

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS ACCOUNTING – PAPER 1

**MONDAY, 16 JUNE 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) Which of the following equations is incorrect?
- (a)  $\text{Assets} - \text{Capital} = \text{Liabilities}$ .
  - (b)  $\text{Liabilities} + \text{Assets} = \text{Capital}$ .
  - (c)  $\text{Liabilities} + \text{Capital} = \text{Assets}$ .
  - (d)  $\text{Capital} = \text{Assets} - \text{Liabilities}$ .
- (ii) Suppliers' personal accounts are found in:
- (a) The nominal ledger.
  - (b) The general ledger.
  - (c) The payables ledger.
  - (d) The receivables ledger.
- (iii) Sales invoices should be first entered in the:
- (a) Cash book.
  - (b) Cash analysis daybook.
  - (c) Sales journal.
  - (d) Sales account.
- (iv) Calculate the value of purchases from the following information:
- |                              |                |
|------------------------------|----------------|
| Opening payables.            | Shs. 285,200   |
| Cash paid to suppliers.      | Shs. 1,084,600 |
| Discounts received.          | Shs. 26,400    |
| Goods returned to suppliers. | Shs. 55,000    |
| Closing payables.            | Shs. 275,600   |
- (a) Shs. 605,200
  - (b) Shs. 1,012,800
  - (c) Shs. 1,046,400
  - (d) Shs. 1,156,400
- (v) In partnership accounting, interest charged on partners' drawings is:
- (a) Added to profit before division of profit among partners.
  - (b) Deducted from profit before division of profit among partners.
  - (c) Included in the income statement as an expense.
  - (d) Added to each partner's final profit share.

- (vi) A company's fittings ledger account for the year ended 31 December, 2002 was as follows:

Dr	Fittings Account		Cr
	Shs.		Shs.
1 Jan. Balance b/d	7,624,000	1 June Disposal cost	720,000
1 Dec. Cash addition	<u>360,000</u>	31 Dec. Balance c/d	<u>7,264,000</u>
	<u>7,984,000</u>		<u>7,984,000</u>
1 Jan. 2003 Balance b/d	7,264,000		

The company's policy is to charge depreciation at 20% per year on the straight-line basis, with proportionate depreciation in years of purchase and sale.

What is the depreciation charge for the year ended 31 December 2002?

- (a) Shs. 1,446,800.  
 (b) Shs. 1,452,800.  
 (c) Shs. 1,510,400.  
 (d) Shs. 1,596,800.
- (vii) Which of the following are the causes of differences between the cashbook balance and the bank statement balance when preparing a bank reconciliation?
- (i) Cheque paid in, subsequently dishonoured.  
 (ii) Bank charges.  
 (iii) Error by bank.  
 (iv) Outstanding cheques not yet presented.  
 (v) Lodgements credited after date.
- (a) (i), (ii) (iii) and (iv).  
 (b) (i) and (ii).  
 (c) (ii), (iv) and (v)  
 (d) (i), (ii) and (iii).
- (viii) At 30 April 2002, A Ltd had an allowance for doubtful debts of Shs. 370,000. During the year ended 30 April 2003, the company wrote off debts totalling Shs. 180,000 and at the end of the year it is decided that the allowance for doubtful debts should be Shs. 200,000.
- What is the amount of bad and doubtful debts that should be included in the income statement for the year ended 30 April 2003?
- (a) Shs. 350,000 debit.  
 (b) Shs. 10,000 debit.  
 (c) Shs. 380,000 debit.  
 (d) Shs. 10,000 credit.

- (ix) Which of the following best explains the imprest system of petty cash control?
- (a) All expenditure out of petty cash must be properly recorded and authorised.
  - (b) Weekly expenditure cannot exceed a set amount.
  - (c) The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.
  - (d) Equal amounts of cash are transferred into petty cash at regular intervals.
- (x) When posting an invoice for Shs. 356,000, Joan entered the value as Shs. 365,000. What type of error is this?
- (a) Error of transposition.
  - (b) Error of principle.
  - (c) Compensating error.
  - (d) Error of commission.
- (xi) Ivan Ltd has sold a machine for Shs. 5,300,000. The machine had originally cost of Shs. 10,000,000 and at the date of sale, the machine had been depreciated by Shs. 4,800,000.
- What is the profit on disposal?
- (a) Shs. 5,300,000.
  - (b) Shs. 5,200,000.
  - (c) Shs. 500,000.
  - (d) Shs. 100,000.
- (xii) Which of the following items could appear on the credit side of a receivables control account?
- (i) Cash received from customers.
  - (ii) Bad debts written off.
  - (iii) Increase in provision for doubtful debts.
  - (iv) Credit sales.
  - (v) Cash refunds to customers.
- (a) (i), (ii), (iii) and (iv).
  - (b) (i), (ii), (iv) and (v).
  - (c) (i) and (ii).
  - (d) (i), (iii), and (v).

- (xiii) The credit total of a trial balance is more than the debit total by Shs. 820,000. The only error discovered so far is that a debit entry for Shs. 420,000 was made when posting a purchase invoice for Shs. 640,000. How will the balance on the suspense account change when this error is corrected?

- (a) It will increase by Shs. 220,000.
- (b) It will reduce by Shs. 220,000.
- (c) It will reduce by Shs. 420,000.
- (d) It will reduce by Shs. 640,000.

- (xiv) "Inventories should be valued at the lower of cost and net realisable value".

Which of the following accounting concepts relates to the above statement?

- (a) Consistency concept.
- (b) Accruals concept.
- (c) Prudence concept.
- (d) Going concern concept.

- (xv) Jane prepares her financial statements for the year to 30 April each year. Her annual insurance premium was Shs. 840,000 until 31 July 2002. It was increased from that date to Shs. 960,000 per year. All payments are in advance. What insurance expense and end of year prepayment should be included in the financial statements for the year ended 30 April 2003?

<b>Expense</b>	<b>Prepayment</b>
<b>Shs</b>	<b>Shs</b>
(a) 840,000	210,000
(b) 930,000	240,000
(c) 930,000	320,000
(d) 960,000	240,000

- (xvi) One of John's customers has ceased trading and John will not recover the balance of Shs. 720,000 owed by the customer. What double entry should John make in his nominal ledger with this amount?

<b>Debit</b>	<b>Credit</b>
(a) Receivables ledger control a/c	Bad debts a/c
(b) Cash book	Receivables ledger control a/c.
(c) Receivables ledger control a/c	Cashbook.
(d) Bad debts a/c	Receivables ledger control a/c.

- (xvii) The following table details the total cost Y, a stepped cost for different production levels of product X.

Units of Product X	Cost (Y in Shs. '000')
0	100
10	100
20	100
30	150
40	150

What could be the cause of this pattern of increases in the cost?

- (a) Loss of material discounts.
  - (b) Increased storage requirement.
  - (c) Increased pay for direct labour.
  - (d) Temporarily employing extra delivery drivers on hourly pay rate.
- (xviii) Isaac does not keep a full set of records, but the following information is available for the month of May 2003:

	Shs
Trade receivables, 1 May 2003	800,000
Trade receivables, 31 May 2003	550,000
Credit sales for May 2003	6,800,000
Cash received from credit customers	6,730,000
Bad debts written off	40,000
General allowance for doubtful debts set up at 31 May 2003	100,000

Assuming no other transactions, how much discount was allowed to customers during the month?

- (a) Shs. 180,000.
  - (b) Shs. 340,000.
  - (c) Shs. 280,000.
  - (d) Shs. 320,000.
- (xix) If FIFO rather than LIFO was used when material prices are falling, which of the following combinations would be correct?

Production costs	Profits
(a) Will be higher	Will be lower
(b) Will be lower	Will be higher
(c) Will be lower	Will be lower
(d) Will be higher	Will be higher

- (xx) Which of the following would be included in financial accounts, but may be excluded from cost accounts?
- (a) Factory manager's salary.
  - (b) Depreciation of storeroom handling equipment.
  - (c) Direct materials cost.
  - (d) Bank charges and interest.

## SECTION B

### Question 2

Mr. Tharkar is a sole trader. He has hired you to prepare the financial statements for his business for the year ended 31 May 2003. He provides you with the following information for the financial year ended 31 May 2003:

- (i) Cash drawings were Shs. 600,000.
- (ii) There was Shs. 360,000 owing to suppliers as at 31 May 2003.
- (iii) Payments to suppliers were Shs. 2,300,000.
- (iv) Trade receivables at 31 May 2003 were Shs. 1,300,000.
- (v) Receipts from customers were Shs. 4,400,000.
- (vi) Inventories at 31 May 2003 were Shs. 680,000.
- (vii) During the year debts of Shs. 200,000 went bad and are to be written off. Settlement discounts given to customers were Shs. 180,000.
- (viii) Rent of Shs. 60,000 and insurance of Shs. 20,000 were paid in advance at 31 May 2003.
- (ix) Depreciation on equipment is to be provided at 20% of its net book value.
- (x) A Shs. 40,000 telephone bill was unpaid at 31 May 2003.
- (xi) Carriage inwards on goods purchased by the business was Shs. 20,000 and was paid for in full.
- (xii) Depreciation on vehicles is provided for at 25% on their original cost.
- (xiii) Total payments made for the following costs were:

	Shs. '000'
Rent	320
Rates	100
Wages	480
Motor vehicle expenses	160
Insurance	180
Electricity	140
Telephone	<u>80</u>
	<u>1,460</u>

You are able to establish that on 1 June 2002 the business had the following balances:

	Shs. '000'
Vehicles at cost	400
Equipment at cost	1,500
Allowance for depreciation:	
Vehicles	160
Equipment	500
Cash at bank	100
Inventories	240
Trade payables	800
Trade receivables	1,200
Capital	2,280
Prepayments:	
Rent	200
Insurance	160
Accruals:	
Telephone	20
Electricity	40

**Required:**

Prepare:

- (a) Mr. Tharkar's income statement for the year ended 31 May 2003. **(12 marks)**
- (b) The bank account summary for the year ended 31 May 2003. **(3 marks)**
- (c) The balance sheet as at 31 May 2003. **(5 marks)**  
 {You are advised to show all the necessary supporting workings} **(Total 20 marks)**

**Question 3**

One of your firm's clients, Mr. Joe Sentongo, has prepared a draft income statement for his first year of trading. He knows that he made a number of errors and has asked for your assistance.

His income statement is set out below, together with additional information:



Income statement for the year ended 31 May 2003.

	Shs	Shs
Sales		375,680,000
Purchases	254,000,000	
Closing inventory	<u>32,580,000</u>	
		<u>286,580,000</u>
		89,100,000
Expenses:		
Wages	37,600,000	
Motor expenses	9,780,000	
Rent	4,660,000	
Loan costs	19,500,000	
Advertising	15,470,000	
Stationery	3,590,000	
Settlement discounts (net)	1,900,000	
Trade discounts received	<u>(10,200,000)</u>	
		<u>82,300,000</u>
Net profit		<u>6,800,000</u>

Additional information:

- (i) When he started trading, Mr. Sentongo purchased equipment for Shs. 75 million. He expects to use this equipment for five years, and then sell it off for Shs. 5 million.
- (ii) Sentongo obtained a loan for the full cost of the equipment. The loan is being repaid over five years in equal instalments of Shs. 16,250,000 including interest. The principal amount outstanding at 31 May 2003 was Shs. 60 million.
- (iii) Sentongo receives 5% trade discount on all his purchases. He has valued closing inventory at cost before trade discount.
- (iv) Sentongo has still to receive invoices from suppliers for purchases of Shs. 640,000 inclusive of trade discount amounts in his account to 31 May 2003.
- (v) Sentongo made a payment of Shs. 2,160,000 for 4 months rent on 1 May 2003.
- (vi) He has not yet issued a credit note for goods sold for Shs. 1,630,000 returned to his warehouse on 29 May 2003.

**Required:**

- (a) Identify six errors in the draft accounts.  
(6 marks)
- (b) Prepare the corrected income statement after taking into consideration all the errors committed.

(14 marks)  
(Total 20 marks)

**Question 4**

Nakawunde has extracted a list of balances from her customers' personal accounts, but the total does not agree to the balance on the receivables control account in her nominal ledger.

Receivables Control Account	Shs. 15,250,100
Total of list of balances	Shs. 16,965,400

You have obtained the following information from an examination of her records:

- (i) Goods worth Shs. 369,250 were returned and a credit note issued which was debited to the relevant personal account while being omitted from the nominal ledger.
- (ii) A debit balance of Shs. 69,200 has been included in the list as Shs. 96,200.
- (iii) Nakawunde has agreed to set off an amount of Shs. 250,000 due to her from Opio as he is also a supplier. The necessary contra entry has only been made in the control accounts.
- (iv) A payment received from Wamara of Shs. 325,000 was treated correctly in his personal account but has been posted to sundry income in the nominal ledger.
- (v) One of Nakawunde's customers went into liquidation during the year leaving an outstanding balance of Shs. 138,000 which has been written off in the personal account although no bad debt has been recorded in the nominal ledger.
- (vi) A credit balance of Shs. 72,600 has been omitted from the list of balances.
- (vii) An invoice of Shs. 13,100 has been overlooked when totalling the personal account for Abdulla.
- (viii) Receipts totalling Shs. 837,250 have been included twice in the control account.
- (ix) A credit note issued for 50% of the amount due from Davids has not been entered into his personal account against his outstanding balance of Shs. 1,761,000.

**Required:**

- (a) Make necessary adjustments to the list of balances. **(8 marks)**
  - (b) Make necessary adjustments to the receivables ledger control account. **(7 marks)**
  - (c) Briefly explain the purpose of a receivables ledger control account. **(5 marks)**
- (Total 20 marks)**

## SECTION C

### Question 5

If the information in financial statements is to be useful, regard must be paid to the following:

- (a) Materiality
- (b) Relevance
- (c) Reliability
- (d) Comparability
- (e) Objectivity

#### **Required:**

Explain the meaning of each of the above factors as they apply to financial accounting. Give an example of the application of each of them.

***(20 marks)***

### Question 6

The cost of short-term inventories, and work-in-progress should be assigned by the following valuation methods:

- (i) First-in, first-out.
- (ii) Weighted Average cost method.
- (iii) Last-in, first-out.
- (iv) Net realisable value.

#### **Required:**

- (a) Assuming that the inventory was homogeneous, describe how each of the above valuation methods would work with regard to issues out of the store.
- (b) Use your own hypothetical example to illustrate how inventories that are received in the stores at different prices may be issued out using each of the above methods.

***(Total 20 marks)***