THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY 4 OCTOBER, 2021

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 cashbook of Prime Manufacturers Ltd is provided below for the year ended 31 December, 2020.

Debit			Credit		
Details	Cash	Bank	Details	Cash	Bank
	Shs '000'	Shs '000'		Shs '000'	Shs '000'
Bal b/d	8,500	45,800	Salaries		32,500
Cash sales	85,800	285,300	Salesmen's wages	2,800	18,700
Collections from credit customers	19,000	335,000	Rent		27,500
Additional capital		55,400	Insurance		45,200
			Lighting & heating		18,500
			Factory power	850	51,000
			Carriage costs	1,200	3,500
			General expenses	800	25,700
			Drawings	500	3,000
			Advertising		19,500
			Direct labour costs		54,800
			Purchase of:		
			Office computers		35,400
			Plant & machinery		85,400
			Raw materials	32,500	125,000
			Allowances to administrative staff	800	25,500
			Credit raw material suppliers	45,200	104,500
	-	-	Bal c/d	28,650	45,800
	113,300	721,500		113,300	721,500

Additional information:

1. The following information is provided as at:

Details:	1 January, 2020 Shs '000'	31 December, 2020 Shs '000'
Raw materials	32,500	43,400
Work in Progress	23,400	27,500
Finished goods	54,400	45,600
Plant & machinery (cost Shs 170.8 million)	65,400	?
Furniture (cost 32.4 million)	24,500	?
Office computers (cost 18.5 million)	15,500	?
Prepaid rent	1,200	3,200
Accrued salaries	3,400	5,400
Trade receivables	0	6,500
Trade payables	0	4,200

2. The following costs should be apportioned as follows:

	Factory	Selling & distribution	Administration costs
Rent	½	2/8	?
Insurance	60%	10%	30%
Lighting & heating	70%	5%	25%
General expenses	65%	5%	30%
Depreciation of furniture	20%	10%	70%
Salaries	40%	20%	40%

3. 40% of the carriage costs relate to transporting raw materials and the remainder relates to transport of goods bought by customers.
4. Depreciation of non-current assets was as follows:

	Depreciation rate
Plant & machinery	10% on cost
Furniture	10% on cost
Office computers	40% reducing balance

Required:

Prepare for Prime Manufacturers Ltd, for the year ended 31 December, 2020:

(a) Manufacturing cost statement. **(11 marks)**

(b) Statement of profit or loss. **(9 marks)**

(Total 20 mark)

Question 3

The following information relates to Twegatte Women's Social Club, as at 1 January, 2020.

Non-current assets:	Shs '000'
Land	105,000
Building (cost 180 million)	125,000
Truck (cost 120 million)	98,000
Current assets:	
Ordinary subscription	34,500
Cash & bank	21,500
Prepaid utilities	4,200
Total assets	388,200
Accumulated fund	126,600
Retained surplus	59,500
Non-current liabilities:	
Bank loan	151,000
Life subscription	25,500
Current liabilities:	
Accrued general expenses	4,600
Ordinary subscription	21,000
Total accumulated fund & liabilities	388,200

The receipts and payments account for Twegatte Women's Social Club for the year ended 31 December, 2020 was as below:

Details:	Shs '000'	Details:	Shs '000'
Balance b/d	21,500	Administration costs	32,400
Ordinary subscription	105,400	General expenses	53,000
Life subscription	25,600	Utilities	2,400
Cash - coffee shop debtors	56,500	Wages of coffee shop attendants	18,500
Donations	34,400	Payments to coffee shop credit suppliers	15,400
Fundraising income	23,300	Printing & stationery	4,500
		Audit fees	6,400
		Fundraising expenses	8,400
		Motivational visits	1,300
		Workshops & trainings	1,800
	-	Balance c/d	122,600
	266,700		266,700

Additional information:

1. At the beginning of 2020, the club decided to start a coffee shop business.
2. The club organised a fundraising event with the aim of raising funds.
3. The club's policy is to apportion general expenses, utilities, printing and stationery expenses between the club and coffee shop in the ratio of 4:1 respectively.
4. The accounting policy of the club is to recognise life subscription over a period of 10 years. Opening life subscription has a remaining useful life of 5 years.
5. Depreciation of non-current assets is as follows:

	Depreciation rate
Building	2.5% on cost
Truck	12.5% on cost

6. The coffee shop purchases and sales were on credit basis.
7. The club's balances as at 31 December, 2020 were as indicated below:

	Shs '000'
Inventory	5,600
Trade receivables	12,300
Trade payables	4,400
Prepaid utilities	350
Outstanding general expenses	1,200
Accrued ordinary subscription	12,300
Prepaid ordinary subscription	2,300

Required:

Prepare for Twegatte Women's Social Club, for the year ended 31 December, 2020 statement of:

(a) Profit or loss for the coffee shop. **(6 marks)**

(b) Income and expenditure for the club. **(9 marks)**

(c) Financial position for the club. **(5 marks)**

(Total 20 marks)

Question 4

(a) Explain any **five** problems faced by Ugandan entrepreneurs while implementing their business ideas.

(5 marks)

(b) The accounts clerk of DEF Ltd while preparing financial statements discovered that the totals of the trial balance were not in agreement. He nevertheless proceeded to prepare financial statements. Below is DEF's statement of financial position as at 31 December, 2020:

Non-current assets:	Amount Shs '000'
Land (book value)	304,200
Machinery (book value)	240,000
Current assets:	
Inventory	76,500
Receivables	65,400
Cash & bank	45,400
Total assets	731,500
Equity & liabilities:	
Capital	448,251
Retained earnings	124,500
Non-current liabilities:	
Bank loan	120,000
Current liabilities:	
Trade payables	34,300
Suspense account	4,449
Total equity & liabilities	731,500

On scrutiny, the chief accountant discovered the following errors:

1. Rent expense was overcast by Shs 800,000.
2. Shs 2.4 million for purchases returns was debited to the sales returns account.
3. Shs 300,000 paid in cash for utilities was omitted from the books of account.
4. A credit note of Shs 150,000 was entered in the returns inwards account but no corresponding entry was made.
5. The purchases account was under cast by Shs 950,000.
6. Repair costs of Shs 200,000 relating to machinery were entered into machinery account. The depreciation for machinery is 20% per annum and the depreciation charge for the year was made on machinery account inclusive of repair costs.
7. Drawings of Shs 67,000 were recorded as Shs 76,000 in the drawings account.

8. A cash payment to a supplier Shs 400,000 was recorded in the supplier's account as Shs 40,000.

Required:

Prepare for DEF Ltd:

(i) Journal entries to correct the above errors. **(9 marks)**

(ii) Corrected statement of financial position as at 31 December, 2020.

(6 marks)
(Total 20 marks)

Question 5

Hannah and Peninah are in a partnership, sharing profits and losses in the ratio of 3:1 respectively. On 1 January, 2020, the partners agreed to proceed as follows:

- Admit a new partner, Sarah.
- Value goodwill at Shs 150 million at the time of admission of Sarah.
- Revalue non-current assets accordingly.

The partnership's statement of financial position as at 31 December, 2019, was as presented below:

Non-current assets:	Amount Shs '000'
Land	150,400
Buildings	230,000
Motor vehicles	98,600
Furniture	76,500
Current assets:	
Inventory	65,500
Fees receivable	45,500
Cash at hand & bank	43,400
Total assets	709,900
Equity & liabilities:	
Equity account:	
Hannah	205,400
Peninah	305,800
Non-current liabilities:	
Bank loan	185,500
Current liabilities:	
Trade payables	13,200
Total equity & liabilities	709,900

Additional information:

1. On 1 January, 2020, Sarah was admitted and contributed capital of Shs 60 million through the partnership's bank account.

2. Hannah, Peninah and Sarah agreed to share profits in the ratio of 3:1:1 respectively.
3. The assets were revalued as follows:

	Shs '000'
Land	206,500
Buildings	296,000
Motor vehicles	76,500
Furniture	64,500
Inventory	60,500

4. On admission of Sarah, good will was introduced and accounted for using the memorandum revaluation method.
5. The partners maintain their accounts using the fluctuating capital balance method.

Required:

Prepare for Hannah, Peninah and Sarah partnership:

(a) Revalued individual asset accounts. **(6 marks)**

(b) Revaluation account. **(3 marks)**

(c) Goodwill account. **(2 marks)**

(d) Capital account. **(5 marks)**

(e) Adjusted statement of financial position after admission of the new partner. **(4 marks)**

(Total 20 marks)

Question 6

(a) Financial statements are usually prepared based on accounting principles and concepts.

Required:

Explain, with illustrations, the following concepts as applied in accounting.

(i) Matching concept. **(3 marks)**

(ii) Consistency concept. **(3 marks)**

(iii) Prudence concept. **(3 marks)**

(b) John operates a small hardware shop at Abaita-basatu trading centre. He conducted a physical stock count of his hardware shop's closing inventory as at 31 December, 2020 and determined total amount of inventory of Shs 10,640,000 at cost. The following items were included in the total cost of closing inventory:

1. 100 bags of cement that were bought at a cost of Shs 25,000 each. The selling price for each bag is Shs 28,000. However, 10 bags were discovered to be in direct contact with the floor and hence can only be sold for Shs 8,500.

2. 5 wheelbarrows that had cost Shs 135,000 each with a selling price of Shs 150,000 each. However, 2 of the wheelbarrows were discovered to have factory defects but could be repaired at a total cost of Shs 4,600 before each could be sold for Shs 138,300.
3. 100 pieces of pavers bought at a total cost of Shs 340,000. The selling price for each piece was Shs 4,000. However 20 pieces where discovered broken and could be sold for Shs 500 each.
4. A special item of equipment that had cost Shs 450,000 with a selling price of Shs 600,000 but due to advancement in technology, it is no longer commonly used. John anticipates that he could sell it for Shs 660,000 only after making significant modifications that would cost Shs 250,000 and rigorous advertising at Shs 100,000.
5. 200 pieces of timber that cost Shs 7,000 per piece with a selling price of Shs 10,000 per piece. However, 40 pieces were damaged during loading. A buyer for the damaged timber was found and an agreement reached. The damaged timber would be sold for Shs 8,000 per piece upon incurring carriage outwards costs of Shs 550,000 in total to transport the damaged batch to the buyer's premises.

Required:

In accordance to IAS 2: Inventories:

(i) Explain any **two** kinds of inventories that are exempted under IAS 2: Inventories.

(2 marks)

(ii) Determine the value of closing inventory of John's hardware shop after considering notes (1 – 5) above and show the journal entries (if any).

(9 marks)
(Total 20 marks)