

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL ONE

### FINANCIAL ACCOUNTING – PAPER 1

**MONDAY 20 AUGUST, 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 relates to Bukoma Church for the year ended 31 December, 2017. The church's Planning & Development unit operates a clinic with a dentistry unit at Bukoma trading centre. The proceeds from the clinic are used to finance some of the church's activities.

The following are the church's receipts and payments for the year ended 31 December, 2017.

Receipts:	Shs '000'
Church offerings	76,000
Tithes	54,500
Donations to church	25,600
Income from weddings	23,400
Clinic consultation fees	184,000
Cash from sale of drugs	153,600
Income from dentistry unit	67,500
Payments:	
Staff costs	53,600
Payments to credit suppliers of drugs	76,500
License, dentistry & laboratory expenses	54,900
Utilities	25,600
Maintenance of clinical equipment	10,500
Purchase of additional clinical equipment (note 2)	43,600
Clinic waste management costs	6,700
Motor vehicles expenses	13,500
Donation by church to orphanage home	4,500
Remittances to the diocese	21,400
Welfare expenses for (hosting church visitors)	8,300
Rental expenses for the clinic	6,000

Additional information:

1. Balances as at:

	1 January, 2017 Shs '000'	31 December, 2017 Shs '000'
Cash & bank balance	34,500	294,000
Clinical equipment (cost Shs 350.7 million)	315,630	?
Motor vehicles (cost Shs 120 million)	96,000	?
Church land	45,500	45,500
Church building (cost Shs 250 million)	237,500	?
Inventory of drugs	23,670	19,860
Trade payables (drug suppliers)	12,500	14,700
Accrued staff costs	10,540	12,450
Accumulated fund	729,760	?

2. The clinical equipment was acquired during the year and had not been capitalised by the year end. The church provides for full year's depreciation of non-current assets in the year of purchase and none in the year of disposal.

3. The non-current assets are depreciated, on straight-line basis per annum, as follows:

Asset	Rate (%)
Clinical equipment	10
Motor vehicle	20
Church building	5

4. The church's policy is to charge 30% of utilities expenses to the clinic. In addition, staff costs, motor vehicle depreciation and motor vehicle expenses are apportioned between the church and clinic in the ratio of 2:3 respectively.

### Required:

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

- (a) profit or loss for the clinic. **(11 marks)**
  - (b) income and expenditure for the church. **(5 marks)**
  - (c) financial position as at 31 December for the church. **(4 marks)**
- (Total 20 marks)**

**Question 3**

The following trial balance was extracted from the books of Njogoo Transporters Limited (NTL) as at 31 December, 2017. In addition to provision of transport services, the company owns a garage that offers mechanical services to other companies and lets out part of the business' parking yard.

Account title:	Shs '000'	Shs '000'
Cash	6,700	
Bank	85,000	
Share capital		9,217,400
Retained earnings		112,318
Transport fares (note 3)		2,605,950
Mechanical services		45,620
7% investments	1,180,000	
Interest on investments		82,600
Buses	8,017,000	
Computers & printers	80,000	
Furniture	10,000	
Garage equipment	180,000	
Land	2,960,000	
Repairs & maintenance	200,000	
Salaries	340,000	
Utilities	15,000	
Insurance premium	150,000	
Fuel	640,000	
Rent expense	8,418	
License fees	10,000	
Stationery	56,000	
Provision for depreciation:		
Buses		2,000,000
Computers & printers		20,000
Furniture		2,000
Garage equipment		45,000
Compensation (accident victims)	180,450	
Court penalties	<u>12,320</u>	
	<u>14,130,888</u>	<u>14,130,888</u>

Additional information:

1. Shs 8 million worth of invoices issued to tenants for sub-letting of the parking yard was outstanding by the year end. This had not been incorporated in the books.
2. Shs 40 million and Shs 620,000 in salaries and mechanical services respectively were prepaid by the year end.
3. Included in the amount for transport fares was Shs 10 million received from HTT Preparatory Schools to transport pupils for a tour to Kigali, Rwanda. The tour was slated for 14 January, 2018.
4. Shs 2.5 million for compensation for the loss of a passenger's luggage that was in the company's custody had not been paid by the year end.
5. The company depreciates non-current assets as follows:

Buses	25% on cost
Computers & printers	20% reducing balance
Furniture	15% on cost
Garage equipment	30% reducing balance

**Required:**

- (a) Prepare Journal entries for the additional information 1 - 5 above.  
(9 marks)
- (b) Prepare a statement of profit or loss for the year ended 31 December, 2017.

(11 marks)  
(Total 20 marks)

**Question 4**

The following transactions were extracted from Hajjati Hadijah's catering business for the month of January 2018.

Date	Transaction	Shs '000'
1	Brought the following personal items into the business:	
	Bread toaster	35
	Microwave	550
	Fridge	1,500
	Furniture	800
	Car	14,000
	Cash	5,000
3	Purchased catering equipment on credit from Ken Suppliers on terms of a 5% discount if paid within two months	8,000
6	Paid rent for three months in cash	1,200
6	Paid for utilities in advance in cash	250
7	Purchased foodstuffs in cash	500
7	Received cash for catering services provided	1,500
8	Purchased fruits in cash	250
8	Received cash from catering services	900
9	Acquired loan directly into the business bank account.	15,000
10	Paid Ken suppliers in full by cheque	?
11	Purchased foodstuffs for the restaurant in cash	1,200
11	Received cheque for catering services provided	2,500
12	Withdrew cash from the bank to pay wages	600
15	Invoiced NRP Ltd for outside catering services provided on terms of 2% discount if paid within one month	3,000
16	Paid for fuel in cash	300
17	Deposited cash into the bank	1,000
20	Withdrew cash from the bank for business use	5,000
20	Purchased serving dishes for outside catering by cheque	4,500
22	Received cheque from NRP Ltd in full settlement	?

**Required:**

Prepare the following ledger accounts for Hajjati Hadijah's catering business:

Three column cash book.

Capital.

Purchases.

Sales.

Suppliers.

Receivables.

Single expenses account.

**(20 marks)**

**Question 5**

- (a) Explain reasons why Uganda has a high failure rate of businesses annually. **(5 marks)**
- (b) Kwaliti Investments Ltd (KIL) owns a number of assets. The following is an extract from their assets register as at 1 January, 2017.

Asset	Shs 'million'	Date of purchase
Machinery	400	30 June, 2014
Land	600	1 January, 2016

1. On 31 March, 2018 the company's management decided to dispose of the entire machinery due to obsolescence and acquired a new line of machinery in a part exchange arrangement. The old machinery was valued at Shs 200 million on the date of disposal and the company topped up Shs 350 million to acquire the new machinery. Additional costs incurred in the purchase of the new line of machinery included installation Shs 20 million, refundable and non-refundable taxes Shs 26 million and Shs 40 million respectively, testing of the new machinery Shs 3.6 million. Shs 4 million was incurred in the servicing of the new machinery during the first quarter of its operation after installation.

The company's policy is to depreciate machinery at 20% per annum using reducing balance method. Depreciation is time apportioned where applicable.

2. On 31 December, 2017 the land was revalued upwards by Shs 400 million. This land, however, was affected by the government's road construction project. On 1 January, 2018 the company received Shs 900 million in compensation for the portion of the land (valued at Shs 550 million) that had been affected by the road construction project.
3. All transactions were made through the bank.
4. KIL's financial year ends 30 June.

**Required:**

Prepare for KIL as at 30 June, 2017 and 2018:

- (i) machinery, provision for depreciation of machinery and disposal of machinery accounts.

**(11 marks)**

- (ii) land and disposal of land accounts.

**(4 marks)****(Total 20 marks)**

**Question 6**

Wanda, Kalule and Mwambu are partners trading as Wafanya Kazi Traders, exporting cereals to South Sudan. Their profit or loss sharing ratio is 4:1:3 respectively. Due to the insecurity in South Sudan, the partners have decided to dissolve the partnership.

The following is their statement of financial position as at 31 December, 2017:

Non-current assets:	Shs '000'	Shs '000'
Land & buildings	79,000	
Plant & machinery	65,000	
Motor vehicles	16,000	160,000
Current assets:		
Inventory	41,000	
Trade receivables	25,000	
Provision for bad debts	<u>(2,000)</u>	<u>64,000</u>
		<u>224,000</u>
Capital accounts:		
Wanda	98,000	
Kalule	20,000	
Mwambu	<u>62,000</u>	180,000
Current accounts:		
Wanda	15,000	
Kalule	(24,500)	
Mwambu	<u>11,000</u>	1,500
Current liabilities:		
Trade payables	23,500	
Loan from Wanda	15,000	
Bank	<u>4,000</u>	<u>42,500</u>
Total equity & liabilities		<u>224,000</u>

Additional information:

- The assets were realised as follows:
 

Asset	Shs '000'
Land & buildings	90,000
Plant & machinery	45,000
Inventory	28,000
- Wanda took over the motor vehicle at Shs 14 million as part settlement of his loan.
- Dissolution expenses were Shs 3,500,000.
- Accounts receivable were factored at Shs 23.55 million while Wanda took over Shs 10 million of accounts payable and the balance was paid off less 10% discount.



- 5 Kalule could only manage to meet half of his deficiency before he became insolvent.

**Required:**

Prepare for WafanyaKazi Traders as at 31 December, 2017:

- |     |                                              |                  |
|-----|----------------------------------------------|------------------|
| (a) | Realisation account.                         | <b>(7 marks)</b> |
| (b) | Bank account.                                | <b>(5 marks)</b> |
| (c) | Partners' capital accounts (columnar format) | <b>(5 marks)</b> |
| (d) | Loan account.                                | <b>(1 mark)</b>  |
| (e) | Payables account.                            | <b>(2 marks)</b> |

Note: Apply the rule in the case of Garner vs Murray.

**(Total 20 marks)**