made in the cash book.
- (iv) A direct debit of Shs 280,000 in respect of membership fees to ICPAU had been made by the bank. An entry of this transaction had also not yet been made in the cash book.
- (v) A standing order of Shs 800,000 had been paid to UMEME on Mudomo's behalf. This transaction had not been entered in the cashbook.

- (vi) The bank had transferred Shs 5,000,000 from Mudomo's fixed deposit account to his current account. No entry of this transaction had been made yet in the cash book.
- (vii) Two cheques issued of Shs 1,000,000 and Shs 1,160,000 to Mukolo and Mwanza respectively were entered in the cash book but had not yet been presented to the bank for payment.
- (viii) A cheque of Shs 2,760,000 received from a customer and entered in the cash book was deposited by the cashier on 31 May 2012 when he picked the bank statement

**Required:**

- (i) Prepare an adjusted cash book for Mudomo as at 31 May 2012. **(9 marks)**
- (ii) Prepare Mudomo's bank reconciliation statement as at 31 May 2012. **(5 marks)**

**Question 5**

- (a) What are the defects of the receipts and payments account as a satisfactory record for non-profit making organisations. **(6 marks)**
- (b) Kamukuzi Community Association was formed some years ago and on 1 December 2010 had a balance of cash in hand Shs 3,381,000. If receipts and payments for the year were as follows:

	Shs '000'
Subscriptions received	27,535
Donations from past presidents	2,000
Payments for the use of a hall	6,000
Refreshments	12,800
Expenses for Christmas party	3,735
Bujagali outing expenses	2,825

The treasurer and secretary had been given Shs 1,000,000 each as honoraria and the Christmas bazaar had earned Shs 7,335,000 for the club.

**Required:**

Prepare a receipts and payments account for the Club for the year ended 30 November 2011.

**(10 marks)**

- (c) The balance of cash is kept at the treasurer's home. What changes in the arrangement would you suggest to safeguard the money?

**(4 marks)**

**(Total 20 marks)**

### **SECTION C**

*Attempt one of the two questions in this section*

#### **Question 6**

Explain **five** accounting rules that should be followed by partners where there is no formal written agreement by the partners.

**(10 marks)**

#### **Question 7**

- (a) Briefly explain **three** types of errors that will make the trial balance not to balance.

**(6 marks)**

- (b) Explain what is meant by suspense account.

**(2 marks)**

- (c) Explain how the suspense account debit balance is treated in the statement of financial position.

**(2 marks)**

**(Total 10 marks)**