

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

WEDNESDAY, 19 JUNE 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 statements is false?
 - a) Receiving rent in cash results into the reduction of an asset.
 - b) Paying for Insurance by cheque results into the reduction of an asset.
 - c) Making a drawing results into the reduction of capital of a sole trader.
 - d) Making a drawing results into the reduction of an asset of a sole trader.
- (ii) Future economic benefits will flow to an enterprise from an asset, except where;
 - a) The asset is used in the production of goods and services sold by the enterprise.
 - b) The asset is exchanged for other assets.
 - c) The asset is included in the asset base of the enterprise.
 - d) The asset is used to settle liabilities.
- (iii) What is the correct procedure to follow when the estimated economic life of an asset is increased from 6 years to 10 years, after being used for 3 years?
 - a) Sell off the asset at the end of the sixth year.
 - b) Continue charging depreciation at the same rate since economic useful life is only an estimate.
 - c) Revise the depreciation charge so that the asset is fully depreciated at the end of 10 years.
 - d) Revalue the asset and charge the revaluation surplus to the asset revaluation reserve account.
- (iv) Which of the following would not be classified as capital expenditure?
 - a) Demolition costs to remove an old building before construction can begin.
 - b) Painting of new building.
 - c) Architect's fees for building plans and for supervising construction of a building.
 - d) Cost of building an extension to the warehouse.

- (v) Given a purchases invoice showing 5 items of Shs. 80,000 each, less trade discount of 25% and a possible cash discount of 5%, if paid within 7 days discount, the invoice value would be:
- a) Shs 400,000.
 - b) Shs 380,000.
 - c) Shs 300,000.
 - d) Shs 285,000.
- (vi) A contra item in the sales ledger control account could arise when:
- a) There is both a debit and credit entry on the same personal account.
 - b) There is no cash paid to clear the indebtedness.
 - c) The balance on a credit customer's account is set off against a credit balance on a credit customer's account.
 - d) A credit customer with a balance in the Sales ledger also appears as a credit supplier in the purchases ledger.
- (vii) Which of the following is not a prime cost?
- a) Cost of raw materials.
 - b) Royalties.
 - c) Direct factory costs.
 - d) Direct labour costs.
- (viii) Which of the following errors would be revealed by a trial balance?
- a) A credit sale to John has been debited to the ledger account of Johan.
 - b) A remittance from a credit customer has been recorded as a cash sale.
 - c) A credit note received from a supplier has been debited to a trade receivable account.
 - d) Discounts received have been posted to the debit side of the discounts allowed account.
- (ix) The full name of the schedule referred to as an ETB is
- a) Extra Trial Balance.
 - b) End Trial Balance.
 - c) Extended Trial Balance.
 - d) Evolving Trial balance.

- (x) A product costing method that includes fixed manufacturing overheads in inventory is called:
- a) Relevant costing.
 - b) Fixed costing.
 - c) Direct costing.
 - d) Absorption costing.
- (xi) Which of the following are not wholly recognized in an income and expenditure account of a club in the period of receipt?
- a) Life subscriptions from members.
 - b) Donations towards construction of club house.
 - c) Entrance fees for club members.
 - d) Annual subscriptions.
- (xii) Which of the following is an asset to a Club or Association?
- a) Interest owing.
 - b) Rent owing.
 - c) Subscriptions owing.
 - d) Rates owing.
- (xiii) The double entry to record revaluation of a non-current asset is;
- a) Debit the asset account and credit the income statement.
 - b) Debit the revaluation reserve account and credit the income statement.
 - c) Debit the asset account and credit the revaluation reserve account.
 - d) Debit revaluation reserve account and credit capital account.
- (xiv) Which of the following can be recognized in financial statements as goodwill?
- a) A building purchased 5 years ago has a present market value 3 times more than its historical cost.
 - b) A motor van which had been fully depreciated is sold at 10% of its original cost.
 - c) A warehouse is sold for Shs. 120 million when it originally cost Shs. 80 million.
 - d) A business is sold as a going concern for more than the net realizable value of its separable assets.

- (xv) The authorized share capital of a company is;
- a) The nominal value of preference shares in issue.
 - b) The nominal value of the called up share capital.
 - c) The total equity of the company at the reporting date.
 - d) The total share capital the company can issue to shareholders.
- (xvi) Which of the following is false about cash discounts?
- a) Double entry is completed through the cash book.
 - b) They reduce the amount payable to settle the full obligation.
 - c) They are offered for prompt payment.
 - d) It is still called cash discount even if the account is paid by cheque.
- (xvii) What is the correct treatment for cheques issued during the last two months which have not appeared on the bank statement at the date of reconciliation?
- a) Should be written back in the cash book.
 - b) Should be included in the bank reconciliation statement.
 - c) Should be cancelled.
 - d) Should be included as accruals in the balance sheet.
- (xviii) The cost of putting goods into a saleable condition should be charged to:
- a) Expenses in the income statement.
 - b) The Balance Sheet.
 - c) The cost of sales.
 - d) The statement of total gains or losses.
- (xix) If the cost price of an item is Shs. 800,000 and its selling price is Shs. 1.2 million, then
- (i) Mark up is $33\frac{1}{3}\%$.
 - (ii) Mark up is 50%.
 - (iii) Margin is $33\frac{1}{2}\%$.
 - (iv) Margin is 50%.
- a) (i) and (iv).
 - b) (ii) only.
 - c) (ii) and (iii).
 - d) (iv) only.

- (xx) Given opening capital of Shs. 8,250,000, closing capital of Shs. 5,675,000 and drawings of Shs. 1,650,000; then
- Profit for the year was Shs. 925,000.
 - Loss for the year was Shs. 925,000.
 - Loss for the year was Shs. 2,575,000.
 - Loss for the year was Shs. 4,225,000.

SECTION B

Question 2

The following trial balance has been extracted from the books of Brick and Stone Partners as at 31 May 2002.

	Shs. 000	Shs. 000
Sales		314,900
Purchases	208,200	
Inventory in hand at 1 June 2001	23,000	
Rent and rates	10,300	
Printing and Stationery	3,800	
Staff Salaries	36,100	
Electricity and Water	8,700	
Motor vehicles running costs	5,700	
Sales returns	2,100	
Purchase returns		6,100
Fixtures and fittings at cost	26,000	
Motor vehicles at cost	46,000	
Provision for depreciation: Fixtures & fittings		11,200
Motor vehicles		25,000
Drawings: Brick	24,000	
Stone	11,000	
Provision for doubtful debts		300
Trade receivables	9,300	
Trade payables		8,400
Bank balance	7,700	
Current Accounts at 1.6.2001: Brick		3,600
Stone		2,400
Capital Accounts at 1.6.2001: Brick		33,000
Stone	-	17,000
	<u>421,900</u>	<u>421,900</u>

Additional information:

- (i) Brick and Stone share profits and losses in the ratio of 3:2 respectively.
- (ii) Shs. 10 million is to be transferred from Brick's capital account to Brick's loan account opened on 1 March 2002. Interest is to be credited to Brick at a rate of 10% per annum.
- (iii) Inventory in hand at 31 May 2002 was valued at cost of Shs. 32 million.
- (iv) Accrued electricity charges at 31 May 2002 amounted to Shs. 400,000 and rent of Shs. 600,000 had been prepaid at this date.
- (v) During the year ended 31 May 2002 Stone took goods for his own use costing Shs. 1 million. These goods have not yet been accounted for.
- (vi) Depreciation is to be provided at the following annual rates on a straight line basis:
 - Fixtures & fittings 10%.
 - Motor vehicles 20%.
- (vii) Stone is to be credited with a salary of Shs. 6 million per annum.

Required:

- (a) Prepare an income statement for Brick and Stone for the year ended 31 May 2002.
- (b) Prepare a balance sheet as at 31 May 2002 including summaries of the partners capital and current accounts for the year.

(11 marks)

(9 marks)

(Total 20 marks)

Question 3

Daudi is the owner of a retail business and he employs a rather inexperienced book-keeper to keep his accounting records.

- (a) The book-keeper extracted the following figures from the accounting records as at 31 May 2002 and attempted to construct a trial balance.

	DR	CR
	Shs. 000	Shs. 000
Non-current assets at cost	45,750	
Provision for depreciation at 1.6.2001	7,000	
Inventories at 31.5.2002		7,400
Trade receivables		4,520
Inventories at 1.6.2001	9,250	
Trade payables	2,160	
Capital		67,150
Drawings	19,350	
Sales	65,200	
Purchases		45,860
Running expenses	17,260	
Provision for doubtful debts	225	
Suspense account	-	42,220
	<u>167,150</u>	<u>167,150</u>

Required:

Prepare a corrected trial balance from the above information with an amended suspense account balance.

(5 marks)

- (b) The following errors were later found in the accounting records of Daudi.
- The total of the sales day book for February 2002 had been understated by Shs, 1,300,000.
 - In March 2002 some new office equipment had been purchased for Shs. 900,000 but was included in the purchases account.
 - A cheque payment to a credit supplier for Shs. 540,000 was entered in the books as Shs. 450,000.
 - A credit note sent to a customer for Shs. 192,000 had been completely overlooked.

- v) Daudi withdrew Shs. 2,000,000 for personal use by cheque in December 2001. This amount was debited to both the bank account and the drawings account.
- vi) A payment of Shs. 1,000,000 for electricity had been charged twice to the running expenses account.

Required:

- (i) Prepare journal entries to correct each of the above errors. **(6 marks)**
 - (ii) Prepare the suspense account starting from the figure in the corrected trial balance. **(3 marks)**
- (b) Briefly explain the following terms giving an example of each to illustrate your answer:
- (i) Error of commission. **(2 marks)**
 - (ii) Error of principle. **(2 marks)**
 - (iii) Error of complete reversal. **(2 marks)**
- (Total 20 marks)**

Question 4

Katongole Traders owned the following vehicles as at 1 April 2001.

Motor Vehicle Number	Date acquired	Cost Shs 000	Estimated Residual Value Shs 000	Estimated Useful life in years
UAA 101J	1 October 1998	17,000	5,000	5
UAA 107D	1 April 1999	24,000	4,000	8

Katongole's policy is to provide depreciation at the end of each financial year using the straight line method applied on a month-by-month basis to all motor vehicles used during the year.

During the financial year ended 31 March 2002 the following occurred.

- (a) On 30 June 2001 UAA 101J was traded in and replaced by UAD 232B. The trade in allowance was Shs. 10 million. UAD 232B cost Shs. 30 million and the balance due (after deducting the trade in allowance) was paid partly in cash and partly by a loan of Shs. 12 million. UAD 232B is expected to have residual value of Shs. 8 million after an estimated economic life of 5 years.

- (b) The estimated remaining economic life of UAA 107D was reduced from 6 years to 4 years with no change in the estimated residual value.

Required:

- (a) Calculate the accumulated depreciation on UAA 101J at date of disposal
(4 marks)
- (b) Prepare the disposal account for UAA 101J showing amount of gain or loss on disposal.
(4 marks)
- (c) Calculate the depreciation charge for each vehicle to be included in Katongole's income statement for the year ended 31 March 2002.
(5 marks)
- (d) Write up the motor vehicles account and provision for depreciation account for the year ended 31 March 2002.
(7 marks)
- (Total 20 marks)**

SECTION C

Question 5

Explain what you understand by the following terms giving examples where appropriate:

- (a) Financial accounting (4 marks)
- (b) Auditing (4 marks)
- (c) Accounting policies (4 marks)
- (d) Accounting bases (4 marks)
- (e) Cost accounting (4 marks)
- (Total 20 marks)**

Question 6

Write short notes on the following factors that shape financial reporting:

- (a) The Companies Act. (4 marks)
- (b) International Accounting Standards. (4 marks)
- (c) Generally Accepted Accounting Practices. (4 marks)
- (d) The stock exchange. (4 marks)
- (e) Other International influences. (4 marks)
- (Total 20 marks)**