

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

MONDAY, 15 DECEMBER 2003

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** 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 International Accounting Standard dealing with property, plant and equipment is:

- (a) IAS 4.
- (b) IAS 10.
- (c) IAS 16.
- (d) IAS 37.

- (ii) Which of the following is false?

| | ASSETS (Shs) | LIABILITIES (Shs) | CAPITAL (Shs) |
|-----|-------------------------------|------------------------------------|--------------------------------|
| (a) | 970,600 | 207,300 | 763,300 |
| (b) | 878,050 | 313,550 | 564,500 |
| (c) | 907,700 | 315,400 | 529,300 |
| (d) | 775,970 | 159,370 | 616,600 |

- (iii) The accounts of the credit customers of a business are recorded in the:

- (a) Sales day book.
- (b) Purchases day book.
- (c) Purchases ledger.
- (d) Sales ledger.

- (iv) Peter commenced business with Shs. 1,650,000. At the end of the year, his capital was Shs. 1,135,000. His drawings amounted to Shs. 330,000 during the year. Peter therefore made a:

- (a) Profit of Shs. 185,000.
- (b) Loss of Shs. 185,000.
- (c) Profit of Shs. 845,000
- (d) Loss of Shs. 845,000

- (v) The introduction of goodwill in the books of a partnership is debited to:

- (a) Goodwill account and credited to partners' capital accounts in their old profit sharing ratios.
- (b) Goodwill account and credited to partners' capital accounts in their new profit sharing ratios.
- (c) Partners' capital accounts in their new profit sharing ratios and credited to goodwill account.
- (d) Partners' capital accounts in their old profit sharing ratios and credited to goodwill account.

- (vi) According to IAS 1: Presentation of Financial Statements, a complete set of financial statements includes:
- (i) Balance Sheet.
 - (ii) Income Statement.
 - (iii) Accounting policies and explanatory notes.
 - (iv) Statement of changes in Equity.
 - (v) Non-current assets schedule.
- (a) (i), (ii) and (iii).
(b) (i), (ii), (iv) and (v).
(c) (i), (ii), (iii), (iv) and (v).
(d) (i), (ii), (iii) and (iv).
- (vii) Which of the following are an appropriation of a partnership's profits?
- (i) Partners' cash drawings.
 - (ii) Transfers to reserves.
 - (iii) Interest on capital.
 - (iv) Partners' salaries.
- (a) (i), (iii) and (iv).
(b) (iii) and (iv).
(c) (i) and (iv).
(d) (i), (ii), (iii) and (iv).
- (viii) If Shs 500,000 was credited to purchases instead of sales account:
- (a) Only gross profit would be affected.
 - (b) Both gross and net profit would be affected.
 - (c) Only net profit will be affected.
 - (d) Neither gross profit nor net profit would be affected.
- (ix) Prime cost includes:
- (a) Factory workers wages.
 - (b) Factory rent.
 - (c) Depreciation of plant and machinery.
 - (d) Machine repair costs.
- (x) What is the benchmark treatment for valuing trading inventory under IAS 2: Inventories?
- (a) FIFO.
 - (b) FIFO and LIFO.
 - (c) FIFO, LIFO and weighted average cost.
 - (d) FIFO and weighted average cost.

Use the following information to answer questions (xi) – (xiii):

Gold Traders had a balance of Shs. 46,000,000 on its trade receivables account on 1 October 2002 and Shs. 55,400,000 at 30 September 2003. A debt of Shs. 2,400,000 written off in the previous year was paid in full and bad debts of Shs. 1,640,000 were written off during the year. These transactions have not yet been accounted for. Provision for doubtful debts is at the rate of 10% per annum.

- (xi) Compute the provision for doubtful debts at the end of 30 September, 2003.
- (a) Shs. 5,136,000.
 - (b) Shs. 5,376,000.
 - (c) Shs. 5,540,000.
 - (d) Shs. 5,616,000.
- (xii) What was the provision for doubtful debts charge for the year ended 30 September 2003?
- (a) Shs. 536,000.
 - (b) Shs. 700,000.
 - (c) Shs. 776,000.
 - (d) Shs. 940,000.
- (xiii) What was the value of trade receivables that appeared in the balance sheet at 30 September, 2003?
- (a) Shs. 48,384,000
 - (b) Shs. 52,984,000
 - (c) Shs. 53,060,000
 - (d) Shs. 53,224,000
- (xiv) The financial statements of a limited company are approved by the:-
- (a) Directors and shareholders.
 - (b) Auditors.
 - (c) Directors.
 - (d) Shareholders.
- (xv) Which of the following is a not a principal source of company finance?
- (a) Trade receivables.
 - (b) Trade payables.
 - (c) Preference shares.
 - (d) Debentures.

- (xvi) Which of the following statements is correct?
- (a) Financial accounting is concerned with the preparation of financial statements for internal use.
 - (b) Auditing is basically concerned with the preparation and examination of financial statements of a company.
 - (c) Financial management ensures that an enterprise secures financial resources and applies them effectively in order to attain its objectives.
 - (d) Management accounting focuses on preparation of financial statements for both internal and external use.
- (xvii) The management of KK Golf Club set up a special fund of Shs 20,000,000 from its existing resources. How would it be accounted for?
- (a) Debit cash and credit special fund account with amount received.
 - (b) Debit accumulated fund and credit special fund with appropriated amount.
 - (c) Debit special fund assets and credit accumulated fund with allocated amount.
 - (d) Debit accumulated fund and credit special fund assets with amount received.
- (xviii) A company purchased goods whose invoice value was Shs. 20,000,000 on credit. It received a trade discount of 10% and is entitled to a settlement discount of 6% if it pays by 31 December 2003. How much should the company pay on 17 December 2003 in full settlement of the debt?
- (a) Shs 20,000,000.
 - (b) Shs 18,800,000.
 - (c) Shs 18,000,000.
 - (d) Shs 16,800,000.
- (xix) Which of the following are correct?
- (i) Directors fees are an appropriation of profits.
 - (ii) Audit fees are an administration expense.
 - (iii) Goods drawn by a partner for personal use are an appropriation of profits.
 - (iv) Preference shareholders are entitled to dividends before ordinary shareholders.
- (a) (i), (ii) and (iv).
 - (b) (ii) and (iv).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (iii) and (iv).

- (xx) 10 CPA students paid Shs 60,000 each for their 2003 annual renewal fees to ICPAU instead of Shs 40,000. Which of the following is correct? ICPAU will:
- (a) Take Shs. 600,000 to its income and expenditure account for the year.
 - (b) Treat Shs. 200,000 as a current asset.
 - (c) Debit its cashbook with Shs. 600,000 and credit students annual renewal fees account with the same amount.
 - (d) Treat Shs. 400,000 as revenue and Shs. 200,000 as a current liability.

SECTION B

Question 2

Jack and Jill are in partnership, trading as JJ Partners. They only maintain a cashbook and personal ledger. The following information was obtained from their records:

| (a) Balances as at: | 31.12.2001 | 31.12.2002 |
|---------------------------------------|------------|------------|
| | Shs' 000 | Shs' 000 |
| Cash and Bank | 44,780 | - |
| Inventory | 143,008 | - |
| Trade receivables | 58,752 | 114,064 |
| Trade payables | 62,540 | 64,812 |
| Leasehold Property at book value | 200,000 | 190,000 |
| Equipment at book value | 156,000 | 140,400 |
| Specific provision for doubtful debts | 4,870 | 6,906 |
| Accrued administration expenses | 11,250 | 14,260 |
| Prepaid administration expenses | - | 2,984 |

- (b) Total receipts and payments for the year ended 31 December, 2002 were:

| | Shs' 000 |
|--------------------------------------|-----------------|
| Receipts from trade receivables | 632,840 |
| Payments for trade payables | 393,888 |
| Cash purchases | 40,000 |
| Payments for administrative expenses | 157,080 |
| Payments for distribution costs | 70,000 |
| Cash drawings by Jack | 60,000 |
| Cash drawings by Jill | 14,080 |

Additional information:

- (i) The firm sells its goods at a margin of 20%.
- (ii) The partners maintain fluctuating capital accounts. The balances on their capital accounts at 31 December 2001 were equal.

- (iii) The partners are charged interest on drawings at the rate of 5% on amount drawn during the year. They share profits and losses equally.

Required:

Prepare JJ Partners' income statement for the year ended 31 December 2002 and Balance Sheet as at that date. Show all the necessary workings.

(20 marks)

Question 3

The Trial Balance of Goal Ltd. as at 31 October 2003 did not balance. However, the Accountant went ahead to prepare an income statement and derived a gross profit of Shs. 534,000,000. Subsequently the following errors were discovered:

- (i) A credit note received on 3 July 2003 for Shs. 987,000 was not recorded in the personal account.
- (ii) Discounts received of Shs. 790,000 were debited to the discounts allowed account.
- (iii) Purchase of furniture was Shs 5,000,000 entered in the purchases account.
- (iv) Commission income of Shs. 1,120,000 received from Bart Traders was charged to the commission expense account.
- (v) Bad debts of Shs. 1,470,000 which had been earlier written off were received during the period from Capo Ltd. These have however not been accounted for. It is Company Policy to maintain a full record of transactions with its credit customers.
- (vi) The Company's Mailo land was revalued from Shs. 100,000,000 to Shs. 150,000,000 by a competent valuer, during the year. Apart from entering the valuer's fees amounting to Shs. 2,000,000 in the cashbook, no other entry has been made in relation to the land.
- (vii) Carriage inwards of Shs. 300,000 were entered in the carriage outwards account.
- (viii) Returns inwards of Shs. 220,000 were debited to the returns outwards account.
- (ix) No record was made of interim dividends of Shs. 10,000,000.
- (x) Sales revenue of Shs. 1,320,000 was entered as Shs. 1,230,000 in the sales account.

Required:

- (a) Prepare journal entries to correct the above errors.
- (b) Extract a suspense account. (The difference is the suspense account was the difference in the trial balance totals).
- (c) Prepare a statement of corrected gross profit.

(20 marks)

Question 4

Tick Car Hire Ltd operates a large fleet of motor vehicles. The company's financial year ends on 30 June every year. The balance sheet of the Company as at 30 June 2002 showed motor vehicles as follows:

| | |
|--------------------------|----------------|
| | Shs '000' |
| Motor vehicles at cost | 556,650 |
| Accumulated depreciation | <u>291,834</u> |
| | <u>264,816</u> |

The Company depreciates the motor vehicles using the straight line method over a five year life. Depreciation is charged proportionately in the year of acquisition, but no charge is made in the year of disposal. The disposal account is written up on the last day of each year.

During the year ended 30 June 2003 the following transactions took place:

| (i) | Purchase of vehicles | Date of purchase | Shs. '000' |
|-----|----------------------|------------------|------------|
| | Car No. 14 | 30.09.2002 | 77,400 |
| | Car No. 15 | 31.10.2002 | 96,300 |
| | Car No. 16 | 28.02. 2003 | 36,000 |

| (ii) | Sale of vehicles | Date of sale | Amount received Shs. '000' | Original cost Shs. '000' | Date purchased |
|------|------------------|--------------|-------------------------------|-----------------------------|----------------|
| | Car No. 7 | 31 10.2002 | 2,700 | 25,200 | 01.07.1999 |
| | Car No. 8 | 31.12.2002 | 4,860 | 21,600 | 01.11.2000 |
| | Car No. 9 | 31.03.2003 | 3,780 | 17,100 | 01.04.2001 |

(iii) Included in the opening balance is a motor vehicle which cost Shs 20,000,00 and has been fully depreciated but has not yet been disposed off.

Required:

Prepare the following accounts:

- | | |
|---|-------------------------|
| (a) Motor Vehicles. | (5 marks) |
| (b) Provision for depreciation of Motor Vehicles. | (10 marks) |
| (c) Motor Vehicles disposal. | (5 marks) |
| | (Total 20 marks) |

SECTION C

Question 5.

- (a) (i) Define a bank reconciliation statement. **(2 marks)**
(ii) Give and explain six items that may cause a difference between a cashbook balance and a bank statement balance.

(9 marks)

- (b) Write short notes on the following:

- (i) General Journal. **(3 marks)**
(ii) General Ledger **(3 marks)**
(iii) Trial Balance **(3 marks)**

Hint: Give their purpose.

(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.” IASB’s Framework for the Preparation and Presentation of Financial Statements.

Required:

- (a) Explain the underlying assumptions made when preparing financial statements.

(6 marks)

- (b) Give and explain the four principal qualitative characteristics of financial statements.

(12 marks)

- (c) Outline the elements of financial statements.

(2 marks)

(Total 20 marks)