

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY, 15 JUNE 2009

INSTRUCTIONS TO CANDIDATES

1. **Time allowed: 3 hours 15 minutes.**
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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 equations is correct?
- (a) Assets + Capital = Liabilities.
 - (b) Capital – Liabilities = Equity.
 - (c) Assets – Liabilities = Capital.
 - (d) Assets – Capital = Equity.
- (ii) Customers' personal accounts are found in the:
- (a) general ledger.
 - (b) nominal ledger.
 - (c) receivables ledger.
 - (d) payables ledger.
- (iii) An enterprise should continue to classify its long term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the reporting period **EXCEPT** where:
- (a) the original term was for a period of more than twelve months.
 - (b) it is probable that breach of payment terms will occur within twelve months of the reporting period.
 - (c) the refinance and repayment agreement is completed before the financial statements are authorized for issue.
 - (d) the enterprise intends to refinance the obligation on a long-term basis.
- (iv) The book-keeper posted Mary's ledger with a sales invoice to Martha of Shs 300,000. What type of error is this?
- (a) Principle.
 - (b) Commission.
 - (c) Complete omission.
 - (d) Transposition.
- (v) A credit note is a document:
- (a) acknowledging a purchase on credit.
 - (b) issued when a deposit is paid on goods.
 - (c) detailing the credit worthiness of a new customer.
 - (d) which cancels out all or part of a sales invoice.

- (vi) A general ledger is a book:
- (a) which contains ledger accounts for each type of asset, liability, expense and income.
 - (b) where all transactions are originally recorded before being posted to the respective ledger accounts.
 - (c) which contains all the details of the non-current assets.
 - (d) which contains all the details of trade receivables.
- (vii) Which of the following statements regarding the net profit of a business is true?
- (a) It is ascertained by deducting the cost of sales from sales.
 - (b) It increases the equity of the business.
 - (c) It is ascertained by adding the change in net assets to capital introduced and drawings.
 - (d) It shows the owner the financial position of the business at a particular point in time.
- (viii) The double entry for a purchase on credit would be to debit:
- (a) purchases and credit trade receivables.
 - (b) inventory and credit trade payables.
 - (c) trade payables and credit purchases.
 - (d) purchases and credit trade payables.
- (ix) Which of the following would be a debit entry in a trial balance?
- (a) Rent income received.
 - (b) Rent expense unpaid.
 - (c) Rent expense paid.
 - (d) Rent expense outstanding.
- (x) Which of the following is not updated in the cash book when reconciling the cash book balance within the bank statement balance?
- (a) Errors made by the bank.
 - (b) Bank charges.
 - (c) Cheques paid in and subsequently dishonoured.
 - (d) Direct bank credits.
- (xi) The International Accounting Standard dealing with Property, Plant and Equipment is:
- (a) IAS 7.
 - (b) IAS 11.
 - (c) IAS 2.
 - (d) IAS 16.

- (xii) James commenced business with Shs 2 million. At the end of the year, his capital was Shs 7 million. His drawings amounted to Shs 500,000. During the year, he introduced more capital amounting to Shs 3 million. James, therefore, made a:
- (a) profit of Shs 2.5 million.
 - (b) loss of Shs 2.5 million.
 - (c) profit of Shs 5.5 million.
 - (d) loss of Shs 5.5 million.
- (xiii) Which of the following is **NOT** part of the financial reporting regulatory framework in Uganda?
- (a) Accounting standards.
 - (b) Companies Act.
 - (c) Financial Institutions Act.
 - (d) The Accountants Act.
- (xiv) The financial statements of a limited company are approved for issue by the:
- (a) Auditors.
 - (b) Directors/shareholders.
 - (c) Registrar of companies.
 - (d) Company lawyers.
- (xv) Which of the following statements is correct?
- (a) Financial accounting is concerned with the preparation of financial statements for internal use only.
 - (b) Management accounting focuses on the preparation of financial statements for both internal and external use.
 - (c) Financial accounting focuses mainly on external users of financial statements whereas management accounting focuses on internal users.
 - (d) Auditing is basically concerned with the preparation and examination of financial statements of a company.
- (xvi) You contacted your friend, James, with a view of sharing a business idea with him. James assures you that from his past experience, he can only accumulate his own savings and start trading by himself. What form of business does James intend to start?
- (a) Sole proprietorship.
 - (b) Partnership.
 - (c) Limited company.
 - (d) Non-profit organization.

- (xvii) Which of the following is **NOT** a base for preparing financial statements?
- (a) Going concern.
 - (b) Cash accounting.
 - (c) Accruals accounting.
 - (d) Commitment accounting.
- (xviii) Which of the following cost formulas for assigning inventories is prohibited under **IAS 2: Inventories**?
- (a) First-in, first-out.
 - (b) Weighted average cost.
 - (c) Last in, last out.
 - (d) Standard cost.
- (xix) Which of the following should **NOT** be included under 'other comprehensive income' for the year under **IAS 1: Presentation of Financial Statements**?
- (a) Gain on property valuation.
 - (b) Retained earnings.
 - (c) Foreign currency translation loss.
 - (d) Foreign currency translation gain.
- (xx) Which of the following is **NOT** a cash flow from operating activities under **IAS 7: Statement of Cash Flows**?
- (a) Cash receipts from sale of goods and rendering services.
 - (b) Cash payments to suppliers of goods and services.
 - (c) Cash payments to and on behalf of employees.
 - (d) Cash repayments of amounts borrowed.

SECTION B**Question 2**

ABC Ltd makes and sells loose tools. The following balances were extracted from the company's books on 31 December 2008.

	Shs '000'
Share capital	30,000
Sales	180,000
Inventory as at 1 January 2008:	
Raw materials	6,800
Work in progress	4,000
Finished goods	12,200
Purchase of raw materials	36,000
Carriage inwards on raw materials	1,600
Factory wages	37,000
Salesman's salary & expenses	20,800
Office salaries	33,800
General expenses:	
Factory	2,400
Office	1,500
Lighting	5,000
Rent	7,500
Insurance	1,900
Bad debts	2,800
Discounts received	3,200
Carriage outwards	750
Advertising	1,300
Plant and machinery (at cost less depreciation)	18,200
Motor car (at cost less depreciation)	8,400
Bank	7,200
Cash in hand	650
Trade payables	12,000
Trade receivables	15,400

Additional information:

1. Inventories at 31 December 2008:

	Shs '000'
Raw materials	5,800
Finished goods	10,400
Work in progress	6,000

2. Depreciation for the year is to be charged as follows:

Shs '000'

Plant and machinery 3,000

Motor car 1,000

3. At 31 December 2008, insurance paid in advance was Shs 300,000 and office general expenses owing were Shs 150,000.
4. Lighting and rent are to be apportioned: $\frac{4}{5}$ factory, $\frac{1}{5}$ office.
5. Insurance is to be apportioned: $\frac{3}{4}$ factory, $\frac{1}{4}$ office.
6. The Salesman's salary and expenses are to be treated as a selling expenses. The salesman has sole use of the motor car.

Required:

Prepare a:

- (a) manufacturing account, for the year ended 31 December 2008, showing clearly, the cost of raw materials consumed, prime cost and total cost of production of goods completed.
- (10 marks)**
- (b) statement of comprehensive income for the year ended 31 December 2008 showing clearly the cost of sales of finished goods, gross profit, administrative cost and selling cost.
- (10 marks)**
- (c) statement of financial position as at 31 December 2008.

(10 marks)

(Total 30 marks)

SECTION C**Question 3**

A & B have been in business sharing profits and losses equally. Their interest on capital was 10% and there was no interest on drawings.

On 1 April 2008, C was admitted into the business under the following terms.

- (i) New profit & loss sharing ratio to be A:50% B:30% C:20%
- (ii) C to be paid a salary of Shs 6 million per annum.
- (iii) Interest arrangements to remain the same.

The following list of balances was extracted from the firm's books as at 30 September 2008.

	Shs '000'
Inventory 1 October 2007	75,000
Sales revenue	484,400
Wages	40,000
Purchases	277,000
Overheads & training costs	47,200
Drawings:	
A	10,000
B	9,000
Capital:	
A	40,000
B	24,000
C	16,000
Non-current assets at cost	60,000
Accumulated depreciation, 1 October 2007	10,000
Trade receivables	38,000
Trade payables	24,600
Allowances for doubtful debts	1,400
Cash & balances	44,200

Additional information:

- (i) Inventories at 30 September 2008 was Shs 69.1 million.
- (ii) Accrued expenses not recorded in books were Shs 1.2 million.
- (iii) Bad debts of Shs 3 million to be written off.
- (iv) The allowance for doubtful debts is to be increased to Shs 5 million.
- (v) Depreciation charge for the year ended 30 September 2008 was Shs 8 million.
- (vi) You may assume that profits accrued evenly through out the year.

Required:

- (a) Prepare the:
- (i) partnership's trading, profit and loss and appropriation account for the year ended 30 September 2008. (5 marks)
 - (ii) partnership current account. (10 marks)
- (b) State any **five** differences between a partnership and a limited company. (5 marks)
- (Total 20 marks)**

Question 4

The following list of balances has been extracted from the books of Brown Ltd for the year ended 30 September 2008:

	Shs '000'
Sales ledger:	
Debit balance 1 October 2007	3,000
Credit balance 1 October 2007	20
Purchase ledger:	
Debit balance 1 October 2007	45
Credit balance 1 October 2007	11,874
Total credit sales	20,744
Cheques received from customers	7,500
Cash received from customers	2,236
Returns inwards	400
Bad debts written off	306
Discounts allowed	348
Cash refunded to customers who had over paid	40
Dishonoured cheques from customers	500
Sales ledger credit balance 30 September 2008	37
Interest charged to customers with overdue debts	29
Total credit purchases	39,276
Total cheques paid to suppliers	25,050
Total cash paid to suppliers	5,000
Returns outwards	398
Discounts received	480
Cash refunds from suppliers	89
Dishonoured cheques previously issued to suppliers	370
Balance on sales ledger set off against purchases ledger	2,400
Purchases ledger debit balance 30 September 2008	80
Interest paid to suppliers for overdue balances	48

Required:

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

(20 marks)

Question 5

XYZ Ltd's financial year ends 30 September. The company bought two vans; No. 1 for Shs 8 million and No. 2 for Shs 5 million on 1 October 2004. It also bought motor van No. 3 on 1 April 2006 for Shs 9 million and motor van No. 4 on 1 July 2007 for Shs 7.2 million. Motor van No. 1 was sold for Shs 2.3 million on 30 September 2007 and motor van No. 2 was sold for Shs 3.5 million on 30 June 2008. Depreciation is 20% per annum on a straight line basis, based on the actual number of months in use.

Required:

Prepare the:

(a) motor vans account.

(5 marks)

(b) provision for depreciation account.

(10 marks)

(c) motor vans disposal account.

(5 marks)

(Total 20 marks)

Note:

The motor vans account and the provision for depreciation account should be balanced off at the end of each year.

SECTION D**Question 6**

With the use of examples, explain the following as used in the preparation of a statement of cash flows under **IAS 7**: Statement of Cash Flows.

- (a) Cash flows from operating activities. **(3 marks)**
 - (b) Cash flows from investing activities. **(3 marks)**
 - (c) Cash flows from financing activities. **(2 marks)**
 - (d) Cash and cash equivalents. **(2 marks)**
- (Total 10 marks)**

Question 7

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:

- (a) Explain the underlying assumptions made when preparing financial statements. **(4 marks)**
 - (b) Explain the meaning of each of the following factors that make the information in the financial statement useful.
 - (i) Materiality **(2 marks)**
 - (ii) Relevance **(2 marks)**
 - (iii) Objectivity **(2 marks)**
- (Total 10 marks)**