

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

FRIDAY 18 DECEMBER, 2020

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.

- withdrew money monthly from the business' bank account for personal use but could not remember total amount withdrawn in the year.
- sublets part of the business premises at Shs 100,000 monthly effective 1 August, 2019. By the year end, only rent for 4 months had been received through the business' bank account.
- recalls depositing Shs 3.2 million received from mobile money customers into the retail shop's business bank account and withdrawing Shs 2.3 million from the same bank account and putting it in the retail shop's cash box.

7. The business' depreciation policy is as below:

Assets:	Rate per annum	Method
Furniture and fittings	5%	Reducing balance
Refrigerators	20%	Reducing balance

Required:

Prepare for Mamma Pheena's retail shop business as at 31 December 2019:

- (a) relevant ledger accounts. (12 marks)
- (b) statement of profit or loss. (3 marks)
- (c) statement of financial position. (5 mark)

(Total 20 marks)

Question 3

Bernard and Brenda are partners in BB Associates, an audit firm started on 1 July, 2018. They share profits and losses in a ratio of 6:4.

During the year ended 30 June, 2019, Mr. Kapere, an accounts assistant of BB Associates who had prepared the firm's financial statements reported the following.

- A net loss before appropriation of Shs 16,650,000.
- Partners' share of loss was Shs 9,990,000 and Shs 6,660,000 for Bernard and Brenda respectively.
- Partner's capital accounts:

Bernard	Brenda	Details	Bernard	Brenda
		Balance b/f	23,500	21,500
		Current a/c	1,100	940
9,990	6,660	Share of loss		
<u>14,610</u>	<u>15,780</u>	Balance c/f
<u>24,600</u>	<u>22,440</u>		<u>24,600</u>	<u>22,440</u>

- BB Associates' statement of financial position as at 1 July, 2019.

	Shs '000'
Non-current assets:	
Computers (cost Shs 19.2 million)	19,200
Furniture and fittings (cost Shs 10.5 million)	10,500
Current assets:	
Cash and bank	<u>690</u>
Total assets	<u>30,390</u>
Capital	
Bernard	14,610
Brenda	<u>15,780</u>
Total capital and liabilities	<u>30,390</u>

Upon review of the work done by Mr. Kapere, it was discovered that he had not taken into account, the following transactions.

1. Fee notes worth Shs 36 million issued to various clients, none of whom had paid the amount due by the year end.
2. Bernard' salary Shs 2.5 million. The deed had been amended to allow Bernard earn a monthly salary of Shs 2.5 million effective 1 June, 2019. This amount had not been paid by the year end.
3. A binding machine valued at Shs 2.4 million. This was Bernard's personal binding machine that was surrendered to be used by the firm on 1 May, 2019.
4. Depreciation expenses. The firm's policy on depreciation is to depreciate computers at 25% per annum on reducing balance and the rest of the non-current assets at 5% per annum on cost. Full year depreciation in the year of purchase and none in the year of disposal.
5. Interest on drawings. The deed provided for interest of 5% per annum on drawings. Drawings in cash during the year were as follows:

Date:		Shs '000'
31 March, 2019	Bernard	1,200
1 January ,2019	Brenda	400

The firm's maintains the capital account using the fluctuating capital balance method.

Required:

Prepare for BB Associates, for the year ended 30 June, 2019:

(a) Journal entries to incorporate items (1)-(5) above.

(7 marks)

(b) Statement of adjusted net profit or loss and appropriation account.

(4 marks)

- (c) Partner's capital accounts. **(5 marks)**
 (d) Statement of financial position. **(4 marks)**
(Total 20 marks)

Question 4

- (a) Explain **two** fundamental qualitative characteristics that make information provided in financial statements useful to users of financial information. **(2 marks)**
 (b) The following trial balance was extracted from the books of Fast Freight Services Limited (FFSL) for the year ended 31 December, 2019.

	Debit Shs '000'	Credit Shs '000'
Share capital		556,000
Cash and bank	14,500	
Revenue		453,800
Motor vehicles	654,000	
Furniture and fittings	10,400	
Fuel, tyres, repairs and maintenance	397,000	
Accumulated depreciation:		
Motor vehicles		130,800
Furniture and fittings		520
Salary and wages	120,000	
Rent	36,000	
Utilities and insurance premium	72,120	
Provision for bad debts		5,600
3 year, 21% bank loan (obtained on 1 December 2019)		180,000
Debtors	32,000	
Creditors	<u>-</u>	<u>9,300</u>
	<u>1,336,020</u>	<u>1,336,020</u>

Additional information:

- Invoices worth Shs 56 million issued to customers on 15 December, 2019 had neither been included in the records nor settled.
- Management of FFSL received Shs 74 million from Best Distributors Limited on 15 October, 2019 by cheque. This amount related to a debt owed and subsequently written off by management of FFSL in 2018.
- Management of FFSL passed a resolution to write off Shs 6.5 million in debt and to adjust the provision for doubtful debts to 5% of final trade receivables' balance after all related adjustments had been made.

4. Monthly total repayment for the loan obligation for the month of December 2019 was Shs 6,781,500 (Shs 3,150,000 in interest and Shs 3,631,500 as a repayment towards the principle). The amount was reflected in the bank statement but the cash book had not yet been updated.
5. The company's depreciation policy is as below:
- | | | |
|------------------------|----------------|------------------|
| | Rate per annum | Method |
| Motor vehicles | 20% | Reducing balance |
| Furniture and fittings | 5% | Straight line |
- Depreciation expense is time apportioned whenever applicable.

Required:

Prepare for FFSL, for the year ended 31 December, 2019:

- (a) Journal entries to record the additional information (1) to (5) above **(8 marks)**
- (b) Statement of profit or loss. **(5 marks)**
- (c) Statement of financial position. **(5 marks)**

(Total 20 marks)

Question 5

- (a) Briefly differentiate between entrepreneurial ventures from small businesses **(5 marks)**

- (b) The following information was obtained from the books of Pamoja General Enterprises. The accounts assistant left without notice in April 2020 before preparing the bank reconciliation statement for the month of March 2020.

Un-reconciled items for the month of March 2020.

Un-presented cheques:	Shs '000'	Direct debits:	Shs '000'
Cheque no:85458	760	Ledger fees	36
Cheque no:85450	540	Excise duty	4
Un credited cheques:		Direct credits:	
Cheque no:0671	462	Interest	360
Cheque no:246341	843	Deposit	1,200

Cashbook for the month of April 2020.

Details	Shs '000'	Details	Shs '000'
Balance b/f	1,245	Cheque clearance fee	1,000
Cheque no:6750	4,500	Excise duty	100
Cheque no:108431	7,800	Cheque no:85461	8,400
Cheque no:91084	20,500	Cheque no:00631	3,230

Cheque no:11023	420	Cheque no:85462	26,500
Cheque no:4214	1,560	Cheque no:85460	2,430
Cheque no:39014	670	Cheque no:85464	5,400
Cheque no:7745	6,890	Cheque no:85467	5,670
Cheque no:88816	4,210	Cheque no:85466	1,400
Balance c/d	<u>7,355</u>	Cheque no:85469	<u>1,020</u>
	<u>55,150</u>		<u>55,150</u>

Bank statement for the month of April 2020.

Details	Debit Shs '000'	Credit Shs '000'	Balance Shs '000'
Balance b/f			2,760
Cheque no:6750		4,500	7,260
Cheque clearance fee	1,000		6,260
Excise duty	100		6,160
Cash deposit		560	6,720
Cheque no:108431		7,800	14,520
Cheque no:85461	8,400		6,120
Cheque no:00631		3,203	9,323
Interest		240	9,563
Commission		360	9,923
Cheque book replacement fee	20		9,903
Cheque no:11023	420		9,483
Cheque no:4214	6,150		3,333
Ledger fees	36		3,297
Excise duty-ledger fees	3		3,294
Cheque no:85464		4,500	7,794
Standing order	3		7,791
Loan repayment	8,700		(909)
Cheque no:85450	540		(1,449)
Cheque no:246341		843	(606)

Cheque no. 85460 was dishonored and returned together with the bank statement at end of April 2020. The bank made errors on cheques no. 11023 and 85464. Any other error if found, should be deemed to have occurred in the cashbook.

Required:

Prepare for Pamoja General Enterprises, for the month of April 2020:

- (i) Adjusted cashbook. **(8 marks)**
- (ii) Bank reconciliation statement. **(7 marks)**

(Total 20 marks)

Question 6

The following information was extracted from the asset register of Super & Reliable Construction Limited (SRCL) as at 31 December, 2018.

Asset:	Date of purchase:	Cost of purchase (Shs 'million')
Grader (UAM 6XXL)	30 June, 2017	300
Wheel loader	1 June, 2018	255

Additional information:

1. On 1 January 2019, the wheel loader veered off the road, falling into a ditch and was damaged considerably. The loader was comprehensively insured, the insurance company paid a sum of Shs 120 million and it was subsequently written off.
2. On 31 March 2019, the company acquired a second hand truck at Shs 110 million. The company has started the process of assessment for transfer of title and based on the assessment it will cost Shs 500,000 to transfer the title in the names of the company. This amount has not yet been paid.
3. The grader was replaced in a part exchange on 1 December, 2019. The old grader was valued at Shs 90 million. The company topped up Shs 120 million to meet the full invoice price. The following additional costs were incurred; clearing and taxes Shs 50 million, freight Shs 28 million. Upon clearance, the company incurred Shs 4 million to transport it from Kampala to a road construction site in Gulu.
4. The company's depreciation policy is to:
 - depreciate all vehicles at 20% per annum on reducing balance method.
 - time apportion depreciation charges.
5. All transactions were passed through the company's bank account.

Required:

Prepare the following ledger accounts to reflect the above transaction for the year 2017 to 31 December, 2019.

- | | |
|---|-------------------------|
| (i) Consolidated non-current asset account. | (3 marks) |
| (ii) Consolidated accumulated depreciation account. | (10 marks) |
| (iii) Disposal account. | (4 marks) |
| (iv) Bank account extract. | (3 marks) |
| | (Total 20 marks) |