

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

MONDAY, 13 DECEMBER 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 groups consists of only liabilities of a business?
- Accrued income, unpaid interest, trade payables, unpaid rent.
 - Trade payables, capital, accrued expenses, prepaid income.
 - Dividends payable, interest payable, trade payables, prepaid rent.
 - Dividends payable, trade payables, prepaid income, prepaid subscriptions.
- (ii) Which of the following statements is correct?
- Substance over form means that the legal form of a transaction should always be reflected in financial statements.
 - The materiality concept demands that only items with a physical existence may be recognized as assets.
 - Information is only complete when it is free from all errors or bias.
 - Information is deemed to be relevant when it can be used to assist users to evaluate past, present or future events.
- (iii) Which of the following is a financial statement prepared by a club, or association?
- Receipts and Payments Account.
 - Income and Expenditure Account.
 - Profit and loss Account.
 - Subscriptions and Cost Account.
- (iv) Which of the following statements is false about interest on capital in a partnership?
- It is a distribution prior to the calculation of profit.
 - The rate of interest is a matter of agreement between the partners.
 - The rate of interest on capital should equal the return which would have been received from investing the capital elsewhere.
 - The interest on capital is debited to the partners current accounts and credited to the appropriations account.
- (v) Calculate the value of sales from the following information:

	Shs
Opening Receivables	285,200
Cash received from credit customers	1,084,600
Discounts allowed	26,400
Goods returned by credit customers	55,000
Closing receivables	275,600

- (a) Shs. 1,175,600.
 (b) Shs. 1,156,400.
 (c) Shs. 1,012,800.
 (d) Shs. 993,600.
- (vi) A Company pays rent quarterly in arrears on 1 January, 1 April, 1 July and 1 October each year. The rent was increased from Shs. 2,500,000 per month to Shs. 3,100,000 per month with effect from 1 November 2004. What will be the correct figures for rent expense and accrued at year-end i.e. 31 December 2004?

Rent Expense Shs.**Accrual Shs.**

- | | | |
|-----|------------|------------|
| (a) | 30,000,000 | 7,500,000. |
| (b) | 30,000,000 | 9,300,000. |
| (c) | 31,200,000 | 8,700,000. |
| (d) | 31,800,000 | 8,700,000. |
- (vii) What is the effect on balance sheet items when trading goods are bought on credit?
- (a) Assets increase and liabilities increase.
 (b) Assets increase and liabilities decrease.
 (c) Assets decrease and liabilities decrease.
 (d) Assets decrease and liabilities increase.
- (viii) An asset should be recognized in the balance sheet when it is probable that:
- (a) The future economic benefits will flow to the enterprise and the asset has a value that can be measured reliably.
 (b) The economic benefits will flow to one enterprise beyond the current accounting period.
 (c) There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide.
 (d) Obligations are legally enforceable as a consequence of a binding contract.
- (ix) A payment to Jackson of Shs. 160,000 was entered on the receipt's side of the Cash Book and credited to Jackson's account. What is the correcting entry?

- | | | | | |
|-----|-----------------|--------------|---------------|----------|
| (a) | Debit Jackson | Shs. 160,000 | Credit Bank | 160,000. |
| (b) | Debit Purchases | Shs. 320,000 | Credit Bank | 320,000. |
| (c) | Debit Jackson | Shs. 320,000 | Credit Bank | 320,000. |
| (d) | Credit Bank | Shs. 160,000 | Debit Jackson | 160,000. |

- (x) A general allowance for bad and doubtful debts is usually calculated by the following methods:
- (a) Considering the circumstances of individual credit customers.
 - (b) Maintaining the same provision for bad and doubtful debts as at the previous period.
 - (c) Providing for all debts which have exceeded the normal credit terms offered to customers.
 - (d) Applying a percentage to the total of trade receivables at the period end.
- (xi) The owners of a limited company are the:
- (a) Partners.
 - (b) Directors.
 - (c) Members.
 - (d) Stakeholders.
- (xii) Which of the following entries would not usually be part of a posting generated from the Sales Journal?
- (a) Credit Sales account.
 - (b) Credit Value Added Tax account.
 - (c) Credit Purchases account.
 - (d) Debit Receivables Control account.
- (xiii) Which of the following items would be included in financial statements but may be excluded from cost accounts?
- (a) Bank charges.
 - (b) Factory manager's salary.
 - (c) Electricity costs of operating plant.
 - (d) Materials cost.
- (xiv) The shareholders of ABC Ltd. were paid an interim dividend for the year ended 31 December 2004. What entries should be passed to reflect this?
- (a) Debit Statement of Changes in Equity, credit Dividends Payable.
 - (b) Debit Statement of Changes in Equity, credit Cashbook.
 - (c) Debit Drawings, credit Cash Book.
 - (d) Debit Liabilities, credit Statement of Changes in Equity.

- (xv) Mukasa, a credit customer of ABC Ltd, has a debt of Shs. 840,000 for which he pays cash of Shs. 50,000, a cheque of Shs. 290,000 and office equipment worth Shs. 500,000. The company put the equipment to office use. How will ABC Ltd account for the receipts?

			Shs	Shs
(a)	Debit	Cash.	50,000	
	Debit	Bank	290,000	
	Credit	Mukasa		340,000
(b)	Debit	Cash	50,000	
	Debit	Bank	290,000	
	Debit	Office equipment	500,000	
	Credit	Mukasa		340,000
	Credit	Bad debts		500,000
(c)	Debit	Cash	50,000	
	Debit	Bank	290,000	
	Debit	Office Equipment	500,000	
	Credit	Mukasa		840,000
(d)	Debit	Cash	50,000	
	Debit	Bank	790,000	
	Credit	Mukasa		840,000

- (xvi) Which of the following statements best defines the capital of a business?
- (a) The non-current assets owned by the business.
 - (b) The cash and bank balances of the business less any loans or overdrafts.
 - (c) The value of net assets of the business.
 - (d) The amount due to the business by its customers plus the value of any inventory held.
- (xvii) Osika Ltd. took delivery of goods for resale costing Shs. 300,000. Transport costs on bringing the goods to Osika Ltd premises were Shs. 25,000 and a casual labourer was paid Shs. 5,000 for assisting with off-loading. If Osika Ltd. is VAT registered, what is the total payment made in respect of these goods?
- (a) Shs. 330,000.
 - (b) Shs. 381,000.
 - (c) Shs. 385,250.
 - (d) Shs. 386,100.

- (xviii) In regard to book keeping an error of commission is said to have occurred when:
- (a) Either the debit or credit entry of a transaction is recorded in the wrong class of ledger account.
 - (b) A correct figure is entered for a transaction once in the correct ledger account and once in the wrong person's account.
 - (c) A transaction is not entered at all in the accounting records.
 - (d) The figure entered on one side of the books of account is the reverse from that entered for the other side.
- (xix) Which of the following statements does not explain the accounting equation?
- (a) Equity is equal to the total assets.
 - (b) Resources in the business equals resources supplied by the owner.
 - (c) What resources are, equals who supplied the resources.
 - (d) Assets are equal to capital less any liabilities.
- (xx) When does a sales order arise?
- (a) When a business places an order to purchase goods from another business.
 - (b) When a supplier raises an invoice.
 - (c) When goods are delivered by the supplier to the purchaser.
 - (d) When a customer signs an order for goods or services he wishes to buy.

SECTION B**Question 2**

- (a) Joy Engineering Ltd. values its inventories of engines using the first in, first out (FIFO) method. As at 1 October 2003 the company had an inventory of 70 engines which cost Shs. 3,000,000 each. Below are the inventory movements during the year ended 30 September 2004.

September 2004

Month	Units Purchased	Unit Price	Units Sold	Unit Selling Price
November	10	3,200,000		
December	25	3,500,000		
January			60	5,000,000
March			15	5,100,000
June	30	3,800,000		
July			15	5,250,000

Required:

Calculate the value of closing inventory as at 30 September 2004 using a stores ledger.

(14 marks)

- (b) Ghum Ltd values its inventories at the lower of cost and net realizable value. The following information regarding its three product types is available:

Item	Type	Cost Shs	Net Realizable Value Shs
1	A	300,000	240,000
2	A	360,000	450,000
3	A	600,000	1,200,000
4	B	540,000	510,000
5	B	450,000	390,000
6	B	650,000	680,000
7	C	1,230,000	1,620,000
8	C	1,080,000	1,230,000
9	C	1,260,000	930,000

Required:

Calculate the value at which each product type should be included in the inventory figure at the year end.

(6 marks)**(Total 20 marks)**

Question 3

Andrew and Benon have been in partnership for many years sharing profits and losses in the ratio 3:2 respectively. The following was their balance sheet as at 30 September 2004.

	Shs.
Non-current Assets:	
Land at cost	1,800,000
Plant and machinery	2,000,000
Motor vehicle	3,550,000
Office fittings	1,800,000
Current Assets:	
Inventory	1,960,000
Trade receivables	2,130,000
Cash and bank balances	900,000
Total Assets	<u>14,140,000</u>
Capital - Andrew	6,000,000
- Benon	4,000,000
Current Account - Andrew	1,980,000
- Benon	1,200,000
Payables	960,000
Total Capital and Liabilities	<u>14,140,000</u>

On 1 October 2004, they decided to admit Charles as a partner on the condition that he contributed Shs. 2,000,000 as his capital and the new profit and loss sharing ratio is 3:2:1 between Andrew, Benon and Charles respectively. They also agreed that the following revaluations should be recognized:

	Shs.
Land	5,000,000
Plant and machinery	1,500,000
Motor vehicle	3,000,000
Office fittings	2,000,000
Inventory	1,800,000
Trade receivables	1,900,000

Required:

- (a) Prepare the following accounts to record the above transactions:
- (i) Revaluation account. **(5 marks)**
 - (ii) Capital account. **(3 marks)**
- (b) Prepare the balance sheet of the partnership immediately after the admission of Charles.

(12 marks)
(Total 20 marks)

Question 4.

The following is a summary of the receipts and payments of the Kololo Members' Club during the year ended 31 October 2004.

Kololo Members' Club			
Receipts and Payments Account for the Year ended 31 October 2004			
	Shs '000		Shs '000
Cash & bank balances b/d	1,470	Administrative expenses	1,141
Sales of competition tickets	3,059	Rent expenses	7,814
Members' subscriptions	13,909	Visiting Speakers' costs	8,925
Donations	1,239	Donations to Charities	2,245
Sweepstake winning	3,500	Prizes for competitions	1,890
Balance c/d	<u>91</u>	Stationery & printing	<u>1,253</u>
	<u>23,268</u>		<u>23,268</u>

The following valuations are also available as at 31 October:

	2003	2004
	Shs '000	Shs '000
Equipment (original cost Shs. 9,940,000)	6,825	5,460
Subscription in arrears	455	595
Subscription in advance	70	259
Owing to suppliers of competition prizes	406	476
Inventory of competition prizes	266	322

Required:

- (a) Derive the value of the accumulated fund of Kololo Members' Club as at 1 November 2003. **(3 marks)**
- (b) Prepare the following accounts for the year ended 31 October 2004:
- (i) The Subscriptions Account. **(3 marks)**
 - (ii) The Competition Prize Account **(3 marks)**
- (c) Prepare an Income and Expenditure Account for Kololo Members' Club for the year ended 31 October 2004 and a Balance Sheet as at that date. **(11 marks)**
- (Total 20 marks)**

SECTION C

Question 5

The objective of general purpose financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions.

The users are categorised depending on their information needs – thus:

- Investors.
- Employees.
- Suppliers and other trade creditors.
- Governments and their agencies.
- The public.

Required:

Briefly describe the above user groups and specify the information needs for each group.

(20 marks)

Question 6

Originally, business took on very simple forms. However, over time, the business sector experienced tremendous growth. Limited companies came into existence originally because of the growth and the need to have more people investing in the business. Partnerships were considered not suitable for such business.

Required:

Give ten differences between a Partnership and a Limited Company.

(20 marks)