

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

CPA (U) EXAMINATIONS

LEVEL ONE

FINANCIAL ACCOUNTING – PAPER 1

MONDAY 27 MAY, 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

The following information relates to Kibuga Women's Group (KWG) whose aim is to impart women with entrepreneurial skills to enhance their household incomes. KWG also operates a bakery to raise money to finance the activities of the group. Their receipts and payments account for the year ended 31 December, 2018 is as follows:

Details	Shs '000'	Details	Shs '000'
Balance b/ d (1 January, 2018)	32,000	Balance b/ d (1 January, 2018)	2,000
Donations	60,000	Bakery material purchases	18,450
Fundraising income	15,520	Utilities	10,050
Membership income	11,250	Salaries	8,000
Confectionaries sales	54,000	Repairs and maintenance	1,560
		Training costs	2,112
		Motivational speaker allowances	1,200
		Motivational visits	1,480
		Storage costs (bakery)	870
	-	Balance c/d	127,048
	<u>172,770</u>		<u>172,770</u>

Additional information:

- The following balances were available in 2018:

	1 January Shs '000'	31 December Shs '000'
Bakery delivery van (cost Shs 16 million)	12,800	?
Baking equipment (cost Shs 36 million)	28,800	?
Buildings (cost Shs 52.5 million)	50,400	?
Furniture (cost Shs 8.4 million)	6,720	?
Confectionary inventory	1,400	1,100
Prepaid utilities	2,000	3,000

- Baking flour of Shs 540,000 expired and this has not been accounted for in the books.

- Apportionment of costs to be as follows:

Item	Bakery	KWG
Utilities	60%	?
Salaries	?	1/5
Repair & maintenance	70%	?
Depreciation of furniture	1/4	?
Depreciation of buildings	50%	50%

4. The bakery paid Shs 250,000 to deliver confectionaries to customers and Shs 315,000 to transport baking flour to the bakery. These costs were omitted in the books of account.
5. Membership fee is paid by women to join the group.
6. Motivational costs and training costs relate to KWG.
7. Depreciation is provided for, on cost per annum, as follows:

Asset	Rate (%)
Delivery van	10
Baking equipment	10
Furniture	10
Building	2

Required:

Prepare for KWG a statement of:

- (a) affairs as at 1 January, 2018. **(3 marks)**
 - (b) profit or loss for the year ended 31 December, 2018. **(7 marks)**
 - (c) income and expenditure for the year ended 31 December, 2018. **(5 marks)**
 - (d) financial position as at 31 December, 2018. **(5 marks)**
- (Total 20 marks)**

Question 3

The following trial balance was extracted from the books of JITO Ltd, a manufacturer of textile materials, for the year ended 31 December, 2018.

	Shs '000'	Shs '000'
Share capital		1,096,800
Inventory 1 January, 2018		
Raw materials	50,400	
Work in progress	33,600	
Rolls of finished textile materials	55,200	
Plant & machinery at cost	700,000	
Delivery truck at cost	60,000	
Accumulated depreciation 1 January, 2018:		
Plant & machinery		19,200
Delivery truck		15,000
Bank balance		6,000
Purchase of raw materials	915,800	
Utilities	50,400	
Salaries	40,800	
Factory labour	141,600	
Trade show exhibition expenses	3,400	
Rent & rates	120,000	
Sales		1,030,000
General office expenses	21,600	
Trade receivables & payables	<u>63,000</u>	<u>88,800</u>
Total	<u>2,255,800</u>	<u>2,255,800</u>

Additional information:

- Rent and rates had been paid for the period 1 January, 2018 to 31 March, 2019 while utilities Shs 4.8 million was outstanding by the year end. Rent and rates accrue evenly throughout the year.
- Cotton bales bought at Shs 25.6 million (included in purchases) were stained by smoke during a fire outbreak and subsequently sold for Shs 10 million. This entire transaction has not been recorded in the books of account.
- Included in factory labour is Shs 21.6 million in wages advanced to 10 factory workers during the year. This amount had not been recovered by the year end. 5/6 of the factory labour relates to direct costs and the balance relates to factory overheads. The company apportions other costs as follows:

Cost	Factory	Office & administration	Selling & distribution
Utilities	0.7	?	0.15
Rent and rates	60%	20%	20%
Salaries	10%	70%	20%

4. Inventories as at 31 December, 2018 were as follows:

	Shs '000'
Raw materials	30,000
Work in progress	13,200
Rolls of finished textile materials	25,200

5. The company's depreciation policy is:

Asset	Rate
Plant & machinery	10% on cost
Delivery truck	25% on reducing balance

Required:

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

- (a) manufacturing cost. **(6 marks)**
- (b) profit or loss. **(8 marks)**
- (c) financial position as at 31 December **(6 marks)**

(Total 20 marks)

Question 4

- (a) 'The business environment in Uganda is tough' said one participant in a training organised by Uganda Entrepreneurs Association.

Required:

As an expert in entrepreneurship, advise entrepreneurs on how best their businesses can survive in such an environment.

(5 marks)

- (b) Explain **five** purposes of the International Accounting Standards Board (IASB's) conceptual framework for financial reporting.

(5 marks)

- (c) Jonathan operates a general merchandise shop in Kalembe market. On 18 June, 2018 the market was gutted by fire and three quarters of his merchandise was lost. The remaining inventory was partially destroyed.

On 1 March, 2018 the stock taking exercise valued inventory at Shs 12.5 million. Purchases from 1 March, 2018 to 18 June, 2018 amounted to Shs 85 million while the sales for the same period were Shs 96 million. Goods are sold at a markup of 20%. The inventory which was partially destroyed

by fire can be sold for Shs 1.8 million. Costs expected to be incurred to sale the partially destroyed inventory include delivery costs Shs 120,000 and repackaging costs Shs 180,000.

Required:

Determine the:

- (i) cost of inventory completely destroyed by fire. **(5 marks)**
- (ii) cost of inventory partially destroyed by fire. **(1 marks)**
- (iii) value at which inventory partially destroyed by fire should be recognised following the requirements of IAS 2: Inventory.

(4 marks)

(Total 20 marks)

Question 5

- (a) Explain the qualitative characteristics that enhance the usefulness of financial information.

(6 marks)

- (b) The Accounts Clerk of Mule Traders extracted a trial balance as at 31 December, 2018 but it failed to agree with debits being more than credit by Shs 22,410,000. On further scrutiny, the following errors were discovered.

1. Repairs of machinery, Shs 4.5 million had been charged to machinery account.
2. Sales journal had been under cast by Shs 6.5 million.
3. Purchase of a motor vehicle Shs 15 million was entered in the purchases account.
4. Payment Shs 7,877,000 to Mwamba, a supplier was properly recorded in Mwamba's account but was wrongly recorded in the cash book as Shs 7,787,000.
5. An incoming credit note Shs 8.8 million was properly recorded in the supplier's account but wrongly recorded in the purchases returns account as credit Shs 9.8 million.
6. Opening inventory was under cast by Shs 4.5 million.
7. Dividends received Shs 9 million were debited to directors' salaries. This transaction was recorded correctly in the cash book.
8. Purchase of land Shs 9 million cash was omitted from the books.
9. Discounts received Shs 660,000 were debited to discounts allowed account.

10. Disposal proceeds from sale of machinery Shs 4.25 million were debited in the disposal account. A correct entry was passed in the corresponding account.
11. Purchases Shs 9.7 million on credit from John Mwase were credited to Paul Mwase account.

Required:

- (i) Prepare journal entries necessary to correct the above errors. (ignore narrations). **(10 marks)**
 - (ii) Prepare a suspense account duly balanced. **(4 marks)**
- (Total 20 marks)**

Question 6

Abillinga, Bonny and Charlotte are architects in A, B & C Consulting, sharing profits or losses equally. The following information was extracted from the partnership's books as at 31 December, 2018.

	Shs '000'	Shs '000'
Non-current assets:		
Motor vehicles	25,000	
Furniture and fittings (book value)	24,000	
Laptops (book value)	5,400	
Xerox digital copier and printer (book value)	<u>20,000</u>	74,400
Current assets:		
Prepaid license	3,300	
Accounts receivable	<u>5,900</u>	<u>9,200</u>
Total assets		<u>83,600</u>
Capital and liabilities:		
Capital accounts 1 January 2018:		
Abillinga	8,000	
Bonny	10,000	
Charlotte	<u>5,000</u>	23,000
Current accounts 1 January 2018:		
Abillinga	(800)	
Bonny	-	
Charlotte	1,000	200
Non-current liabilities:		
Bank loan		50,000
Current liabilities:		
Bills payable	9,200	
Bank overdraft	<u>1,200</u>	<u>10,400</u>
Total capital & liabilities		<u>83,600</u>

Additional information:

On 31 December, 2018, Abillinga retired, the remaining partners decided to admit David on the same date. David was to contribute cash Shs 12 million as capital. Bonny, Charlotte and David (B, C & D) agreed as follows:

1. Share profit or losses in the ratio of 2:3:5 respectively.
2. Maintain fluctuating capital accounts.
3. Bonny and Charlotte to increase their capital contribution by 20% and 50% of initial capital contribution respectively.
4. Value goodwill at Shs 4.2 million and account for it using the revaluation method.
5. Revalue assets as follows:

Asset:	Shs '000'
Xerox digital copier and printer	18,000
Furniture and fittings	26,000
Motor vehicles	21,700
6. Abillinga took one of the laptops whose book value was Shs 1.8 million. He took it over at the same amount.
7. Settle liabilities before David joins. Bonny takes over bills payable in full and 60% of the bank loan. Charlotte takes over the bank overdraft and 40% of the bank loan.
8. Pay off Abillinga's balance by cheque.

Required:

Prepare for B, C & D partnership:

- (a) a revaluation account. **(2 marks)**
- (b) partner's capital accounts. **(6 marks)**
- (c) bank account. **(2 marks)**
- (d) individual asset accounts. **(4 marks)**
- (e) goodwill account. **(2 marks)**
- (f) statement of financial position for B, C & D partnership as at 31 December, 2018.

(4 marks)

(Total 20 marks)