

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY, 8 DECEMBER 2008

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Sections **A** and **B**, any **two** questions from Section **C** and any **one** from Section **D**.
3. Section **A** has **twenty** compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **one** compulsory question carrying 30 marks.
5. Section **C** has **three** and only **two** questions are to be attempted. Each question carries 20 marks.
6. Section **D** has **two** questions and only **one** question is to be attempted. Each question carries 10 marks.
7. Please read further instructions on the answer book.

SECTION A**Question 1**

- (i) Which of the following is calculated in a manufacturing account?
- Total cost of goods produced.
 - Production cost paid in the year.
 - Production cost of goods completed in the period.
 - Gross profit of goods sold.
- (ii) Which of the following is **odd**?
- Cash book.
 - Invoices.
 - Receipts.
 - Goods received notes.
- (iii) Which of the following is the double entry for writing off debts?
- | Debit | Credit |
|---------------------------------|------------------------------|
| (a) Receivables control account | Cash book |
| (b) Cash book | Receivables control account. |
| (c) Bad debts account | Receivables control account. |
| (d) Receivables control account | Bad debts account |
- (iv) Which of the following errors is revealed by extraction of a trial balance?
- Error of transposition.
 - Error of principle.
 - Error of commission.
 - Error of complete omission.
- (v) A total debit of Shs 200,000 appears in the electricity account in the ledger. Which of the following is a correct closing entry for that account at the end of the accounting year?

	Debit	Shs	Credit	Shs
(a)	Trading account	200,000	Electricity account	200,000
(b)	Income statement	200,000	Electricity account.	200,000
(c)	Income statement	200,000	Balance sheet.	200,000
(d)	Electricity account	200,000	Income statement	200,000

- (vi) The objective of financial statements is to show the:
- (a) accountability of management for the resources entrusted to them.
 - (b) economic resources an entity controls, its financial structure, liquidity and solvency.
 - (c) financial position, performance and changes in financial position of an entity.
 - (d) results of the stewardship of management.
- (vii) The elements directly related to the measurement of financial performance are:
- (a) assets, liabilities and equity.
 - (b) income, assets and liabilities.
 - (c) income, expenses and capital.
 - (d) income, expenses and revenue.
- (viii) Which of the following is a financial statement prepared by a club or association?
- (a) Profit and loss statement.
 - (b) Subscription in arrears account.
 - (c) Receipts and payments account.
 - (d) Annual subscriptions account.
- (ix) If goods valued at Shs 500,000 were sold to Mary on credit, which of the following is a correct entry in the general ledger accounts? (Subsidiary ledger for debtors also exists).
- (a) Debit trade receivables control account Shs 500,000; credit sales account Shs 500,000.
 - (b) Debit Mary's account Shs 500,000; credit sales account Shs 500,000.
 - (c) Debit Mary's account Shs 500,000; credit inventory account Shs 500,000.
 - (d) Debit trade receivables control account Shs 500,000; credit inventory account Shs 500,000.
- (x) Which of the following are shown in a the appropriation section of the income statement of a limited liability company?
- (i) Debenture interest.
 - (ii) Proposed dividend.
 - (iii) Transfer to reserves.
 - (iv) Directors' remuneration.

- (a) (ii) and iv).
 - (b) (i) and (ii).
 - (c) (i) and (iv).
 - (d) (ii) and (iii).
- (xi) Under **IAS 2**; inventories, trading inventory can be valued at the:
- (a) replacement cost.
 - (b) lower of cost and net realizable value.
 - (c) fair value.
 - (d) lower of fair value or replacement cost.
- (xii) Which of the following statements are **NOT** correct? A bank reconciliation statement is:
- (i) not part of the double entry system
 - (ii) part of the double entry system.
 - (iii) sent by the firm to the bank.
 - (iv) posted to the ledger accounts.
- (a) (i), (iii) and (iv).
 - (b) (i) and (ii).
 - (c) (i), (ii) and (iv).
 - (d) (ii), (iii) and (iv).
- (xiii) A sole proprietor bought a building to house the administration offices for her business. This building can be classified as;
- (a) current asset.
 - (b) non-current asset.
 - (c) current liability.
 - (d) non-current liability.
- (xiv) Which of the following statements is true?
- (a) Manufacturing profit is the profit realized from the sale of manufactured goods.
 - (b) Manufacturing profit is the profit added to the cost of manufactured goods that are transferred to the sales department.
 - (c) Manufacturing profit is a book adjustment and is never realized.
 - (d) There is no need to adjust closing inventory of goods valued at transfer price by manufacturing profit therein.

(xv) Which of the following is **NOT** a measurement base of the elements of financial statements?

- (a) Historical cost.
- (b) Going concern.
- (c) Realization value.
- (d) Present value.

(xvi) Assets are usually revalued whenever a partnership changes because:

- (a) the Partnership Act insists on it.
- (b) it helps prevent injustice to some partners.
- (c) inflation affects the value of the assets.
- (d) the revaluation represents profits of the partnership.

(xvii) What was the balance on the following account on 19 May 2008?

Dr.			J. LAZI			Cr.		
2008		Shs	2008		Shs			
May 1	Sales	205,000	May 17	Cash	300,000			
May 14	Sales	360,000	May 18	Returns	50,000			
May 30	Sales	180,000						

- (a) A debit balance of Shs 395,000.
- (b) A credit balance of Shs 215,000.
- (c) A debit balance of Shs 215,000.
- (d) A credit balance of Shs 445,000.

(xviii) The net income of a corporation should be adequate to compensate the stockholder for;

- (a) Services provided to the corporation and invested capital.
- (b) Services provided to the corporation, invested capital, and the risks of ownership.
- (c) Invested capital and the risk of losing their investment.
- (d) Risks of personal liability for business debts.

(xix) Which of the following is **NOT** an appropriation of partnership profits?

- (a) Partners' cash drawings.
- (b) Interest on partners' capital.
- (c) Partners' salaries.
- (d) Interest on partners' loan advances.

(xx) A cash discount arises where a credit customer:

- (a) buys in bulk.
- (b) asks to pay after the due date.
- (c) pays off another debt.
- (d) pays promptly.

SECTION B

Question 2

Allan owns a small business that makes and sells containers. The following trial balance was extracted from his books as at 31 May 2008.

	Dr. Shs '000'	Cr. Shs '000'
Capital and drawings	1,000	7,500
Sales		45,000
Inventories at 1 June 2007		
Raw materials	1,700	
Work in progress	500	
Finished goods	3,050	
Purchase of raw materials	9,000	
Carriage inwards	400	
Factory wages(direct)	9,250	
Office salaries	8,450	
Allan's salary and expenses	5,200	
General expenses		
Factory	600	
Office	375	
Lighting	1,250	
Rent	1,875	
Insurance	475	
Advertising	700	
Bad debts	325	
Discounts received		1,300
Carriage outwards	185	
Plant and machinery at net book value	4,550	
Motor vehicles at net book value	2,100	
Bank and cash	1,965	
Trade receivables and payables	<u>3,850</u>	<u>3,000</u>
	<u>56,800</u>	<u>56,800</u>

Additional information:

1. Inventories at 31 May 2008:

	Shs '000'
Raw materials	1,000
Work in progress	9,000
Finished goods	4,200
2. Depreciation for the year is to be charged as follows:

Plant and machinery	Shs 1,250,000.
Motor vehicles	Shs 250,000.
3. At 31 May 2008, insurance paid in advance was Shs 150,000 and office general expenses unpaid were Shs 75,000.
4. Lighting and rent are to be apportioned: $\frac{4}{5}$ factory, $\frac{1}{5}$ office.
 Insurance is to be apportioned: $\frac{3}{4}$ factory, $\frac{1}{4}$ office.
5. Allan is the entity's salesperson and his salary and expenses are to be treated as selling expenses.
6. The motor vehicles are solely used to deliver containers to customers' premises.
7. A provision for bad debts of Shs 180,000 is to be raised.

Required:

For the year ended 31 May 2008, prepare:

- (a) a manufacturing account, clearly showing the cost of raw materials consumed, prime cost and production cost of completed goods.

(10 marks)
- (b) a trading account, clearly showing the cost of sales of finished goods and the gross profit. Distinguish clearly between administrative and selling costs.

(10 marks)
- (c) The balance sheet.

(10 marks)
(Total 30 marks)

SECTION C**Question 3:**

The trial balance as at 30 April 2008 of Emro Products Ltd was balanced off by the inclusion of a balance on the suspense account of Shs 2,513,000 on the debit side.

Subsequent investigations revealed the following errors:

- (i) A credit note received for Shs 879,000 was completely omitted from records.
- (ii) Purchase of furniture of Shs 500,000 was entered in the purchases account.
- (iii) The company's mailo land was revalued from Shs 100 million to Shs 150 million by a competent valuer during the year. No entry was made in the accounts in regard to this revaluation.
- (iv) Interim dividend paid of Shs 10 million was debited to the salaries account.
- (v) Discounts received of Shs 324,000 had been posted to the debit side of the discounts allowed account.
- (vi) Salaries of Shs 2,963,000 paid In March 2008 had not been posted from the cash book.
- (vii) A payment of Shs 341,000 to Jackie Birungi in January 2008 had been posted in the personal account as Shs 143,000.
- (viii) A remittance of Shs 3 million received from Dora Bulamu, a credit customer, in April 2008 had been credited to the sales account.
- (ix) Carriage inwards of Shs 150,000 had been debited to the carriage outwards account.

Required:

Prepare journal entries, without narratives, necessary to correct each of the above errors. Prepare the suspense account after the above corrections.

(20 marks)

Question 4

Prima, Edgar and Anthony are in partnership sharing profits and losses in the ratio 3:2:1 respectively. The balance sheet for the partnership as at 30 June 2007 is as follows:

	Shs '000'	Shs '000'
Non-current assets		
Premises		90,000
Plant		37,000
Vehicles		15,000
Fixtures		<u>2,000</u>
		144,000
Current assets		
Inventory	62,379	
Receivables	34,980	
Cash	<u>760</u>	<u>98,119</u>
		<u>242,119</u>
Capital accounts		
-Prima		85,000
-Edgar		65,000
-Anthony		<u>35,000</u>
		185,000
Current accounts		
-Prima	3,714	
-Edgar	(2,509)	
-Anthony	4,678	5,883
Loan – Anthony		28,000
Current Liabilities:		
Payables	19,036	
Bank overdraft	<u>4,200</u>	<u>23,236</u>
		<u>242,119</u>

Anthony decided to retire from the business on 30 June 2007 and Ruth was admitted as a partner on that date. The following matters were agreed;

- (a) Certain assets were revalued as follows:
 - Premises Shs 120 million.
 - Plant Shs 35 million.
 - Inventory Shs 54,179,000.
- (b) Provision was to be made for doubtful debts of Shs 3 million.

- (c) Goodwill of Shs 42 million was to be recorded in the books on the day Anthony retired. The partners in the new firm did not wish to maintain a goodwill account. So, the amount was to be written off against the new partners' capital account.
- (d) Prima and Edgar were to share profits / losses in the same ratio as before, Ruth was to have the same share of profits / losses as Edgar.
- (e) Anthony was to take his car at its book value of Shs 3.9 million in part payment, the balance of all he was owed by the firm in cash except Shs 20 million which he was willing to leave as a loan to the partnership.
- (f) The partners in the new firm were to start on an equal footing insofar as capital and current accounts are concerned. Ruth was to contribute cash to bring her capital and current accounts to the same amount as the old partner from the old firm who had the lower investment in the business. The old partner, in the old firm, who had a higher investment, was to draw out cash so that his capital and current account balances equal those of the other partners.

Required:

Prepare ledger accounts to record the above transactions, including goodwill and the retiring partner's accounts.

(20 marks)

Question 5

The financial year of ABC Ltd ended on 30 April 2008. You have been able to obtain the following information for the year from the books of original entry.

	Shs
Sales	
Cash	3,448,900
Credit	2,681,870
Purchases	
Cash	144,400
Credit	4,966,000
Total cash received from customers	6,005,700
Total cash paid to suppliers	5,039,700
Cash discounts to credit customers	55,200
Cash discounts from credit suppliers	35,100
Refunds given to credit customers	50,700
Refunds received from credit suppliers	69,200
Cheques to suppliers dishonored	250,000
Balance in sales ledger off set against balance in purchases ledger	7,000
Bad debts written off	78,000
Increase in provision for bad debts	30,000
Credit notes issued to credit customers	41,400
Credit notes received from credit suppliers	50,100
Cheques from customers dishonoured	180,000

According to the audited financial statements for the previous year receivables and payables accounts balances as at 1 May 2007 were Shs 500,100 and 990,450 respectively.

Required:

Draw up the relevant total accounts entering end-of-year totals for receivables and payables.

(20 marks)

SECTION D

Question 6

The objective of general purpose financial statements is to provide information that is useful to a wide range of users in making economic decisions.

The users are categorized depending on their information needs – thus;

- Government and their agencies
- Investors
- Employees
- Bankers
- Suppliers and other trade creditors.

Required:

Briefly describe each of the above user groups and their respective information needs.

(10 marks)

Question 7

Originally, business took on very simple forms. However, with time, limited companies came into existence, because of the need to have more people investing in one business and to limit liability. This was considered a more suitable position compared to that provided by partnerships.

Required:

Give **five** differences between a partnership and a limited liability company.

(10 marks)