

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

WEDNESDAY, 15 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.

SECTION A

Question 1

- (i) Which of the following calculates a trader's net profit for a period?
- (a) Closing net assets + drawings – capital introduced – opening net assets.
 - (b) Closing net assets - drawings – capital introduced + opening net assets.
 - (c) Closing net assets + drawings + capital introduced + opening net assets.
 - (d) Closing net assets – drawings + capital introduced – opening net assets.
- (ii) Which of the following is **NOT** part of the accounting regulatory framework in Uganda?
- (a) The Companies Act.
 - (b) Source documents.
 - (c) Accounting standards.
 - (d) The Financial Institutions Act.
- (iii) Which of the following is **NOT** a contra entry in the cash book?
- (a) Trade receivables set off against trade payables.
 - (b) Withdrawal of a cheque from the bank for petty cash.
 - (c) A cash sale made and banked by the cashier.
 - (d) A cheque received and cashed on the same day.
- (iv) Which of the following does **NOT** form part of financial statements?
- (a) Statement of financial position.
 - (b) Operating and financial review statement.
 - (c) Statement of cash flows.
 - (d) Notes comprising of a summary of significant accounting policies and other explanatory information.
- (v) Which of the following best explains the imprest system of petty cash control?
- (a) Weekly expenditure cannot exceed a set amount.
 - (b) All expenditure out of petty cash must be properly authorized.
 - (c) Regular equal amounts of cash are transferred into petty cash at intervals.
 - (d) The exact amount of expenditure is reimbursed at intervals to maintain a fixed float.

- (vi) A document issued by the buyer accompanying goods returned to the supplier is the:
- (a) goods received note.
 - (b) credit note.
 - (c) debit note.
 - (d) statement of faulty goods.
- (vii) Which of the following items is likely to be paid out of petty cash?
- (a) Payment for a motor vehicle.
 - (b) Payment for a computer for the office.
 - (c) Hire purchase payment for a trailer.
 - (d) Payment to a cleaner.
- (viii) Which of the following items will appear as a debit balance in ledger accounts?
- (a) Subscriptions in arrears.
 - (b) Capital.
 - (c) Subscriptions in advance.
 - (d) Bank overdraft.
- (ix) Which of the following is a record of prime entry?
- (a) Purchases invoice.
 - (b) Trial balance.
 - (c) Journal.
 - (d) Sales invoice.
- (x) Which of the following errors would be found by extracting a trial balance?
- (a) The double entries were made the wrong way round.
 - (b) A non-current asset was posted to an expense account.
 - (c) A transaction was completely omitted in the accounts.
 - (d) Different figures were entered for the debit and credit entries.
- (xi) Which of the following entries correctly record the credit purchase of furniture and equipment?
- (a) Debit the supplier's personal account; credit furniture and equipment account.
 - (b) Debit furniture and equipment account; credit the supplier's personal account.
 - (c) Debit furniture and equipment account; credit bank account.
 - (d) Debit bank account; credit furniture and equipment account.

- (xii) The double entry for bad debts written off is to debit:
- (a) bad debts account and credit sales account.
 - (b) trade receivables account and credit bad debts account.
 - (c) bad debts account and credit trade receivables account.
 - (d) sales account and credit bad debts account.
- (xiii) Which of the following would **NOT** appear in a company's statement of changes in equity?
- (a) Interest on loan notes.
 - (b) Dividends paid.
 - (c) Total comprehensive income for the year.
 - (d) Surplus on revaluation of non-current assets.
- (xiv) Which of the following is **FALSE** in relation to IAS 2: Inventories?
- (a) Selling costs are excluded from the cost of inventories.
 - (b) Inventories may be measured at cost or net realisable value depending on the preference of management.
 - (c) An entity shall use the same cost formula for all inventories of a similar nature and use to the entity.
 - (d) The financial statements shall disclose the amount of inventories recognized as an expense during the year.
- (xv)is a cheque paid out, but has not yet passed through the banking system.
- (a) A dishonoured cheque.
 - (b) An uncredited cheque.
 - (c) A standing order.
 - (d) An unpresented cheque.
- (xvi) Which of the following should be charged against profit, rather than as an appropriation of profits in a partnership?
- (a) Interest allowed on partners' capital account balances.
 - (b) Interest charged on partners' drawings.
 - (c) Interest payable to a partner on any loan received by the partnership.
 - (d) Salary payable to a partner.

- (xvii) A receipts and payments account is one in which a not-for-profit making entity:
- (a) derives its surplus or deficit for the year.
 - (b) shows its opening and closing cash balances.
 - (c) shows its revenues and expenditures.
 - (d) presents its financial position.
- (xviii) Which of the following statements is **FALSE**? An asset should be classified as a current asset when it:
- (a) is held primarily for trading purposes and expected to be realised within twelve months.
 - (b) is expected to be realized in the normal course of the organization's operating cycle.
 - (c) is a cash or a cash equivalent.
 - (d) resulted from past transactions or other past events.
- (xix) Which of the following best explains revenue recognition as an accounting convention?
- (a) Revenue is recognized when an invoice is raised by the supplier.
 - (b) Revenue is recognized when goods are supplied to and accepted by customers with reservations.
 - (c) Revenue is recognized when goods are supplied to and accepted by the customer.
 - (d) Revenue is recognized when customers make orders for the supply of goods.
- (xx) A provision should be recognized when:
- (a) a reliable estimate can be made of the amount of the obligation.
 - (b) it is probable that an inflow of resources is likely to accrue to the organisation.
 - (c) an entity has no present obligation as a result of a past event.
 - (d) the settlement of an obligation is not enforceable by law.

SECTION B**Question 2**

The following trial balance was extracted from the books of Sunami Manufacturing Ltd, for the year ended 31 May 2011.

	Shs '000'	Shs '000'
Capital account		5,484,000
Inventory at 1 June 2010:		
Raw materials	252,000	
Work in progress	168,000	
Finished goods	276,000	
Freehold premises	4,920,000	
Plant and machinery	960,000	
Depreciation on plant and machinery 1 June 2010		96,000
Cash at bank	132,000	
Purchase of raw materials	3,096,000	
Fuel and lighting	252,000	
Administration salaries	204,000	
Carriage outwards	48,000	
Factory wages	708,000	
Rent and rates	252,000	
Sales revenue		5,784,000
Sales returns	84,000	
General office expenses	108,000	
Repairs to plant and machinery	108,000	
Trade receivables and payables	240,000	444,000
Bad debts written off	11,000	
Discounts allowed and received	<u>8,000</u>	<u>19,000</u>
	<u>11,827,000</u>	<u>11,827,000</u>

Additional information:

1. Inventories at hand as at 31 May 2011 were as follows:

	Shs '000'
Raw materials	150,000
Work in progress	66,000
Finished goods	126,000

2. Depreciation of 10% per annum on a straight line basis is to be charged on plant and machinery.
3. A further bad debt of Shs 40 million is to be written off.
4. Doubtful debt provision should be at 5% of the remaining trade receivables.

5. 60% of fuel and lighting and 80% of rent and rates are to be charged to manufacturing.
6. Outstanding fuel and lighting bills amount to Shs 24 million.
7. Prepaid rent and rates amount to Shs 52 million.
8. The salesmen's salaries of Shs 49 million, to be treated as selling expenses are outstanding.

Required:

For the year ended 31 May 2011 prepare:

- (a) a manufacturing account showing prime cost and factory cost of production.

(10 marks)

- (b) an income statement distinguishing between administration and selling costs.

(10 marks)

- (c) a statement of financial position.

(10 marks)**(Total 30 marks)****SECTION C****Question 3**

A, B and C who were in partnership sharing profits and losses in the ratio 2:2:1, decided to dissolve the partnership on 31 May 2011 at which date their statement of financial position stood as follows:

	Shs '000		Shs '000
Capital accounts		Non-current assets (net book value)	
A	351,000	Freehold property	270,000
B	117,000	Equipment	<u>135,000</u>
C	<u>18,000</u>		<u>405,000</u>
	<u>486,000</u>	Current assets:	
Current accounts		Inventory	72,000
A	6,300	Trade receivables	40,500
B	(2,700)	Cash at bank	<u>18,900</u>
C	<u>1,800</u>		<u>131,400</u>
	<u>5,400</u>		
Current liabilities:			
Trade payables	27,000		
Loan – C	<u>18,000</u>		
	<u>536,400</u>		<u>536,400</u>

The partners were unable to sell the business as a going concern and disposed of the assets separately for the following sums:

	Shs '000'
Freehold property	279,000
Equipment	43,200
Inventory	26,100

Trade debtors paid their accounts in full and credit suppliers gave discounts amounting Shs 900,000. Dissolution expenses totalled Shs 7.2 million.

Required:

Prepare all relevant accounts of the partnership on dissolution.

(20 marks)

Question 4

- (a) Outline **four** factors which cause non-current assets to depreciate.

(2 marks)

- (b) Which of the factors in (a) above are responsible for the depreciation of each of the following assets:

- (i) a motor cycle.
- (ii) leasehold land.
- (iii) a petroleum well.
- (iv) a patent.

(2 marks)

- (c) Moto Taxis Ltd owns a number of minibuses which are used to transport passengers within Kampala city and the surrounding areas. Below is an extract from its statement of financial position for the year ended 31 December 2009:

	Shs '000'
Motor vehicles at cost	183,480
Less: accumulated depreciation	<u>82,440</u>
Net book value	<u>101,040</u>

The following transactions took place during the year ended 31 December 2010:

- (i) Purchased motor vehicle No. UAN 000K on 15 January 2010 at Shs 22 million and remitted the money to the supplier by electronic funds transfer.
- (ii) Purchased motor vehicle No. UAP 622Y on 2 November 2010 at Shs 24 million from Motor Sales Ltd. Shs 15 million was paid by cheque and the balance was payable on 10 January 2011.

- (iii) Motor vehicle No. UAK 999Z was disposed of on 30 June 2010 at Shs 8 million by cheque. It had cost Shs 18 million on 2 January 2007.
- (iv) Motor vehicle No. UAL 565X was involved in an accident on 31 March 2010 and was written off. It had been bought at Shs 20 million on 5 January 2008. On 15 April 2010, the insurance company paid the company Shs 10 million to compensate for the loss.

It is company policy to depreciate its motor vehicles at the rate of 20% per annum, for every month of ownership. There were no fully depreciated vehicles in the company's books of account.

Required:

Prepare the following accounts to record the above transactions for the year ended 31 December 2010:

- (i) Motor vehicles account. **(4 marks)**
- (ii) Provision for depreciation account. **(8 marks)**
- (iii) Motor vehicles disposal account. **(4 marks)**

Note: Show all your workings.

(Total 20 marks)

Question 5

The following information relates to Dannox, a trader for the year ended 31 May 2011:

Statement of Affairs at 31 May 2010

	Shs '000'
Trade payables	15,770
Rent and rates unpaid	600
Plant and machinery	10,810
Equipment	800
Inventory	8,040
Trade receivables	16,530
Bank	6,960

Analysis of Trade Receivables Ledger

	Debit Shs '000'	Credit Shs '000'
Balance b/f (1 June 2010)	16,530	
Bank		62,500
Discounts		1,500
Returns		1,450
Bad debts		420
Sales	67,210	
Balance c/f (31 May 2011)	<u>-</u>	<u>17,870</u>
	<u>83,740</u>	<u>83,740</u>

Analysis of Trade Payables Ledger

	Debit Shs '000'	Credit Shs '000'
Balance b/f (1 June 2010)		15,770
Purchases		58,000
Bank	60,270	
Discounts	700	
Returns	400	
Balance c/f (31 May 2011)	<u>12,400</u>	<u>-</u>
	<u>73,770</u>	<u>73,770</u>

Analysis of Cash Book

	Debit Shs '000'	Credit Shs '000'
Balance b/f 1 June 2010	6,960	
Capital (amounts paid in)	8,500	
Cash sales	4,600	
Trade receivables control	62,500	
Drawings		3,180
Trade expenses		950
Plant and machinery (purchases)		4,300
Trade payables control		60,270
Wages and salaries		4,250
Cash purchases		1,030
Office salaries		2,250
Rent and rates		2,120
Balance c/f 31 May 2011		<u>4,210</u>
	<u>82,560</u>	<u>82,560</u>

Additional information:

- (i) Inventory at 31 May 2011 was valued at Shs 11,120,000.
- (ii) Rent and rates unpaid and due on 31 May 2011 were Shs 340,000.
- (iii) Depreciation to be charged on plant and machinery at 20% and equipment at 10% using the reducing balance method.
- (iv) At 31 May 2011, there were balances in the trade receivables ledger of Shs 400,000 and trade payables ledger of Shs 800,000 which related to the same persons. It was agreed to settle only the net amounts.

Required:

- (a) Prepare a statement of comprehensive income for the year ended 31 May 2011. (10 marks)
- (b) Prepare a statement of financial position as at 31 May 2011. (10marks)

Total 20 marks

SECTION D

Question 6

In order to meet their objectives, financial statements are prepared in consideration of several conventions or concepts.

Required:

Briefly describe the following concepts underlying the preparation of financial statements:

- (a) Going concern. (2 marks)
- (b) Accruals. (2 marks)
- (c) Offsetting. (2 marks)
- (d) Prudence. (2 marks)
- (e) Consistency. (2 marks)

(Total 10 marks)

Question 7

A trading concern may take the form of a limited liability company.

Required:

Briefly explain the following terms in relation to limited liability companies:

- (a) Limited liability. (2 marks)
- (b) Authorised (or nominal) capital. (2 marks)
- (c) Bonus issue of shares. (2 marks)
- (d) Rights issue of shares. (2 marks)
- (e) Paid-up capital. (2 marks)

(Total 10 marks)