

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### BUSINESS ACCOUNTING – PAPER 1

**MONDAY, 10 DECEMBER 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) Which of the following statements best describes a balance sheet?
- (a) A statement, which shows how much profit, was made.
  - (b) A list of assets and liabilities.
  - (c) A statement showing the solvency position of the organisation by disclosing its assets, liabilities and shareholders' / proprietors' funds.
  - (d) A statement showing agreements of the cash book and bank statement balances.

- (ii) The following is a list of assets and liabilities of a business at the end of an accounting period;

	<b>Shs '000</b>
Non-current assets	150,000
Payables	75,000
Bank loan	40,000
Inventory	23,000
Cash	8,500

Calculate the company's capital at that date (Assume no reserves).

- (a) Shs 158,500,000.
  - (b) Shs 138,000,000.
  - (c) Shs 115,000,000.
  - (d) Shs 66,500,000.
- (iii) In some clubs, members are allowed to become life members by making a special payment. What entry is required when life subscription is paid?
- | <b>Debit</b>                       | <b>Credit</b>                   |
|------------------------------------|---------------------------------|
| (a) Life subscription account      | Income and expenditure account. |
| (b) Life subscription account      | Receipts and payments account.  |
| (c) Receipts and payments account  | Life subscriptions account.     |
| (d) Income and expenditure account | Life subscriptions account.     |
- (iv) Which of the following accounting concepts requires that; an accountant should not anticipate revenues and profits until realised but provide for all possible losses?
- (a) Realisation.
  - (b) Prudence.
  - (c) Accrual.
  - (d) Money measurement.

- (v) ABC Ltd purchased goods worth Shs 500,000 from Sam Bemire on credit. The purchases account was duly debited with Shs 500,000 but the credit entry was made in the Sam Baize's account, a different supplier. This type of error is:
- error of complete reversal of entries.
  - error of principle.
  - compensating error.
  - error of commission.
- (vi) Which of the following are books of prime entry?
- Journal proper.
  - Sales day book.
  - Debtors ledger.
  - Private ledger.
- (i), (iii) and (iv).
  - (ii).
  - (i) and (ii).
  - (iii) and (iv).
- (vii) Ms Betty Nakku used Shs 800,000 from her business to pay for her children's medical bills. Which of the following entries are required to record the above transaction?

	<b>DR</b>	<b>CR</b>
	<b>Shs</b>	<b>Shs</b>
(a) Children's account	800,000	
Cash account		800,000
(b) Children's account	800,000	
Capital account		800,000
(c) Drawings account	800,000	
Cash account		800,000
(d) Cash account	800,000	
Drawings account		800,000

- (viii) The following information was taken from the books of Kalongo Golf Club for the year ending 30 June 2007:

	<b>Shs '000</b>
Subscriptions due at 30 June 2007	200
Subscriptions received during the year ended 30 June 2007	1,300
Subscriptions received for the year commencing 1 July 2007	450

Compute the subscriptions to be taken to income for the year ended 30 June 2007?

- Shs 650,000.
- Shs 1,550,000.
- Shs 1,050,000.
- Shs 1,950,000.

- (ix) In an accounts receivable ledger control account, which of the following lists is composed only of items which would appear on the credit side of the account?
- (a) Cash received from customers, sales returns, and bad debts written off.
  - (b) Sales, cash refunds to customers, bad debts written off.
  - (c) Discounts allowed, interest charged on overdue accounts, bad debts written off.
  - (d) Sales, cash refunds to customers, set off against purchases ledger control account.
- (x) After checking a business cashbook against the bank statement, which of the following items would require an entry in the cash book?
- (i) Bank charges.
  - (ii) A cheque from a customer which was dishonoured.
  - (iii) A cheque not presented.
  - (iv) Deposits not credited.
  - (v) Credit transfer entered in the bank statement.
  - (vi) Standing order entered in the bank statement.
- (a) (i), (iii) and (vi).
  - (b) (ii), (iv), and (vi).
  - (c) (i), (ii), (v) and (vi).
  - (d) (i), (ii), (iii) and (v).
- (xi) Dannie is a sole trader and does not maintain a full set of accounting records but wishes to calculate her sales revenue for the year. The following information is available for the year ended 31 December 2006:

Opening inventory	Shs 450,000
Closing inventory	Shs 600,000
Purchases for the period	Shs 900,000
Standard gross profit percentage on sales revenue	40%

What is the sales revenue figure for the year ended 31 December 2006?

- (a) Shs 750,000.
- (b) Shs 1,200,000.
- (c) Shs 800,000.
- (d) Shs 1,250,000.

- (xii) Which of the following is a correct sequence of the accounting cycle/ process?
- (a) From documents to journals, the ledger, trial balance and final accounts.
  - (b) From journal to documents, the ledger, trial balance and final accounts.
  - (c) From the ledger to journals, documents, final accounts and trial balance.
  - (d) From documents to the ledger, trial balance, journals and final accounts.
- (xiii) Accounting bases that have been selected by management to be appropriate for their organisation and prevailing circumstances are called accounting:
- (a) standards.
  - (b) policies.
  - (c) concepts/ conventions.
  - (d) rules.
- (xiv) A complete set of financial statements for XYZ Ltd, at 30 June 2007, would include each of the following, **EXCEPT**:
- (a) balance sheet as of 30 June 2007
  - (b) income statement for the year ended June 30 2007
  - (c) statement of projected cash flows for year ending 30 June 2007.
  - (d) notes containing additional information that is useful in interpreting the financial statements.
- (xv) The reason that both expenses and dividends are recorded by debit entries is that:
- (a) all dividend and expense transactions involve offsetting credit entries to the cash account.
  - (b) both expenses and dividends are offset against revenue in the income statement.
  - (c) both expenses and dividends reduce owner's equity.
  - (d) the statement is untrue: expenses are recorded by debits, but dividends are recorded by credits to the owner's drawing account.
- (xvi) Inventory is considered a current asset because it:
- (a) often reflects the most current trends and styles.
  - (b) is purchased during the current year.
  - (c) will be converted into cash in the current year.
  - (d) can be returned to the supplier for a cash refund.

- (xvii) Ward Company discovered that merchandise purchased on account was defective and returned this merchandise to the supplier. The entry to record this return will reduce Ward's:
- (a) sales revenue and the cost of goods sold.
  - (b) inventory and liabilities.
  - (c) inventory and cost of goods sold.
  - (d) sales revenue and liabilities.
- (xviii) Which of the following statements about bank reconciliations is correct?
- (a) Adjusted cash book balance + unpresented cheques – uncredited cheques = bank statement balance.
  - (b) Bank statement balance + unpresented cheques – uncredited cheques = cash book balance.
  - (c) Cash book balance + uncredited cheques – unpresented cheques + direct debits = bank statement balance.
  - (d) Bank statement balance + uncredited cheques – unpresented cheques – direct credits = cash book balance.
- (xix) Which of the following are prime costs?
- (a) Direct materials and direct labour.
  - (b) Direct materials and overheads.
  - (c) Direct labour and overheads.
  - (d) Direct materials, direct labour and overheads.
- (xx) If a journal entry recognizes an expense, the entry might also:
- (a) increase an asset account.
  - (b) decrease the capital account.
  - (c) decrease a liability account.
  - (d) increase a liability account.

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

Deon and Helen are in a partnership sharing profits and losses in the ratio of 3:2 respectively. The following trial balance was extracted from the partnership books on 30 June 2007:

<b>DETAILS</b>	<b>Debit (Shs '000)</b>	<b>Credit (Shs '000)</b>
Equipment at cost	6,500	
Motor Van	9,200	
Provision for Depreciation		
• M/Van		3,680
• Equipment		1,950
Inventory 30 June 2006	24,970	
Trade receivables and payables	20,960	16,274
Bank	614	
Cash	140	
Sales		90,370
Purchases	71,630	
Salaries	8,416	
Office Expenses	1,370	
Discount Allowed	564	
Current Account 30 June 2006		
• Deon		1,378
• Helen		1,212
Drawings		
• Deon	5,500	
• Helen	4,000	
Capital A/C		
• Deon		27,000
• Helen		12,000
<b>TOTAL</b>	<b><u>153,864</u></b>	<b><u>153,864</u></b>

**Additional information:**

- Inventory at 30 June 2007                      Shs 27,340,000
- Office expenses owing                              Shs 110,000
- Provision for Depreciation
  - ♦ Motor Van    20%
  - ♦ Office equipment                                      10%
- Charge interest on capital at 10% and drawings at 5% per annum.

**Required:**

Prepare the:

- (a) income statement for the partnership for the year ended 30 June 2007.  
(10 marks)
  - (b) balance sheet as at 30 June 2007.  
(10 marks)
- (Total 20 marks)**

**Question 3**

You have just taken up your job as an accountant of Global Ltd and you find out that your assistant had prepared a trial balance for the company for the month of December 2006 but it failed to balance. The total on the debit side was more than the total on the credit side by Shs 66,000. He opened a suspense account for the difference and proceeded to prepare financial statements. He reported a net profit of Shs 1,480,000. During the month of January 2007, he discovered the following mistakes which had been made in December 2006:

- (a) The purchases account had been undercast by Shs 4,000
- (b) Payment of Shs 1,110,000 by cheque for insurance was properly recorded in the cash book but was posted to insurance account by mistake as Shs 1,030,000.
- (c) A sales invoice of Shs 600,000 was not recorded in the sales day book and therefore not posted to the ledger.
- (d) The credit side of the sales account was under-added by Shs 8,000.
- (e) Motor vehicle repairs expense of Shs 100,000 was debited to motor vehicles account.
- (f) Payment of Shs 1,360,000 cash to John was properly recorded in John's account but was wrongly recorded in the cash book as Shs 1,340,000.
- (g) The book-keeper had made a mistake by debiting ledger fees of Shs 30,000 to cash book but well recorded in the ledger fees account.
- (h) Credit sale of Shs 1,200,000 to Tino was recorded by error in Tina's account.
- (i) The bank column of the cash book credit side was over-added by Shs 2,000
- (j) A credit note issued for Shs 1,600,000 was properly recorded in the customers account but wrongly recorded in the corresponding account as Shs 1,640,000.
- (k) Discount received of Shs 12,000 was debited to discount allowed account.

**Required:**

Prepare:

- (a) journal entries to correct the errors. **(10 marks)**
  - (b) a suspense account. **(5 marks)**
  - (c) a statement of corrected net profit. **(5 marks)**
- (Total 20 marks)**



**Question 4**

During the current year, James Construction disposed of pieces of property, plant and equipment in the following transactions:

- Jan. 6      Equipment costing Shs 38,500,000 was given to a scrap dealer at no charge. At the date of disposal, accumulated depreciation on the office equipment amounted to Shs 34,125,000.
- Mar. 3      James sold land and a building for Shs 1,312,500,000 for cash. James' records showed the following amounts: Land, Shs 87,500,000; Buildings, Shs 1,225,000,000; Accumulated Depreciation: Building (at the date of disposal), Shs 525,000,000.
- Jul. 10      James traded-in an old truck for a new one. The old truck had cost Shs 38,500,000, and its accumulated depreciation amounted to Shs 31,500,000. The price of the new truck was Shs 70,000,000, but James received Shs 17,500,000 trade-in allowance for the old truck and paid Shs 52,500,000 in cash. James includes trucks in its vehicles account.
- Sept. 3      James traded-in its old computer system as part of the purchase price of a new system. The old system had cost Shs 17,500,000, and its accumulated depreciation amounted to Shs 14,000,000. The new computer's list price was Shs 10,500,000. James accepted a trade-in allowance of Shs 350,000 for the old computer system, and paid off the balance immediately.

**Required:**

- (a) Prepare journal entries to record each of the disposal and acquisition transactions. (Assume that depreciation expense on each asset has been recorded up to the date of disposal). **(11 marks)**
- (b) Post the affected ledger accounts. **(7 marks)**
- (c) Distinguish between capital and revenue expenditure. **(2 marks)**
- (Total 20 marks)**

## SECTION C

### Question 5

- (a) State **four** differences between the accounts kept by profit making organisations and those kept by non-profit making organisations.  
(8 marks)
- (b) Briefly explain **four** advantages of control accounts.  
(8 marks)
- (c) There are various methods of calculating depreciation. The method employed may vary from asset to another. The depreciation method chosen by an accountant depends on the company's policy.

**Required:**

Briefly explain **four** methods that can be used to compute depreciation.

(4 marks)

(Total 20 marks)

### Question 6

- (a) To give useful information to the various stakeholders, financial statements must possess certain attributes.

**Required:**

Explain **five** qualitative characteristics of financial statements.

(10 marks)

- (b) The ultimate role of accounting is to provide information to decision makers.

**Required:**

What other roles does the accounting function play?

(10 marks)

(Total 20 marks)