

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF ACCOUNTING II – PAPER 5

**THURSDAY, 16 JUNE 2011**

#### 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 attempting any question.

**SECTION A**

**Question 1**

- (i) The best accounting treatment of assets taken over by the partners while the partnership is being dissolved is to:
  - (a) charge the net book value of the assets to the partners' drawings accounts.
  - (b) credit the partnership income statement with the agreed take over value.
  - (c) debit the agreed take over value of the assets to partners' capital accounts.
  - (d) debit the market value of assets to the partners' capital accounts.
- (ii) The valuation of a promise to receive cash in the future at present value on the financial statements of a business entity is valid because of the accounting concept of:
  - (a) entity.
  - (b) materiality.
  - (c) going concern.
  - (d) neutrality.
- (iii) Which of the following items would be included in the appropriation account of a limited company?
  - (i) Interest on long-term bank loan.
  - (ii) Proposed dividend to ordinary shareholders.
  - (iii) Transfers to general reserves.
  - (iv) Remuneration of directors.
  - (a) (i) and (ii)
  - (b) (ii) and (iii)
  - (c) (i) and (iv)
  - (d) (iii) and (ii)
- (iv) Which of the following is a non-cash transaction?
  - (a) Purchase of a long-term asset paid for by an issue of ordinary shares.
  - (b) Sale of a long-term asset for cash.
  - (c) Purchase of inventory on credit.
  - (d) Sale of ordinary shares at a discount.

- (v) Which of the following is **NOT** correct about the accounting treatment of interest owing on the loan to a partner?
- (a) Interest would appear as a credit entry on the statement of comprehensive income for the partner.
  - (b) Interest would appear as a debit entry in the current account of the partner.
  - (c) Interest would appear as interest due in the statement of financial position for the partnership.
  - (d) Interest increases the share of profit to the partners.
- (vi) Musisi and Mukasa have been in partnership and have decided to dissolve the partnership. Mukasa has a debit balance and is unable to pay this balance. According to the rule in *Garner vs Murray*, this indebtedness will be cleared by:
- (a) forcing mukasa to pay by all means.
  - (b) sharing it amongst themselves in their profit sharing ratio.
  - (c) sharing it amongst themselves equally.
  - (d) by Musisi bearing the whole burden himself.
- (vii) The main purpose of a manufacturing account is to ascertain the:
- (a) gross profit.
  - (b) cost of materials used.
  - (c) cost of production.
  - (d) cost of overheads.
- (viii) If a manufacturing company has to pay royalty for every unit it produces, the royalty would be classified as:
- (a) an indirect cost.
  - (b) a direct cost.
  - (c) an overhead.
  - (d) a cost of materials.
- (ix) An alternative expression of indirect expense is:
- (a) prime cost.
  - (b) production cost.
  - (c) work in progress.
  - (d) overhead.

- (x) Which of the following is **NOT** true about bonus issues of shares?
- (a) Bonus issues are sometimes referred to as scrip issues.
  - (b) Bonus shares are issued to existing shareholders at a discount.
  - (c) Bonus shares can be issued against any reserves.
  - (d) Bonus shares are issued to existing shareholders free of charge.
- (xi) A company issued 100,000 shares of Shs 100 per share at a premium of 20%. The amount of share premium was:
- (a) Shs 200,000.
  - (b) Shs 2 million.
  - (c) Shs 10 million.
  - (d) Shs 12 million.
- (xii) Which of the following statements is **NOT** true about redemption of shares out of capital?
- (a) The company must be authorized to do so by its articles of association.
  - (b) The directors must certify that after the permissible capital payment the company will remain a going concern.
  - (c) The redemption has to be paid only out a new issue of shares.
  - (d) Auditors have to make a satisfactory report.
- (xiii) Which of the following accounting concepts suggest that an accounting transaction should be supported by evidence to allow two or more qualified persons to arrive at essentially similar measures and conditions?
- (a) Matching.
  - (b) Validity.
  - (c) Periodicity.
  - (d) Monetary.
- (xiv) Under consignment accounts, a del credere commission is commission:
- (a) for which the consignee guarantees debts.
  - (b) charged to the consignee.
  - (c) charged when the consignee pays promptly.
  - (d) paid by the consignee for the security of the goods received.

- (xv) Which of the following is **NOT** part of operating activities under IAS 7: Statement of Cash Flows?
- (a) Cash receipts from sale of goods.
  - (b) Cash receipts from fees.
  - (c) Cash from sale of property.
  - (d) Cash payments to and on behalf of employees.
- (xvi) A company had opening inventory valued at Shs 6 million and closing inventory valued at Shs 10 million. Sales for the year were Shs 80 million. The company's margin is 20%. What is the company's inventory turnover?
- (a) 6 times.
  - (b) 4 times.
  - (c) 8 times.
  - (d) 7.5 times.
- (xvii) The shareholders' funds of a limited company include all the following **EXCEPT**:
- (a) share premium.
  - (b) surplus on revaluation.
  - (c) long-term debt.
  - (d) retained profits.
- (xviii) Under the Public Finance and Accountability ACT 2003, no money shall be withdrawn from the consolidated fund except by warrant signed by the:
- (a) Minister.
  - (b) Accountant General.
  - (c) Auditor General.
  - (d) Secretary to the Treasury.
- (xix) Under the Local Governments Finance and Accounting Regulations 2007, employment costs include the following **EXCEPT**:
- (a) staff salaries.
  - (b) audit fees.
  - (c) PAYE.
  - (d) NSSF contributions.

- (xx) Which of the following best explains revenue recognition as an accounting convention?
- (a) Revenues are recognized when customers make orders for the supply of goods.
  - (b) Revenues are recognized when an invoice is raised by the supplier.
  - (c) Revenues are recognized when goods are supplied to and accepted by customers with reservations.
  - (d) Revenues are recognized when goods are supplied to and accepted by the customer.

## SECTION B

### Question 2

- (a) The following trial balance was prepared from the books of Kisija Ltd at 31 December 2010:

	Shs '000'	Shs '000'
Share capital, authorized and issued (80,000 shares of Shs 1,000 each fully paid)		80,000
5% debentures		20,000
Building at cost	50,000	
Plant at cost	35,600	
Motor vans at cost	8,500	
Provision for depreciation:		
Plant		9,750
Motor vans		3,980
Purchases	88,792	
Sales		134,689
Rent and rates	3,000	
Salaries	12,294	
General expenses	9,946	
Bad debts	349	
Provision for doubtful debts 1 January 2010		428
General reserve		10,000
Accumulated profits 1 January 2010		3,296
Debenture interest to June 2010	500	
Interim dividends paid 31 July 2010	4,000	
Trade receivables	13,294	
Trade payables		8,491
Inventory 1 January 2010	24,269	
Balance at bank	<u>20,090</u>	<u>-</u>
	<u>270,634</u>	<u>270,634</u>

Additional information:

- (i) Inventory at 31 December was valued at Shs 26,922,000.
- (ii) On 31 December 2010, rates paid in advance amounted Shs 400,000 and salaries outstanding amounted to Shs 121,000.
- (iii) Bank charges of Shs 24,000 have been made by the company's banks, but have not yet been recorded in the books.
- (iv) A total dividend for the year of 15% on issued share capital is proposed.
- (v) Debenture interest is payable half yearly on 1 January and 1 July.
- (vi) Depreciation is to be provided for as follows:
  - Plant 10% on cost
  - Motor vans 20% on cost
- (vii) Provision for doubtful debts is to be increased to Shs 462,000.

**Required:**

Prepare, Kisija Ltd's:

- (i) statement of comprehensive income for internal use for the period ended 31 December 2010.

**(12 marks)**
  - (ii) statement of financial position as at 31 December 2010.

**(12 marks)**
  - (b) Distinguish between public sector accounting and private sector accounting in Uganda

**(6 marks)**
- (Total 20 marks)**

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

- (a) Mangi has set up a manufacturing company. Explain how the following are derived.
- (i) Prime cost.
  - (ii) Cost of production.
  - (ii) Total cost.

**(6 marks)**

- (b) Mangi Ltd has provided the following information for the year ended 31 December 2010:

	Shs '000'
1 January balance b/d:	
Raw materials	100,000
Work in progress	90,000
Finished goods	105,000
During the year:	
Purchases of raw materials	855,000
Direct labour	250,000
Electricity	80,000
Other utilities	2,000
Depreciation of plant	50,000
Factory insurance	5,000
Other factory overheads	5,000
Selling expenses	200,000
General and other expenses	50,000
Sales	1,000,000
Other revenue	100,000
31 December 2010 balance c/f	
Raw materials	95,000
Work in progress	125,000
Finished goods	265,000

**Required:**

Prepare a schedule showing:

- (i) Factory overheads. **(4 marks)**
- (ii) Prime cost. **(4 marks)**
- (iii) Cost of finished goods. **(2 marks)**
- (iv) Cost of sales. **(2 marks)**
- (v) Net income for the year. **(2 marks)**

**(Total 20 marks)**



**Question 4**

Lugayi has been informed that financial ratios are very important in business.

**Required:**

- (a) List at least **four** benchmarks used for accounting ratios to be meaningful. **(4 marks)**
- (b) The following ratios have been extracted from the financial statements of Lugayi for the year ended 31 December 2010:

	Ratio	Lugayi score	Industrial average
1	Current assets / current liabilities.	6.5	2.5
2	Cash / current liabilities	0.6	0.2
3	Fixed assets / net worth	0.4	0.5
4.	Trade receivables / sales	0.08	0.1
5	Inventory / sales	6.0	4.0
6	Sales / net assets	1.3	2.0
7	Liabilities / net assets	0.7	0.1
8	Sales / fixed assets.	0.3	0.4

**Required:**

Provide an interpretation of the above ratios to Lugayi for the period ended 31 December 2010.

**(16 marks)**  
**(Total 20 marks)**

**Question 5**

Local governments especially the districts maintain their books on cash basis while urban authorities apply accrual basis of accounting.

**Required:**

- (a) In relation to government accounting, how are transactions treated under:
- cash basis. **(5 marks)**
  - accrual basis. **(5 marks)**
- (b) Balambula, one of the newly created districts, recorded the following transactions for the period ended 30 June 2010:
- Received government grants Shs 900 million.
  - Received from fees and charges Shs 800 million though Shs 200 million is yet to be received from market fees, tax and bus charges and charges for services.
  - Licenses Shs 150 million received and Shs 50 million is due for collection and invoices have been issued.

4. Purchased Nissan double cabin pick-up truck for Shs 80 million and this is to be depreciated for 5 years on straight-line basis.
5. Employment cost Shs 850 million.  
Council expenses Shs 750 million.  
Utility bills paid Shs 150 million.  
Utility bills outstanding Shs 50 million.

**Required:**

Show an extract of the revenue account, under:

- (i) cash basis.
- (ii) accrual basis

**(10 marks)**  
**(Total 20 marks)**

**SECTION D**

**Question 6**

Explain briefly each of the following accounting concepts:

- (i) Going concern.
- (ii) Realisation.
- (iii) Matching.
- (iv) Periodicity.
- (v) Cost

**(10 marks)**

**Question 7**

Write short notes on each of the following as related to statements of cash flows:

- (i) Cash equivalent.
- (ii) Cash flow.
- (iii) Operating activities.
- (iv) Investing activities.
- (v) Financing activities.

**(10 marks)**