

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

PRINCIPLES OF ACCOUNTING II – PAPER 5

MONDAY, 1 JUNE 2015

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) Distinguish between cash and cash equivalents in relation to cash flows.
(2 marks)
- (b) Explain the 'direct' and 'indirect' methods of preparing statements of cash flows under IAS 7: Statement of Cash Flows.
(4 marks)
- (c) Explain why IAS 7 prefers the use of the direct method as opposed to the indirect method of preparing statements of cash flows.
(4 marks)
- (d) The following statement of financial position relates to Josp Traders Ltd as at 30 November:

	2014		2013	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets:				
Plant	2,760,000		2,520,000	
Accumulated depreciation	(462,000)	2,298,000	(452,000)	2,068,000
Current assets:				
Inventory	2,500,000		1,600,000	
Trade receivables	1,700,000		1,440,000	
Government security	20,000		-	
Cash	<u>810,000</u>	<u>5,030,000</u>	<u>880,000</u>	<u>3,920,000</u>
		7,328,000		5,988,000
Current liabilities:				
Trade payables	1,200,000		1,340,000	
Taxation	970,000		990,000	
Overdraft	<u>878,000</u>	<u>(3,048,000)</u>	<u>808,000</u>	<u>(3,138,000)</u>
Net assets		4,280,000		2,850,000
Financed by:				
Share capital	1,400,000		1,300,000	
Share premium	400,000		200,000	
Retained earnings	<u>1,150,000</u>	2,950,000	<u>1,150,000</u>	2,650,000
Profit for the year		1,180,000		-
10% loan		<u>150,000</u>		<u>200,000</u>
		<u>4,280,000</u>		<u>2,850,000</u>

	Shs '000'
Warehouse rent	2,000
Advertisements	2,000
Salesmen's salaries	3,000

MAL is entitled to a 4% commission plus 2% del credere. Kondo, who had bought 100 TV sets, was only able to pay 80% of amount due from him and the rest was written off as a bad debt. MAL reported a loss of 50 TV sets due to a fire outbreak in the warehouse and returned 40 TV sets. Assuming that MAL paid the amount due by bank draft;

Required:

Prepare the following accounts in the books of:

- (a) New World Ltd:
- (i) Consignment to Muggo Agencies Ltd. **(12 marks)**
 - (ii) Goods sent on consignment. **(2 marks)**
- (b) Muggo Agencies Ltd:
- (i) Commission account. **(3 marks)**
 - (ii) Del credere commission account. **(3 marks)**
- (Total 20 marks)**

Question 4

- (a) Briefly explain the purpose of preparing a manufacturing account. **(2 marks)**
- (b) The following trial balance was extracted from the accounting records of Kakota Manufacturing Co. Ltd as at 30 June 2014:

	Shs '000'	Shs '000'
Royalties	12,000	
Carriage on materials	8,500	
Purchases of raw materials	375,000	
Factory machinery at cost	260,000	
Office computers at cost	25,000	
General factory expenses	36,000	
Lighting	12,500	
Factory power	18,700	
Administrative salaries	49,000	
Salesmen's salaries	35,000	
Commissions on sales	16,500	
Rent	17,000	
Insurance	9,200	
General administration expenses	18,200	

Question 5

- (a) The following financial statements relate to Nera Ltd (NL) for the two reporting periods ending 31 May:

Statement of financial position

	2015		2014	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets;				
Buildings at cost	800,000		940,000	
Accumulated depreciation	<u>(755,000)</u>	45,000	<u>(720,000)</u>	220,000
Equipment at cost	640,000		680,000	
Accumulated depreciation	<u>(619,000)</u>	<u>21,000</u>	<u>(590,000)</u>	<u>90,000</u>
		66,000		310,000
Current assets:				
Inventory	700,000		740,000	
Account receivable	205,000	<u>905,000</u>	140,000	<u>880,000</u>
		<u>971,000</u>		<u>1,190,000</u>
Capital and liabilities:				
Shs 1,000 shares	540,000		540,000	
Net profit	<u>60,000</u>	600,000	<u>240,000</u>	780,000
Current liabilities:				
Accounts payable	245,000		252,000	
Tax	18,000		27,000	
Bank overdraft	<u>108,000</u>	<u>371,000</u>	<u>131,000</u>	<u>410,000</u>
		<u>971,000</u>		<u>1,190,000</u>

Statement of profit or loss

	2015		2014	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Revenues		2,300,000		3,200,000
Cost of goods sold				
Opening inventory	800,000		780,000	
Purchases	<u>1,800,000</u>		<u>2,750,000</u>	
	2,600,000		3,530,000	
Closing inventory	<u>(700,000)</u>	<u>(1,900,000)</u>	<u>(740,000)</u>	<u>(2,790,000)</u>
Gross profit		400,000		410,000
Depreciation	22,000		40,000	
Other expenses	<u>318,000</u>	<u>(340,000)</u>	<u>280,000</u>	<u>(320,000)</u>
Net profit before tax		60,000		90,000
Tax at 30%		<u>(18,000)</u>		<u>(27,000)</u>
Net profit after tax		<u>42,000</u>		<u>63,000</u>