THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA (U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY 19 AUGUST, 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

Birungi and Murungi are partners in an accounting firm with capital contributions Shs 60 million and Shs 40 million respectively as at 1 July, 2018. The partners agreed to share profits and losses in the ratio 3:1. The partnership's net profit for the year ended 30 June, 2019 was Shs 64 million per their statement of profit or loss prepared by the partnership's Accounts Assistant.

A review of the partnership's accounting records revealed that the net profit was arrived at erroneously. The following issues were identified to have caused the erroneous computation:

1 Depreciation expense relating to computers and printers was undercharged by Shs 3,125,000.

2 Interest on loan from Birungi for the year was correctly computed but had been recognised as interest income (see note (ii) below).

3 An insurance claim Shs 57 million had been recognised as accrued income during the year. However, the insurance company, in a letter dated 1 June, 2019 declined to pay this sum when it proved that there was negligence on the part of the partnership. No adjustments have been made in the books to this effect.

4 Both opening and closing inventory had been overstated by Shs 650,000 and Shs 240,000 respectively.

5 Accrued salaries Shs 3,400,000 had not been recognised.

6 A printer purchased for Shs 1.5 million had been expensed by the Accounts Assistant. The partnership capitalises all assets acquired at more than Shs 1 million.

7 Shs 4.3 million relating to office expenses initially charged to profit or loss, included prepaid office expenses Shs 230,000.

8 Revenue included Shs 360,000 received in advance for a training that was to take place in January 2020 but excluded consultation fees Shs 540,000 in respect of non-audit services performed during the year for which payment had not yet been received.

9 the provision for bad debts charged to profit or loss was Shs 460,000. The provision should have been 2% of the net accounts receivable balance of Shs 8.5 million.

The following notes are also relevant:

(i) Birungi made drawings Shs 4.8 million in two equal installments on 1 July, 2018 and 1 December, 2018 while Murungi withdrew Shs 3.6 million on 1

October, 2018. The Partnership Deed provides for interest on drawings at 8% per annum.

(ii) Birungi advanced a loan Shs 10 million to the partnership on 1 October, 2018. The loan interest was agreed at 12% per annum. Interest was assumed to accrue evenly throughout the year.

(iii) The Partnership Deed provides for interest of 5% on partners' capital contributions.

(iv) Murungi is entitled to a salary Shs 9.6 million per year with effect from 1 April, 2019. The salary is earned evenly throughout the year.

(v) Current account balances as at 1 July, 2018 were Shs 5.4 million (credit) and Shs 1.2 million (debit) for Birungi and Murungi respectively.

Required:

Prepare for the partnership for the year ended 30 June, 2019:

(a) A statement of corrected profit or loss. **(7 marks)**

(b) A partners' appropriation account. **(5 marks)**

(c) Partners' capital accounts, in columnar format, using the fluctuating capital balance method

(8 marks)

(Total 20 marks)

Question 3

Johnson Aliga has been running a small business for a number of years with limited knowledge of bookkeeping. In order to ascertain the true financial performance and financial position of his business, he has provided the following information:

1. Opening and closing balances for the year 2018:

	31 December Shs '000'	1 January Shs '000'
Bank	?	25,750
Cash	5,000	17,900
Inventory	42,000	21,500
Trade receivables	10,750	39,750
Trade payables	22,250	18,500
Prepaid utilities	1,450	1,275
Accrued staff costs	5,340	4,560
Land at cost	?	45,600
Furniture & fittings (cost Shs 65 million)	?	38,600
Accrued rent	1,560	2,340
Capital	?	164,975

2. Transactions during the year:

   Payments through bank:

	Shs '000'
Purchase of inventory	7,475
Utilities	16,075
Staff costs	7,500
Purchase of land	30,000
Legal costs	3,550
Brokerage fees	1,750
Security expenses	1,440
Rent	8,500
Fixtures	14,500
Payment to suppliers	40,000

   Payments by cash:

	Shs '000'
Purchase of inventory	80,775
Rent	1,200
Utilities	350

3. The business depreciates furniture and fixtures at 10% per annum on cost.
4. Legal costs and brokerage fees relate to the acquisition of land during the year. Security costs relate to money paid to a security company for the services of a guard for the land.
5. All sales were made at a margin of 20%. 40% of total sales in the year related to cash sales. 70% of cash sales were received through the bank, the balance in cash. Credit purchases were Shs 43,750,000.
6. 50% of the collections from debtors went through the bank, the balance was received in cash.
7. A full year's depreciation is provided for in the year of acquisition of non-current assets.

Required:

Determine Aliga's:

(a) Total purchases, total sales and collections from debtors. **(5 marks)**
(b) Cash drawings during the year and closing bank balance. **(10 marks)**
(c) Amount of rent and utilities for the year. **(3 marks)**
(d) Total value of land as at 31 December, 2018. **(2 marks)**
(Total 20 marks)

Question 4

Convenient Properties Limited (CPL) deals in construction of houses (apartments) to let. The following information was extracted from the CPL's books as at 1 July, 2015:

Item	Historical cost Shs 'million'	Date of completion	Date of occupancy
House 1	400	1 January, 2013	1 July, 2013
House 2	600	1 January, 2014	1 January, 2015

Additional information:

1 House 1 was sold as a condominium for Shs 700 million on 1 January, 2016.
2 Construction of house 3 was completed on 1 January, 2017 and was occupied on 1 June, 2017. The costs incurred included: materials Shs 420 million, labour Shs 80 million (of which Shs 4 million was spent during a period when work had been temporarily suspended as result of unavailability of materials), architect's fees Shs 6 million, and land survey fees Shs 3 million. The building plan was approved at Shs 4 million.
3 House 3 was demolished by the Environment Authority on 30 June, 2017 as it had been constructed within a wetland.
4 All the buildings are depreciated at 4% on reducing balance. Depreciation is time apportioned whenever applicable. All transactions are made through bank. The company's financial year ends 30 June.

Required:

Prepare, for CPL, for the year ended 30 June, 2017:

(a) A combined:

(i) non-current assets' account. **(9 marks)**
(ii) accumulated depreciation account. **(5 marks)**
(iii) disposal of buildings account. **(4 marks)**

(b) An extract for the bank account. **(2 marks)**

(Total 20 marks)

Question 5

(a) You plan to start an events management business to serve areas around Kampala City. However, you have been advised to conduct a feasibility study first.

Required:

Explain any **two** dimensions you will consider when conducting the feasibility study.

(4 marks)

(b) You have been invited by SPW Ltd to make a presentation to their accounts staff on the ICPAU Code of Ethics that provides guidance to members as they perform their professional responsibilities.

Required:

Briefly explain **three** fundamental ethical principles that you would include in your presentation.

(3 marks)

(c) The following information relates to bank transactions of Mabugu Traders for the month of March 2019. The cashbook (bank column) had a debit balance Shs 160,054,000 while the bank statement had credit balance Shs 245,641,000 as at 31 March, 2019. On further examination, the cashier discovered the following discrepancies:

1. On 12 March, a payment to Mabugu Traders from Budadiri Traders by direct deposit Shs 3,500,000 was not cleared by the bank due to insufficient funds on the latter's account. The bank fined Budadiri Traders Shs 250,000.
2. On 15 March, Wekomba Ltd made a direct transfer Shs 16,300,000 to Mabugu Traders bank account. This information had not yet been reflected in the cashbook of Mabugu Traders by 31 March.
3. On 20 March, a customer paid Mustapha Shs 4,360,000 by cheque. The bank erroneously credited this payment to Mabugu Traders account.
4. A cash deposit Shs 1,282,000 by Mabugu Traders was entered, in error by the bank, as a credit Shs 1,228,000.
5. Mabugu Traders paid Sironko Traders by cheque Shs 12,460,000 but recorded it as a credit Shs 11,460,000 in the cashbook.
6. On 22 March, Oundo made a direct credit transfer Shs 5,140,000 to Mabugu Traders bank account. The cashbook had not been updated with this payment by 31 March.

7 The following cheques were deposited in the bank by Mabugu Traders on 30 March but were not reflected on the bank statement: No. 2132 Shs 7,450,000; No. 0345 Shs: 4,000,000; No. 3340 Shs 5,600,000 and No. 4770 Shs 6,700,000.

8 A cheque payment Shs 7,600,000 by Gagula Traders to Mabugu Traders account was debited by the bank as Shs 6,700,000.

9 Cheques: No. 00105 Shs 25,300,000; No. 00106 Shs 35,200,000; No. 00107 Shs 27,346,000; No. 00109 Shs 5,000,000 and No: 00110 Shs 2,390,000, paid to clients on 31 March were not reflected on the bank statement.

10 Other transactions during the period that were reflected in the bank statement but not in the cashbook were as follows:

Item	Shs '000'
Bank charges	245
Ledger fees	25
Insurance payments	190
Loan deductions	545
Interest on deposit	250
Dividend income	6,500
Excise duty	90

11 Wagogo who provides meals to staff was paid by cheque No: 00106 Shs 1,500,000 on 23 March. He returned it on 29 March and was given cash of the same amount. This payment had initially been captured in the cashbook (bank column).

Required:

Prepare, for Mabugu Traders as at 31 March, 2019:

(i) An adjusted cashbook **(7 marks)**

(ii) A bank reconciliation statement **(6 marks)**

(Total 20 marks)

Question 6

The Accounts Assistant of Good Days Ltd (GDL) has provided the following trial balance as at 31 December, 2018.

	Dr	Cr
Details	Shs '000'	Shs '000'
Ordinary share capital Shs 1,000 per share		350,000
Share premium		120,000
20% bank loan		57,000
Land at cost	396,864	
Plant & machinery at cost	125,600	
Computers at cost	45,000	
Accumulated depreciation:		
Plant and Machinery		23,864
Computers		22,500
Purchases and sales	103,000	296,700
Returns	5,300	4,300
Staff costs	34,300	
Rent	23,500	
Discounts	3,450	2,350
Bad debts	10,500	
Trade receivables & trade payables	42,500	28,750
Legal costs	9,000	
Cash & bank	26,650	
Other administration costs	24,300	
Balances as at 1 January, 2018:		
Inventory	45,750	
Accumulated profit or loss	25,500	
Non-current asset replacement reserve		30,250
Dividends paid	14,500	
	935,714	935,714

Additional information:

1. GDL deals in three categories of inventory: plastics, kitchen utensils and bedroom accessories. As at 31 December, 2018 inventory details were as follows:

    (i) Plastics that had cost Shs 25 million had a net realisable value Shs 20 million.

(ii) Kitchen utensils had a cost Shs 30 million. However, this included some utensils which had cost Shs 10 million but were damaged during offloading and can only be sold for Shs 7.5 million.

(iii) Bedroom accessories that had cost Shs 22.5 million had a net realisable value of Shs 25 million.

2. GDL's depreciation policy for non-current assets is as follows:

Asset	Depreciation rate and basis
Plant & machinery	10% on reducing balance
Computers	25% on cost

3 During the year, 200,000 shares were issued at Shs 1,200 each. The required adjustments had already been incorporated in the books at the time of extracting the trial balance.

4. Management decided to write off a debt Shs 2.3 million relating to a debtor who was facing serious financial difficulties.

5. At the end of the financial year, a decision was made to transfer Shs 20.3 million from retained earnings to the non-current asset replacement reserve. This transfer had not yet been made.

6. Interest on loan for the year was paid in full through the bank. This adjustment had not been made in the books by the year end. Shs 3,250,000 worth of rent was prepaid. No adjustment had been made relating to this prepayment.

Required:

Prepare, for GDL, for the year ended 31 December 2018, a statement of:

(a) profit or loss **(9 marks)**
(b) changes in equity **(5 marks)**
(c) financial position **(6 marks)**

(Total 20 marks)