THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING - PAPER 1

MONDAY 26 NOVEMBER, 2018

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** and **B.**
3. Section **A** is bound separately from Section **B**.
4. Attempt all the 20 multiple–choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **four** of the **five** questions in Section **B**. Each question carries 20 marks.
6. Write your answer to each question on a fresh page in your answer booklet.
7. Please, read further instructions on the answer booklet, before attempting any question.

SECTION B

Attempt four of the five questions in this section.

Question 2

The following information was extracted from the books of Super Hardware Enterprises (SHE) for year ending 31 December, 2017:

Account title	1 January	31 December
	Shs '000'	Shs '000'
Bank	(26,000)	52,400
Cash	19,200	8,700
Equipment at net book value	120,000	?
Computers at cost	5,900	?
Motor vehicles at cost	48,000	?
Furniture & fittings at cost	6,600	?
Inventory	34,000	56,000
Accounts payable	12,800	4,600
Accounts receivable	7,800	4,300
Prepaid rent expense (expiring 31 March, 2017)	2,400	-
Advance rental income	1,020	4,800
Accrued salaries & fringe benefits	16,600	3,800
Capital	187,480	?

During the year:

1. Goods were sold at a profit of 20% of sales.
2. Cash sales and cash purchases were Shs 31 million and Shs 28 million respectively. Credit purchases for the year amounted to Shs 44 million.
3. All collections from debtors and all payments to creditors were effected in cash and through the bank respectively.
4. Other bank transactions during the year included:

	Shs '000'
Rent	14,000
Insurance (1 October, 2017 to 30 September, 2018)	8,400
Salaries & fringe benefits	34,000
Utilities	4,200
Rental income	12,000

6. The proprietor made drawings in cash and from the bank of Shs 48,500,000 and Shs 20,800,000 respectively.

7. The business obtained a 3 year bank loan Shs 200 million at end of the year. The money was deposited into the business bank account.
8. The business depreciates its non-currents assets, per annum, as follows:

Asset	Rate
Equipment	20% (reducing balance)
Computers	25% (on cost)
Motor vehicle	20% (on cost)
Furniture and fittings	5% (on cost)

Required:

Prepare, for SHE for the year ended 31 December, 2017 a statement of:

(a) profit or loss **(13 marks)**

(b) financial position as at 31 December. **(7 marks)**

(Total 20 marks)

Question 3

Nambozo and Nakku started a partnership business trading as Home Choice Traders, manufacturing and selling household plastic items. They have been in business since 1 January, 2016. Nambozo and Nakku share profits in the ratio of 3:2 respectively. The following trial balance was prepared from the books of Home Choice Traders as at 31 December, 2017:

	Shs '000'	Shs '000'
Capital accounts:		
Nambozo		200,000
Nakku		165,000
Inventories 1 January, 2017:		
Raw materials	152,000	
Work in progress	68,000	
Finished goods	144,000	
Sales		852,000
Purchases of raw materials	519,706	
Carriage on raw materials	732	
Plant & machinery at cost	101,000	
Land & factory premises at cost (land Shs 73,380,000)	153,380	
Factory motor vehicle (acquired 1 July, 2017)	28,500	
Factory furniture & fittings (acquired 1 July, 2017)	8,400	
Environmental impact assessment cost	5,000	
Sales returns	1,670	
Advertising	1,400	
Administrative staff salaries	17,600	
Factory direct wages	16,800	
Rent & lighting	28,600	
Manufacturing & trading licences	10,000	
Insurance	7,900	
Provision for depreciation:		
Plant & machinery		20,200
Premises		6,400
Repairs of plant & machinery	5,000	
Trade receivables & payables	35,100	77,388
Discounts received on raw material purchases		7,800
Trade fair expenses	4,000	
Bank balance	20,000	-
	1,328,788	1,328,788

Additional information at 31 December, 2017:

1. Inventories:

	Shs '000'
Raw materials	80,000
Work in progress	44,000
Finished goods	128,000

2. Accrued expenses:

	Shs '000'
Factory direct wages	2,000
Rent & lighting	1,500

3. Apportionment of expenses:

	Factory	Office
Lighting & rent	80%	?
Insurance	?	¼

4. Depreciation of non-current assets (time apportioned).

Asset	Rate per annum
Motor vehicles	10% (on cost)
Plant & machinery	20% (reducing balance)
Furniture & fittings	5% (on cost)
Premises	8% (reducing balance)

5. Manufacturing and trading licenses were paid 1 July, 2017 for the period 1 July, 2017 to 30 June, 2018. 70% of the licenses is for manufacturing activities while 30% relates to trading activities.
6. It is agreed that no partner would receive interest on their capital contributions nor pay interest on drawings.
7. It was agreed that Nambozo and Nakku would receive a monthly salary of Shs 600,000 and Shs 500,000 respectively effective 1 April, 2017.
8. 10% of the net profits before apportionment to partners would be retained for acquisition of new plant and machinery.

Required:

Prepare for Home Choice Traders for the year ended 31 December, 2017:

(a) a manufacturing statement **(10 marks)**

(b) a statement of profit or loss and appropriation account. **(10 marks)**

(Total 20 marks)

Question 4

(a) Explain the different types of risks in business. **(4 marks)**

(b) Kenron Ltd which deals in general merchandise, has provided the following financial statements for the year ended 30 April, 2018.

Statement of profit or loss

	Shs '000'
Revenue	158,205
Cost of sales	(121,200)
Gross profit	37,005
Interest received	25,000
Distribution costs	(7,515)
Administration costs	(9,750)
Profit before interest and tax	44,740
Finance costs	(1,530)
Profit before tax	43,210
Tax	(8,250)
Profit for the period	34,960
Dividends	(25,160)
Profit retained during the year	9,800

Statement of financial position as at 30 April:

	2018		2017	
Non-current assets:	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets (net book value)		456,150		400,000
Investments at cost		235,000		
Current assets:				
Inventory	78,365		103,300	
Trade receivables	52,085		48,295	
Bank	-	130,450	15,105	166,700
Total assets		821,600		566,700
Equity & liabilities:				
Ordinary share capital (Shs 1,100 nominal)	450,000		302,500	
Share premium	113,400		79,050	
Revaluation reserve	56,500		35,500	
Retained earnings	56,150	676,050	46,350	463,400
Non-current liabilities:				
Bank loan		71,250		56,250

	2018		2017	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Current liabilities:				
Trade payables	18,555		25,500	
Taxation	8,250		6,750	
Bank overdraft	34,995		-	
Dividends payable	12,500	74,300	14,800	47,050
Total equity & liabilities		821,600		566,700

Additional information:

1. Property, plant & equipment as at 1 May, 2017 had a cost of Shs 500 million. During the year, property that had been acquired on 1 May, 2016 and had cost Shs 50 million was disposed of on 1 November, 2017 at Shs 36 million. The profit or loss on disposal has been accounted for in the statement of profit or loss. The accounting policy is to depreciate property, plant & equipment at 20% on cost and it is time apportioned.
2. During the year there was a cash issue of 90,925 shares at Shs 2,000 per share.
3. A revaluation of property, plant & equipment was carried out in April 2018 and is incorporated in financial reports.

Required:

Prepare a statement of cash flows for Kenron Ltd for the financial year ended 30 April, 2018 using the indirect method.

(16 marks)
(Total 20 marks)

Question 5

Okongo & Daughters' Ltd prepared the following statement of financial position as at 30 June, 2018. The accounts clerk prepared the statement with a suspense balance as she was unable to identify the errors. She has provided you with the statement and the transactions that transpired during the period.

	Shs '000'	Shs '000'
Assets:		
Non-current assets:		
Machinery	75,000	
Land	100,000	175,000
Current assets:		
Inventory	17,200	
Suspense account	890	
Accounts receivable	5,580	
Cash	23,115	
Bank	118,960	165,745
Total assets		340,745
Equity & liabilities:		
Equity:		
Capital	269,855	
Retained earnings	64,000	333,855
Liabilities:		
Current liabilities:		
Accounts payable	6,540	
Accrued utilities	350	6,890
Total equity & liabilities		340,745

Additional information:

1. The net profit for the year was Shs 24 million.
2. The purchases account was under cast by Shs 1.5 million.
3. Rent Shs 2 million paid during the year had been posted to the cash book but the corresponding entry had not been made.
4. A purchase of new machinery Shs 24 million had been posted to repairs of machinery account but properly posted in the cashbook.
5. Carriage inwards Shs 860,000 had been credited to carriage outwards account.
6. Commission received Shs 2 million was debited in commission expense account. The corresponding account was correctly posted.
7. Sales revenue was under cast by Shs 830,000.

Required:

Prepare for Okongo & Daughters' Ltd for the year ended 30 June, 2018:

(a) Journal entries for items 2 - 7 of the additional information above. (Ignore narrations). **(6 marks)**
(b) a suspense account. **(4 marks)**
(c) a statement of corrected net. **(4 marks)**
(d) a corrected statement of financial position as at 30 June **(6 marks)**

(Total 20 marks)

Question 6

(a) With the evolving environment, professional accountants are increasingly being challenged to demonstrate their relevance in organisations.

Required:

Briefly explain the role of an accountant in an organisation. **(6 marks)**

(b) Quick Service Taxi Limited (QSTL) commenced business on 1 January, 2016. The following information was extracted from the company's books of account.

1. 2 January, 2016; purchased Taxi 1 Shs 17 million.
2. 30 September, 2016; imported Taxi 2 at cost, insurance and freight (CIF) value Shs 28 million. Due to delays in clearing the car at Mombasa, the company was fined an equivalent of Shs 2 million. Transport costs from Mombasa, registration expenses and taxes amounted to Shs 10 million.
3. 1 July, 2017; purchased Taxi 3 Shs 30 million. The director incurred Shs 1.5 million in transport cost to travel to Mombasa to clear the car on time. He also incurred Shs 3.4 million in fuel costs to drive the car to Uganda for registration. Registration and taxes cost Shs 6.5 million.
4. 30 June, 2017; disposed of Taxi 2 Shs 15 million following a fatal accident.
5. All cars vehicles are depreciated at 20% on cost and depreciation is time apportioned. All transactions are passed through the company's bank account. The company's financial year ends 31 December each year.

Required:

Prepare the following accounts for QSTL for the years ended 31 December, 2016 and 2017:

(i) Motor vehicles. **(7 marks)**

(ii) Accumulated depreciation of motor vehicles. **(5 marks)**

(iii) Disposal of motor vehicles. **(2 marks)**

Show workings for cost.

(Total 20 marks)