

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II – PAPER 5

**TUESDAY, 4 JUNE 2013**

#### **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.

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**SECTION B**

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

**Question 2**

- (a) Briefly explain any **five** circumstances under which a partnership may be dissolved.

**(5 marks)**

- (b) The following trial balance relates to the partnership of Kato and Babirye for the year ended 31 October 2012:

Details	Debit Shs '000'	Credit Shs '000'
Capital accounts : Kato		20,000
Babirye		10,000
Current accounts : Kato		400
Babirye	120	
Cash drawings: Kato	3,000	
Babirye	2,000	
Premises at cost	10,000	
Inventory 1 November 2011	15,000	
Furniture at cost	3,000	
Purchases/ sales	76,000	102,000
Sales/ purchases returns	1,600	2,400
Bank	6,320	
Trade receivables/ payables	10,480	6,660
Carriage inwards	4,300	
Carriage outwards	600	
Wages	8,400	
Tax payable		1,740
Office expenses	1,500	
Allowance for doubtful debts		400
Marketing expenses	1,000	
Discounts allowed/ received	240	200
Bad debts	280	
Rent	560	
Accumulated depreciation on furniture		600
	<u>144,400</u>	<u>144,400</u>

Additional information:

1. Kato and Babirye share profits equally.
2. Interest of 5% per annum is charged on both capital and current account balances at the beginning of the year.
3. The partners are entitled to annual salaries of Kato: Shs 2,400,000, Babirye Shs 1,600,000.
4. Inventory at the close of period was valued at Shs 13,600,000.
5. Invoices for purchases amounting to Shs 600,000 included in inventory above have not yet been recorded.
6. Accrued wages Shs 180,000.
7. Prepaid rent Shs 40,000.
8. Allowance for doubtful debts to be increased to Shs 480,000.
9. Goods withdrawn for personal use: Kato Shs 100,000, Babirye Shs 126,000. No interest is to be charged on these amounts.
10. Depreciation on furniture of 10% per annum on cost to be provided.
11. Interest on cash drawing for the year to be charged as follows: Kato Shs 72,000, Babirye Shs 56,000.

**Required:**

Prepare the:

- (i) partnership's statement of comprehensive income for the year ended 31 October 2012.  
(12 marks)
  - (ii) partnership's appropriation account for the year ended 31 October 2012.  
(5 marks)
  - (iii) partners' current accounts, in columnar format.  
(8 marks)
- (Total 30 marks)**

**SECTION C**

*Attempt two of the three questions this section*

**Question 3**

The trial balance of Mungai Ltd as 31 October 2012 was as follows:

Details	Debit Shs '000'	Credit Shs '000'
Share capital authorized and issued 80,000 shares of Shs 1,000 each fully paid		160,000
5% debentures		40,000
Freehold buildings at cost	100,000	
Plant at cost	71,200	
Motor vans at cost	17,000	
Provision for depreciation:		
Plant		19,500
Vans		7,960
Purchases and sales	177,584	269,378
Rent and rates	6,000	
Salaries	24,588	
General expenses	19,892	
Bad debts	698	
Provision for doubtful debts at 1 November 2011		856
General reserve		20,000
Profit b/d		6,592
Debenture interest paid 30 April 2012	1,000	
Interim dividends paid 30 June 2012	8,000	
Trade receivables/ payables	26,588	16,982
Inventory 1 November 2011	48,538	
Bank	<u>40,180</u>	<u>-</u>
	<u>541,268</u>	<u>541,268</u>

Additional information:

1. Closing inventory Shs 53,844,000.
2. Rates paid in advance Shs 800,000.
3. Outstanding salaries Shs 242,000.
4. Bank charges of Shs 48,000 have not been recorded in the cash book.
5. A total dividend of 15% for the year is proposed.
6. Debenture interest is paid half yearly.
7. Depreciation is as follows: Plant 10% on cost, motor vans 20% on cost.
8. Provision for doubtful debts to be increased to Shs 924,000.

**Required:**

- (a) Prepare a statement of comprehensive income for Mungai Ltd for the year ended 31 October 2012 for internal use.

**(10 marks)**

- (b) Prepare a statement of financial position as at 31 October 2012 for Mungai Ltd

**(10 marks)****(Total 20 marks)****Question 4**

Owor Ltd's statement of comprehensive income for the period ended 31 October 2012 was as follows:

	Shs '000'	Shs '000'
Sales		189,300
Cost of sales		
Opening inventory	29,000	
Purchases	95,300	
Less closing inventory	<u>(31,100)</u>	<u>93,200</u>
Gross profit		96,100
Expenses:		
Wages	28,700	
Electricity	3,400	
Rent	15,000	
Salaries	21,400	
Office expenses	950	
Loss on disposal of furniture	400	
Depreciation on machinery	4,050	
Depreciation on 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
Proposed dividend	7,800	
General reserve	<u>1,200</u>	<u>9,000</u>

Statements of financial position as at 31 October:

	2012 Shs '000'	2011 Shs '000'
Goodwill	4,000	6,000
Machinery	22,950	17,000
Furniture	10,800	13,500
Inventory	31,100	29,000
Receivables	8,300	8,000
Cash	11,700	7,800
Prepaid expenses	250	
Other accounts receivable	9,500	8,000
Preliminary expenses	<u>1,000</u>	<u>2,000</u>
Total assets	<u>99,600</u>	<u>91,300</u>
Capital and liabilities		
Share capital	65,000	60,000
General reserve	11,200	10,000
Payables	6,220	6,500
Expenses due	380	200
Provision for taxation	9,000	8,000
Proposed dividend	<u>7,800</u>	<u>6,600</u>
	<u>99,600</u>	<u>91,300</u>

Additional information:

- 1 During the year Owor Ltd sold furniture whose book value was Shs 1,500,000 for Shs 1,100,000 and new machinery costing Shs 10,000,000 was bought.
- 2 New equity shares were allotted at par for Shs 5,000,000.
- 3 The tax liability for the year ended 31 October 2011 was agreed with the tax authorities in May 2012 at Shs 8,000,000.
- 4 Dividends of Shs 6,600,000 for the year ending 31 October 2012 were paid.

### Required

Using the indirect method, prepare a statement of cash flows for Owor Ltd for the year ended 31 October 2012.

**(20 marks)**

**Question 5**

The following ratios have been extracted from the financial statements of Nankya Ltd for the two years ending 30 November:

Details	2012	2011
Return on investment	28%	25%
Gross profit ratio	43%	45%
Net profit ratio	9%	11%
Trade receivables collection period	42 days	45 days
Inventory turnover ratio	8 times	6 times
Gearing ratio	60%	25%
Current ratio	3.2:1	2.5:1
Liquidity ratio	0.8:1	1.5:1
Interest cover ratio	9 times	2 times
Earnings per share	Shs 180	Shs 200

**Required**

(a) Show how each of the above ratios were calculated.

**(10 marks)**

(b) Interpret the above ratios for the two years.

**(10 marks)**

**(Total 20 marks)**

**SECTION D**

*Attempt one of the two questions this section.*

**Question 6**

Write short notes on each of the following as applied under the Local Government Financial and Accounting Regulations 2007:

- (a) Vote on account. **(2 marks)**
- (b) Virement warrants. **(2 marks)**
- (c) Re-allocation warrants. **(2 marks)**
- (d) Supplementary provisions. **(2 marks)**
- (e) Vote book. **(2 marks)**

**Total (10 marks)**

### Question 7

Write short notes on each of the following as applied under bills of exchange and consignment accounts:

- |     |                                     |                         |
|-----|-------------------------------------|-------------------------|
| (a) | Bill of exchange.                   | (2 marks)               |
| (b) | Noting of a bill of exchange.       | (2 marks)               |
| (c) | Accommodation of bills of exchange. | (2 marks)               |
| (d) | Del credere commission.             | (2 marks)               |
| (e) | Consignee.                          | (2 marks)               |
|     |                                     | <b>Total (10 marks)</b> |