

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL ONE

## FINANCIAL ACCOUNTING - PAPER 1

**MONDAY 28 MAY, 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**

John has been trading since 2012 and his nephew who is not trained in accounting has been assisting him to keep records, in addition to helping in the shop. John would like to know the profit he made in 2017. You have been hired by John who has availed the following information:

- 1 Analysis of payments made during the year:  
 Cash payments: Shs '000'  
 Rent 18,000  
 Water bill 1,500  
 Electricity bills 5,600  
 Bank payments:  
 Salary and wages 6,500  
 Trading license 750
- 2 Cash sales for 2017 were Shs 66,734,000 and 60% of purchases for the year were in cash. John usually makes sales at a margin of 35%.
- 3 Cash and bank receipts from credit customers were Shs 15,500,000 and Shs 50,450,330 respectively. Payments to suppliers during the year were through the bank.
- 4 John's nephew has provided the following balances as at 1 January and 31 December, 2017.

	1 January	31 December
	Shs	Shs
Motor cycle (cost Shs 4,500,000)	3,600,000	?
Furniture (cost Shs 9,000,000)	7,500,000	?
Cash	8,650,000	?
Bank	2,300,000	?
Inventory	4,560,400	7,560,500
Trade payables	9,567,000	10,564,000
Salaries outstanding	1,700,000	3,400,000
Trade receivables	15,450,000	18,765,670

- 5 The motorcycle and furniture have a useful life of 5 years and 6 years respectively and are depreciated using the straight line method.
- 6 It was John's habit to take out cash Shs 100,000 every two weeks from the business for non-business use. This went on for the whole year.

- 7 Further information available shows that:
- The total bill for water for the year was Shs 2,340,000.
  - The rent paid covers a period of 18 months to June, 2018.
- 8 During the year John acquired an interest free loan Shs 15,000,000 cash from his cousin and used the whole amount to pay for land where he is to relocate the business. He had repaid the cousin Shs 6,000,000 in cash by the end of the year. The balance was to be repaid in 2018.

**Required:**

Prepare for John for the year ended 31 December, 2017:

- (a) a statement of affairs as at 1 January. **(3 marks)**  
 (b) cash book. **(7 marks)**  
 (c) a statement of profit or loss. **(10 marks)**

*(Hint: Show all the workings)*

**(Total 20 marks)**

**Question 3**

- (a) The following statement of financial position extract was prepared from the books of Hemp Enterprises Ltd as at 31 December, 2017.

Assets	Shs '000'
Non-current assets:	
Property, plant and equipment	224,040
Current assets:	
Inventory	34,000
Receivables	26,000
Suspense account	18,410
cash and bank	<u>10,000</u>
Total assets	<u>312,450</u>
Capital & liabilities	
Capital and reserves	257,000
Current liabilities:	
Trade payables	46,000
other payables	<u>9,450</u>
Total capital and liabilities	<u>312,450</u>

In January, 2018 Musana, a junior accountant while checking the books of account for 2017 discovered the following errors committed during the year ended 31 December, 2017.

- 1 An invoice Shs 4,000,000 received in September 2017 from Bronze Traders was misplaced before it was recorded in the sales journal.

- 2 The accountant credited a cheque receipt Shs 605,000 from a customer to the cash book as Shs 560,000. The corresponding entry in the customer's account though was correctly made.
- 3 Sales Shs 7,680,000 were correctly entered in the cash book but the double entry to the respective account was not completed.
- 4 A discount received Shs 102,000 was credited to the discounts allowed account as Shs 210,000. The corresponding entry was correctly completed.
- 5 The purchases account was under cast by Shs 23,137,000.
- 6 Motor vehicle repairs Shs 840,000 was credited to the motor vehicles account as 840,000. The corresponding entry in the cash book was correctly made.
- 7 Goods worth Shs 2,340,000 taken by directors for personal use were not recorded anywhere in the books.

**Required:**

Prepare for Hemp Enterprises Ltd:

- (i) Journal entries to correct the above errors. **(8 marks)**
- (ii) A suspense account after passing entries correcting the errors. **(3 marks)**

- (b) The bookkeeper of Hakuna Mchezo Ltd was unable to do the reconciliation for the month of March 2018. The details provided below were for two months; March and April, 2018.

1	Items for March 2018:	
	Unpresented cheques:	Shs
	Cheque No. 313	500,000
	Cheque No. 411	5,000,000
	Uncredited cheques:	
	Cheque No. 513	4,000,000
	Cheque No. 550	2,500,000
	Direct debits:	
	Bank charges	2,500
	Excise duty	250
	Direct credits	
	Interest received	500,000
	Dividends	1,200,000

- 2 Cash book (bank column) and bank statement for the month of April, 2018:

## Cash book

Details	Shs	Details	Shs
Balance b/f	28,950,000	Cheque No. 10	705,000
Cheque No. 300	500,000	Cheque No. 34	2,000,000
Cheque No. 45	3,000,000	Cheque No. 40	1,100,000
		Cheque No. 54	680,000
Cash	2,250,000	Cheque No. 42	50,000
Cheque No. 5	<u>100,000</u>	Balance c/f	<u>30,265,000</u>
	<u>34,800,000</u>		<u>34,800,000</u>

## Bank statement:

	Debit Shs	Credit Shs	Balance Shs
Balance b/f			29,647,250
Cheque No. 300		500,000	30,147,250
Cheque no. 45		300,000	30,447,250
Loan interest	175,000		30,272,250
Cheque No. 10	705,000		29,567,250
Cash		2,250,000	31,817,250
Cheque No 513		4,000,000	35,817,250
Transfer from Obwocha		230,000	36,047,250
Bank charges	2,500		36,044,750
Cheque No 411	5,000,000		31,044,750
Commission received		150,000	31,194,750
Cheque No. 34	2,000,000		29,194,750
Cheque No. 40	1,100,000		28,094,750
Cheque No. 54		680,000	28,774,750

- 3 The bank dishonored cheques No. 5 and No. 42.  
4 Any error, if found, should be deemed to have been caused by the bank.

**Required:**

Prepare for Hakuna Mchezo Ltd for the month of April, 2018:

- (i) an adjusted cash book. **(6 marks)**  
(ii) a bank reconciliation statement. **(3 marks)**

**(Total 20 marks)**

**Question 4**

- (a) Briefly explain the reasons for the slow growth of entrepreneurs in Uganda.

**(5 marks)**

- (b) Quality Farm Products Ltd (QFP) is an agri-business company producing quality eggs and horticultural products all year round. The following information was extracted from the farm's assets register as at 1 July, 2016.

Asset	Date of purchase	Cost Shs '000'	Depreciation rate (per annum)
Furniture	1 July, 2015	6,500	5%
Incubator (No.1)	1 January, 2016	10,000	20%
Irrigation equipment	1 April, 2016	8,200	10%

The farm kick-started an expansion program in the financial years 2016 and 2017 that included the following transactions among others:

- On 1 December 2016, the company purchased the following assets:
  - Incubator (No.2) Shs 15,000,000 to increase the capacity of hatching chicks. The incubator was to be depreciated at 20% per annum.
  - Generator Shs 3,600,000. The generator was to be depreciated at 10% per annum.
- Removed from the assets' register the entire irrigation equipment after it became dysfunctional on 30 June, 2017.
- Generator purchased on 1 December, 2016 was exchanged for a bigger brandy new generator at book value. The farm topped up Shs 5,200,000 to acquire the bigger generator on 30 June, 2017.
- All assets are depreciated using the straight line method. The company charges full year depreciation in the year of purchase and none in the year of disposal. Depreciation expense is assumed to accrue evenly throughout the year.
- The company's financial year ends 31 December. All payments were made through the bank.

**Required:**

Prepare the following ledgers for the financial years 2016 and 2017.

- A single non-current current assets account. **(5 marks)**
- Accumulated depreciation account. **(7 marks)**
- Disposal of non-current asset account. **(3 marks)**

**(Total 20 marks)**

**Question 5**

- (a) Explain the fundamental and any **three** enhancing qualitative characteristics of accounting information.

**(5 marks)**

- (b) Okol and Akol are partners in True and Fair Associates, an audit firm providing audit and consultancy services. Okol and Akol share profits and losses in the ratio of 3:2 respectively. Their trial balance for the year ended 31 December, 2017 is shown below.

Details	Dr. Shs '000'	Cr. Shs '000'
Website subscription costs	800	
Renewal of license for audit software	1,200	
Practicing fees to ICPAU	2,650	
Staff development expenses	1,700	
Other operating expenses	28,800	
Staff salaries	20,000	
Audit fees		134,885
Furniture & fittings at cost	3,500	
Computers at cost	4,800	
Accumulated depreciation 1 January, 2017:		
Furniture & fittings		175
Computers		1,200
Accrued audit fees	46,000	
Cash & bank	54,310	
Consultancy income		20,000
Accrued consultancy revenue & expenses payable	20,000	3,000
Capital accounts:		
Okol		9,800
Akol		8,700
Current accounts:		
Okol		4,500
Akol		<u>1,500</u>
	<u>183,760</u>	<u>183,760</u>

Additional information:

- 1 An invoice to Molokony Enterprises of Shs 4,500,000 for consultancy services provided in October 2017 had not yet been honoured by the year end. This information is not included in the trial balance.

- 2 Annual subscription for 2017 Shs 450,000 for each partner paid on 31 March, 2017 is included in the staff development costs. It is the firm's policy that annual subscription for partners is not incurred by the firm. This should now be accounted for as drawings by partners.
- 3 In 2017 the firm introduced a policy of giving partners salaries effective 1 July 2017. Okol and Akol are entitled to annual salaries of Shs 12,000,000 and Shs 16,000,000 respectively. The salaries of these partners for the year to 31 December, 2017 are included in the staff salaries.
- 4 The partnership received a cheque of Shs 20,000,000 on 29 December, 2017 in respect of outstanding audit fees. This cheque had not been recognised in the books by the year end.
- 5 The firm's depreciation policy is as follows:
 

Asset	Rate per annum (%)	Method
Computers	25	Straight line
Furniture & fittings	5	Reducing balance
- 6 The partners have agreed to provide for doubtful debts at 2% on all accrued revenues by 31 December, 2017.
- 7 Interest on capital is 10% per annum.

**Required:**

- (a) prepare journal entries to record the additional information.  
(8 marks)
- (b) Prepare a statement of profit or loss and an appropriation account for True and Fair Associates for the year ended 31 December, 2017

(7 marks)

**(Total 20 marks)**



**Question 6**

- (a) Explain, with examples, the meaning and application of the following accounting concepts:
- (i) Accrual. **(2 marks)**
  - (ii) Prudence. **(2 marks)**
  - (iii) Going concern. **(2 marks)**
  - (iv) Consistency. **(2 marks)**
- (b) The following information was extracted from the books of Muscle Flex Sports Club for the year ended 31 December, 2017.

Balances as at:

	1 January	31 December
	Shs '000'	Shs '000'
Ordinary subscription in arrears	45,000	50,000
Ordinary subscription received in advance	25,500	28,000
Owing to suppliers of fundraising items	12,000	16,500
Owing to Ivory Hotel (venue for fundraising)		2,500

Additional information:

1. The following transactions were recorded in the receipts and payments account for the year ended 31 December, 2017.
 

	Shs '000'
Fundraising dinner income	65,000
Fundraising dinner expenses	25,000
Ordinary subscription income	80,000
Life subscription	25,000
2. Life subscription is recognised over a period of 10 years.

**Required:**

Prepare for Muscle Flex Sports Club for the year ended 31 December, 2017 the:

- (i) ordinary subscription account. **(3 marks)**
- (ii) life subscription account. **(2 marks)**
- (iii) fundraising income account. **(3 marks)**
- (iv) extract of the statement of profit or loss and statement of financial position.

**(4 marks)**

**(Total 20 marks)**