

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

MONDAY, 21 JUNE 2004

INSTRUCTIONS TO CANDIDATES

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 are underlying accounting assumptions?
- (a) Accruals and materiality concepts.
 - (b) Going concern and accruals concepts.
 - (c) Going concern and consistency concepts.
 - (d) Materiality and consistency concepts.
- (ii) The settlement of a present obligation may occur in the following ways except by:
- (a) payment of cash.
 - (b) deferring the date of payment.
 - (c) transfer of other assets.
 - (d) conversion of the obligation to equity.
- (iii) Which of the following items are recorded on the same side of a trial balance?
- (a) Prepayments, Sales, Returns Inwards, Accruals and Expenses.
 - (b) Incomes, Carriage Inwards, Capital, Payables and Bank Overdraft.
 - (c) Fees, Sales, Returns Outwards, Loans and Accruals.
 - (d) Expenses, Returns Outwards, Cash, Receivables and Purchases.
- (iv) Where a suspense account is created to enable the preparation of draft financial statements, the balance on the suspense account appears under:
- (a) Non-current liabilities.
 - (b) Current assets or liabilities.
 - (c) Non-current assets.
 - (d) Capital and reserves.
- (v) From the following Balance Sheet extract, calculate the ordinary shareholders funds.

	Shs
Ordinary share capital	50,000,000
Revaluation reserve	15,000,000
Accumulated Profits	6,000,000
10% Debentures	10,000,000

- (a) Shs. 50,000,000
- (b) Shs. 56,000,000
- (c) Shs. 71,000,000
- (d) Shs. 81,000,000

- (vi) Which of the following methods of valuing issues out of the stores is not a benchmark formula as per IAS 2: Inventories?
- (a) LIFO
 - (b) FIFO
 - (c) Net realizable value.
 - (d) Weighted average cost.
- (vii) Which of the following is the correct descending order that current assets should be shown on the balance sheet?
- (a) Cash, Bank, Receivables, Inventory.
 - (b) Receivables, Inventory, Bank, Cash.
 - (c) Inventory, Receivables, Bank, Cash.
 - (d) Cash, Bank, Inventory, Receivables.
- (viii) Which of the following items is not an appropriation in partnership accounts?
- (a) Interest on drawings.
 - (b) Interest on current accounts.
 - (c) Interest on capital accounts.
 - (d) Interest on loan advances.
- (ix) What is the objective of financial statements?
- (a) To enable management to carry out it's planning, decision-making and control responsibilities.
 - (b) To prepare the balance sheet and explanatory notes on the assets, liabilities and equity.
 - (c) To reflect different aspects of the same transactions or other events in different statements and explanatory notes.
 - (d) To provide information about the financial position, performance and changes in financial position of an entity.
- (x) Which of the following is a realized gain?
- (a) Surplus on revaluation of investments to current market value.
 - (b) Surplus arising from sale of patents.
 - (c) Gain in non-current assets values following revaluation.
 - (d) Goodwill arising on purchase of another business.
- (xi) Classifying and summarizing accounting data means:
- (a) Working out how much profit or loss has been made during the period.
 - (b) Recording data so as to tell how the business has performed financially.
 - (c) Computing data so as to show what resources are owned by the business.
 - (d) Sorting data out so as to be most useful to the business.

- (xii) Which of the following should not be included in the “Sales revenue” of a business entity?
- (a) Sale of office furniture.
 - (b) Trading items sold on credit.
 - (c) Sales of items that were previously included in “purchases”.
 - (d) Trading items sold for cash.
- (xiii) What document is usually sent every month from the supplier to the customer, listing all the transactions between them during that month?
- (a) Invoice.
 - (b) Statement.
 - (c) Receipt.
 - (d) Credit note.
- (xiv) What business document provides proof of payment for a business transaction?
- (a) Invoice.
 - (b) Claim.
 - (c) Debit note.
 - (d) Receipt.
- (xv) Which of the following is the correct posting to record a cash purchase of Shs. 50,000 from Gilbert Ltd?
- (a) Debit Purchases and Credit Gilbert Ltd.
 - (b) Debit Gilbert Ltd and Credit Purchases.
 - (c) Debit Purchases and Credit Cash.
 - (d) Debit Cash and Credit Purchases.
- (xvi) Which of the following formulae could produce an acceptable figure for a trader’s net profit for a period if no accounting records have been kept?
- (a) Closing net assets minus drawings plus capital introduced minus opening net assets.
 - (b) Closing net assets minus drawings minus capital introduced minus opening net assets.
 - (c) Closing net assets plus drawings plus capital introduced minus opening net assets.
 - (d) Closing net assets plus drawings minus capital introduced minus opening net assets.
- (xvii) Which of the following errors would be found by extracting a trial balance?
- (a) Different figures have been entered on the debit and credit sides.
 - (b) A transaction has been completely missed in the accounts.
 - (c) The double entries have been made the wrong way round.
 - (d) An expense item has been posted to a non-current asset account.

- (xviii) Sarah runs her own business and is registered for VAT. This month, her purchases were Shs 105,300 inclusive of VAT and her sales were Shs 58,000 exclusive of VAT. The VAT rate is 17%. At the end of the month her VAT Account will show:
- (a) Shs. 5,355 receivable.
 - (b) Shs. 6,800 payable.
 - (c) Shs. 7,956 receivable.
 - (d) Shs. 5,440 receivable.
- (xix) When posting an invoice for car repairs, Shs 87,000 was entered on the correct side of motor expenses account. The invoice was for Shs 78,000. What correction should be made to motor expenses account?
- (a) Debit Shs 165,000.
 - (b) Credit Shs 165,000.
 - (c) Credit Shs 9,000.
 - (d) Debit Shs 9,000.
- (xx) Prime cost includes:
- (a) Factory Labour.
 - (b) Salary of operations supervisor.
 - (c) Factory lighting.
 - (d) Factory plant repairs.

SECTION B**Question 2**

The list of ledger account balances of John Wakholi at 1 January 2003 is made up of the following balances:

	Shs million
Capital Account	560
Trade receivables	200
Bad debts allowance	8
Trade payables	180
Land and buildings	220
Plant & machinery: Cost	280
Depreciation	100
Prepaid operating expenses	8
Accrued operating expenses	20
Inventory	200
Bank overdraft	40

You are given the following information relating to the year ended 31 December 2003:

	Shs million
Credit sales revenue	1,000
Cheque receipts from credit customers	880
Bad debts written off	40
Credit purchases	600
Cheque payments to credit suppliers	620
Contra between trade receivables & payables	10
Discounts allowed	30
Discounts received	20
Capital introduced and banked	200
Operating expenses paid by cheque	190
Cheque payments for plant and machinery	120
Proceeds on disposal of plant and machinery by cheque (depreciated to half its original cost)	30
Profits on disposal of plant and machinery	5
Revaluation surplus of land and buildings	80
Inventory at 31 December 2003	150

Required:

Prepare the necessary ledger accounts to incorporate the above information and balance them off as at 31 December 2003.

(20 marks)

Question 3

Anne Opio has asked you to reconcile the balance on the bank statement to the bank account balance in her nominal ledger. You have checked her bank statement and other records and have noted the following:

- (i) Cheque No. 200132 from a credit customer is recorded in the cashbook as Shs. 560,000, but the bank statement shows that the correct figure is Shs. 650,000.
- (ii) Anne has paid for a number of items whose total value is Shs 390,000 by standing orders that have been omitted from the cashbook.
- (iii) The bank has charged Shs 22,000 for ledger fees and paid interest of Shs. 17,400 on Anne's account. These amounts have not yet been entered in the cashbook.
- (iv) One of Anne's customers made a direct deposit of Shs 358,000 into the bank that has not been recorded by Anne.
- (v) The following cheques have not been debited by the bank but are entered in the cashbook:

Cheque No	Shs
100029	400,000
100683	560,000
100687	120,000
100688	100,000

Cheque No. 100029 was sent to a supplier almost a year ago, but it did not arrive and the supplier was paid in cash.

- (vi) A lodgement of Shs 487,000 has not yet been credited on the bank statement.
- (vii) A cheque received from Jane Murungi for Shs 500,000 was entered twice as a credit in the cashbook.
- (viii) The bank account credit column was under cast by Shs 120,000.
- (ix) The bank column of the cashbook had a debit balance of Shs 641,000.

Required:

- (a) Prepare an adjusted cashbook. **(10 marks)**
- (b) Prepare the bank reconciliation statement. **(7 marks)**
- (c) Briefly explain why a bank reconciliation statement should be prepared at the end of each accounting period. **(3 marks)**

(Total 20 marks)

Question 4

Alpha Ltd had the following balances at 30 April 2004:

	Shs
Opening inventory	952,000
Carriage inwards	190,500
Purchases	8,741,000
Carriage outwards	236,600
Sales	16,050,000
Trade receivables	1,590,000
Trade payables	1,248,000
Wages and salaries	3,471,000
Other operating expenses	1,905,000
Provision for doubtful debts as at 1 May 2003	91,000
Office equipment as at 1 May 2003	
Cost	1,070,000
Accumulated depreciation	481,500
Office equipment purchased in the year	240,000
Proceeds from sale of equipment	63,000
Cash at Bank	537,400
Share capital	1,000,000

You are provided with the following additional information:

- (i) Closing inventory amounted to Shs 1,098,500.
- (ii) Prepayments and accruals at 30 April 2004 were:

	Prepayments Shs	Accruals Shs
Carriage inwards	10,000	-
Carriage outwards		6,300
Other operating expenses	24,500	68,000
Wages and salaries		229,000
- (iii) The provision for doubtful debts at the year-end is to be calculated at 3%.
- (iv) Depreciation is provided at 20% per annum on a straight-line basis, with a full year's charge in the year of purchase and none in the year of sale.
- (v) During the year, equipment, which had cost Shs. 200,000 when purchased in June 2000, was sold for Shs 63,000.

Required:

- (a) Prepare the income statement for Alpha Ltd for the year ended 30 April 2004 from the above information.

(12 marks)

- (b) Prepare the balance sheet for Alpha Ltd as at 30 April 2004.

(8 marks)

(Total 20 marks)

SECTION C**Question 5**

You are an accountant with a manufacturing company and a trainee accounts assistant has sent you the following message:

“I am not sure of the correct accounting treatment for a new machine, model AB12. The invoice dated 1 June 2004 shows a purchase price of Shs 25,000,000, plus delivery charges of Shs 1,000,000, installation costs of Shs 3,400,000 and annual maintenance fee of Shs 500,000. It is anticipated that the machine will be used for 8 years and will then be disposed off at an estimated selling price of Shs 10 million. The invoice has been recorded in the purchases daybook, and pending your advice, the total invoice value of Shs. 29,900,000 has been posted to the suspense account.

I am aware that we use straight-line depreciation, but I do not know how this is applied and I am also wondering if there is another method that might be used.

Please advise me on the correct way of dealing with the above.”

Required:

Draft a report which includes the following information:

- (a) Explain which costs should be classified as capital expenditure and indicate the correct classification of the four items shown on the invoice.
(10 marks)
- (b) Explain the effect on both the net profit and the value of the asset of incorrectly classifying revenue expenditure as capital expenditure.
(3 marks)
- (c) Define the term depreciation.
(3 marks)
- (d) Explain how the straight-line method of depreciation is applied.
(3 marks)
- (e) Identify two other methods that can be used to depreciate the machine.
(1 mark)

(Total 20 marks)

Question 6

Mr. Mike Kibuuka recently set up his own business and has now asked for your advice on how he can develop a better bookkeeping system, and how to improve control of his business. He is particularly interested in the following points:

- (i) The reasons for maintaining control accounts;
- (ii) What should be posted in the control accounts, and
- (iii) Examples of some typical bookkeeping errors.

Required:

In preparation for your discussion with Mr. Kibuuka draft notes, clearly explaining:

- (a) Six reasons why control accounts are maintained. **(9 marks)**
 - (b) Five types of entries which should be made in a receivables ledger control account, stating whether each is a debit or credit entry and to which account the double entry is posted. **(5 marks)**
 - (c) Four types of common book-keeping errors. **(6 marks)**
- (Total 20 marks)**