

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

TUESDAY, 27 NOVEMBER 2012

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. This examination contains Sections **A**, **B**, **C** and **D**.
3. Section **A** is bound separately from Sections **B**, **C** and **D**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt the compulsory question in Section **B** carrying 30 marks.
6. Attempt **two** of the **three** questions in Section **C**. Each question carries 20 marks.
7. Attempt **one** of the **two** questions in Section **D**. Each question carries 10 marks.
8. Write your answer to each question on a fresh page in your answer booklet.
9. Please, read further instructions on the answer booklet, before attempting any question.

SECTION B

This section has one compulsory question to be attempted.

Question 2

The following trial balance was extracted from the books of ABC Ltd, a manufacturing company, as at 31 October 2012:

	Dr Shs '000'	Cr Shs '000'
Returns inwards and outwards	600	2,700
Carriage inwards	240	
Carriage outwards	113	
Discounts received and allowed	114	480
Plant and machinery at cost	57,300	
Accumulated depreciation on plant and machinery		2,730
Dividends and capital	600	45,000
Sales		54,000
Inventory 1 November 2011:		
Raw materials	1,200	
Work in progress	900	
Finished goods	1,830	
Factory wages	5,550	
Office salaries	5,070	
Salesmen's salaries and expenses	3,120	
General expenses	3,200	
Lighting expense	360	
Rent expense	225	
Insurance	750	
Bad debts written off	195	
Advertising and promotion	420	
Distribution vans at cost	32,600	
Accumulated depreciation on vans		2,520
AM Bank balance	3,733	
PM Bank balance		23,000
Cash in hand	1,000	
Trade receivables and payables	2,310	1,800
Purchases of raw materials	<u>10,800</u>	
	<u>132,230</u>	<u>132,230</u>

Additional information:

1. Inventory at 31 October 2012:
Raw materials Shs 870,000.
Finished goods Shs 2,460,000.
There was no closing work in progress.
2. Depreciation for the year is to be charged as follows:
Plant and machinery at 15% on cost.
Distribution vans at 25% on reducing balance method.
3. On 31 October 2012 insurance paid in advance was Shs 45,000 and general expenses unpaid were Shs 225,000.
4. General expenses are to be apportioned 80% factory and 20% office.
5. Lighting and rent are to be apportioned $\frac{4}{5}$ factory and $\frac{1}{5}$ office.
6. Insurance is to be apportioned $\frac{3}{4}$ factory and $\frac{1}{4}$ office.
7. Distribution vans are used for sales promotion activities and delivery of goods.
8. Manufactured goods are transferred at cost plus 15%.

Required:

Prepare ABC's Ltd's:

- (a) manufacturing account clearly showing prime cost, factory cost of production and transfer price.
(11 marks)
- (b) statement of comprehensive income for the year ended 31 October 2012 for internal use, distinguishing between gross profit on manufacturing and on trading, and administration and distribution costs.
(11 marks)
- (c) statement of financial position as at 31 October 2012.

(8 marks)

(Total 30 marks)

SECTION C

Question 3

Pio Motors Ltd operates a fleet of motor vehicles. The company's financial year ends on 30 September every year. The statement of financial position of the company as at 30 September 2011 showed motor vehicles as follows:

	Shs '000'
Motor vehicles at cost	1,113,300
Accumulated depreciation	<u>(583,668)</u>
	<u>529,632</u>

The company depreciates the motor vehicles using the straight line method over a period of five years. Depreciation is charged pro rata in the year of acquisition, but no charge is made in the year of disposal.

During the year ended 30 September 2012 the following transactions took place:

- (i) Purchase of vehicles (paid by EFT)

Vehicle No.	Date of purchase	Amount Shs '000'
016	1 October 2011	154,800
017	31 October 2011	192,600
018	28 February 2012	72,000

- (ii) Sale of vehicles

Vehicle No.	Date of sale	Amount Shs'000'	Cost Shs'000'	Date of purchase
003	31 October 2011	5,400	50,400	1 July 2008
008	31 December 2011	9,720	43,200	31 December 2009
011	31 March 2012	17,560	34,200	1 April 2010

- (iii) Included in the opening balance is motor vehicle No.001 which cost Shs 40 million and was fully depreciated on 30 September 2011, but is still in use. It is company policy to write off fully depreciated assets in the year following the one in which they are fully depreciated.

Required:

Prepare the following accounts (showing all the necessary workings):

- (a) Motor vehicles. (5 marks)
(b) Provision for depreciation on motor vehicles. (9 marks)
(c) Motor vehicles disposal. (6 marks)
(Total 20 marks)

Question 4

Vero and Tio are in partnership operating Happy Teens Nursery School, and share profits and losses in the ratio of 3:2, respectively. Below is the school's trial balance as at 31 December 2011:

	Dr Shs 000s	Cr Shs 000s
Capital accounts: Vero		90,000
Tio		60,000
Current accounts: Vero		37,200
Tio		22,800
Furniture and fittings	22,400	
Library books	5,200	
Admission fees		3,500
School fees receipts		235,000
Salaries and wages	68,900	
Meals	82,072	
Payables		12,000
Commission on sale of uniforms		3,680
Accumulated depreciation 1 Jan 2011:		
Furniture and fittings		6,420
Library books		2,100
Donations		40,000
Other income		7,600
Rent and utilities	90,600	
Stationery	32,488	
Transport costs	15,200	
General expenses	27,100	
15% investment (1 year)	120,000	
Bank balance	37,140	
Cash balance	600	
Drawings: Vero	10,200	
Tio	8,400	
	<u>520,300</u>	<u>520,300</u>

Additional information:

- (i) The school has 210 pupils, each paying school fees of Shs 1,110,000 per annum (comprising of 3 terms). In November 2011, 20 pupils paid their school fees for the first term of 2012 at the rate of Shs 380,000 each,

while some pupils were in arrears at 31 December 2011. All the arrears are receivable in 2012.

- (ii) The investment was made on 1 April 2011 for a period of one year. Interest is receivable on maturity.
- (iii) At 31 December 2011, utilities expenses of Shs 1,180,000 were unpaid, while stationery of Shs 920,000 was unused. These transactions had not yet been accounted for.
- (iv) Donations were of a revenue nature.
- (v) Depreciation is charged on cost at the rate of 10% per annum on furniture and fittings, and 20% per annum on library books.
- (vi) The partners maintain fixed capitals and earn interest on their capital contributions at the rate of 5% per annum.

Required:

Prepare:

- (a) The school fees account for the year 2011. **(2 marks)**
 - (b) Income statement for the year ended 31 December 2011. **(9 marks)**
 - (c) Partners' current accounts, in columnar form. **(2 marks)**
 - (d) Statement of financial position as at 31 December 2011. **(7 marks)**
- (Total 20 marks)**

Question 5

Kabate started business on 1 September 2011 as a sole proprietor. He had the following balances on 1 September 2012:

	Shs'000'
Motor van	9,000
Fixtures and fittings	12,000
Inventory	25,780
Trade payables:	
Bakuru	1,200
Regina	4,000
Trade receivables:	
Lakeri	800
Maido	3,600
Dodo	300
Cash at bank	25,080
Cash in the till box	900

Required:

- (a) Construct Kabate's opening statement of affairs as at 1 September 2012. **(4 marks)**
- (b) The following transactions transpired during the month of September 2012:
- September 1 Paid rent by cheque Shs 1,300,000.
 - September 2 Bought goods on credit from Bakuru Shs 1,520,000 and Regina Shs 2,140,000.
 - September 3 Sold goods on credit to Lakeri Shs 4,640,000 and Mado Shs 4,120,000.
 - September 14 Paid motor expenses in cash Shs 260,000.
 - September 15 Cash drawings Shs 340,000.
 - September 26 Goods returned by Lakeri Shs 320,000 and Mado Shs 360,000.
 - September 27 Settled the accounts of Bakuru and Regina by cheque less 5% cash discount.
 - September 28 Paid salaries by cheque Shs 1,120,000.
 - September 29 Lakeri settled her account in full by cheque.
 - September 29 The debt from Dodo proved irrecoverable and was written off.
 - September 30 Bought another motor van paying by cheque Shs 10,000,000.

Required:

- (i) Post the above transactions in the respective ledger accounts. **(12 marks)**
- (ii) Extract a trial balance as at 30 September 2012. **(4 marks)**
- (Total 20 marks)**

SECTION D

Question 6

Distinguish between:

- (a) capital expenditure and revenue expenditure. **(4 marks)**
- (b) statement of cash flows, and statement of profit or loss and other comprehensive income. **(6 marks)**

(Total 10 marks)

Question 7

Identify and briefly explain any **five** errors that do not affect the agreement of a trial balance.

(10 marks)