

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II – PAPER 5

MONDAY, 25 NOVEMBER 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 and T are in partnership as roofing tile manufacturers. The two partners share profits and losses equally. No interest is credited or charged on capital accounts or drawings.

The following trial balance was extracted from the books of the partnership as at 30 June 2013.

		Shs '000'	Shs '000'
Capital accounts	A		44,288
	T		53,120
Drawings	A	21,760	
	T	26,880	
Freehold factory (including land Shs 76,800,000)		108,800	
Provision for depreciation on freehold factory			6,400
Tile baking ovens		9,600	
Provision for depreciation on ovens 30 June 2012			3,840
Motor vehicles at cost		16,000	
Provision for depreciation on motor vehicles 30 June 2012			6,400
Inventories 30 June 2012:			
Raw materials		9,600	
Finished goods		25,600	
Trade receivables and payables		29,440	23,040
Provision for doubtful debts			1,920
Bank		6,080	
Purchases of raw materials		35,200	
Wages		79,360	
Firewood		8,960	
Rates and insurance (factory)		2,880	
Sundry expenses (factory)		8,960	
Advertising		2,880	
Motor vehicle running expenses		6,208	
Sales			<u>259,200</u>
		<u>398,208</u>	<u>398,208</u>

Additional information:

1. Inventories at 30 June 2013 were valued at a cost of Shs 25,600,000, including raw materials of Shs 6,400,000.

2. At 30 June 2013, there were accruals of:
 Firewood Shs 3,840,000
 Advertising expenses Shs 960,000
3. At 30 June, the following were prepaid:
 Rates Shs 640,000
 Motor vehicle licenses Shs 448,000
4. The figure for wages given in the trial balance includes wages for 2 sales department employees, each of whom was paid Shs 7,680,000.
5. Provide for depreciation per annum, on cost, as follows:
 Freehold factory 2%
 Ovens 10%
 Motor vehicles 20%
6. Motor vehicle running expenses to be charged to sales department 2/5 and factory 3/5.

Required:

Prepare:

- (a) a manufacturing, trading and profit or loss statement showing:

- (i) prime cost
- (ii) factory cost of goods produced
- (iii) appropriation of profits

(18 marks)

- (b) statement of financial position as at 30 June 2013.

(12 marks)**(Total 30 marks)****SECTION C***Attempt **two** of the **three** questions this section***Question 3**

The following information was extracted from the records of a Government department for the year ending 30 June 2013:

Details	Shs
Government transfers from treasury:	
Wage bill	1,755,515,144
Recurrent	8,037,129,854
Capital	333,061,332
Employee costs:	
General staff salaries	1,736,833,724
Contract staff salaries	182,056,858
Allowances	1,266,431,788
Social security contributions	256,144,486
Medical expenses	40,000,000
Benefits and funeral costs	14,000,000

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Gratuity	441,879,468
Miscellaneous receipts	57,806,000
General expenses:	
Advertising and public relations	815,200,000
Workshops and seminars	1,011,540,300
Staff training	167,426,000
Recruitment expenses	30,000,000
Books, periodicals and newspapers	34,946,250
Computer supplies & it services	56,515,000
Welfare and entertainment	130,002,560
Stationery	211,668,360
Small office equipment	4,000,000
Communications:	
Telecommunications	81,200,000
Postage and courier services	6,000,000
Utility and property expenses:	
Rates	1,200,000
Guard and security services	96,000,000
Electricity	36,000,000
Water	10,400,000
Professional services:	
Consultancy services - short term	80,299,988
Insurances:	
Insurances	2,000,000
Travel and transport:	
Travel inland	1,590,263,768
Travel abroad	101,948,000
Fuels, lubricants and oils	522,000,000
Maintenance:	
Maintenance - civil	60,000,000
Maintenance - vehicles	376,337,442
Maintenance - machinery & equipment	10,000,000
Consumption of fixed assets	
Depreciation:	
Non-residential buildings	104,000,000
Machinery and equipment	112,128,000
Transfers to other government units:	
Transfers to treasury - NTR	57,339,998
Transfers to treasury - account balances	80,111,656
Transfers to treasury - Tax balances	133,333,332
Grants to cultural institutions	289,320,000
Cash at bank	18,681,420
Payables	243,528,412
Opening accumulated fund	259,832,344

Required:

Prepare a trial balance for the government department as at 30 June 2013.

(20 marks)

Question 4

The following trial balance was extracted from the books of Spider Ltd as at 31 December 2012

Details	Debit Shs '000'	Credit Shs '000'
Authorized and issued share capital:		
400,000 ordinary shares of Shs 1,000 per share fully paid		400,000
6% debentures		80,000
Freehold property at cost	530,000	
Furniture and fittings at cost	24,000	
Trade receivables/ payables	37,900	25,860
Preliminary expenses	4,000	
Inventory	37,860	
Provision for bad debts		600
Debenture interest to June 2012	2,400	
Provision for depreciation on furniture and fittings		12,000
Bank overdraft		980
Wages and salaries	46,720	
Rent and rates	3,300	
General expenses	10,240	
Bad debts	3,020	
Profits b/d		29,480
Purchases/ sales	329,480	480,000
	<u>1,028,920</u>	<u>1,028,920</u>

Additional information:

- (i) Closing inventory Shs 40,940,000.
- (ii) Provision for bad debts to be increased to Shs 700,000.
- (iii) Depreciation on furniture and fittings at 5% on cost.
- (iv) Rates paid in advance amounted to Shs 150,000.
- (v) Wages outstanding amounted to Shs 480,000.
- (vi) 20% of the balance on preliminary expenses to be written off against reserves.
- (vii) Outstanding debenture interest to be paid.
- (viii) A 12% dividend has been proposed on share capital.

Required:

Prepare, for Spider Ltd for the year ended 31 December 2012:

- (a) a statement of profit or loss and other comprehensive income for internal use. **(10 marks)**
 - (b) an appropriation account. **(2 marks)**
 - (c) a statement of financial position. **(8 marks)**
- (Total 20 marks)**

Question 5

- (a) The following statement of financial position relates to Paparazzi Ltd for the year ended 30 June 2013.

	Shs '000'	Shs '000'
Non- current assets:		
Land and buildings		560,000
Plant and machinery		480,000
Furniture and fittings		64,000
Preliminary expenses		<u>56,000</u>
		1,160,000
Current assets:		
Inventory of goods for sale	240,000	
Trade and other receivables	320,000	
Prepayments	16,000	
Cash and bank balances	<u>64,000</u>	<u>640,000</u>
		<u>1,800,000</u>
Capital and liabilities:		
Ordinary share capital	320,000	
Share premium	160,000	
Preference share capital	640,000	
Capital redemption reserve	80,000	
Revenue reserves	<u>80,000</u>	
		1,280,000
Non-current liabilities:		
12% debentures		320,000
Current liabilities:		
Trade and other payables	96,000	
Accruals	24,000	
Provision for taxation	32,000	
Proposed dividends	<u>48,000</u>	<u>200,000</u>
		<u>1,800,000</u>

Required:

- (a) Using information in the statement of financial position for Paparazzi Ltd given above, compute and interpret each of the following ratios:
- current ratio
 - debt:equity ratio
 - capital gearing ratio
 - liquidity ratio

(12 marks)

- (b) Explain the limitations of accounting ratios.

(8 marks)**(Total 20 marks)**

SECTION D

Question 6

Write short notes on each of the following as applied under cash flow statements, giving at least one example in each case.

- (a) Operating activities.
- (b) Investing activities.
- (c) Financing activities.

(10 marks)

Question 7

Write short notes on two of the following in the context of public sector accounting in Uganda:

- (a) Budgetary accounting.
- (b) Fund accounting.
- (c) Commitment accounting.

(10 marks)