

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL ONE

#### PRINCIPLES OF ACCOUNTING I – PAPER 1

**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 Section **A**, any **three** questions in Section **B** and **one** question in Section **C**.
3. Section **A** has **twenty** compulsory multiple-choice questions, each carrying  $1\frac{1}{2}$  marks.
4. Section **B** has **four** questions and only **three** are to be attempted. Each question carries 20 marks.
5. Section **C** has **two** questions and only **one** is to be attempted. Each question carries 10 marks.
6. Please read further instructions on the answer booklet.

**SECTION A****Question 1**

- (i) The primary function of accounting is to:
- record economic data.
  - process financial information for decision making.
  - classify monetary business transactions.
  - reach the goals of the organisation.
- (ii) Book-keeping is mainly concerned with:
- a system of recording, classifying and summarizing financial data.
  - recording of economic data relating to business operations.
  - interpreting data for external use.
  - internal control of an organisation.
- (iii) Which of the following is **NOT** true about a debit transaction?
- An increase in assets.
  - A decrease in owner's equity.
  - A decrease in liabilities.
  - An increase in liabilities.
- (iv) Which of the following should **NOT** be called purchases?
- Items bought for the prime purpose of resale.
  - Goods for resale bought on credit.
  - Stationery for office use bought for cash.
  - Goods for resale bought for cash.
- (v) Which of the following statements is **INCORRECT**?
- Profit is another word for capital
  - A loss decreases capital.
  - Profit decreases capital.
  - Drawings decrease capital.
- (vi) What was the balance on the following account as at 31 May 2011?

Masaka A/c			
2011	Shs '000'	2011	Shs '000'
May 8	800	May 1	1,540
May 22	88	May 15	490
		May 29	356

- (a) Shs 1,698,000 debit.
  - (b) Shs 1,658,000 credit.
  - (c) Shs 1,498,000 credit.
  - (d) Shs 1,498,000 debit.
- (vii) A credit entry for net profit is shown in the:
- (a) capital account.
  - (b) statement of comprehensive income.
  - (c) statement of financial position.
  - (d) drawings account.
- (viii) A receipts and payments account does not show:
- (a) cheques paid out during the year.
  - (b) the accumulated fund.
  - (c) receipts from sales.
  - (d) bank balance.
- (ix) When the trial balance totals do not agree, the difference is entered in
- (a) the balances account.
  - (b) a suspense account.
  - (c) an errors account.
  - (d) the statement of comprehensive income.
- (x) The journal is:
- (a) part of the double entry system.
  - (b) a form of sales day book.
  - (c) a form of dairy.
  - (d) a supplement to the statement of financial position.
- (xi) In installing a new computerized accounting system, which of the following would be revenue expenditure?
- (a) Computer hardware.
  - (b) Accounting software.
  - (c) Training accounting staff to use the new system.
  - (d) Purchase of paper for the printer.
- (xii) Which of the following assets is most likely to appreciate rather than depreciate?
- (a) Fixtures and fittings.
  - (b) Motor vehicles.
  - (c) Land and buildings.
  - (d) Plant and machinery.

- (xiii) Mukama Ltd bought an asset for Shs 100 million and depreciates it using the diminishing balance method. Which of the following amounts would be the second year's depreciation charge at 10% per annum?
- (a) Shs 8.1 million.
  - (b) Shs 8 million.
  - (c) Shs 9 million.
  - (d) Shs 10 million.
- (xiv) The amount of members' subscriptions paid in advance is:
- (a) an asset.
  - (b) an expense.
  - (c) a surplus
  - (d) a liability.
- (xv) During bank reconciliation, which of the following would be entered in the cash book but **NOT** on the bank statement?
- (a) Bank charges.
  - (b) A dishonoured cheque.
  - (c) Payment into the bank not yet credited.
  - (d) A credit transfer received from a customer.
- (xvi) Which of the following are errors of principle?
- (i) Rent paid entered into the buildings account.
  - (ii) Purchases of Shs 200,000 completely omitted from the books.
  - (iii) Sale of machinery Shs 5 million entered into the sales account.
  - (iv) Cheque payment to Kabugo entered only in the cash book.
- (a) (ii) and (iii)
  - (b) (iii) and (iv)
  - (c) (i) and (ii)
  - (d) (i) and (iii)
- (xvii) The total of the sales day book is entered on the:
- (a) debit side of the sales day book.
  - (b) credit side of the sales account in the general ledger.
  - (c) debit side of the sales account in the general ledger.
  - (d) debit side of the sales day book.

(xviii) A trade discount is best described as a discount given:

- (a) if the invoice is paid.
- (b) for cash payment.
- (c) to suppliers.
- (d) to traders.

(xix) A petty cash book:

- (a) is used in the place of the cash book.
- (b) reduces the number of entries in the general ledger.
- (c) is used for small cheque payments.
- (d) is used when the cashier is too busy to enter the transactions in the cash book.

(xx) Which of the following are **NOT** personal accounts?

- (i) Trade receivables.
  - (ii) Drawings.
  - (iii) Rent.
  - (iv) Trade payables.
- (a) (iii) only.
  - (b) (i) and (iii) only.
  - (c) (i) and (iv) only.
  - (d) (ii) and (iii) only.

## SECTION B

### Question 2

- (a) Mukwasi has a hardware shop in Kikubo downtown. Recently, Uganda Revenue Authority advised him to keep proper books of accounts to help in assessing his tax liability. Mukwasi has invited you to explain some basics of accounting and help him design an accounting system.

#### **Required:**

Explain the following terms as used in accounting:

- (i) Accounting.
- (ii) Financial accounting.
- (iii) Cost accounting.
- (iv) Management accounting.

**(8 marks)**

- (b) Mukwasi provided the following list of balances from his books for the month of May 2011:

	Shs '000
Purchases for May 2011	37,000
Sales	56,000
Purchases returns	195
Sales returns	2,004
Inventory	8,850
Wages	250
Expenses	56
Discounts allowed	37
Discounts received	80
Light and heat	199
Traveling expenses	35
Repairs	19
Rent paid	450
Rent received	150
Commission received	186
Furniture and fittings	2,650
Plant and machinery	13,840
Motor vehicles	6,825
Trade receivables	676
Trade payables	12,132
Cash	1,384
Bank	4,718
Mortgage	3,000
Loan from housing finance bank	1,000
Drawings	1,750
Capital	8,000

**Required:**

Prepare a trial balance as at 31 May 2011 for Mukwasi.

**(12marks)**

**Question 3**

The following list of balances was extracted from the books of Makanya , a trader on 31 May 2011:

	Shs '000'
Capital	25,000
Land and building	9,000
Furniture fittings	1,340
Inventory at 1 June 2010	11,400
Lighting and heating	178
Drawings	5,800
Purchases	78,600
Sales	105,200
General expenses	3,602
Bank	824
Motor van	240
Discounts allowed	2,228
Discounts received	1,764
Trade receivables	9,500
Trade payables	7,650
Rates and insurance	192
Wages and salaries	14,970
Goodwill	1,200
Bad debts written off	860
Provision for bad debts 1 June 2010	320

**Additional information**

- (i) Inventory as at 31 May 2011 Shs 15,800,000.
- (ii) Rates and insurance paid in advance 31 May 2011 Shs 50,000.
- (iii) Motor van was sold for shs 80,000 cash, which Makanya retained for private use. No entry for this transaction had been made in the books.
- (iv) Goodwill is to be reduced by shs 300,000.
- (v) Lighting and heating due Shs 28,000.
- (vi) The provision for doubtful debts is to be increased to Shs 460,000.
- (vii) Provision for depreciation of furniture and fittings Shs 134,000.

**Required:**

Prepare:

- (a) a statement of comprehensive income for the period ended 31 May 2011.  
(12 marks)
  - (b) a statement of financial position for Makanya as at 31 May 2011  
(8 marks)
- (Total 20 marks)**

**Question 4**

- (a) Why should organisations open bank accounts? (4 marks)
- (b) State **four** advantages of bank reconciliation statement. (4 marks)
- (c) Below are the bank account and bank statement for Magwanzu for the last week of May 2011:

	Shs '000'		Shs '000'
May 25 b/f	285	May 29 Kato	35
May 26 John	50	May 29 Harry	72
May 28 Black	110	May 29 Roger	6
May 29 Summer	36	May 30 Rukundo	6
	<u>-</u>	May 30 bal c/f	<u>362</u>
	<u>481</u>		<u>481</u>
June 1 Balance b/f	362		

Bank Statement as at 31 May 2011

Date	Details	Dr Shs '000'	Cr Shs '000'	Balance Shs '000'
May 25	Balance			286
	Cheque		5	291
	Cheque		110	401
	Cheque	35		366
	Charges	5		361
	Credit transfer		43	404

**Required:**

Prepare:

- (a) an adjusted cash book bearing in mind that the cheques from John really was shs 5,000.
- (b) a bank reconciliation statement for Magwanzu for the week ending 31 May 2011.

(8 marks)

(Total 20 marks)



**Question 5**

- (a) Mugulusi is a trader in Kampala dealing in general merchandise. He has realised that for his business to grow he needs to form a partnership.

**Required:**

State **four** characteristics which must exist if a partnership is to be formed.

**(4marks)**

- (b) Barigye and Gregory are in partnership sharing profits and losses equally. Interest on capital is allowed at 5% per annum.

The following trial balance was extracted after the statement of comprehensive income had been completed:

	Dr Shs '000'	Cr Shs '000'
Capital accounts 1 January 2010:		
Barigye		7,000
Gregory		5,000
Current accounts 1 January 2010:		
Barigye		275
Gregory	125	
Net profit for the year ended 31 December 2010		3,600
Drawings during the year:		
Barigye	1,400	
Gregory	1,700	
Trade payables		450
Rates due		50
Premises	8,000	
Van	2,000	
Shop fittings	900	
Inventory	1,700	
Trade receivables	30	
Bank	400	
Cash at hand	60	
Insurance paid in advance	60	
	<u>16,375</u>	<u>16,375</u>

Additional information:

Depreciation written off during the year: Motor vans Shs 500,000

Shop fittings Shs 100,000

**Required:**

Prepare the:

- (i) appropriation account for Barigye and Gregory.
- (ii) current accounts for the year ended 31 December 2010.
- (iii) statement of financial position as at 31 December 2010.

**(16 marks)**

**(Total 20 marks)**

**SECTION C**

**Question 6**

List and explain any **five** types of errors which cannot be detected by the trial balance.

**(10 marks)**

**Question 7**

List and briefly explain any **five** methods of depreciation.

**(10 marks)**