

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

**CPA (U) EXAMINATIONS**

**LEVEL ONE**

**FINANCIAL ACCOUNTING – PAPER 1**

**MONDAY 25 NOVEMBER, 2019**

**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

- (a) The main output of the accounting process is financial statements that benefit both internal and external stakeholders of a firm.

**Required:**

- (i) Explain the importance of financial statements of intending borrowers to financial institutions bank. **(1 mark)**
- (ii) Explain **three** limitations a bank should be aware of as they use financial statements of clients in the decision making process. **(2 marks)**
- (b) The following is a trial balance for Abigail and Co Advocates for the year ended 31 December, 2018.

Details:	Debit Shs '000'	Credit Shs '000'
Net profit		150,600
Drawings as at 1 January, 2018		
Abigail	15,000	
Brenda	25,500	
Constance	20,000	
Capital account as at 1 January, 2018		
Abigail		34,500
Brenda		24,700
Constance		28,400
Current account:		
Abigail	4,600	
Brenda		19,700
Constance		20,400
Computers at cost	35,000	
Furniture at cost	25,000	
Accumulated depreciation as at 31 December, 2018		
Computers		15,500
Furniture		5,900
Payables		6,500
Legal fees receivable	188,800	
Cash and bank	36,760	
18% bank loan	-	44,460
Total	<u>350,660</u>	<u>350,660</u>

Other information:

1. Additional capital was introduced by Abigail and Brenda during the year. On 1 April, 2018 Abigail added Shs 15 million and on 1 August, 2018 Brenda added Shs 12 million. Interest on capital is 10% per annum.
2. Brenda took more drawings of Shs 1 million on 1 October, 2018. Interest on drawings is 5% per annum.
3. Interest on drawings and capital is time apportioned.
4. All partners are entitled to salaries of Shs 400,000 per month. By the end of the year, salaries were paid up to August. The remaining months' salaries are still outstanding.
5. Constance retired from the partnership at the end of the year. The partnership paid her half of the total amount due and the balance is payable in 12 months time.
6. The partners share profits and losses equally.

**Required:**

Prepare for Abigail and co advocates for the year 31 December, 2018.

- |       |                           |                  |
|-------|---------------------------|------------------|
| (i)   | an appropriation account. | <b>(6 marks)</b> |
| (ii)  | current account.          | <b>(8 marks)</b> |
| (iii) | capital account.          | <b>(3 marks)</b> |

**(Total 20 marks)**

**Question 3**

- (a) Describe **five** factors that explain the emergence of push entrepreneurs in Uganda.  

**(5 marks)**
- (b) Explain why it is important for a business to make positive cash flows from operating activities.  

**(3 marks)**
- (c) The accounts assistant of Tweekembe Enterprises Ltd prepared the statement of profit or loss and the statement of financial position as at 30 June, 2018 and 2019.

Statement of profit or loss for the year ended 30 June, 2019.

	Shs '000'
Sales revenue	780,600
Cost of sales	<u>(320,000)</u>
Gross profit	460,600
Gain on disposal of equipment	34,000
Administration costs	(124,500)
Distribution costs	<u>(135,000)</u>
Operation profit	235,100
Finance costs	<u>(67,500)</u>
Profit before tax	167,600
Tax	<u>(50,280)</u>
Profit for the period	<u>117,320</u>

Statement of financial position as at 30 June:

	2019 Shs '000'	2018 Shs '000'
Non – current assets:		
Cost	5,840,000	4,600,500
Accumulated depreciation	<u>(1,980,000)</u>	(1,800,000)
Net book value	3,860,000	2,800,500
Investments at cost	1,100,400	800,400
Current assets:		
Inventory	67,500	50,500
Trade receivables	205,400	386,400
Other receivables	46,400	34,500
Cash and bank	<u>34,500</u>	<u>-</u>
Total assets	<u>5,314,200</u>	<u>4,072,300</u>
Equity and liabilities:		
Share capital	2,540,000	2,300,400
Share premium	800,340	576,390
Retained earnings	645,050	703,972
Revaluation reserve	404,560	240,340
Non-current liabilities:		
Bank loan	769,870	105,678
Current liabilities:		
Trade payables	86,400	75,400
Taxes payable	35,450	24,560
Finance costs payable	<u>32,530</u>	<u>45,560</u>
Total equity & liabilities	<u>5,314,200</u>	<u>4,072,300</u>

Other information:

1. Equipment disposed of during the year had a cost and carrying value of Shs 105 million and Shs 60,506,000 respectively.
2. A cash issue of shares was made during the year.
3. Changes in retained earnings were as a result of payment of dividends to shareholders.

**Required:**

Assist the accounts assistant of Tweekembe Enterprises Ltd in determining the following balances to be included in the statement of cash flow for the year ended 30 June, 2019.

- |  |                         |
|--|-------------------------|
| (i) Property plant & equipment acquired during the year. | <b>(2 marks)</b>        |
| (ii) Annual depreciation charge.                         | <b>(2 marks)</b>        |
| (iii) Taxes paid.  | <b>(2 marks)</b>        |
| (iv) Finance costs paid.                                 | <b>(2 marks)</b>        |
| (v) Dividends paid.                                      | <b>(2 marks)</b>        |
| (vi) Proceeds from disposal of equipment.                | <b>(1 mark)</b>         |
| (vii) Proceeds from issue of shares.                     | <b>(1 mark)</b>         |
|  | <b>(Total 20 marks)</b> |

**Question 4**

- (a) Explain the purpose of preparing a trial balance. **(2 marks)**
- (b) The Accounts Clerk of Zibula Atuude Ltd (ZAL) has provided the following trial balance for the year ended 31 December, 2018 before accounting for the end of year adjustments.

Details	Debit Shs'000'	Credit Shs'000'
Rent	35,000	
Utilities	24,900	
Salaries	186,500	
Stationery	21,400	
Sales revenue		1,070,100
Returns	10,000	8,540
Purchases	705,600	
Inventory 1 January, 2018	124,500	
Land	543,000	
Motor vehicles at cost	123,500	

Details	Debit Shs'000'	Credit Shs'000'
Accumulated depreciation on motor vehicles as at 1 January, 2018		43,400
Equipment at cost	255,980	
Accumulated depreciation on equipment as at 1 January, 2018		84,320
Trade payables		24,500
Trade receivables	45,400	
Cash & bank	59,400	
20% Bank loan		457,690
Allowance for bad and doubtful debts		3,450
Bad debts	27,500	
Share capital		120,680
Share premium		104,600
Retained earnings		<u>245,400</u>
Total	<u>2,162,680</u>	<u>2,162,680</u>

Other information:

- Closing inventory was valued at Shs 234.5 million following the principles of IAS 2: Inventory
- Non-current assets are depreciated on cost at the following rates:

	Rate (%)
Motor vehicles	12.5
equipment	25
- James, a debtor with a balance of Shs 2,450,000 disappeared and his balance should be written off. The allowance for bad and doubtful debts as at the end of the year is estimated at 5% of the remaining receivables.
- Unused stationery at the end of the year is valued at Shs 3.4 million.
- The tax for the financial year is estimated at Shs 123 million.
- The salary expense includes salary advance to staff of Shs 34.5 million.
- ZAL disposed of one of the plots of land owned by the company located in a slow growing suburb. Land cost Shs 60 million and was disposed of at Shs 70 million.

**Required:**

Prepare an adjusted trial balance for the year ended 31 December, 2018.

*Hint:*

Original Trial balance		Adjusting the Trial Balance		Final Trial Balance		
	<i>Dr</i>	<i>Cr</i>	<i>Dr</i>	<i>Cr</i>	<i>Dr</i>	<i>Cr</i>
<i>Utilities</i>	50,000			10,000	40,000	

**(18 marks)**

**(Total 20 marks)**

**Question 5:**

- (a) Distinguish between straight line and reducing balance method of depreciation.

**(2 marks)**

- (b) Explain the circumstances that determine whether to use straight line method or reducing balance method.

**(2 marks)**

- (c) GM Ltd is a manufacturing company. They imported a machine from China and the details were as provided below:

List price Shs 56 million

Trade discount on the list price 5%

Other related costs:

	Shs '000'
Taxes	23,500
Transport costs	6,000
Pre-production	7,500
Installation costs	4,597

Other information:

- Included in the installation costs is Shs 1.2 million incurred as a result of redoing the electrical installation resulting from use of poor quality materials used by the engineer.
- The machine was put to use on 1 January, 2016.
- The estimated residue value of the machine is Shs 3,597,000.
- In March 2019, the machine was damaged by power surges and was sold off for Shs 35.5 million.
- Full year's depreciation is provided for in the year of acquisition and none in the year of disposal.
- The financial year of GM Ltd runs from 1 January to 31 December.

**Required:**

For the financial years ending 31 December 2016, 2017, 2018 and 2019, prepare:

- (i) an asset account, accumulated depreciation and disposal account if GM Ltd depreciates the machine using straight-line method at a rate of 10%. **(9 marks)**
- (ii) accumulated depreciation and disposal account using reducing balance method at a rate of 25%. **(7 marks)**

**(Total 20 marks)**

**Question 6**

The trial balance below is provided by KGS Financial Services Limited for the financial year ended 30 June, 2018:

Details	Debit Shs'000'	Credit Shs'000'
Deposits by customers		20,000,000
Deposits by other banks		12,000,000
Loans and advances to customers	120,000,000	
Cash balances with the Regulatory Authority	20,000,000	
Cash at hand and bank	59,000,000	
5% Loan repayable in 2023		25,000,000
Treasury bill investments	67,400,000	
Other investments	50,000,000	
Bad debts	3,200,000	
Allowance for bad debts		8,000,000
Interest charged on customer loans		50,500,000
Bank charges income		24,500,000
Interest from investments		5,345,000
Fines and penalties income		5,650,000
Land	1,000,000	
Buildings at cost	5,400,000	
Accumulated depreciation on buildings		750,000
Other plant, property and equipment (PPE) at cost	3,200,400	
Accumulated depreciation on other PPE		1,006,300
Interest on deposits of customers	2,756,000	
Personnel expenses	12,500,000	
Share capital		171,554,500
Share premium		12,450,000



Details	Debit Shs'000'	Credit Shs'000'
Retained earnings		65,400,000
Gains on foreign exchange trading		875,000
Utilities	123,500	
Rent	564,500	
License fees	340,000	
Loans and advances to other banks	50,450,000	
Legal fees	203,400	
Other receivables	769,000	
Other payables		876,000
Intangible assets	3,000,000	
Dividends paid	<u>4,000,000</u>	<u>-</u>
Total	<u>403,906,800</u>	<u>403,906,800</u>

Additional information:

1. The allowance for bad debts relates to loans and advances to customers.
2. Non-current assets are depreciated as follows:
 

	Depreciation rate on cost per annum
Buildings	2.5%
Other PPE	6.25%
3. Interest on treasury bills of Shs 2.45 billion accrued.
4. Tax for the financial year is estimated at Shs 18 billion.
5. Consultancy and audit fees of Shs 3 billion and Shs 320 million respectively remained outstanding.
6. The interest on the loan is outstanding.
7. The treasury bills mature within 182 days.
8. Assume that deposits by customers, deposits by other banks, loans & advances to customers and loans & advances to other banks are current items.

**Required:**

For the year ended 30 June 2018, prepare:

- (i) statement of profit or loss and other comprehensive income. **(9 marks)**
- (ii) statement of changes in equity. **(2 marks)**
- (iii) statement of financial position. **(9 marks)**

**(Total 20 marks)**