

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### FINANCIAL ACCOUNTING – PAPER 1

**WEDNESDAY, 16 JUNE 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.

## SECTION A

### Question 1

- (i) According to IAS 7: Statement of Cash Flows, which of the following activities would generally be regarded as a financing activity in preparing a statement of cash flows?
- (a) Dividend distribution.
  - (b) Proceeds from sale of shares of other firms.
  - (c) Loans made by the company to other businesses.
  - (d) Employee's salaries and wages paid.
- (ii) Gera Limited had 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; however, dividends did occur during the year. How much were the dividends?
- (a) Shs 20 million.
  - (b) Shs 60 million
  - (c) Shs 140 million.
  - (d) Shs 220 million.
- (iii) Ledger accounts relating to gains or losses are classified as :
- (a) real accounts.
  - (b) personnel accounts.
  - (c) nominal accounts.
  - (d) revenue accounts.
- (iv) Quink Ltd has an intangible asset, which it estimates will have a useful life of 10 years, while Parker Ltd has goodwill, which has an indefinite life. According to IAS 16: Property, Plant and Equipment, which company should report amortization in its financial statements?
- |     | <b>Quink</b> | <b>Parker</b> |
|-----|--------------|---------------|
| (a) | Yes          | Yes           |
| (b) | Yes          | No            |
| (c) | No           | Yes           |
| (d) | No           | No            |

- (v) In a not-for-profit organization, which of the following should be included in total expenses?

**Grants to other  
Organizations**

**Depreciation**

- |     |     |     |
|-----|-----|-----|
| (a) | Yes | Yes |
| (b) | Yes | No  |
| (c) | No  | No  |
| (d) | No  | Yes |

- (vi) Graphic Masters (U) Ltd determined after four years that the estimated useful life of its labeling machine should be 10 years rather than 12 years. The machine originally cost Shs 460, 000 and had an estimated salvage value of Shs 10,000. Graphic Masters (U) Ltd uses straight-line depreciation. What amount should Graphic Masters (U) Ltd report as depreciation expense for the current year?

- (a) Shs 32,000
- (b) Shs 37,500
- (c) Shs 45,000
- (d) Shs 50,000

- (vii) Which of the following is not shown on a bank statement?

- (a) Direct lodgements.
- (b) Unpresented cheques.
- (c) Direct payments by the bank on behalf of customers.
- (d) Ledger fees.

- (viii) A company purchased a POS cash register on January 1 for Shs 5,400,000. This register has a useful life of 10 years and a salvage value of Shs 400,000. What would be the depreciation expense for the third-year of its useful life using the declining-balance method?

- (a) Shs 500,000.
- (b) Shs 450,000.
- (c) Shs 405,000.
- (d) Shs 540,000.

- (ix) Working capital is a measure of:

- (a) consistency.
- (b) liquidity.
- (c) profitability.
- (d) solvency.

- (x) A firm sold one of its old lorries for cash and the book-keeper credited the sales account with the sale proceeds. This is an example of an error of:
- (a) commission.
  - (b) omission.
  - (c) principle.
  - (d) original entry.
- (xi) According to the International Financial Reporting Standards (IFRS) Framework, which of the following is an underlying assumption used in the preparation of financial statements?
- (a) Prudence.
  - (b) Substance over form.
  - (c) Accrual basis.
  - (d) Materiality.
- (xii) In the annual report, where would a financial statement reader find out if the company's financial statements give a fair depiction of its financial position and operating results?
- (a) Statement of comprehensive income.
  - (b) Notes to the financial statements
  - (c) Statement of financial position.
  - (d) Auditor's report.
- (xiii) Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
- (a) Monetary unit.
  - (b) Economic unit.
  - (c) Time period.
  - (d) Going concern.
- (xiv) Johnny's car repair shop started the year with total assets of Shs 60 million and total liabilities of Shs 40 million. During the year, the business recorded Shs 100 million in car repair revenues, Shs 55 million in expenses, and dividends of Shs 10 million. The net income reported by Johnny's car repair shop for the year was:
- (a) Shs 35 million.
  - (b) Shs 45 million.
  - (c) Shs 20 million.
  - (d) Shs 90 million.

- (xv) Which of the following is a measure of profitability of a business firm?
- (a) Current ratio.
  - (b) Debt to assets ratio.
  - (c) Return on assets ratio.
  - (d) Working capital.
- (xvi) The amount of owner's equity in a business is **NOT** affected by the:
- (a) percentage of total assets held in cash.
  - (b) investments made in the business by the owner.
  - (c) profitability of the business.
  - (d) amount of dividends paid to stockholders.
- (xvii) IAS 18: Revenue , provides that revenue should be recognized and recorded in the accounting records:
- (a) when goods are sold or services are rendered to customers.
  - (b) when cash is collected from customers.
  - (c) at the end of the accounting period.
  - (d) only when the revenue can be matched by an equal dollar amount of expenses.
- (xviii) A company has the following assets:
- 1. bicycle.
  - 2. land.
  - 3. Shs 100,000
  - 4. inventory of goods.
- If the above assets are arranged in the order of liquidity it would appear as:-
- (a) 1,2,3 and 4.
  - (b) 3,4,2 and 1.
  - (c) 3,4,1 and 2.
  - (d) 2,1,4 and 3.
- (xix) Under IAS 37: Provisions, Contingent Liabilities and Contingent Assets, when decreasing a provision, we
- (a) debit statement of comprehensive income; credit provisions account.
  - (b) debit provisions account; credit income statement.
  - (c) credit provisions account; debit reserves.
  - (d) debit reserves; credit statement of comprehensive income.

(xx) A partnership appropriation account is an account where:

- (a) current accounts are balanced.
- (b) net profit is ascertained.
- (c) partners capital contributions are entered.
- (d) profit is shared among partners.

## SECTION B

### Question 2

Alan and Brenda have been in partnership for several years, compiling their financial statements for the year ending 31 March and sharing profits in the ratio 3:2 after allowing for interest on capital accounts balances at 10% per year.

Extracts from their trial balance at 31 March 2010 are given below:

	Notes	Shs '000'
Capital accounts: Alan		150,000
Brenda		150,000
Current accounts: Alan - Cr		11,400
Brenda - Dr		7,800
Drawings: Alan		145,200
Brenda		110,700
Office equipment: cost	1	144,900
Accumulated depreciation, 1 April 2009		38,400
Inventory, 1 April 2009	2	46,800
Trade receivables	3	205,200
Provision for doubtful debts, 1 April 2009	3	11,400
Sales revenue		1,346,100
Purchases		553,800
Rent paid	4	90,000
Salaries		264,000
Insurance	5	12,000
Sundry expenses		118,200

#### Notes:

1. Office equipment should be depreciated at 20% per year on the reducing balance basis.
2. Closing inventory amounted to Shs 64,200,000.
3. Debts of Shs 7,200,000 are to be written off, and the allowance for doubtful debts is to be adjusted to 5% of trade receivables.
4. Rent paid Shs 90,000,000 is the amount for the nine months to 31 December 2009. From that date rent was increased by 10%.
5. Insurance paid in advance amounted to Shs 4,500,000.

**Required:**

- (a) Prepare the partnership's statement of comprehensive income and a statement showing the division of profit among the partners for the year ended 31 March 2010. (17 marks)
- (b) Write up the partners' current accounts for the year ended 31 March 2010. (8 marks)
- (c) List **five** points that will apply in the absence of a partnership agreement. (5 marks)
- (Total 30 marks)**

**SECTION C****Question 3**

The following figures were extracted from the ledger of M/s Amenda & Sons on 30 January 2010:

	<b>Shs '000'</b>
Purchases ledger balance at 1 January 2010	292,280
Sales ledger balance at 1 January 2010	348,500
Totals for January 2010	
Purchases journal	8,305,300
Sales journal	3,925,920
Returns outwards journal	53,680
Returns in wards journal	86,420
Cheques and cash paid to suppliers	2,833,740
Cheques and cash received from customers	3,937,000
Discounts allowed	107,600
Discounts received	41,580
Bad debts written off	8,240
Customers cheques dishonoured	800
Cash sales	1000
Cash purchases	600

**Required**

- (a) Prepare sales ledger and purchases ledger control accounts, showing clearly the total debtors and total creditors at 31 January 2010. (16 marks)
- (b) Briefly explain **four** uses of control accounts. (4 marks)
- (Total 20 marks)**

**Question 4**

- 1 April David had a balance of Shs 38,500,000 in his cash book. During April, he made payments totaling to Shs 42,000,000 and received Shs 50,000,000.
- 30 April David checked the cash book against the bank statement and found the bank balance for 1 April was Shs 51,500,000 and his total deposits were Shs 41,040,000 and withdrawals were Shs 37,000,000.

David also noticed the following:

- (a) A cheque from a debtor for Shs 14,000,000 sent to the bank on 29 April had not been recorded by the bank.
- (b) A payment of Shs 800,000 properly recorded in cash book was written on the cheque as Shs 8,000,000 and had been paid by the bank.
- (c) A cheque issued to a creditor for Shs 13,000,000 had been presented for payment in April and was included in the bank statement.
- (d) Three cheques Nos.20 - 22 for Shs 9,200,000, Shs 10,000,000, Shs 12,000,000 respectively issued during a fundraising for Young Women's Group were not on the statement but were recorded in the cash book.
- (e) There were bank charges of Shs 40,000 not yet recorded in the cash book and a dishonoured cheque of Shs 5,920,000 already recorded in the cash book.

**Required:**

- (a) Prepare adjusted cash book balance and prepare a bank reconciliation statement on 30 April.

**(16 marks)**

- (b) List **four** uses of a bank reconciliation statement.

**(4 marks)**

**(Total 20 marks)**



**Question 5**

The accounting records of XYZ, a limited liability company included the following balances at 31 March 2008:

	<b>Shs</b>
Office buildings – cost	800,000
– accumulated depreciation (10 years at 2% per year)	160,000
Plant and machinery – cost (all purchased in 2008 or later)	420,000
– accumulated depreciation (straight line basis at 25% per year)	153,000

During the year ended 31 June 2010 the following events occurred:

- 1 April 2009: It was decided to revalue the office building to Shs 1 million, with no change to the estimate of its remaining useful life.
- 1 July 2009 New plant costing Shs 100,000 was purchased.
- 1 April 2010 Plant which had cost Shs 120,000 and with accumulated depreciation at 31 March 2009 of Shs 90,000 was sold for Shs 35,000.

It is company's policy to charge a full year's depreciation on plant in the year of acquisition and none in the year of sale.

**Required:**

Prepare the following ledger accounts to record the above events:

- (a) Office building:   cost/valuation.  
                            accumulated depreciation.  
                            revaluation reserve.  
**(10 marks)**
- (b) Plant and machinery:   cost.  
                                    accumulated depreciation.  
                                    disposal.  
**(10 marks)**  
**(Total 20 marks)**

## SECTION D

### Question 6

Briefly explain **five** conditions that must be satisfied before revenue from the sale of goods can be recognized, in accordance with IAS 18: Revenue.

**(10 marks)**

### Question 7

The International Accounting Standards Board's *Framework for the Preparation and Presentation of Financial Statements* requires financial statements to be prepared on the basis that they comply with certain accounting concepts, underlying assumptions and qualitative characteristics.

#### **Required:**

Briefly explain the meaning of each of the following concepts/assumptions:

- (a) Going concern.
- (b) Matching.
- (c) Prudence.
- (d) Comparability.
- (e) Materiality.

**(10 marks)**