

**INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS OF UGANDA**

**BUSINESS ACCOUNTING - PAPER 1  
DECEMBER 1997**

**INSTRUCTIONS TO CANDIDATES**

1. Time allowed : 3 hours
2. Attempt all questions in Section A and B and any one question from Section C.
3. Section A has twenty compulsory questions each carrying 1 mark.
4. Section B has three compulsory questions each carrying 20 marks.
5. Section C has two questions and only one question is to be attempted. Each question carries 20 marks.
6. Please read further instructions on the answer book.

**SECTION A**

**Question 1**

Write the letter corresponding to the correct answer on your answer sheet.

- (i) At 31 December 1996, the <sup>Ledger</sup> balances on plant and equipment accounts were as follows:

	Shs
Plant and equipment cost	400,000
Depreciation	240,000

This was after providing for depreciation for the year 1996 at 20% p.a. using the reducing balance method. It is now decided to change this for the year 1997 to 25% p.a. using the same method.

What is the extra depreciation required?

- a) Shs 10,000  
 b) Shs 4,000  
 c) Shs 7,500  
 d) Shs 8,000
- (ii) The accountant of Orange Ltd while examining the books of the Company, discovers that a cheque of Shs 280,000 sent to a supplier on 17 November is still outstanding. Which option should he take to correct the books of Orange Ltd whose year end is 31 December 1996?
- a) debit supplier's account with the value of purchases of shs 280,000  
 b) debit the bank account with shs 280,000  
 c) does nothing  
 d) credit purchases with shs 280,000 being the value of the purchases.
- (iii) After you have paid a creditor Shs 200,000 you are informed that you were entitled to a Settlement discount of 5% which you forgot to deduct. What is the correct double entry to rectify this error in your books?
- a) Debit Discount received  
 Credit Creditors account  
 b) Debit Bank account  
 Credit Discount received  
 c) Debit Creditors account  
 Credit Discount received  
 d) Debit Discount allowed  
 Credit Creditors account

**Business Accounting - Paper 1**

- (iv) A company has budgeted Sales for the next year of Shs 30 million. It achieves a constant gross mark-up of 20% on cost. It also plans to reduce its stock level by Shs 4 million over the year.

What will the Company's purchases be for the year?

- a) Shs 21 million
- b) Shs 25 million
- c) Shs 26 million
- d) Shs 20 million

The following information relates to questions (v) and (vi).

A Company purchases a machine costing Shs 38.4 million. It has an expected life of five years and an expected residual value of Shs 8 million. The Company uses the straight line method of depreciation. At the beginning of year 3, Shs 12.8 million is spent by the Company on major technical improvements to the machine. This has had the effect of extending its useful life by three years with an expected residual value of Shs 3.68 million at the end of year 8.

- (v) What is the depreciable amount of the asset after the technical improvements have been made?

- a) Shs 30.4 million
- b) Shs 31.04 million
- c) Shs 35.36 million
- d) Shs 32.16 million

- (vi) What is the amount of the depreciation charge in year 8?

- a) Shs 5.893 million
- b) Shs 5.9392 million
- c) Shs 7.920 million
- d) Shs 4.4192 million

- (vii) A Company's accounts showed a gross profit for the year of Shs 44,880,000. An audit found that the opening stock had been overstated by Shs 1,980,000 while closing stock had been understated by Shs 2,805,000.

What is the amount of the Company's corrected gross profit for the year?

- a) Shs 40,095,000
- b) Shs 44,055,000
- c) Shs 45,705,000
- d) Shs 49,665,000

- (viii) At 30th September 1996 the balance on Unilex Ltd's provision for doubtful debts was Shs 10,560,000. During the year ended 30 September 1997 bad debts previously provided for Shs 412,500 were written off. At 30 September 1997 debtors balances are Shs 257.4 million and the Company wishes to have a provision of 5% of this amount in its year end balance sheet.

The profit and loss account charge for bad and doubtful debts for the year ended 30 September 1997 is?

- a) Shs 412,500  
 b) Shs 2,310,000  
 c) Shs 2,722,500  
 d) Shs 3,040,000
- (ix) A customer owes Shs 765,000 of which 50% of this was provided for in 1996 but in 1997 the customer went into liquidation. What is the double entry?

Debit	Credit
a) Profit & Loss Shs 765,000	Sales ledger Control Shs 765,000
b) Profit & Loss Shs 765,000	Doubtful debt provision Shs 765,000
c) Profit & Loss Shs 382,500	Sales Ledger Control Shs 765,000
Doubtful debt provision Shs 382,500	
d) Sales Ledger Control Shs 785,000	- Profit & Loss Shs 382,500
	- Doubtful debt provision Shs 382,500

- (x) The total of the discounts column on the debit side of the Cash book, recording cash discounts deducted by Customers when paying their accounts is posted to:
- a) the credit of the discounts allowed account  
 b) the debit of the discounts allowed account  
 c) the credit of the discounts received account  
 d) the debit of the discounts received account

ATC is run as a Secondary School during the day and after 5.00pm is run as an accountancy college.

You are given the following data:

	Secondary School	Accountancy College
Number of Teachers	20	8
Number of Students	300	50
Number of hours a day	8 hrs	4 hrs
Class rooms used	8	4 out of the 8

Advise ATC on the methods of apportionment of the expenses below.

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- (xi) **Rent**
- a) direct to secondary school
  - b) direct to school of accountancy
  - c) on number of teachers
  - d) number of class rooms
- (xii) **Salaries of accounting teachers**
- a) on number of teachers
  - b) direct to school of accountancy
  - c) on number of students
  - d) on number of class rooms
- (xiii) **Electricity**
- a) on number of students
  - b) number of teachers
  - c) number of hours a day
  - d) direct on the secondary school
- (xiv) **A product costing method that includes fixed manufacturing overheads in stock is called**
- a) absorption costing
  - b) variable costing
  - c) direct costing
  - d) semi variable costing
- (xv) **Depreciation expenses is most justified based on one of the following concepts:-**
- a) going concern concept
  - b) materiality
  - c) accruals
  - d) reserve accounting
- (xvi) **Compared to a Limited Liability Company the partnership form of business organisation has:-**
- a) fewer owners
  - b) trades in smaller businesses
  - c) both distributed and undistributed profits are taxed at personal income tax rates
  - d) unlimited life
- (xvii) **The main purpose of financial reporting and disclosure guidelines that accountants refer to as generally accepted accounting principles is:**
- a) to assure the reader that all transactions have been posted.
  - b) that all necessary adjustments have been made.
  - c) to facilitate comparisons among different reporting entities.
  - d) that all bank reconciliations have been done and the closing stock has been incorporated.

**Business Accounting - Paper 1**

- (xviii) The going concern concept presupposes that the business is:
- a) worrying and there is need for urgent concern
  - b) business is due for audit
  - c) the auditors were not satisfied
  - d) there are no indications to show that the business will drastically curtail its operation and therefore it is likely to continue in the foreseeable future.
- (xix) Net working capital is:
- a) cash for the day to day operations
  - b) current assets less current liabilities
  - c) all assets less current liabilities
  - d) cash in hand and cash at bank
- (xx) The Authorised Share capital is:
- a) preference share capital
  - b) ordinary share capital called up
  - c) total of the share capital which the company is allowed by law to issue to share holders
  - d) uncalled up share capital

**SECTION B**

**Question 2**

Sengenya Development Society arranges educational seminars and conducts workshops for its members and publishes a magazine every month. Members pay separate subscriptions for general membership and for the magazine. The society's treasurer has produced the following account for the year ended 31 December 1996.

Receipts and Payments Account

	Shs
Annual Subscriptions	2,782,500
Magazine Subscriptions	1,438,500
Magazine Advertisements	667,500
Investment Income	493,500
Bank Balance, 1 January	<u>885,000</u>
	<u>6,267,000</u>
Salaries and wages	1,477,500
Bank Balance 31 December	1,425,000
New equipment	210,000
Sundry Expenses	433,500
Postage and Stationary	430,500
Printing of Magazine	1,522,500
Lecture Fees	352,500
Telephone and Telex	108,000
Rent and Rates	<u>307,500</u>
	<u>6,267,000</u>

Additional information:

- (i) Office equipment was valued at Shs 1,485,000 at the end of the year
- (ii) Postage and Stationary Costs include Shs 163,500 spent on distribution of the magazine
- (iii) Annual Subscriptions received included Shs 55,500 for 1995 and Shs 352,500 for 1997
- (iv) Salaries and wages costs include Shs 97,500 incurred on distribution of the magazine
- (v) Salaries and wages amounting to Shs 142,500 were outstanding at the start of the year and Shs 112,500 at the year end
- (vi) The assets of the society included office equipment of Shs 1,440,000 and investment of Shs 6,585,000 (at cost) on 1 January 1996
- (vii) Amounts owing to the printers of the magazine were Shs 388,500 at the beginning of the year and Shs 418,500 at the end of the year
- (viii) Amounts owing to the society for magazine advertisement were Shs 108,000 at the start of the year and Shs 165,000 at the end of the year
- (ix) Subscriptions for 1996 issues of the magazine received in 1995 were Shs 357,000 and Subscriptions for 1997 issues received in 1996 were Shs 277,500

**Business Accounting - Paper 1**

**Required:**

- a) Prepare an Income and Expenditure Account for the magazine for the year ended 31 December 1996  
(6 marks)
  
- b) Prepare a General Income and Expenditure Account for the year ended 31 December 1996  
(6 marks)
  
- c) Prepare Balance Sheets at the beginning and at the end of 1996  
(8 marks)

**Question 3**

The following is a stock movement of XYZ Company Limited.

Date	Details	Unit Cost Shs	Purchases	Sales	Balance
1.3.96	Purchases	200	1000	-	1000
3.3.96	Issues	-	-	400	600
5.3.96	Purchases	250	400	-	1000
8.3.96	Issues	-	-	200	800
10.3.96	Issues	-	-	200	600
14.3.96	Purchases	180	600	-	1200
18.3.96	Issues	-	-	600	600

Required :

1) Compute the values of closing stock using

- a) FIFO method
- b) LIFO method
- c) Average Cost method

(15 marks)

2) Prepare trading accounts using, FIFO, LIFO, and average cost method assuming the selling price was Shs 300 per unit

(5 marks)

**Total (20 marks)**

**Question 4**

- (a) Name and explain four types of errors which are not disclosed by the trial balance. (8 marks)
- (b) The trial balance of Porno, a sole trader, did not balance on 30 April 1996. His accounts assistant, a trainee at a business college, posted the difference in the suspense account. The final accounts which were then prepared showed a net profit of Shs 1,280,000.

During an audit, the following errors were noted:

- (i) A loan from a Commercial Bank of Shs 200,000 was entered correctly in the cash book but was not posted to the ledger.
- (ii) A cheque of Shs 80,000 for rent received was not entered in the books.
- (iii) Closing stock was over valued by Shs 30,000.
- (iv) Discount allowed of Shs 10,000 was debited to the discount received account.
- (v) The opening stock was understated by Shs 64,000.
- (vi) Prepaid insurance of Shs 4,400 had been included in the profit and loss account.
- (vii) Goods destroyed by fire amounting to Shs 240,000 were written off in the profit and loss account. However, the insurance company has agreed to compensate the full amount

**Required:**

- a) Journal entries to correct the errors (8 marks)
- b) Statement of corrected profit (2 marks)
- c) Suspense account (2 marks)

SECTION C

Question 5

Explain what you understand by the following terms giving examples

- a) Fundamental Accounting Assumptions
- b) Accounting bases
- c) Accounting policies

(20 marks)

Question 6

- (a) Define the term 'cost centre' and 'cost unit'

(3 marks)

- (b) Distinguish between cost accounting and financial accounting

(4 marks)

- (c) Distinguish between a direct cost and an indirect cost

(5 marks)

- (d) Explain what you understand by the term 'cost behaviour'

(2 marks)

- (e) Explain why cost behaviour is important in the context of cost and management accounting

(2 marks)

- (f) Describe cost behaviour patterns which may be encountered

(4 marks)