

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL ONE

PRINCIPLES OF ACCOUNTING I – PAPER 1

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** 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 on a fresh page in your answer booklet.
8. Please, read further instructions on the question paper and answer booklet, before attempting any question.

SECTION B

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

Question 2

Ms. Ketra Male is an importer from China. On 31 December 2013, her ledger had the following balances:

	Shs '000'
Capital 1 January 2013	140,000
Drawings	20,000
Inventory 1 January 2013	91,000
Purchases	256,500
Sales	586,100
Purchases returns	4,000
Sales returns	50,000
Duty on imported goods	25,550
Freight and insurance on imported goods	14,600
Wages	27,000
Carriage inwards	17,000
Discounts received	18,000
Advertising	35,750
Accounts receivable	16,000
Accounts payable	3,000
Discounts allowed	16,000
Carriage outwards	4,000
Salaries	30,000
Rent	10,000
Sundry expenses	17,700
Motor vehicles at cost	120,000
Tax payable	2,000
Bank loan	8,000
Cash at bank	10,000

Addition information:

- (i) Inventory at 31 December 2013 was valued at Shs 53,000,000.
- (ii) Allow depreciation on motor vehicles at the rate of 20% per annum on cost.
- (iii) Create a provision for doubtful debts of Shs 1,000,000 and a further provision for discounts allowed at 2% of accounts receivable.
- (iv) Shs 1,500,000 on sundry expenses was prepaid.
- (v) It was estimated that one-fifth of the total wages were for preparing goods for resale and rent of Shs 3,000,000 was unpaid.
- (vi) The duty as well as freight and insurance on imported goods can be regarded as cost of goods for sale.

Required:

Prepare Ms. Ketra Male's statement of:

- (a) profit or loss and other comprehensive income for the year ended 31 December 2013.

(12 marks)

- (b) financial position as at 31 December 2013.

(8 marks)

(Total 20 marks)

Question 3

John Brilliant, a sole trader, does not keep his books on a double entry system of accounting. He would like to prepare financial statements for the year ended 31 December 2013, but does not know how to go about it. He has provided the following records.

	Cash	Bank		Cash	Bank
	Shs '000'	Shs '000'		Shs '000'	Shs '000'
Balance, 1 Jan 2013	4,500	70,000	Payments to creditors	3,000	11,000
Receipts from debtors	6,000	15,000	Sundry expenses	600	
Rent received		3,000	Drawings	1,500	
Interest on overdue customers		15,900	Wages		9,000
			Insurance		4,500
			Equipment		<u>30,000</u>
			Balance 31 Dec 2013	<u>5,400</u>	<u>49,400</u>
	<u>10,500</u>	<u>103,900</u>		<u>10,500</u>	<u>103,900</u>

The following is a list of John Brilliant's assets and liabilities at the beginning and at the end of the year.

	1 January 2013	31 December 2013
Assets:	Shs'000'	Shs'000'
Motor vehicles	70,000	65,000
Equipment (net)	50,000	?
Inventory	10,500	10,000
Accounts receivable	12,000	20,000
Interest due on customers' accounts	9,000	5,000
Liabilities:		
Accounts payable	18,000	7,000
Insurance due	-	600

Additional information:

Depreciation is to be provided for on a reducing balance on equipment held at year end at the rate of 25% per annum.

Required:

Prepare, for John Brilliant, a statement of:

- (i) affairs as at 31 January 2013. (5 marks)
 - (ii) profit or loss for the year ended 31 December 2013. (7 marks)
 - (iii) financial position as at 31 December 2013. (8 marks)
- (Total 20 marks)**

Question 4

- (a) Mariam, Betty and Bob are in partnership, sharing profits or losses in the ratio 2:2:1 respectively. The partnership agreement provides for the following:

- Payment of interest at 4% per annum on the credit balance of each partner's capital at the beginning of each financial year;
- Interest of 3% be charged per annum on drawings.
- Payment of a salary of Shs 6,000,000 per annum to Bob together with a 2% commission on the balance of trading profit after charging his salary but before charging interest on capital.

The balances of the capital accounts at 1 July 2012 were as follows:

- Mariam, Shs 32,000,000; Betty, Shs 24,000,000; Bob, Shs 8,000,000.

The balances of the current accounts as 1 July 2012 were as follows:

- Mariam, Shs 2,000,000 (credit); Betty, Shs 400,000 (debit); Bob, Shs 800,000 (debit).

During the year ended 30 June 2013, the drawings were as follows:

- Mariam, Shs 10,400,000; Betty, Shs 7,400,000; Bob, Shs 9,600,000.

The trading profit for the year ended 30 June 2013 was Shs 29,200,000.

Required:

Prepare:

- (i) A profit and loss appropriation account for the year ended 30 June 2013, taking into account the provisions of the partnership agreement. (6 marks)
 - (ii) Current accounts, in columnar format, for the partners. (8 marks)
- (b) Bonny, an accounting technician, found that the trial balance for his client, as prepared on 31 December 2013 did not balance and it showed

an excess credit of Shs 70,000, which he transferred to a suspense account and later discovered the following errors.

1. Shs 180,945 paid to Anna had been credited to her account as Shs 108,495.
2. An expenditure of Shs 600,000 on repairs had been debited to the buildings account.
3. Shs 380,000 allowed by Banadda as discount had not been entered in the books.
4. A purchase of Shs 145,000 had been posted as Shs 154,000 to the purchases account.
5. A sum of Shs 125,000 realised on the sale of old furniture had been posted to the sales account.
6. The sales day book total for the month of November was under cast by Shs 480,000.

Required:

Prepare journal entries to rectify the above errors.

Hint: ignore narrations; a suspense account is **not** required.

(6 marks)

(Total 20 marks)

Question 5

(a) Briefly explain:

- (i) what is meant by the term 'imprest system' and how it is operated.

(4 marks)

- (ii) the advantages of maintaining a petty cash book.

(6 marks)

(b) Enter the following transactions in an analytical petty cash book for the month of May 2014 using analysis columns for expenditure on stationery and printing, transport, general expenses, water and electricity, postage and repairs.

Date		Shs
May 1	Petty cash in hand	100,000
	Reimbursement from cashier	200,000
May 2	Donation to charity	6,000
May 3	Paid for office tea	10,000
May 4	Paid taxi fares	14,000
May 5	Paid for photocopier paper	12,000
May 6	Paid for sand for minor repairs	5,000
May 6	Paid bus fare	4,000
May 7	Paid Bright for repairs	40,000
	Paid water and electricity bills	70,000
May 10	Paid for repair of office photocopier	11,000
May 11	Paid for coffee and other beverages	7,000
May 12	Paid for delivery of goods to customer	30,000
May 15	Paid for posting reminders to debtors	12,000
	Paid for toner for office printer	8,000
May 20	Paid for cement for minor repairs	10,000
May 25	Purchased postage stamps	2,000
May 30	Paid travelling expenses for Joseph Kato	50,000
May 31	Reimbursement by cheque from cashier for the amounts used for petty cash for the month of May.	?

(10 marks)**(Total 20 marks)****SECTION C***Attempt one of the two questions in this section.***Question 6**

- (a) Define the term 'depreciation'. **(1 mark)**
- (b) Using illustrations, explain how the following methods of providing for depreciation are used.
- (i) Straight line. **(3 marks)**
 - (ii) Reducing balance. **(3 marks)**
 - (iii) Revaluation. **(3 marks)**

(Total 10 marks)**Question 7**

- (a) Differentiate between bookkeeping and financial accounting. **(5 marks)**
- (b) Identify at least **five** users of financial statements information and briefly explain their information needs.

(5 marks)**(Total 10 marks)**