

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING - PAPER 1

WEDNESDAY, 08 DECEMBER 2010

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, before you attempt any questions.

© 2010 Public Accountants Examinations Board

SECTION A**Question 1**

- (i) A cheque was paid to a credit supplier. The bookkeeper debited the cash book and credited the credit supplier's account. This type of error is the error of:
- (a) complete reversal of entries.
 - (b) principle.
 - (c) commission.
 - (d) compensating error.
- (ii) Which of the following is **NOT** a principal qualitative characteristic of financial statements?
- (a) Reliance.
 - (b) Consistency.
 - (c) Relevance.
 - (d) Comparability.
- (iii) Which of the following is **NOT** a classification of financial statements?
- (a) Assets
 - (b) Liabilities.
 - (c) Rent.
 - (d) Expenses.
- (iv) The following costs related to property, plant and equipment are capitalized **EXCEPT** the:
- (a) purchase price of an item of plant.
 - (b) import duties charged for equipment.
 - (c) delivery and handling costs of machinery.
 - (d) cost of repairs to buildings.
- (v) Which of the following is **NOT** a reconciling item on the bank reconciliation statement?
- (a) Cheques debited to the cash book but not on the bank statement.
 - (b) Cheques dishonoured by the bank due to insufficient balance.
 - (c) Errors made by the bank staff on the bank statement.
 - (d) Cheques credited to the cash book but not on the bank statement.

- (vi) Which of the following transactions is **NOT** necessary to record the disposal of a non-current asset?
- (a) Debit the assets disposal account and credit the asset account with the cost of the item disposed of.
 - (b) Debit the accumulated depreciation account and credit the asset disposal account with the depreciation charge to-date of the item disposed of.
 - (c) Debit the cashbook and credit the asset disposal account with the proceeds of the disposal.
 - (d) Debit the cash book and credit the sales account with the sales proceeds of the item disposed of.
- (vii) Which of the following errors would be revealed by a trial balance?
- (a) A remittance from a credit customer that has been recorded as a cash sale.
 - (b) A credit sale to Daphine that has been debited to Doreen's account.
 - (c) Discounts received which have been posted to the debit of the discounts allowed account.
 - (d) A purchase of a non-current asset has been debited to the purchases account for trading items.
- (viii) Which of the following best explains the imprest system of petty cash control?
- (a) Equal amounts of cash are transferred into petty cash at regular intervals.
 - (b) Weekly expenditure **CANNOT** exceed a set amount.
 - (c) Monthly expenditure **CANNOT** exceed a set amount.
 - (d) The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.
- (ix) The annual rent receivable is Shs 120,000. The tenant remitted a cheque for rent of Shs 150,000. Which of the following is the correct year end adjustment?
- (a) Debit rental income and credit prepaid incomes with Shs 30,000.
 - (b) Debit rental income and credit other comprehensive incomes with Shs 150,000.
 - (c) Debit rent prepaid and credit rent receivable with Shs 30,000.
 - (d) Debit rental income and credit prepaid incomes with Shs 120,000.

- (x) Which of the following equations is **NOT** correct?
- (a) $\text{Capital} = \text{Assets} - \text{Liabilities}$.
 - (b) $\text{Liabilities} + \text{Assets} = \text{Capital}$.
 - (c) $\text{Assets} - \text{Capital} = \text{Liabilities}$.
 - (d) $\text{Liabilities} + \text{Capital} = \text{Assets}$.
- (xi) Inventories should be valued at the lower of cost and net realizable value.
Which of the following accounting concepts relates to the above statement?
- (a) Historic cost.
 - (b) Realisation.
 - (c) Prudence.
 - (d) Consistency.
- (xii) The International Accounting Standard (IAS) dealing with property, plant and equipment is:
- (a) 2.
 - (b) 7.
 - (c) 16.
 - (d) 18.
- (xiii) If Shs 300,000 was credited to purchases instead of sales account:
- (a) both gross and net profit would be affected.
 - (b) only gross profit would be affected.
 - (c) only net profit would be affected.
 - (d) neither gross profit nor net profit would be affected.
- (xiv) Which of the following is **NOT** a principal source of company finance?
- (a) Trade receivables
 - (b) Trade payables.
 - (c) Preference shares
 - (d) Loan notes.
- (xv) Which document is usually sent every month from the bank to the account holder, listing all the transactions between them during that month?
- (a) Bank statement
 - (b) Credit note

- (c) Debit note
 - (d) Invoice
- (xvi) Which of the following represents the calculation of gross profit for a company whose year end is 31 December 2009?
- (a) Net profit for 2009 plus expenses for 2009.
 - (b) Purchase for 2009 plus inventory at 31 December 2009 less inventory at 1 January 2010.
 - (c) Purchases for 2009 less inventory at 31 December 2009 plus inventory at 1 January 2009..
 - (d) Cost of goods sold during 2009, plus sales for 2009.
- (xvii) Which of the following are underlying accounting assumptions?
- (a) Materiality and historic cost concepts.
 - (b) Going concern and accruals concepts.
 - (c) Prudence and consistency concepts.
 - (d) Materiality and realisation concepts.
- (xviii) Which of the following is **NOT** an appropriation in partnership accounts?
- (a) Interest on drawings.
 - (b) Interest on loan advances.
 - (c) Interest on capital accounts.
 - (d) Interest on current accounts.
- (xix) Which of the following is **ODD**?
- (a) Cash, receivables, inventory.
 - (b) Property, prepayments, receivables.
 - (c) Prepayments, receivables, bank.
 - (d) Inventory, bank, prepayments.
- (xx) The principal objective of financial statements is to:
- (a) prepare the statement of financial position and explanatory notes thereto.
 - (b) enable management carry out its planning, decision-making and control responsibilities.
 - (c) reflect different aspects of the same transactions and events in different statements.
 - (d) provide information about the financial position, performance and changes in financial position of an entity.

SECTION B**Question 2**

The list of account balances of Mukholi, a limited liability company, at 31 December 2009 is given below:

	Dr. Shs '000'	Cr. Shs '000'
Sales revenue		286,000
Purchases	180,000	
Inventory 1 January 2009	45,000	
Storage costs	8,500	
Sales person's salaries and commission	18,500	
Administration salaries	30,700	
General administration expenses	5,800	
General distribution expenses	4,900	
Directors' remuneration	8,700	
Loan interest paid	1,000	
Interim dividend paid	400	
Non-current assets at cost	180,000	
Accumulated depreciation 1 January 2009		39,000
Trade accounts receivable and payable	69,000	38,000
Allowance for doubtful debts 1 January 2009		2,000
Bank balance		40,800
10% loan notes (repayable 2020)		10,000
Issued share capital		40,000
Share premium account		13,000
Retained profits 1 January 2009		87,200
Suspense account (see note 3 below)	20,000	16,500
	<u>572,500</u>	<u>572,500</u>

The following further information should be allowed for:

1. Inventory at 31 December 2009 amounted to Shs 50 million.
2. A review of the trade accounts receivable of Shs 69 million showed it was necessary to write off debts totaling Shs 4 million, and to adjust the allowance for doubtful debts to 2% of the remaining balance.
3. Three transactions had been entered in the company's cash record and transferred to the suspense account shown in the trial balance as follows:
 - (a) A receipt of Shs 15 million from the issue of 500 Shs 10,000 ordinary shares at a premium of Shs 20,000 share.

- (b) A purchase of new equipment worth Shs 20 million was credited to the cash book and debited to the suspense account.
- (c) The sale of surplus plant that had cost Shs 10 million and had a written down value of Shs 1 million. The sale proceeds of Shs 1.5 million had been credited to the suspense account but no other entries with regard to this disposal had been made.
4. Depreciation should be charged at 10% per annum on cost at the end of the year and allocated to cost of sales.
5. Accruals and prepayments still to be accounted for are:
- | | | Prepayments
Shs '000' | Accruals
Shs '000' |
|---------------------------------|--|--|-------------------------------------|
| General administration expenses | | 700 | 1,400 |
| General distribution expenses | | 400 | 900 |
6. Included in the non-current assets is land that cost Shs 70 million and plant that costs Shs 110 million. The land is not to be depreciated.
7. Income tax for the year 2009 should be taken as Shs 5 million.

Required:

Prepare a:

- (a) statement of comprehensive income for the year ended 31 December 2009.
(12 marks)
- (b) statement of financial position as at 31 December 2009.
(9 marks)
- (c) non-current assets movement schedule showing separate columns for land, plant and equipment.
(9 marks)
(Total 30 marks)

SECTION C**Question 3**

On 1 January 2009, the accounting records of Innovative Ltd included the following balances:

	Shs '000'
Receivables ledger control account	50,000
Allowance for doubtful debts	2,000
Individual receivables ledger balances - Positives:	
A	10,000
B	20,000
C	8,000
D	9,000
E	6,000
Negatives	
F	2,000
G	1,000

The following information is provided concerning the year 2009:

Sales day book		Cash book receipts.		
Customer	Amount (Shs '000')	Customer	Amount (Shs '000')	Discount (Shs '000')
A	30,000	B	35,000	2,000
B	35,000	B	30,000	
D	18,000	C	5,000	
E	9,000	D	20,000	
F	8,000	E	12,000	
G	7,000	F	5,000	1,000
		G	4,000	

Sales return book		Bad debts to write off	
Customer	Amount (Shs '000')	Customer	Amount (Shs '000')
A	2,000	C	2,000
F	3,000		

Contra with payables ledger	
Customer	Amount (Shs '000')
E	2,000
G	<u>4,000</u>

The closing balance on the allowance for doubtful debts account is required to be 4% of debtors, plus allowance in full for any obviously doubtful specific debts.

Required:

- (a) Prepare the following for the year 2009:
- (i) Receivables ledger control account. **(4 marks)**
 - (ii) Allowance for doubtful debts account. **(2 marks)**
 - (iii) Sales ledger accounts for each customer. **(10 marks)**
- (b) Reconcile the receivables ledger control account balance with the individual ledger account balances. **(4 marks)**
- (Total 20 marks)**

Question 4

The following are the summarized statements of financial position for ABC Ltd as at 31 December

	2009 Shs '000'	2008 Shs '000'
Non-current assets		
Property, plant and equipment:		
Plant - Cost	92,000	60,000
- Depreciation	<u>(48,000)</u>	<u>(30,000)</u>
	44,000	30,000
Land :	<u>90,000</u>	<u>50,000</u>
	<u>134,000</u>	<u>80,000</u>
Current assets		
Inventory	88,000	92,000
Receivables	66,000	34,000
Bank	<u>-</u>	<u>14,000</u>
	154,000	140,000
Total assets	<u>288,000</u>	<u>220,000</u>
Equity and liabilities		
Ordinary shares	50,000	40,000
Share premium	18,000	8,000
Property revaluation reserve	16,000	10,000
Accumulated profits	<u>32,000</u>	<u>32,000</u>
Total capital and reserves	<u>116,000</u>	<u>90,000</u>
Loan notes		
10% loan notes	40,000	80,000
15% loan notes	80,000	-
Trade payables	26,000	40,000
Dividends payable	18,000	<u>10,000</u>
Bank overdraft	8,000	=
Total liabilities	<u>172,000</u>	<u>130,000</u>
Total equity and liability	<u>288,000</u>	<u>220,000</u>

Notes:

1. Any issues and redemptions of shares or loan notes accrued on 1 January 2009.
2. All loan interest is paid within the accounting year in which it is charged.
3. Dividends are declared only once a year. Dividends are always paid early in the year following that to which they relate.
4. No sale of non-current assets occurred during the relevant period.

Required:

Prepare a statement of cash flows, complying in all material respects with IAS 7: Statement of Cash Flows, highlighting the change in the bank balance during the year ended 31 December 2009.

(20 marks)

Question 5

A company had the following transactions with its product, during each of the following years:

Year 1

Opening inventory 100 units at Shs 1,000 per unit.
Purchased 100 units at Shs 900 per unit.
Purchased 120 units at Shs 800 per unit.
Sold 300 units at Shs 1,300 per unit.
Purchased 90 units at Shs 950 per unit.
Sold 50 units at Shs 1,500 per unit.

Year 2

Purchased 150 units at Shs 1,000 per unit.
Sold 160 units at Shs 1,800 per unit.
Purchased 50 units at Shs 1,200 per unit.
Sold 70 units at Shs 2,000 per unit.

Required:

Using first in first out (FIFO) and weighted average cost methods, and rounding off to the nearest shillings, calculate for each year:

- (a) Sales revenue. **(2 marks)**
- (b) Cost of closing inventory. **(4 marks)**
- (c) Cost of sales. **(10 marks)**
- (d) Gross profit. **(4 marks)**

(Total 20 marks)

SECTION D

Question 6

State **five** potential users of company published financial statements and briefly explain the likely information needs of each of the users.

(10 marks)

Question 7

You are the accountant of ABC Ltd, and the Business Manager has sent you the following message:

“While you were away, I attended a business forum. Among the topics discussed were the various forms of business. The discussant identified sole proprietorships, partnerships and limited companies among others. He left us with a handout that I will avail to you when you return. In the meantime, could you please clarify on these forms of business.”

Required:

State **ten** differentiating features between a partnership and a limited company.

(10 marks)