

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY 15 MARCH, 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

Kirungi Ltd has provided the following information for the year ended 31 December, 2020.

Details	Debit Shs '000'	Credit Shs '000'
Net profit		905,000
Retained profits as at 1 January, 2020		87,540
Cash and bank	111,000	
Inventory as at 31 December, 2020	45,507	
Trade payables		100,357
Investments	1,656,760	
Allowance for bad debts		42,380
Share capital at Shs 1,000 each.		1,145,151
Share premium		475,506
Trade receivables	402,160	
Revaluation reserve 1 January, 2020		76,540
Land at cost	420,340	
Motor vehicles at cost	230,504	
Accumulated depreciation as at 1 January, 2020		
Motor vehicles		115,252
Computers		16,350
Plant and machinery		103,695
Computers at cost	65,400	
Plant and machinery at cost	345,650	
Dividends paid	90,450	
18% Loan repayable by 2027	-	300,000
Total	<u>3,367,771</u>	<u>3,367,771</u>

Additional information:

The senior accountant of Kirungi Ltd was on annual leave. The assistant accountant determined the net profit reflected in the trial balance but had not taken into consideration the following information:

1. The amount of inventory as at 31 December, 2020 of Shs 45,507,000 was used in determining the cost of sales. Further information revealed that part of the inventory that had cost Shs 6.7 million had a net realisable value of Shs 4.5 million.

2. Purchases returns of Shs 4.5 million to a credit supplier were not accounted for.
3. Interim dividends of Shs 90,450,000 reflected in the trial balance were paid on 3 October, 2020. Directors further proposed a final dividend of Shs 70 per share on 28 December, 2020 which is subject to a resolution at the annual general meeting in May 2021.
4. As at 31 December 2020, salaries and utilities Shs 12.5 million and Shs 670,000 respectively were outstanding.
5. Rent of Shs 48 million was paid on 1 October, 2020 catering for 12 month period.
6. Non-current assets are depreciated as follows:

Details	Depreciation rate
Motor vehicles	12.5% on cost
Computers	25% on cost
Plant and machinery	20% reducing balance
8. The loan was acquired on 1 October, 2020 and interest was outstanding.
9. Sales include a deposit Shs 3 million cash, received from a customer on 4 November, 2020 for goods that were to be delivered on 14 February, 2021.
10. The estimated tax for the year is Shs 325 million.

Required:

For the year ended 31 December, 2020 prepare:

- | | |
|--------------------------------------|-------------------------|
| (a) adjusted profit. | (6 marks) |
| (b) statement of changes in equity. | (3 marks) |
| (c) statement of financial position. | (11 marks) |
| | (Total 20 marks) |

Question 3

The accounts assistant of Excel Ltd prepared the financial statements despite the existence of a suspense account balance of Shs 40,150,000. The statement of financial position as at 30 June, 2020 is provided below:

Assets:	Shs '000'
Inventory	78,540
Plant & equipment	236,560
Buildings	324,000
Cash & bank	54,500
Land	304,850
Trade receivables	95,850
Suspense account	<u>40,150</u>
Total assets	<u>1,134,450</u>
Equity & liabilities:	
Share capital	450,400
10% loan	434,301
Expenses payable	23,450
Share premium	123,780
Retained profits	56,763
Trade payables	<u>45,756</u>
Total equity & liabilities	<u>1,134,450</u>

On further analysis, the following errors were discovered:

1. The purchases for the period were under cast by Shs 3 million.
2. Extension to the building that cost Shs 65,560,000 was recorded as repair expenses. Buildings are depreciated at 2% on cost per annum.
3. A cash receipt of Shs 500,000 from a debtor was credited to the cash book as Shs 50,000 and debited to the debtors account as Shs 5 million.
4. Prompt Supplies Ltd had an outstanding balance of Shs 4 million that was paid twice using Electronic Funds Transfer (EFT) system. The company refunded the overpayment.
5. Depreciation of computers of Shs 1.3 million was entered in the statement of profit or loss as Shs 3.1 million. The correct amount was entered in the corresponding account.
6. A cheque of Shs 5.6 million received from a debtor was debited to the bank account and credited to the sales account.
7. No entry had been made in the company's books for bank charges of Shs 67,000 debited in the bank statement.
8. Share capital of Shs 405.4 million was brought forward in error as Shs 450.4 million.

9. A credit note received from a supplier of Shs 1.1 million had only been posted correctly in the suppliers account. No corresponding entry had been made.
10. The loss for the year ended 30 June, 2020 is Shs 8,750,600.

Required:

- (a) Show journal entries to correct the above errors. (Ignore narrations)

(10 marks)

- (b) Prepare suspense account.

(2 marks)

- (c) Prepare corrected statement of financial position as at 30 June, 2020.

(8 marks)**(Total 20 marks)****Question 4**

- (a) Briefly explain **five** roles of small businesses in Uganda's economic development.

(5 marks)

- (b) The elements recognised in the financial statements are quantified in monetary terms which require selection of a measurement basis.

Required:

In relation to assets, explain the measurement bases permitted by the International Accounting Standards Board's conceptual framework.

(5 marks)

- (c) The treasurer of Muyenga Social Club has provided the following information for the year ended 30 June, 2020.

	1 July, 2019	30 June, 2020
Details:	Shs '000'	Shs '000'
Cash balance	23,500	?
Accrued ordinary subscription	8,600	12,500
Prepaid ordinary subscription	6,400	9,850
Accrued rent	3,404	2,308
Prepaid utilities	340	140
Land & buildings	235,400	220,400
Gym equipment	129,500	110,400
Life subscription	12,500	?

Other information:

1. The social club operates a gym that is paid for by members.
2. Subscription received during the year amounted to Shs 180,450,000 of which 80% was ordinary subscription and the remaining percentage was life subscription.
3. The life subscription as at 1 July, 2019 had a remaining period of 10 years. It is the company's policy to recognise life subscription over a period of 20 years.
4. Salaries and utilities paid during the year amounted to Shs 56.5 million and Shs 12.5 million respectively. The club and gym share both expenses in the ratio of 2:3 respectively.
5. Other expenses paid for during the year ended 30 June, 2020 relating to the running of the social club total to Shs 78.5 million.
6. The gym manager hands over the cash collections to the club manager at the end of every week. The club manager banks gym collections of Shs 700,000 weekly after deducting the following weekly gym expenses:

Details	Shs
Bottled water	234,500
Allowance for the instructor	210,000
Cleaning costs	50,000

Required:

Prepare

- | | |
|--------------------------------------|-------------------------|
| (i) ordinary subscription account. | (3 marks) |
| (ii) life subscription account. | (2 marks) |
| (iii) receipts and payments account. | (5 marks) |
| | (Total 20 marks) |

Question 5

- (a) Depreciation involves the allocation of an asset's cost over its useful life. For financial reporting purposes, a business chooses one of several methods to depreciate a non-current asset.

Required:

Explain **three** factors that may influence choice of the depreciation method.

(3 marks)

- (b) Prosperous Ltd has provided the following information relating to motor vehicles as at 1 July, 2017.

Cost	Accumulated depreciation	Carrying amount
Shs '000'	Shs '000'	Shs '000'
187,500	65,760	121,740

Additional information:

- On 3 August 2017, a delivery truck was imported and the following costs were incurred:

Details	Shs '000'
Purchase price	78,600
Shipping costs	5,750
Taxes	42,500
Fines	5,759

Of the taxes paid, Shs 22 million is refundable to Prosperous Ltd.
- A motor vehicle which had cost Shs 26.5 million on 3 July 2014, was disposed of, on 3 January 2018, at Shs 19 million.
- On 31 December 2018, a pick-up, registration number UAZ 33X which cost Shs 75 million, acquired on 1 October 2015, was traded in with a new double cabin from Zoe Motors Ltd. Zoe Motors Ltd valued the old pick up at Shs 20 million and Prosperous Ltd topped up cash Shs 70 million.
- On 3 May 2019, a van which cost Shs 34.5 million on 1 June, 2015 was destroyed by fire. The insurance company has confirmed compensation of Shs 10.7 million though this was not yet received by the 30 June, 2019.
- Non- current assets are depreciated as follows:

	Depreciation rate
Motor vehicles	20% on cost
- A full year's depreciation is provided for in the year of acquisition and none in the year of disposal.
- The financial year of Prosperous Ltd ends on 30 June.

Required:

Prepare for the year ended 30 June, 2018 and 2019, a combined:

- motor vehicles account. **(5 marks)**
- accumulated depreciation account. **(7 marks)**
- motor vehicles disposal account. **(5 marks)**

(Total 20 marks)

Question 6

Debbie, Martha and Samson are in partnership trading as DMS Garments. They share profits and losses in the ratio 4:3:3 respectively. Below is the partnership's trial balance as at 30 June, 2020:

	Debit Shs '000'	Credit Shs '000'
Capital accounts:		
Debbie		1,040,000
Martha		650,000
Samson		390,000
Current accounts:		
Debbie		208,000
Martha		156,000
Samson		104,000
Leasehold premises at cost as at 2 August 2019	1,365,000	
Furniture & fittings	272,000	
Equipment	196,000	
Inventory as at 1 July 2019	546,000	
Sales & purchases	3,640,000	5,785,000
Employee costs	832,000	
Operating expenses	587,600	
Administration costs	136,500	
Accumulated depreciation:		
Furniture & fittings		121,400
Equipment		60,600
Additions & alterations to leasehold premises	325,000	
Professional expenses	45,500	
Drawings:		
Debbie	91,000	
Martha	78,000	
Samson	52,000	
Cash & bank	568,100	
Provision for doubtful debts		6,500
Trade payables & receivables	<u>267,800</u>	<u>481,000</u>
	<u>9,002,500</u>	<u>9,002,500</u>

Additional information:

1. Inventory at 30 June, 2020 was valued at Shs 572 million.

2. The partnership agreement provides that partners are credited at the end of each year with 5% on the balances of their respective capital accounts at the beginning of each financial year.
3. No interest is charged on drawings.
4. Professional expenses were in respect to acquisition of leasehold premises.
5. Employee costs include the following monthly salaries paid to the partners: Debbie Shs 6.5 million, Martha Shs 3.9 million and Samson Shs 3,250,000.
6. On 30 June 2020, operating expenses outstanding and administrative costs paid in advance amounted to Shs 32.5 million and Shs 31.2 million respectively.
7. Included in operating expenses are returns inwards of Shs 5.6 million and returns outwards of Shs 9.3 million.
8. Bad and doubtful debts are treated as operating expenses. Bad debts of Shs 10 million are to be written off and a provision for doubtful debts of 5% per annum made.
9. Leasehold premises are to be amortised over a period of 50 years, while depreciation of furniture & fittings, and equipment is at the rates of 10% and 20% per annum on cost respectively. A full year's depreciation is provided for in the year of acquisition and none in the year of disposal.

Required:

Prepare the following in the books of DMS Garments for the period ending 30 June, 2020;

- | | | |
|-----|------------------------------|-------------------------|
| (a) | statement of profit or loss. | (13 marks) |
| (b) | partners' current accounts. | (7 marks) |
| | | (Total 20 marks) |