

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

MONDAY, 17 DECEMBER 2001

INSTRUCTIONS TO STUDENTS

1. Time allowed : **3 hours**
2. Attempt all question 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** 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) The total of the sales journal is transferred to:
 - a) Credit side of the sales account.
 - b) Debit side of the sales account.
 - c) Credit side of the sales ledger.
 - d) Debit side of the sales day book.
- (ii) Which of the following is odd?
 - a) Taxation payable.
 - b) Ordinary dividends payable.
 - c) Debenture interest payable
 - d) Preference dividends payable.
- (iii) Which of these is not an appropriation in partnership accounts?
 - a) Interest on capital.
 - b) Interest on drawings
 - c) Interest on loan advances.
 - d) Interest on current accounts.
- (iv) The following are assets except;
 - a) Returns inwards.
 - b) Prepaid insurance.
 - c) Unused stationery.
 - d) Income received in advance.
- (v) The following items may be passed through the revaluation account of a partnership except;
 - a) Goodwill arising on revaluation.
 - b) Assets taken over by the partners.
 - c) Write down of inventory.
 - d) Increase in the value of land.

- (vi) The amount given to the petty cashier at the beginning of each new period is;
- a) Equal to the amount spent during the previous period.
 - b) The amount required to replenish the float.
 - c) The float less the cash balance in the petty cash till.
 - d) All of the above descriptions.

- (vii) Musoke purchased an item of plant on 1 January 2001 for Shs 3,800,000. The payment for the plant was correctly entered in the cash book but was entered on the debit side of the plant repairs account.

Musoke depreciates plant on the straight line method at 20% p.a. with a proportionate charge in the year of acquisition and assuming no scrap value at the end of the life of the asset.

How will Musoke's profit for the year ended 31 March 2001 be affected by the error?

- a) Understated by Shs 3,040,000
 - b) Understated by Shs 3,610,000
 - c) Understated by Shs 3,800,000
 - d) Overstated by Shs 190,000
- (viii) Which of the following is not a current liability?
- a) Creditors for non-current assets.
 - b) Creditors for trading items.
 - c) Creditors for operating expenses.
 - d) Creditors for loan notes.
- (ix) Which of the following factors affects the economic useful life of leased land?
- a) Passage of time.
 - b) Adequacy.
 - c) Weather.
 - d) Usage.

- (x) Which of the following does not fall under the same category from the point of view of the accounting equation?
- a) Capital, retained profits, drawings for the period.
 - b) Trade creditors, loan creditors, expense creditors.
 - c) Bank balance, expense creditors, trade creditors.
 - d) Initial capital, loan creditors, drawings.
- (xi) A business compiling its accounts for the year to 31 January each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. After remaining unchanged for some years, the rent was increased from Shs.240,000 per year to Shs.300,000 per year as from 1 July 2000.

Which of the following figures is the rent expense which should appear in the income statement for the year ended 31 January 2001?

- a) Shs.275,000
 - b) Shs.295,000
 - c) Shs.280,000
 - d) Shs.290,000
- (xii) On 30 June 2001 the inventory of Muko Enterprises was completely destroyed by fire.

The following information is available

- | | |
|--|-------------|
| 1. Inventory at 1 June 2000 at cost | Shs 284,000 |
| 2. Purchases for June 2001 | Shs 496,000 |
| 3. Sales for June 2001 | Shs 648,000 |
| 4. Standard gross profit percentage on sales revenue is 30%. | |

Given the information above, compute the value of the inventory destroyed.

- a) Shs 453,600
- b) Shs 326,400
- c) Shs 409,710
- d) Shs 194,400

- (xiii) A sole trader who does not keep full accounting records wishes to calculate his sales revenue for the year.

Information available is;

1. Opening inventory	Shs 170,000
2. Closing inventory	Shs 240,000
3. Purchases	Shs 910,000
4. Standard gross profit percentage on sales revenue	40%

Which of the following is the sales figure for the year derived from these figures?

- a) Shs 1,176,000.
 - b) Shs 1,080,000.
 - c) Shs 2,100,000.
 - d) Shs 1,400,000.
- (xiv) The following attempt at a bank reconciliation statement balance has been prepared by ABC Ltd.:

	Shs
Overdraft per bank statement	386,000
Add: Cheques banked not credited	<u>412,000</u>
	798,000
Less: Cheques drawn not presented	<u>33,000</u>
Overdraft as per cash book	<u>765,000</u>

Assuming the bank statement balance of Shs 386,000 is correct, what should the cash book balance be?

- a) Shs 765,000 overdrawn.
 - b) Shs 59,000 overdrawn.
 - c) Shs 7,000 overdrawn.
 - d) Shs 59,000 cash at bank.
- (xv) Which of the following transactions increases the total amount of current assets?
- a) Cash received from debtors.
 - b) Purchases of raw materials, for cash.
 - c) Sale of plant, for credit.
 - d) Cash paid to creditors.

(xvi) Which of the following is false?

A debit is;

- a) An increase in an asset.
- b) A decrease in a liability.
- c) An item of expense.
- d) An item of income.

(xvii) Inventory should be valued at the lower of cost and net realisable value. Which of the following accounting concepts governs this?

- a) The consistency concept.
- b) The accruals concept.
- c) The prudence concept.
- d) The money measurement concept.

(xviii) Which of the following is a book of prime entry **and** part of the double entry system?

- a) The journal.
- b) The petty cash book.
- c) The sales journal.
- d) The creditors ledger.

(xix) In the year to 30 September 2001, Matovu received Shs 4,920,000 rental income. The amounts of rent received in advance and due in arrears were as follows;

	30 . 09. 2001	30 . 09. 2000
	Shs	Shs
Rent received in advance	240,000	260,000
Rent due in arrears	180,000	140,000

What figure for rental income should be recorded in the income statement for the year ended 30 September 2001?

- a) Shs 4,860,000.
- b) Shs 4,940,000.
- c) Shs 4,980,000.
- d) Shs 4,900,000.

- (xx) A steel rolling mill pays Shs.300,000 to the factory supervisor. This is best classified as;
- a) Labour cost.
 - b) Direct expenditure.
 - c) Prime cost.
 - d) Factory overheads.

SECTION B

Question 2

The trial balance totals of Turner for the year ended 30 September 2001 were;

Debit Shs.1,605,668,000.

Credit Shs.1,603,623,000.

He put the difference on a suspense a/c and prepared the draft income statement which showed a profit of Shs 412,967,000.

He then began to check through the accounting records and found the following errors and omissions;

1. Discounts allowed totalling shs.1,248,000, had not been entered in the debtors control account.
2. A credit sale of shs.857,000 had not been entered in the sales day book.
3. A contra entry between the debtors and creditors ledgers had been entered in the control accounts as:
Debit debtors control shs.731,000,
Credit Creditors control shs.731,000.
4. A telephone bill of shs.54,000 had been entered in the telephone expenses account as shs.45,000 but was correctly entered in the suppliers account.
5. Bank charges of shs.66,000 had been correctly entered in the expense account but had not been entered in the cash book.
6. One of the pages of the purchases day book had been totalled as Shs.11,269,000 instead of shs.11,629,000.
7. During the year equipment was sold for shs.740,000. It had originally cost shs.3,600,000 and it's net book value at the date of disposal was shs.800,000. The only entry made was to debit the proceeds of sale to the bank account.

Required:

- a) Record in the suspense account the effects of correcting 1 to 7 above.
(5 marks).
 - b) Reconcile the difference between the balance on debtors control account in the original list of balances and the sum of individual customers balances in the debtors ledger. The original control account balance was shs.327,762,000.
(8 marks)
 - c) Prepare a statement of adjusted net profit showing both the original profit of shs.412,967,000 as given by the draft financial statements and the net profit after correcting items 1 to 7 above.
(7 marks)
- (Total 20 marks)**

Question 3

K. Okoth runs a small business and has asked you to help him prepare his financial statements for the year ended 31 October 2001. He does not use the double entry system of accounting to maintain his accounts, but he is able to provide you with the following summary of his cash account and bank account.

Cash Account Summary	Shs'000	Shs'000
Balance at 1 November 2000		150
Receipts		
Cash sales	16,400	
Customers	<u>3,000</u>	<u>19,400</u>
		19,550
Payments		
Drawings	11,655	
Repairs	2,680	
Motor van expenses	3,225	
Miscellaneous expenses	300	
Cash banked	<u>1,460</u>	<u>19,320</u>
Balance at 31 October 2001		<u><u>230</u></u>
 Bank account summary		
Balance at 1 November 2000		8,560
Receipts		
Customers	65,600	
Cash banked	<u>1,460</u>	<u>67,060</u>
		75,620

Payments

Electricity	1,450	
Insurance	1,000	
Interest on loan	1,545	
Rent	1,350	
Telephone	490	
Suppliers	50,560	
Wages	<u>15,750</u>	<u>72,145</u>
Balance at 31 October 2001		<u>3,475</u>

K. Okoth also provides you with the following information for the year ended 31 October 2001:

- Goods costing shs.2,510,000 were withdrawn from the business for K. Okoth's own use.
- Bad debts of shs.350,000 were written off.
- Rent owing at 1 November 2000 was shs.330,000.
- Insurance was prepaid by shs.250,000 at 31 October 2001.
- Depreciation on non-current assets is provided for annually at 25% using the reducing balance method.
- The machinery and motor van had written down values of shs.12,560,000 and shs.4,580,000 respectively at 1 November 2000.
- There was shs.255,000 owing to the bank for interest on the loan at 31 October 2001.
- Discounts received for the year were shs.1,770,000 and discounts given to customers were shs.2,000,000.

Other information relating to K. Okoth's business:

	1 November 2000	31 October 2001
	Shs'000	Shs'000
Inventory	4,500	8,760
Accounts receivable	15,400	16,680
Accounts payable	8,050	9,425
Bank loan	12,000	12,000

Required:

- a) Derive the value of K.Okoth's capital at 1 November 2000.
(5 marks)
 - b) Prepare K.Okoth's Income Statement for the year ended 31 October 2001.
(10 marks)
 - c) Prepare K.Okoth's balance sheet as at 31 October 2001.
(5 marks)
- (Total 20 marks)**

Question 4

The outline balance sheet of A,B and C trading as a partnership is as follows;

Balance Sheet as at 31 October 2001

	Shs'000	Shs'000
Non-current assets (at written down values)		
Premises	30,000	
Equipment	7,200	
Fixtures and Fittings	<u>8,100</u>	
		45,300
Current assets		
Inventory	17,800	
Accounts receivable	4,300	
Cash	<u>1,100</u>	
	<u>23,200</u>	
Current liabilities		
Accounts payable	6,400	
Bank overdraft	<u>9,700</u>	
	<u>16,100</u>	
Net current assets		<u>7,100</u>
		<u>52,400</u>
Financed by:		
Capital accounts		
A	20,000	
B	20,000	
C	<u>10,000</u>	
Current accounts		50,000
A	3,600	
B	(2,100)	
C	<u>900</u>	
		<u>2,400</u>
		<u>52,400</u>

Up to this date the partners had shared profits and losses equally. It had been agreed, however, that from 1 November 2001 this would change to A: $\frac{1}{2}$, B: $\frac{1}{3}$, C: $-\frac{1}{6}$. At the same time the assets were revalued at the following amounts.

	Shs'000
Premises	55,000
Equipment	6,000
Fixtures and Fittings	8,000
Inventory	15,400
Accounts receivable	4,000
Goodwill	12,000

Required:

- (a) Revaluation account. (4 marks)
- (b) Capital accounts. (6 marks)
- (c) Balance sheet as at 1 November 2001, on the assumption that the above revaluations are to be retained in the partnership books as from 1 November 2001.

(10 marks)
(Total 20 marks)

SECTION C

Question 5

Define the following accounting concepts and explain for each their implication of financial statements:

- a) The entity concept. (4 marks)
- b) The going concern concept. (4 marks)
- c) Materiality. (4 marks)
- d) Realisation. (4 marks)
- e) Consistency. (4 marks)

(Total 20 marks)

Question 6

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

Required;

- a) State five potential users of financial statements, briefly explaining for each one their likely information needs from those statements. (10 marks)
- b) Briefly discuss whether you think that financial statements achieve the objective stated above giving your reasons.

(10 marks)
(Total 20 marks)