

**THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

**BUSINESS ACCOUNTING - PAPER 1**

**JUNE 1998**

**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 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) The Issued Capital of a company is:-
- (a) always the same as the Authorised Capital.
  - (b) the same as Preference Share Capital.
  - (c) the nominal value of shares held by shareholders.
  - (d) equal to the reserves of the company.
- (ii) A company has net profit of Ush 6,450,000 and plans to pay out available profits as dividends. There are 5,000 5% Preference shares Ush 1,000 each, and 20,000 Ordinary shares of Ush 1,000 each. Ush 1,200,000 is to be transferred to General Reserves. What Ordinary dividends are to be paid in percentage terms ?
- (a) 5 per cent.
  - (b) 25 per cent.
  - (c) 80 per cent.
  - (d) 95 per cent.
- (iii) In partnership accounting, assets should be revalued when there is a change in partnership because -
- (a) inflation will have affected the value of the assets.
  - (b) it ensures fair treatment of all partners.
  - (c) new partners would not otherwise join the firm.
  - (d) the law insists that assets are revalued.
- (iv) Which of the following is not a fundamental accounting concept ?
- (a) going concern concept.
  - (b) accruals concept.
  - (c) consistency concept.
  - (d) objectivity concept.
- (v) IAS 9 relates to -
- (a) research and development costs.
  - (b) depreciation.
  - (c) stock.
  - (d) consolidated financial statements.
- (vi) Responsibility for preparation of a company's statutory accounts lies with the:-
- (a) accountant.
  - (b) auditors.
  - (c) directors.
  - (d) shareholders.

(vii) Which of the following statements is correct?

- |   | Effect upon |                        |
|---|-------------|------------------------|
|   | Assets      | Liabilities            |
| (a) Bought goods on credit for Ush 500,000  | + stock     | + capital.             |
| (b) Received a loan from C Musoke by cheque | + bank      | - loan from C. Musoke. |
| (c) Received Ush 150,000 cash from a debtor | + cash      | - debtors.             |
| (d) Paid a creditor with cash.              | - bank      | - creditors.           |
- (where + means increase in and — means decrease in.)

(viii) Which of the following should not be included in "Sales"?

- (a) Goods sold for cash.
- (b) Goods sold on credit.
- (c) Sale of items that were previously included in 'Purchases'.
- (d) Sale of office equipment.

(ix) A credit balance of Ush 50,000 in the petty cash book would mean that-

- (a) someone has stolen Ush 50,000.
- (b) the bookkeeper has made a mistake.
- (c) there is a petty cash balance of Ush 50,000.
- (d) petty cash expenses exceed receipts by Ush 50,000.

(x) Which of the following is not a book of prime entry?

- (a) general ledger.
- (b) general journal.
- (c) sales day book.
- (d) cash book.

(xi) After recording the transactions shown below, what will be the balance on the purchase daybook?

- Bought goods for resale worth Ush 300,000 on credit.
- Received trade discount of Ush 150,000
- Received invoice for goods for Ush 250,000
- Paid Ush 200,000 to a supplier.

- (a) Ush 200,000
- (b) Ush 400,000
- (c) Ush 500,000
- (d) Ush 550,000

(xii) 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 that it will arise.
- (c) When the auditors agree that the provision is reasonable.
- (d) It should never be incorporated into the accounts.

- (xiii) A company bought a machine costing Ush 16.5 million. It is to be depreciated at a rate of 25% per annum using the reducing balance method. What is the book value of the machine after three years ?
- (a) Ush 4.12 million.  
 (b) Ush 6.96 million.  
 (c) Ush 8.25 million.  
 (d) Ush 9.28 million.
- (xiv) At the beginning of the year a company has a bad debt provision of Ush 1.8 million. During the year debts of Ush 1.2 million are written off and Ush 500,000 is recovered from debts previously written off. An additional provision of Ush 700,000 is created at the end of the year. What is the bad debt charge in the profit and loss account ?
- (a) Ush 1.4 million.  
 (b) Ush 1.9 million.  
 (c) Ush 2.4 million.  
 (d) Ush 3.2 million.
- (xv) A business pays rent of Ush 7.5 million per quarter, due at the beginning of January, April, July and October. In the year ended 30 April 1998, payments of Ush 7.5 million were made on 2 July 1997, 19 October 1997, 31 January 1998. What are the correct balances in the accounts ?
- |     | <u>Balance Sheet</u>      | <u>Profit and Loss Account.</u> |
|-----|---------------------------|---------------------------------|
| (a) | Prepayments Ush 5 million | Rent Ush 30 million             |
| (b) | Accruals Ush 2.5 million. | Rent Ush 30 million             |
| (c) | Accruals Ush 7.5million.  | Rent Ush 22.5 million           |
| (d) | Accruals Ush 7.5 million  | Rent Ush 30 million             |
- (xvi) Which of the following is not a factory overhead cost ?
- (a) Cleaner's wages.  
 (b) Machine operator's wages.  
 (c) Factory rent.  
 (d) Factory electricity and water.
- (xvii) Prime cost includes-
1. raw materials consumed
  2. factory workers wages
  3. machine repair costs
  4. depreciation of plant and machinery.
- (a) 1 and 2.  
 (b) 1, 2 and 3  
 (c) 1, 3 and 4  
 (d) 2, 3 and 4



- (xviii) Which of the following is a suitable basis for apportioning rent costs for a manufacturing business?
- (a) direct to manufacturing section.
  - (b) direct to administrative section.
  - (c) on number of rooms used by each section.
  - (d) by floor area used by each section.
- (xix) The best method of departmental accounting is to-
- (a) allocate expenses in proportion to sales.
  - (b) allocate expenses in proportion to purchases.
  - (c) charge against each department its controllable costs.
  - (d) charge against each department its total costs.
- (xx) What is the stock turnover, if opening stock is Ush 3,000,000 sales Ush 20,000,000 closing stock Ush 5,000,000 and the margin is 20%.
- (a) 3.2 times.
  - (b) 4 times.
  - (c) 4.2 times.
  - (d) 5.3 times.

## SECTION : B

### Question 2

Jane Ainebiona has been running a small wholesale business for a number of years, but without keeping good accounting records. Now she wants to apply for a bank loan, and so she needs to prepare accounts for the year ended 31 July 1997 and the following information has been obtained.

- (i) Business assets and liabilities are as follows:

As at	1 August 1996	31 July 1997
	Ush .	Ush
Stock	1,800,000	2,200,000
Sales debtors	1,390,000	1,700,000
Creditors for purchases	2,200,000	3,400,000
Electricity accrued	180,000	110,000
Rent prepaid	300,000	550,000
Bank balance	4,360,000	1,650,000
Cash in hand	245,000	280,000

- (ii) All takings have been banked, after deduction of the following payments:

Cash drawings - Jane estimates these at around	Ush 6,000,000
Casual labour	Ush 350,000
Goods for resale	Ush 1,800,000

- (iii) Bank payments during the year have been summarised as follows:-

	UShs
Purchases	35,600,000
Rent	2,600,000
Electricity	1,390,000
Delivery costs (to customers)	800,000
Casual labour	1,080,000

- (vi) A gross profit of 25% has been made on all goods sold and Jane has taken goods worth UShs 600,000 for her own use.

**Required:**

- (a) Prepare a computation of total purchases for the year ended 31 July 1997. (4 marks)
- (b) Prepare a trading and profit and loss account for the year ended 31 July 1997 and a balance sheet as at that date. (16 marks)

**Question 3**

The summarised accounts of ABC Ltd for the years ended 30 June 1996 and 1997 are given below.

**TRADING AND PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 30 JUNE**

	1996 Ush(000)	1997 Ush (000)
Sales	40,000	56,000
Less Cost of Sales	<u>30,000</u>	<u>42,000</u>
<b>Gross Profit</b>	10,000	14,000
Less		
Administrative expenses	7,600	9,200
Debenture interest	<u>-</u>	<u>800</u>
<b>Net profit</b>	<u>2,400</u>	<u>4,000</u>

**BALANCE SHEETS AS AT 30 JUNE**

	1996 Ush(000)	1997 Ush (000)		1996 Ush (000)	1997 Ush (000)
Ordinary share capital	20,000	20,000	Fixed assets, at cost		
Profit and loss account	6,000	8,200	Less Depreciation	22,000	28,000
8% Debentures	-	10,000			
Creditors	3,000	2,400	Stock	4,000	6,000
Bank	2,000	-	Debtors	5,000	5,600
			Bank	-	1,000
	<u>31,000</u>	<u>40,600</u>		<u>31,000</u>	<u>40,600</u>

Stock at 1 July 1995 was Ush 5,000,000.

**Required:**

- (a) Calculate the following ratios for 1996 and 1997.
- (i) Gross profit,
  - (ii) Stock turnover,
  - (iii) Net profit,
  - (iv) Quick ('acid test')
  - (v) Working capital
  - (vi) Net profit: Capital employed
- (12 marks)
- (b) State the possible reasons for any significant changes in four of the ratios shown by your calculations.
- (8 marks)

**Question 4**

Fred and Joe are in partnership, sharing profits and losses equally. They decide to admit Andrew, and agree that goodwill valued at Ush 12 million is to be introduced into the business books. It is also agreed that the business premises be revalued at Ush 30 million. Andrew is required to provide capital equal to that of Joe after he has been credited with his share of goodwill and the gain on revaluation. The new profit sharing ratio is to be 4:3:3 respectively for Fred, Joe and Andrew.

The balance sheet before admission of Andrew showed:

	Ush (000)
Premises at cost	20,000
Other fixed and current assets	8,000
Cash	<u>3,000</u>
	<u>31,000</u>
Capital: Fred	14,000
Capital: Joe	7,000
Current liabilities	<u>10,000</u>
	<u>31,000</u>

**Required:**

- (a) Journal entries for admission of Andrew.
- (8 marks)
- (b) Opening balance sheet of the new business
- (8 marks)
- (c) Journal entries for writing off goodwill, which the new partners decide to do soon after the start of the new business.
- (4 marks)

**SECTION C**

**Question 5**

Mr. Matovu and Mr. Onyango are **setting up a restaurant**, and they are unsure whether a **partnership or limited company** would be the most suitable form of business.

Write a letter to Mr. Matovu explaining the advantages and disadvantages of the two types of business, and advise him as to which type is likely to be the most appropriate.  
(20 marks)

**Question 6**

- (a) Define the terms **historical cost convention**, **replacement cost** and **net realisable value** in relation to the **valuation of assets**. (3 marks)
- (b) Identify **two** problems associated with each method of valuation. (6 marks)
- (c) What do you understand by **current purchasing power** and **current cost accounting**? (6 marks)
- (d) What problems are these **accounting methods** designed to overcome? (5 marks)