

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

BUSINESS ACCOUNTING – PAPER 1

MONDAY, 18 JUNE 2007

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) What journal entry is required to record goods introduced into inventory by the owner of a business?
- (a) Debit purchases and credit capital.
 - (b) Debit capital and credit drawings.
 - (c) Debit drawings and credit purchases.
 - (d) Debit purchases and credit drawings.
- (ii) An invoice from a customer, Sarah Reine, was recorded in the sales ledger account of Sarah Rhyne. This is an error of:
- (a) commission.
 - (b) omission.
 - (c) principle.
 - (d) complete reversal of entries.
- (iii) Jane buys goods from Peter. At 31 May 2007, Peter's account in Jane's records shows Shs 100,000 owing to Peter. Peter submitted a statement to Jane as at the same date showing a balance due of Shs 70,000. Which of the following could account fully for the difference?
- (a) Jane has sent a cheque to Peter for Shs 30,000 which has not yet been received by Peter.
 - (b) Peter has issued a credit note for Shs 30,000 to Jane which Jane has not yet received.
 - (c) The credit side of Peter's account in Jane's records has been undercast by Shs 30,000.
 - (d) An invoice of Shs 15,000 for Peter has been treated in Jane's records as if it had been a credit note.
- (iv) Which of the following correctly describes the imprest system for operating petty cash?
- (a) A regular equal amount is transferred into cash.
 - (b) The exact amount of expenditure out of petty cash is reimbursed at intervals.
 - (c) All expenditure out of petty cash must be supported by a properly authorized voucher.
 - (d) A budget is fixed for a period which petty cash expenditure must not exceed.

- (v) Which of the following items will **NOT** be found in a bank reconciliation statement?
- (a) Bank errors.
 - (b) Uncredited cheques.
 - (c) Standing orders.
 - (d) Unpresented cheques.
- (vi) Which of the following is **NOT** recorded in the receipts and payments account?
- (a) Receipt of members' life subscriptions.
 - (b) Accumulated fund.
 - (c) Payment for furniture.
 - (d) Proceeds from the sale of investments.
- (vii) A limited liability company's trial balance did not balance. The totals were: debit Shs 384,030; credit Shs 398,580. This means that the draft financial statements disclosed the difference as:
- (a) income Shs 14,550.
 - (b) capital Shs 14,550.
 - (c) assets Shs 14,550.
 - (d) liabilities Shs 14,550.
- (viii) The following information is available for a sole trader who does not keep full accounting records:
- | | |
|------------------------|-------------|
| Opening Inventory | Shs 138,600 |
| Closing Inventory | Shs 149,100 |
| Purchases for the year | Shs 716,100 |
- The sole trader makes a standard gross profit of 30% on sales. Based on these figures, what is the sole trader's cost of sales for the year?
- (a) Shs 705,600.
 - (b) Shs 865,200.
 - (c) Shs 726,600.
 - (d) Shs 854,700.
- (ix) Which of the following would reduce the purchase cost of a trading item?
- (a) Import duties and other taxes.
 - (b) Transport costs.
 - (c) Trade discounts and rebates.
 - (d) Handling and other directly attributable costs.

- (x) What is the effect of omitting closing inventory from the income statement?
- (a) The cost of sales is understated.
 - (b) The gross profit from trading is overstated.
 - (c) The total payments made to acquire trading items are overstated.
 - (d) The net profit from trading is understated.
- (xi) On admission of a new partner into a partnership business, the buildings are revalued to Shs 100 million from Shs 120 million. What is the double entry for this revaluation difference?
- (a) Debit revaluation account; Credit buildings account with Shs 20 million.
 - (b) Debit revaluation account; Credit buildings account with Shs 100 million.
 - (c) Debit buildings account; Credit revaluation account with Shs 20 million.
 - (d) Debit buildings account; Credit revaluation account with Shs 100 million.
- (xii) Which of the following may be classified as a non-current liability?
- (a) Members' annual subscriptions in advance.
 - (b) Members' annual subscriptions in arrears.
 - (c) Members' life subscriptions payable.
 - (d) Members' life subscriptions paid.
- (xiii) Which of the following is the most likely information need of an employee from company published financial statements?
- (a) The risk inherent in and the return provided by the company's investments.
 - (b) The ability of the company to pay loans and the interest attaching to them when due.
 - (c) The ability of the company to provide remuneration, retirement benefits and employment opportunities.
 - (d) The allocation of resources of the company, the taxation policies and similar statistics.

- (xiv) What is the objective of general purpose financial statements?
- To recognize and measure the elements from which these financial statements are constructed.
 - To determine the qualitative characteristics and usefulness of information in the financial statements.
 - To assess the ability of the entity to pay and provide other benefits to its stakeholders.
 - To provide information about the financial position, performance and changes in financial position for making economic decisions.
- (xv) Which of the following should **NOT** be posted to the total receivables' account?
- Opening balance on the debit side.
 - Discounts allowed by credit suppliers.
 - Opening balance on the credit side.
 - Closing balance on the credit side.
- (xvi) Which of the following journal entries are correct according to their narratives?

	DR Shs	CR Shs
(a) Rent received account Suspense account Correction of error in posting Shs 24,000 cash received for rent to the rent received account as Shs 42,000.	18,000	18,000
(b) Suspense account Rent received account Correction of error in posting Shs 24,000 cash received for rent to the rent received account as Shs 42,000.	18,000	18,000
(c) B's receivables ledger account A's receivables ledger account Correction of error: cash received from B wrongly debited to A's account.	20,000	20,000
(d) B's receivables ledger account A's receivables ledger account Correction of error; cash paid to A wrongly credited to B's account.	15,000	15,000

- (xvii) R and S are in partnership sharing profits and losses equally. T joined the partnership half way into the year and it was agreed that the three partners continue to share profits and losses equally. The profit for the year amounted to Shs 900,000 accruing evenly over the year after charging a bad debt of Shs 90,000 which, it was agreed, should be borne equally by R and S only. Derive each partner's share of profits for the year?

	R	S	T
	Shs	Shs	Shs
(a)	285,000	285,000	330,000
(b)	367,500	367,500	165,000
(c)	375,000	375,000	150,000
(d)	330,000	330,000	150,000

- (xviii) What would be the double entry for the sale, on credit, of trading items for Shs 295,000 inclusive of transport charges at 18%, which are accounted for separately as transport revenue?

(a)	Debit Sales account	Shs 250,000
	Debit Transport Revenue account	Shs 45,000
	Credit Receivables account	Shs 295,000
(b)	Debit Sales account	Shs 295,000
	Credit Transport Revenue account	Shs 45,000
	Credit Receivables account	Shs 250,000
(c)	Debit Receivables account	Shs 295,000
	Credit Sales account	Shs 250,000
	Credit Transport Revenue account	Shs 45,000
(d)	Debit Receivables account	Shs 250,000
	Debit Transport Revenue account	Shs 45,000
	Credit Sales account	Shs 295,000

- (xix) The cost of putting goods into a saleable condition should be charged to:

- (a) statement of reserves.
- (b) sales.
- (c) balance sheet.
- (d) income statement.

- (xx) Which of the following is correct?

- (a) Profit reduces capital.
- (b) Capital can only come from profit.
- (c) Profit does not alter capital.
- (d) Profit increases capital.

SECTION B

Question 2

The following is the trial balance of Aspro Ltd at the end of their financial year on 31 May 2007.

	Dr Shs'000'	Cr Shs'000'
Cash in hand	6,000	
Cash at bank	12,000	
Land at cost	300,000	
Trade receivables	15,000	
Provision for bad debts		6,000
Trade payables		9,000
Sales and purchases	330,000	600,000
Discounts	6,000	3,000
Electricity	21,000	
Salaries	24,000	
Loans from directors		45,000
Long term bank-loan		90,000
Rent	5,400	
Bad debts written off	3,600	
Share capital		78,000
Carriage inwards	12,000	
Carriage outwards	6,000	
Returns	30,000	15,000
Opening inventory	3,000	
Motor vehicles at cost	30,000	
Accumulated depreciation on vehicles		6,000
Equipment at cost	60,000	
Accumulated depreciation on equipment	-	12,000
	<u>864,000</u>	<u>864,000</u>

You ascertain the following:

- (i) Closing inventory at year end was valued at Shs 20 million.
- (ii) One third of the rent paid is for the forthcoming year.
- (iii) The depreciation charge for the year on motor vehicles is Shs 2 million, and that on equipment is Shs 4 million but both have not been included in the trial balance.
- (iv) A provision against trade receivables of 20% should be made at year end.
- (v) Salaries accrued of Shs 6 million were not incorporated in the trial balance.

Required:

(a) Prepare Aspro Ltd's income statement for the year ended 31 May 2007.
(10 marks)

(b) Prepare Aspro Ltd's balance sheet as at 31 May 2007.
(10 marks)
(Total 20 marks)

Question 3

The following information was obtained from the Non-Current Assets Register of Kapyata Tours and Travel Ltd. as at 31 May 2007.

Opening balances at 1 June 2006:

Non-current assets	Cost Shs '000'	Accumulated Depreciation Shs '000'	NBV' Shs '000'
Motor vehicles	800,000	200,000	600,000

The following motor vehicles were purchased during the year:

Purchase date	Motor Vehicle Type	Cost (Shs '000')
July 2006	Land Cruiser	90,000
August 2006	Toyota Corolla	12,000
October 2006	Coaster	150,000
November 2006	Toyota Corona	18,000

The following motor vehicles proved expensive to maintain and were disposed of during the year:

Disposal date	Motor Vehicle Type	Purchase date	Cost Shs '000'	Sales Proceeds Shs '000'
October 2006	Toyota Corona	October 2003	9,000	5,000
December 2006	Mercedes Benz	January 2003	84,000	10,000
February 2007	Isuzu Mini bus	March 2006	130,000	104,000

It is the company's policy to charge depreciation at a rate of 20% per annum on cost and to charge full year depreciation in the year of purchase and none in the year of disposal.

Note: Assume that all the motor vehicle purchases and disposals take place on the last day of the given month.

Required:

Prepare the:

- (a) motor vehicles account. (4 marks)
 - (b) motor vehicles accumulated depreciation account. (7 marks)
 - (c) motor vehicle disposal account. (9 marks)
- (Total 20 marks)**

Question 4

Enter the following in a three-column cashbook, balance off the cash book at the end of the month and prepare the discount accounts in the general ledger.

- May 1 Balances brought forward: cash Shs 970,000; bank Shs 2,186,000.
- May 2 The following paid the business by cheque in each case deducting 5% cash discount; R. Janis Shs 1 million; Barbara Kisembo Shs 280,000; Perpetua Shs 180,000; Nankumbi Shs 600,000.
- May 3 Cash sales paid direct into the Bank Shs 134,000.
- May 4. Rent expense paid by cash Shs 88,000.
- May 5. Rent income received by cheque Shs 120,000.
- May 6. Paid the following accounts by cheque in each case deducting 2½% cash discounts: M. Charles Shs 400,000; H. Sagula Shs 640,000; D. Haumba Shs 200,000; R. Ndaula Shs 350,000.
- May 9. Withdrew cash from the Bank for business use Shs 250,000.
- May 10. Banked excess cash collections Shs 500,000.
- May 11. Made cash purchases Shs 100,000.
- May 12. Made cash sales Shs 206,000.
- May 13. R. Norman paid the business by cheque Shs 890,000 less 10% cash discount.
- May 15. Paid wages by cash Shs 160,000.
- May 16. The business paid Lukwago by cheque Shs 117,000 less cash discount Shs 17,000 and also paid Kakumba Shs 206,000 less cash discount of Shs 6,000.
- May 21. Bought fixtures by cheque Shs 8 million.
- May 31. Received Shs 170,000 cheque from Kasasa.

(20 marks)

SECTION C**Question 5**

Originally, businesses took on very simple forms. However, over time, the business sector experienced tremendous growth. Some partnerships had to merge in order to compete favourably. Other partnerships wound up and companies were formed that took over the business of such partnerships.

Required:

Give **ten** differences between a partnership and a limited company.

(20 marks)

Question 6

Mr. Kafeero recently set up his own business and came up with a draft trial balance at the end of his first year of trading which did not balance. He has now asked you to advise him on the extraction of a trial balance. He is particularly interested in the following points:

- (i) Errors that are revealed by the trial balance.
- (ii) Errors that are not revealed by the trial balance.
- (iii) The suspense account balances.

Required:

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

- (a) **Four** types of errors that are revealed by the trial balance. **(8 marks)**
 - (b) **Four** types of errors that are not revealed by the trial balance. **(8 marks)**
 - (c) The suspense account balances and their disclosure in the balance sheet. **(4 marks)**
- (Total 20 marks)**