

**THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

**A Committee of the Council of ICPAU**

**BUSINESS ACCOUNTING – PAPER 1**

**JUNE 2000**

**INSTRUCTIONS TO CANDIDATES:**

1. Time allowed: **3 hours**
2. Attempt all questions in Section A and B and any **one** question from Section C.
3. Section A has **twenty** compulsory questions each carrying 1 mark.
4. Section B has **three** compulsory questions. Each question carries 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 on the answer book.

- a) 1 and 2.
  - b) 1, 2 and 3.
  - c) 1, 2 and 4.
  - d) All of them.
- v) One disadvantage of a Limited Company as compared to other forms of business organisations is:
- a) The need to comply with numerous regulations.
  - b) The company is a legal entity in its own right.
  - c) The company's liability is limited.
  - d) The ownership of the company is separate from its management.
- vi) Mulwana makes regular quarterly payments for gas and electricity. Mulwana filled in a form of authorisation and the suppliers then set up their own arrangement with a Bank to collect amounts due. Mulwana is always informed of these amounts. This means of payment is known as:
- a) Direct debit.
  - b) Inter-Bank- transfer.
  - c) Standing order.
  - d) Mail transfer.
- vii) If a cheque has been signed by the payee with a written instruction to pay a third party, this would be known as:
- a) An endorsement in blank.
  - b) A special endorsement.
  - c) A bearer cheque payable to the holder.
  - d) A non-negotiable crossed cheque.
- viii) Kigundu calculates his cash book balance to be Ushs.400,000, however, his bank statement shows a different amount. Having considered the following items, calculate the balance on Kigundu's bank statement.
- 1. A cheque that Kigundu paid into the bank for Ushs.100,000 has not cleared.
  - 2. A cheque for Ushs.150,000 paid by Kigundu to Mr. Mukasa has not yet been presented.
  - 3. Kigundu has forgotten to record a cash withdrawal of Ushs.75,000

4. The Bank Statement shows charges of Ushs.37,500 have been deducted from his account.
- a) Ushs.737,500.
  - b) Ushs.562,500.
  - c) Ushs.462,500.
  - d) Ushs.337,500.
- ix) If a sales invoice includes the term "ex works", it will mean:
- a) that the invoice does not include labour costs.
  - b) that the invoice does not include the costs of delivery of the goods.
  - c) that the invoice is after any trade discount.
  - d) that the invoice does not have any discounts attached to it.
- x) When preparing a set of financial statements for a limited company, the going concern concept is applied if:
- a) the company will never be wound up.
  - b) the company is not expected to incur losses in the foreseeable future.
  - c) the company is not expected to be able to continue operating.
  - d) the company is expected to continue operating into the foreseeable future.
- xi) The opening balance at 1 June on Kisa's debtors ledger showed total amounts due as Ushs.161,950. During June, Kisa made sales of Ushs.1,349,950, half of these sales were for cash. At the end of June, Kisa's customers owed Ushs.262,300. How much cash did Kisa receive from his customers during June?
- a) Ushs.1,450,300
  - b) Ushs. 574,625
  - c) Ushs. 775,325
  - d) Ushs.1,249,600

- xii) A cash advance of Ushs.50,000 is taken out of the petty cash box by an employee for refreshments for a client and an authorised voucher for Ushs.50,000 put into the petty cash box. The employee spends Ushs.44,000 on refreshments. What is the correct procedure of dealing with this?
- a) The employee returns the Ushs.6,000 and the petty cash voucher is altered to read Ushs.44,000.
  - b) The employee returns the balance of Ushs.6,000.
  - c) The employee keeps the change of Ushs.6,000 and the petty cash voucher is altered to read Ushs.44,000.
  - d) The employee returns the Ushs.6,000 and a receipt is issued for the same amount.
- xiii) The main purpose of the reporting and disclosure guidelines that accountants refer to as Generally Accepted Accounting Principles is:
- a) to issue the user of the information that all transactions have been posted.
  - b) to ensure that all necessary adjustments have been made.
  - c) to ensure that no funds or assets have been misappropriated.
  - d) to facilitate comparisons between different organisations.
- xiv) Which of the following is not true about costs?
- a) All costs are variable in the long-run.
  - b) All incremental costs are relevant for decision making.
  - c) Raw material costs in a manufacturing concern is a component of prime costs.
  - d) Only direct costs are relevant for decision making.
- xv) In a limited company, which of the following are shown in the appropriation section of the Profit and Loss Account?
- (1) Directors' Remuneration.
  - (2) Proposed Dividends.
  - (3) Debenture Interest.
  - (4) Transfer to Reserves .
- a) 2 and 3.
  - b) 2 and 4.
  - c) 2, 3 and 4.
  - d) All of them.

- xvi) Responsibility for preparation of a company's statutory accounts lies with the:
- a) auditors.
  - b) finance department.
  - c) Directors.
  - d) Shareholders.
- xvii) A business makes credit sales of Ushs.200 plus VAT. The standard rate of VAT is 17%. What are the accounting entries to record this sale?
- a) Debit debtors 200/=, credit sales 200/=
  - b) Debit debtors 234/=, credit sales 234/=
  - c) Debit VAT 34/=, debit debtors 200/=, credit sales 234/=
  - d) Debit debtors 234/=, credit sales 200/=, credit VAT 34/=
- xviii) Bongole has extracted the following figures from his financial statements:
- |                        |           |
|------------------------|-----------|
|                        | Ushs.     |
| Net profit             | 2,627,000 |
| Capital introduced     | 250,000   |
| Increase in Net Assets | 1,832,000 |
- What were drawings during the period?
- a) 545,000
  - b) 795,000
  - c) 1,045,000
  - d) 2,377,000
- xix) Which of the following is an example of an accounting policy?
- a) Prudence.
  - b) Accruals.
  - c) Going concern.
  - d) Depreciation.
- xx) When should a contingent gain be provided for in the accounts?
- a) When it can be estimated with reasonable accuracy.
  - b) When the directors are reasonably certain it will arise.
  - c) Only if the auditors agree that the provision is reasonable.
  - d) It should never be incorporated into the accounts.

**SECTION B**

**Question 2:**

Rat and Mouse entered into business as equal partners on 1 October 1998. Their trial balance for the three months of trading ended 31 December 1998 is as follows:-

	Ushs.	Ushs.
Capital Introduced:		
- Rat		18,000,000
- Mouse		18,000,000
Drawings:		
- Rat	3,000,000	
- Mouse	1,750,000	
Building	20,000,000	
Motor Vehicle	8,000,000	
Sales		15,800,000
Purchases	9,250,000	
Office Expenses	2,020,000	
Discounts allowed	275,000	
Trade creditors		3,050,000
Trade debtors	7,570,000	
Cash at bank	2,680,000	
Cash in hand	305,000	
	<u>54,850,000</u>	<u>54,850,000</u>

**Other information:**

- 1) Depreciation for the three months is to be provided:
 

Buildings	10% on cost
Motor Vehicle	5% on cost
- 2) Closing stock is Ushs.1,555,000.
- 3) Office expenses owing Ushs.150,000.
- 4) Interest on capital is to be charged at 20% per annum.
- 5) Rat is to be provided with a salary of Ushs.1,000,000 per annum.

**Required:**

- a) Profit and Loss Account for three months ended 31.12.98. (5 marks)
- b) Profit Appropriation Account for same period. (4 marks)
- c) Balance Sheet as at 31.12.98. (8 marks)
- d) State three advantages that a partnership may have over a sole proprietorship. (3 marks)

**(Total 20 marks)**

**Question 3:**

The following is the summary of the cash book of Kololo Golf Club for the year ended 31<sup>st</sup> March 1999.

**Cash book for the year ended 31.3.99**

	Ushs.		Ushs.
Balance at bank 1.4.98	234,000	Casual wages	720,000
Members subscription	4,985,000	Bar supplies	4,230,000
Entrance fees	3,206,000	Rates	120,000
Bar sales	6,084,000	Rent for 15 months to 30.6.99	2,460,000
Competitors receipts	2,582,000	Secretary's salary	1,800,000
		Lighting and water	504,000
		Competitors' prizes	1,440,000
		Stationery and postage	384,000
		Repairs to pavilion	330,000
		Maintenance of ground	450,000
		Bar man's salary	540,000
		Deposits with savings and loans	3,500,000
		Balance at bank on 31.3.99	613,000
	<u>17,091,000</u>		<u>17,091,000</u>

The following additional information is available.

1. The assets of the club on 1.4.1998

	<b>Ushs.</b>
Land	65,000,000
Pavilion and equipment	25,000,000
Bar Inventories	1,080,000
Competition prizes in hand	480,000

2. On 1.4.1998 bar supplies were owed Shs.420,000 by the club.
3. On 31.3.1999 bar inventories were Shs.960,000. Competition prizes in hand were Shs.240,000 and Shs.564,000 were owed to the bar suppliers.
4. It was evident from the register of members that subscriptions unpaid on 31/3/99 totalled to Shs.510,000 in respect of year ending 31.3.99, subscriptions in respect of the previous year Shs.150,000 and Shs.170,000 was paid in respect of the following year.
5. The Secretary was to receive a leave allowance of 10% of the basic salary. It was further agreed that the bar man should receive a bonus of 5% on the net profit after charging such a bonus.
6. Interest earned on the deposit with savings and loans for the year amounted to Ushs.175,000.
7. The pavillion and equipment are to be depreciated by 10% p.a.

**Required:**

- a) Prepare the bar trading account.
- b) An Income and Expenditure account for the year ended 31March 1999.
- c) A balance sheet as at 31March 1999.

**(3 marks)**

**(10 marks)**

**(7 marks)**

**(Total 20 marks)**



**Question 4:**

- a) Identify four factors which cause fixed assets to depreciate. (4 marks)
- b) Which one of the factors in (a) above is the most important for the following assets?
- i) A motorcycle.
  - ii) A 49 year lease on the office building.
  - iii) A coal mine.
  - iv) Computer. (4 marks)

- c) At 1 April 1998, Salongo Taxis had in use vehicles with a total accumulated cost of Ushs. 45,870,000 which had been depreciated by a total of Ushs.27,480,320. During the year ended 31 March 1999, Salongo sold off a vehicle, which had cost Ushs.8,000,000 and which had been depreciated by Ushs.3,904,000, for Ushs.3,500,000. In addition, a car was involved in an accident and written off. This car had cost Ushs.5,200,000 when it was purchased in April 1995, and the insurance company paid the firm Ushs.2,000,000 in compensation for the loss. The policy of the business is to depreciate vehicles by 20% per annum using the reducing balance method.

Show the following ledger accounts for the year ended 31 March 1999.

- i) The Vehicles Account
- ii) The Provision for Depreciation of Vehicles Account
- iii) The vehicles Disposal Account

12 marks  
(Total 20 marks)

**SECTION C**

**Question 5:**

Outline the information needs of six user groups of financial statements. (20 marks)

**Question 6:**

What is the fundamental objective of financial reporting? What are the qualities of good information in financial statements?

(20 Marks)