

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS ACCOUNTING – PAPER 1

**MONDAY, 16 DECEMBER 2002**

#### INSTRUCTIONS TO STUDENTS

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 multiple-choice 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 on the answer book.

**SECTION A****Question 1**

- (i) Which of the following transactions would change the value of net assets?
- (a) Inventory sold on credit for Shs 15 million.
  - (b) A motor van bought for cash.
  - (c) Motor insurance of Shs 3 million paid by cheque.
  - (d) A cheque payment of Shs 18 million for a machine bought on credit.

**Use the following information to answer questions (ii) to (v).**

A company maintains a provision for doubtful debts at 5% of total trade receivables and the provision account had a balance of Shs 600,000 as at 1 January 2001. The trade receivables balance before adjustment was Shs 20,000,000 at 31 December 2001. The Credit Controller recommended that bad debts amounting to 9% of the total be written off and a provision for discounts allowed of 3% be created.

- (ii) What is the increase in the provision for doubtful debts on 31 December 2001?
- (a) Shs 310,000.
  - (b) Shs 400,000.
  - (c) Shs 1,000,000.
  - (d) Shs 1,200,000.
- (iii) How much is the provision for discounts allowed as at 31 December 2001?
- (a) Shs 273,000.
  - (b) Shs 518,700.
  - (c) Shs 546,000.
  - (d) Shs 600,000.
- (iv) What is the correct trade receivables balance to be included under current assets?
- (a) Shs 18,200,000.
  - (b) Shs 17,290,000.
  - (c) Shs 16,771,300.
  - (d) Shs 16,744,000.
- (v) What is the correct expense figure for bad debts to be included in the income statement?
- (a) Shs 2,710,000.
  - (b) Shs 2,656,000.
  - (c) Shs 2,110,000.
  - (d) Shs 1,800,000.

- (vi) Examination of a rent account for the year to 30 September 2002 showed that rent of Shs 7,780,000 was paid in the year. At the end of the year there were rent arrears of Shs 1,200,000 and rent of Shs 850,000 had been paid in advance as at 30 September 2001. What is the correct charge for rent for the year?
- (a) Shs 5,730,000.
  - (b) Shs 7,430,000.
  - (c) Shs 8,130,000.
  - (d) Shs 9,830,000.
- (vii) Which of the following does not constitute a cost of goods sold to be included in the income statement?
- (a) The cost of transporting raw materials.
  - (b) Import duty on goods brought in from abroad for resale.
  - (c) The cost of packaging goods for resale.
  - (d) The cost of renting a warehouse to store goods for resale.
- (viii) The responsibility of preparing financial statements of a limited company lies with the:
- (a) Auditors.
  - (b) Company Accountant.
  - (c) Directors.
  - (d) Shareholders.
- (ix) The going concern concept presupposes that a business:
- (a) is struggling and there is need for urgent action to ensure it continues to operate.
  - (b) is due to be audited.
  - (c) has been audited and the auditors were not satisfied with the financial records.
  - (d) shows no indications that operations will not continue in the foreseeable future.
- (x) Which of the following costs should not be included in non-current assets?
- (i) Cost of building an extension to an existing factory.
  - (ii) Legal fees paid on purchase of land for a factory extension.
  - (iii) Transport costs incurred in bringing building materials to site.
  - (iv) Cost of replacing roof tiles on an existing factory building.
  - (v) Cost of installing new machinery in a factory extension.
- (a) (ii).
  - (b) (iv).
  - (c) (i), (ii) and (iii).
  - (d) (i), (ii), (iii) and (iv).

- (xi) Which of the following statements is the most accurate description of the role of a bookkeeper?
- (a) A bookkeeper records financial information and extracts monthly trial balances.
  - (b) A bookkeeper records financial information and prepares financial statements.
  - (c) A bookkeeper controls petty cash.
  - (d) A bookkeeper sets up a chart of accounts for a business and advises on internal controls.
- (xii) Mable Katongole is planning to purchase a machine from which she expects to receive net cash inflows of Shs 3,000,000 for 6 years. What is the appropriate depreciation for her to use?
- (a) The reducing balance method since the value of the machine will reduce during each year of use.
  - (b) The sum of the digits method as this approximates the aging of the machine.
  - (c) The straight-line method since she does not know the machine's residual value.
  - (d) The machine should be revalued at the end of each year, as its usefulness remains constant over the period of use.
- (xiii) The subscriptions account of a golf club shows the following balances –

	<b>Arrears</b>	<b>Advances</b>
	<b>Shs</b>	<b>Shs</b>
As at 1 August 2001	6,500,000	10,000,000
As at 31 July 2002	8,300,000	3,700,000

The club collected a total of Shs 68,700,000 in subscriptions from its members during the year. What is the amount of subscription income for the year?

- (a) Shs 60,600,000.
- (b) Shs 64,200,000.
- (c) Shs 68,700,000.
- (d) Shs 76,800,000.

- (xiv) Dickens, a sole trader, made a profit of Shs 80 million. He would have earned remuneration of Shs 20 million for his services to the business as an employee. The interest that would have been earned if his capital had been invested elsewhere was Shs 10 million. What are the annual super profits for Dickens as a sole proprietor?
- (a) Shs 50 million.
  - (b) Shs 60 million.
  - (c) Shs 70 million.
  - (d) Shs 80 million.
- (xv) The effect of the prudence concept is that:
- (a) Net profit is calculated as the difference between receipts and payments rather than revenue and expenses.
  - (b) Losses should be provided as soon as they are foreseen and profits should not be recorded until they are realised.
  - (c) Similar items should be treated in the same way from one accounting period to another.
  - (d) Speculative investments should be avoided in favour of more prudent ones.
- (xvi) Which of the following accounts is only relevant to limited companies?
- (a) Capital Account.
  - (b) Revaluation Account.
  - (c) Share Premium Account.
  - (d) Long Term Loan Account.
- (xvii) A business has budgeted for sales for the year of Shs 65 million and expects a gross profit of 30%. If it plans to increase inventories by Shs 3 million over the year, what is its expected level of purchases for the year?
- (a) Shs 19.5 million.
  - (b) Shs 22.5 million.
  - (c) Shs 45.5 million.
  - (d) Shs 48.5 million.
- (xviii) When reconciling the bank balance to the cashbook, which of the following need not be adjusted in the cash book?
- a) Dishonoured cheques.
  - b) Unpresented cheques.
  - c) Direct debits.
  - d) Bank charges.

- (xix) A direct labour employee's wage in a week consists of:
- (i) Basic pay of Shs 288,000.
  - (ii) Overtime pay at basic rate for 6 hours at Shs 8,000 per hour = Shs 48,000.
  - (iii) Pay at overtime premium rate of time and  $\frac{1}{4}$  for 6 hours = Shs 12,000.
  - (iv) Bonus pay for the month under group bonus scheme = Shs 50,000.

Which of these amounts should be included under direct costs for this employee?

- (a) (i).
  - (b) (i) and (ii).
  - (c) (i), (ii) and (iii).
  - (d) (i), (ii), (iii) and (iv).
- (xx) ABC Ltd has the following pricing information for each unit of Product Z:

	<b>Shs</b>
Direct materials	270,000
Direct labour	200,000
Variable production overheads	50,000
Fixed production overheads	65,000
Mark-up 20%	<u>117,000</u>
Selling Price per unit	<u>702,000</u>

What pricing method is being used for Product Z?

- (a) Marginal pricing.
- (b) Full cost pricing.
- (c) Marginal cost plus pricing.
- (d) Full cost plus pricing.

**SECTION B****Question 2**

Dova Ltd has the following list of account balances as at 31 October 2002.

	Shs '000	Shs '000
Share Capital		20,000
Accumulated Profits		38,000
Sales & Purchases	122,000	200,000
Sales Returns & Purchase Returns	4,000	8,000
Trade receivables and payables	40,000	14,000
Land & Buildings at Cost	80,000	
Plant at Cost & depreciation at 1 November 2001	100,000	44,000
Bank Account		16,000
10% Long Term Loan		60,000
Opening Inventory	30,000	
Operating Expenses	18,000	
Administrative Expenses	14,000	
Selling & Distribution Costs	12,000	
Suspense Account		<u>20,000</u>
	<u>420,000</u>	<u>420,000</u>

The following additional information is also available:

- (i) Closing inventory is Shs 36 million.
- (ii) During the year 10,000 new shares with a nominal value of Shs 10 million were issued at Shs 1,600 per share. The proceeds have been credited to the Suspense Account.
- (iii) A standing order of Shs 3 million for electricity to 31 December 2002 has not yet been recorded.
- (iv) The bookkeeper has included the provision for doubtful debts of Shs 1,600,000 in operating expenses.
- (v) No loan interest has been paid.
- (vi) The balance on the Suspense Account after other adjustments represents the proceeds from the sale of a fully depreciated item of plant, whose original cost was Shs 10 million. No other entries concerning this disposal, apart from bank, have yet been made.
- (vii) Depreciation should be provided on plant at 15% on cost.

**Required:**

- (a) Prepare the Income Statement for Dova Ltd for the year ended 31 October 2002.  
(10 marks)
- (b) Prepare the Balance Sheet for Dova Ltd as at 31 October 2002.

(10 marks)  
(Total 20 marks)

**Question 3**

Kate Gonahasa obtained a trading licence for Kookies Coffee Shop on 1 November 2002. She has source documents for the following transactions that took place during the first month of trading:

Nov.

- 1 Opened a bank account for the business and deposited Shs 3,000,000.
- 3 Paid a cheque for coffee shop rent of Shs 500,000 for one month.
- 5 Purchased furniture for Shs 1,400,000 on credit from Furnishop.
- 8 Purchased kitchen equipment from Tamale & Co for Shs 2,000,000 and paid a deposit of Shs 1,000,000 by cheque.
- 10 Withdrew Shs 500,000 cash from the bank.
- 11 Bought stationery and serviettes from The Paper Good Co. for Shs 100,000 cash.
- 12 Cutlery and plates costing Shs 250,000 were delivered by Kitchens Ltd to be paid for in a month's time.
- 14 Made cash purchases for coffee and baking ingredients of Shs 180,000.
- 18 First day of trading in the coffee shop and cash sales amounted to Shs 325,000.
- 19 Bought Shs 260,000 further supplies for the shop and paid by cheque, sales for the day were Shs 210,000.
- 20 Sales for the day amounted to Shs 336,000. One customer paid Shs 53,000 by cheque.
- 21 Bought coffee and other supplies on credit from Mago Enterprise worth 512,000.
- 22 Raised a sales invoice of Shs 176,000 for credit sales to Saidees Salon next door.
- 23 Banked Cash of Shs 760,000.

**Required:**

Prepare the required Ledger Accounts (in T format) to record the above transactions and extract a trial balance for Kookies Coffee Shop as at close of business on 23 November 2002.

**(20 marks)**

**Question 4**

Kironde, a retailer of blankets, has been using the FIFO method of valuing inventory, but he is aware that LIFO is an alternative inventory valuation method. As at 31 March 2002 he had inventory valued at a unit cost of Shs 16,000 totalling Shs 6,400,000. Using the LIFO method the unit price would have been Shs 12,000 and the total value Shs 4,800,000.

During April 2002 the inventory movements for Kironde were as follows:



Date	Units	Purchase Cost per Unit (Shs)	Sales Price per Unit (Shs)
4	100	15,000	
10	200		20,000
16	300	17,000	
18	400		21,000
20	400	18,000	
27	300		25,000

**Required:**

- (a) Describe the FIFO method of inventory valuation and state whether it usually results in higher or lower valuation of inventory than the LIFO method. (4 marks)
- (b) Derive the value of closing inventory at 30 April 2002 by preparing a stores ledger card using:
- FIFO method of inventory valuation.
  - LIFO method of inventory valuation.
- (12 marks)
- (c) Prepare trading accounts using the figures obtained in part (b) (4 marks)
- (Total 20 marks)

**SECTION C****Question 5**

Write brief notes to explain what you understand by the following terms:

- Direct and indirect costs. (4 marks)
  - Fixed and variable costs. (4 marks)
  - Total costs of a product. (4 marks)
  - Costs for decision making. (4 marks)
  - Functional costs. (4 marks)
- (Total 20 marks)

**Question 6**

A business woman, Mrs Grace Mayanja, has been trading in partnership with Mrs Anne Thembo and is now considering transferring the business to a limited company.

**Required:**

Assuming that your name is Patty Okello, write a letter to Mrs Grace Mayanja explaining the following points:

- The main characteristics of a limited company.
  - Four differences between a partnership and a limited company.
  - The different forms of limited company.
  - Four major differences between private and public limited companies.
- 20 marks