

**THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**  
*A Committee of the Council of ICPAU*

**CPA(U) EXAMINATIONS**

**LEVEL ONE**

**FINANCIAL ACCOUNTING - PAPER 1**

**MONDAY 21 AUGUST, 2017**

**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**

Milly, Calister and Eileen were in partnership sharing profits and losses in the ratio of 2:1:1 respectively. On 30 June, 2017 they decided to dissolve the partnership on the basis of the following statement of the financial position as at 30 June, 2017.

	Shs '000'	Shs '000'
Non-current assets:		
Land & buildings	210,000	
Motor vehicles	30,000	
Furniture & fittings	<u>20,000</u>	260,000
Current assets:		
Inventory	25,000	
Accounts receivable	35,000	
Bank balances	50,000	
Prepayments	<u>15,000</u>	<u>125,000</u>
Total assets		<u>385,000</u>
Capital & liabilities:		
Capital accounts:		
Milly	144,000	
Calister	96,000	
Eileen	<u>5,000</u>	245,000
Current accounts:		
Milly	20,000	
Calister	35,000	
Eileen	<u>(45,000)</u>	10,000
Unappropriated profits		25,000
Current liabilities:		
Accounts payable		<u>105,000</u>
Total capital & liabilities		<u>385,000</u>

Additional information:

1. Milly took over furniture at an agreed price of Shs 15 million.
2. Trade receivables paid Shs 30 million in full settlement and the firm paid off the accounts payable Shs 95 million in full satisfaction of their claim.
3. Calister took over inventory and prepayments at Shs 20 million and Shs 15 million respectively.
4. Realisation expenses amounted to Shs 5 million.

5. Other assets were realised as follows:

	Shs '000'
Land & buildings	300,000
Motor vehicles	20,000

6. Eileen was declared bankrupt.

**Required:**

Prepare the following for the partnership:

- |  |                         |
|--|-------------------------|
| (a) Realisation account.                             | <b>(9 marks)</b>        |
| (b) Partners' capital accounts (in columnar format). | <b>(7 marks)</b>        |
| (c) Cash account.                                    | <b>(4 marks)</b>        |
|  | <b>(Total 20 marks)</b> |

**Question 3**

The books of Koboko Enterprises Limited (KEL) had a bank overdraft Shs 17,221,600 while their bank statement had a debit balance Shs 12,910,600 at 31 July, 2017.

On further examination, the following discrepancies were discovered:

- On 8 July, 2017 Yumbe Ltd, a debtor, deposited Shs 9,290,000 into KEL's bank account. KEL learnt about this deposit on the day they received their bank statement on 31 July, 2017.
- A banking of Shs 8,866,000 had been entered as Shs 866,000 in the cash book.
- A deposit for Musa Traders Ltd Shs 6,592,000 was erroneously entered into KEL's bank account by the bank.
- A cheque from Holdings Traders Ltd Shs 7,484,000 and another Shs 10,666,000 from KBB Coaches were dishonoured by the bank and reflected on the bank statement only. The bank charged Shs 120,000 for the dishonoured cheques.
- Cheques No. 123123 Shs 7,736,000 and No. 222111 Shs 9,862,200, which had been deposited by KEL into the bank, had not yet been reflected on the bank statement.
- On 28 July, 2017 KEL received a commission Shs 5,776,000 from Nile Products Ltd, as reflected on its bank statement, for finding a buyer for the latter's old machinery.
- Cheque payments No. 333001 Shs 3,124,000 and 000076 Shs 4,550,000 had not yet been captured by the bank.

8. On 30 July, 2017 the bank paid Shs 7,710,000 and Shs 856,800 for rent and Internet services respectively, per KEL's instructions issued at the beginning of the year.
9. A cheque of Shs 4,608,000 had been credited twice by the bank.
10. A cheque for rental income Shs 3,506,000 had been entered as payment in the cash book.
11. Bank charges Shs 206,000 appeared on the bank statement.

**Required:**

Prepare the following in the books of KEL as at 31 July, 2017.

- (a) Adjusted cash book. **(6 marks)**
- (b) Bank reconciliation statement, starting with the balance as per adjusted cash book. **(4 marks)**
- (c) Identify **four** drivers of sustainable organisation success. **(4 marks)**
- (d) Explain the role of entrepreneurship in Uganda's economic development. **(6 marks)**

**(Total: 20 marks)**

### Question 4

In the course of preparing the financial statements for the year ended 31 December, 2016 the accountant of Enos Ltd extracted a trial balance which failed to agree. He temporarily created a suspense account where the difference of Shs 1,754,600 was posted and proceeded to prepare the statement of financial position as at 31 December, 2016 given below.

Non-current assets:	Shs '000'	Shs '000'
Land	100,000	
Machinery	75,900	
Motor vehicles	<u>78,400</u>	254,300
Current assets:		
Inventory	35,400	
Trade receivables	45,315.6	
Cash & bank	<u>22,219</u>	<u>102,934.6</u>
Total assets		<u><u>357,234.6</u></u>
Equity & liabilities:		
Equity:		
Capital	250,000	
Retained earnings	<u>55,400</u>	305,400
Non-current liabilities:		
Loan		40,000
Current liabilities:		
Trade payables	5,430	
Salaries payable	2,340	
Electricity payable	<u>2,310</u>	10,080
Suspense		<u>1,754.6</u>
Total equity & liabilities		<u><u>357,234.6</u></u>

After careful scrutiny of the accounting records, the following errors were discovered:

1. An acquisition of land Shs 10 million was written off to profit or loss as an expense.
2. There was an omission of an invoice of electricity for December, 2016 Shs 285,125 which was received in January, 2017.
3. A balance due to Mary, a customer was recorded as Shs 6.3 million instead of Shs 3.6 million.
4. The receipts side of the cash book had been under cast by Shs 231,400.
5. A credit note received from Razor Ltd, a supplier Shs 458,000 had been posted to the wrong side of Razor Ltd's account.
6. A purchase of goods Shs 650,000 was entered in the cash book only.

7. The sales account had been under cast by Shs 852,000.
8. Cash drawings Shs 420,000 had been omitted from the books of account.
9. The net profit for the year was Shs 32,450,000.

**Required:**

Prepare for Enos Ltd for the year ended 31 December, 2016:

- (a) journal entries to correct the errors. **(8 marks)**
  - (b) a suspense account. **(3 marks)**
  - (c) a statement of corrected net profit. **(3 marks)**
  - (d) a corrected statement of financial position as at 31 December. **(6 marks)**
- (Total 20 marks)**

**Question 5**

The following information was extracted from the books of Crane Sports Club (CSC) as at 31 December, 2016.

Receipts & payments account			
Receipts:	Shs '000'	Payments:	Shs '000'
Annual subscriptions	375,470	Balance b/ f	32,020
Magazine sales	57,890	Magazine costs	122,330
Admission fees	31,000	Motor vehicles	168,000
Magazine advertising income	137,340	Equipment	14,120
		Rent	46,490
		Communication	38,700
		Salaries & wages	98,270
		Training costs	20,000
		Utilities	16,426
		Other expenses	32,000
		Balance c/ f	<u>13,344</u>
	<u>601,700</u>		<u>601,700</u>

**Additional information**

1. Accrued salaries & wages were Shs 8,660,000 at 1 January, 2016 and Shs 6,770,000 at 31 December, 2016.
2. Advertising income received in advance was Shs 2,400,000 at 1 January, 2016 and Shs 6,090,000 at 31 December, 2016.
3. 80% of the communication costs were incurred on distribution of the magazine.
4. The annual subscriptions received included Shs 6,560,000 for 2017 and Shs 8,880,000 for 2015.

5. The non-current assets at book value on 1 January, 2016 were equipment Shs 56,500,000, and furniture & fittings Shs 44,200,000.
6. It is CSC's policy to depreciate non-current assets using the reducing balance method at the following rates per annum:

Asset	Rate (%)
Motor vehicles	25
Equipment	20
Furniture & fittings	20

**Required:**

- (a) Prepare, for CSC for the year ended 31 December, 2016 the following accounts:
  - (i) Annual subscriptions. **(1 mark)**
  - (ii) Advertising income. **(1 mark)**
  - (iii) Salaries & wages. **(1 mark)**
- (b) Derive the accumulated fund as at 1 January, 2016 and the net magazine revenue as at 31 December, 2016. **(6 marks)**
- (c) Prepare CSC's income & expenditure statement and statement of financial position as at 31 December, 2016.

**(11 marks)****(Total 20 marks)**

### Question 6

The following trial balance was extracted from the books of Kopesha Hotel Ltd for the year ended 31 December, 2015.

	Note	Dr. Shs '000'	Cr. Shs '000'
Land & buildings	1	1,200,000	
Motor vehicles		300,000	
Accounts payable			90,000
23% 5-year bank loan			100,000
Ordinary share capital			2,000,000
Furniture & fittings		350,000	
Upkeep and service costs		210,000	
Accounts receivable		150,000	
Bank		600,000	
Retained earnings			770,100
Gym equipment at cost		150,000	
Appliances, cutlery & glassware		190,000	
Utilities	5	70,000	
Sales			558,800
Other income	3		300,600
Repairs & maintenance		95,000	
Purchases		350,000	
Salaries & wages		150,000	
Stationery	4	12,000	
Interest on loan	5	11,500	
Rental income	2	-	19,000
		<u>3,838,500</u>	<u>3,838,500</u>

#### Additional information

1. The building was constructed at a cost of Shs 800 million and put to use on 1 January, 2015.
2. Rental income Shs 2 million was outstanding at 31 December, 2015.
3. Included in other income was a deposit from Rabera Ltd Shs 15 million for a 2 day workshop that was slated for 15 February, 2016.
4. Stationery Shs 500,000 was unused at the end of the year.
5. The remaining interest on the bank loan was accrued.
6. Included in utilities is electricity expense Shs 1 million relating to the year ending 31 December, 2016.
7. The useful life of gym equipment is 10 years after which it is expected to have nil value.



8. Depreciation is to be provided for at the following rates per annum on cost.

Asset	Rate (%)
Buildings	2
Motor vehicles	20
Furniture & fittings	20

9. Inventory stood at Shs 25.3 million at 31 December, 2015.

**Required:**

Prepare, for Kopesha Hotel Ltd, a statement of:

- (a) profit or loss for the year ended 31 December, 2015. **(12 marks)**  
 (b) financial position as at 31 December, 2015. **(8 marks)**

**(Total 20 marks)**