

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY, 7 DECEMBER 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 is **NOT** an appropriation in partnership accounts?
 - (a) Interest on loan advances.
 - (b) Interest on drawings.
 - (c) Interest on capital accounts.
 - (d) Interest on current accounts.
- (ii) Classifying and summarizing accounting data means
 - (a) recording data so as to tell how the business has performed financially.
 - (b) computing data so as to show what resources are owned by the business.
 - (c) sorting data out so as to be most useful to the business.
 - (d) working out how much profit has been made during the period.
- (iii) What document provides proof of payment for a business transaction?
 - (a) Invoice.
 - (b) Credit note.
 - (c) Receipt.
 - (d) Debit note.
- (iv) The total of discounts received is posted to the:
 - (a) credit side of the discounts received account.
 - (b) debit side of the purchases account.
 - (c) credit side of the purchases account.
 - (d) debit side of the discounts received account.
- (v) Depreciation charge is the:
 - (a) salvage value of non-current assets at a given date.
 - (b) cost of replacing a non-current asset at the period end.
 - (c) historical cost of a non-current asset.
 - (d) cost of non-current assets consumed during the period.
- (vi) Which of the following does **NOT** comprise the cost of an item of property, plant and equipment?
 - (a) The purchase price of the item.
 - (b) The administration overhead cost of the item.
 - (c) The import duties and non-refundable purchase taxes of the item.
 - (d) The initial delivery and handling costs of the item.

- (vii) Which of the following is a change in accounting policies?
- (a) The application of an accounting policy for transactions that differ in substance from those previously occurring.
 - (b) The application of a new accounting policy for transactions that did not occur previously.
 - (c) The application of a new accounting policy for transactions that were immaterial in the previous periods.
 - (d) The adjustment of the carrying amount of an asset that results from the assessment of the present status of and expected future benefits associated with the assets.
- (viii) Gera Limited's opening total shareholders' equity was Shs 160 million. During the year, total assets increased by Shs 240 million and total liabilities increased by Shs 120 million. Gera Limited's net income for the year was Shs 180 million. No additional investments were made, but dividends were paid during the year. How much was paid in dividends?
- (a) Shs 20 million.
 - (b) Shs 60 million.
 - (c) Shs 140 million.
 - (d) Shs 220 million.
- (ix) Which of the following is **NOT** an asset?
- (a) Motor vehicles.
 - (b) Creditors for inventory.
 - (c) Rent paid for in advance.
 - (d) Computers and accessories.
- (x) Which of the following is an underlying accounting assumption?
- (a) Accruals.
 - (b) Consistency.
 - (c) Historical cost.
 - (d) Realization.

- (xi) Which of the following is not a condition necessary in order to recognize revenue from sale of goods?
- (a) The amount of revenue can be measured reliably.
 - (b) The entity retains an obligation for unsatisfactory performance not covered by normal warranty provision.
 - (c) The cost to be incurred in respect of the transaction can be measured reliably.
 - (d) It is probable that the economic benefits associated with the transaction will flow to the entity.
- (xii) A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. Which of the following is an example of separate classes?
- (a) Land and motor vehicle
 - (b) Furniture and fittings
 - (c) Buildings and office equipment
 - (d) Land and furniture.
- (xiii) Which of the following is **NOT** a condition necessary for recognizing a provision?
- (a) When no reliable estimate can be made of the amount of the obligation.
 - (b) When an entity has a present obligation as a result of a past event.
 - (c) When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.
 - (d) When a reliable estimate can be made of the amount of the obligation.
- (xiv) Which of the following is a personal account?
- (a) Wages account.
 - (b) Rent account.
 - (c) Debtors account.
 - (d) Interest account.
- (xv) Which of the following is correct?
- (a) Assets + Liabilities = Capital.
 - (b) Assets + Debt = Capital
 - (c) Capital + Liabilities = Assets
 - (d) Assets + Capital = Liabilities.

- (xvi) Which of the following best describes the meaning of sales?
- (a) Trading items sold.
 - (b) Trading items paid for.
 - (c) All items sold.
 - (d) Goods sold on credit.
- (xvii) Which of the following is correct?
- (a) Capital can only come from drawings.
 - (b) Profit is a liability of the enterprise
 - (c) Profit increases the equity.
 - (d) Profit does not alter the equity.
- (xviii) An imprest system is considered a good control of petty cash because the:
- (a) same amount will be drawn each time to replenish the petty cash.
 - (b) amount spent and the balance remaining will always total to the same amount.
 - (c) petty cash float will always be the same amount without change.
 - (d) petty cash will be drawn from the bank on a monthly basis.
- (xix) Carriage inward is charged to the trading account because it:
- (a) should be disclosed on the face of statement of financial position
 - (b) is not part of operating expense.
 - (c) is a selling and distribution cost.
 - (d) is connected to bringing the goods to their location for resale.
- (xx) The elements directly related to the measurement of the results from operating activities are:
- (a) assets and liabilities.
 - (b) equity and liabilities.
 - (c) incomes and liabilities.
 - (d) incomes and expenses.

SECTION B**Question 2**

The following list of balances was extracted from the books of the Hasall Company Ltd as at 31 May 2009:

	Shs '000'	Shs '000'
Ordinary share capital		300,000
8% preference shares		100,000
7% debentures		200,000
General reserve		241,000
Land at cost	111,000	
Buildings at cost	222,000	
Plant & machinery at cost	764,000	
Retained earnings 1 June 2008		70,000
Share premium		40,000
Inventory 1 June 2008	70,000	
Sales & purchases	330,000	580,000
Discounts allowed and received	6,400	9,200
Trade receivables & payables	96,000	54,000
Accumulated depreciation on machinery 1 June 2008		171,000
Bank balance	15,000	
Carriage inward	2,200	
Suspense account		800
Wages and salaries	64,200	
Lighting & power	5,800	
Debenture interest	14,000	
Directors remuneration	25,600	
Interim dividends:		
Ordinary	11,000	
Preference	8,000	
Allowances for doubtful debts		3,000
Other administrative expenses	<u>23,800</u>	<u>-</u>
	<u>1,769,000</u>	<u>1,769,000</u>

Additional information:

- Inventory at 31 May 2009 was valued at Shs 82 million.
- The suspense account balance of Shs 800,000 relates to cash received for the sale of some machinery on 1 June 2008. This machinery cost Shs 4 million and the depreciation accumulated thereon was Shs 3 million.
- Wages owing at 31 May 2009 amounted to Shs 300,000.

4. Depreciation is to be provided on plant and machinery at 10% on cost.
5. The other administrative expenses include insurance premium of Shs 400,000 which relates to the period 1 September 2008 to 31 August 2009.
6. The allowance for doubtful debts is agreed at 2.5% of trade receivables.
7. The directors agreed to transfer Shs 30 million to the general reserve.

Required:

Prepare a:

- (a) statement of comprehensive income for the year ended 31 May 2009 for internal use. **(10 marks)**
- (b) statement of financial position as at 31 May 2009. **(10 marks)**
- (c) statement of changes in equity. **(10 marks)**

(Total 30 marks)

SECTION C**Question 3**

The following transactions relate to G. Powell's business for the year ended 31 May 2009:

- | | | | |
|----|-------|------|---|
| 1 | June | 2008 | Started business with Shs 10 million in the bank. |
| 4 | July | 2008 | Bought office car by cheque Shs 3 million |
| 6 | Aug. | 2008 | Took Shs 1 million out of the bank and put it into the cash till being petty cash float. |
| 18 | Aug. | 2008 | Received a cash loan of Shs 7 million from Jarvis at an interest rate of 10% per annum and banked it immediately. |
| 30 | Aug. | 2008 | Brought in further cash from his own resources of Shs 4 million and banked it intact. |
| 3 | Sept. | 2008 | Bought display equipment on credit from Super Furniture Ltd for Shs 9 million. |
| 15 | Sept. | 2008 | Bought goods for resale by cheque Shs 9 million. |
| 20 | Sept. | 2008 | Sold goods on credit to D. Kaggwa & Sons Ltd for Shs 3.5 million. |
| 21 | Sept. | 2008 | Paid Shs 30,000 for business transport from petty cash. |
| 24 | Sept. | 2008 | Paid Super Furniture Ltd on account by cheque Shs 3 million |
| 30 | Oct. | 2008 | After registering for VAT, sold to N. Shambals goods for Shs 10,620,000 (inclusive of VAT at 18%) on credit. |
| 15 | Nov. | 2008 | Returned faulty equipment to Super Furniture Ltd for Shs 1 million |
| 16 | Nov. | 2008 | N. Shambals returned goods worth Shs 1,180,000 (inclusive of VAT). |

- | | | | |
|----|-------|------|---|
| 19 | Nov. | 2008 | N. Shambals paid on account Shs 5 million by cheque. |
| 22 | Nov. | 2008 | Paid rent by cheque Shs 500,000. |
| 30 | Nov. | 2008 | N. Shambals paid the balance by cheque having deducted Shs 200,000 cash discount. |
| 14 | March | 2009 | Paid Super Furniture Ltd the balance after deducting Shs 150,000 cash discount. |

Required:

Record ledger account entries in the books of G. Powell from the above transactions and balance off each ledger account.

(20 marks)

Question 4

On 31 May 2009, the bank column of Aggrey's cash book showed a debit balance of Shs 1,500,000.

Subsequently, the following discoveries were made:

1. The bank statement for May 2009 showed a credit balance of Shs 1,830,000.
2. Shs 1,400,000 from Aggrey's deposits account was transferred to the current account.
3. Investment income of Shs 240,000 had been paid directly to the bank.
4. A direct debit of Shs 70,000 for subscription had been made by the bank.
5. A standing order of Shs 400,000 for Aggrey's loan repayment had been paid in the bank.
6. Four cheques drawn in favour of KKL Shs 200,000, MM beverages Shs 90,000, AA&L traders Shs 50,000 and FPK Investments Shs 200,000 had been entered in the cashbook but not been presented for payment.
7. Cash and cheques amounting to Shs 1,380,000 had been paid into the bank on 31 May 2009 but were not credited by the bank until 2 June 2009.

Required:

- (a) Starting with the debit balance of Shs 1,500,000, bring the cashbook up-to-date and balance it off to bring the balance down on 1 June 2009.

(11 marks)

- (b) Prepare a bank reconciliation statement as at 31 May 2009.

(9 marks)

(Total 20 marks)

Question 5

A and B are in partnership sharing profits and losses equally, after A has allowed a salary of Shs 4 million per annum. No interest is charged on drawings or allowed on current accounts or capital accounts.

The list of balances of the partnership as at 31 May 2009 before adjusting for any of the items below is as follows:

	Dr Shs '000'	Cr Shs '000'
Capital accounts: A		30,000
B		25,000
Current accounts: A		3,000
B		4,000
Drawings: A	4,000	
B	5,000	
Sales revenue & purchases	103,000	200,000
Inventory 1 June 2008	30,000	
Operating expenses	64,000	
Loans at 10% p.a from A		10,000
Loan from C at 10% p.a		20,000
Land & buildings at cost	60,000	
Plant & machinery at cost	70,000	
Plant & machinery accumulated depreciation 1 June 2008		40,000
Receivables and payables	40,000	33,000
Bank balance	<u> </u>	<u>11,000</u>
	<u>376,000</u>	<u>376,000</u>

Additional information

- Closing inventory at 31 May 2009 was Shs 24 million.
- On 31 May 2009, A & B agreed to admit C into the partnership. C's loan account was to be transferred to a capital account at 31 May 2009.
In future A, B&C were to share profits equally. A would be allowed a salary of Shs 4 million as before and C would be allowed a salary of Shs 5 million per annum.
- Land & building are to be revalued to Shs 84 million and this revalued amount to be recorded in the accounts.
- Interest on the loans has not been paid.

Required:

Prepare a:

- (a) partners capital account. (5 marks)
- (b) partners current account. (5 marks)
- (c) statement of comprehensive income for the year ended 31 May 2009. (5 marks)
- (d) statement of financial position as at 31 May 2009. (5 marks)

SECTION D

Question 6

IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, is applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

Required:

Write brief notes on each of the following.

- (a) Accounting policies. (2 marks)
 - (b) Consistency of accounting policies. (2 marks)
 - (c) Changes in accounting policies. (2 marks)
 - (d) Changes in accounting estimates. (2 marks)
 - (e) Correction of prior period errors. (2 marks)
- (Total 10 marks)**

Question 7

IAS 18: Revenue, defines revenue as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Required:

- (a) Write brief notes about 'measurement of revenue'. (4 marks)
 - (b) State any conditions that have to be satisfied for revenue from sale of goods to be recognized. (6 marks)
- (Total 10 marks)**