

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II – PAPER 5

**WEDNESDAY, 4 JUNE 2014**

#### **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**

The following balances were extracted from the books of Mugagga Ltd as 31 March 2014:

	Note	Shs '000'
Ordinary share capital: authorized and issued 2,000,000 shares		800,000
Inventory 1 April 2013		268,560
8% loan notes		400,000
Share premium		200,000
Non-current assets at cost	(i)	1,060,000
Bad debts		12,020
Wages and salaries	(vi)	196,400
Purchases and sales	(ii)	4,242,360
Provisions 1 April 2013	(iii)	20,000
Insurance		13,860
Office expenses		22,840
Bank		285,880
Loan interest paid 30 September 2013		16,000
Rates		4,200
Revenue reserves 1 April 2013		58,000
Trade receivables and payables	(iv)	598,240
Rent received		7,800
Directors' salaries and general expenses	(ix)	144,920

Additional information:

- (i) Of the amount for non-current assets, Shs 1,000,000,000 represents freehold property, which is not depreciable. The remainder is for furniture and fittings. Furniture and fittings are depreciated at 5% per annum; on cost.
- (ii) Purchases for the period amounted to Shs 1,812,400,000. The rest of the amount shown under purchases and sales relates to sales.
- (iii) Of the amount for provisions, Shs 15,000,000 was for depreciation of furniture and fittings. The remainder was for bad debts, the Provision for which is to be increased to Shs 6,000,000.
- (iv) Trade payables at 31 March 2014 amounted to Shs 259,780,000. The rest of the amount given above relates to trade receivables.
- (v) Inventory at 31 March 2014 was valued at Shs 328,520,000.

- (vi) Shs 15,920,000 included in the wages and salaries represents the wages cost of extending the company's freehold property.
- (vii) Rent receivable due on 31 March 2014 Shs 2,600,000.
- (viii) Insurance paid in advance at 31 March 2014 Shs 1,720,000.
- (ix) General expenses for the period amounted to Shs 24,920,000. The balance of the figure given above relates to directors' salaries.
- (x) The outstanding loan interest to be paid.
- (xi) Shs 140,000,000 is to be transferred to the general reserve.
- (xii) A provision of dividends at 10% to be made on issued capital.

**Required:**

Prepare for Mugagga Ltd's:

- (a) trial balance as at 31 March 2014. (11 marks)
  - (b) statement of profit or loss and other comprehensive income for the year ended 31 March 2014. (10 marks)
  - (c) statement of financial position as at 31 March 2014. (9 marks)
- (Total 30 marks)**

**SECTION C**

*Attempt two of the three questions this section*

**Question 3**

- (a) In accounting for partnerships; explain:
- (i) why interest is allowed on capital but charged on drawings. **(2 marks)**
  - (ii) what a debit balance on a partner's capital account means. **(2 marks)**
- (b) Kapere and Bagalana were in partnership sharing profits and losses in the ratio 2:1. The following balances were extracted from their books on 31 December 2013.

	Shs '000'
Capital accounts 1 January 2013:	
Kapere	106,000
Bagalana	56,800
Drawings:	
Kapere	25,800
Bagalana	16,800
Purchases	717,860
Sales	951,456
Salaries	104,768
Rates	2,000
Discounts allowed	17,056
Discounts received	8,584
General expenses	41,044
Balance at bank	10,776
Freehold properties at cost	70,000
Trade receivables	68,168
Trade payables	52,596
Furniture and equipment (cost Shs 10,000,000)	6,600
Inventory 1 January 2013	94,564

Additional information:

1. Inventory at 31 December 2013 was valued at Shs 99,120,000.
2. Rates paid in advance at 31 December 2013 Shs 480,000.
3. After the trial balance had been extracted, it was decided that debts amounting to Shs 1,912,000 were bad and had to be written off.
4. Salaries outstanding at 31 December 2013 were Shs 2,056,000.

5. Depreciation of furniture and equipment is to be provided at 10% per annum on cost.
6. Partners are to be allowed interest of 5% on their capitals as at 1 January 2013
7. Partners to be charged interest on drawings as follows: Kapere Shs 816,000; Bagalana Shs 648,000.

**Required:**

Prepare, for Kapere and Bagalana partnership for the period ended 31 December 2013:

- (i) a statement of profit or loss and other comprehensive.  
(7 marks)
  - (ii) an appropriation account.  
(4 marks)
  - (iii) partners' current accounts, in columnar format, as at 31 December 2013.  
(5 marks)
- (Total 20 marks)**

**Question 4**

The following information has been extracted from the books of Okot Ltd as at 31 March:

	2014	2013
	Shs '000'	Shs '000'
Inventory	243,260	186,700
Loan	925,000	965,000
Accounts receivable	1,738,800	1,734,400
Provision for depreciation	1,301,160	1,217,000
Other accrued liabilities	1,760	
Cash receipt from sale of motor vehicle	60,960	
Accounts payable	992,270	971,230
Salaries and wages payable	160,480	159,680
Prepaid insurance	960	
Prepaid rent		400
Equipment (at cost)	1,886,000	1,782,000
Prepaid general expenses		1,840
Cash balance as at 31 March	80,480	93,040

The following information also relates to the year ended 31 March 2014.

- 1 Extract from statement of profit or loss and other comprehensive income:

	Shs '000'	Shs '000'
Sales		2,348,200
Cost of sales		<u>(1,570,000)</u>
Gross profit		778,200
Other income (gain on sale of furniture)		16,800
Administration expense	215,000	
Selling and distribution cost	224,400	
Finance costs	<u>178,800</u>	
		<u>(618,200)</u>
Net profit		<u>176,800</u>

- 2 The company paid dividends of Shs 89,600,000.  
 3 The company also redeemed debentures of Shs 48,000,000.

**Required:**

Prepare a statement of cash flows for Okot Ltd for the year ended 31 March 2014, using the indirect method.

**(20 marks)**

**Question 5**

- (a) The summarized financial statements of Ggaba Ltd for the year ended 31 March were as follows:

Statement of profit or loss and other comprehensive income:

	2014		2013	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Sales		100,800		72,000
Cost of sales		<u>(75,600)</u>		<u>(54,000)</u>
Gross profit		25,200		18,000
Administration expenses	(16,560)		(13,680)	
Loan interest	<u>(1,440)</u>		<u>-</u>	
Net profit		<u>(18,000)</u>		<u>(13,680)</u>
		<u>7,200</u>		<u>4,320</u>

## Statement of financial position:

	2014		2013	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Net non-current assets		50,400		39,600
Current assets				
Inventory	10,800		7,200	
Trade receivables	10,080		9,000	
Bank	<u>1,800</u>		<u>-</u>	
		<u>22,680</u>		<u>16,200</u>
Total assets		<u>73,080</u>		<u>55,800</u>
Non-current liabilities:				
8% debentures		18,000		-
Current liabilities:				
Trade payables	4,320		5,400	
Bank overdraft	<u>-</u>		<u>3,600</u>	
		4,320		9,000
Equity:				
Ordinary share capital	36,000		36,000	
Retained profits	<u>14,760</u>		<u>10,800</u>	
Total equity		<u>50,760</u>		<u>46,800</u>
Total equity and liabilities		<u>73,080</u>		<u>55,800</u>

**Required:**

Calculate the following ratios:

- (i) Current.
- (ii) Acid test.
- (iii) Debt to equity.
- (iv) Gross profit.
- (v) Net profit.
- (vi) Return on equity capital.

**(15 marks)**

- (b) Explain the limitations of using ratios as a tool, for analysing financial statements.

**(5 marks)****(Total 20 marks)**

## SECTION D

*Attempt one of the two questions this section*

### Question 6

Explain at least **five** duties of the following accounting officers as laid out under the Local Governments (Financial and Accounting) Regulations, 2007:

- (a) assistant chief administration officer in charge of a county.
- (b) town clerk of a town board or parish chief of a parish.

**(10 marks)**

### Question 7

In a manufacturing firm, expenses may be classified under the following headings: direct material, direct labour, direct expenses, manufacturing overheads, administrative expenses, selling and distribution expenses and finance costs.

#### **Required:**

Classify the following items under each of the above headings, as appropriate:

- (i) Carriage outwards.
- (ii) Legal and accountancy fees.
- (iii) Rent for factory.
- (iv) Hire of machinery for specific job.
- (v) Discounts allowed.
- (vi) Factory power.
- (vii) Royalties.
- (viii) Carriage on raw materials
- (ix) Depreciation of office equipment.
- (x) Salesmen's wages and commissions.

**(10 marks)**