

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

MONDAY, 12 DECEMBER 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 best describes a trial balance?
- (a) It is a special purpose account.
 - (b) It shows the financial position of the entity.
 - (c) It shows all the entries in the ledger accounts.
 - (d) It lists the balances on each of the general ledger accounts.
- (ii) The liability of a shareholder in a limited company is restricted to the:
- (a) market value of the shares held.
 - (b) amount unpaid on partly paid shares.
 - (c) nominal value of the shares held.
 - (d) amount paid and unpaid on partly paid shares.
- (iii) Direct costs are defined as those costs that:
- (a) are incurred during production.
 - (b) can be traced to an item being manufactured.
 - (c) are incurred in the factory.
 - (d) are included in factory overheads.
- (iv) Martin, Mary and Alice are in partnership but do not have a partnership agreement; they must therefore share profits and losses-
- (a) Equally.
 - (b) In the same proportions as their capitals.
 - (c) Equally after deducting drawings.
 - (d) Equally after adjusting for any partnership salary.
- (v) If opening capital was UShs. 9,750,000, closing capital was UShs. 6,625,000 and drawings were UShs. 1,425,000, then,
- (a) Loss for the period was UShs. 1,700,000.
 - (b) Profit for the period was UShs. 1,700,000.
 - (c) Loss for the period was UShs. 3,125,000.
 - (d) Loss for the period was UShs. 4,550,000.
- (vi) Which of the following is not an asset?
- (a) Land and buildings.
 - (b) Creditors for inventory.
 - (c) Plant and machinery.
 - (d) Furniture and fittings.

- (vii) An imprest system is considered a good control of petty cash because the:
- (a) petty cash will be drawn from the bank on a daily basis.
 - (b) petty cash balance will always be the same.
 - (c) amount spent and the balance remaining will always total to the same amount.
 - (d) same amount will be drawn each time to replenish the petty cash.
- (viii) If UShs. 10 million was debited to the purchases account instead of the furniture account:
- (a) only the net profit would be understated.
 - (b) only the net profit would be overstated.
 - (c) it would not affect the net profit.
 - (d) both the net profit and the gross profit would be understated.
- (ix) If an allowance for depreciation account was maintained by an entity, then the entity would pass the following entries to record the current year's depreciation charge;
- (a) Credit asset account, debit allowance for depreciation account.
 - (b) Credit allowance for depreciation account, debit income statement.
 - (c) Credit asset account, debit income statement.
 - (d) Credit income statement, debit allowance for depreciation account.
- (x) If you originally bought 100 books at UShs. 250,000 each, less 30% trade discount, and you return 5 of them, what is the amount of the credit note you expect to receive?
- (a) UShs. 1,250,000.
 - (b) UShs. 875,000.
 - (c) UShs. 612,500.
 - (d) UShs. 638,000.
- (xi) Which of the following is an underlying accounting assumption?
- (a) Historical cost concept.
 - (b) Realisation concept.
 - (c) Going concern concept.
 - (d) Matching concept.
- (xii) Customers' personal accounts are found in the:
- (a) Nominal ledger.
 - (b) General ledger.
 - (c) Payables ledger.
 - (d) Receivables ledger.

- (xiii) The elements directly related to the measurement of the results from the operating activities are:
- (a) Assets and equity.
 - (b) Incomes and expenses.
 - (c) Assets and expenses.
 - (d) Incomes and liabilities.
- (xiv) The application of accounting concepts and principles from period to period in the same manner is referred to as:
- (a) Consistency.
 - (b) Neutrality.
 - (c) Continuity.
 - (d) Comparability.
- (xv) Katende Ltd.'s opening inventory was UShs. 6 million, and closing inventory was valued at UShs. 10 million. Sales for the year amounted to UShs. 80 million. The company's margin is 20%. What is Katende Ltd.'s margin in Shillings?
- (a) UShs. 4 million.
 - (b) UShs. 20 million.
 - (c) UShs. 16 million.
 - (d) UShs. 12 million.
- (xvi) The descending order in which current assets should be shown in the balance sheet is:
- (a) Receivables, inventories, bank, prepayments.
 - (b) Inventories, prepayments, bank, receivables.
 - (c) Inventories, receivables, prepayments, bank.
 - (d) Prepayments, bank, receivables, inventories.
- (xvii) The cost of putting goods into a saleable condition should be charged to:
- (a) Balance sheet.
 - (b) Statement of reserves.
 - (c) Profit and loss account.
 - (d) Trading account.
- (xviii) Carriage inwards is charged to the trading account because:
- (a) It should not go in the balance sheet.
 - (b) It is not part of motor expenses.
 - (c) Carriage outwards goes in the profit and loss account.
 - (d) It is an expense connected with buying of goods.

- (xix) Depreciation charge is:
- (a) that part of cost of the non-current assets consumed during the current period of use by the entity.
 - (b) the amount spent to buy a non-current asset initially.
 - (c) the salvage value of a non-current asset after its economic useful life to the entity.
 - (d) the amount of money spent in replacing a non-current asset.
- (xx) The sales journal is best described as:
- (a) A list of credit sales.
 - (b) Part of the double entry system.
 - (c) Containing customers' accounts.
 - (d) Containing real accounts.

SECTION B

Question 2

The following is the list of account balances of A, B & C Partnership at 30 November 2005:

	DR Shs. '000'	CR Shs. '000'
Capital accounts		
A		20,000
B		10,000
C		6,000
Drawings on current accounts		
A	4,500	
B	3,200	
C	1,700	
Payables account		7,400
Opening Inventory	11,000	
Receivables account	19,000	
Fixtures & fittings 1 Dec. 2004; at Cost	15,000	
Depreciation on fixtures & fittings		6,000
Sales (Shs 24 million up to 1 March 2005)		120,000
Purchases	100,000	
Staff salaries	6,000	
Rent	1,500	
General expenses	2,580	
Bank balance	4,920	-
	<u>169,400</u>	<u>169,400</u>

Additional information:

- (i) A & B had been in partnership for some years sharing profits, after providing for interest on capital at 5% per annum in the ratio of 3:2.
- (ii) On 1 March 2005 C was admitted into the partnership and the terms from that date were to be as follows:
 - A, B & C to be entitled to annual salary of Shs. 1.5 million, 1 million and 1 million respectively.
 - Balance of profits to be shared between A, B & C in the ratio of 3:2:1. No interest would be paid on Capital.
- (iii) On 1 March 2005 C paid Shs. 6 million into the partnership of which Shs. 2 million was in respect of the goodwill taken over by him. The whole of Shs. 6 million was at 1 March 2005 credited to his capital account; the partnership does not maintain an account for goodwill and any goodwill is adjusted through the partners' capital accounts.
- (iv) The following adjustments are to be incorporated into the financial statements:
 - Depreciation to be provided on fixtures and fittings at 20% reducing balance.
 - Inventory at 30 November 2005 of Shs. 14.5 million.
 - A bad debt of Shs. 110,000 to be written off in respect of a sale made during June 2005.
 - Outstanding at 30 November 2005 were:-
 - Salaries unpaid Shs. 240,000.
 - Rent paid in advance Shs. 100,000.
- (v) Apportion the gross profit between the two periods in the ratio of the sales. The expenses accrued evenly throughout the period.

You are **required** to prepare:

- (a) The income statement for the year ended 30 November 2005. (7 marks)
 - (b) The current accounts of the partners. (4 marks)
 - (c) The capital accounts of the partners showing goodwill adjustment. (2 marks)
 - (d) The balance sheet as at 30 November 2005. (7 marks)
- (Total 20 marks)**

Question 3

Mehta Pharmacy Ltd. Recently recruited an accounting clerk who was given the task to post transactions to ledger accounts. On checking his work, the accountant discovered the following errors:

1. Purchases of Shs. 690,000 on credit from K. Willis had been entered in K. William's account.
2. Extra capital of Shs. 10 million paid into the bank had been credited to sales account.
3. Bank charges of Shs. 77,000 had been debited to rent account.
4. Cash withdrawn from the bank of Shs. 100,000, had been entered in the cash column on the credit side of the cashbook. And in the bank column on the debit side.
5. Purchase of goods for resale of Shs. 4,280,000 had been entered in error in the fittings account.
6. Discounts allowed of Shs. 300,000 had been entered in error on the debit side of discounts received account.
7. A sale of Shs. 221,000 to Carltons had been entered in the books, both debit and credit as Shs. 212,000.
8. Sundry expenses paid by cheque of Shs. 230,000 were completely omitted from the books.
9. Commission received of Shs. 250,000 had been entered in error in the sales account.
10. The sales day book had been undercast by Shs. 200,000.

Required:

Prepare the journal entries to correct the above errors.

(20 marks)

Question 4

Kisakye, a stationery supplier, has prepared draft financial statements for the year ended 30 November, 2005 which show a bank balance of Shs. 7,197,350 according to the cash book. Subsequently, the following discoveries have been made:

1. Cheque number 100123 dated 12 November 2005 for UShs. 1,099,200 paid to a supplier had been recorded in the cash book as UShs. 1,189,200.
2. Bank charges of UShs. 100,000 and bank interest received of UShs 91,960 appeared on the bank statement but had not been entered in the cash book.
3. The recently received bank statement showed that a cheque for UShs. 3,521,000 received from Amooti banked on 8 November, 2005 and credited in the bank statement on 12 November 2005 had been dishonoured and debited in the bank statement on 28 November 2005.
4. A cheque dated 3 March 2005 for UShs. 939,600 paid to G & S Book Suppliers Ltd. had not yet appeared on any bank statement.
5. Cheque number 100138 for UShs. 388,540 had been recorded twice as a credit in the cash book.
6. Cheques totaling UShs. 5,189,304 paid according to the cash book during November 2005 were not presented to the bank for payment until December 2005.
7. A standing order payment on 27 November 2005 to Skyline Publications of UShs. 79,000 was not recorded in the cash book.
8. An amount of UShs. 1,684,700 which had been credited in the bank statement on 20 November 2005 did not appear in the cash book.
9. Amounts received in the last days of November 2005 totaling UShs. 7,123,810 and recorded in the cash book, appear on the bank statement on 10 December 2005.
10. Peninah, a supplier, was given cheque number 100149 dated 26 November 2005 for UShs 178,000 and this was recorded in the cash book. She returned it and received cash for the same amount on 29 November 2005.

Required:

- (a) Prepare a computation of the bank balance to be included in Kisakye's balance sheet as at 30 November, 2005.
(10 marks)
- (b) Prepare a bank reconciliation statement as at 30 November 2005 for Kisakye.
(6 marks)

- (c) Briefly explain why it is necessary to prepare bank reconciliation statements at the end of each month.

(4 marks)
(Total 20 marks)

SECTION C

Question 5

Define and explain the following accounting concepts, giving an example of the application of each:

- (a) Neutrality. (4 marks)
- (b) Money measurement. (4 marks)
- (c) Accruals. (4 marks)
- (d) Substance over form. (4 marks)
- (e) Consistency. (4 marks)

(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.

Required:

State five potential users of company published financial statements and briefly explain their likely information needs from these statements.

(20 marks)