

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS ACCOUNTING – PAPER 1

**MONDAY, 20 JUNE 2005**

#### 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 is an underlying accounting assumption?
  - (a) Consistency concept.
  - (b) Accruals concept.
  - (c) Prudence concept.
  - (d) Matching concept.
- (ii) Prime costs include:
  - (a) Factory rent.
  - (b) Factory workers' wages.
  - (c) Depreciation of plant and machinery.
  - (d) Machine maintenance costs.
- (iii) Under IAS 2: Inventories, trading inventory can be valued using:
  - (a) FIFO.
  - (b) FIFO and LIFO.
  - (c) FIFO, LIFO and weighted average cost.
  - (d) FIFO and weighted average cost.
- (iv) Mercy has sold her vehicle for Shs. 4 million. The vehicle originally cost Shs 8 million and was depreciated by Shs. 3.5 million. What is the net book value at the date of disposal?
  - (a) Shs. 500,000.
  - (b) Shs. 4,500,000.
  - (c) Shs. 4,000,000.
  - (d) Shs. 3,500,000.
- (v) When cash is refunded to a credit customer, we debit the:
  - (a) receivables account and credit the cashbook.
  - (b) refunds account and credit the cashbook.
  - (c) cashbook and credit the receivables account.
  - (d) sales account and credit the receivables account.
- (vi) Which of the following best explains the imprest system of petty cash control?
  - (a) All petty cash expenditure must be properly recorded and authorized.
  - (b) Monthly 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.

- (vii) What is the objective of financial statements?
- (a) To show the economic resources an entity controls, its financial structure, liquidity and solvency.
  - (b) To show the results of the stewardship of management.
  - (c) To show the financial position, performance and changes in financial position of an entity.
  - (d) To show the accountability of management and for the resources entrusted to it.
- (viii) The financial statements that meet the needs of ..... also meet most of the needs of other users of financial statements.
- (a) investors.
  - (b) lenders.
  - (c) public.
  - (d) customers.
- (ix) The elements directly related to the measurement of financial position are:
- (a) Assets, liabilities and equity.
  - (b) Assets, expenses and income.
  - (c) Assets, liabilities and income.
  - (d) Incomes, expenses and liabilities.
- (x) 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), (iii) and (iv).
  - (b) (ii), (iii), (iv) and (v).
  - (c) (i), (iii), (iv) and (v).
  - (d) (i) and (ii).
- (xi) Suppliers' personal accounts are found in the:
- (a) nominal ledger.
  - (b) receivables ledger.
  - (c) general ledger.
  - (d) payables ledger.

- (xii) The book of original entry that records purchases' invoices is the:
- (a) Cash book.
  - (b) General Journal.
  - (c) Purchases journal.
  - (d) Purchases account.
- (xiii) Which of the following should be charged in the profit and loss account?
- (a) Direct labour.
  - (b) Office rent.
  - (c) Carriage inwards.
  - (d) Direct materials.
- (xiv) What is bookkeeping?
- (a) The part of accounting that is concerned with recording data.
  - (b) The recording of goods bought and sold, and items bought for office use.
  - (c) The sorting out of data so as to be most meaningful to the users.
  - (d) The process of communicating the results of operations to the owners.

**Use the following information to answer questions (xv) – (xvi).**

The trade receivables account of Chimps Ltd had balances of Shs 16,000,000 on 1 April 2004 and Shs 15,000,000 on 31 March 2005. During the year, bad debts written off were Shs 1,000,000 and a debt of Shs 800,000 written off on 20 January 2004 was recovered in full. These transactions have not yet been accounted for. Bad debts are provided for at the rate of 10% per annum.

- (xv) Compute the provision for bad debts to be included in the income statement for the year ended 31 March 2005.
- (a) Shs 1,400,000 (Expense).
  - (b) Shs 100,000 (Expense).
  - (c) Shs 200,000 (Expense).
  - (d) Shs 200,000 (Income).
- (xvi) Derive the net figure of trade receivables to be included in the balance sheet as at 31 March 2005.
- (a) Shs 13,900,000.
  - (b) Shs 13,800,000.
  - (c) Shs 12,600,000.
  - (d) Shs 13,600,000.

- (xvii) What is the effect on income statement items when a debt is written off as bad?
- (a) Incomes increase and expenses increase.
  - (b) Incomes increase and expenses decrease.
  - (c) Incomes decrease and expenses decrease.
  - (d) Incomes decrease and expenses increase.
- (xviii) If Shs. 200,000 was debited to sales account instead of purchases account:
- (a) Only gross profit would be affected.
  - (b) Both gross and net profit would be affected.
  - (c) Only net profit would be affected.
  - (d) Neither gross profit nor net profit would be affected.
- (xix) You are to buy an existing business which has assets valued at: buildings Shs. 50 million, motor vehicles Shs. 15 million, fixtures Shs. 5 million and inventory Shs. 40 million.
- You are to pay Shs 140 million for the business. This means:
- (a) Buildings are costing you Shs. 30 million more than their value.
  - (b) You are paying Shs. 40 million for goodwill.
  - (c) You are paying Shs. 30 million for goodwill.
  - (d) You have made an arithmetical mistake.
- (xx) If cost price is Shs. 90,000 and selling price is Shs. 120,000, then:
- (a) Mark-up is 25 percent.
  - (b) Mark-up is  $33 \frac{1}{3}$  per cent.
  - (c) Margin is  $33 \frac{1}{3}$  per cent
  - (d) Margin is 30 percent.

**SECTION B****Question 2**

The opening balances in the accounts of ABC Ltd at 1 January 2004 are given below:

	Shs. '000
Share capital	400,000
Share premium	100,000
Revaluation reserve	100,000
Retained earnings	200,000
15% loan notes	200,000
Land at valuation	350,000
Property - cost	200,000
- Depreciation	24,000
Plant and equipment - Cost	450,000
- Depreciation	180,000
Inventories	225,000
Trade receivables	200,000
Allowance for doubtful debts	20,000
Trade payables	220,000
Accrued expenses	11,000
Prepaid expenses	10,000
Bank balance (Debit)	20,000

You are given the following information in relation to the year 2004.

	Shs. '000
Cash sales	100,000
Credit sales	1,500,000
Purchases on credit	900,000
Discount allowed	20,000
Discount received	30,000
Cost of inventory damaged by fire	40,000
Scrap proceeds from damaged inventory	10,000
Contras between receivables and payables ledger accounts	15,000
Bad debts written off	25,000
Loan interest paid	30,000
Interim dividend paid	20,000
Bank charges	8,000
Banking of receipts from credit sales	1,450,000
Prepaid expenses at 31 December 2004	14,000
Trade payables at 31 December 2004	280,000
Wages and salaries paid	250,000
Operating expenses paid	240,000
Accrued expenses at 31 December 2004	12,000
Closing inventory at 31 December 2004	170,000
Depreciation on closing balances at cost	
Property 2%	
Plant and equipment 10%	

Allowance for doubtful debts required is 10% of receivables.

N.B: All cash is banked intact.

**Required:**

Prepare an Income Statement for the year ended 31 December 2004 and Balance Sheet as at that date.

Show all your workings.

**(20 marks)**

**Question 3**

The trial balance of Ham Tendo as at 31 December 2004 showed a difference which was posted to a suspense account. The draft financial statements for the year ended 31 December 2004 were prepared showing a net profit of Shs. 4,724,000. The following errors were subsequently discovered:

- (a) Sales of Shs 45,000 to Thomasson had been debited to Thomas Manufacturing Ltd.
- (b) A payment of Shs. 275,000 for telephone charges had been entered on the debit side of the telephone account as Shs. 375,000.
- (c) The sales journal had been undercast by Shs. 200,000.
- (d) Repairs to a machine, amounting to Shs. 39,000 had been charged to machinery account.
- (e) A cheque for Shs. 1,500,000, being rent received from Atlas Ltd., had only been entered in the cash book.
- (f) Purchases from S. Toby, amounting to Shs. 765,000, had been received on 31 December 2004 and included in the closing inventory at that date, but the invoice had not been entered in the book of original entry.
- (g) Bank charges of Shs. 380,000 entered in the cash book had not been posted to the bank charges account.
- (h) Shs. 170,000 discounts allowed was credited to discount received account.

**Required:**

- (a) Show the journal entries necessary to correct the above errors. (Do not include narrations)

**(8 marks)**

- (b) Prepare the suspense account.

**(8 marks)**

- (c) Derive the corrected net profit.

**(4 marks)**

**(Total 20 marks)**

**Question 4**

- (a) Define the term depreciation. **(2 marks)**
- (b) Explain the purpose of depreciation. **(2 marks)**
- (c) Give two methods of providing for depreciation. **(1 mark)**
- (d) BBC Manufacturing Company Ltd. has just recruited you as their accountant. You are given the following information with regard to Buildings and Machinery.

	Buildings Shs. millions	Machinery Shs. millions
Purchases cost on 1 June 2000	1,000	-
Purchases cost on 1 June 2003	-	125
Delivery cost	-	12.5
Installation cost	-	2.5
Accumulated depreciation to 31 May 2004	80	28
Purchases during the year ended 31 May 2005	150	90
Extension to building at cost during the year ended 31 May 2005	50	-

Additional information:

- (i) A full year's depreciation is charged in the year of acquisition of all assets.
- (ii) Buildings are depreciated at 2% per annum and machinery is depreciated at 20% per annum on cost.

**Required:**

- (i) Prepare separate cost and accumulated depreciation accounts for each asset for the year ended 31 May 2005. **(11 marks)**
- (ii) For any four items of cost incurred on machinery, indicate whether it is capital or revenue expenditure. **(4 marks)**

**(Total 20 marks)**



## SECTION C

### Question 5

- (a) Define a non-trading organization and give four examples of non-trading organisations. **(5 marks)**
- (b) Explain the effect of each of the following on the accumulated fund:
- (i) Subscription income earned. **(1 mark)**
  - (ii) Surplus for the period. **(1 mark)**
  - (iii) Deficit for the period. **(1 mark)**
  - (iv) Donations receivable. **(2 marks)**
- (c) Explain five different sources of income for a non trading organization. **(5 marks)**
- (d) Explain the treatment of both annual subscription and life membership subscription in the income statement and balance sheet if:
- (i) Cash relating to a future period was received during the period.
  - (ii) Cash relating to the current period was not received during the period.
- (5 marks)**  
**(Total 20 marks)**

### Question 6

- (a) Identify three events that would necessitate partnership assets to be revalued. **(6 marks)**
- (b) Distinguish between fixed and fluctuating capital accounts. **(4 marks)**
- (c) Name three items that are debited and another three items that are credited on the current account of a partner. **(6 marks)**
- (d) Give four contents of a formal partnership deed. **(4 marks)**
- (Total 20 marks)**