

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

TUESDAY, 19 JUNE 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 in a separate 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 ledger of Tasha Ltd for the financial year ended 31 December 2011:

| Particulars | Notes | Dr | Cr |
|-----------------------------------|-------|----------------|----------------|
| | | Shs '000' | Shs '000' |
| Ordinary share capital | | | 50,000 |
| Land at cost | | 24,000 | |
| Motor vehicle at cost | 1 | 14,800 | |
| Furniture at cost | 1 | 5,600 | |
| Accounts receivable & payable | | 32,800 | 17,000 |
| Bank balance | | 15,800 | |
| Inventory, 1 January 2011 | | 24,000 | |
| 20% bank loan | | | 25,000 |
| Purchases and sales | | 96,000 | 131,600 |
| Returns | | 1,200 | 5,400 |
| Salaries | 5 | 24,000 | |
| General expenses | | 7,000 | |
| Bad debts | 2 | 1,200 | |
| Provision for bad debts | 3 | | 4,200 |
| Commission received | | | 13,600 |
| Discounts | | 2,400 | 5,000 |
| Accumulated depreciation: | | | |
| Furniture | | | 360 |
| Motor vehicle | | | 440 |
| Retained earnings, 1 January 2011 | | | 13,680 |
| Rent | 6 | 10,000 | |
| Electricity | | <u>7,480</u> | |
| | | <u>266,280</u> | <u>266,280</u> |

Notes:

1. The company charges depreciation on cost, at the rate of 10% on furniture and 20% on motor vehicle, per annum.
2. Bad debts of Shs 800,000 were written off on 30 December 2011 but have not yet been accounted for.
3. Provide for bad debts at the rate of 10% per annum.
4. Inventory at the 31 December 2011 was valued at Shs 29,400,000.

5. Salaries to the tune of Shs 2,400,000 had not yet been paid and had been omitted from the company's books.
6. 20% of the rent paid was for the following financial year.
7. The bank loan was obtained on 1 July 2010 for a period of 5 years. Interest is payable at the end of each financial year, but has not yet been accounted for.

Required:

- (a) Journalize the adjustments. (Ignore narrations)
(8 marks)
 - (b) Prepare the company's statement of comprehensive income for the year ended 31 December 2011.
(11 marks)
 - (c) Prepare the company's statement of financial position as at 31 December 2011.
(8 marks)
 - (d) Briefly explain how the accruals and going concern concepts have affected the preparation of the statements, in (b) and (c) above.
(3 marks)
- (Total 30 marks)**

SECTION C

Attempt two of the three questions in this section.

Question 3

Below is the receipts and payments account of Palabek Community Hospital as at 31 December 2011:

| | Shs '000' | | Shs '000' |
|-----------------------|------------------|---------------------------|------------------|
| Balance b/f | 880,500 | Patient care costs | 1,460,000 |
| Fees from patients | 2,812,000 | Employee costs | 2,263,000 |
| Grants & donations | 3,000,000 | Outreach programme | |
| Training fees | 730,000 | expenses | 1,888,000 |
| Investment income | 230,700 | Fuel & transport | 236,000 |
| Sale of motor vehicle | 15,000 | Insurance & rates | 234,000 |
| Development fund | 100,000 | Building & equipment | |
| | | expenses | 504,000 |
| | | Audit & consultancy fees | 87,000 |
| | | General administration | |
| | | costs | 378,800 |
| | | New computers & | |
| | | equipment | 60,000 |
| | | Transfer to fixed deposit | |
| | | account | 300,000 |
| | - | Balance c/f | <u>357,400</u> |
| | <u>7,768,200</u> | | <u>7,768,200</u> |
| Balance b/f | 357,400 | | |

Palabek Community Hospital had the following balances at 31 December:

| | 2011 | 2010 | Accumulated Depreciation 2010 |
|-----------------------------------|-----------|-----------|-------------------------------------|
| | Shs '000' | Shs '000' | Shs '000' |
| Freehold land at cost | 800,000 | 800,000 | Nil |
| Buildings at cost | 1,500,000 | 1,500,000 | 30,000 |
| Motor vehicles at cost | ? | 300,000 | 150,000 |
| Computers & equipment at cost | 330,000 | 270,000 | 147,500 |
| Furniture & fittings at cost | 490,000 | 490,000 | 327,500 |
| Investment in treasury bonds | 925,000 | 925,000 | |
| Fixed deposit account | 800,000 | 500,000 | |
| Receivables | 198,000 | 132,000 | |
| Prepaid insurance & rates | 66,000 | 48,000 | |
| Accumulated fund | ? | 3,396,500 | |
| Development fund | ? | 1,350,000 | |
| Accrued patient care costs | 210,000 | 266,000 | |
| Training fees received in advance | 284,000 | 178,000 | |

Additional information;

- (i) Depreciation is charged on a straight line basis at the following annual rates:

| | |
|-----------------------|-----|
| Buildings | 2% |
| Motor vehicles | 20% |
| Computers & equipment | 25% |
| Furniture & fittings | 10% |
- (ii) On 31 March 2011, a motor vehicle which had cost Shs 35,000,000 on 1 February 2008 was disposed of. Its accumulated depreciation at the time of sale was Shs 21,000,000. The transaction was only recorded in the receipts and payments account.
- (iii) All the receivables are in respect of fees from patients. No provision for bad debts has been made because the patients are guaranteed by SACCOs and none of them defaults.
- (iv) The investment in treasury bonds was made on 2 January 2010 for a period of 5 years.

Required:

Prepare the following for Palabek Community Hospital for the year ended 31 December 2011 (showing all the relevant workings):

(a) Statement of income and expenditure.

(13 marks)

(b) Statement of financial position.

(7 marks)

(Total 20 marks)

Question 4

The following data were obtained from the books of Smarties Ltd, a manufacturer, as at 31 December 2011:

| | Shs' 000s |
|---|-----------|
| Raw material purchases | 200,000 |
| Indirect materials | 20,000 |
| Carriage on materials | 2,000 |
| Direct labour cost | 450,000 |
| Raw material returns | 4,500 |
| Carriage outwards | 30,000 |
| Other overheads | 135,000 |
| Lighting | 35,000 |
| Power for production machines | 145,000 |
| Indirect labour costs | 45,000 |
| Office salaries | 77,000 |
| Administration expenses | 125,000 |
| Sales | 4,210,000 |
| Advertising | 14,000 |
| Provision for bad debts, 1 January 2011 | 14,500 |
| Bank charges | 2,950 |
| Delivery van expenses | 8,500 |
| Discounts allowed | 4,500 |
| Depreciation: | |
| Motor vehicle | 2,500 |
| Furniture | 3,500 |
| Fittings | 6,500 |

The following additional information was provided:

| 1. | Inventory | 1 January 2011 | 31 December 2011 |
|----|------------------|----------------|------------------|
| | | Shs '000' | Shs '000' |
| | Raw materials | 50,000 | 35,000 |
| | Work in progress | 25,000 | 10,000 |
| | Finished goods | 20,000 | 23,000 |

2. The production machines had the following balances at 1 January 2011:

| | |
|--------------------------|----------------|
| | Shs' 000' |
| Cost | 800,000 |
| Accumulated depreciation | <u>464,000</u> |
| Net book value | <u>336,000</u> |

A machine which had cost Shs 100 million on 1 February 2009 was disposed of during the year at Shs 32 million. This transaction had not yet been accounted for in Smarties Ltd's books.

The firm depreciates its production machines at the rate of 40% per annum on the reducing balance basis.

3. Shs 150 million payable for power for the production machines had not yet been accounted for.
4. Lighting was apportioned as follows: factory $\frac{3}{4}$, office $\frac{1}{4}$.
5. 70% of other overheads relate to the office while the balance to the factory.
6. Bad debts provision should be increased to Shs 16 million.
7. Advertising expenses of Shs 1 million were prepaid.
8. Manufactured goods are transferred at factory cost plus mark-up of 20% to cater for factory profit. (Ignore provision for unrealized profits).

Required:

Prepare Smarties Ltd's:

- (a) manufacturing cost statement. (8 marks)
- (b) statement of profit or loss and other comprehensive income for the year ended 31 December 2011.

(12 marks)
Total (20 marks)

Question 5

You are an audit assistant at a CPA firm. During the audit of Kwakabale General Traders (KGT) for the year ending 31 December 2011 you discovered the following errors:

- (i) Discounts received of Shs 3,230,000 had been debited to the discounts allowed account.
- (ii) A loss on the sale of equipment of Shs 1,310,000 had not been accounted for in the books of account.
- (iii) Bad debts recovered from Patron Ltd of Shs 9,500,000, had been reflected in the bank statement but had not been accounted for in the KGT's books. The debt had been written off on 31 December, 2009. The business tracks the credit history of its debtors.
- (iv) The sales daybook for June 2011 had been overcast by Shs 7,000,000.
- (v) In November 2011, the purchases daybook was undercast by Shs 5,680,000.
- (vi) Drawings of goods worth Shs 1,200,000 had not been accounted for.
- (vii) Goods purchased on credit for Shs 6,755,000 from Grace Asea had been credited to Gracia Acen's account as Shs 6,507,000.
- (viii) Shs 1,560,000 incurred on repairs of Mrs. Kwakabale's personal motor car had been entered in the motor vehicles' expenses account.
- (ix) The total of sales returns of Shs 1,500,000 for April 2011 had been credited to the returns outwards account.
- (x) Rent for January 2012 of Shs 1,770,000 had been expensed in 2011.

The statement of comprehensive income showed a profit of Shs 164 million before tax.

Required:

Prepare:

- (a) Journal entries to correct the above errors. (Ignore narrations). **(12 marks)**
 - (b) A suspense account. **(4 marks)**
 - (c) A statement of corrected net comprehensive income. **(4 marks)**
- (Total 20 marks)**

SECTION D

Attempt one of the two questions in this section.

Question 6

Mrs. Jane Wandera of P.O. Box 40222, Tororo is desirous of forming a partnership business with her friends. She has approached you, Hope Mukisa, of P.O. Box 12020, Jinja to advise her on accounting issues to be contained in a partnership deed.

Required:

Prepare a letter advising Mrs Jane Wandera of at least **eight** clauses they should include in the partnership deed.

(10 marks)

Question 7

- (a) With relevant examples, explain the enhancing qualitative characteristics of accounting information needed by different users for decision making.

(6 marks)

- (b) Give **four** benefits of a statement of cash flows to a business.

(4 marks)

(Total 10 marks)