

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## BUSINESS ACCOUNTING – PAPER 1

**DECEMBER 2000**

### INSTRUCTIONS TO CANDIDATES

1. Time Allowed: 3 hours
2. Attempt all questions in Section **A** and **B** and **one** question from Section **C**.
3. Section **A** has **twenty** compulsory questions each carrying 1 mark.
4. Section **B** has **three** compulsory questions each carrying 20 marks.
5. Section **C** has **two** questions and only **one** question is to be attempted. Each question carries 20 marks.
6. Please read further instructions in the answer book.

## SECTION A

### Question 1

- (i) Which of the following is not an appropriation of the profits of a company?
  - a) Proposed dividends
  - b) Transfer to reserves
  - c) Interest payable
  - d) Taxation payable
  
- (ii) Future economic benefits will flow to an enterprise from an asset, except where:
  - a) The asset is used in the production of goods and services sold by the enterprise.
  - b) The asset is used to settle liabilities.
  - c) The asset is included in the asset base of the enterprise.
  - d) The asset is exchanged for other assets.
  
- (iii) If, in a partnership, the partners capital accounts are to remain fixed, their respective profit shares must be:
  - a) Credited to their capital accounts
  - b) Debited to their capital accounts
  - c) Credited to their current accounts
  - d) Debited to their current accounts
  
- (iv) Which of the following is not a prime cost?
  - a) Cost of raw material
  - b) Direct factory expenses
  - c) Direct labour costs
  - d) Royalties
  
- (v) What is the correct procedure to follow when the estimated useful economic life of an asset is reduced from 10 years to 6 years, after being in use for 3 years?
  - a) Sell off the asset at the end of the sixth year.
  - b) Revalue the asset and adjust depreciation charge to ensure asset is fully depreciated after ten years.
  - c) Continue charging depreciation at the same rate since economic useful life is only estimated.
  - d) Revise the depreciation charge so that the asset is fully depreciated at the end of six years.

- (vi) A trader sells goods worth Ush 140,000 to a credit customer at a trade discount of 15%. The goods are subject to VAT at 17%. The customer returns half the goods. How much should be credited to the customer's account?
- a) Ush 59,500
  - b) Ush 69,615
  - c) Ush 81,900
  - d) Ush 139,230
- (vii) A contra item in a control account arises when:
- a) There is both a debit and credit entry on the same personal account
  - b) There is no cash paid to clear indebtedness
  - c) A debtor also appears as a creditor in the personal ledgers
  - d) The balance on a debtors account is set off against a balance on a creditors account
- (viii) Which of the following errors would be revealed by a trial balance?
- a) Discounts received have been posted to the debit side of the discounts allowed account.
  - b) A remittance from a debtor has been recorded as a cash sale.
  - c) A cheque received from debtor A has been credited to the account of debtor B.
  - d) A credit note received from a supplier has been debited to a debtors account.
- (ix) A product costing method that includes fixed manufacturing overheads in stock is called –
- a) Variable costing
  - b) Fixed costing
  - c) Indirect costing
  - d) Absorption costing
- (x) Which of the following should not be recognised as income at the time of receipt by social club?
- a) Donations towards construction of a new clubhouse.
  - b) Entrance fees for guests of life members.
  - c) Life membership subscriptions.
  - d) Interest received.

- (xi) What is the correct procedure to follow when a creditor is paid from petty cash?
- A credit in the cash book and corresponding debit entry in the creditors account
  - This is not acceptable, as creditors should always be paid by cheque.
  - A petty cash voucher should be raised and the payment recorded in the petty cash book.
  - A separate creditors account should be opened up.
- (xii) In comparison to a limited company, a partnership –
- Trades in a smaller business
  - Has Unlimited life
  - Has Fewer owners
  - Has all profits taxed at personal tax rates
- (xiii) Categorise each of the following items as either direct or indirect costs and identify which option correctly categorises all four items.
- |               |                                                     |
|---------------|-----------------------------------------------------|
| <i>Item 1</i> | Cost of acquiring raw materials                     |
| <i>Item 2</i> | Cost of lubricating oils for machinery and vehicles |
| <i>Item 3</i> | Wages paid to factory supervisor                    |
| <i>Item 4</i> | Wages paid to machine operators                     |
- |    | <i>Item 1</i> | <i>Item 2</i> | <i>Item 3</i> | <i>Item 4</i> |
|----|---------------|---------------|---------------|---------------|
| a) | Direct        | Direct        | Indirect      | Indirect      |
| b) | Direct        | Indirect      | Direct        | Direct        |
| c) | Direct        | Indirect      | Indirect      | Direct        |
| d) | Direct        | Direct        | Direct        | Direct        |
- (xiv) Which of the following accounting concepts best justifies the charge for depreciation?
- Accruals
  - Going concern
  - Prudence
  - Materiality

- (xv) International Accounting Standards should be applied when preparing the financial statements of –
- a) Companies whose shares are listed on a recognised Stock Exchange only.
  - b) Public Limited Companies only.
  - c) Public and Private Limited Companies only.
  - d) Any entity whose accounts are intended to give a true and fair view of its financial position.
- (xvi) Draft accounts for a company show a profit of Ush 52,690,000. Subsequently the accountant discovers that closing stock has been over valued by Ush 3,860,000, while opening stock had been undervalued by Ush 1,340,000. What is the corrected profit figure?
- a) Ush 47,490,000
  - b) Ush 50,170,000
  - c) Ush 55,210,000
  - d) Ush 57,890,000
- (xvii) Shareholders funds in a company equals:
- a) The total of share capital, reserves and long-term debts of the company.
  - b) The total of share capital and revenue reserves of the company.
  - c) The total of issued share capital and reserves of the company.
  - d) The total of issued share capital and capital reserves of the company.
- (xviii) Goodwill may arise in a company's financial statements if:
- a) The company acquires another business for more than the fair value of its separable net assets.
  - b) The company sells a fixed asset for more than its fair value.
  - c) The market value of its shares exceeds their nominal value.
  - d) The market value of its shares is less than their nominal value.
- (xix) Which of the following should be charged as an expense in the profit and loss account of a manufacturing firm?
- a) Office electricity costs
  - b) Direct raw materials
  - c) Work in progress
  - d) Cost of transporting raw materials purchased

- (xx) Direct costs are defined as those which:
- a) have been incurred during production
  - b) are incurred in the factory
  - c) can be traced to an item being manufactured
  - d) are included in factory overheads

## SECTION B

### Question 2

A fire at the premises of a businessman, Katongole, in early January destroyed most of his accounting records. Katongole's financial year ended on 31 December 1999, and his accountant has provided the following information.

The summarised opening trial balance as at 1 January 1999.

	<u>Ush</u>	<u>Ush</u>
Plant and Machinery	1,280,000	
Office Equipment,	450,000	
Stock	305,000	
Debtors and Prepayments	350,000	
Creditors and Accruals		176,000
Bank Overdraft		89,000
Loan		950,000
Capital		<u>1,170,000</u>
	<u>2,385,000</u>	<u>2,385,000</u>

The following details of receipts and payments have been extracted from the bank statements for 1999 and other documents –

		<u>Ush</u>
Receipts	Received from debtors	4,275,000
	Capital introduced	220,000
Payments	Cash withdrawn	224,500
	Loan repayments	200,000
	Paid to suppliers	1,756,000
	Rent	220,000
	Electricity and water	185,000
	Wages	800,000
	General expenses	125,000

Other information supplied –

- 1) The opening debtors balance included Ush 25,000 for rent paid in advance, and opening creditors included Ush 43,000 for wages due and an accrual of Ush 27,000 for electricity.
- 2) The plant and machinery had been purchased in 1997 and is being depreciated at 20% per annum on a reducing balance basis.
- 3) The office equipment was bought in January 1998 and is being depreciated over 10 years on a straight-line basis.
- 4) In January 1999 Katongole transferred a private motor vehicle worth Ush 500,000 to the business. It is to be depreciated over 4 years on a straight-line basis.
- 5) Katongole recalls that from the cash withdrawn from the bank Ush 42,000 was paid to suppliers, Ush 26,000 was spent on printing an advertising leaflet (of which half is still to be distributed), he took Ush 89,000 for his own use and the remainder was used for cash wages.
- 6) Interest on the loan of 10% per annum is included in the loan repayments.
- 7) The bank balance per the bank statement as at 31 December 1999 was Ush 1,067,000, after adjusting for unpresented cheques. Any difference is assumed to be cash sales banked, although Katongole deducted Ush 300 per week from this for staff tea.
- 8) The draft Trial Balance as at 31 December 1999 included the following figures – Stock Ush 278,500, Prepaid rent Ush 27,000, Wages due Ush 52,500, Trade creditors Ush 122,000 and Trade debtors Ush 223,000.
- 9) It is subsequently discovered that a debtor owing Ush 160,000 has gone into liquidation and only 20% of the debt is now expected to be received.

**Required:**

Prepare the trading profit and loss account for Katongole for the year ended 31 December 1999.

**(20 marks)**

**Question 3**

Richard is an inexperienced bookkeeper for K & H Enterprises and needs assistance to complete the current account bank reconciliation for the month of October. He has provided the following information:

- On 31 October the bank column of the cash book showed a debit balance of Ush 1,730,000.
- The bank statement on the same date showed a credit balance of Ush 2,850,000.

A comparison of the cash book and bank statement for October reveals the following –

- The bank paid a direct debit of Ush 75,000 for a magazine subscription on 3 October.
- A loan repayment for Ush 450,000 was paid by standing order on 15 October.
- Ush 1,000,000 was transferred from the business deposit account on 10 October.
- Bank charges of Ush 27,000 and loan interest of Ush 60,000 were charged to the account on 30 October.
- Cheques totalling Ush 409,000 paid into the bank on 29 October had not been credited to the account by 31 October.
- A cheque for Ush 562,000 paid to H. Solomon was recorded twice as a credit in the cash book.
- On 4 October, a credit transfer of Ush 725,000 was received from a customer, P Owino.
- A cheque from T. Mukasa for Ush 690,000 banked on 29 September was returned unpaid in October.
- Cheques drawn on 27 October for Ush 218,000 and on 28 October for Ush 72,000 had not yet been presented to the bank.
- A cheque entered in the cash book as a credit of Ush 382,000 should have been for Ush 328,000.
- M. Okello received a cheque for Ush 200,000 on 13 October, but returned it on 25 October and received cash instead.

**Required:**

- a) Prepare a computation of the corrected bank balance for K & H Enterprises as at 31 October. **(12 marks)**
  - b) Prepare a bank reconciliation statement for the month of October. **(4 marks)**
  - c) Write a brief explanation why it is necessary to prepare a bank reconciliation statement at the end of each month. **(4 marks)**
- (Total 20 marks)**

**Question 4**

Blue Boxes Ltd has the following stock movements for the month of January.

Purchases			Sales		
Date	Units Bought	Unit Cost	Date	Units Sold	Unit Price
02.01.00	1000	330	04.01.00	750	500
09.01.00	1500	350	10.01.00	750	550
18.01.00	1500	360	19.01.00	1200	600
23.01.00	600	370	27.01.00	200	600



**Required:**

- a) Calculate the value of closing stock at the end of January by preparing a stores ledger using –
- 1) LIFO method of stock valuation
  - 2) Average cost method of stock valuation
- (15 marks)**
- b) Prepare trading accounts using the figures calculated in part (a) **(5 marks)**
- (Total 20 marks)**

**SECTION C**

**Question 5**

A colleague of yours, Mabel Tumusiime, has some savings that she is planning to invest in a small retail clothes business. However she is not sure whether to operate as a sole-trader or to go into partnership with two friends, and she wants you to advise her. Mabel has two main queries:–

- 1) What are the advantages and disadvantages of operating as a partnership as compared to a sole-trader?
- 2) How does the accounting for a partnership differ from that for a sole-trader?

**Required:**

Write a letter to Mabel in response to her queries.

**(20 marks)**

**Question 6**

A new trainee accountant in your firm is learning about fundamental accounting concepts and has asked you to help.

Write notes covering the following points –

- 1) What is meant by the term fundamental accounting concepts, and why have they been developed?
- (4 marks)**
- 2) Explain the following concepts –
    - (i) Going Concern
    - (ii) Business Entity Concept
    - (iii) Realisation Concept
    - (iv) Money Measurement Concept

**(16 marks)**  
**(Total 20 marks)**