

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

BUSINESS ACCOUNTING - PAPER 1

CPA(U) EXAMINATIONS

JUNE 2001

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Sections **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 should not be classified as sales?
 - (a) Sale of a computer previously included in property, plant and equipment.
 - (b) Sale of a desk previously included in purchases
 - (c) Goods sold for cash
 - (d) Goods sold on credit

- (ii) Gross profit for 2000 can be calculated from:
 - (a) Purchases for 2000, plus stock at 1 January 2000 less stock at 31 December 2000
 - (b) Purchases for 2000 less stock at 1 January 2000 plus stock at 31 December 2000
 - (c) Net profit for 2000 plus expenses for 2000
 - (d) Sales during 2000 plus cost of goods sold during 2000

- (iii) A trade discount is:
 - (a) A settlement discount
 - (b) A reduction in the price of goods due to a bulk purchase
 - (c) A reduction in the price of goods in return for immediate cash payment
 - (d) A reduction in the price of goods due to the nature of the trading transaction

- (iv) Carmen believed that she had a bank balance of Ush 1,566,500 yet her bank statement showed a different figure. Taking into account the following items what is the balance on Carmen's bank statement.
 - (1) A cheque received for Ush 135,000 had not yet been banked.
 - (2) Bank charges of Ush 75,600 had been debited by the bank.
 - (3) Carmen had forgotten about a standing order of Ush 148,500 for rent.
 - (4) A cheque paid out for Ush 638,000 had not yet cleared.
 - (a) Ush 569,400
 - (b) Ush 839,400
 - (c) Ush 1,845,400
 - (d) Ush 2,118,400

- (v) Which of the following best describes an income statement?
- (a) A statement that shows a true and fair view of the transactions during a given period
 - (b) A statement that shows the financial position of the business at the end of a given period
 - (c) A statement that shows all incomes generated during a period
 - (d) A statement that shows all incomes generated and expenses incurred during a period
- (vi) What is cost allocation?
- (a) The charging of costs to production centres
 - (b) The charging of overheads to more than one cost centre
 - (c) The charging to a cost centre those overheads that result solely from its existence
 - (d) The charging of costs accumulated in a cost centre to cost units
- (vii) Which of the following is true about period costs?
- (a) They are not assigned to products for valuation purposes
 - (b) They are identified with goods manufactured or purchased during a given period
 - (c) They increase with increases in production during a period
 - (d) They will be fixed during a given period
- (viii) A credit balance of Ush 270,000 in the cash column of a cash book indicates that:
- (a) There is cash in hand of Ush 270,000
 - (b) Cash has been overspent by Ush 270,000
 - (c) Capital will be increased by Ush 270,000
 - (d) An error has been made in the books
- (ix) What is recorded in nominal accounts?
- (a) Transactions relating to debtors and creditors only
 - (b) Transactions relating to income and expenses only
 - (c) Only journal adjustments
 - (d) Transaction relating to expenses, income and capital items

- (x) A business began trading on 1 May and during the first month goods with a retail value of Ush 1,296,000 were purchased at a trade discount of 20%. Of these 75% were sold at full retail price and returns inward had a retail value of Ush 32,500. What is the cost price of stock held on 31 May?
- (a) Ush 356,500
 - (b) Ush 291,700
 - (c) Ush 285,200
 - (d) Ush 226,700
- (xi) Which of the following should be entered in the journal?
- (1) Sale of goods at discounted prices
 - (2) Cash purchase of a motor vehicle
 - (3) Sale of machinery on credit
 - (4) Fixtures bought on credit
- (a) 1, 2 and 3
 - (b) 2, 3 and 4
 - (c) 3 and 4
 - (d) All of them
- (xii) A customer, J Green, is unable to pay his account and you agree to accept a computer from him in full settlement of his debt. The double entry required is:
- (a) Debit bad debts recovered; credit J Green's account
 - (b) Debit office equipment; credit J Green's account
 - (c) Debit office equipment; credit bad debts
 - (d) Debit J Green's account; credit office equipment

The following information applies to questions (xiii) and (xiv)

A large store has three departments namely; Clothes, Household goods and Food. The food department opens until 10.00pm each evening whereas the other departments close at 5.00pm. What would be the best method of apportioning the expenses below?

- (xiii) Rent
- (a) Direct to the food department
 - (b) Split equally between the three departments
 - (c) On floor space occupied by each department
 - (d) On number of staff in each department

- (xiv) Electricity
- (a) Split equally between the three departments
 - (b) On opening hours for each department
 - (c) On average number of customers for each department
 - (d) On average revenue for each department
- (xv) Lee and Co want to buy goods from Chan Ltd. Which of the following is most likely to be the flow of documents relating to the purchase.
- (a) Delivery note, goods received note, invoice, cheque requisition
 - (b) Purchase order, goods received note, delivery note, invoice, cheque requisition
 - (c) Purchase order, invoice, delivery note, goods received note, cheque requisition
 - (d) Purchase order, delivery note, goods received note, invoice, cheque requisition
- (xvi) The petty cash float on 1 April was Ush 600,000. During the month expenditure totalled Ush 549,600 less a refund of overpaid travel expenses of Ush 40,800. On 1 May the float is to be increased to Ush 750,000. How much should be given to the petty cashier to achieve this under the imprest system?
- (a) Ush 508,800
 - (b) Ush 658,800
 - (c) Ush 699,600
 - (d) Ush 740,400
- (xvii) Damage to an account page in the sales ledger has rendered one item unreadable. The remaining items are -
Balance b/f Ush 933,000; sales Ush 1,088,500; returns inward Ush 104,500; discounts allowed Ush 38,500; balance c/f Ush 503,500
What is the missing item?
- (a) Debit Ush 1,375,000
 - (b) Debit Ush 1,450,000
 - (c) Credit Ush 514,000
 - (d) Credit Ush 1,375,000

- (xviii) The amount paid in cash to a partner in a reporting period should appear -
- (a) As drawings in the current account
 - (b) As an appropriation in the profit and loss account
 - (c) In salaries and wages in the profit and loss account
 - (d) As salary in the current account
- (xix) Which of the following is not a distributable reserve?
- (a) Capital reserve
 - (b) Accumulated profits
 - (c) General reserve
 - (d) Revenue reserve
- (xx) Which of the following is an example of an accounting policy?
- (a) Realisation
 - (b) Depreciation
 - (c) Materiality
 - (d) Going concern

SECTION B

Question 2

On 1 January 1999 Simba Ltd buys a machine for Ush 10,000,000. It is estimated that the machine will be used for 5 years and will then have a scrap value of Ush 500,000. On the same date Simba Ltd sells an old machine for Ush 3,000,000. The machine had cost Ush 8,000,000 when it was purchased on 1 January 1996 and had been depreciated by 20% p.a. on a reducing balance basis. On 30 June 2000 the new machine was sold for Ush 5,000,000. Simba Ltd always provides a full year of depreciation in the year of purchase and no depreciation in the year of disposal.

Required:

- (a) What is the purpose of depreciation?
(2 marks)
- (b) Write up the disposal account for the machine sold on 1 January 1999
(4 marks)
- (c) With regard to the new machine write up the machine account, provision for depreciation account, and the disposal account, using
- (i) the straight line method
 - (ii) the reducing balance method at 20% per annum
- (10 marks)**
- (d) When is each of the two methods of depreciation most appropriate?
(4 marks)
(Total 20 marks)

Question 3

After preparing the income statement for the year ended 31 May 2001 you find that the following balances remain in the books of ABC Ltd.

	Ush '000s	Ush '000s
Called up share capital:		
Ordinary shares		100,000
9% preference shares		50,000
7.5% debentures		20,000
Land and buildings (cost)	80,000	
Plant and machinery (cost)	60,000	
Furniture (cost)	20,000	
Motor vehicle (cost)	40,000	
Provision for depreciation		
Land and buildings		8,000
Plant and machinery		20,000
Furniture		6,000
Motor vehicles		24,000
Debtors and creditors	31,000	18,000
Prepaid insurance	2,000	
Interim dividends paid		
ordinary	5,000	
preference	4,500	
Debenture interest unpaid		750
Goodwill (cost)	20,000	
Preliminary expenses	4,000	
Provision for bad debts		1550
Stock in trade	25,000	
Auditors remuneration - unpaid		5,000
Cash at bank	12,400	
General reserve		10,000
Accumulated profits		3,600
Net profit for the year		37,000
	<u>303,900</u>	<u>303,900</u>

Additional information:

- (1) The authorised share capital of the company is Ush 300 million divided in to 20,000 ordinary shares of Ush 10,000 each and 20,000 9% preference shares of Ush 5,000 each.
- (2) The directors have decided to:
 - a) write off the whole of preliminary expenses
 - b) write off 25% of goodwill
 - c) propose a final dividend of 5% on ordinary shares as well as the balance on the preference dividend
 - d) transfer Ush 3 million to general reserves
- (3) Ignore taxation.

Required:

- (a) Prepare a statement showing the appropriation of profits for the year ended 31 May 2001.

(7 marks)

- (b) Prepare a Balance Sheet as at 31 May 2001.

(13 marks)

(Total 20 marks)

Question 4

Edward Musoke had the following balances on 1 January 2000.

		<u>Ush</u>
Cash at Bank		350,000
Debtors:	Kasita	240,000
	Nankya	160,000
	Gimbo	280,000
Stock		450,000
Fixed Assets		2,000,000
Creditors:	Akora	530,000
	Kato	450,000

During the month ended 31 January 2000, the following transactions took place:

- a) Sales invoices issued by Musoke

<u>Invoice</u>	<u>Customer</u>	<u>Ush</u>
<u>No</u>		
101	Kasita	275,000
102	Nankya	420,000
103	Gimbo	510,000
104	Okumu	260,000
105	Gimbo	780,000
106	Kasita	140,000

- b) Credit notes issued by Musoke

<u>Note No</u>	<u>Customer</u>	<u>Ush</u>
201	Gimbo	16,000
202	Kasita	25,000
203	Nankya	6,000

- c) Purchase invoices received by Musoke

<u>Invoice</u>	<u>Supplier</u>	<u>Ush</u>
<u>No</u>		
1001	Akora	640,000
1002	Kato	540,000
1003	Kagoro	490,000

Business Accounting – Paper 1

- d) Musoke received a credit note from Kagoro for Ush 90,000.
- e) The following cash amounts were received. All receipts were banked intact.

Date	Details
5 Jan	Ush 240,000 from Kasita
6 Jan	Ush 600,000 less 2% discount from Gimbo
29 Jan	Ush 300,000 less 3% discount from Nankya

- f) Musoke made cheque payments as follows

Date	Cheque No	Details
2 Jan	230451	Ush 110,000 Drawings
9 Jan	230452	Ush 400,000 less 2% discount to Akora
12 Jan	230453	Ush 300,000 less 3% discount to Kato
25 Jan	230454	Ush 120,000 Salaries
30 Jan	230455	Ush 400,000 less 2% discount to Kagoro

Required:

- (a) Write up the three column cash book for January 2000. **(7 marks)**
- (b) Prepare a total debtors account, total creditors account and an account for all discounts. **(7 marks)**
- (c) Prepare a trial balance as at 31 January 2000. **(6 marks)**
- (Total 20 marks)**

SECTION C

Question 5

- (a) What is goodwill?
(4 marks)
 - (b) Briefly explain four factors which distinguish goodwill from other assets.
(4 marks)
 - (c) Identify four circumstances in which goodwill can be recorded in partnership accounts?
(4 marks)
 - (d) Give two arguments for and two arguments against the recognition of goodwill in financial records.
(8 marks)
- (Total 20 marks)**

Question 6

Mr Opio has recently set up a retail business and needs advice on the accounting records that he should keep. Write a letter to him setting out the following:

- a) Explain the term books of prime entry.
 - b) Identify four books of prime entry that he should establish
 - (c) The ledgers he should operate and the types of accounts in each type of ledger.
 - (d) Explain the purpose of sales and purchase ledger control accounts.
- (20 marks)**