

BUSINESS ACCOUNTING 1

REVISION KIT



PASTPAPER QUESTIONS & ANSWERS

Certified Tax Advisor Course

CTA

BUSINESS ACCOUNTING 1 (P1)

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Questions

TEST PAPER 1
CTA JUNE 2018

Attempt four of the five questions

Question 1

Beta Shoes Ltd manufactures a shoe brand with a trade name 'Beta Shoe' and also imports a brand 'Marie Claire' for elegant ladies. For the year ended 30 June, 2017 the accountant has prepared the following trial balance:

| | Dr Shs '000' | Cr Shs '000' |
|---|------------------|------------------|
| Threading equipment at cost | 450,000 | |
| Accumulated depreciation -threading equipment | | 90,000 |
| Inventories 1 July, 2016: | | |
| Raw materials | 20,000 | |
| Finished goods -Beta Shoe | 75,500 | |
| Work in progress -Beta Shoe | 13,500 | |
| Marie Claire | 35,450 | |
| Purchases of raw materials | 354,500 | |
| Carriage on raw materials | 12,500 | |
| Factory wages | 45,500 | |
| Royalties | 35,500 | |
| Rent | 65,000 | |
| Salaries | 57,500 | |
| Office stationery | 25,400 | |
| Advertising | 23,500 | |
| Commission expenses | 24,500 | |
| Purchases of Marie Claire | 234,700 | |
| Share premium | | 75,500 |
| Share capital | | 161,450 |
| Cash & bank | 45,400 | |
| Trade receivables & payables | 54,500 | 65,400 |
| Office equipment at cost | 75,400 | |
| Buildings at cost | 155,000 | |
| Land | 100,000 | |
| Electricity | 24,500 | |
| 20% loan | | 340,500 |
| Sales of manufactured goods - Beta Shoe | | 765,000 |
| Sales - Marie Claire | | 430,000 |
| | <u>1,927,850</u> | <u>1,927,850</u> |

Additional information:

1. Closing inventory at cost as at 30 June, 2017 was made up of:
Shs '000'

| | |
|----------------------------|--------|
| Raw materials | 12,500 |
| Finished goods - Beta Shoe | 25,670 |
| Work in progress | 23,540 |
| Marie Claire | 22,560 |
2. Of the finished goods (Beta Shoe), items costing Shs 5 million had a net realisable value of Shs 3 million.
3. Factory wages Shs 32.5million relate to Beta Shoe designers and threading machine operators. The remainder relates to the factory cleaners and shoe packers.
4. Depreciation of non-current assets, on cost, is at the following rates:

| | |
|---------------------|----|
| Asset | % |
| Threading equipment | 10 |
| Office equipment | 20 |
| Buildings | 2 |
5. The interest on the loan as well as rent Shs 3.5 million were accrued on 30 June, 2017.
6. The tax for the year to be provided for at 30%.
7. A specific bad debt relating to a wholesaler in Mubende town Shs 7.6 million should be written off as irrecoverable.
8. The following expenses are to be apportioned as follows:

| | Manufacturing | Selling & distribution | Administration |
|---------------------------|---------------|------------------------|----------------|
| Depreciation of buildings | $\frac{1}{2}$ | $\frac{1}{4}$ | $\frac{1}{4}$ |
| Rent | $\frac{1}{4}$ | $\frac{1}{2}$ | $\frac{1}{4}$ |
| Salaries | $\frac{1}{4}$ | $\frac{1}{2}$ | $\frac{1}{4}$ |
| Electricity | $\frac{3}{4}$ | - | $\frac{1}{4}$ |

Required:

Prepare, for Beta Shoes Ltd for the year ended 30 June, 2017, a:

- (a) manufacturing cost statement. **(7 marks)**
- (b) statement of profit or loss. **10 marks)**
- (c) statement of financial position as at 30 June. **(8 marks)**

(Total 25 marks)

Question 2

- (a) Precious and Brilliant are in a partnership sharing profits and losses equally. The following is their summarised statement of profit or loss for the year ended 31 December, 2017.

| | Shs '000' |
|--------------------------------|---------------|
| Sales | 86,500 |
| Cost of goods sold | (45,500) |
| Gross profit | 41,000 |
| Administration costs | (7,500) |
| Selling and distribution costs | (8,560) |
| Net profit | <u>24,940</u> |

Additional information:

1. The capital and current account balances as at 1 January, 2017 are as follows:

| | Precious | Brilliant |
|---------|----------|-----------|
| Capital | 123,500 | 75,500 |
| Current | 45,500 | (4,500) |
2. Each partner drew Shs 3 million on 1 January, 2017 and Shs 4 million on 1 July, 2017. Interest on drawings is 10% per annum.
3. Interest on capital is 20% per annum.
4. Precious and Brilliant are entitled to salary Shs 300,000 and Shs 350,000 per month respectively.
5. In arriving at the net profit, closing inventory Shs 2 million had not been included.
6. Included in the administration expenses is rent Shs 3 million for 15 months ending 31 March, 2018.

Required:

Prepare for the partnership for the year ended 31 December, 2017:

- (i) an appropriation account. **(8 marks)**
- (ii) partner's current accounts (columnar format). **(7 marks)**

- (b) The trial balance extract of Murugi Ltd showed the following balances as at 31 March, 2018.

| | Dr Shs '000' | Cr Shs '000' |
|---|-----------------|-----------------|
| Share capital (Shs 1,000 nominal) 1 April, 2017 | | 586,500 |
| Share premium 1 April, 2017 | | 124,500 |
| Cash at bank | 45,500 | |
| Retained earnings 1 April, 2017 | | 87,500 |
| Revaluation reserve 1 April, 2017 | | 42,400 |
| Proceeds from issue of shares | | 600,000 |

Additional information:

1. The net profit for the year ended 31 March, 2018 was Shs 42.8 million. In arriving at the net profit, goods returned inwards Shs 354,000 were incorrectly deducted from purchases and return outwards Shs 450,000 were incorrectly deducted from sales.
2. On 1 July, 2017, 400,000 shares were issued each at Shs 1,500. The proceeds were included in the trial balance as 'proceeds from issue of shares' because the bookkeeper was not sure of where to post the amount.
3. There was a transfer of Shs 15.5million from retained earnings to the general reserve during the period under review.
4. Interim dividends Shs 100 per share were paid on 31 December, 2017.
5. Land which was acquired at a cost of Shs 5 million had a fair value of Shs 20 million on 31 March, 2018. The directors have decided to recognise land at its fair value as at 31 March, 2018 in the financial statement.
6. The directors proposed a dividend of Shs 150 per share for the last half of the year in a board meeting held on 31 March, 2018.

Required:

Prepare a statement of changes in equity for Murugi Ltd for the year ended 31 March, 2018.

(10 marks)
(Total 25 marks)

Question 3

AB & Co, a tax service consultancy firm had the following trial balance for the year ended 31 December, 2017:

| | Dr Shs '000' | Cr Shs '000' |
|--|-----------------|-----------------|
| Motor vehicle | 40,000 | |
| Furniture & fittings | 35,000 | |
| Earned consultancy fees | | 40,000 |
| Unearned consultancy fees (Kiboko Traders) | | 37,380 |
| Consultancy fees receivable | 15,600 | |
| Cash balance | 112,930 | |
| Bank balance | | 35,250 |
| Drawings | 900 | |
| Capital | | 44,630 |
| Rent | 4,000 | |
| Utilities | 500 | |
| Provision for depreciation: | | |
| Motor vehicle | | 6,000 |
| Furniture & fittings | | 5,250 |
| Insurance | 2,200 | |
| Salaries & wages | 6,500 | |
| Office supplies | 880 | |
| 22% bank loan | - | 50,000 |
| | <u>218,510</u> | <u>218,510</u> |

Additional information:

1. Loan interest for the period was accrued.
2. Utilities Shs 2 million remained outstanding and rent Shs 800,000 was prepaid.
3. Supplies at hand on 31 December, 2017 were worth Shs 500,000.
4. AB & Co provided consultancy services during the year to Kiboko Traders Shs 5,250,000, but this information was not included in the trial balance.
5. Consultancy services worth Shs 3.5 million were provided to clients but not invoiced. This needs to be adjusted for in the books.
6. The company policy is to charge depreciation on depreciable assets at 15% per annum using the reducing balance method.
7. A client owing consultancy fees Shs 1,120,500 was declared bankrupt on 29 December, 2017.
8. Provision to be made for doubtful debts of 6% of net consultancy fees receivable and corporation tax Shs 3,250,000.

Required:

Prepare, for AB & Co for the year ended 31 December, 2017:

- (a) Journal entries for the additional information only. **(11marks)**
 (b) An adjusted trial balance. **(14 marks)**

(Total 25 marks)

Question 4

- (a) A packaging machine was acquired by Rena Manufactures Ltd with an expected useful life of 10 years at a purchase price Shs 167 million on 1 July, 2015.

The import duty paid amounted to Shs 34 million; freight charges Shs 2.7million and installation costs Shs 4.5million. It is expected that the machine will require annual servicing at Shs 2.5million and annual repairs Shs 5.4million.

On 3 January, 2017 the condition of the machine was assessed by engineers who estimated the remaining useful to be 5 years. It is the company's policy to provide for depreciation using the sum of years' digits method and the depreciation expense is time apportioned.

Required:

- (i) Prepare, for Rena Manufacturers Ltd, extracts of the statement of profit or loss and statement of financial position as at 31 December, 2015, 2016 and 2017. **(11 marks)**
 (ii) Explain **two** factors that may necessitate a change in the method of depreciation. **(2 marks)**
- (b) The following is a summary of the cashbook for MEM Ltd for the month of April, 2018.

| | Dr | | Cr |
|-------------|----------------|--------------|----------------|
| | Shs '000' | | Shs '000' |
| Balance b/f | 25,500 | Payments | 43,400 |
| Receipts | <u>76,500</u> | Balance c/ f | <u>58,600</u> |
| | <u>102,000</u> | | <u>102,000</u> |

Their summarised bank statement for the month of April, 2018 was as follows:

| | Dr | Cr | Balance |
|---------------------|-----------|-----------|-----------|
| | Shs '000' | Shs '000' | Shs '000' |
| 1 April, 2018 | | | 25,500 |
| Deposits/ credits | | 54,500 | 80,000 |
| Withdrawals/charges | 26,541 | | 53,459 |

Subsequently, the following were observed:

1. Cheque number 0012 drawn in favour of NEC Enterprises Ltd Shs 3.4 million had been correctly recorded in the bank statement but included in the cash book as 4.3million.
2. Excise duty and bank charges Shs 256,000 and Shs 450,000 respectively were recorded in the bank statement but not included in the cashbook.
3. The bank statement showed that cheques 0004 and 0145 received from Jena Investments Ltd and Quality Suppliers Ltd Shs 543,000 and 1,200,000 respectively were dishonoured by the bank.
4. Cheque number 0015 Shs 345,000 which was payment to Nasser Investments Ltd (a supplier) was entered in the wrong side of the cash book.
5. A standing order for electricity and bank interest earned Shs 234,000 and Shs 65,000 respectively were not recorded in the cashbook.
6. Cheque number 0430 received from a customer Shs 765,000 was entered twice in the cashbook.
7. Cheques received in the last days of April, 2018 totalling to Shs 765,000 were not included in the bank statement until 5 May, 2018.
8. The following cash receipts recorded in the cash book have not been banked:

| Receipt No. | Shs |
|-------------|---------|
| 0002 | 430,000 |
| 0003 | 354,000 |
| 0004 | 536,000 |

9. The following cheques were drawn by MEM Ltd to the following suppliers but are not reflected in the bank statement:

| Receipt No. | Supplier | Shs |
|-------------|-------------------------|---------|
| 0037 | Joshua Honest Suppliers | 875,000 |
| 0040 | Mabirizi Suppliers Ltd | 243,000 |
| 0050 | Owino Investments | 589,000 |

10. There was a transfer of Shs 1.5 million by the bank to MEM Ltd's current account in another bank. This is not yet recorded in the cash book.

Required:

Prepare, for MEM Ltd for the month of April, 2018:

- (i) an adjusted cash book. **(6 marks)**
(ii) a bank reconciliation statement. **(6 marks)**

(Total 25 marks)

Question 5

- (a) Explain the reasons why the accounts receivable control account may not agree with the ledger accounts. **(8 marks)**
- (b) The trial balance of Obonyo failed to balance on 31 December, 2017. Obonyo does not have enough knowledge to identify the mistakes and therefore has come to you to assist him locate the errors. He has provided the following information:

| | Shs |
|---|------------|
| Sales ledger debit balance 1 January, 2017 | 50,150,980 |
| Sales ledger credit balance 1 January, 2017 | 5,140,200 |
| Purchases ledger debit balance 1 January, 2017 | 6,540,000 |
| Purchases ledger credit balance 1 January, 2017 | 15,250,100 |
| Credit purchases | 32,110,000 |
| Credit sales | 45,780,150 |
| Return outwards | 550,000 |
| Return inwards | 113,000 |
| Carriage outwards | 95,500 |
| Carriage inwards | 87,600 |
| Discounts received | 584,100 |
| Discounts allowed | 320,000 |
| Irrecoverable debts written off | 97,400 |
| Increase in provision for bad debts | 750,000 |
| Receipts from debtors | 38,640,000 |
| Payments to creditors | 28,500,000 |
| Refunds for overpayments: | |
| To debtors | 2,500,000 |
| From creditors | 630,000 |
| Debtors' cheques dishonoured | 2,250,000 |
| Discounts allowed on dishonoured cheques | 50,000 |
| Cheques written to creditors dishonoured | 1,650,000 |
| Interest charged by creditors | 1,050,000 |
| Interest charged to customers | 800,000 |
| Contra settlement | 1,400,000 |

The following list of balances was extracted from the personal ledgers as at 31 December, 2017:

Debtors: Shs

Debit balance 68,500

Credit balance 55,009,000

Creditors:

Debit balance 11,000,000

Credit balance 112,050

Required:

Do the following for Obonyo:

- (i) Prepare a trade receivables control account. **(7 marks)**
- (i) Prepare a trade payables control account. **(6 marks)**
- (iii) Determine the amount of error, if any, and the ledger in which it occurred.

(4 marks)

(Total 25 marks)

TEST PAPER 2 CTA NOVEMBER 2018

Attempt four of the five questions

Question 1

Kazana Training Institute (KTI) is a vocational training institution offering technical education in engineering courses to high school leavers. The following is their trial balance for the year ended 31 December, 2017:

| | Dr. Shs '000' | Cr. Shs '000' |
|---|----------------|----------------|
| Tuition fees revenue | | 380,000 |
| Examination fees | | 40,000 |
| Donations from Germany Technical Corporation | | 10,000 |
| Internship income | | 45,000 |
| Sale of branded items | | 15,500 |
| Staff salaries, wages and allowances | 98,500 | |
| Students training materials | 34,500 | |
| Students feeding costs | 37,400 | |
| Repair costs for non-current assets | 32,450 | |
| Motor vehicle costs | 31,900 | |
| Students' accommodation costs | 23,000 | |
| Institute clinic expenses | 26,670 | |
| Utilities | 17,500 | |
| Insurance costs | 24,700 | |
| Examination costs | 18,400 | |
| Co-curricular activities expenses | 15,000 | |
| Council for Higher Education accreditation costs | 8,806 | |
| Internet and other communication costs | 11,200 | |
| Land (cost Shs 98 million) & buildings (cost Shs 300 million) | 262,230 | |
| Motor vehicles (cost Shs 150 million) | 120,000 | |
| Workshop machinery (cost Shs 60 million) | 45,000 | |
| Furniture (cost Shs 30 million) | 20,000 | |
| Cash and bank | 24,500 | |
| Fees debtors | 70,525 | |
| Payables | | 32,000 |
| Capital | <u>-</u> | <u>399,781</u> |
| | <u>922,281</u> | <u>922,281</u> |

Additional information:

- The academic year of the KTI runs from January to December with two terms.
- The Institute subscribes Shs 5 million per year to an examination body for technical courses within the East African region. Included in the examinations costs is Shs 10 million subscription for two academic years 2017 and 2018.

3. A water bill for the month of December, 2017 Shs 675,000 was received in January 2018.
4. Students' feeding costs include Shs 10 million for maize flour and beans which were still in KTI's store by the end of the year.
5. By the end of the year, students with fees balance Shs 5 million at the end of Term I did not report for Term II. This amount should be written off. A further provision of 5% of the remaining fees receivable should be made.
6. The Institute's Board decided that students fees Shs 3 million be refunded because very few students had registered for the mechanical engineering course.
7. In 2017, the Institute entered into collaboration with Mama Ngina, a charity from United the Kingdom for a sponsorship programme. Mama Ngina has sponsored 10 students for their two-year programme and has fully paid their fees for two years (2017 and 2018) Shs 14 million. The entire amount is reflected in fees revenue. Assume that tuition fees are the same for both years.
8. Non-current assets are depreciated as follows:

| | |
|--------------------|---------------------------|
| Buildings | 5 % on cost. |
| Motor vehicles | 20 % on cost. |
| Workshop machinery | 25 % on reducing balance. |
| Furniture | 10% on cost. |

Required:

Prepare, for KTI for the year ended 31 December, 2017 a statement of:

- (i) profit or loss. **(15 marks)**
 - (ii) financial position as at 31 December. **(10 marks)**
- (Total 25 marks)**

Question 2

- (a) Distinguish between a cash discount and a trade discount. **(4 marks)**
- (b) A new partner has joined a partnership business and contributed Shs 10 million as goodwill. The policy is to maintain goodwill in the books of account. At the end of period, the new partner discovered that the Shs 10 million he contributed as goodwill is not reflected on his capital account.

Required:

Explain to him the treatment of goodwill and why the goodwill he contributed is not reflected on his capital account.

(4 marks)

- (c) Jacob and Isaiah run a law firm, Jacob and Co. Advocates. They share profits and losses equally. Their trial balance as at 31 December, 2017 is as follows:

| Details | Dr. Shs '000' | Cr. Shs '000' |
|--|----------------|----------------|
| Legal fees | | 481,900 |
| Interest income | | 4,869 |
| Retainer fees | | 43,500 |
| Subscription to Uganda Law Society | 4,000 | |
| Client gifts | 5,800 | |
| Continuing legal education | 12,400 | |
| Rent | 54,000 | |
| Books and reference materials at cost | 50,429 | |
| Legal fees receivable | 130,000 | |
| Health insurance costs | 52,500 | |
| Management consulting costs | 7,890 | |
| Stationery | 19,800 | |
| Website development & maintenance costs | 15,000 | |
| Utilities | 24,500 | |
| Computers, printers, photocopying machines at cost | 75,000 | |
| Furniture at cost | 15,400 | |
| Motor vehicles at cost | 85,000 | |
| Accumulated depreciation 1 January, 2017: | | |
| Computers, printers, photocopying machines | | 12,400 |
| Furniture | | 3,200 |
| Motor vehicles | | 10,500 |
| File storage costs | 26,500 | |
| Capital accounts: | | |
| Jacob | | 20,400 |
| Isaiah | | 15,500 |
| Current accounts: | | |
| Jacob | | 23,400 |
| Isaiah | | 18,750 |
| Expenses payable | | 18,500 |
| Bank loan | | 20,000 |
| Cash and bank balances | 19,700 | |
| Drawings: | | |
| Jacob | 30,000 | |
| Isaiah | 45,000 | |
| | <u>672,919</u> | <u>672,919</u> |

Additional information:

1. The retainer fees include Shs 6 million received from a client for legal services relating to the financial year ending 31 December, 2018.
2. Stationery costing Shs 4 million was outstanding by 31 December, 2017.
3. Non-current assets are depreciated on cost as follows:

| | |
|--|-------|
| Computers, printers, photocopying machines | 25% |
| Furniture | 10% |
| Motor vehicles | 12.5% |
| Books and reference materials | 10% |
4. The partners are entitled to 5% interest on capital per annum and charge 3% interest on drawings per annum.
5. Each partner is entitled to a salary Shs 3 million per month from 1 January, 2017.
6. From the profits to be shared, the partners retain 10% for future expansion of the firm.

Required:

Prepare, for Jacob and Co. Advocates for the year ended 31 December, 2017 a:

- (i) statement of profit or loss and appropriation. **(13 marks)**
- (ii) partners' current account. **(4 marks)**

(Total 25 marks)

Question 3

- (a) Explain any **three** advantages and **three** disadvantages of public limited companies. **(6 marks)**
- (b) Explain, with **two** examples for each step, the accounting cycle. **(5 marks)**
- (c) The following transactions relate to Tubere Traders for the month of September, 2018:

Date: Description

- 1 Purchased goods Shs 10 million on credit (Invoice no. 001) from Bombo Traders and Shs 5 million cash from Mamba Traders.
- 2 Sold goods to Bweke Enterprises Shs 4.6 million cash and Shs 5 million to Mbu Ltd on credit (Invoice no, 511).
- 4 Paid Bombo Traders Shs 9 million by cheque.

- 5 Purchased goods from Bwana Traders Shs 20 million, paying Shs 5 million cash and the balance later on 25 September, 2018 (Invoice no. 102).
- 6 Received cash from Mbu Ltd Shs 3 million.
- 7 Sold goods to Ngege Enterprises Shs 6 million on credit (Invoice no. 512).
- 8 Ngege Enterprises returned goods worth Shs 250,000 (Credit note no. 01).
- 9 Returned goods worth Shs 1 million to Bombo Traders because they were expired (Debit note no. 62).
- 10 Purchased goods Shs 8 million on credit from Popo Enterprises (Invoice no.205).
- 12 Sold goods to Mamba Traders Shs 7 million on credit (Invoice no. 513).
- 13 Purchased goods Shs 4.8 million from Tata Ltd on credit (Invoice no. 311).
- 15 Mbu Ltd returned goods Shs 500,000 because they were damaged (Credit note no. 02).
- 20 Sold goods to Peter Shs 1 million on credit (Invoice no. 514).
- 22 Purchased goods Shs 6 million from Bombo Traders on credit (Invoice no.425).
- 25 Returned goods to Bwana Traders Shs 600,000 (Debit note no. 68).
- 25 Paid Shs 14.4 million to Bwana Traders by cheque.
- 26 Peter returned excess goods worth Shs 200,000 (Credit note no. 03).
- 29 Sold goods Shs 5.5 million to Bweke Enterprises on credit (Invoice no. 515).
- 30 Returned goods Shs 480,000 to Tata Traders (Debit note no. 70).
- 30 Paid salaries Shs 4,200,250; rent Shs 2 million and utilities Shs 800,000.

Required:

Prepare, for Tubere Traders, the following books showing the respective ledger accounts to which the totals are to be transferred:

- | | | |
|-------|---------------------------|------------------|
| (i) | Sales day book. | (4 marks) |
| (ii) | Purchases day book. | (4 marks) |
| (iii) | Returns inwards day book | (3 marks) |
| (iv) | Returns outwards day book | (3 marks) |

(Total 25 marks)

Question 4

- (a) Explain the following terms as they relate to the capital of a limited liability company:
- (i) Issued share capital. **(2 marks)**
 - (ii) Paid up capital. **(2 marks)**
 - (iii) Called up capital. **(2 marks)**
- (b) Financial statements are an outcome of applying a number of accounting concepts and principles.

Required:

Explain the following accounting concepts and their limitations:

- (i) Business entity. **(2 marks)**
 - (ii) Money measurement. **(2 marks)**
 - (iii) Historical cost. **(2 marks)**
- (c) Kawa Digital Printers Ltd (KDPL), located at Nasser Road, has provided the following information relating to its non-current assets:

| Asset | Cost Shs '000' | Accumulated depreciation 1 Jan 2016 Shs '000' |
|------------------------|-------------------|--|
| Paper cutters | 165,000 | 66,000 |
| Digital printing press | 250,000 | 80,000 |
| Binding equipment | 30,000 | 13,500 |

Further information:

1. The financial year for KDPL begins on 1 January and ends on 31 December.
2. On 3 March, 2016 paper cutter IV was imported from China. The (cost insurance and freight) (CIF) value was Shs 25 million. The non-refundable taxes on importation totaled to Shs 15 million while transport from Mombasa to Kampala Shs 1.2 million. The annual maintenance fee of a paper cutter is estimated at Shs 3.5 million.
3. Binding equipment purchased on 1 January, 2012 at Shs 6 million was disposed of on 25 July, 2016 at Shs 5 million.
4. On 3 June, 2017 a paper cutter acquired in April 2010 at Shs 65 million was disposed of at Shs 39.8 million
5. The non-current assets are depreciated on cost per annum, as follows:

| | |
|------------------------|-------|
| Paper cutter | 5% |
| Digital printing press | 10% |
| Binding equipment | 6.25% |

6. The depreciation policy is to provide for full year's depreciation in the year of purchase and none in the year of disposal.

Required:

Prepare, for KDPL, a single:

- (i) non-current assets account. **(3 marks)**
- (ii) accumulated depreciation account. **(7 marks)**
- (iii) disposal account. **(3 marks)**

(Total 25 marks)

Question 5

- (a) Mambopotea Ltd (dealers in computers and computer accessories) has approached you for advice because their cash book balance (bank column) is more than what the bank has given them in the bank statement for the month of March, 2017. You have been provided with the following information relating to the company's cashbook and bank transactions during the month:

On 31 March, 2017 the cashbook (bank column) had a debit balance Shs 64,251,500, and the bank statement had a credit balance Shs 33,189,144. On close examination, you discovered the following:

- 1. The bank had directly paid for magazine subscription Shs 400,000.
- 2. A loan repayment and interest thereon Shs 2,564,125 and Shs 1,450,250 respectively had been directly effected in the bank statement.
- 3. Push and Pull Ltd, Lock and Open Enterprises, and Come Again Traders had directly paid Mambopotea Ltd Shs 4,150,000, Shs 2,150,200 and Shs 900,500 respectively through the bank.
- 4. Mambopotea Ltd had deposited cash Shs 15,250,400 and cheques from Ouma & Sons Ltd Shs 1,800,000, Mukamah Traders Shs 3,000,000, Musana Guest House Shs 1,100,000 and Amanyana & Co. advocates Shs 2,300,000 in the bank, but these were not credited in the account by 31 March, 2017.
- 5. NWSC, MTN, UMEME and Computer World had been paid cheques Shs 150,000, Shs 240,000, Shs 351,219 and Shs 3,050,000 respectively, but these cheques had not yet been presented to the bank for payment by 31 March, 2017.
- 6. A cheque received from Nguvu Enterprises for supply of computer accessories Shs 12,500,000 was returned together with the bank statement unpaid.

7. The accountant of Mambopotea Ltd, by error, entered cheques Shs 560,000 received from MB Beverages as a credit Shs 650,000 and Shs 3,200,000 paid to Computer World as a credit Shs 2,300,000 in the cashbook (bank column).
8. Bank charges and excise duty Shs 45,000 and Shs 4,500 respectively were directly charged to the account.
9. The teller, by error, debited cash deposit by Mambopotea Ltd Shs 2,550,000 in the bank statement.
10. A cheque paid to Computer World Shs 3,150,000 was returned unpaid.

Required:

- (i) Explain, to Mambopotea Ltd, reasons that may cause differences between the cash book balance (bank column) and the bank statement balance.

(6 marks)

- (ii) Prepare, for the company, an adjusted cashbook and thereafter a bank reconciliation statement.

(12 marks)

- (b) The following non-current assets were revalued in the books of Kweeke Limited as at 31 December, 2017:

| Asset | Net book value Shs '000' | Revalued amount Shs '000' |
|----------------------|-----------------------------|------------------------------|
| Machinery | 120,000 | 150,000 |
| Furniture & fittings | 14,560 | 13,250 |
| Motor vehicles | 62,400 | 71,600 |
| Computers | 24,600 | 20,150 |

Revaluation surplus b/ d Shs 4,160,000

Required:

Prepare Kweeke Limited's:

- (i) Individual non-current asset accounts.
- (ii) Revaluation account.

(4 marks)

(3 marks)

(Total 25 marks)

TEST PAPER 3

CTA MAY 2019

Question 1

- (a) Explain **two** merits and **three** demerits of operating a sole proprietorship form of business.

(5 marks)

- (b) The following information was obtained from the books of Good-life Family Drug Shop for the year ended December 2017.

| Account title | Debit (Shs) | Credit (Shs) |
|-----------------------------|-------------------|-------------------|
| Furniture at cost | 4,800,000 | |
| Computer at cost | 1,500,000 | |
| License fees | 250,000 | |
| Staff salaries | 4,600,000 | |
| Purchases/sales | 9,500,000 | 7,500,000 |
| Discounts | 120,000 | 220,000 |
| Rent | 4,800,000 | |
| Bad debts | 200,000 | |
| Utilities | 1,600,000 | |
| Inventory (1 January, 2017) | 3,400,000 | |
| Capital | | 22,047,000 |
| Retained profits/loss | 1,200,000 | |
| Cash balance | 540,000 | |
| Accumulated depreciation: | | |
| Furniture | | 240,000 |
| Computer | | 300,000 |
| Bank balance | | 3,000 |
| Accounts receivable/payable | 600,000 | 2,800,000 |
| | <u>33,110,000</u> | <u>33,110,000</u> |

Additional information:

- 1 The license fees paid to National Drug Authority related to the period 1 July 2017 to 30 June 2018.
- 2 Drugs worth Shs 4,500,000 got expired at the year end and the Shop incurred Shs 500,000 cash to them. This cost had not yet been incorporated into the books of account.
- 3 Drugs worth Shs 6,700,000 had been dispensed by the year end but money not yet received. This amount had not been recorded in the books of account.

- 4 Inventory at the close of the year was valued at Shs 4,300,000.
- 5 Staff salaries Shs 2,500,000 was still outstanding by 31 December 2017.
- 6 Computers and furniture are depreciated, on straight line basis, at 20% and 5% per annum respectively.

Required:

Prepare, for Good-life Family Drug Shop, for the year ended 31 December 2017,

- (i) journal entries to record the transactions reflected in the additional information notes (1) to (5) above.

(6 marks)

- (ii) statement of profit or loss.

(8 marks)

- (iii) statement of financial position.

(6 marks)

(Total 25 marks)

Question 2

- (a) Explain the reasons for:
 - (i) dissolution of a partnership business. **(2 marks)**
 - (ii) payment of goodwill under partnership. **(3 marks)**
- (b) The following trial balance was extracted from the books of Omondi & Omollo Co. advocates for the year ended 31 December 2017:

| | Dr Shs | Cr Shs |
|-------------------------------------|--------------------|--------------------|
| Net profit for the year | | 2,520,500 |
| Capital balances as at 1 Jan. 2017: | | |
| Omondi | | 100,000,000 |
| Omollo | | 80,000,000 |
| Current balances as at 1 Jan. 2017: | | |
| Omondi | | 45,500,000 |
| Omollo | | 35,000,000 |
| Cash & bank balances | 90,585,500 | |
| Accrued legal fees | 15,600,500 | |
| Prepaid retainer fees | | 4,115,500 |
| Motor vehicles | 160,000,000 | |
| Accrued utilities | | 5,500,000 |
| Furniture & fittings | 6,450,000 | |
| | <u>272,636,000</u> | <u>272,636,000</u> |

Additional information:

- 1 The drawings during the year to 31 December 2017 amounted to Shs 40,000,000 and Shs 50,000,000 for Omondi and Omollo respectively.
- 2 Interest on drawings and capital is 5% per annum and 10% per annum respectively.
- 3 Both partners are active in the business and are entitled to a salary Shs 1,200,000 each per month. Omondi is entitled to a salary from 1 March, 2017 and Omollo from 1 January, 2017.
- 4 Omondi advanced a loan to the partnership Shs 100,000,000 at the beginning of the year. Interest on loan was agreed at 8% per annum. This was omitted in the books of account.
- 5 Omondi received legal fees income from a client Shs 5,500,000 but it was not recorded in the books of account.
- 6 Of the prepaid retainer fees, services worth Shs 2,000,000 were provided during the year to 31 December, 2017.
- 7 The motor vehicles and furniture were not depreciated at the year end. It is the firm's policy to depreciate vehicles and furniture, on reducing balance, at 20% and 30% respectively.
- 8 Rent expense Shs 10,000,000 for the year ended 31 December 2017 was outstanding.
- 9 The firm sub-let part of the office block for Shs 4,000,000 per annum, but this was not accounted for at the year end.
- 10 Omollo increased his capital contribution on 1 January 2017 by Shs 10,000,000.
- 11 The partnership uses the fixed capital balance method to prepare partners' capital accounts.
- 12 Omondi and Omollo have been sharing profits or losses in the ratio of 3:1 respectively. In 2017, they decided to change the profit or loss sharing ratios to 3:2 for Omondi and Omollo respectively. On change of profit sharing ratios, goodwill Shs 50,000,000 was introduced but it would not be maintained in the books of account.

Required:

Prepare, for Omondi & Omollo Co. advocates for the year ended 31 December 2017,

- (i) statement of corrected net profit. **(4 marks)**
- (ii) appropriation account. **(4 marks)**
- (iii) goodwill account. **(2 marks)**
- (iv) partners' capital and current accounts (using fixed capital method). **(10 marks)**

(Total 25 marks)

Question 3

- (a) A professional accountant is seen as a key pillar in helping an organization to achieve its objectives.

Required:

Explain the roles of an accountant in an organization. **(4 marks)**

- (b) The following information, relating to the year ended 31 December 2018, was extracted from the ledgers of Maina & Sons Ltd:

| | |
|--|------------|
| Balances as at 1 January, 2018: | Shs |
| Trade payables control account | 2,169,120 |
| Trade receivables control account | 2,394,000 |
| Transactions during the year to 31 December, 2018: | |
| Total purchases | 33,221,200 |
| Total Sales | 15,703,000 |
| Return outwards | 314,720 |
| Return inwards | 445,680 |
| Carriage inwards | 2,000,000 |
| Carriage outwards | 850,400 |
| Cheques and cash paid to credit suppliers | 11,334,960 |
| Cheques and cash received from credit customers | 8,748,000 |
| Discounts Allowed | 530,400 |
| Discounts received | 266,320 |
| Bad debts written off | 429,600 |
| Customer cheques dishonoured | 4,200,000 |
| Suppliers cheques dishonoured | 1,600,000 |
| Excess cash refund: | |
| To customers | 5,450,000 |
| From suppliers | 6,320,000 |
| Interest charged by suppliers | 800,000 |

Additional information:

- 1 The cash sales and cash purchases for the year were Shs 3,400,000 and Shs 5,000,000 respectively.
- 2 Maina & Sons Ltd and Bebe Traders are dealers in building materials and stationery respectively. Maina & Sons Ltd bought stationery Shs 5,000,000 from Bebe Traders on credit. Bebe Traders, too, purchased building materials Shs 4,800,000 from Maina & Sons Ltd on credit. The business owners have agreed to offset the balances in their books of account.

Required:

Prepare, for Maina & Sons Ltd, trade receivables and trade payables control accounts for the year ended 31 December 2018.

(10 marks)

- (c) The following information was extracted from the books of Mabembe Ltd for the year ended 31 December 2018:

- 1 Non- current assets as at 31 December 2017 were as follows:

| Asset | Cost | Accumulated depreciation | Net book value |
|--|-----------|--------------------------|----------------|
| | Shs '000' | Shs '000' | Shs '000' |
| Motor vehicles (each at Shs 30 million) | 90,000 | 9,000 | 81,000 |
| Machinery | 300,000 | 45,000 | 255,000 |
| Computers & printers | 20,000 | 5,000 | 15,000 |

- 2 Depreciation of non-current assets is charged, on straight line basis, as follows:

| Asset: | Rate (%) |
|----------------------|----------|
| Motor vehicles | 10 |
| Machinery | 15 |
| Computers & printers | 25 |

- 3 On 30 September 2018, one of the motor vehicles was involved in an accident. Management agreed that it should be disposed of and a cheque Shs 25,000,000 was received for this transaction. On the same date, they acquired another motor vehicle Shs 40,000,000 by cheque.

- 4 On 25 October 2018, a printer which cost Shs 5,000,000 and with accumulated depreciation Shs 1,250,000 broke down and was disposed of at Shs 1,000,000.
- 5 The company charges full depreciation in the year of purchase and none in the year of disposal.

Required:

Prepare, for Mabembe Ltd, for the year ended 31 December 2018, a combined:

- (i) non-current assets account. **(3 marks)**
- (ii) accumulated depreciation account. **(4 marks)**
- (iii) disposal of non-current assets account. **(4 marks)**

(Total 25 marks)

Question 4

- (a) Explain any **six** errors that **CANNOT** be detected by the trial balance.

(6 marks)

- (b) Malaika started a business to deal in building and construction materials in Mukono Town. The following were her transactions for the month of January 2018:

Date

- 1 Started business with Shs 20,000,000 as capital. Shs 2,000,000 was in cash while the balance was on the business bank account in Sente bank.
- 3 Paid rent for six months by cheque Shs 3,000,000.
- 5 Withdrew Shs 3,000,000 from the bank to be used in the daily operations of the business.
- 6 Purchased cement from Seruma Traders Ltd Shs 2,000,000. She paid Shs 1,200,000 cash and the balance is payable after a month.
- 8 Sold cement for cash Shs 200,000.
- 9 Purchased plumbing materials Shs 4,000,000 from Nakasero Traders Ltd. She paid Shs 2,000,000 cash and the balance payable at the beginning of February 2018.
- 10 Purchased tiles Shs 5,000,000 from Mirror Traders Ltd. Paid Shs 3,000,000 through the bank and the balance payable in 2 months' time.

Date

- 11 Sold tiles Shs 400,000 to Mukasa who paid Shs 300,000 cash and the balance payable in a month's time.
- 13 Returned plumbing materials worth Shs 500,000 to Nakasero Traders Ltd because they were damaged.
- 14 Paid offloading expenses Shs 50,000 cash.
- 16 Acquired a computer Shs 1,500,000 cash to be used by the bookkeeper in records management.
- 17 Paid the Municipality business license Shs 500,000 through the business bank account.
- 18 Obtained a business bank loan Shs 30,000,000 from Sente bank.
- 21 Used the business bank loan to buy a used truck Shs 28,000,000. She made a part payment Shs 25,000,000 through the business bank account.
- 22 Sold cement Shs 1,200,000 cash.
- 24 Banked Shs 1,000,000 cash.
- 25 Purchased spades, slashers and hoes Shs 400,000 cash.
- 25 Sold tiles Shs 3,000,000 to Classic Construction Company Ltd who paid Shs 2,500,000 by cheque.
- 27 Paid utilities Shs 100,000 cash.
- 28 Paid staff overtime allowances Shs 1,000,000 by cheque.
- 29 Sold hoes to Empower Agriculture Ltd, Shs 200,000, who paid by cheque.
- 30 Purchased eucalyptus logs Shs 300,000 cash from Forestry International Ltd.

Required:

Prepare, for Malaika, for the month of January 2018, a two-column cashbook.

(13 marks)

- (c) Kakaire is a commercial farmer in Luuka district. He purchased a tractor on 1 January 2010 at Shs 180 million from Agro-machinery Ltd. The tractor has useful life of 10 years and a residual value of Shs 45 million. In January 2018, Kakaire acquired more land hence the need for a superior tractor. He approached Agro-machinery Ltd and the company was willing

to exchange his old tractor with a superior one with a top up Shs 140 million. Kakaire has agreed to this arrangement. His bookkeeper uses the straight line method of depreciation and charges full depreciation in the year of purchase and none in the year of disposal.

Required:

Compute, for Kakaire, the:

- (i) net book value of the old tractor at the time of exchange.
(3 marks)
 - (ii) value at which the superior tractor is recorded in the books of account at the time of acquisition.
(2 marks)
 - (iii) net book value of the superior tractor at the end of 2018, assuming a useful life of 10 years and a residual value of Shs 50 million.
(1 mark)
- (Total 25 marks)**

Question 5

- (a) The Accounts assistant of Kalodo Enterprises Ltd extracted a trial balance for the year ended 31 December 2017 and realized that the debit side was short by Shs 4,340,000. On further examination, she discovered the following:
- 1 A purchase Shs 6,550,000 was over cast by Shs 50,000.
 - 2 Repair of equipment Shs 240,000 was recorded in the equipment account.
 - 3 Discount received Shs 120,000 was credited to the discount allowed account as Shs 210,000.
 - 4 Sales Shs 490,000 had not been posted to the respective ledger accounts from the sales journal.
 - 5 Water bills Shs 90,000 had been debited in the account for water expense as Shs 900,000.
 - 6 Shs 1,800,000 incurred in purchasing a laptop for use in the business had been debited to the purchases account. This transaction was correctly recorded in the cashbook.
 - 7 Shs 43,000 in respect of a sale was correctly entered in the debtor's account but erroneously entered in the sales accounts as Shs 46,600.

- 8 Purchase of a motorcycle Shs 5,106,400 was correctly recorded in the cashbook but the corresponding entry required to complete the double entry was not posted.

Required:

Prepare, for Kalodo Enterprises Ltd, journal entries to correct the above errors and post the entries to the suspense account.

(14 marks)

- (b) The following transactions were extracted from Hajji Mukiibi's books of account for the month of April 2019:

- 1 Received a credit note from Abu and Sons Shs 64,000 in respect of returns.
- 2 Issued a credit note to Ntinda Suppliers Limited Shs 120,000 in respect of returns.
- 3 Withdrew Shs 3,400,000 from the business bank account and deposited it in the business cash box.

Required:

Prepare, for Hajji Mukiibi, for the month of April 2019, relevant ledger accounts and extract a trial balance from the above transactions.

(8 marks)

- (c) Kapere started a business to transport school children to and from school. He subsequently, surrendered his vehicle, a Toyota Noah valued at Shs 18,000,000 for use in the business.

Required:

Explain, using journal entries, how this transaction should be recorded in the business' books of account. Justify your answer.

(3 marks)

(Total 25 marks)

TEST PAPER 4
CTA NOVEMBER 2019

Question 1

Kirementi, Latomenta and Mulondo have been in partnership sharing profits and losses equally. Latomenta got married to an American, while Mulondo got citizenship in London and they both decided to leave the country. Therefore, the partners agreed to dissolve the partnership. They have availed the following information:

Trial balance as at 31 December, 2018:

| | Debits Shs '000' | Credits Shs '000' |
|-----------------------------------|---------------------|----------------------|
| Land & building | 220,000 | |
| Motor vehicles | 36,000 | |
| Furniture & fittings | 8,000 | |
| Capital accounts: | | |
| Kirementi | | 60,000 |
| Latomenta | | 50,000 |
| Mulondo | | 40,000 |
| Current accounts: | | |
| Kirementi | | 3,000 |
| Latomenta | | 32,000 |
| Mulondo | 18,000 | |
| Trade receivables/ trade payables | 25,500 | 29,550 |
| Bank balance | 22,350 | |
| Bank loan | | 50,000 |
| Inventory | 12,000 | |
| Un-appropriated profit | | 45,000 |
| Allowance for doubtful debts | | 1,500 |
| Provision for depreciation: | | |
| Building | | 12,000 |
| Motor vehicles | | 18,000 |
| Furniture & fittings | | 800 |
| | <u>341,850</u> | <u>341,850</u> |

Additional information:

- 1 Furniture & fittings were sold at Shs 7,000,000.
- 2 Net inventory is to be sold at Shs 10,000,000.
- 3 Kirementi took over part of land and building at Shs 100,000,000 and motor vehicle at Shs 20,000,000 respectively.

- 4 The balance of land and building was sold at Shs 158,150,000.
- 5 Mulondo will continue to service the loan as a personal loan.
- 6 The un-appropriated profit was shared according to their profit sharing ratio.
- 7 The net trade receivables were sold at Shs 20,000,000 after allowing a discount Shs 4,000,000.
- 8 The cost of dissolution was Shs 1,500,000 and discount received from trade payable was Shs 550,000.
- 9 Kirementi was insolvent and unable to clear his deficiency.
- 10 Apply the ruling in the case of Garner verses Murray.

Required:

Prepare, for the Partnership, for the year ended 31 December 2018, the following accounts:

- | | |
|---|-------------------------|
| (a) Realisation. | (8 marks) |
| (b) Trade receivables. | (2 marks) |
| (c) Trade payables. | (1 mark) |
| (d) Bank. | (4 marks) |
| (e) Partners' capital (using fluctuating method). | (10 marks) |
| | (Total 25 marks) |

Question 2

The following trial balance, for the year ended 31 December 2018, was extracted from the books of Omulamu Company Limited:

| | Debits Shs '000' | Credits Shs '000' |
|--|---------------------|----------------------|
| Ordinary share capital of 200,000 shares | | 300,000 |
| Share premium | | 40,000 |
| Motor vehicles | 75,000 | |
| Furniture | 28,000 | |
| Retained earnings | | 23,150 |
| General reserves | | 6,450 |
| Equipment | 50,000 | |
| Provision for depreciation: | | |
| Motor vehicles | | 11,250 |
| Furniture | | 4,200 |
| Equipment | | 7,500 |
| Inventory (1 January, 2018) | 13,500 | |
| Trade receivables/trade payables | 12,500 | 9,445 |
| Provision for doubtful debts | | 1,200 |

| | Debits | Credits |
|-------------------------|----------------|----------------|
| | Shs '000' | Shs '000' |
| Bank | 255,505 | |
| Utilities | 1,650 | |
| Salaries | 2,560 | |
| Rent | 2,900 | |
| Purchases/sales revenue | 101,500 | 140,650 |
| Returns | 650 | 500 |
| Carriage inwards | 450 | |
| Carriage outwards | 200 | |
| Discounts | 150 | 280 |
| Commissions | 180 | 120 |
| | <u>544,745</u> | <u>544,745</u> |

Additional information:

- 1 Inventory as at 31 December, 2018 was Shs 20,000,000. It was later discovered that part of the inventory that cost Shs 5,000,000 was damaged and could only be sold for Shs 3,000,000 in an open market. This had not yet been incorporated in the books by the year end.
- 2 The utilities and rent prepaid were Shs 500,000 and Shs 800,000 respectively and outstanding salaries Shs 2,000,000.
- 3 Of the trade receivables, Shs 500,000 was written off and a provision of 2% on net trade receivables was made at the year end.
- 4 The company transferred Shs 12,000,000 to general reserves.
- 5 A declaration of dividends Shs 50 per share was made at year-end for the existing shareholders. This was based on the number of ordinary shares prior to the issues made in note 6 below.
- 6 The company issued 60,000 shares at Shs 1,650 each at the year end.
- 7 It is the company's policy to depreciate all non-current assets at 15% on cost.
- 8 All transactions were made through the bank.

Required:

Prepare, for Omulamu Company Limited, for the year ended 31 December 2018, a statement of:

- (a) profit or loss **(10 marks)**
 - (b) changes in equity **(5 marks)**
 - (c) financial position **(10 marks)**
- (Total 25 marks)**

Question 3

- (a) Wabwire, a retail trader in Ganya Town, attended a traders' workshop in his area facilitated by Umoja Revenue Authority (URA) where participants were taught about appropriate record-keeping and basic accounting skills for retail traders. During the session, the terms 'accounting cycle' and 'accounting process' were mentioned several times. Wabwire has approached you, as a CTA student, to further enlighten him about the key areas talked about during the workshop.

Required:

Explain, with examples, the stages of the accounting cycle.

(5 marks)

- (b) The following balances were extracted from the books of Waliggo, a sole proprietor in Buyaga Trading Centre as at 1 March, 2019:

| | Shs '000' |
|--------------------|-----------|
| Capital | 20,000 |
| Cash at hand | 7,000 |
| Bank | 12,000 |
| Trade receivables: | |
| Madina | 4,000 |
| Fatina | 3,000 |
| Sauna | 6,000 |
| Trade payables: | |
| Sanyu | 3,000 |
| Kato | 5,000 |
| Okia | 4,000 |

During the month, the following transactions took place:

| Date | Transaction |
|------|---|
| 2 | Paid for goods bought on credit Shs 7,000,000 cash earning a 2% cash discount. |
| 3 | Sold goods Shs 2,500,000 cash. |
| 5 | Withdrew Shs 1,500,000 cash from the business to pay fees for his son. |
| 7 | Made sales on credit to Bayo and Kauka Shs 800,000 and Shs 600,000 respectively. |
| 9 | Bayo returned goods worth Shs 50,000 because they were faulty. |
| 10 | Kauka and Bayo paid their outstanding balances in cash, each receiving a 2% cash discount for prompt payment. |
| 12 | Madina paid her balance by cheque and purchased more goods Shs 5,000,000 on credit. |

- 15 Paid Kato by cheque Shs. 3,000,000.
- 17 Paid Okia his balance by cheque and purchased more goods from him on credit Shs 6,000,000.
- 20 Withdrew cash from bank for business use Shs 2,000,000.
- 23 Bought goods from Kato on credit Shs 4,000,000.
- 24 Returned two expired items worth Shs 100,000 to Kato.
- 24 Fatina paid her balance by cash and purchased more goods on credit Shs 3,000,000.
- 25 Sauna paid her balance by cash and bought more goods on credit Shs 3,000,000.
- 27 Brought Shs 4,000,000 cash as additional capital into the business.
- 28 Goods that had cost Shs 450,000 were damaged by floods and were only sold for Shs 200,000 cash.
- 30 Paid staff wages Shs 2,000,000 cash.
- 30 Paid utilities by cash: electricity Shs 150,000 and water Shs 90,000.

Required:

Prepare, for the month of March 2019, Waliggo's:

- (i) Three-column cashbook **(12 marks)**
- (ii) Trade receivables control account **(5 marks)**
- (iii) Trade payables control account **(3 marks)**
- (Total 25 marks)**

Question 4

- (a) Explain the **four** enhancing qualitative characteristics of accounting information. **(4 marks)**
- (b) On 30 June 2019, the accountant of Tanga Suppliers Ltd realised, after extracting the trial balance, that the credit side exceeded the debit side by Shs 10,190,000. On further examination, she discovered the following issues:
 - 1 No entry had been made for Shs 2,400,000 received from Mary in respect of goods sold to her on credit.
 - 2 An equipment, a non-current asset that was purchased at Shs 4,000,000 had been expensed by the accounts assistant.
 - 3 A cheque Shs 560,000 received from Obuma was credited to Osuma's account.
 - 4 A receipt Shs 6,500,000 was credited to the cashbook as Shs 560,000.
 - 5 Returns outwards Shs 100,000 was debited to the returns inwards account as Shs 10,000.

- 6 The amount of total sales was overcast by Shs 2,000,000 while that of total purchases was under cast by Shs 1,240,000.

Required:

Prepare, for Tanga Suppliers Ltd:

- (i) Journal entries to correct the above errors **(7 marks)**
- (ii) A suspense account **(2 marks)**
- (c) Tukole Investments Ltd. has, among other items, a number of boda boda motorcycles for hire. The following information was extracted from the company's books of account:

| Motorcycle | Cost (Shs) | Date of purchase |
|------------|------------|------------------|
| UDE XX1L | 4,400,000 | 1-Jan-2017 |
| UDE XX4S | 4,200,000 | 30-Jun-2017 |
| UDE XX5P | 4,000,000 | 31-Dec-2017 |

Additional information:

- 1 The company's financial year ends 31 December.
- 2 The company paid Shs 48,000 each year per motorcycle in respect of third party insurance.
- 3 Motorcycle registration no. UDE XX1L was knocked by a speeding taxi at Jinja road junction on 31 December 2017. Management decided to write it off immediately on the same day at book value.
- 4 Motorcycle registration no. UDE XX4S was traded for a new motorcycle- UDE 6XXP on 1 December 2018. At the time of the transaction, the old motorcycle was valued at book value. The company topped up Shs 1,730,000 to complete the purchase of the new motorcycle and also paid Shs 250,000 for registration fees and non-refundable taxes.
- 5 The company estimates the useful life of motorcycles to be 5 years, at the end of which a motor cycle would have zero scrap value. Full depreciation is charged both in the year of acquisition and disposal.
- 6 All transactions were made through the bank.

Required:

Prepare, for Tukole Investments Ltd., for the years ended 31 December 2017 and 2018, a combined:

- (i) Motorcycles account **(5 marks)**
 - (ii) Accumulated depreciation account **(5 marks)**
 - (iii) Disposal of motorcycle account **(2 marks)**
- (Total 25 marks)**

Question 5

- (a) Explain the following concepts as used in accounting:
- (i) Substance over form **(2 marks)**
 - (ii) Consistence **(2 marks)**
 - (iii) Realisation **(2 marks)**
 - (iv) Prudence **(2 marks)**
- (b) Giving **four** reasons, explain the importance of preparing bank reconciliation statements.

(2 marks)

- (c) On 31 May 2019, River Valley Ltd's bank statement showed a balance Shs 223,501,000 (credit) while the cashbook (bank column) had a balance Shs 127,000,000 (debit).

On examination, the following issues were discovered:

- 1 Bank charges Shs 400,000 and commission fees paid Shs 500,000 for the month of April 2019 were not reflected in the previous adjusted cashbook.
- 2 The following cheques were issued out but not reflected on the bank statement as at 31 May 2019:

| Cheque No. | Shs '000' |
|------------|-----------|
| 12019 | 5,600 |
| 12020 | 11,278 |
| 12022 | 24,067 |
| 12032 | 36,700 |
| 12036 | 75,000 |

- 3 Ledger fees for the month of May 2019 Shs 35,000 and an amount due from Joy Ltd. Shs 19,000,000 were debited and credited respectively on the company's bank account. These transactions were not reflected in cashbook.
- 4 The following cheques, deposited by the company on 28 May, 2019 had not been cleared by the bank by 31 May, 2019:

| Cheque No. | Shs '000' |
|------------|-----------|
| 12356 | 4,000 |
| 13245 | 56,089 |
| 31212 | 8,000 |
| 14200 | 23,000 |
| 1007 | 5,756 |

- 5 A cheque paid to Okello Shs 32,678,000 was posted in the credit side of the cashbook as Shs 23,786,000.

- 6 Standing instruction charges Shs 4,000 directly debited by the bank for the month of May 2019 had not been reflected in the cashbook by the month end.
- 7 Rental income Shs 17,000,000 due to the company and payment of 5% of the rental income to the property agent had not been reflected in the cashbook but was reflected in the bank statement.
- 8 River Valley Ltd. paid Mr. Musana Shs 1,500,000 by cheque on 25 May but because he had no bank account, he returned the cheque on 27 May and was paid cash instead.
- 9 Interest on deposits for the month Shs 450,000 was reflected on the bank statement only.
- 10 A cheque Shs 5,000,000 received from Mr. Tamale on 23 May and banked that same day was cancelled and returned by the bank.
- 11 A cheque no: 2043 Shs 6,780,000 paid to another bank customer on 23 May was credited in error on the bank statement.
- 12 Cheque No: 12003 paid to a supplier (Mary) Shs 4,300,000 had been credited twice in the cashbook while VAT refund Shs 2,200,000 was received by the bank but had not been reflected in the cashbook.
- 13 A cheque paid to a supplier Jonathan Shs 1,318,000 was returned unpaid.
- 14 A cheque received from MM Enterprises Shs 610,900 was debited as Shs 56,500.
- 15 Dividends Shs 6,500,000 paid to the shareholders accounts and interest received from investments Shs 3,000,000 were all not reflected in the cashbook.

Required:

Prepare, for River Valley Ltd., for the month of May 2019:

- (i) An adjusted cashbook **(9 marks)**
 - (ii) Bank reconciliation statement **(6 marks)**
- (Total 25 marks)**

TEST PAPER 5
CTA DECEMBER 2020

Question 1

- (a) Explain what is meant by 'unrealised profits' and why accounts should be adjusted in respect of unrealised profits when preparing financial statements.
(2 marks)
- (b) Describe the elements that constitute 'prime costs' of a manufacturing firm.
(3 marks)
- (c) The following trial balance, for the year ended 31 December 2019, was extracted from the books of Mata Ltd, processors of dairy products from fresh milk in Lyatonde Town:

| | Debits Shs '000' | Credits Shs '000' |
|------------------------------------|---------------------|----------------------|
| Assets (at cost): | | |
| Land | 344,000 | |
| Buildings | 239,000 | |
| Plant and machinery | 450,000 | |
| Delivery trucks | 85,000 | |
| Other equipment | 47,000 | |
| Sales | | 1,610,000 |
| Purchase of raw materials | 710,000 | |
| Inventory at 1 January, 2019: | | |
| Raw materials | 37,000 | |
| Work in progress | 64,500 | |
| Finished goods | 89,000 | |
| Direct factory wages | 55,000 | |
| Indirect factory wages | 30,000 | |
| Lighting and heating | 40,000 | |
| Packaging materials | 20,000 | |
| Factory service and maintenance | 33,000 | |
| Carriage inwards | 7,000 | |
| Carriage outwards | 2,000 | |
| Insurance | 28,000 | |
| Advertising | 10,000 | |
| Commission and allowances on sales | 34,500 | |
| Delivery trucks maintenance | 15,000 | |
| Accounts receivable | 48,000 | |

| | Debits Shs '000' | Credits Shs '000' |
|-------------------------|---------------------|----------------------|
| Accounts payable | | 65,000 |
| 15% Bank loan | | 250,000 |
| Interest paid on loan | 37,500 | |
| Cash and bank | 66,000 | |
| Drawings | 10,000 | |
| Rent | 15,000 | |
| General office expenses | 16,000 | |
| Staff salaries | 35,000 | |
| Bank charges | 4,500 | |
| Discounts allowed | 3,000 | |
| Directors' remuneration | 50,000 | |
| Capital | | <u>700,000</u> |
| | <u>2,625,000</u> | <u>2,625,000</u> |

Additional information:

- Depreciation of non-current assets is charged on cost as below:

| | |
|---------------------|-----|
| Buildings | 5% |
| Plant and machinery | 15% |
| Delivery trucks | 20% |
| Other equipment | 10% |
- Depreciation expenses to be apportioned as follows:

| | Factory | Office | Selling & distribution |
|-----------------|---------|--------|------------------------|
| Buildings | 75% | ? | None |
| Delivery trucks | 25% | None | 75% |
- Other costs to be apportioned as follows:

| | Factory | Selling & distribution | Office |
|-----------------------------|---------|------------------------|--------|
| Lighting and heating | 3/4 | None | ? |
| Insurance | 3/5 | ? | 1/5 |
| Advertising | None | ? | 1/4 |
| Delivery trucks maintenance | 2/5 | 3/5 | None |
- Balances at 31 December, 2019:

| | Shs |
|------------------|------------|
| Raw materials | 45,000,000 |
| Finished goods | 65,000,000 |
| Work in progress | 39,500,000 |

- 5 The company lost milk worth Shs 6,000,000 that went bad in its storage tanks. This milk was not insured. No adjustments had been made in the books of account at the year end.
- 6 Finished goods are transferred to trading account at Shs 1,200,000,000.

Required:

Prepare, for the year ended 31 December 2019, Mata Ltd's:

- (i) Manufacturing cost statement **(10 marks)**
 - (ii) Statement of profit or loss **(10 marks)**
- (Total 25 marks)**

Question 2

- (a) Explain how depreciation charge is provided for under the following methods:
 - (i) Straight line **(2 marks)**
 - (ii) Reducing balance **(2 marks)**
 - (iii) Revaluation **(2 marks)**
- (b) Discuss the treatment of depreciation expense in the statements of profit or loss and financial position. **(2 marks)**
- (c) Munaku Footwear Ltd (MFL), specialists in making shoes and other leather products, provided the following information regarding their non-current assets:
 - 1 On 2 January 2017, two machines were bought: B01 (A) for pattern making and leather cutting at Shs 120,000,000 and S02 (A) for sewing and finishing at Shs 155,000,000.
 - 2 Another machine, Y2T for sole making and fixing, was bought at Shs 87,000,000 on 3 March 2017.
 - 3 On 30 November 2018, MFL bought a new machine, B01 (B) for marking and leather cutting with automatic hydraulic system at Shs 200,000,000.
 - 4 Another machine S02 (B) was bought on 30 June 2019 at Shs 230,000,000.
 - 5 On 12 December 2019, machines B01 (A) and S02 (A) developed mechanical problems and were sold off on 31 December 2019 for Shs 98,000,000 and Shs 115, 000,000 respectively.
 - 6 Machines B01 and S02 are depreciated at 15% on cost while machine Y2T is depreciated at 12% on cost. The firm's policy is to provide for full depreciation in the year of acquisition and none in the year of disposal.

7 MFL's financial year ends on 31 December.

Required:

Prepare, for the years ended 31 December: 2017, 2018 and 2019, Munaku Footwear Ltd's combined ledger account for:

- (i) Non-current assets (6 marks)
 - (ii) Accumulated depreciation (8 marks)
 - (iii) Disposal of non-current assets (3 marks)
- (Total 25 marks)**

Question 3

The following trial balance was extracted from the books of Pondo Ltd for the year ended 31 December, 2019. The company, based in Bukwa District, deals in processing and selling coffee.

| | Dr Shs '000' | Cr Shs '000' |
|-------------------------------------|-----------------|-----------------|
| Ordinary share capital of Shs 2,000 | | 650,000 |
| 6% Preference shares | | 300,000 |
| 5% Debentures | | 370,000 |
| Share premium | | 100,000 |
| General reserves | | 50,000 |
| Assets at cost: | | |
| Land | 600,000 | |
| Buildings | 550,000 | |
| Plant and machinery | 350,000 | |
| Motor vehicles | 125,000 | |
| Other tools | 50,000 | |
| Balances at 1 January, 2019: | | |
| Retained earnings | 34,000 | |
| Inventory | 67,500 | |
| Purchases and sales | 650,000 | 1,200,000 |
| Discounts | 9,000 | 3,500 |
| Carriages inwards | 4,000 | |
| Carriages outwards | 5,700 | |
| Wages and salaries | 90,000 | |
| Fuel | 45,000 | |
| Utilities | 25,000 | |
| Insurance | 29,000 | |
| General expenses | 48,500 | |
| Bank charges | 8,000 | |

| | Dr Shs '000' | Cr Shs '000' |
|----------------------------------|------------------|------------------|
| Interest on bank loan | 24,000 | |
| 12% Bank loan | | 200,000 |
| Debenture interest | 18,500 | |
| Directors' remuneration | 60,000 | |
| Interim dividends paid: | | |
| Ordinary shares | 25,000 | |
| Preference shares | 18,000 | |
| Trade receivables/trade payables | 90,700 | 133,400 |
| Cash and bank | 87,000 | |
| Provision for doubtful debts | | 7,000 |
| | <u>3,013,900</u> | <u>3,013,900</u> |

Additional information:

- 1 Closing inventory was valued at Shs 84,400,000.
- 2 It is the company policy to depreciate non-current assets on cost at the following rates:

| | |
|---------------------|-----|
| Buildings | 5% |
| Plant and machinery | 15% |
| Motor vehicles | 20% |
| Other tools | 10% |
- 3 At the year end, costs of stationery Shs 500,000 and electricity Shs 2,500,000 were outstanding. These costs are accounted for under general expenses and utilities respectively.
- 4 The directors agreed to issue 25,000 new shares at Shs 3,000 to the public. All the shares were subscribed and paid for.
- 5 The directors agreed to transfer Shs 10,000,000 to general reserves and to increase the provision for doubtful debts by 2.5% of the trade receivables.

Required:

Prepare, for the year ended 31 December 2019, Pondo Ltd's statement of:

- | | |
|------------------------|-------------------------|
| (a) Profit or loss | (10 marks) |
| (b) Financial position | (10 marks) |
| (c) Changes in equity | (5 marks) |
| | (Total 25 marks) |

Question 4

(a) Explain what is meant by 'contra entries'.

(2 marks)

(b) The following information was extracted from the books of Mugwa who runs a wholesale store in Soti Town. However, he does not keep proper records of his transactions.

| | |
|--|-----------|
| 1. Balances as at 1 January, 2019: | Shs '000' |
| Trade receivables | 90,000 |
| Inventory | 50,000 |
| 2. Transactions during the year: | |
| Bad debts written off | 4,500 |
| Cash received from customers | 56,000 |
| Cash deposited to bank by customers | 35,000 |
| Returns inward | 3,000 |
| Discounts allowed | 5,500 |
| Utilities | 7,000 |
| Wages | 10,000 |
| Rent | 8,000 |
| Drawings | 5,000 |
| 3. Balances as at 31 December 2019: | |
| Trade receivables | 75,000 |
| Inventory | 35,000 |
| 4. Mugwa makes a gross profit margin of 25% and all sales are on credit. | |

Required:

Determine, for the period ended 31 December 2019, the value of Mugwa's:

(i) Credit sales **(4 marks)**

(ii) Purchases **(9 marks)**

(c) Accounting concepts and conventions, being assumptions, conditions and guidelines upon which accounting records and statements are based, help preparers of financial statements to achieve the overall objective of financial reporting.

Required:

Explain the following concepts and conventions:

(i) Business entity **(2 marks)**

(ii) Money measurement **(2 marks)**

(iii) Matching **(2 marks)**

(iv) Going concern **(2 marks)**

(v) Consistency **(2 marks)**

(Total 25 marks)

Question 5

- (a) Qualitative characteristics are attributes that make financial information useful to users. They are categorised into fundamental and enhancing characteristics and they render information useful to aid decision-making.

Required:

Explain the applicability of the following characteristics of financial information to financial reporting:

- (i) Relevance (1 mark)
 - (ii) Faithful representation (1 mark)
 - (iii) Comparability (1 mark)
 - (iv) Timeliness (1 mark)
 - (v) Understandability (1 mark)
- (b) Discuss the institutional framework for financial reporting in Uganda. (5 marks)
- (c) The following information relates to transactions carried out during the month of January, 2020 by Mukwano Family Store:

| Date | Details |
|------|--|
| 2 | Started business with Shs 20,000,000. |
| 6 | Paid rent for business premises cash Shs 600,000. |
| 10 | Paid for purchases cash Shs 10,000,000. |
| 12 | Received a loan from Equity bank Shs 5,000,000. |
| 14 | Bought a delivery truck cash Shs 6,000,000. |
| 15 | Cash sales Shs 1,200,000. |
| 18 | Deposited Shs 1,000,000 cash into bank. |
| 30 | Paid wages cash Shs 500,000. Shs 150,000 was still outstanding at the end of the period. |

Required:

With reference to the accounting equation, demonstrate the effect of each of the above transactions.

Hint:

| Date | Transaction | Analysis | Effect | Double entry to be passed |
|------|-------------|----------|--------|---------------------------|
| | | | | |

(15 marks)
(Total 25 marks)

TEST PAPER 6
CTA OCTOBER 2021

Question 1

Healthy Chicks Ltd, a poultry-feeds manufacturing firm, has provided the following information extracted from its books of account for the year ended 30 June 2020:

| Details | Dr Shs '000' | Cr Shs '000' |
|--|------------------|------------------|
| Capital | | 354,150 |
| Inventory at 1 July 2019: | | |
| Raw materials | 65,600 | |
| Finished goods | 56,500 | |
| Work in progress | 23,400 | |
| Machinery | 260,000 | |
| Buildings at cost | 160,000 | |
| Delivery vans at cost | 75,000 | |
| Accumulated depreciation at 1 July 2019: | | |
| Buildings | | 32,000 |
| Delivery vans | | 28,125 |
| Machinery | | 84,375 |
| Salaries and wages | 58,300 | |
| Machine maintenance costs | 21,500 | |
| Packaging materials (sacks) | 23,400 | |
| Utilities | 24,500 | |
| Delivery costs for feeds | 42,010 | |
| Discounts | 8,300 | 4,500 |
| Cash and bank | 19,000 | |
| Trade receivables and trade payables | 46,400 | 48,760 |
| Office stationery | 16,500 | |
| Warehousing costs | 23,400 | |
| Insurance | 15,000 | |
| Purchases of raw materials and sales | 123,500 | 545,500 |
| Loose tools | 19,500 | |
| Transport on purchases of maize grains | 5,600 | |
| Quality assurance costs | 10,000 | |
| | <u>1,097,410</u> | <u>1,097,410</u> |

Additional notes:

- 1 The firm had contracted BM Transporters Ltd to transport raw materials. By 30 June 2020 BM Transporters Ltd was demanding Shs 8,500,000. This amount had been omitted from the books of account.
- 2 Loose tools include spades and water troughs acquired at the start of the year. The cost of unused loose tools at the end of the year was Shs 4,000,000. It is the firm's policy to recognise loose tools as a factory overhead.
- 3 Maize grains worth Shs 9,100,000 were completely damaged by fire during the year. This amount was written off as factory overheads.
- 4 At the year end, the value of packaging materials in the store was Shs 2,400,000. The firm's policy on packaging materials is to classify the cost of these materials as selling and distribution costs.
- 5 Healthy Chicks Ltd depreciates its non-current assets follows:

| | Depreciation rate/ useful life | | |
|---------------|--|--|--|
| Machinery | 5% on cost per annum | | |
| Buildings | 2% on cost per annum | | |
| Delivery vans | 8 years of useful life and nil residue value | | |

- 6 At 30 June 2020, Shs 4,500,000 in respect of wages for part-time workers was outstanding.
- 7 Prepaid utilities at 30 June 2020 amounted to Shs 2,400,000.
- 8 The firm apportions costs/ expenses as below:

| Details | Manufacturing department | Selling and distribution | Administration |
|---------------------------|--------------------------|--------------------------|----------------|
| Salaries and wages | 1/2 | 1/4 | 1/4 |
| Utilities | 3/4 | 1/8 | 1/8 |
| Insurance | 1/2 | 1/4 | 1/4 |
| Depreciation of buildings | 40% | 30% | 30% |

- 9 Inventory at 30 June 2020 was as follows:

| | Shs '000' |
|------------------|-----------|
| Raw materials | 34,500 |
| Finished goods | 45,670 |
| Work in progress | 14,590 |

Required:

Prepare, for the year ended 30 June 2020, Healthy Chicks Ltd's statement of:

(a) manufacturing cost

(12 marks)

(b) profit or loss

(13 marks)

(Total 25 marks)

Question 2

- (a) Identify the financial statements that are required to be prepared by companies in accordance with the Companies Act, 2012 and give any **two** elements of each statement.

(2 marks)

- (b) Happy Ltd, wholesalers of electronic products, provided the following information extracted from its books of account for the year ended 31 December 2018:

| Details | Dr Shs '000' | Cr Shs '000' |
|--|------------------|------------------|
| Profit/ loss for the year before adjustments | | 96,990 |
| Ordinary share capital at Shs 1000 per share | | 530,300 |
| 10% Preference share capital | | 250,500 |
| 18% Bank loan (acquired on 1 January 2018) | | 150,800 |
| Land at 1 January 2018 | 800,600 | |
| Motor vehicles at cost | 258,270 | |
| Buildings at cost | 345,700 | |
| Accumulated depreciation at 1 January 2018: | | |
| Motor vehicles | | 70,350 |
| Buildings | | 138,280 |
| Trade receivables | 97,800 | |
| Trade payables | | 45,540 |
| Cash and bank | 103,450 | |
| Balances at 1 January 2018: | | |
| Retained earnings | | 141,500 |
| Revaluation reserve | | 45,000 |
| General reserve | | 30,500 |
| Share premium | | 106,060 |
| | <u>1,605,820</u> | <u>1,605,820</u> |

Additional information:

The profit before interest and tax was generated before taking into account the following adjustments:

- 1 Closing inventory worth Shs 44,250,000 that was being held in a nearby store had not been counted and included in the accounts.
2. Included in the utilities expenses is Shs 7,500,000 paid on 1 July 2018 for a period of 12 months.
- 3 Motor vehicles and buildings are depreciated on cost at 12.5 % and 2% per annum respectively.
- 4 Out of the profits made, Shs 56,500,000 was transferred to the general reserve.
- 5 The interest on the loan for the year was outstanding and is assumed to accrue evenly during the year.
- 6 Corporation tax for the year was estimated at Shs 23,594,480.
- 7 Dividends were declared as follows: Shs 25,050,000 and Shs 13,000,000 for 10% preference shares and ordinary shares respectively.
- 8 Land was revalued at year end to Shs 1,000,000,000.
- 9 Preference shares are irredeemable.

Required:

Prepare, for the year ended 31 December 2018, Happy Ltd's statement of:

- | | |
|--------------------------|-------------------|
| (i) adjusted net profit | (5 marks) |
| (ii) changes in equity | (6 marks) |
| (iii) financial position | (12 marks) |

(Total 25 marks)

Question 3

- (a) Explain the following accounting concepts/ terms as applied in the preparation of financial statements:

- | | |
|------------------------------|------------------|
| (i) Substance over form | (2 marks) |
| (ii) Realisation | (2 marks) |
| (iii) Accrual | (2 marks) |
| (iv) Faithful representation | (2 marks) |
| (v) Verifiability | (2 marks) |

(b) The trial balance of Nyangua Motors Limited (Nyangua), dealers in used motor vehicles, had total debits Shs 438,846,000 and total credits Shs 654,546,000 at 31 December 2019. The accountant proceeded with the preparation of financial statements and reported a net profit Shs 514,156,250 but later discovered the following errors:

- 1 The purchase of two motor vehicles at Shs 60,000,000 for sale had been debited to the motor vehicles account.
- 2 A cash discount of 2% received on purchase of 8 cars at a total invoice price Shs 120,000,000 had been debited in the discount allowed account.
- 3 Utilities expense Shs 245,000 had been debited in the utilities account as Shs 24,500.
- 4 Nyangua paid parking fees Shs 6,500,000 and license fees Shs 50,000,000. These payments had not been recorded in the books of account.
- 5 Nyangua acquired a motor vehicle carrier and incurred transport costs Shs 2,200,000 from Mombasa to Kampala. The transport costs are included in the motor vehicle expenses.
- 6 One of the vehicles purchased at Shs 18,000,000 had got involved in an accident on its way to Kampala and management decided to sell it off as scrap for Shs 5,000,000. This transaction was omitted from the books of account.
- 7 The sales daybook had been under-cast by Shs 1,200,000.

Required:

Prepare Nyangua's:

- (i) Journal entries to correct the above errors **(8 marks)**
- (ii) Duly balanced suspense account **(2 marks)**
- (iii) Statement of corrected net profit for the year ended 31 December 2019

(5 marks)

(Total 25 marks)

Question 4

- (a) Explain the objectives of the International Accounting Standards Board (IASB) and the benefits an entity in Uganda would enjoy by adopting the International Financial Reporting Standards (IFRS).

(13 marks)

- (b) Quality Construction Company Ltd (QCCL) traded its old equipment for a new one on 1 January 2017. The old equipment was valued at Shs 10,000,000 and the company topped up Shs 15,000,000. Additional costs incurred in relation to the new equipment for the years 2017 and 2018 were as follows:

| | Shs |
|---------------------------------------|-----------|
| Set up costs | 3,000,000 |
| Fuel for operating the equipment-2017 | 4,500,000 |
| Fuel for operating the equipment-2018 | 8,700,000 |
| Wages paid to equipment operator-2017 | 3,600,000 |
| Wages paid to equipment operator-2018 | 7,500,000 |

On 31 December 2018, the equipment was disposed of at Shs 20,000,000. It is QCCL's policy to charge depreciation at 20% per annum using reducing balance method, charging full depreciation in the year of acquisition and year of disposal.

Required:

Determine the amount of depreciation charged in the two years and the gain or loss on disposal of the equipment.

(6 marks)

- (c) Mukora, a prominent mechanic runs a mechanical workshop in Kisenyi. His financial year ends on 31 December. The tools in his workshop were valued at Shs 5,400,000 as at 1 January, 2017. During the year, he acquired additional tools worth Shs 8,700,000. All tools were valued at Shs 12,000,000 as at 31 December, 2017.

Required:

- (i) Using revaluation method of depreciation, determine the value of depreciation that will be charged to profit or loss account for the year ended 31 December 2017.

(2 marks)

- (i) Explain why the revaluation method is more appropriate for depreciating workshop tools.

(1 mark)

- (d) During the year ended 31 December 2017, the accountant of Mukene Enterprises Limited wrote off a bad debt Shs 4,600,000 relating to John, a debtor, who had relocated to an unknown place. During the year ended 31 December 2018, John resurfaced and decided to pay the company's debt in full through the company's bank account.

Required:

Using journal entries, show the steps that should be taken to incorporate the payment from John into the company's books of account for the year ended 31 December 2018.

(3 marks)
(Total 25 marks)

Question 5

The following were the transactions of Jojo Traders for the month of April 2021:

| Date | Transaction |
|------|--|
| 1 | Started business with the following assets: Shs '000' |
| | Cash 20,000 |
| | Bank 50,000 |
| | Motor vehicle 24,000 |
| 4 | Purchased goods Shs 4,000,000 cash. |
| 6 | Acquired office computers and printers Shs 10,500,000 by cash. |
| 7 | Purchased goods on credit from: Kaigo and Meddi Shs 4,500,000 and Shs 4,200,000 respectively. |
| 8 | Paid rent Shs 2,750,000 by cheque. |
| 9 | Sold goods on credit to: Okwalinga Shs 6,200,000 and Okoth Shs 3,500,000. |
| 11 | Paid salaries and wages Shs 6,000,000 cash. |
| 13 | Returned goods to both Kaigo and Meddi Shs 2,500,000 and Shs 2,000,000 respectively because they were damaged. |
| 17 | Okwalinga and Okoth returned goods Shs 1,000,000 and Shs 1,200,000 respectively. |
| 18 | Made cash sales Shs 7,500,000. |
| 19 | Paid Shs 2,000,000 to Kaigo by cheque. |
| 20 | Received cheques from Okwalinga Shs 1,250,000 and Okoth Shs 1,550,000. |
| 28 | Made payments for fuel Shs 1,650,000; electricity Shs 150,000 and water Shs 180,000 cash. |

Required:

- (a) Prepare, for Jojo Traders, duly balanced ledger accounts for the month of April 2021.

(Hint: Prepare single accounts for all expenses, debtors and creditors).

(20 marks)

- (b) Extract a trial balance for the period.

(5 marks)

(Total 25 marks)

TEST PAPER 7
CTA DECEMBER 2021

Question 1

- (a) Explain the role of accountants in the respective organisations in which they work. **(4 marks)**
- (b) Explain, with examples, the distinction between direct and indirect costs, with reference to a mineral water bottling company. **(4 marks)**
- (c) The following balances were extracted from the books of BP Limited (BPL), manufacturers of quality plastic products, for the year ended 31 December 2020:

| | Debits Shs '000' | Credits Shs '000' |
|--|---------------------|----------------------|
| Inventory at 1 January 2020: | | |
| Raw materials | 27,000 | |
| Work in progress | 4,570 | |
| Finished goods | 14,000 | |
| Non-current assets at cost: | | |
| Factory building | 250,000 | |
| Factory machinery | 184,000 | |
| Factory generator | 8,800 | |
| Delivery truck | 54,000 | |
| Salaries and wages | 40,000 | |
| Accrued salaries and wages | | 3,200 |
| Lighting and heating | 24,500 | |
| Other factory expenses | 2,400 | |
| Carriage on raw materials | 14,000 | |
| Sales | | 460,000 |
| Returns of raw materials | | 3,300 |
| Purchase of raw materials | 244,840 | |
| General office expenses | 9,480 | |
| Repair of plant and machinery | 4,140 | |
| Insurance prepaid as at 1 January 2020 | 2,800 | |
| Direct expenses | 11,400 | |
| Fuel for generator | 4,400 | |
| Accumulated depreciation: | | |
| Factory building | | 12,500 |
| Factory machinery | | 18,400 |
| Delivery truck | | 10,800 |

| | | |
|-----------------------|----------------|----------------|
| Factory generator | | 2,200 |
| Share capital | | 389,400 |
| Cash and bank | 13,470 | |
| Debtors and creditors | 22,000 | 36,000 |
| | <u>935,800</u> | <u>935,800</u> |

Additional information:

- 1 Inventory at 31 December 2020 was valued as follows:

Shs '000'

Raw materials 20,450

Work in progress 3,210

Finished goods 28,000

- 2 The prepaid insurance expired on 30 June 2020. The company renewed its insurance policy by paying a premium Shs 7,600,000 by cheque, for the period July 2020 to June 2021. This payment had not yet been reflected in the books of account.

- 3 Shared costs are to be apportioned as follows:

| | Factory | Office and Administration | Selling and distribution |
|----------------------|---------|------------------------------|-----------------------------|
| Salaries and wages | 60% | 30% | 10% |
| Insurance expenses | 0.5 | 0.3 | 0.2 |
| Lighting and heating | 0.8 | 0.1 | 0.1 |

- 4 The company's non-current assets are depreciated as follows:

| | Rate per annum | Depreciation method |
|-------------------|----------------|---------------------|
| Factory machinery | 10% | Straight line |
| Factory building | 5% | Straight line |
| Factory generator | 25% | Straight line |
| Delivery truck | 20% | Reducing balance |

Required:

Prepare BPL's statement of manufacturing cost for the year ended 31 December 2020.

(Clearly, show all necessary workings)

(17 marks)
(Total 25 marks)

Question 2

The following information was extracted from the books of Bravo Company Limited (BCL) for the year ended 31 December 2020:

| | Dr Shs '000' | Cr Shs '000' |
|--|------------------|------------------|
| Share capital (100,000 shares at Shs 5,000 each) | | 500,000 |
| Motor vehicles (at cost) | 184,000 | |
| Furniture and fittings (at cost) | 18,400 | |
| General reserves | | 12,370 |
| Accounts receivable/ accounts payable | 56,000 | 31,000 |
| Discounts | 3,100 | 4,300 |
| Cash and bank | 58,500 | |
| Provisions for doubtful debts | | 3,700 |
| Rent | 24,400 | |
| Inventory at 1 January 2020 | 40,430 | |
| Utilities | 26,500 | |
| Salaries and wages | 38,400 | |
| Purchases and sales | 230,000 | 557,550 |
| Fuel, repairs and maintenance | 76,870 | |
| Bad debts | 7,800 | |
| General expenses | 123,000 | |
| Land (at cost) | 254,740 | |
| Accumulated depreciation: | | |
| Motor vehicles | | 36,800 |
| Furniture and fittings | | 920 |
| Accumulated profit or loss | 4,500 | |
| | <u>1,146,640</u> | <u>1,146,640</u> |

Additional notes:

- 1 Inventory at 31 December 2020 was valued at Shs 47 million.
- 2 Included in the amount for salaries and wages was Shs 4 million that relates to salary advances not yet recovered as at 31 December 2020 while Shs 2.3 million for utility expenses was outstanding at the yearend.
- 3 The company issued additional 10,000 shares at Shs 5,750 each on 28 December 2020. All the shares were paid for through bank.
- 4 Shs 5 million was transferred to the company's reserve account in line with the arrangement in place to build the company's new offices.
- 5 One of the debtors disappeared without settling his balance Shs 5.6 million. Management agreed to write off the entire amount and adjust the provision for doubtful debts to 10% of the net accounts receivable after the write off.

- 6 It is the company policy to depreciate motor vehicles at 20% per annum using reducing balance method and furniture and fittings at 5% per annum using straight line method.

Required:

Prepare, for the year ended 31 December 2020, BCL's:

- (a) Journal entries to record the transactions in additional notes 1-6 above. **(8 marks)**
- (b) Statement of:
- (i) Profit or loss **(7 marks)**
 - (ii) Changes in equity **(3 marks)**
 - (iii) Financial position **(7 marks)**
- (Total 25 marks)**

Question 3

- (a) Explain the following source documents and the purpose for which they are prepared:
- (i) Debit note **(2 marks)**
 - (ii) Credit note **(2 marks)**
 - (iii) Remittance advice note **(1 mark)**
- (b) Quality Timber Dealers Limited (QTDL) has provided the following information regarding their transactions for the month of April 2021:
- | Date | Details |
|------|--|
| 1 | Started business with cash at hand Shs 2.7 million, cash at bank Shs 50.3 million. On the same date, the following items were purchased, by cheque: Wood planer machine Shs 7 million and wood cutter machine Shs 6 million. |
| 2 | Purchased eucalyptus poles at Shs 2 million cash and additional Shs 0.2 million was paid in cash for transport and loading charges. |
| 3 | Withdrew Shs 5 million from the business bank account and put it into business cash drawer. |
| 4 | Purchased timber worth Shs 32 million, paying by cheque less a trade discount Shs 1 million. Transport and loading charges cost Shs 2 million. |
| 6 | Sold timber for Shs 20 million to Professional Masons Ltd, receiving a cheque Shs 18 million. The balance would be paid less 2% cash discount, if settled by the end of April 2021. |
| 7 | Ssonko, a builder, deposited Shs 4 million cash for timber. |
| 8 | Sold timber for Shs 3 million cash and deposited Shs 5.5 million into the business bank account on the same date. |

- 15 Ssonko picked timber worth Shs 4 million. In addition, he was allowed to take timber worth Shs 2.4 million on credit on the understanding that he would pay less 4% cash discount, if he settled his account within one week.
- 17 Professional Masons Ltd paid their outstanding balance in cash.
- 20 Mukasa took timber worth Shs 4.5 million on terms that he would be entitled to 5% cash discount, if he settled his account within 2 weeks.
- 21 Purchased timber at Shs 20 million from Mbaawo Masters Ltd on terms that QTDL would earn a cash discount of 5%, if payment was made within 1 week. Shs 1.2 million was paid in cash in respect of transport and loading charges.
- 22 Mr Ssali, the proprietor of QTDL, received Shs 1 million from his cousin to whom he had lent his personal money. On the same date, Ssonko and Mukasa settled their accounts, by cash, to zero balance.
- 23 Paid Mbaawo Masters Ltd Shs 5 million cash and the balance, by cheque.
- 24 Purchased additional poles worth Shs 5 million, paying Shs 2.3 million cash and the balance, by cheque. Shs 600,000 cash was paid in respect of transport and loading charges.
- 28 Paid the following expenses by cash: Electricity Shs 800, 000; rent for store Shs 700,000 and machine repairs Shs 400,000.

Required:

- (i) Explain any **four** merits of preparing a cashbook to a business.
(4 marks)
- (ii) Prepare QTDL's three-column cashbook for the month of April 2021 and balance it off at the end of the period

(16 marks)

(Total 25 marks)

Question 4

- (a) On 31 August 2021, the bookkeeper of Nnalongo General Enterprises extracted the end of period trial balance and noted that the debit side total was more than the credit side total by Shs 3,400,000. On further examination by his supervisor, the following errors were found committed by the bookkeeper:
- 1 Repairs expense for motor vehicle Shs 400,000 was debited to the motor vehicle asset account.
 - 2 Sales were overcast by Shs 350,000 while purchases were undercast by Shs 670,000.

- 3 Shs 1,200,000 for sales invoices was posted to sales account but not to the corresponding account required to complete the double entry.
- 4 Shs 800,000 cash paid in respect of electricity expense was recorded in the cashbook as Shs 80,000 but correctly recorded in the electricity expense account.
- 5 A receipt of Shs 4,900,000 by cheque in respect of insurance compensation was only recorded in the cashbook but not in the corresponding account required to complete the double entry.

Required:

- (i) Show journal entries to correct the above errors **(6 marks)**
 - (ii) Prepare a duly balanced suspense account **(3 marks)**
- (b) The following information was extracted from the books of Clara Beauty Products Limited for the month of July 2020:

| Description | Shs '000' |
|--|-----------|
| Balances at 1 July 2020: | |
| Receivables account (debit) | 3,402 |
| Receivables account (credit) | 230 |
| Payables account (credit) | 7,500 |
| Credit purchases | 28,700 |
| Cash purchases | 6,400 |
| Bank payments against invoices received | 8,400 |
| Bank receipts from credit customers | 10,500 |
| Dishonoured cheques received from customers | 1,340 |
| Cash payments against invoices received | 4,300 |
| Cash receipts from credit customers | 3,800 |
| Interest charged on late settlement of invoices by customers | 340 |
| Cash paid to settle debtors' credit balances | 230 |
| Bad debts | 1,740 |
| Returns inward | 120 |
| Returns outward | 490 |
| Discounts allowed | 316 |
| Discounts received | 417 |
| Interest on overdue accounts of suppliers | 170 |
| Credit sales | 40,200 |
| Cash sales | 17,300 |
| Balances at 31 July 2020: | |
| Receivables account (debit) | ? |
| Payables account (credit) | ? |

Required:

- (i) Explain the purpose of preparing control accounts by a business
(4 marks)
 - (ii) Prepare extracts from the receivables and payables control accounts and determine the respective closing balances
(10 marks)
 - (iii) Explain any **two** possible causes of a credit balance on a receivables ledger account
(2 marks)
- (Total 25 marks)**

Question 5

- (a) Explain the term 'depreciable amount' as used in accounting for depreciation of non-current assets
(2 marks)
- (b) Explain any **three** factors to consider when estimating the useful life of a depreciable asset
(3 marks)
- (c) The following information, regarding non-current assets, was extracted from the books of Yaffe Construction Services Ltd (YCSL):
 - 1 On 1 January 2018, the company acquired a concrete mixer truck at Shs 150 million.
 - 2 On 1 July 2019, a construction hoist lift was acquired at Shs 10 million. The machine is used to move materials vertically up.
 - 3 On 31 October 2019, YCSL acquired land where the proposed company offices would be located at Shs 126 million. The company incurred Shs 7 million in respect of surveying costs and processing of the land title.
 - 4 On 30 June 2020, the concrete mixer truck was disposed of for Shs 140 million. The company incurred Shs 4 million in adverts in the process leading to the disposal. At this date, a truck-mounted crane was acquired at a cost Shs 100 million (inclusive of non-refundable taxes). The company incurred Shs 2.5 million in respect of registration costs and management agreed to pay the truck driver Shs 500,000 per assignment.
 - 5 On 31 December 2020, the company revalued the land acquired on 31 October 2019 upwards to Shs 250 million.
 - 6 All transactions were done through bank. The company's financial year ends 31 December and its policy is that non-current assets are depreciated at 20% using reducing balance method. Depreciation expenses are time apportioned, whenever applicable.

Required:

Prepare, for Yaffe Construction Services Ltd for the years 2018, 2019 and 2020, the following:

- (i) Combined truck and equipment account **(5 marks)**
 - (ii) Combined accumulated depreciation account **(7 marks)**
 - (iii) Disposal of assets account **(3 marks)**
 - (iv) Ledger accounts to record the revaluation of land **(5 marks)**
- (Total 25 marks)**

TEST PAPER 8

CTA JUNE 2022

Question 1

- (a) Explain how an accountant, in charge of preparing financial statements, can achieve each of the following qualities of financial information:
- (i) Timeliness **(2 marks)**
 - (ii) Understandability **(2 marks)**
 - (iii) Comparability **(2 marks)**
- (b) The following statement of financial position as at 31 December 2019 was extracted from the books of Abigail Enterprises:

Shs '000'

Non-current assets:

Land 41,350

Motor vehicles 23,450

Current assets:

Trade receivables:

Kimani John 4,500

Kasegwa Peter 2,000

Kinene Isaiah 1,850

Cash at hand 16,000

Prepaid rent 1,000

Cash at bank 14,850

Total assets 105,000

Equity and liabilities:

Capital 44,720

Retained earnings 12,500

Non-current liabilities:

Bank loan 35,400

Current liabilities:

Trade payables:

Kisekka Enterprises 6,500

Kizito Reliable Suppliers 5,430

Accrued utilities 450

Total equity and liabilities 105,000

The following were the business' transactions for the month January 2020:

Date Details

3 Abigail Enterprises purchased goods at Shs 1,000,000 from Kisekka Enterprises, paying Shs 600,000 cash and the balance being payable in three months' time.

5 Sold goods to Kimani John for Shs 300,000 on credit.

- 8 Abigail Enterprises sold a piece of land that cost Shs 5,000,000 for Shs 20,000,000 to Honest Dealers Ltd who paid Shs 15,000,000 by cheque and promised to pay the balance later.
- 9 Kasegwa Peter cleared his debt Shs 1,970,000 by cash and management agreed to treat the balance as a discount.
- 11 Goods worth Shs 120,000 were returned to Kisekka Enterprises because they did not conform to quality.
- 14 Abigail turned her personal car worth Shs 24,000,000 into the business delivery van.
- 16 Kinene Isaiah cleared his outstanding balance by cash and took more goods worth Shs 400,000 on credit.
- 17 One staff member requested for a salary advance Shs 300,000. He was paid by cheque.
- 20 Kimani John cleared all his balance by cash less a discount Shs 50,000.
- 22 Abigail Enterprises purchased goods, by cheque, from Quick Suppliers Ltd. The list price of the goods was Shs 1,400,000 but the firm was offered a trade discount Shs 50,000.
- 23 Abigail used business cash Shs 500,000 to pay school fees for her son. On the same date, paid Shs 100,000 cash for business utilities.
- 28 Paid the loan installment for January Shs 654,000 through bank.
- 30 Paid rent for the month of January Shs 1,500,000.

Required:

Prepare, for the month of January 2020, Abigail Enterprises':

- (i) Ledger accounts (13 marks)
- (ii) Trial balance (6 marks)
- (Total 25 marks)**

Question 2

- (a) Explain, citing one example in each case, the following as applied to manufacturing accounts:
- (i) Direct raw materials (2 marks)
- (ii) Direct labour (2 marks)
- (iii) Direct expenses (2 marks)

- (b) The following is an extract from Zion Manufacturers Limited's cashbook for the year ended 31 December 2019:

| Details | Shs '000' | Details | Shs '000' |
|-----------------------------------|-----------|--|-----------|
| Balance b/f | 45,500 | Cash purchases of raw materials | 126,600 |
| Cash sales | 334,500 | Payment to credit suppliers of raw materials | 285,600 |
| Collections from credit customers | 535,450 | Machine repairs | 23,400 |
| Commission received | 21,500 | Distribution expenses | 45,500 |
| | | Showroom expenses | 34,500 |
| | | Royalties paid | 23,400 |
| | | Utilities | 18,460 |
| | | Insurance | 19,420 |
| | | Other salaries | 45,000 |
| | | Factory direct wages | 34,500 |
| | | Rent | 54,400 |
| | | Manufacturing expenses | 28,500 |
| | | Advertising costs | 18,400 |
| | | Purchase of new computers | 8,400 |

Other information:

- 1 Balances at the beginning and end of year are provided below:

| | 1 Jan 2019 | 31 Dec 2019 |
|---------------------------|------------|-------------|
| Details | Shs '000' | Shs '000' |
| Raw materials | 23,400 | 34,500 |
| Finished goods | 56,500 | 76,500 |
| Work in progress | 45,600 | 34,500 |
| Trade receivables | 25,500 | 26,950 |
| Trade payables | 21,500 | 20,500 |
| Delivery vans | 65,400 | ? |
| Plant and machinery | 125,400 | ? |
| Prepaid utilities | 140 | 160 |
| Accrued advertising costs | 2,400 | 2,850 |

- 2 Non-current assets are depreciated as follows:

| | |
|---------------------|-------------------------|
| Plant and machinery | 20% on reducing balance |
| Delivery van | 25% on reducing balance |
| Computers | 25% on cost |

- 3 Apportionment of costs is as below:

| | Factory | Administration | Sales |
|-----------|---------------|----------------|---------------|
| Utilities | $\frac{1}{2}$ | $\frac{1}{4}$ | $\frac{1}{4}$ |
| Insurance | 40% | 30% | 30% |

- | | | | |
|----------------|-----|-----|---|
| Other salaries | 4/8 | 1/4 | ? |
| Rent | 1/2 | 3/8 | ? |
- 4 Four computers were bought during the year. Two of them are used in the factory and the other two are used in the offices.
- 5 50% of the manufacturing expenses are direct.

Required:

Prepare, for the year ended 31 December 2019, Zion Manufacturers Limited's statement of:

- (i) Manufacturing cost **(10 marks)**
- (ii) Profit or loss **(9 marks)**
- (Total 25 marks)**

Question 3

- (a) Explain the:
- (i) Consistency concept of accounting and its application, with reference to accounting for depreciation of non-current assets. **(2 marks)**
- (ii) Factors considered when computing depreciation using the straight line method. **(3 marks)**
- (b) Muzungu Consult Limited has provided the following information relating to their non-current assets:

- 1 Balances at 1 January 2018:

| | Cost | Accumulated depreciation |
|----------------|-----------|--------------------------|
| | Shs '000' | Shs '000' |
| Machinery | 320,000 | 87,600 |
| Computers | 75,500 | 20,500 |
| Motor vehicles | 205,400 | 86,500 |

- 2 Non-current assets acquired during 2018 and 2019:

| | Cost (Shs '000') | Date of acquisition |
|----------------|---------------------------------|---------------------|
| Machinery | 95,000 | 3 July 2018 |
| Computers | 6,000 | |
| | (Inclusive of traded in amount) | 5 November 2018 |
| Motor vehicles | 75,500 | 2 March 2019 |

3 Disposal of non-current assets during 2018 and 2019:

| | Cost Shs '000' | Date of disposal | Date of acquisition | Proceeds from disposal Shs '000' |
|----------------|-------------------|---------------------|------------------------|--|
| Computer | 5,400 | 5 November 2018 | 1 January 2016 | 2,000 (Traded in at this value) |
| Motor vehicles | 34,400 | April 2019 | March 2017 | 17,000 |

4 Muzungu Consult Limited's financial year starts on 1 January.

5 It is the company policy to depreciate non-current assets as follows:

Machinery 10% on cost

Computers 25% on cost

Motor vehicles 30% on reducing balance

6 Depreciation is provided for fully in the year of acquisition and none in the year of disposal.

7 The computer disposed of on 5 November 2018 was exchanged for a new computer acquired on the same date. The old computer was valued at Shs 2,000,000.

Required:

Prepare, for the years 2018 and 2019, Muzungu Consult Limited's combined ledger accounts for:

(i) Non-current assets

(5 marks)

(ii) Accumulated depreciation

(10 marks)

(iii) Disposal of assets

(5 marks)

(Total 25 marks)

Question 4

- (a) Explain any **four** advantages of operating a partnership compared with a sole proprietorship business.

(4 marks)

- (b) Jackie and Jennifer are in partnership sharing profits or losses in the ratio 3:2 respectively. The following information is their statement of financial position as at 1 January 2019:

| | Shs '000' | | Shs '000' |
|---------------------|----------------|------------------------------|----------------|
| Non-current assets: | | Capital a/c: | |
| Motor vehicles | 175,400 | Jackie | 105,000 |
| Computers | 85,400 | Jennifer | 89,000 |
| Furniture | <u>75,400</u> | Current a/c: | |
| | 336,200 | Jackie | 120,500 |
| Current assets: | | Jennifer | 130,500 |
| Inventory | 65,500 | Retained profits | 85,400 |
| Trade receivables | 95,800 | Trade payables | 25,500 |
| Cash and bank | <u>58,400</u> | | |
| | 219,700 | | |
| Total assets | <u>555,900</u> | Total equity and liabilities | <u>555,900</u> |

Additional information:

- During the year to 31 December 2019, new computers were bought at Shs 15,600,000.
- The partnership charges interest at 4% per annum on drawings. Drawings made by the partners during the year were Shs 2,000,000 and Shs 3,000,000 for Jackie and Jennifer respectively.
- The partnership gives interest at 10% per annum on capital contributions. Additional capital contributed during the year was as follows: Jackie Shs 5,000,000 and Jennifer Shs 6,000,000.
- Balances at 31 December 2019:

| | Shs '000' |
|-----------------------|-----------|
| Inventory | 45,800 |
| Trade receivables | 76,500 |
| Cash at hand and bank | 306,880 |
| Trade payables | 27,500 |

- It is the partnership policy to depreciate non-current assets using reducing balance method as follows:

| | |
|----------------|-----|
| Motor vehicles | 30% |
| Computers | 25% |
| Furniture | 15% |

- 6 The partnership normally retains 10% of the profits before sharing the remainder to partners. The retained profits for the year ended 31 December 2019 amounted to Shs 9,800,000.
- 7 Partners are entitled to a salary Shs 400,000 per month each.
- 8 Assume that interest on drawings, interest on capital and partners' salaries relate to 12 months.

Required:

- (i) Determine the net profit for the period before providing for appropriations.

(4 marks)

- (ii) Prepare the partners' current and capital accounts

(9 marks)

- (iii) Prepare the partnership statement of financial position as at 31 December 2019.

(8 marks)

(Total 25 marks)

Question 5

- (a) Discuss the importance of bank reconciliation to a business **(6 marks)**
- (b) At the end of each month, the accountant of Kigege Limited (Kigege) prepares a bank reconciliation statement. At 31 March 2019, Kigege's cashbook balance was Shs 3,500,000 (debit) and their bank statement showed a balance Shs 5,622,300 (credit). Kigege's net profit for March 2019 was Shs 35,800,500.

The following additional information is provided:

- 1 The bank charged Kigege's account Shs 40,000 for bank charges and excise duty Shs 65,000. These items were not recorded in Kigege's books of account.
- 2 The accountant withdrew cash Shs 2,000,000 from the bank account for payment of casual labourers' wages and forgot to record this transaction in the books of account.
- 3 Cheque number 001 which the accountant issued to a credit supplier was recorded in the cashbook as Shs 750,000. The correct amount on the cheque was Shs 570,000.
- 4 A standing order Shs 400,000 in respect of business utilities was effected by the bank. No entry was made in Kigege's books of account.
- 5 Maria, a credit customer, paid Shs 2,300,000 through the bank in full settlement of her debt Shs 2,340,000. No entry has been made in Kigege's books of account.
- 6 A cheque issued to a supplier, Mengo Enterprises Ltd, Shs 300,000 was cancelled but the effect not recorded.

- 7 Kigege's account was credited with interest from the bank and rental income Shs 78,000 and Shs 665,600 respectively. No entry has been made in the books of account.
- 8 A cheque payment Shs 730,000 for purchases previously obtained on credit from Gift Suppliers Ltd was recorded in Kigege's books as Shs 370,000.
- 9 Kigege's accountant issued cheques to pay the following suppliers. However, the cheques do not appear in the bank statement:
- | | Shs |
|---------------------|---------|
| Ongom Mary | 400,400 |
| Lucky Enterprises | 504,600 |
| On-time Ltd | 605,000 |
| Excellent Suppliers | 702,500 |
| Smart Travels Ltd | 935,000 |
- 10 The following customers paid by cheque. However, the cheques were not expected to be credited until 4 April 2019:
- | | Shs |
|----------------|---------|
| Jane Amuge | 205,000 |
| Christine Kanu | 304,000 |
| Eric Kinene | 402,000 |
| Denise Achol | 308,400 |
| Betty Ahumuza | 564,400 |
- 11 The bank made errors when recording the following items: Cheque No. 030 Shs 450,000 supposed to be debited was credited and Cheque No. 0040 Shs 620,000 was credited as Shs 260,000.
- 12 Kigege Limited is registered for mobile banking services. The accountant attempted to withdraw Shs 400,000 from the bank account using the company's telephone but was not successful. This amount, however, appears in the bank statement.

Required:

Prepare, for the month of March 2019, Kigege Limited's:

- | | |
|---|-------------------------|
| (i) Adjusted cashbook | (6 marks) |
| (ii) Bank reconciliation statement | (9 marks) |
| (iii) Statement of corrected net profit | (4 marks) |
| | (Total 25 marks) |

TEST PAPER 9
CTA DECEMBER 2022

Question 1

- (a) Explain the importance of a partnership deed to partners **(3 marks)**
- (b) Alex, Betty and Charles are in partnership, trading as ABC Enterprises. They have provided, below, their trial balance as at 31 December 2020.

| Details | Dr Shs '000' | Cr Shs '000' |
|---|-----------------|-----------------|
| Purchases and sales revenue | 345,000 | 1,111,950 |
| Returns | 2,500 | 3,000 |
| Carriage outwards | 400 | |
| Carriage inwards | 700 | |
| Office expenses | 21,500 | |
| Employee salaries | 86,500 | |
| Computers at cost | 45,000 | |
| Buildings at cost | 250,000 | |
| Land at cost | 410,000 | |
| Delivery van at cost | 56,000 | |
| Accumulated depreciation at 1 January 2020: | | |
| Computers | | 12,500 |
| Buildings | | 120,000 |
| Delivery van | | 12,500 |
| Utilities | 25,500 | |
| Discounts | 2,500 | 1,250 |
| Commissions | 12,000 | 4,500 |
| Advertising costs | 23,500 | |
| Loan interest paid | 1,500 | |
| Trade receivables and trade payables | 75,000 | 80,000 |
| Balances at 1 January 2020: | | |
| Inventory | 45,500 | |
| Capital accounts: | | |
| Alex | | 30,000 |
| Betty | | 30,000 |
| Charles | | 30,000 |
| Current accounts: | | |
| Alex | 3,500 | |
| Betty | | 2,500 |
| Charles | | 4,000 |
| Drawings: | | |
| Alex | 6,500 | |

| | | |
|-------------------|---------------|-----------|
| Betty | 5,000 | |
| Charles | 4,000 | |
| Retained earnings | 24,500 | |
| 15 % Bank loan | | 30,000 |
| Cash and bank | <u>25,600</u> | <u>-</u> |
| | 1,472,200 | 1,472,200 |

Additional information:

- 1 From 1 April 2020, all partners were entitled to a monthly salary Shs 400,000 each.
- 2 ABC Enterprises charges interest on drawings at 5% per annum and offers interest on capital at 10% per annum.
- 3 Partners retain 20% of profits before sharing profits or losses among themselves.
- 4 The bank loan was acquired on 1 July 2020 and is payable over a period of 5 years.
- 5 Non-current assets are depreciated, on cost, as follows:
Computers 20%
Buildings 5%
Delivery van 10%
- 6 Office expenses Shs 1,650,000 and employee salaries Shs 2,000,000 remained outstanding at the yearend while prepaid advertising expenses were Shs 450,000.
- 7 Inventory at 31 December 2020 was valued at Shs 60,000,000.

Required:

Prepare, for the year ended 31 December 2020, ABC Enterprises':

- (i) Statement of profit or loss and appropriation **(15 marks)**
 - (ii) Partners' current account, in columnar form **(7 marks)**
- (Total 25 marks)**

Question 2

- (a) Explain, in each case, any **two** errors that can and cannot be detected by a trial balance.

(6 marks)

- (b) Splendid Limited has provided, below, their trial balance as at 31 March 2021:

| | Debits Shs '000' | Credits Shs '000' |
|---|---------------------|----------------------|
| Share capital | | 1,200,000 |
| Share premium | | 191,800 |
| Retained earnings | | 1,400,000 |
| Rent expense | 34,500 | |
| Repairs | 23,500 | |
| Trade receivables and trade payables | 45,000 | 34,500 |
| Utilities | 23,000 | |
| Cash and bank | 34,500 | |
| Salaries and wages | 56,500 | |
| Inventory at 1 April 2020 | 34,500 | |
| Trading license | 12,400 | |
| Purchases and sales | 750,000 | 450,500 |
| Carriage in wards | 34,400 | |
| Land at cost | 1,200,000 | |
| Plant and machinery | 850,000 | |
| Motor vehicles at cost | 345,500 | |
| Accumulated depreciation at 1 April 2020: | | |
| Plant and machinery | | 65,400 |
| Motor vehicles | | 110,200 |
| General expenses | 23,400 | |
| Discounts | 34,500 | 43,500 |
| Legal fees | 8,500 | |
| Suspense account | - | <u>14,300</u> |
| | 3,510,200 | 3,510,200 |

After extracting the trial balance, the accountant of Splendid Limited realised that the debits exceeded the credits by Shs 14,300,000. On further scrutiny, the following errors were discovered:

- 1 The sales figure was under cast by Shs 12,500,000.
- 2 Cash sales Shs 500,000 had not been recorded.
- 3 Rent expense Shs 2,100,000 was debited, in error, to the general expenses account.

- 4 Shs 3,400,000 cash received from a debtor was entered into the accounting system as Shs 4,300,000 by the accounts assistant.
- 5 Legal fees Shs 1,500,000 incurred on purchase of land were included under general expenses.
- 6 A discount received Shs 100,000 was debited to the discounts allowed account.
- 7 Shs 1,200,000 paid to a credit supplier was correctly entered in the cashbook but no entry was made in the supplier's account.
- 8 A debit opening balance Shs 2,400,000 on the utilities account was incorrectly extracted to the list of balances as Shs 4,200,000.
- 9 Purchases were over cast by Shs 1,000,000.

Required:

Prepare, for the year ended 31 March 2021, Splendid Limited's:

- (i) Journal entries to correct the above errors **(9 marks)**
 - (ii) Suspense account **(3 marks)**
 - (iii) Ledger accounts, after correction of the above errors, for:
 - (a) Sales **(2 marks)**
 - (b) Cash and bank **(2 marks)**
 - (c) Trade debtors **(1 mark)**
 - (d) Land **(1 mark)**
 - (e) Utilities **(1 mark)**
- (Total 25 marks)**

Question 3

- (a) Explain the following accounting concepts and how they are applied when preparing financial statements:
 - (i) Matching **(2 marks)**
 - (ii) Substance over form **(2 marks)**
 - (iii) Money measurement **(2 marks)**
 - (iv) Consistency **(2 marks)**

- (b) Goodwill Limited (GL) has provided, below, their statement of financial position as at 1 March 2021:

| | Shs '000' |
|------------------------------|----------------|
| Non-current assets: | |
| Land | 234,000 |
| Buildings | 189,740 |
| Computer | 2,500 |
| Current assets: | |
| Trade receivables | 65,400 |
| Inventory | 76,400 |
| Cash | 23,500 |
| Bank | <u>54,460</u> |
| Total assets | <u>646,000</u> |
| Equity and liabilities: | |
| Share capital | 510,500 |
| Retained earnings | 34,500 |
| Non-current liabilities: | |
| Loan | 65,000 |
| Current liabilities: | |
| Trade payables | 30,000 |
| Rent outstanding | <u>6,000</u> |
| Total equity and liabilities | <u>646,000</u> |

Additional information:

The following transactions took place during the month of March 2021:

| Date | Details |
|------|--|
| 2 | GL purchased goods from Birungi Suppliers Ltd at Shs 4 million, paying Shs 3 million cash and the balance payable in a period of two months. |
| 3 | Sold goods to Maria for Shs 1 million cash. |
| 5 | John and Peter, to whom goods were sold on credit in February 2021, cleared their outstanding balances Shs 2 million and Shs 3 million respectively by cheque. |
| 8 | GL had one computer which was disposed of at Shs 700,000. A new computer was purchased at Shs 1.8 million cash from Computer Experts. |
| 12 | Shs 2 million was paid to K E Ltd (a supplier) out of the outstanding balance Shs 3 million. Shs 1 million was paid by cash and Shs 1 million by cheque. |

- 15 Goods worth Shs 3 million were sold to Kirunda. Kirunda paid Shs 2 million cash and agreed to pay the balance soon.
- 17 Kirunda returned goods worth Shs 300,000 because they did not conform to specifications agreed upon.
- 20 A loan instalment of Shs 8 million was paid by cheque.
- 23 Paid rent by cash Shs 500,000.
- 25 Acquired more land at Shs 15 million, paying by cheque.

Required:

Prepare Goodwill Limited's ledger accounts and balance them off as at 31 March 2021.

(17 marks)

(Total 25 marks)

Question 4

- (a) Explain, with illustrations, the following terms as used when accounting for depreciation of non- current assets:
 - (i) Residual value **(2 marks)**
 - (ii) Cost **(2 marks)**
 - (iii) Depreciable amount **(2 marks)**
- (b) Explain any **two** factors considered when choosing a depreciation method to be used.

(4 marks)

- (c) Jenny Ltd bought a computer on 1 January 2017 at a cost Shs 3,000,000. The computer had an expected useful life of five years and a residual value Shs 200,000. It was disposed of on 1 January 2021 for Shs 500,000. It is the company policy to provide for full depreciation in the year of acquisition and none in the year of disposal.

Required:

- (i) Calculate the depreciation charge and net book value for the computer for the years ended 31 December: 2017, 2018, 2019 and 2020 using both straight line and reducing balance methods.
Hint: Compute the rate of depreciation for the reducing balance method.

(12 marks)

(ii) Determine the profit or loss on disposal using both methods above.

(3 marks)

(Total 25 marks)

Question 5

(a) Excel Limited has provided the following information regarding their transactions during the month of December 2020:

| Date | Details |
|------|---|
| 1 | Cash balance Shs 12,500,000 and bank balance Shs 10,600, 000 (Dr) |
| 2 | Purchased goods at Shs 30,000,000, paying Shs 10,000,000 by cash and Shs 2,000,000 by cheque. The balance is payable. |
| 4 | Bought office furniture at Shs 1,200,000 cash. |
| 6 | Sold goods to Gitta for Shs 4,500,000 cash. |
| 7 | Purchased stationery at Shs 500,000 cash. |
| 8 | Withdrew Shs 400,000 from the bank for business use. |
| 10 | Paid rent, utilities and wages cash Shs 300,000; Shs 100,000 and Shs 200,000 respectively. |
| 15 | Received cash Shs 1,200,000 from Molly for the goods she had previously taken on credit. |
| 17 | Paid Kinene Suppliers Shs 2,000,000 by cheque. |
| 19 | Received a cheque Shs 2,000,000 from Kagga. |
| 20 | Received a cheque Shs 2,000,000 from John for goods taken on credit in November 2020. |
| 24 | The cheque received from Kagga was dishonoured by the bank. |

Required:

Prepare Excel Limited's two-column cashbook for the month of December 2020.

(9 marks)

(b) Describe how each of the following items causes a difference between the cashbook and bank statement balances:

(i) Un-presented cheques **(2 marks)**

(ii) Un-credited cheques **(2 marks)**

(iii) Direct credits **(2 marks)**

(c) The cashbook of Gem Limited (Gem) for the month of May 2021 showed a debit balance Shs 7,200,000 while their bank statement for the same period had a balance Shs 4,940,000 (Dr). On further scrutiny, it was discovered that the following information had not been taken into consideration:

- 1 The bank debited Gem's account with bank charges Shs 40,000. Gem had not recorded this information in their books of account.
- 2 Payment of Shs 100,000 for water bills was effected by the bank on behalf of Gem. This transaction had not yet been entered in the books of account.
- 3 Gem issued cheques to pay the following suppliers. The cheques were, however, not reflected in the bank statement.

| | Shs |
|------------------|---------|
| Jack Stationers | 400,000 |
| Nish Enterprises | 300,000 |
| Kella Ltd | 250,000 |
| Gella Ltd | 340,000 |

- 4 A withdrawal from the bank account Shs 1,000,000 for payment of wages was not recorded in the cashbook.
- 5 The following customers paid by cheque. However, the accounts assistant of Gem was not able to bank the cheques due to the busy work schedule.

| | Shs |
|---------|-----------|
| James | 1,500,000 |
| Peter | 2,100,000 |
| Nelson | 2,300,000 |
| Jackie | 1,400,000 |
| Jemimah | 3,200,000 |

- 6 The accounts assistant also discovered that interest Shs 30,000 was earned on the bank account and a cheque Shs 3,400,000 banked by Noelina, a customer, was dishonored by the bank.
- 7 The following debtors paid directly to the bank: Kagimu Shs 200,000; Samuel Shs 640,000 and Kena Shs 340,000.
- 8 A cheque Shs 3,200,000 received from Kelo, a debtor, was recorded in the cashbook as Shs 2,300,000.
- 9 A cheque payment Shs 250,000 to Jacob, a supplier, was debited in the cashbook by the accounts assistant.

Required:

Prepare Gem Limited's:

(i) Adjusted cashbook

(5 marks)

(ii) Bank reconciliation statement for the period

(5 marks)

(Total 25 marks)

TEST PAPER 10

CTA MAY 2023

Question 1

The following information was extracted from the books of Hardware Market Limited (HML) for the year ended 31 December 2021:

| | Debits Shs '000' | Credits Shs '000' |
|--|---------------------|----------------------|
| Cash and bank | 26,330 | |
| Inventory (at 1 January 2021) | 367,000 | |
| Utilities | 7,120 | |
| Salaries and wages | 34,200 | |
| Share capital (100,000 shares at Shs 7,500 each) | | 750,000 |
| General reserves | | 13,000 |
| Accumulated profit or loss | 29,150 | |
| Creditors | | 77,000 |
| Sales | | 1,120,000 |
| Debtors | 148,000 | |
| Purchases | 798,500 | |
| Furniture and fittings (at cost) | 11,000 | |
| Land and building (at cost) | 460,000 | |
| Trading license | 2,500 | |
| General expenses | 73,600 | |
| Transport | 66,500 | |
| Accumulated depreciation for: | | |
| Furniture and fittings | | 1,650 |
| Building | | 56,250 |
| Rental income | = | <u>6,000</u> |
| | 2,023,900 | 2,023,900 |

Additional notes:

- 1 Inventory at 31 December 2021 was valued at Shs 265,000,000.
- 2 By 31 December 2021, the customers who had deposited total cash Shs 86,000,000 had not taken the materials for which the money was deposited. The business bank records and the corresponding entry had not been updated by the yearend.
- 3 The business lets out part of its building and was owed Shs 2,000,000 in rental income by 31 December 2021.
- 4 During the year, five boxes of floor tiles worth Shs 300,000 were accidentally broken at the time of loading a customer's order.
- 5 The trading license was paid on 1 July 2021 to cover a period of 12 months.

TEST PAPER 11

CTA 1 - NOVEMBER 2023

Question 1

The following information was extracted from the books of Sea Manufacturing Limited (SML) for the year ended 30 June 2021:

| | Debits Shs '000' | Credits Shs '000' |
|--|---------------------|----------------------|
| Inventory at 1 July 2020: | | |
| Raw materials | 205,000 | |
| Work in progress | 125,500 | |
| Finished goods | 925,000 | |
| Sales revenue | | 3,500,000 |
| Land at cost | 100,000 | |
| Factory building at cost | 325,000 | |
| Plant and machinery at cost | 680,500 | |
| Accumulated depreciation at 1 July 2020: | | |
| Factory building | | 106,250 |
| Plant and machinery | | 340,250 |
| Patents | 425,000 | |
| Purchases of raw materials | 925,000 | |
| Factory wages | 254,000 | |
| General factory overheads | 240,500 | |
| Carriage on raw materials | 124,800 | |
| Other selling expenses | 225,000 | |
| Other administration expenses | 105,500 | |
| Cash and bank | 352,800 | |
| Share capital | | 1,200,000 |
| Retained earnings at 1 July 2020 | | 1,049,300 |
| Accounts receivable/ accounts payable | 485,000 | 240,500 |
| Sale of damaged finished goods | | 21,500 |
| Repairs of plant and machinery | 38,500 | |
| Salaries | 435,000 | |
| Utilities | 45,800 | |
| Royalty payments | 185,400 | |
| General expenses | <u>254,500</u> | - |
| | 6,457,800 | 6,457,800 |

Additional information:

- 1 Inventory at 30 June 2021 was valued as follows:

| | |
|------------------|-----------|
| | Shs '000' |
| Raw materials | 105,400 |
| Work in progress | 100,000 |
| Finished goods | 800,000 |

- 2 Prepayments and accruals at 30 June 2021 were as follows:

| | |
|------------------|-----------|
| | Shs '000' |
| Prepayments: | |
| Factory wages | 24,500 |
| Salaries | 12,500 |
| Accruals: | |
| Utilities | 12,800 |
| General expenses | 22,500 |

- 3 Expenses are apportioned as follows:

| | | | |
|------------------|---------------|---------------|---------------|
| | Office | Selling | Factory |
| Salaries | $\frac{1}{2}$ | $\frac{1}{4}$ | ? |
| Utilities | $\frac{2}{5}$ | ? | $\frac{1}{5}$ |
| General expenses | $\frac{3}{8}$ | $\frac{1}{4}$ | ? |

- 4 Of the factory wages, 40% are direct expenses.

- 5 Non-current assets are depreciated on cost as follows:

| | |
|---------------------|-----------------|
| Factory building | 5% per annum |
| Plant and machinery | 12.5% per annum |

- 6 Finished goods valued at Shs 18,000,000 were scrapped during the year ended 30 June 2021.

Required:

- (a) Describe the elements that make up the prime cost **(5 marks)**

- (b) Prepare, for the year ended 30 June 2021, SML's statement of:

- (i) Manufacturing cost **(10 marks)**

- (ii) Profit or loss **(10 marks)**

(Total 25 marks)

Question 2

Camila, Dominic and Easton are in partnership trading as Sparkle Enterprises. They share profits and losses in the ratio 2:2:1 respectively. The following is the trial balance of Sparkle Enterprises as at 31 December 2021:

| Details | Debits Shs '000' | Credits Shs '000' |
|---|---------------------|----------------------|
| Drawings: | | |
| Camila | 40,800 | |
| Dominic | 48,000 | |
| Easton | 52,000 | |
| Current accounts: | | |
| Camila | | 96,000 |
| Dominic | | 120,000 |
| Easton | | 45,200 |
| Capital accounts: | | |
| Camila | | 1,200,000 |
| Dominic | | 1,800,000 |
| Easton | | 800,500 |
| Cash and bank | 1,000,000 | |
| Prepaid expenses and outstanding expenses | 900,000 | 420,600 |
| Accounts receivable and accounts payable | 400,000 | 361,600 |
| Land | 4,000,000 | |
| Buildings | 1,880,200 | |
| Fixtures and fittings at cost | 1,068,900 | |
| Accumulated depreciation: | | |
| Buildings | | 800,000 |
| Fixtures and fittings | | 106,890 |
| Bank loan repayable in 2025 | | 1,500,000 |
| Net profit for the year | | 2,119,110 |
| Allowance for bad debts | | <u>20,000</u> |
| | 9,389,900 | 9,389,900 |

Additional information:

- 1 Camila, Dominic and Easton are entitled to a monthly salary Shs 500,000, Shs 400,000 and Shs 500,000 respectively starting from 1 December 2021.
- 2 On 1 July 2021, Camila, Dominic and Easton contributed additional capital Shs 20 million, Shs 30 million and Shs 40 million respectively.
- 3 Interest on capital is at 12% per annum and time-apportioned.
- 4 Interest on drawings is at 8% per annum.

Required:

Prepare for the year ended 31 December 2021, Sparkle Enterprises':

- (a) Appropriation account **(6 marks)**
 - (b) Current and capital accounts **(11 marks)**
 - (c) Statement of financial position **(8 marks)**
- (Total 25 marks)**

Question 3

The following are the transactions of Jackson Enterprises for the month of February 2020:

| Date | Description |
|------|---|
| 2 | Jackson started business with cash Shs 5,000,000 and cash at bank Shs 10,000,000. |
| 5 | Bought a used pick-up truck from his friend Patrick at Shs 20,000,000. Jackson paid Shs 2,000,000 cash and the balance, payable in five months. |
| 6 | Purchased goods at Shs 2,000,000 and paid cash. |
| 7 | Purchased goods on credit Shs 1,500,000 from Balikudembe Suppliers. |
| 8 | Sold goods for Shs 500,000 cash. |
| 10 | Paid for utilities Shs 200,000 from his bank account. |
| 12 | Acquired a business loan Shs 6,000,000 from Save Micro-finance which was deposited into the business bank account. |
| 14 | He sold land inherited from his father for Shs 15,000,000. He used the money to buy himself a car. |
| 16 | Paid salary Shs 600,000 by cheque. |

Required:

- (a) For each of the above transactions, show the double-entry with the reason for debiting or crediting.

Hint:

| | |
|----------------|---|
| Dr Account "X" | The explanation for debiting and crediting. |
| Cr Account "Y" | |

(14 marks)

- (b) Post the transactions to respective ledgers and balance off the accounts.

(11 marks)

(Total 25 marks)

Question 4

- (a) Explain the meaning of a debit and credit opening balance on a bank account.

(3 marks)

- (b) The following are the transactions of Hotel Experience Limited (HEL) carried out during the month of April 2021:

| Date | Description |
|------|---|
| 1 | Cash and bank balances Shs 3,000,000 and Shs 10,000,000 respectively. |
| 5 | HEL supplied meals and received a cheque from Delight Ltd Shs 600,000. |
| 7 | Total cash sales for the first week of April totaled to Shs 4,000,000. |
| 8 | Paid for rent Shs 450,000 by cheque to Royal Estates Ltd. |
| 9 | Withdrew cash from the bank Shs 1,500,000 to meet working capital needs. |
| 13 | Received a cheque from Tom Ombeya Shs 400,000 in respect of meals previously supplied on credit. |
| 14 | Total cash sales for the second week of April totaled to Shs 3,400,000. |
| 15 | Paid for utilities Shs 100,000 using a banking application. |
| 15 | The cheque received from Tom Ombeya was dishonoured due to insufficient funds on his account. |
| 18 | Purchased food stuffs from Nakasero Investments at Shs 3,000,000. HEL paid Shs 2,100,000 by cheque. |
| 20 | Acquired a deep freezer at Shs 1,000,000 cash. |
| 21 | Total cash sales for the third week of April totaled to Shs 4,000,000. |
| 22 | Paid for security services Shs 2,000,000 to Goliath Security Co. by cheque. |
| 23 | Paid Natural Creations Ltd Shs 1,000,000 by cheque for compound designing. |
| 25 | Bought a music system at Shs 1,500,000 cash to entertain guests. |
| 26 | Banked Shs 1,000,000 cash. |
| 27 | Paid for KCCA operating license Shs 400,000 through the bank. |
| 28 | Total cash sales for the last week of April totaled to Shs 4,500,000. |

The following cheques were received on 30 April 2021 but the accountant had not banked them by the month end:

| | Shs |
|--------------|-----------|
| Peter Mukasa | 600,000 |
| Odoch Samuel | 1,200,000 |
| Amongi Annet | 2,100,000 |

On 30 April 2021, the following cheques were issued for payment but had not been banked by the month end:

| | Shs |
|------------------|-----------|
| Ume Ltd | 2,000,000 |
| Stationers Ltd | 1,200,000 |
| Ecclesiastes Ltd | 2,500,000 |

Required:

Prepare HEL's two-column cashbook for the month of April 2021.

(14 marks)

- (c) On 2 May 2021, the accountant of Hotel Experience Limited (HEL) received the following bank statement relating to the month of April 2021:

| Date | Details | Dr Shs '000' | Cr Shs '000' | Balance Shs '000' |
|-------|-----------------------------------|-----------------|-----------------|----------------------|
| April | | | | |
| 1 | Balance | | | 10,000 |
| 7 | Delight Limited | | 600 | 10,600 |
| 8 | CM Joan Alupo | | 2,000 | 12,600 |
| 10 | Royal Estates Ltd | 450 | | 12,150 |
| 9 | Cash withdrawal | 1,500 | | 10,650 |
| 15 | Utilities | 100 | | 10,550 |
| 20 | Nakasero Investments | 2,100 | | 8,450 |
| 24 | Goliath Security Co. | 2,000 | | 6,450 |
| 25 | Natural Creations Ltd | 1,000 | | 5,450 |
| 25 | CM James Olaba | | 120 | 5,570 |
| 26 | Cash deposit | | 1,000 | 6,570 |
| 29 | KCCA | 400 | | 6,170 |
| 29 | Standing order (Airtime) | 400 | | 5,770 |
| | Standing order (loan installment) | 3,000 | | 2,770 |
| 30 | Bank charges | 20 | | 2,750 |
| 30 | Interest | | 40 | 2,790 |

Required:

Using the information in the cashbook prepared in (b) above and the bank statement above, prepare, for the month of April 2021, HEL's:

- (i) Updated cashbook **(4 marks)**
 - (ii) Bank reconciliation statement **(4 marks)**
- (Total 25 marks)**

Question 5

- (a) Explain, with examples, why a business entity may use different depreciation rates for different assets.

(3 marks)

- (b) Nature Tours Ltd (NTL), a tour company, has provided the following information regarding their motor vehicles:

- 1 Balances as at 1 January 2019:

| | Cost | Accumulated depreciation |
|---------------|-----------|--------------------------|
| | Shs '000' | Shs '000' |
| Coasters | 450,000 | 180,000 |
| Hiaces | 325,000 | 162,500 |
| Land cruisers | 840,000 | 280,000 |

- 2 On 4 March 2019, NTL sold off a Coaster which had been acquired at Shs 105 million on 2 Feb 2015 for Shs 25 million due to mechanical challenges.
- 3 On 3 April 2019, NTL imported a Hiace and the following costs were incurred:

| | Shs '000' |
|---------------------------|-----------|
| Purchase price | 35,000 |
| Import taxes | 30,000 |
| Number plate registration | 1,000 |
| Fixing care seats | 3,300 |
| Third party insurance | 150 |

- 4 On 10 April 2020, the company sold off a Land cruiser acquired on 3 August 2014 at a cost Shs 205 million for Shs 50 million to Auto Dealers Ltd (ADL). ADL paid half of the price in cash and the balance, payable in three months.
- 5 NTL's accounting year runs from 1 January to 31 December.

- 6 Depreciation of motor vehicles is provided for on straight-line basis as follows:
- | | |
|--------------|-------|
| Coaster | 10% |
| Hiace | 12.5% |
| Land cruiser | 8% |
- 7 It is the policy of NTL to provide for full year's depreciation in the year of acquisition and none in the year of disposal.

Required:

Prepare, for the years ended 31 December: 2019, 2020 and 2021, NTL's ledger account for:

- | | |
|----------------------------------|------------------|
| (i) Motor vehicles | (6 marks) |
| (ii) Accumulated depreciation | (9 marks) |
| (iii) Disposal of motor vehicles | (7 marks) |

(Total 25 marks)

TEST PAPER 12

CTA 1 - MAY 2024

Question 1

The following trial balance as at 31 December 2022 was provided by GEGE Manufacturers Limited (GEGE) as extracted from their books of account.

| | Dr Shs '000' | Cr Shs '000' |
|--|------------------|------------------|
| Inventory (1 January 2022): | | |
| Raw materials | 68,500 | |
| Work in progress | 42,000 | |
| Finished goods | 36,900 | |
| Purchase of raw materials | 341,650 | |
| Discounts received on raw materials | | 2,150 |
| Raw materials returned | | 2,800 |
| Transport for raw materials | 1,250 | |
| Royalties | 24,600 | |
| Direct wages | 12,600 | |
| Plant and machinery | 600,000 | |
| Factory power | 3,400 | |
| Utilities | 48,400 | |
| Salaries | 36,400 | |
| Direct expenses | 4,450 | |
| Salesmen commission | 7,300 | |
| Sales | | 1,060,000 |
| Sales returns | 2,250 | |
| Trade receivables | 60,080 | |
| Trade payables | | 46,500 |
| Cash and bank balances | 112,450 | |
| Capital | | 616,530 |
| Motor vehicles | 120,000 | |
| Equipment | 80,000 | |
| Buildings | 360,000 | |
| Repairs and maintenance of plant and machinery | 13,600 | |
| Accumulated depreciation: | | |
| Plant and machinery | | 150,000 |
| Motor vehicles | | 24,000 |
| Equipment | | 14,400 |
| Buildings | | 7,200 |
| Retained earnings | | <u>52,250</u> |
| | <u>1,975,830</u> | <u>1,975,830</u> |

Additional information:

- 1 Closing inventory at 31 December 2022 was valued as shown below:

Shs '000'

| | |
|------------------|--------|
| Raw materials | 34,650 |
| Work in progress | 40,000 |
| Finished goods | 56,400 |
- 2 Salaries worth Shs 3,600,000 remained outstanding while Shs 3,400,000 relating to utilities was prepaid by the yearend.
- 3 The expenses are apportioned as follows:

| | Factory | Administration | Selling and distribution |
|------------------|---------|----------------|--------------------------|
| Salaries | 60% | 10% | ? |
| Utilities | 70% | ? | 10% |
| Depreciation on: | | | |
| Motor vehicles | 50% | 10% | ? |
| Equipment | ? | 40% | 20% |
| Buildings | ? | 15% | 25% |

- 4 GEGE provides for depreciation of its non-current assets as shown below:

| | Rate per annum | Method |
|---------------------|----------------|------------------|
| Plant and machinery | 25% | Reducing balance |
| Motor vehicles | 20% | Reducing balance |
| Equipment | 18% | Reducing balance |
| Buildings | 2% | Straight line |

Required:

Prepare, for year ended 31 December 2022, GEGE's statement of:

- (a) Manufacturing cost **(9 marks)**
- (b) Profit or loss **(8 marks)**
- (c) Financial position **(8 marks)**

(Total 25 marks)

Question 2

- (a) The objective of the preface to International Financial Reporting Standards is to set out the International Accounting Standards Board (IASB)'s mission and objectives, scope of International Financial Reporting Standards (IFRSs), due process for developing IFRSs and interpretations, and policies on effective dates, format, and language for IFRSs.

Required:

Explain the:

- (i) Objectives of the IASB **(4 marks)**
(ii) Components of the Conceptual Framework for Financial Reporting.

(3 marks)

- (b) Financial statements are prepared by complying with a specific process, and the mechanism is based on appropriate business-oriented tools that assist companies to become profitable and operate effectively enough. As a result, companies are believed to be unable to avoid these financial statements. However, financial statements have a few clear drawbacks that make them disadvantageous to businesses.

Required:

Explain any:

- (i) **Six** limitations of financial statements **(6 marks)**
(ii) **Three** fundamental accounting assumptions underlying preparation of financial statements.

(3 marks)

- (c) Qualitative characteristics of accounting information are key to the quality of accounting information desired by users that include investors, lenders, creditors, and others. These are classified into fundamental and enhancing qualitative characteristics.

Required:

Explain the fundamental and enhancing qualitative characteristics of accounting information.

(9 marks)

(Total 25 marks)

Question 3

Mabato Ltd (ML) deals in returnable gas cylinders. The gas cylinders are the property of ML. When customers take the cylinders with the gas, they pay for the gas and make a deposit for the cylinder. When they return the cylinders, there is a partial refund.

These cylinders cost Shs 180,000 each on purchase and they are charged to customers at Shs 200,000 each. When the customers return the cylinders, they are credited with Shs 150,000 each. The value of the inventory (gas cylinders) at the yearend is Shs 100,000 each.

The opening inventory for the cylinders at 1 January 2022 was as follows:

| | |
|----------------|---------------|
| At the company | 200 cylinders |
| With customers | 350 cylinders |

The following were the transactions during the year:

- 1 On 15 January 2022, 150 gas cylinders were dispatched to customers.
- 2 On 20 April 2022, 125 gas cylinders were returned by customers.
- 3 The delivery van carrying 50 empty cylinders for refilling was involved in a head-on collision on 5 August 2022 and 20 gas cylinders were damaged beyond repair. Management of ML agreed to sell them as scrap at Shs 20,000 each while the 30 gas cylinders were repaired at Shs 35,000 each.
- 4 On 5 September 2022, 500 gas cylinders were purchased from Kituta Wholesalers.
- 5 On 31 December 2022, the company discovered that 260 gas cylinders had been kept by customers permanently while records revealed that 115 gas cylinders were still in the possession of customers.

Required:

Prepare, for the year ended 31 December 2022, ML's:

- (a) Cylinder inventory account **(12 marks)**
- (b) Cylinder suspense account **(8 marks)**
- (c) Statement of profit or loss **(5 marks)**

(Total 25 marks)

Question 4

(a) Explain:

(i) How an item of property, plant and equipment can be measured after initial recognition.

(3 marks)

(ii) The factors that should be considered when determining the useful life of a non-current asset.

(3 marks)

(b) Kiwanuka Transporters Ltd (KTL) operates mini-buses for transport business in Kampala and other cities. KTL's accounting year ends on 30 June. The company has provided the following information regarding their mini-buses:

1 On 1 July 2020, the company had the following mini-buses in their assets register.

| Registration Number (Reg. No.) | Purchase cost (Shs '000') | Date of purchase |
|-----------------------------------|------------------------------|------------------|
| UBA Y77W | 60,000 | 31 December 2019 |
| UBB T44F | 65,000 | 30 June 2020 |

2 At the beginning of July 2020, management decided to expand the business to upcountry routes and acquired more mini-buses. On 1 January 2021, vehicle Reg. No. UBD X45T was acquired at a cost Shs 65,000,000 and the company incurred additional Shs 5,000,000 in respect of clearance and registration fees.

3 On 30 September 2021, another vehicle Reg. No. UBD X54S was acquired at a total cost Shs 80,000,000.

4 On 1 December 2021, vehicle Reg. No. UBA Y77W got involved in an accident. It was repaired at a cost Shs 4,700,000 on 2 December 2021 and disposed of in a part exchange on 31 December 2021 at book value. The company topped up Shs 46,000,000 and acquired a new vehicle Reg. No. UBF X33A on the same date.

5 On 30 June 2022, the company:

(a) Disposed of vehicle Reg. No. UBB T44F for Shs 21,000,000.

(b) Imported a 28-seater coaster Reg. No. UBG X70Y. The purchase price was Shs 50,000,000 and KTL incurred Shs 2,000,000 to have it driven from Mombasa to Kampala, paid taxes Shs 60,000,000 and Shs 800,000 was incurred on fuel on the vehicle's first route upcountry.

- 6 The policy of KTL is to provide for depreciation of all motor vehicles at 25% per annum on reducing balance. Depreciation expense is time-apportioned where applicable. All transactions were done through the bank.

Required:

Prepare, for the years ended 30 June 2021 and 30 June 2022, KTL's combined:

- (i) Non-current assets account **(7 marks)**
- (ii) Accumulated depreciation account **(6 marks)**
- (iii) Disposal account **(3 marks)**
- (iv) Bank account (extract) **(3 marks)**

(Note: Show all the necessary workings)

(Total 25 marks)

Question 5

- (a) Explain why a cashbook balance (bank column) may differ from the balance as per the bank statement for a specific period. **(12 marks)**
- (b) Nkejje Company Limited (NCL) has provided below their cashbook (bank column) and bank statement for the month of March 2023.

| Two-column cashbook | | | |
|---------------------|-------------|-------------|-------------|
| | Dr (Shs) | | Cr (Shs) |
| Balance b/d | 240,000,000 | Chq no. 4 | 21,250,000 |
| Chq no 223 | 40,000,000 | Chq no. 5 | 80,000,000 |
| Bank deposit | 32,000,000 | Chq no. 6 | 36,000,000 |
| Chq no 555 | 26,000,000 | Chq no. 7 | 48,000,000 |
| Bank deposit | 33,000,000 | Chq no. 8 | 24,500,000 |
| Chq no. 112 | 61,500,000 | Chq no.9 | 45,500,000 |
| Chq no. 212 | 1,890,000 | Chq no. 10 | 22,220,000 |
| Chq no. 832 | 4,980,000 | Chq no 11 | 9,800,000 |
| Chq no. 723 | 6,660,000 | Chq no. 12 | 10,100,000 |
| Chq no. 654 | 1,200,000 | Chq no. 13 | 11,750,000 |
| Chq no. 512 | 2,000,000 | Chq no. 14 | 3,800,000 |
| Chq no. 498 | 5,000,000 | Chq no. 16 | 6,380,000 |
| Chq no. 15 | 9,700,000 | Chq no. 912 | 11,250,000 |
| | | Chq no. 17 | 5,650,000 |
| | | Balance c/d | 127,730,000 |

| | | | |
|---------------------|--------------------|------------|--------------------|
| | <u>463,930,000</u> | | <u>463,930,000</u> |
| Bank statement | | | |
| | Dr (Shs) | Cr (Shs) | Balance (Shs) |
| Bal b/d | | | 240,000,000 |
| Chq no. 4 | 21,250,000 | | 218,750,000 |
| Chq no. 5 | 80,000,000 | | 138,750,000 |
| Cash deposit | | 32,000,000 | 170,750,000 |
| Chq no. 7 | 4,800,000 | | 165,950,000 |
| Chq no. 8 | 24,500,000 | | 141,450,000 |
| Chq no. 9 | | 4,550,000 | 146,000,000 |
| Cash deposit | | 33,000,000 | 179,000,000 |
| Chq no. 112 | 61,500,000 | | 117,500,000 |
| Chq no. 212 | | 18,900,000 | 136,400,000 |
| Chq no. 912 | | 11,250,000 | 147,650,000 |
| Chq no. 10 | 22,220,000 | | 125,430,000 |
| Chq no. 11 | 8,900,000 | | 116,530,000 |
| Chq no. 15 | 7,900,000 | | 108,630,000 |
| Interest on deposit | | 2,700,000 | 111,330,000 |
| Chq no. 443 | | 50,000,000 | 161,330,000 |
| Chq no. 555 | | 62,000,000 | 223,330,000 |
| Bank charges | 35,000 | | 223,295,000 |
| Stamp duty | 1,050 | | 223,293,950 |
| Insurance | 14,000,000 | | 209,293,950 |
| Dividends | | 4,200,000 | 213,493,950 |
| Chq no. 17 | 5,650,000 | | 207,843,950 |
| Chq no. 832 | | 4,980,000 | 212,823,950 |

Additional information:

- 1 Cheque no. 498, cheque no. 6, cheque no. 223, and cheque no. 16 were dishonored by the bank.
- 2 The bank made errors on cheque no. 7, cheque no. 9, cheque no.112, and cheque no. 555.
- 3 Any other error, if found, is deemed to have occurred in the cashbook.

Required:

Prepare, for the month of March 2023, NCL's:

(i) Adjusted cashbook

(8 marks)

(ii) Bank reconciliation statement

(5 marks)

(Total 25 marks)

TEST PAPER 13
CTA 1 - DECEMBER 2024

Attempt four of the five questions

Question 1

The following information was extracted from the books of Sembe Limited (Sembe) for the year ended 31 December 2023:

| | Debits. Shs '000' | Credits Shs '000' |
|--|----------------------|----------------------|
| Land | 800,000 | |
| Motor vehicles | 240,000 | |
| Equipment | 120,000 | |
| Furniture | 60,000 | |
| 8.5% Treasury bills | 100,000 | |
| Goodwill | 40,000 | |
| Ordinary share capital, 800,000 shares Shs 800 per share | | 640,000 |
| Share premium | | 160,000 |
| Retained earnings | | 112,000 |
| General reserves | | 61,550 |
| Drawings | 5,600 | |
| Trade receivables/ trade payables | 76,500 | 44,250 |
| Purchases/ sales | 345,000 | 1,234,500 |
| Returns | 2,250 | 3,600 |
| Discounts | 4,800 | 5,500 |
| Commissions | 1,200 | 2,750 |
| Salaries | 48,500 | |
| Utilities | 54,000 | |
| Inventory (1 January 2023) | 89,500 | |
| 18% Bank loan | | 250,000 |
| Cash and bank balances | 574,000 | |
| Provision for doubtful debts | | 2,400 |
| Accumulated depreciation: | | |
| Motor vehicles | | 60,000 |
| Equipment | | 21,600 |
| Furniture | | 3,000 |
| Rent | 36,000 | |
| Carriage inwards | 2,000 | |
| Carriage outwards | 1,800 | - |
| | <u>2,601,150</u> | <u>2,601,150</u> |

Additional information:

- 1 Inventory at 31 December 2023 was valued at Shs 156,500,000.
- 2 Interest on the bank loan and treasury bills remained accrued.
- 3 Salaries Shs 600,000 remained outstanding while rent was paid for 18 months.
- 4 The company issued more 200,000 shares at Shs 1,100 each. All the shares were duly paid for.
- 5 Goodwill is to be amortized for a period of 8 years.
- 6 Management agreed to reduce the provision for doubtful debts to Shs 2,200,000.
- 7 The company provides for depreciation of its non-current assets as follows:

| Asset | Rate (%) | Method |
|----------------|----------|------------------|
| Motor vehicles | 25 | Reduce balance |
| Equipment | 18 | Reducing balance |
| Furniture | 5 | Straight-line |

Required:

Prepare, for the year ended 31 December 2023, Sembe's statement of:

(a) Profit or loss

(b) Financial position

(11 marks)

(14 marks)

(Total 25 marks)

Question 2

Sirimal started business on 2 June 2023 with cash at hand Shs 30,000,000; cash at bank Shs 60,000,000; furniture Shs 6,000,000 and motor vehicle Shs 40,000,000. Other transactions during the month of June 2023 were as follows:

- 1 5 June purchased goods Shs 5,000,000 cash.
- 2 7 June purchased goods Shs 15,000,000 on credit from Prasad Ltd.
- 3 10 June paid wages (included in the salary and wages account) Shs 15,000 cash.
- 4 12 June sold goods Shs 8,000,000 on credit to Lala.
- 5 13 June paid Prasad Ltd Shs 2,000,000 cash and issued them a cheque Shs 5,000,000.
- 6 15 June acquired a bank loan Shs 80,000,000 and bought a delivery van (included in the motor vehicle account) Shs 60,000,00 paying Shs 50,000,000 through electronic funds transfer (EFT) and the balance to be cleared 3 December 2023.
- 7 16 June received in bank account Shs 5,000,000 from Lala.
- 8 18 June sold goods Shs 4,500,000 cash.

- 9 20 June purchased goods Shs 10,000,000 paying Shs 1,800,000 cash, Shs 6,500,000 by cheque and the balance to be paid 1 November 2023.
- 10 22 June deposited Shs 3,000,000 into business bank account.
- 11 25 June paid rent Shs 2,500,000 by cheque and salaries (included in salary and wages account) Shs 2,400,000 cash.

Required:

Prepare, for the month of June 2023, Sirimal's:

- (a) Two-column cashbook and other necessary ledger accounts to record the above information.

(20 marks)

- (b) Trial balance

(5 marks)**(Total 25 marks)****Question 3**

- (a) Explain:

- (i) Why a cashbook balance and bank statement balance may differ.

(5 marks)

- (ii) Any **five** errors that **cannot** be revealed by a trial balance.

(5 marks)

- (b) On 31 January 2024, the cashbook (bank column) of Shinny Enterprises showed a debit balance Shs 12,560,000 while their bank statement showed a credit balance Shs 35,381,500. After scrutiny, the following were discovered:

- 1 Shinny Enterprises issued cheques to creditors: Muturi, Paul, Cyrus and Ronnie Shs 2,500,000; Shs 3,600,000; Shs 4,200,000 and Shs 2,100,000 respectively but they had all not taken the cheques to the bank for payment.
- 2 Shinny Enterprises had deposited cheque Shs 8,000,000 but this was not recorded in the cashbook.
- 3 A cheque issued Shs 3,750,000 was recorded as Shs 37,500,000 in the cashbook.
- 4 The payments side of the cashbook was undercast Shs 2,000,000.
- 5 A cash discount Shs 250,000 was recorded as a debit Shs 520,000 in the bank column.
- 6 Shinny Enterprises received cheques from customers: Peter, Maureen, Dismas and Loren Shs 9,550,000; Shs 4,800,000; Shs 2,100,000 and Shs 13,450,000 respectively but not deposited in the bank for collection.
- 7 A cheque received from Aisha, Shs 4,550,000 was debited twice in the cashbook.

- 8 A cash deposit Shs 9,600,000 was recorded in the cashbook as a debit Shs 6,900,000.
- 9 Bank charges Shs 35,000; stamp duty Shs 3,500 and standing order for insurance Shs 4,950,000 were entered in the bank statement but not reflected in the cashbook.
- 10 A payment by cheque Shs 1,200,000 had been entered as a receipt in the cashbook.
- 11 A cheque received Shs 2,600,000 had been returned by the bank and marked 'No available funds' but no adjustment had been made in the cashbook.
- 12 Dividends Shs 10,500,000 were received directly into the bank account but no entry had been made in the cashbook.
- 13 A cheque drawn Shs 54,000,000 was debited as Shs 45,000,000 in the bank statement.
- 14 A cheque payment Shs 4,200,000 to a creditor, Fred, was returned unpaid.
- 15 A cheque Shs 5,600,000 paid to a creditor, Martin, was recorded on the debit side of the cashbook as Shs 6,500,000.
- 16 A cheque from a customer Shs 11,200,000 was debited to the bank statement as Shs 1,120,000 but it was entered correctly in the cashbook.
- 17 Customers: Mary, Joan and Sam transferred money Shs 1,200,000; Shs 9,200,000 and Shs 3,250,000 to the business bank account but this information had not been reflected in the cashbook.

Required:

- (i) Adjusted cashbook
- (ii) Bank reconciliation statement

(9 marks)**(6 marks)****(Total 25 marks)****Question 4**

- (a) Explain the factors that are considered when determining the method of depreciation as per IAS 16—Property, Plant and Equipment. **(6 marks)**
- (b) Wellness Center (WC), a medical facility, has provided the following information regarding their non-current assets of medical equipment:

| Asset | Cost (Shs '000') | Date of acquisition |
|---------------------|------------------|---------------------|
| Anesthesia machines | 240,000 | 1 January 2020 |
| X-ray machines | 360,000 | 30 June 2020 |
| Hospital stretchers | 60,000 | 20 December 2020 |
| Defibrillators | 48,000 | 1 January 2021 |

Additional information:

- 1 On 15 November 2022, one of the anesthesia machines that had cost Shs 120,000,000 got spoilt and management agreed to dispose it of in exchange for a more advanced machine. The old anesthesia machine was valued at Shs 45,500,000 and the entity transferred additional Shs 134,500,000 to acquire the new anesthesia machine on 5 December 2022.
- 2 On 1 March 2023, hospital stretchers that had cost Shs 20,000,000 were disposed of for Shs 13,000,000.
- 3 WC's accounting year ends on 31 December.
- 4 It is WC's policy to provide for full year's depreciation of all non-current assets in the year of acquisition and none in the year of disposal as follows:

| Asset | Rate (%) | Method |
|---------------------|----------|------------------|
| Anesthesia machines | 25 | Reducing balance |
| X-ray machines | 20 | Reducing balance |
| Hospital stretchers | 12 | Straight line |
| Defibrillators | 5 | Straight line |

Required:

Prepare, for WC, for the years ended 31 December: 2020, 2021, 2022 and 2023, a combined:

- (i) Non-current assets account **(5 marks)**
- (ii) Accumulated depreciation account **(10 marks)**
- (iii) Disposal of assets account **(4 marks)**

(Total 25 marks)

Question 5

- (a) Explain any **two** advantages and **two** disadvantages of hire purchase. **(4 marks)**
- (b) Describe the characteristics of joint ventures. **(6 marks)**
- (c) On 1 January 2021, XY Company (XYC) purchased equipment on a hire purchase arrangement from DISCLA Ltd. The cost of the equipment was Shs 93,075,000. XYC made a down payment of Shs 25,000,000 and agreed to an annual installment of Shs 25,000,000 payable at the yearend (31 December) for three years. The interest rate implicit was 5%. The company depreciates its equipment at 20% on cost on proportionate basis.

Required:

Prepare, for XY Company, for the three years, the following ledgers:

- | | | |
|-------|--------------------------------|-------------------------|
| (i) | Equipment account | (2 marks) |
| (ii) | Hire purchase interest account | (3 marks) |
| (iii) | DISCLA Ltd.'s account | (5 marks) |
| (iv) | Bank account | (2 marks) |
| (v) | Depreciation account | (3 marks) |
| | | (Total 25 marks) |



Answers

ANSWERS TO TEST PAPER 1

CTA JUNE 2018

Solution 1

BETA shoes Ltd manufactures

Manufacturing statement for the year ended 30 June 2015

| | Shs '000' | Shs '000' | Shs '000' |
|--------------------------------------|-------------|-----------|-----------|
| Direct materials | | | |
| Opening inventory | 20,000 | | |
| Purchases | 354,500 | | |
| carriage inwards | 12,500 | | |
| Less closing Inventory | (12,500) | 374,500 | |
| Add: Direct labour | | 32,500 | |
| Add Royalties | | 35,500 | |
| Prime cost | | | 442,500 |
| Add Factory overheads | | | |
| Rent | 68,500x1/4 | 17,125 | |
| Salaries | 57,500x1/4 | 14,375 | |
| Depreciation of buildings | | 1,550 | |
| Indirect labour | | 13,000 | |
| Depreciation – threading equipment | | 45,000 | |
| Electricity | 24,500x0.75 | 18,375 | |
| | | | 109,425 |
| | | | 551,925 |
| Add opening WIP | | 13,500 | |
| Less Closing WIP | | (23,540) | |
| Cost of completed manufactured goods | | | 541,885 |

BETA shoes Ltd manufactures

Statement of profit or loss for the year ended 30 June 2015

| | Beta brand | Marie brand | |
|--------------------------------------|------------|-------------|---------|
| Sales | 765,000 | 430,000 | |
| Less: Cost of sales | | | |
| Opening Inventory | 75,500 | 35,450 | |
| Cost of completed manufactured goods | 541,885 | 234,700 | |
| Less: Closing Inventory | (23,670) | (22,560) | |
| | 593,715 | 247,590 | |
| Gross profit | 171,285 | 182,410 | 353,695 |

Less: operating expenses

Selling and distribution

| | | |
|---------------------------|---------------|----------|
| Rent | 17125 | |
| Salaries | 14,375 | |
| Depreciation of buildings | 775 | |
| Advertising | 23,500 | |
| Bad debts | 7,600 | |
| commission expenses | <u>24,500</u> | (87,875) |

Administration expenses

| | | |
|-------------------------------|---------------|----------------------|
| Rent | 34,250 | |
| Salaries | 28,750 | |
| Depreciation of buildings | 775 | |
| Depreciation office equipment | 15,080 | |
| Electricity | 6125 | |
| Stationery | <u>25,400</u> | (110,380) |
| Net profit for the period | | 155,440 |
| Less: finance costs | | <u>(68,100)</u> |
| PBT | | 87,340 |
| Tax (30%*87,340) | | <u>(26,202)</u> |
| Net profit after tax | | <u>61,138</u> |

BETA shoes Ltd manufactures
Statement of financial position as at 30 June 2015

| | Cost | Acc: Depn | NBV |
|-------------------------------|-------------|------------------|------------|
| Land ` | 100,000 | | 100,000 |
| Buildings | 155,000 | 3,100.0 | 151,900 |
| Threading machine | 450,000 | 135,000 | 315,000 |
| Office equipment | 75,400 | 15,080.0 | 60,320 |
| | | | 627,220 |
| current assets | | | |
| Raw materials | | 12,500 | |
| WIP | | 23,540 | |
| Finished goods | | 23,670 | |
| Inventory : Marie Claire | | 22,560 | |
| Trade receivables | 54,500 | | |
| Irrecoverable debts | (7600) | 46,900 | |
| Cash and bank | | 45,400 | 174,570 |
| Total assets | | | 801,790 |
| Equity and liabilities | | | |
| Share capital | | 161,450 | |

| | | |
|-------------------------------------|--------|----------------|
| Share premium | 75,500 | |
| Net profit | 61,138 | 298,088 |
| Non-current liabilities | | |
| Loan | | 340,500 |
| Current liabilities | | |
| Trade payables | 65,400 | |
| Rent payable | 3500 | |
| Interest payable | 68,100 | |
| Tax payable | 26,202 | 163,202 |
| Total Equity and liabilities | | 801,790 |

Solution 2

a) Appropriation account and current account

(i)

Precious and Brilliant appropriation account for the year ended 31 December 2016

| | | |
|---|---------------|------------|
| Net profit | | 24,940 |
| Add: Closing inventory | | 2,000 |
| Add: Prepaid | 200x3 | <u>600</u> |
| Net profit | | 27,540 |
| Add: Interest on drawings: | | |
| Precious (3000*0.1) on 1 January, 2017 | 300 | |
| Brilliant (3000*0.1) on 1 January, 2017 | <u>300</u> | 600 |
| Precious (4000*0.1*6/12) on 1 July, 2017 | 200 | |
| Brilliant (4000*0.1*6/12) on 1 July, 2017 | <u>200</u> | <u>400</u> |
| | | 28,540 |
| Less: Interest on capital | | |
| Precious (123,500*0.2) | 24,700 | |
| Brilliant (75,500*0.2) | <u>15,100</u> | 39,800 |
| Less: Salaries to partners: | | |
| Precious | 3600 | |
| Brilliant | <u>4200</u> | 7,800 |
| Loss profit to be shared | | (19,060) |
| Loss shared: | | |
| Precious | | (9,530) |
| Brilliant | | (9,530) |
| | | (9,060) |

(ii)

Current account

| Details | Precious | Brilliant | Details | Precious | Brilliant |
|----------------------|---------------|---------------|---------------------|---------------|---------------|
| Bal b/d | | 4,500 | Bal b/d | 45,500 | |
| Loss | 9,530 | 9,530 | interest on capital | 24,700 | 15,100 |
| Drawings | 7,000 | 7,000 | salary | 3600 | 4200 |
| Interest on drawings | 500 | 500 | | | |
| Bal c/d | 56,770 | | Bal c/d | | 2,230 |
| | <u>73,800</u> | <u>21,530</u> | = | <u>73,800</u> | <u>22,130</u> |

Murugi Ltd
Statement of changes in equity
For the year ended 30 March 2017

| | |
|----------------------------|--------|
| Adjusted Net profit | (000) |
| Net profit | 42,800 |
| Add | |
| Sales | |
| Returns out wards | 450 |
| Less | |
| Purchases | 354 |
| Returns in wards | 354 |
| Adjusted profit | 42,992 |

Statement of changes in equity

| | Share capital | Share premium | General reserve | Revaluation earnings | Retained earnings | Total |
|-----------------------------|----------------|----------------|-----------------|----------------------|-------------------|------------------|
| Bal b/d | 586,500 | 124,000 | | 42,400 | 87,500 | 840,400 |
| Net profit for the period | | | | | 42,992 | 42,992 |
| Revaluation surplus | | | | 15,000 | | 15,000 |
| Transfer to general reserve | | | 15500 | | (15,500) | |
| Dividends paid | | | | | (98,650) | (98,650) |
| Issue of shares | 400,000 | 200,000 | | | | 600,000 |
| | 986,500 | 324,000 | 15,50 | 57,400 | 16,342 | 1,399,742 |

The dividend of proposed is not included because no final position has been agreed.

Solution 3

i) Journal entries

Journal entries

| | Dr. Shs | Cr. Shs |
|---|----------------|----------------|
| 1 Loan interest (22% x 50,000,000) | 11,000,000 | |
| Accrued loan interest | | 11,000,000 |
| 2 Utilities | 2,000,000 | |
| Accrued utilities | | 2,000,000 |
| Prepaid rent | 800,000 | |
| Rent | | 800,000 |
| 3 Unused suppliers | 500,000 | |
| Supplies | | 500,000 |
| 4 Unearned consultancy fees | 5,250,000 | |
| Earned consultancy fees | | 5,250,000 |
| 5 Consultancy fees receivable | 3,500,000 | |
| Earned consultancy fees | | 3,500,000 |
| Depreciation on motor vehicles | | |
| 6 15% x(40,000,000-6,000,000) | 5,100,000 | |
| Acc. Depreciation(m/vehicle) | | 5,100,000 |
| Depreciation on furniture & fittings | | |
| 15% x(35,000,000-5,250,000) | 4,462,500 | |
| Acc. Depreciation(furniture & fittings) | | 4,462,500 |
| 7 Bad debts-Consultancy fees written off | 1,120,500 | |
| Consultancy fees receivable | | 1,120,500 |
| 8 Increase in provision for doubtful debts | 1,078,770 | |
| Provision for doubtful debts | | 1,078,770 |
| Corporation tax | 3,250,000 | |
| Corporation tax payable | | 3,250,000 |

ii) Adjusted trial balance

| Adjusted trial balance | | |
|--|----------------|----------------|
| | Dr. Shs | Cr. Shs |
| Motor vehicle | 40,000,000 | |
| Furniture % fittings | 35,000,000 | |
| Earned consultancy fees | | 48,750,000 |
| Unearned consultancy fees | | 32,130,000 |
| Consultancy fees receivable | 17,979,500 | |
| Bad debts-Consultancy fees written off | 1,120,500 | |

| | | |
|-------------------------------------|---------------------------|---------------------------|
| Cash /Bank balances | 112,930,000 | 35,250,000 |
| Drawings | 900,000 | |
| Capital | | 44,630,000 |
| Rent | 3,200,000 | |
| Prepaid Rent | 800,000 | |
| Utilities | 2,500,000 | |
| Accrued Utilities | | 2,000,000 |
| Depreciation-motor vehicle | 5,100,000 | |
| Depreciation-Furniture and fittings | 4,462,500 | |
| Provision for depreciation; | | |
| Motor vehicle | | 11,100,000 |
| Furniture % fittings | | 9,712,500 |
| Interest on loan | 11,000,000 | |
| Accrued on interest on loan | | 11,000,000 |
| Insurance | 2,200,000 | |
| Doubtful debts | 1,078,770 | |
| Provision for doubtful debts | | 1,078,770 |
| Salaries & wages | 6,500,000 | |
| Corporation tax | 3,250,000 | |
| Corporation tax payable | | 3,250,000 |
| Office supplies | 80,000 | |
| Unused supplies | 500,000 | |
| 22% bank loan | | 50,000,000 |
| | <u>208,271,270</u> | <u>208,271,270</u> |

Solution 4

(i) Depreciation

Computation of cost of machine

| | |
|-------------------|-----------|
| | Shs '000' |
| Purchase price | 167,000 |
| Import duty | 34,000 |
| Freight costs | 2700 |
| Installation cost | 4500 |
| Total cost | 208,200 |

Depreciating using sum of years

| Depreciation | | Depreciation | NBV |
|-----------------|------------------------------|--------------|------------|
| 6 months (2011) | 10years/55 years*208,200*0.5 | 18,927 | 189,273 |
| 1 year (2016) | 9years/55 years*208,200 | 34,069 | 155,203.64 |

2015

Extract of statement of profit or loss 2015

| | |
|------------------|--------|
| Depn | 18,927 |
| Repairs | 2,700 |
| Annual servicing | 1,250 |

Statement of financial position as at 31 December 2011

| | Cost | Acc Depn | NBV |
|---------|----------|----------|---------|
| Machine | 208,200✓ | 18,927 | 189,272 |

2016

Extract of statement of profit or loss 2016

| | |
|------------------|--------|
| Depn | 34,069 |
| Repairs | 5,400 |
| Annual servicing | 2,500 |

Statement of financial position as at 31 December 2016

| | Cost | Acc Depn | NBV |
|---------|----------|----------|---------|
| Machine | 208,200✓ | 52,996 | 155,203 |

CHANGE IN THE METHOD OF DEPRECIATION

| | | | | |
|-----------|---------|------------------|--------|---------|
| 1 Machine | 155,204 | 5years/15 years | 51,735 | 103,469 |
| 2 Machine | 155,204 | 4 years/15 years | 41,388 | 62,081 |

Extract of profit or loss for the year ended 2017

| | |
|------------------|--------|
| Depn | 51,735 |
| Repairs | 5,400 |
| Annual servicing | 2,500 |

Statement of financial position as at 31 December 2017

| | Cost | Acc Depn | NBV |
|---------|---------|----------|---------|
| Machine | 155,204 | 51,735 | 103,469 |

ii) Factors that may necessitate a change in the method of depreciation

- Change in the way the asset is being used
- Changes in technology

b)

| Adjusted cash book | | | |
|---|---------------|-----------------------------|---------------|
| For MEM Ltd for the Month of April 2017 | | | |
| Bal b/d | 58,600 | Bank charges | 450 |
| Error on CHQ 0012 | 900 | Excise duty | 256 |
| Bank interest | 65 | Dishonoured cheques: | |
| | | Jena investments | 543 |
| | | Quality suppliers | 1,200 |
| | | Chq 0015 | 690 |
| | | Standing order | 234 |
| | | Chq 0430 | 765 |
| | | Transfer to current account | 1,500 |
| | | Bal c/d | 53,927 |
| | <u>59,565</u> | | <u>59,565</u> |

MEM Ltd

Bank reconciliation statement for month of April 2017

| | | |
|--|-----|----------------------|
| Balance as per adjusted cash book | | 53,927 |
| <u>Add: un-presented cheques:</u> | | |
| Chq 0037 | 875 | |
| Chq 0040 | 243 | |
| Chq 0050 | 589 | <u>1,707</u> |
| | | 55,634 |
| <u>Less: Un-credited cheques</u> | | |
| Unbanked cash | | |
| Receipt 0002 | 430 | |
| Receipt 0003 | 354 | |
| Receipt 0004 | 536 | |
| Un-credited cheques | 765 | <u>2,085</u> |
| Balance as per bank statement | | <u>53,549</u> |

Solution 5

- i) The reason why the accounts receivable control account may not agree with the ledger accounts;
- The sales day book, sales returns day book or cash receipts book have been incorrectly totaled
 - A total from a book of prime entry has been transferred to the control account as a different figure
 - An individual entry from a book of prime entry has been transferred to the individual customer's account as a different figure
 - An entry in the control account or the individual customer's account has been omitted or posted to the wrong side of the account
 - An individual customer's account has been incorrectly balanced
 - The list of accounts receivable ledger balances has been incorrectly totaled.
 - An entry has been made in either the control account or the individual customer's account but not in both
 - An individual customer's balance has been omitted from the list of balances

ii) Accounts receivable control accounts

| Accounts receivable control account | | | |
|--|---------------------------|---------------------------------|---------------------------|
| Bal b/d | 50,150,980 | Bal b/d | 5,140,200 |
| Credit sales | 45,780,150 | Return inwards | 113,000 |
| Debtors' refund for overpayments | 2,500,000 | Discount allowed | 320,000 |
| Debtors' cheques dishonoured | 2,250,000 | Irrecoverable debts written off | 97,400 |
| Discount allowed on dishonoured cheques | 50,000 | Receipts from debtors | 38,640,000 |
| Interest charged to customers | 800,000 | Contra settlement | 1,400,000 |
| Bal c/d | 68,500 | Bal c/d | 55,009,000 |
| | | Error | 880,030 |
| | <u>101,599,630</u> | | <u>101,599,630</u> |

iii) Accounts payable control account

| Accounts payable control account | | | |
|---|--------------------------|--|--------------------------|
| Bal b/d | 6,540,000 | Bal b/d | 15,250,100 |
| Return outwards | 550,000 | Credit purchases | 3 |
| | | Creditors' refund for overpayments | 630,000 |
| Discount received | 584,100 | Cheques written to Creditors dishonoured | 1,650,000 |
| Payments to creditors | 28,500,000 | | |
| Interest charged by creditors | 1,050,000 | | |
| Contra settlement | 1,400,000 | | |
| Bal c/d | 11,000,000 | Bal c/d | 112,050 |
| Error | 128,050 | | |
| | <u>49,752,150</u> | | <u>49,752,150</u> |

iv) The amount of error

The amount of error in the accounts receivable account was Shs. 880,030 and in the accounts payable account Shs. 128,050

ANSWERS TO TEST PAPER 2

CTA NOVEMBER 2018

Solution 1

| Kazana Training Institute | | |
|--|-----------|---------------|
| Statement of profit or loss for the year ended 31 Dec 2017 | | |
| | Shs '000' | Shs '000' |
| Tuition fees revenue | 380,000 | |
| Less: Refund | (3,000) | |
| Less: Prepaid fees | (7,000) | 370,000 |
| Examination fees | | 40,000 |
| Donations | | 10,000 |
| Internship income | | 45,000 |
| Sale of branded items | | <u>15,500</u> |
| Total incomes | | 480,500 |
| Less: operating expenses | | |
| Staff salaries, wages and allowances | 98,500 | |
| Students training materials | 34,500 | |
| Students feeding costs (37,400-10,000) | 27,400 | |
| Repair costs of non-current assets | 32,450 | |
| Motor vehicle costs | 31,900 | |
| Students accommodation costs | 23,000 | |
| Institute's clinic expenses | 26,670 | |
| Utilities (17,500+675) | 18,175 | |
| Insurance costs | 24,700 | |
| Examination costs (18,400-5,000) | 13,400 | |
| Co-curricular activities | 15,000 | |
| National Council for Higher Education accreditation costs | 8,806 | |
| Internet and other communication costs | 11,200 | |
| Bad debts | 5,000 | |
| Provision for bad debts (70,525-5,000)*0.05 | 3,276 | |
| Depreciation expense: | | |

| | | |
|---------------------------|--------|---------|
| Buildings | 15,000 | |
| Motor Vehicles | 30,000 | |
| Workshop Machinery | 11,250 | |
| Furniture | 3,000 | 433,227 |
| Net profit for the period | | 47,273 |

Statement of financial position as at 31 December 2017

| | | | |
|--------------------------------------|-------------------|---------------|----------------|
| Non- current assets | Cost | Acc Depn | NBV |
| Land | 98,000 | - | 98,000 |
| Buildings | 300,000 | 150770 | 149,230 |
| Motor vehicles | 150,000 | 60,000 | 90,000 |
| Workshop machinery | 60,000 | 26,250 | 33,750 |
| Furniture | <u>30,000</u> | <u>13,000</u> | <u>17,000</u> |
| | | | 387,980 |
| Current assets | | | |
| Cash and Bank | | 21,500 | |
| Stock of Posho | | 10,000 | |
| Prepaid examination costs | | 5,000 | |
| Legal fees receivable (70,525-5,000) | 65,525 | | |
| Less; provision for doubtful debts | <u>(3,276.25)</u> | 62,248.75 | <u>98,749</u> |
| Total assets | | | <u>486,729</u> |
| Capital | | 399,781 | |
| Profit | | <u>47,273</u> | 447,054 |
| Current liabilities | | | |
| Water bill | | 675 | |
| Fees unearned | | 7,000 | |
| Payables | | <u>32000</u> | <u>39675</u> |
| Total equity and liabilities | | | <u>486,729</u> |

Solution 2

- (a) A trade discount is an allowance given to a customer by the seller because the customer usually buys large quantities of goods. It means that if goods are bought in bulk, then a trade discount is usually offered. This discount is calculated as a percentage of the original cost price of the goods. The cost of the goods after the trade discount has been deducted is called the invoice price or net price. A trade discount is not reflected in the books of accounts

A cash discount is an allowance given to a customer by the seller for goods taken on credit in order to encourage the customer to settle the invoice promptly. It is given when the customer pays for the invoice within a stated period of time from the date of the original transaction. This discount is deducted from the original cost price in order to determine the net amount to be paid by the customer. It is calculated as a percentage of the invoice price after deduction of any trade discounts. A cash discount is reflected in the books of account

There are two types of cash discounts

- Discount allowed – offered by a business to its customers; it is considered loss/expense to the business.
 - Discount Received-offered to the business by its creditors (suppliers that allow business to purchase their goods on credit).
- (b) When goodwill is maintained in the books accounts, it implies that it can be reflected as an asset in the SOFP but it is shared between old partners. The goodwill contributed is divided among the old partners using the old profit sharing ratios.

The new partner does not share in the goodwill because he has not contributed to the good will. The new partner will share in goodwill on admission of another new partner.

(c)

(i)

Jacob and Co Advocates:

Statement of profit or loss and appropriation account for the year ended 31 December, 2017.

| | Shs '000' | Shs '000' |
|---|-----------|--------------|
| Income: | | |
| Legal fees | 481,900 | |
| Interest income | 4,869 | |
| Retainer fees (43,500-6,000) | 37,500 | 524,269 |
| Less: Operating expenses: | | |
| Subscription to Uganda Law Society | 4,000 | |
| Client gifts | 5,800 | |
| Continuing legal education | 12,400 | |
| Rent | 54,000 | |
| Health insurance costs | 52,500 | |
| Management consulting costs | 7,890 | |
| Stationery (19,800+4000) | 23,800 | |
| Website development & maintenance costs | 15,000 | |
| Utilities | 24,500 | |
| File storage costs | 26,500 | |
| Depreciation expense: | | |
| Computers (25%*75,000) | 18,750 | |
| Motor vehicles (12.5%*85,000) | 10,625 | |
| Furniture (10%*15,400) | 1,540 | |
| Books (10%*50,429) | 5,042.9 | (262,347.90) |
| Net profit | | 261,921.10 |
| Appropriation account: | | |
| Add: Interest on drawings | | |
| Jacob (3%*30,000) | 900 | |
| Isaiah (3%*45,000) | 1,350 | 2,250 |
| Less: Interest on capital | | |
| Jacob (5%*20,400) | 1,020 | |
| Isaiah (5%*15,500) | 775 | (1795) |
| Less: salaries | | |
| Jacob (3*12 months=36m) | 36,000 | |
| Isaiah (3*12 months=36m) | 36,000 | (72,000) |
| Profit to be shared | | 190,376.10 |

| | |
|-------------------------------------|--------------------|
| Retained profits (10%*190,376.1) | <u>(19,037.61)</u> |
| Profit to be shared | <u>171,338.49</u> |
| Jacob ($\frac{1}{2}$ *171,338.49) | 85,669.25 |
| Isaiah ($\frac{1}{2}$ *171,338.49) | 85,669.25 |
| | <u>171,338.49</u> |

(ii)

Current account

| Details | Jacob | Isaiah | Details | Jacob | Isaiah |
|----------------------|-------------------|-------------------|---------------------|-------------------|-------------------|
| Interest on drawings | 900 | 1350 | Bal b/f | 23,400 | 18,750 |
| Drawings | 30,000 | 45,000 | Interest on capital | 1020 | 775 |
| | | | Salaries | 36,000 | 36,000 |
| Bal c/d | 115,189.25 | 94,844.25 | Profit | 85,669.25 | 85,669.25 |
| | <u>146,089.25</u> | <u>141,194.25</u> | = | <u>146,089.25</u> | <u>141,194.25</u> |

Solution 3

(a)

Advantages of public limited companies:

- They are legally treated as a separate entity from their owners.
- They easily raise funds from external sources either from banks or sales of shares once listed.
- The company life may exist beyond the owners.
- Employ high caliber staff for better management.
- Due to them being limited liability, the owners are protected from the liabilities of the company; their personal property cannot be attached by creditors.
- Ownership is easily transferable through sales or transfer of shares.

Disadvantages of public limited companies:

- They are complex and expensive to form due many legal formalities involved.

- The owners have no direct control on the day to day running of the business. They rely on given reports from management by the board of directors at annual general meetings.
- They are highly taxed through corporation tax and tax on dividends.
- Decision making is usually slow and expensive since all the stakeholders have to be involved in deciding major issues e.g. raising more funds.
- Their activities are exposed to the general public e.g. publication of its financial reports, registers of members, meetings. This is a legal requirement.

(b)

Accounting process/cycle:

- Source documents: this is where the first accounting information is recorded, examples: sales and purchases invoices, debit and credit notes, receipts, pay in slips, etc.
- Journals: information is entered in books of original entry from the source documents based on double entry system, e.g. cash book, sales journal, purchases journal, returns inward journal, returns outward journal and general journal.
- Ledgers: information is posted from the journals to the different ledgers. For example general ledgers like debtors' ledger, creditors' ledger and subsidiary ledgers like John's a/c, Anita's a/c.
- Trial balance: the ledgers are balanced off and the totals posted to the trial balance (records the total debits and total credits) to check the arithmetical accuracy and the double entry system.
- End year adjustment: any accruals, pre-payments, provisions are made so that they are incorporated in the financial statements.
- Preparation of financial statement: the different financial statements like statement of: profit or loss, financial position, cash flows and changes in equity are thus prepared.

(c)

(i)

Sales day book

| Date | Customer's name | Invoice no. | Shs |
|---|------------------|-------------|------------|
| 2/9/2018 | Mbu Ltd | 511 | 5,000,000 |
| 7/9/2018 | Ngege enterprise | 512 | 6,000,000 |
| 12/9/2018 | Mamba traders | 513 | 7,000,000 |
| 20/9/2018 | Peter | 514 | 1,000,000 |
| 29/9/2018 | Bweke enterprise | 515 | 5,500,00 |
| Totals are transferred to Sales account and debtors account | | | 24,500,000 |

(ii)

Purchases day book

| Date | Supplier's name | Invoice no. | Shs |
|---|-----------------|-------------|------------|
| 1/9/2018 | Bombo traders | 001 | 10,000,000 |
| 5/9/2018 | Bwana traders | 102 | 15,000,000 |
| 10/9/2018 | Popo enterprise | 205 | 8,000,000 |
| 13/9/2018 | Tata Ltd | 311 | 4,800,000 |
| 22/9/2018 | Bombo traders | 425 | 6,000,000 |
| Totals are transferred to Purchases account and creditors account | | | 43,800,000 |

(iii)

Returns inward daybook

| Date | Details | Credit note no. | Shs |
|--|------------------|-----------------|---------|
| 8/9/2018 | Ngege enterprise | 1 | 250,000 |
| 15/9/2018 | Mbu Ltd | 2 | 500,000 |
| 26/9/2018 | Peter | 3 | 200,000 |
| Totals are transferred to return inwards account and debtors account | | | 950,000 |

(iv)

| Return outwards day book | | | |
|---|---------------|----------------|-----------|
| Date | Details | Debit note no. | Shs |
| 9/9/2018 | Bombo traders | 62 | 1,000,000 |
| 25/9/2018 | Bwana traders | 68 | 600,000 |
| 29/9/2018 | Tata traders | 70 | 480,000 |
| Totals are transferred to return outwards account and creditors account | | | 2,080,000 |

Solution 4

(a)

(i) Issued share capital:

This is part of the authorized share capital that has been allotted to the public for members to subscribe. For example, the authorized share capital of the company may be made up of 9,000,000 shares @ Shs 1,000. The company may not be in need of raising that capital at once. Therefore, it will invite subscribers for a certain number of shares, for instance 3,000,000 shares. The balance will be issued at a later date.

(ii) Called up capital:

This is part of the issued share capital that members have been required to pay. For instance, if the issued shares are 3,000,000 at @ Shs 1,000, the intending shareholders may be required to pay Shs 700 per share. The total called up capital will be 2.1 billion shillings.

(iii) Paid up capital:

This is part of the called up capital that has actually been fully paid for by the subscribers. For instance, out of the called up capital of 2.1 billion, shareholders holding 2,000,000 shares may respond by paying hence the total paid up capital will be 1.4 billion shillings.

(b)

(i) Business entity concept:

This principle ensures that private transactions and matters relating to the owner are separated from the business. The business financial records and reports should not be mixed with owners personal records. For instance, if the owner of the business incurs an electricity expense Shs 100,000 and the business also incurs electricity expense Shs 140,000, the business reports should only include electricity for the business. The limitation of applying this concept is that sometimes the business shares certain expenses with the owner e.g. rent (owner staying in the same premises) thus an appropriate basis of apportionment is required.

(ii) Money measurement concept:

All transactions to be recorded on the face of the financial statements must be quantifiable in money terms. This means that transactions which cannot be expressed in money terms are left and may be disclosed in the notes to accounts. The main limitation is that some transactions that directly affect profit or financial position may not easily be quantifiable in money terms hence cannot be included on the face of financial statements.

(iii) Historical cost concept:

This concept requires that assets are recorded at the amount of cash and cash equivalents paid. This means that assets such as land are recorded at the cost of their acquisition even if their fair value is different. The main limitation of this concept is that the statement of financial position may not show the actual value of the enterprise.

(c)

(i) Non-current assets account

| | Dr Shs '000' | | Cr Shs '000' |
|--------------------------|----------------|--------------------------|----------------|
| Bal b/d (paper cutter) | 165,000 | Disposal (Binding) | 6,000 |
| (Digital printer) | 250,000 | Bal c/d | 480,200 |
| (Binding equipment) | 30,000 | | |
| Cash (binding equipment) | 41,200 | | |
| | 486,200 | | 486,200 |
| Bal b/d | 480,200 | Disposal (Paper cutter) | 65,000 |
| | | Bal c/d | 415,200 |
| | 480,200 | | 480,200 |

(ii) Accumulated depreciation account

| | Dr Shs '000' | | Cr Shs '000' |
|----------|--------------|--------------------------------------|--------------|
| Disposal | 1,500 | Bal b/d (paper cutter) | 66,000 |
| Bal c/d | 192,250 | (Digital printer) | 80,000 |
| | | (Binding equipment) | 13,500 |
| | | Depreciation charge: | |
| | | Paper cutter (165,000*5%) | 8,250 |
| | | Digital press (250,000*10%) | 25,000 |
| | | Binding Equipment (30,000-6,000)*25% | 1,500 |
| | 194,250 | | 194,250 |
| Disposal | 22,750 | Bal b/d | 192,750 |
| Bal c/d | 201,250 | Depreciation charge | |
| | | Paper cutter | 5,000 |
| | | Digital press | 25,000 |
| | | Binding Equipment | 4,075 |
| | 224,250 | | 224,250 |

(iii) Disposal account

| | Dr Shs '000' | | Cr Shs '000' |
|---------------------|--------------|--------------------------|--------------|
| Bal b/d | 6,000 | Accumulated Depreciation | 1,500 |
| Gain on disposal of | 500 | Cash | 5,000 |

| | | | |
|-------------------|--------|----------------------------------|--------|
| binding equipment | | | |
| | 6,500 | | 6,500 |
| | | | |
| Disposal | 65,000 | Accumulated Depreciation | 22,750 |
| | | Cash | 39,800 |
| | | Loss on disposal of paper cutter | 2,450 |
| | 65,000 | | 65,000 |

Workings:

Determining cost Paper cutter

| | |
|-----------|--------|
| CIF | 25,000 |
| Taxes | 15,000 |
| Transport | 1,200 |
| Cost | 41,200 |

Determination of accumulated depreciation on binding equipment

| | |
|--|-------|
| Cost of Binding equipment disposed of: | 6,000 |
| Rate (6.25%) | |
| 2013 | 375 |
| 2014 | 375 |
| 2014 | 375 |
| 2015 | 375 |
| | 1500 |

Determining depreciation charge for 2016

| | | | |
|--------------------------------|---------|-------|-------|
| Depreciation for the year 2016 | | Rate | |
| paper cutter | 165,000 | 5% | 8250 |
| Digital press | 250,000 | 10% | 25000 |
| Binding Equipment | 30,000 | | |
| Acquisition | 41,200 | | |
| Disposal | -6,000 | 6.25% | 4075 |
| Total | 480,200 | | |
| Total Depreciation charge | | | 37325 |

Determination of accumulated depreciation on paper cutter

Accumulated depreciation on disposed off paper cutter

| | | |
|------|---------------|----|
| Cost | 65,000 | 5% |
| 2010 | 3,250 | |
| 2011 | 3,250 | |
| 2012 | 3,250 | |
| 2013 | 3,250 | |
| 2014 | 3,250 | |
| 2015 | 3,250 | |
| 2016 | 3,250 | |
| | <u>22,750</u> | |

Depreciation charge for 2017

| | B/f | Additions disposal | or Bal c/d | Rate | Depreciation |
|-------------------|--------|-----------------------|------------|------|--------------|
| Paper cutter | 165000 | 65000 | 100000 | 0.05 | 5000 |
| Digital press | 250000 | 0 | 250000 | 0.1 | 25000 |
| Binding Equipment | 65200 | 0 | 65200 | 0.06 | 4075 |
| Total | 480200 | | 415200 | | <u>34075</u> |

Solution 5

(a)

(i)

- Direct debits – these are deductions made by the bank directly in the entity's account without the knowledge of the entity. It is until the bank statement is presented that the cash book is updated e.g. bank charges, standing orders, loan interest.
- Direct credits – these are deposits made by the entity's customer direct to the bank in this case the bank credits the entity's bank account with the amount received. The amount will be reflected in the bank statement, but will not have been debited in the cash book (bank column).
- Un-presented cheques – these are cheques, which have been paid out by an entity and credited in the cash book (bank column), but have not yet been presented to the bank for payment.
- Un-credited cheques – these are cheques deposited by an entity to the bank but do not appear on the bank statement at the reconciling date.
- Dishonoured cheques – these are cheques that have been received or issued by an entity, but for one reason or another, are returned unpaid by the bank.
- Clerical errors – an error is a misstatement or unintentional mistake made in the books of account. Cash book errors or bank statement errors may lead to differences in the bank statement balance and cash book balance (bank column).

(ii)

| Mambopotea Ltd Adjusted cash book for the month of March, 2017 | | | |
|---|------------|-----------------------|-----------|
| | Shs | | Shs |
| Bal b/d | 64,251,500 | Direct debits | |
| Direct credits | | Magazine subscription | 400,000 |
| Push & Pull Ltd | 4,150,000 | Loan repayment | 2,564,125 |
| Lock & Open Enterprises | 2,150,200 | Loan interest | 1,450,250 |
| Come Again Traders | 900,500 | Bank charges | 45,000 |

| | | | |
|--------------------------------------|-------------------|-----------------------------|-------------------|
| cash error (MB Beverages) | 1,210,000 | Excise duty | 4,500 |
| Dishonoured cheques (Computer world) | 3,150,000 | Dishonoured cheques (Nguvu) | 12,500,000 |
| | | CE (computer World) | 900,000 |
| | | Bal c/d | 57,948,325 |
| | <u>75,812,200</u> | | <u>75,812,200</u> |

Mambopotea Ltd
Bank Reconciliation statement for the month of March, 2017

| | Shs | Shs |
|----------------------------------|------------------|-------------------|
| Bal as per adjusted cash book | | 57,948,32 |
| <u>Add: un-presented cheques</u> | | |
| NWSC | 150,000 | |
| MTN | 240,000 | |
| UMEME | 351,219 | |
| Computer World | <u>3,050,000</u> | <u>3,791,219</u> |
| | | 61,739,544 |
| <u>Less: un-credited cheques</u> | | |
| Bank error(cash deposit) | 5,100,000 | |
| Cash deposit | 15,250,400 | |
| Ouma & Sons Ltd | 1,800,000 | |
| Mukamah Traders | 3,000,000 | |
| Musana Guest House | 1,100,000 | |
| Amanya & Co. Advocates | <u>2,300,000</u> | <u>28,550,400</u> |
| Bal as per bank statement | | <u>33,189,144</u> |

- (b) Kwekee Limited:
(i) Individual non-current assets

| Machinery account | | | |
|-----------------------------|----------------|---------|----------------|
| | Shs '000' | | Shs '000' |
| Bal b/d | 120,000 | | |
| Revaluation surplus account | 30,000 | Bal c/d | 150,000 |
| | <u>150,000</u> | | <u>150,000</u> |

Furniture & Fittings account

| | Shs '000' | | Shs '000' |
|---------|---------------|-----------------------------|---------------|
| Bal b/d | 14,560 | Revaluation surplus account | 1,310 |
| | | Bal c/d | 13,250 |
| | <u>14,560</u> | | <u>14,560</u> |

Motor vehicles account

| | Shs '000' | | Shs '000' |
|-----------------------------|---------------|---------|---------------|
| Bal b/d | 62,400 | | |
| Revaluation surplus account | 9,200 | Bal c/d | 71,600 |
| | <u>71,600</u> | | <u>71,600</u> |

Computers account

| | Shs '000' | | Shs '000' |
|---------|---------------|-----------------------------|---------------|
| Bal b/d | 24,600 | Revaluation surplus account | 4,450 |
| | | Bal c/d | 20,150 |
| | <u>24,600</u> | | <u>24,600</u> |

(ii)

Revaluation account

| | Shs '000' | | Shs '000' |
|------------------------------|---------------|------------------------|---------------|
| Furniture & Fittings account | 1,310 | Bal b/d | 4,160 |
| Computers account | 4,450 | Machinery account | 30,000 |
| Bal c/d | 37,600 | Motor vehicles account | 9,200 |
| | <u>43,360</u> | | <u>43,360</u> |

ANSWERS TO TEST PAPER 3

CTA JUNE 2019

Solution 1

(a) Merits of a sole proprietorship business:

- Easiest and least expensive to create and organize.
- Sole proprietors are in complete control and make decisions as they deem fit.
- A sole proprietor is entitled to all profits.
- The business is easy to dissolve, if need arises.

Demerits:

- Sole proprietors have unlimited liability.
- Have inadequate accounting systems.
- Difficulty raising funds.
- Difficulty in attracting high caliber employees.
- No shared skills from different partners.
- There is no continuity in case the owner dies.

(b)

(i) Good-life Family Drug Shop: journal entries to record additional information.

| Date | Particulars | Debit Shs | Credit Shs |
|------|------------------------------|--------------|---------------|
| 1 | License fee -prepaid | 125,000 | |
| | License fee expense | | 125,000 |
| 2 | Destruction of expired drugs | 500,000 | |
| | Cash | | 500,000 |
| | P&L-Expired drugs | 4,500,000 | |
| | Trading account | | 4,500,000 |
| 3 | Accounts receivable | 6,700,000 | |
| | Sales | | 6,700,000 |
| 4 | Closing inventory | 4,300,000 | |
| | Trading account | | 4,300,000 |
| 5 | Staff salaries | 2,500,000 | |
| | Accrued staff salaries | | 2,500,000 |

- (ii) Good-life Family Drug Shop: statement of profit or loss for the year ended 31 December 2017.

| | Shs | Shs |
|--|--------------------|---------------------|
| Sales (7,500,000+6,700,000) | | 14,200,000 |
| Cost of sales: | | |
| Opening stock | 3,400,000 | |
| Add: purchases | 9,500,000 | |
| Less: expired stock | (4,500,000) | |
| Less: Closing stock | <u>(4,300,000)</u> | <u>(4,100,000)</u> |
| Gross profit | | 10,100,000 |
| Add: discount received | | <u>220,000</u> |
| Total Income | | 10,320,000 |
| Less: Operational expenses: | | |
| License fee (250,000-125,000) | 125,000 | |
| Depreciation-Furniture (4,800,000 x5%) | 240,000 | |
| Depreciation-Computer (1,500,000 x20%) | 300,000 | |
| Salaries (4,600,000+2,500,000) | 7,100,000 | |
| Discount allowed | 120,000 | |
| Rent | 4,800,000 | |
| Bad debts | 200,000 | |
| Utilities | 1,600,000 | |
| Destruction cost | 500,000 | |
| Expired drugs | 4,500,000 | <u>(19,485,000)</u> |
| Net loss | | <u>(9,165,000)</u> |

- (iii) Good-life Family Drug Shop: statement of financial position as at 31 December 2017.

| Assets | Shs | Shs | Shs |
|-----------------------------|-----------|------------|-----------|
| Non- current assets: | Cost | Acc. Deprn | NBV |
| Furniture | 4,800,000 | (480,000) | 4,320,000 |
| Computer | 1,500,000 | (600,000) | 900,000 |
| | | | 5,220,000 |
| Current assets | | | |
| Inventory | | 4,300,000 | |
| Debtors (600,000+6,700,000) | | 7,300,000 | |

| | | | |
|--------------------------------|-------------|--------------|-------------------|
| Prepaid License fee | | 125,000 | |
| Cash balance (540,000-500,000) | | 40,000 | 11,765,000 |
| Total Assets | | | <u>16,985,000</u> |
| Capital and liabilities: | | | |
| Capital | | 22,047,000 | |
| Retained loss | (1,200,000) | | |
| Net loss | (9,165,000) | (10,365,000) | 11,682,000 |
| Current liabilities: | | | |
| Accounts payables | | 2,800,000 | |
| Accrued salaries | | 2,500,000 | |
| Bank balance | | 3,000 | 5,303,000 |
| Total capital and liabilities | | | <u>16,985,000</u> |

Solution 2

(a) The reasons for:

(i) dissolution of partnership business:

- The partnership is no longer profitable, and there is no longer any reason to carry on trading.
- The partners cannot agree between themselves how to operate the partnership. Therefore they decide to finish the partnership
- Factors such as ill-health or old age may bring about the close of the partnership.

(ii) payment of goodwill:

- The business has a large number of regular customers who will continue to deal with the new owner.
- The business has a good reputation.
- It has experienced efficient and reliable employees.
- The business is situated in a good location.
- It has contacts and good reputation with suppliers.
- It has well-known brand names that have not been valued and included as assets.

(b) Partnership accounts:

(i) Omondi & Omollo Company advocates:

Statement of corrected net profit

| | Shs | Shs |
|-------------------------------------|------------|--------------|
| Reported profit | | 2,520,500 |
| Add: un-recorded incomes: | | |
| Legal fees | 5,500,000 | |
| Retainers fees | 2,000,000 | |
| Rental income | 4,000,000 | 11,500,000 |
| | | 14,020,500 |
| Less: Expenditures: | | |
| Interest on loan | 8,000,000 | |
| Depreciation: | | |
| Motor vehicles (20%*160,000,000) | 32,000,000 | |
| Furniture (30%*6,450,000) | 1,935,000 | |
| Rent expense | 10,000,000 | 51,935,000 |
| Net loss | | (37,914,500) |

(ii)

Appropriation account:

| | Shs | Shs |
|----------------------------|--------------|---------------------|
| Net profit for the year | | (37,914,500) |
| Add: interest on drawings: | | |
| Omondi (40,000 x 5%) | 2,000,000 | |
| Omollo (50,000 x 5%) | 2,500,000 | 4,500,000 |
| | | (33,414,500) |
| Less: Interest on capital: | | |
| Omondi (10% x 100,000) | 10,000,000 | |
| Omollo (10 x 90,000) | 9,000,000 | (19,000,000) |
| Salaries: | | |
| Omondi (10 x 1,200,000) | 12,000,000 | |
| Omollo (1,200 x 12) | 14,400,000 | (26,400,000) |
| | | |
| Net loss to be shared | | <u>(78,814,500)</u> |
| Share of losses | | |
| Omondi (3/5 x 78,814,500) | (47,288,700) | |
| Omollo (2/5 x 78,814,500) | (31,525,800) | <u>(78,814,500)</u> |

(iii)

| Goodwill account | | | |
|---------------------------|-----------|---------------------------|-----------|
| Capital a/c: | Shs '000' | Capital: | Shs '000' |
| Omondi (3/4 x 50,000,000) | 37,500 | Omondi (3/5 x 50,000,000) | 30,000 |
| Omollo (1/4 x 50,000,000) | 12,500 | Omollo (2/5 x 50,000,000) | 20,000 |

(iv) Partner's current accounts (using fixed capital method)

| Partners' current accounts | | | | | |
|----------------------------|-----------|-----------|------------|-----------|-----------|
| Details | Omondi | Omollo | Details | Omondi | Omollo |
| | Shs '000' | Shs '000' | | Shs '000' | Shs '000' |
| Drawings | 40,000 | 50,000 | Bal b/d | 45,500 | 35,000 |
| Interest D | 2,000 | 2,500 | Interest K | 10,000 | 9,000 |
| Goodwill | 30,000 | 20,000 | Salary | 12,000 | 14,400 |
| Loss share | 47,288.7 | 31,525.8 | Goodwill | 37,500 | 12,500 |
| | | | Bal c/d | 14,288.7 | 33,125.8 |
| | 119,288.7 | 104,025.8 | | 119,288.7 | 104,025.8 |

| Partners' capital accounts | | | | | |
|----------------------------|-----------|-----------|---------|-----------|-----------|
| Details | Omondi | Omollo | Details | Omondi | Omollo |
| | Shs '000' | Shs '000' | | Shs '000' | Shs '000' |
| | | | Bal b/d | 100,000 | 80,000 |
| | | | Bank | | 10,000 |
| | 100,000 | 90,000 | | 100,000 | 90,000 |

Solution 3

(a) The roles of an accountant:

- The roles accountants perform can be broadly described as creators, enablers, preservers and reporters of sustainable value for their organisations.
- As creators of value, accountants take leadership roles in the design and implementation of strategies, policies, plans, structures and governance measures that set the course for delivering sustainable value creation.

- As enablers of value, accountants inform and guide managerial and operational decision making and implementation of strategy for achieving sustainable value creation and the planning, monitoring, and improvements of supporting processes.
- As preservers of value, accountants ensure the protection of sustainable value creation strategy against strategic, operational and financial risks and ensuring compliance with regulations, standards, and good practice.
- As reporters of value, accountants enable the transparent communication of the delivery of sustainable value to stakeholders.

(b)

| Trade receivables control account | | | |
|-----------------------------------|-------------------|--|-------------------|
| Details | Shs | Details | Shs |
| Balance b/d | 2,394,000 | | |
| Credit Sales (1570300-3,400,000) | 12,303,000 | Cheques and cash received from customers | 8,748,000 |
| Customer cheques dishonored | 4,200,000 | Return inwards | 445,680 |
| Cash refunded to customers | 5,450,000 | Discount allowed | 530,400 |
| | | Contra entry | 4,800,000 |
| | | Bad debts written off | 429,600 |
| | | Balance c/d | 9,393,320 |
| | <u>24,347,000</u> | | <u>24,347,000</u> |
| Balance b/d | 9,393,320 | | |

| Trade payable control account | | | |
|------------------------------------|-------------------|---|-------------------|
| Details | Shs | Details | Shs |
| Cheques and cash paid to suppliers | 11,334,960 | Balance b/d | 2,169,120 |
| Purchases returns & allowances | 314,720 | Credit purchases (33,221,200-5,000,000) | 28,221,200 |
| Discount received | 266,320 | Suppliers cheques dishonoured | 1,600,000 |
| Contra entry | 4,800,000 | Cash refunded by suppliers | 6,320,000 |
| Balance c/d | 22,394,320 | Interest charged by suppliers | 800,000 |
| | <u>39,110,320</u> | - | <u>39,110,320</u> |

| | | | |
|--|--|-------------|------------|
| | | Balance b/d | 22,394,320 |
|--|--|-------------|------------|

(c)

(i)

Non - current asset account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|-----------|----------------------|----------------|------------|----------------------|----------------|
| 1/1/2018 | M/vehicles | 90,000 | 30/9/2018 | Disposal account | 30,000 |
| | Machinery | 300,000 | 25/10/2018 | Computers & printers | 5,000 |
| | Computers & printers | 20,000 | | | |
| 30/9/2018 | Bank (M/vehicles) | 40,000 | 31/12/2018 | Bal c/d | 415,000 |
| | | <u>450,000</u> | | | <u>450,000</u> |
| 1/1/2019 | Bal b/d | 415,000 | | | |

(ii)

Accumulated depreciation account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|------------|--------------|----------------|----------|----------------------|----------------|
| 30/9/2018 | Disposal a/c | 3,000 | 1/1/2018 | M/vehicles | 9,000 |
| 25/10/2018 | Disposal a/c | 1,250 | | Machinery | 45,000 |
| | | | | Computers & printers | 5,000 |
| | | | | Depreciation: | |
| | | | | M/vehicles | 10,000 |
| | Bal c/d | 113,500 | | Machinery | 45,000 |
| | | <u>117,750</u> | | Computers & printers | 3,750 |
| | | | | | <u>117,750</u> |

(iii)

Disposal account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|------------|----------------------|---------------|------------|------------------------------|---------------|
| 30/9/2018 | M/vehicle | 30,000 | 30/9/2018 | Acc. deprn a/c | 3,000 |
| | Computers & printers | | | | |
| 25/10/2018 | | 5,000 | 30/9/2018 | Bank (M/v) | 25,000 |
| | | | 30/9/2018 | Acc. deprn a/c | 1,250 |
| | | | 25/10/2018 | Bank (printer) | 1,000 |
| | | | | Loss on disposal (M/vehicle) | 2,000 |
| | | | | Loss on disposal (Printers) | 2,750 |
| | | <u>35,000</u> | | | <u>35,000</u> |

Solution 4

(a) Errors that cannot be detected by the trial balance:

- Error of omission – these are transactions which have been omitted from the books. They are not recorded anywhere in the books of account.
- Error of commission – this is when an amount has been recorded in the wrong persons' account.
- Error of principle – this is when a transaction has been entered in the wrong class of account.
- Error of original entry – this is when a mistake occurs in the original books of account.
- Error of complete reversal – these is when entries have been reversed in that a debit is credited a while a credit is debited.
- Compensating error – this is when an error made in one account is cancelled by another error of the same amount made in the same account or another account.

(b)

Two-column cash book for January 2018

| | | Shs '000' | Shs '000' | | | Shs '000' | Shs '000' |
|------|-----------|-----------|-----------|------|--------------------------------|-----------|-----------|
| Date | Details | Cash | Bank | Date | Details | Cash | Bank |
| 1 | Capital | 2,000 | 18,000 | 3 | Rent | | 3,000 |
| 5 | Bank | 3,000 | | 5 | Cash | | 3,000 |
| 8 | Sales | 200 | | 6 | Purchases (Cement) | 1,200 | |
| 11 | Sales | 300 | | 9 | Purchases (plumbing materials) | 2,000 | |
| 18 | Bank loan | | 30,000 | 10 | Purchases(tiles) | | 3,000 |
| 22 | Cement | 1,200 | | 14 | off loading costs | 5 | |
| 24 | Cash | | 1,000 | 16 | Computer | 1,500 | |
| 25 | Sales | | 2,500 | 17 | Business license | | 500 |
| 29 | Sales | | 200 | 21 | Truck | | 25,000 |
| | | | | 24 | Bank | 1,000 | |
| | | | | 25 | Purchases | 400 | |
| | | | | 27 | utilities | 100 | |

| | | | | | | | |
|--|--|--------------|---------------|----|--------------------|--------------|---------------|
| | | | | 28 | Overtime allowance | | 1,000 |
| | | | | 30 | Purchases | 300 | |
| | | | | | Bal c/d | 150 | 16,200 |
| | | <u>6,700</u> | <u>51,700</u> | | | <u>6,700</u> | <u>51,700</u> |

(c)

(i)

Net Book value of the old tractor at the time of exchange:

Shs '000'

Cost 180,000

Residual value 45,000

Depreciable amount= 135,000

Depreciation charge = $135,000/10=13,500$

Acc Depn from 2010 to 2017 = $13,500 \times 8 = 108,000$

Net Book Value = $180,000-108,000= 72,000$

(ii)

Value of the superior tractor

Shs '000'

Net Book value 72,000

Top up 140,000

Total 212,000

(iii)

NBV at the end of the year

Shs '000'

Cost 212,000.

Residual value 50,000.

Depreciable amount = $212,000-50,000=162,000$.

Useful life 10 years

Depreciation charge 16,200.

Net Book Value = $212,000 - 16,200 = 195,800$.

Solution 5

(a)

Kalodo Enterprises: journal entries to correct errors

| | Debit Shs | Credit Shs |
|-----------------------|--------------|---------------|
| Suspense A/c | 50,000 | |
| Purchase account | | 50,000 |
| | | |
| Repair of Equipment | 240,000 | |
| Equipment A/c | | 240,000 |
| | | |
| Discount Allowed | 210,000 | |
| Discount received a/c | | 120,000 |
| Suspense ac | | 90,000 |
| | | |
| Accounts receivables | 490,000 | |
| Sales ac | | 490,000 |
| | | |
| Suspense | 810,000 | |
| Water expense | | 810,000 |
| | | |
| Laptop | 1,800,000 | |
| Purchase a/c | | 1,800,000 |
| | | |
| Sales account | 3,600 | |
| Suspense a/c | | 3,600 |
| | | |
| Motor cycle a/c | 5,106,400 | |
| Suspense | | 5,106,400 |

Suspense account

| Details | Shs | Details | Shs |
|-----------------------|-----------|--------------------|-----------|
| Balance | 4,340,000 | Discount over cast | 90,000 |
| Purchase-Over cast | 50,000 | Sales over cast | 3,600 |
| Over cast water bills | 810,000 | Motor cycle | 5,106,400 |
| | | | |

| | | |
|--|-----------|-----------|
| | 5,200,000 | 5,200,000 |
|--|-----------|-----------|

(b)

Ledger accounts in Hajji Mukiibi's books of account:

| Cash book | | | | | |
|-------------|-----------|-----------|-------------|-----------|-----------|
| | Shs | Shs | | Shs | Shs |
| Details | Cash | Bank | Details | Cash | Bank |
| Bank | 3,400,000 | | Cash | | 3,400,000 |
| | | | | | |
| Balance c/f | | 3,400,000 | Balance c/f | 3,400,000 | |
| | 3,400,000 | 3,400,000 | | 3,400,000 | 3,400,000 |

| Returns outwards account | | | |
|--------------------------|---------|-------------|---------|
| Details | Shs | Details | Shs |
| Balance c/d | 64,000 | Abu & Sons | 64,000 |
| | | | |
| | | | |
| Abu & Sons Account | | | |
| Details | Shs | Details | Shs |
| Returns out | 64,000 | Balance c/d | 64,000 |
| | | | |
| Ntinda Suppliers | | | |
| Details | Shs | Details | Shs |
| Balance c/d | 120,000 | Returns | 120,000 |
| | | | |
| Returns inwards | | | |
| Details | Shs | Details | Shs |
| Ntinda Suppliers | 120,000 | Balance c/d | 120,000 |

Trial Balance extract

| Account title | Debit (Shs) | Credit (Shs) |
|------------------|-------------|--------------|
| Cash | 3,400,000 | |
| Bank | | 3,400,000 |
| Returns outwards | | 64,000 |
| Abu & Sons Ltd | 64,000 | |
| Ntinda Suppliers | | 120,000 |
| Returns inwards | 120,000 | |
| | 3,584,000 | 3,584,000 |

(c)

Accounting for a vehicle surrendered by the owner to the business.

| | Shs |
|-------------------|------------|
| Dr: Motor vehicle | 18,000,000 |
| Cr: Capital | 18,000,000 |

Justification: The vehicle surrendered to the business is recognized as an asset to the business but at the same time, is the owner's claim in the business (capital).

ANSWERS TO TEST PAPER 4
CTA NOVEMBER 2019

Solution 1

| Realization account | | | |
|----------------------|----------------|-----------------------------------|----------------|
| | Shs '000' | | Shs '000' |
| Trade receivable a/c | 24,000 | Discount received | 550 |
| Land & building | 208,000 | Bank - receivable | 20,000 |
| Motor vehicles | 18,000 | Bank - Inventory | 10,000 |
| Furniture & fittings | 7,200 | Bank - Furniture | 7,000 |
| | | Capital-Kirementi-land & building | 100,000 |
| Dissolution expense | 1,500 | Capital -Mulondo-M/v | 20,000 |
| Inventory | 12,000 | bank - land | 158,150 |
| Realisation gain: | | | |
| Kirementi | 15000 | | |
| Latormenta | 15000 | | |
| Mulondo | 15000 | | |
| | <u>315,700</u> | | <u>315,700</u> |

| Trade receivable account | | | |
|--------------------------|---------------|------------------------------|---------------|
| | Shs '000' | | Shs '000' |
| Bal b/d | 25,500 | Allowance for doubtful debts | 1,500 |
| | | Discount allowed | 4,000 |
| | | Realization a/c | 20,000 |
| | <u>25,500</u> | - | <u>25,500</u> |

| Trade payables account | | | |
|------------------------|---------------|---------|---------------|
| | Shs '000' | | Shs '000' |
| Discount received | 550 | Bal b/d | 29,550 |
| Bank a/c | 29,000 | | |
| | <u>29,550</u> | - | <u>29,550</u> |

Partners' capital account

| Details | Kirementi | Latomenta | Mulondo | Details | Kirementi | Latomenta | Mulondo |
|-----------------------------|-----------|-----------|-----------|--|-----------|-----------|-----------|
| | Shs '000' | Shs '000' | Shs '000' | | Shs '000' | Shs '000' | Shs '000' |
| Current | | | 18,000 | Bal b/d | 60,000 | 50,000 | 40,000 |
| Realization-land & building | 100,000 | | | Current | 3,000 | 32,000 | |
| Realization-Motor vehicles | 20,000 | | | Loan | | | 50,000 |
| Capital - Kirementi | | 15,000 | 12,000 | Un-appropriated profits | 15,000 | 15000 | 15,000 |
| | | | | Realization gain | 15,000 | 15000 | 15000 |
| | | | | Share of Kirementi's deficiency by Latomenta | 15,000 | | |
| | | | | Share of Kirementi's deficiency by Mulondo | 12,000 | | |
| Bal c/d | | 97,000 | 90,000 | | | | |
| | | | | | | | |
| | 120,000 | 112,000 | 120,000 | | 120,000 | 112,000 | 120,000 |

Bank account

| | Shs '000' | | Shs '000' |
|-------------|----------------|---------------------|----------------|
| Bal b/d | 22,350✓ | | |
| Realization | 10,000✓ | Dissolution expense | 1,500 |
| Realization | 7,000✓ | trade payables | 29,000 |
| Realization | 20,000✓ | Capital- Latormenta | 97,000 |
| Realization | 158,150✓ | Capital - Mulondo | 90,000 |
| | <u>217,500</u> | | <u>217,500</u> |
| | | - | |

Share of Kirementi's deficiency

Kirementi's deficiency= Shs 27,000,000

Ratio for share of decifiency=50, 000:40,000 i.e. 5:4

Latomenta's share of Kirementi's deficiency: $5/9 \times 27,000,000 = \text{Shs } 15,000,000$

Mulomdo's share of Kirementi's deficiency: $4/9 \times 27,000,000 = \text{Shs } 12,000,000$

Solution 2

(a)

| | Statement of profit or loss | | |
|---|-----------------------------|-----------------|---------------|
| | Shs '000' | Shs '000' | Shs '000' |
| Sales revenue | | | 140,650 |
| Return inwards | | | 650 |
| Net sales | | | 140,000 |
| <u>Less: Cost of sales</u> | | | |
| Opening inventory | | 13,500 | |
| Purchases | 101,500 | | |
| Carriage inwards | 450 | | |
| Less: return outwards | <u>(500)</u> | 114,950 | |
| Less: Closing inventory | | <u>(18,000)</u> | <u>96,950</u> |
| Gross profit | | | 43,050 |
| <u>Add: other incomes</u> | | | |
| Commission received | | 120 | |
| Discount received | | 280 | |
| Reduction in provision for doubtful debts | | <u>960</u> | <u>1,360</u> |
| Gross income | | | 44,410 |
| <u>Less Operating expenses</u> | | | |
| Depreciation expenses: | | | |
| Motor vehicles (15%*75,000) | | 11,250 | |
| Furniture (15%*28,000) | | 4,200 | |
| Equipment (15%*50,000) | | 7,500 | |
| Bad debts written off | | 500 | |
| Utilities (1650-500) | | 1,150 | |
| Salaries (2560+2,000) | | 4,560 | |
| Rent (2,900-800) | | 2,100 | |
| Carriage outwards | | 200 | |
| Discount allowed | | 150 | |
| Commission paid | | 180 | 31,790 |
| Net profit | | | <u>12,620</u> |

(b)

Statement of changes in equity

| | Ordinary share capital | Share premium | General reserves | Retained earnings | Totals |
|-----------------------------|---------------------------|------------------|---------------------|----------------------|----------------|
| | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' |
| Bal b/d | 300,000 | 40,000 | 6,450 | 23,150 | 369,600 |
| Net profit | | | | 12,620 | 12,620 |
| Issue of shares | 90,000 | 9,000 | | | 99,000 |
| Transfer to genera reserves | | | 12,000 | (12,000) | |
| Dividends | | | | (10,000) | (10,000) |
| | <u>390,000</u> | <u>49,000</u> | <u>18,450</u> | <u>13,770</u> | <u>471,220</u> |

(c)

Statement of financial position

| Assets | Shs '000' | Shs '000' | Shs '000' |
|--|----------------|-------------------|----------------|
| <u>Non-current assets</u> | Cost | Acc. Depreciation | NBV |
| Motor vehicles (3) | 75,000 | 22,500 | 52,500 |
| Furniture | 28,000 | 8,400 | 19,600 |
| Equipment | <u>50,000</u> | <u>15,000</u> | <u>35,000</u> |
| | <u>153,000</u> | <u>45,900</u> | 107,100 |
| <u>Current Assets</u> | | | |
| Closing inventory | | 18,000 | |
| Trade receivables (12,500-500) | 12,000 | | |
| Less: provision for doubtful debts | <u>(240)</u> | 11,760 | |
| Prepaid Utilities | | 500 | |
| Prepaid Rent | | 800 | |
| Bank (255,505+99,000) | | <u>354,505</u> | <u>385,565</u> |
| Total assets | | | <u>492,665</u> |
| Equity & Liabilities | | | |
| Ordinary share capital of 200,000 shares | | | 390,000 |
| Share premium | | | 49,000 |
| Retained earnings | | | 18,450 |
| General reserves | | | <u>13,770</u> |
| | | | 471,220 |
| <u>Non-current Liabilities</u> | | | |

| | | |
|----------------------------|--------|----------------|
| Trade payables | 9,445 | |
| Outstanding salaries | 2,000 | |
| Dividends payables | 10,000 | <u>21,445</u> |
| Total equity & liabilities | | <u>492,665</u> |

Solution 3

Stage (i) Preparation of Source Documents:

These are documents that contain original information about transactions to be recorded in the books of accounts of account. They act as documentary evidence which supports all the entries in the books.

Examples:

- Sales and purchases invoices
- Debit and credit notes
- Receipts
- Payment vouchers etc.

Stage (ii) writing Journals:

From the sources documents, the information is classified and recorded in books of prime entry. These books are called journals.

Examples include

- Sales and purchases day books
- Returns inward and returns outward journeys.
- General Journals
- Cashbook.

Stage (iii) preparing ledgers:

After recording the transactions in the journals, recorded entries are classified and grouped before preparation of accounts and the book that contain all set of accounts (personal, real and nominal) is called a ledger.

For every aspect of financial transaction there are two entries one is a debit (left hand side) and credit (right hand side) of the of account examples of ledger books include:

- General ledger
- Sales ledger
- Purchases ledger

- Cashbook

Stage (iv) Extracting the Trial Balance

This is the third phase in the accounting cycle or process. After positing accounts in the ledger books, a statement is prepared to show separately the debit and credit balances. This statement is called a trial balance. Its objective mainly is to establish whether the postings and other accounting processes have been carried out accurately. The trial balance gives a summary of what is contained in the ledgers and the financial statements are prepared on the basis of agreed trial balance.

Stage (v) End year adjustments.

This part contains all necessary adjustments that have been made before financial statements can be prepared. Examples include depreciation of NCA, bad debts, valuation of inventory, accruals and prepayments etc.

Stage (vi) Preparation of financial Statements

It involves preparation of statement of comprehensive income to show the performance of the business.

Financial statement showing, liabilities, assets and capital at the end accounting period will be prepared. This will show the business position in terms above items. Statement of financial position will be prepared.

(b)

(i)

| Date | Details | Disc.All | Cash | Bank | Date | Details | Disc/Rec | Cash | Bank |
|------|-------------|----------|-----------|-----------|------|-----------|-----------|-----------|-----------|
| | | | Shs '000' | Shs '000' | | | Shs '000' | Shs '000' | Shs '000' |
| 1 | Bal b/f | | 7,000 | 12,000 | 2 | Purchases | 140 | 6,860 | |
| 3 | Sales | | 2,500 | | 5 | Drawings | | 1,500 | |
| 10 | Receivables | 12 | 588 | | 15 | Payables | | | 3,000 |
| | Receivables | 16 | 784 | | | Payables | | | 4,000 |
| 12 | Receivables | | | 4,000 | 20 | Cash | | | 2,000 |
| 20 | Bank | | 2,000 | | | Wages | | 2,000 | - |

| | | | | | | | | | |
|----|-------------|-----------|---------------|---------------|----|-------------|------------|---------------|---------------|
| 24 | Receivables | | 3,000 | | 29 | Umeme | | 150 | - |
| 25 | Receivables | | 6,000 | | 30 | Water | | 90 | |
| 27 | Capital | | 4,000 | | | | | | - |
| 28 | Sales | | 200 | | | Balance c/d | - | 15,472 | 7,000 |
| | | <u>28</u> | <u>26,072</u> | <u>16,000</u> | | | <u>140</u> | <u>26,072</u> | <u>16,000</u> |
| 31 | Balance b/d | | 15,472 | 7,000 | | | | | |

(ii)

Receivable Account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|-------|-------------|---------------|------|-------------|---------------|
| 1-Mar | Balance b/f | 13,000 | | R/inwards | 50 |
| | sales | 800 | | D/allowed | 28 |
| | sales | 600 | | cash | 1,372 |
| | sales | 5,000 | | bank | 4,000 |
| | sales | 3,000 | | cash | 3,000 |
| | Sauna | 3,000 | | cash | 6,000 |
| | | <u>25,400</u> | | Balance c/d | 10,950 |
| | | | | | <u>25,400</u> |

(iii)

Payable Account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|--------|-------------------|-----------|--------|-------------|-----------|
| | Discount received | 140 | 1-Mar | Balance b/f | 12,000 |
| 2-Mar | Cash | 6,860 | 17-Mar | purchases | 6,000 |
| 15-Mar | Bank | 3,000 | 23-Mar | purchases | 4,000 |
| 17-Mar | Bank | 4,000 | | | |
| | ROW | 100 | | | |

| | | | |
|--------|-------------|--------|--------|
| 31-Mar | Balance c/d | 7,900 | |
| | | 22,000 | 22,000 |

Solution 4

(a) Enhancing qualitative characteristics:

Comparability- users must be able to; compare the financial statements of an entity over time to identify trends in financial performance as well as to compare financial statements of different entities to evaluate their relative financial performance and financial position.

Verifiability-Amounts indicated should be cable of being verified either directly through direct observation or indirectly through checking the inputs to a model, formula or other technique and recalculation the outputs using the same methodology.

Timeliness- having information available to decision makers in time to be capable of influencing their decisions. Generally, the older the information the less useful it becomes.

Understandability- relates to the way information is presented as well as the capabilities of the users. It is assumed that users; have reasonable knowledge of business and economic activities and are willing to study the information provided with reasonable diligence. For information to be understandable, users need to be able to perceive its significance.

(b)

(i) Journal entries to correct errors

| | Shs | Shs |
|-----------------------------|-----------|-----------|
| | Debit | Credit |
| Cash Account | 2,400,000 | |
| Mary A/c trade receivables) | | 2,400,000 |
| Equipment a/c | 4,000,000 | |
| Profit or loss | | 4,000,000 |
| Osuma A/c | 560,000 | |
| Obuma A/c | | 560,000 |

| | | |
|------------------|-----------|-----------|
| Cash book | 7,060,000 | |
| Suspense account | | 7,060,000 |
| | | |
| Suspense Account | 110,000 | |
| Returns outwards | | 100,000 |
| Returns inwards | | 10,000 |
| | | |
| Sales | 2,000,000 | |
| Suspense Account | | 2,000,000 |
| | | |
| Purchases | 1,240,000 | |
| Suspense | | 1,240,000 |

(ii) Suspense Account

| Details | Shs | Details | Shs |
|-------------------------------------|-------------------|-----------------------------|-------------------|
| Balance b/f | 10,190,000 | Erroneous recording of cash | 7,060,000 |
| Erroneous record of returns outward | 110,000 | | |
| | | Sales overcast | 2,000,000 |
| | | Purchases under cast | 1,240,000 |
| | | | |
| | <u>10,300,000</u> | = | <u>10,300,000</u> |

(c)

(i)

| Motorcycles account | | | | | |
|---------------------|---------------|-----------|-----------|-------------------|-----------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 1-Jan-17 | Bank-UDE XX1L | 4,400 | 31-Dec-17 | Disposal-UDE XX1L | 4,400 |
| 30-Jun-17 | Bank-UDE XX4S | 4,200 | | | |
| 31-Dec-17 | Bank-UDE X54P | 4,000 | 31-Dec-17 | Balance c/f | 8,200 |
| | | 12,600 | | | 12,600 |
| | | | | | |

| | | | | | |
|-----------|--------------------------------|--------|-----------|-----------------------|--------|
| 1-Jan-18 | Balance b/f | 8,200 | 31-Dec-18 | Disposal- UDE XX4S | 4,200 |
| 30-Dec-18 | UDE 6XXp-Traded in value | 2,520 | | | |
| | UDE 6XXP-Bank | 1,730 | | | |
| | Registration fees and taxes | 250 | 31-Dec-18 | Balance c/f | 8,500 |
| | | 12,700 | | | 12,700 |
| | | | | | |

(ii)

Accumulated depreciation-Motorcycles

| Date | Details | Shs 000 | Date | Details | Shs 000 |
|-----------|----------------------|---------|-----------|---------------------------|---------|
| 31-Dec-17 | Disposal-UDE XX1L | 880 | 31-Dec-17 | Depreciation- UDE XX1L | 880 |
| | Balance c/f | 1,640 | | Depreciation- UDE XX4S | 840 |
| | | | | Depreciation- UDE X54P | 800 |
| | | 2,520 | | | 2,520 |
| | | | | | |
| | | | 1-Jan-18 | Balance b/f | 1,640 |
| 31-Dec-18 | Disposal | 1,680 | | Depreciation- UDE XX4S | 840 |
| | | | | Depreciation- UDE X54P | 800 |
| 31-Dec-18 | Balance c/f | 2,500 | | Depreciation- UDE 6XXP | 900 |
| | | 4,180 | | | 4,180 |
| | | | | | |

(iii)

Disposal of Motorcycles

| Date | Details | Shs 000 | Date | Details | Shs 000 |
|-----------|----------|---------|-----------|--------------------------------------|---------|
| 31-Dec-17 | UDE-XX1L | 4400 | 31-Dec-17 | Accumulated Depreciation-UDE XX1L | 880 |

| | | | | | |
|-----------|----------|-------|-----------|-----------------------------------|-------|
| | | | | Write off | 3,520 |
| | | 4,400 | | | 4,400 |
| | | | | | |
| 31-Dec-18 | UDE XX4S | 4,200 | 31-Dec-18 | Acc. Depreciation | 1,680 |
| | | | | Non- Current asset-trade in value | 2,520 |
| | | 4,200 | | | 4,200 |

Solution 5

(a)

- Substance over form.
That if information is to represent faithfully, the economic reality and substance of the transaction must be accounted for and not merely their legal form.
- Consistence.
That the presentation and classification of items in the financial statements shall be retained from one period to next unless the changes are justified by either a change in circumstances or a requirement of the new IFRS.
- Realization.
Revenue is the gross inflow of economic benefits during period arising in the course of ordinary activities of an entity when those inflows result in increases in equity. Revenue is recognized when it is probable that future economic will flow to the entity and when these benefits can be measured reliably. (IFRS 15)
- Prudence.
It's a requirement that financial statements being prepared there must an inclusion of degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty , such that assets or income are not overstated and liabilities or expenses are not understated.

(b)

Importance of bank reconciliation statement.

- It helps in identifying errors made by bank or the entity.
- Helps in regular monitoring of cash flows of the entity.
- It acts as control mechanism over cash
- Fraud may continue for some time without being detected.

(c)

(i)

Adjusted cashbook for the month ending 31 May 2019

| | Shs '000' | | Shs '000' |
|---------------------------|----------------|---------------------|----------------|
| Balance b/f | 127,000 | April 2019 –Debits: | |
| Direct credits | 19,000 | Bank | 400 |
| Rental income | 17,000 | Commission | 500 |
| VAT refund | 2,200 | May 2019 –Debits: | |
| Interest received | 3,000 | Dividends | 6,500 |
| Interest on deposits | 450 | Ledger fees | 35 |
| Error Cheque: 2003 | 4,300 | Agent fees | 850 |
| Returned Cheque-Musana | 1,500 | Standing order | 4 |
| Dishonored Chq-Jonathan | 1,318 | Dishonored cheque | 5,000 |
| Cash error-MM Enterprises | 554.4 | Cash error | 8,892 |
| | | Balance c/d | 154,141 |
| | <u>176,322</u> | | <u>176,322</u> |

(ii)

Bank Reconciliation statement as at 31 May 2019 (All figures in Shs '000')

Balance as per adj. cash bank 154,141

Add: Un-presented Cheques

| | | |
|---------------------------|--------|----------------|
| 2019 | 5,600 | |
| 2020 | 11,278 | |
| 2022 | 24,067 | |
| 2033 | 36,700 | |
| 2035 | 75,000 | |
| Bank error | 13,560 | |
| | | <u>166,205</u> |
| Less: un-credited cheques | | 320,346 |
| 2356 | 4,000 | |
| 3245 | 56,089 | |
| 31212 | 8,000 | |
| 4200 | 23,000 | |
| 1007 | 5,756 | |
| | | <u>96,845</u> |
| | | 223,501 |

ANSWERS TO TEST PAPER 5

CTA NOVEMBER 2020

Solution 1

(a) Unrealised profits:

These are profits that have been made by a business but not yet earned through a transaction; inventory whose value has risen but it is not yet disposed of or a firm has sold goods to its subsidiary but by the end of period those goods have not been sold out to customers and it is still part of inventory to the subsidiary.

Adjustments must be made in accounts to deduct the unrealised profits from the closing inventory to avoid over-stating the inventory which will also over-state the gross profit.

(b) Prime costs:

These are manufacturing costs that can be directly traced to a product being manufactured or processed:

- Direct materials. Examples include-purchase of raw materials, carriage inwards on raw materials, etc.
- Direct Labour. Examples include-direct wages and salaries for factory staff.
- Direct expenses. Examples include-royalties, etc.

(c)

(i) Mata Ltd: Manufacturing cost statement for the year ended 31 December 2019

| | Shs '000' | Shs '000' |
|-------------------------------------|-----------|-----------|
| Opening balance of raw materials | 37,000 | |
| Add: Purchase of raw materials | 710,000 | |
| Carriage inwards | 7,000 | |
| Less: Spoiled milk | (6,000) | |
| Less: Closing raw materials | (45,000) | |
| Cost of raw materials consumed: | 703,000 | |
| Add: Direct factory wages | 55,000 | |
| Prime cost | | 758,000 |
| Add: Factory overheads: | | |
| Depreciation: | | |
| Building (239,000 x 5%) 75%) | 8,962.5 | |
| Plant and machinery (450,000 x 15%) | 67,500 | |
| Other equipment (47,000x 10%) | 4,700 | |
| Delivery trucks (85,000x 20%) 25%) | 4,250 | |
| Indirect wages | 30,000 | |
| Lighting and heating (40,000 X3/4) | 30,000 | |
| Packaging materials | 20,000 | |

| | | |
|--|------------------|-------------|
| Factory service and maintenance | 33,000 | |
| Insurance (28,000 x 3/5) | 16,800 | |
| Delivery trucks maintenance (15,000 x 2/5) | <u>6,000</u> | |
| | <u>221,212.5</u> | |
| | | 979,212.5 |
| Add: Work in progress (Opening) | | 64,500 |
| Less: Work in progress (Closing) | | (39,500) |
| Production cost | | 1,004,212.5 |
| Profit on manufacturing | | 195,787.5 |
| Transfer goods manufactured to trading account | | 1,200,000 |

(ii) Mata Ltd: Statement of profit or loss for the year ended 31 December 2019

| | Shs '000' | Shs '000' |
|---|------------------|--------------------|
| Sales | | 1,610,000 |
| Less cost of goods: | | |
| Opening Inventory of finished goods | 89,000 | |
| Add Goods manufactured transferred | <u>1,200,000</u> | |
| | 1,289,000 | |
| Less: Closing inventory of finished goods | (65,000) | |
| Cost of sales | | <u>(1,224,000)</u> |
| Gross profit | | 386,000 |
| Add: Manufacturing profit | | 195,787.5 |
| Gross income | | 581,787.5 |
| Less: Administrative expenses: | | |
| General office expenses | 16,000 | |
| Staff salaries | 35,000 | |
| Lighting and heating(40,000 X1/4) | 10,000 | |
| Insurance (28,000 x 1/5) | 5,600 | |
| Advertising (10,000 x 1/4) | 2,500 | |
| Directors remuneration | 50,000 | |
| Rent | 15,000 | |
| Depn: Buildings (239,000 x 5%) 25%) | <u>2,987.5</u> | |
| | | (137,087.5) |
| Less: Selling and distribution costs: | | |
| Commissions and allowances on sales | 34,500 | |
| Insurance (28,000 x 1/5) | 5,600 | |
| Advertising (10,000 x 3/4) | 7,500 | |
| Carriage outwards | 2,000 | |
| Discounts allowed | 3,000 | |

| | | |
|--|---------------|-----------------|
| Delivery trucks maintenance (15,000 x 3/5) | 9,000 | |
| Depreciation: | | |
| Delivery trucks (85,000x 20%) 75%) | <u>12,750</u> | (74,350) |
| Less: Finance charges: | | |
| Interest paid on loan | 37,500 | |
| Bank charges | 4,500 | <u>(42,000)</u> |
| Profit for the year | | <u>328,350</u> |

Solution 2

(a)

(i) Straight line method:

According to this method, an equal amount is written off every year during the useful life of an asset so as to reduce the cost to nil or residual value. The underlying assumption is that the asset generates equal utility during its useful life.

Straight line depreciation =
$$\frac{\text{Cost of asset} - \text{residual value}}{\text{Useful life}}$$

Or Depreciation rate X (cost-residual value)

(ii) Reducing balance method:

Under this method, a fixed percentage for depreciation is deducted from the net book value (reduced balance) each year. The depreciation expense is calculated as a fixed percentage of the reducing balance of the asset in the books at the beginning of the accounting period.

This method is more suitable for assets that are more useful in earlier years than later years like automobiles.

(iii) Revaluation method:

Under this method, depreciation expenses are based on the revalued asset. The difference between the value of the asset at beginning and its value at the end of the accounting period is the depreciation expense.

(b)

In the statement of profit or loss:

Depreciation charge, like any other business expenses, is debited to profit or loss account thus having a reducing impact on the profits of the firm.

In the Statement of financial position:

Accumulated depreciation is deducted from the cost of a non- current asset at the end of each year to arrive at net book value (NBV).

(c) Ledger accounts:

(i)

| Dr | | Combined non-current asset account | | Cr | |
|--------|-----------------|------------------------------------|--------|------------------|----------------|
| 2017 | | Shs '000' | 2017 | | Shs '000' |
| 2-Jan | Machine B01 (A) | 120,000 | 31-Dec | Balance c/f | 362,000 |
| 2-Jan | Machine S02(A) | 155,000 | | | - |
| 3-Mar | Machine Y2T | <u>87,000</u> | | | - |
| | | <u>362,000</u> | | | <u>362,000</u> |
| 2018 | | | 2018 | | |
| 1-Jan | Balance b/f | 362,000 | | | |
| 30-Nov | Machine B01 (B) | <u>200,000</u> | 31-Dec | Balance c/f | 562,000 |
| | | <u>562,000</u> | | | <u>562,000</u> |
| 2019 | | | 2019 | | |
| 1-Jan | Balance b/f | 562,000 | 31-Dec | Disposal (B01 A) | 120,000 |
| 30-Jun | Machine S02 (B) | <u>230,000</u> | | Disposal S02(A) | 155,000 |
| | | - | | Bal c/d | <u>517,000</u> |
| | | <u>792,000</u> | | | <u>792,000</u> |
| | Bal b/f | 517,000 | | | |

(ii)

| Dr | | Combined accumulated depreciation account | | Cr | |
|--------|-----------------|---|--------|-----------------|----------------|
| | | Shs '000' | | | Shs '000' |
| 2017 | | | 2017 | | |
| 31-Dec | Bal c/f | 51,690 | 31-Dec | Machine B01 (A) | 18,000 |
| | | - | | Machine S02(A) | 23,250 |
| | | - | | Machine Y2T | <u>10,440</u> |
| | | <u>51,690</u> | | | <u>51,690</u> |
| 2018 | | | 2018 | | |
| 31-Dec | Bal c/f | 133,380 | 1-Jan | Balance b/f | 51,690 |
| | | | | Machine B01 (A) | 18,000 |
| | | | | Machine S02(A) | 23,250 |
| | | | | Machine Y2T | 10,440 |
| | | | 30-Nov | Machine B01 (B) | <u>30,000</u> |
| | | <u>133,380</u> | | | <u>133,380</u> |
| 2019 | | | 2019 | | |
| 31-Dec | Disposal | | 1-Jan | Balance b/f | 133,380 |
| | Machine B01 (A) | 36,000 | 2-Jun | Machine S02 (B) | 34,500 |
| | Machine S02(A) | <u>46,500</u> | | Machine Y2T | 10,440 |
| | | | | Machine B01 (B) | 30,000 |
| 31-Dec | Balance c/d | <u>125,820</u> | | | |
| | | <u>208,320</u> | | | <u>208,320</u> |
| | | | | Bal c/f | 125,820 |

(iii)

| Dr | | Disposal of non-current assets account | | Cr | |
|--------|------------------|--|--------|-------------|----------------|
| | | Shs '000' | | | Shs '000' |
| 2019 | | | 2019 | | |
| 31-Dec | Machine B01(A) | 120,000 | 31-Dec | Accum. Depn | 36,000 |
| | Machine S02 (A) | 155,000 | | Accum. Depn | 46,500 |
| | Gain on disposal | 20,500 | | Bank | 98,000 |
| | | | | Bank | <u>115,000</u> |
| | | <u>295,500</u> | | | <u>295,500</u> |

Solution 3

(a) Pondo Ltd: Statement of profit or loss for the year ended 31 December 2019

| | Shs '000' | Shs '000' |
|--------------------------------|-----------------|------------------|
| Sales | | 1,200,000 |
| Less cost of sales: | | |
| Opening inventory | 67,500 | |
| Add: | | |
| Purchases | 650,000 | |
| Carriage inwards | <u>4,000</u> | |
| | 721,500 | |
| Less: Closing inventory | <u>(84,400)</u> | |
| | | <u>(637,100)</u> |
| Gross profit | | 562,900 |
| Discount received | | <u>3,500</u> |
| Gross income | | 566,400 |
| Less: Operating expenses: | | |
| Discounts allowed | 9,000 | |
| Carriages outward | 5,700 | |
| Wages and salaries | 90,000 | |
| Fuel | 45,000 | |
| Utilities (25,000 +2,500) | 27,500 | |
| Insurance | 29,000 | |
| General expenses (48,500+ 500) | 49,000 | |
| Bank charges | 8,000 | |
| Bank loan interest | 24,000 | |
| Debenture interest | 18,500 | |
| Directors remuneration | 60,000 | |
| Increase in prov. for d/ debts | | |
| (90,700,000 x 2.5%) | 2,268 | |

| | | |
|-----------------------------------|--------------|-----------|
| Depreciation: | | |
| Buildings (550,000 x 5%) = | 27,500 | |
| Plant & machinery (350,000 x 15%) | 52,500 | |
| Motor vehicle (125,000 x 20%) | 25,000 | |
| Other tools (50,000 x 10%) | <u>5,000</u> | (477,968) |
| Profit for the year | | 88,432 |

(b) Pondo Ltd: Statement of financial position as at ended 31 December 2019.

| | Cost | Accumulated depreciation | Net Book Value (NBV) |
|---|---------------|--------------------------|----------------------|
| | Shs '000' | Shs '000' | Shs '000' |
| Non-current assets: | | | |
| Land | 600,000 | | 600,000 |
| Buildings | 550,000 | 27,500 | 522,500 |
| Plant and machinery | 350,000 | 52,500 | 297,500 |
| Motor vehicles | 125,000 | 25,000 | 100,000 |
| Other tools | <u>50,000</u> | <u>5,000</u> | <u>45,000</u> |
| | | | 1,565,000 |
| Current assets: | | | |
| Closing inventory | | 84,400 | |
| Trade receivables | 90,700 | | |
| Less Prov. (7,000 +2,268) | (9,268) | 81,432 | |
| Cash and bank | 87,000 | | |
| Add issued shares (cash) | | | |
| (Shares 25,000 @ Shs 3000) | <u>75,000</u> | 162,000 | <u>327,832</u> |
| Total assets | | | <u>1,892,832</u> |
| Equity and Liabilities: | | | |
| Equity: | | | |
| Ordinary share capital of Shs 2,000 | 650,000 | | |
| New shares issued (25,000 shares at Shs 2,000 each) | 50,000 | 700,000 | |
| 6% preference shares | | 300,000 | |
| Share premium | 100,000 | | |
| Add Premium (25,000 shares at Shs 1,000 each) | <u>25,000</u> | 125,000 | |
| General reserves | 50,000 | | |

| | | | |
|--------------------------------|---------------|---------|------------------|
| Add transfers from R/ earnings | <u>10,000</u> | 60,000 | |
| Retained profits | | 1,432 | |
| | | | 1,186,432 |
| Liabilities: | | | |
| 5% debentures | | 370,000 | |
| 12% Bank loan | | 200,000 | |
| Trade payables | | 133,400 | |
| Accrued: | | | |
| Utilities | 2,500 | | |
| General expenses (stationery) | 500 | 3,000 | 706,400 |
| Total Equity and Liabilities: | | | <u>1,892,832</u> |

(c) Pondo Ltd: Statement of changes in equity for the year ended 31 December 2019.

| | Ordinary share capital | Preference share capital | Share premium | General reserves | Retained earnings | Total |
|------------------|------------------------|--------------------------|---------------|------------------|-------------------|-----------|
| | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' |
| Bal. b/d | 650,000 | 300,000 | 100,000 | 50,000 | (34,000) | 1,066,000 |
| Issue of shares | 50,000 | | 25,000 | | | 75,000 |
| Ord. share div. | | | | | (25,000) | (25,000) |
| Pref. share div. | | | | | (18,000) | (18,000) |
| Profit for year | | | | | 88,432 | 88,432 |
| Reserves | | | | 10,000 | (10,000) | - |
| | 700,000 | 300,000 | 125,000 | 60,000 | 1,432 | 1,186,432 |

Solution 4.

(a) Contra entries:

These are transactions involving transfer of cash from one cash account to another. In other words, these are transactions indicating transfer of funds from cash account to bank account and from bank account to cash account. Deposit of cash by an entity to bank will involve debiting the bank column and crediting the cash column in the cashbook with the same amount. Likewise withdrawal of cash from the bank for business operations will involve debiting the cash column and bank column will be credited in the cashbook with same amount of cash withdrawn.

(b)

(i) Mugwa's credit sales:

| Dr | Trade receivable control account | | Cr |
|-------------------------|----------------------------------|-----------------------|----------------|
| | Shs '000' | | Shs '000' |
| Balance b/f | 90,000 | Bad debts written off | 4,500 |
| | | Payments in cash | 56,000 |
| | | Deposits into bank | 35,000 |
| | | Returns inwards | 3,000 |
| | | Discounts allowed | 5,500 |
| Credit sales (bal. fig) | <u>89,000</u> | Bal c/d | <u>75,000</u> |
| | <u>179,000</u> | | <u>179,000</u> |

(ii) Computing the purchases from the figure of sales Shs 89,000,000

Sales – Cost of sales = Gross profit.

From Gross profit margin = $\frac{\text{Gross profit}}{\text{Sales}}$

Therefore: Shs 89,000,000 – COS = 25%

= 89,000,000 x 25% = 22,250,000

89,000,000 – COS = 22,250,000

COS = 89,000,000 – 22,250,000 = 66,750,000

COS = 66,750,000

Therefore, purchases can be computed using COS:

Thus COS = Opening inventory + Purchases – Closing inventory

So, purchases = COS + Closing inventory – Opening inventory

66,750,000 + 35,000,000 – 50,000,000.

Therefore purchases = 66,750,000 + 35,000,000 – 50,000,000
= Shs 51,750,000

(c) Accounting concepts/conventions:

(i) Business entity:

For accounting purposes, a business is a separate entity, distinct not only from its customers and lenders but also from its owners. It has a complete set of financial affairs, records, reports which cannot be mixed with its owners.

- (ii) Money measurement:
All business transactions have to be recorded in a recognised unit, which is, in this case, money. Money is the only known measurement unit that is common to all business transactions and the only practical unit of measuring financial data that are alike and comparable. The units differ from country to country e.g. In Uganda, we use Uganda Shillings.
- (iii) Matching:
In this concept, all expenses are matched with the revenue of that period and should be recognised. If revenue is recognised, then expenses related to earn that revenue should also be recognised.
- (iv) Going concern:
That the financial statements are prepared on assumption that the entity will be in operation for the foreseeable future. It is assumed that directors have no intention of liquidating the business or scaling down its operations or there are no known externalities that may affect the operations of the entity.
- (v) Consistency:
In order to achieve comparability of financial statements of an entity over time, the accounting policies are followed consistently without change unless there is a big reason to do so. For example, a policy of depreciation used should be applied consistently, if there are no varied reasons to change.

Solution 5

(a)

- (i) Relevance;
Information generated by an accounting system should impact the decision-making of user of the information. The concept can involve the content of the information and/ or its timeliness, both of which can impact decision-making. Its predictive value provides predictive power regarding future events.
- (ii) Faithful representation;
Information must represent faithfully the transactions and other events that it purports to represent. It must be accounted for and presented in accordance to substance and economic reality not merely their legal form. It has to be complete, neutral and free of errors.
- (iii) Comparability;
Users of financial information must be able to compare the financial statements of different periods of the same firm and also of different firms over a period to analyse trends in its performance and financials.

For this to work, consistency and disclosure must occur.

- (iv) **Timeliness;**
Timeliness is how quickly information is available to users of accounting information. The less timely (thus resulting in older information), the less useful information is for decision making. Timeliness matters in financial reporting since accounting information because it competes with other information.
- (v) **Understandability;**
The degree to which information is easily understood through classifying, characterizing and presenting information clearly and concisely in way that it can be easily understood by the category of the intended users.

(b) The Institutional Framework for Financial Reporting in Uganda.

- 1 In accordance with the Accountants Act, 2013, the Institute of Certified Public Accountants of Uganda is mandated to operationalise private sector accounting standards in the country.

Since 1998, the country has adopted IFRS to cover a wide range of activities. Without modifications, the Institute oversees that private sectors comply with International Accounting Standards (IAS) in preparation of:

- Statements of financial position.
 - Statements of comprehensive income
 - Statement of changes in equity
 - Statements of cash flow.
- 2 All listed entities, banks, insurance companies, manufacturing and processing companies, educational and health service providers that are publicly accountable entities are required to use IFRS.
Entities that are not required to use IFRS, use IFRS for SMEs which the Institute has adopted.
 - 3 The Institute also regulates the accounting activities in the country through certifying the accounting services providers, professions, training, and effecting the ethical code.
 - 4 The regulatory framework is necessary for reasons below:
 - Ensures that needs of users of financial information are met with at least minimum information.
 - Ensures that all information provided in the economy is relevant, comparable and consistent.
 - Increases users' confidence in financial reporting process.
 - Regulates the behaviors of companies and the directors towards investors.
 - IFRSs were established to create a common accounting language so that businesses can be understood from company to company or country to country.

(c)

| Date Jan. 2020 | Transaction | Analysis | Effect | Double entry to be passed |
|----------------------|---|--|---|--|
| 2 | Capital Shs 20, 000,000 introduced. | Cash received into business | Assets (cash) increase and equity (capital) increase. | Dr: Cash Shs 20,000,000 Cr: Capital Shs 20,000,000 |
| 6 | Paid rent Shs 600,000 cash | Expense incurred. | Cash decreases. | Dr: Rent Shs 600,000 Cr: Cash Shs 600,000 |
| 10 | Paid for purchases Shs 10,000,000 cash. | Short term assets acquired | Cash decreases and assets increase | Dr: Purchases Shs 10,000,000 Cr: Cash Shs 10,000,000. |
| 12 | Loan Shs 5,000,000 received. | Liability introduced And cash/ bank gained | Bank increases, Liabilities increases | Dr: Bank Shs 5,000,000 Cr: Equity bank Shs 5,000,000 |
| 14 | Bought delivery truck Shs 6,000,000 | Non-current asset acquired | Non-current assets increase Cash asset decreases | Dr: Delivery van Shs 6,000,000 Cr: Cash Shs 6,000,000 |
| 15 | Made cash sales Shs 1,200,000 | Cash received into business | Current asset (inventory) decreases Cash increases | Dr: Cash Shs 1,200,000 Cr: Sales Shs 1,200,000 |
| 18 | Deposited Shs 1,000,000 cash into bank | Current asset decreases and increases (Contra) | Cash decreases and Bank increases | Dr: Bank Shs 1,000,000 Cr: Cash Shs 1,000,000 |
| 30 | Paid wages Shs 500,000 | Expense incurred | Cash decreases | Dr: Wages Shs 500,000 Cr: Cash Shs 500,000 |
| 30 | Accrued wages Shs 150,000 recognised | Liability introduced | Liability increases | Dr: Wages Shs 150,000 Cr: Accrued wages Shs 150,000 |

ANSWERS TO TEST PAPER 6

CTA OCTOBER 2021

Solution 1

(a)

Healthy Chicks Ltd: Manufacturing cost statement for the year ended 30 June 2020.

| | Shs '000' | Shs '000' | Shs '000' |
|--|----------------|----------------|-----------------|
| Raw materials consumed | | | |
| Opening stock of raw materials | | 65,600 | |
| Add: Purchase of raw materials | 123,500 | | |
| Add: Transport on raw materials (5,600+8,500) | 14,100 | | |
| Less: Burnt maize grains | (9,100) | | |
| Less: Discount received | <u>(4,500)</u> | <u>124,000</u> | |
| Less: Closing stock | | 34,500 | 155,100 |
| Factory overheads: | | | |
| Depreciation-machinery (160,000 x 2%) | | 13,000 | |
| Depreciation-building (160,000 x 2%)x40% | | 1,280 | |
| Salaries and wages (58,300+4,500) x 0.5 | | 31,400 | |
| Machine maintenance costs | | 21,500 | |
| Utilities (24,500-2,400)x 0.75 | | 16,575 | |
| Insurance (15,000 x0.5) | | 7,500 | |
| Loose tools (19,500-4,000) | | 15,500 | |
| Quality assurance costs | | 10,000 | |
| Burnt maize grains | | <u>9,100</u> | 125,855 |
| | | | 280,955 |
| Add: Opening work in progress | | | 23,400 |
| Less: Closing work in progress | | | <u>(14,590)</u> |
| Cost of feeds manufactured | | | 289,765 |

Healthy Chicks Ltd: Statement of profit or loss for the year ended 30 June 2020.

| | Shs '000' | Shs '000' |
|--|-----------------|---------------------|
| Sales | | 545,500 |
| Cost of sales | | |
| Opening stock | 56,500 | |
| Add: Manufactured goods | 289,765 | |
| Less: Finished goods | <u>(45,670)</u> | <u>(300,595)</u> |
| Gross profit | | 244,905 |
| Administration expenses: | | |
| Office stationery | 16,500 | |
| Salaries and wages $(58,300+4,500) \times 0.25$ | 15,700 | |
| Utilities $(24,500-2,400) \times 0.125$ | 2,762.50 | |
| Insurance $(15,000 \times 0.25)$ | 3,750 | |
| Depreciation-Building $(160,000 \times 2\%) \times 30\%$ | <u>960</u> | <u>(39,672.50)</u> |
| Selling and distribution: | | |
| Delivery costs | 42,010 | |
| Packaging materials $(23,400-2,400)$ | 21,000 | |
| Discount allowed | 8,300 | |
| Salary and wages $(58,300+4,500) \times 0.25$ | 15,700 | |
| Utilities $(24,500-2,400) \times 0.125$ | 2,762.50 | |
| Insurance $(15,000 \times 0.25)$ | 3,750 | |
| Warehousing costs | 23,400 | |
| Depreciation of building | 960 | |
| Depreciation of delivery van | <u>9,375</u> | <u>(127,257.50)</u> |
| Net profit | | 77,975.00 |

Solution 2

(a) Statements required by the Companies Act, 2012:

Profit or loss account

Balance sheet

Elements of each statement:

Profit or loss account:

Interest

Charge of income tax

Depreciation of assets

Income from trade investments

Balance-sheet:

Assets

Liabilities

(b)

(i)

Happy Ltd: Adjusted net profit for the year ended 31 December, 2018

| | Shs '000' | Shs '000' |
|---------------------------------|------------------|------------------|
| Profit before interest and tax | | 96,990 |
| Add: | | |
| Un-recognised closing inventory | 44,250 | |
| Prepaid utilities | <u>3,750</u> | <u>48,000</u> |
| | | 144,990 |
| Less: | | |
| Depreciation: Motor vehicles | 32,283.75 | |
| Depreciation: Building | 6,914 | |
| Interest | 27,144 | |
| Corporation tax | <u>23,594.38</u> | <u>89,936.13</u> |
| Net profit after adjustment | | 55,053.87 |

(ii)

Happy Ltd: Statement of changes in equity for the year ended 31 December, 2018

| | Ordinary Share Capital | Share premium | Preferen ce share capital | General reserve | Revaluati on reserve | Retained earnings | Total |
|--|------------------------------|------------------|---------------------------------|--------------------|----------------------------|----------------------|--------------|
| | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' |
| Balance | 530,300 | 106,060 | 250,500 | 30,500 | 45,000 | 141,500 | 1,103,860 |
| Net profit | | | | | | 55,053.87 | 55,053.87 |
| Dividend -10% preferen ce shares | | | | | | (25,050) | (25,050) |
| Dividend -ordinary shares | | | | | | (13,000) | (13,000) |
| Revaluati on | | | | | 199,400 | | 199,400 |
| Transfer | | | | 56,500 | | (56,500) | |
| | 530,300 | 106,060 | 250,500 | 87,000 | 244,400 | 102,003.87 | 1,320,263.87 |

(iii) .

Happy Ltd: Statement of financial position as at 31 December, 2018

| NCA | Cost | Accumulated Depreciation | Net Book Value |
|---------------------------------|-----------|--------------------------|-------------------|
| | Shs '000' | Shs '000' | Shs '000' |
| Land | 1,000,000 | - | 1,000,000 |
| Buildings | 345,700 | 145,194 | 200,506 |
| Motor vehicles | 258,270 | 102,633.75 | 155,636.25 |
| Current assets | | | |
| Inventory | | 44,250 | |
| Receivables | | 97,800 | |
| Prepaid utilities | | 3,750 | |
| Cash and bank | | <u>103,450</u> | <u>249,250</u> |
| Total assets | | | 1,605,392.25 |
| Equity and Liabilities: | | | |
| Ordinary share capital | | 530,300 | |
| Share premium | | 106,060 | |
| Preference share capital | | 250,500 | |
| Revaluation reserve | | 244,400 | |
| General reserve | | 87,000 | |
| Retained earnings | | <u>102,003.87</u> | 1,320,263.87 |
| Non- current liabilities: | | | |
| Bank loan | | | 150,800 |
| Current liabilities: | | | |
| Trade payable | | 45,540 | |
| Dividends-10% preference shares | | 25,050 | |
| Dividends-Ordinary shares | | 13,000 | |
| Tax payable | | 23,594.38 | |
| Interest payable | | <u>27,144</u> | <u>134,328.38</u> |
| Total equity and liabilities | | | 1,605,392.25 |

Solution 3

(a)

- (i) Substance over form concept:
Transactions and other events must be accounted for and presented in accordance with their substance and economic reality and not merely their legal form.
- (ii) Realization concept:
It requires accountants to recognise income as earned only when the sale has been made and the goods have been actually accepted by the buyer, or when services have been offered and accepted or consumed by the customer or client.
- (iii) Accrual concept:
This concept requires accountants to record all income and expenses earned or incurred by the business even if it has not yet been actually received or paid.
- (iv) Faithful representation:
To be useful, information must not only represent relevant phenomena but must faithfully represent the phenomena it purports to represent. To faithfully represent, information must be complete, neutral and free from error.
- (v) Verifiability:
It assures users that information faithfully represents the economic phenomena it purports to represent. It means that different knowledgeable and independent observers could reach consensus that a particular depiction is a faithful representation.

(b)

(i) Nyangua: Journal entries

| | | Debits | Credits |
|---|-----------------------|-----------|-----------|
| | Details | Shs '000' | Shs '000' |
| 1 | Purchases account | 60,000 | |
| | Motor vehicle account | | 60,000 |
| 2 | Suspense account | 4,800 | |
| | Discount allowed | | 2,400 |
| | Discount received | | 2,400 |
| 3 | Utility account | 220.5 | |
| | Suspense account | | 220.5 |

| | | | |
|---|---------------------------|--------|--------|
| 4 | Parking fees | 6,500 | |
| | Cashbook | | 6,500 |
| | License fees | 50,000 | |
| | Cash book | | 50,000 |
| 5 | Motor vehicle carrier a/c | 2,200 | |
| | Motor vehicle expense a/c | | 2,200 |
| 6 | Cash book | 5,000 | |
| | Profit or loss | 13,000 | |
| | Purchases account | | 18,000 |
| 7 | Accounts receivable | 1,200 | |
| | Sales account | | 1,200 |

(ii)

Nyangua: Suspense account

| | Shs '000' | | Shs '000' |
|-------------------|----------------|-----------------|----------------|
| Bal b/d | 215,700 | | |
| Discount allowed | 2,400 | Utility account | 220,500 |
| Discount received | 2,400 | | |
| | <u>220,500</u> | | <u>220,500</u> |

(iii) Nyangua:

| Statement of corrected net profit for year ended 31 December 2019 | | |
|---|---------------|--------------------|
| | Shs '000' | Shs '000' |
| Reported net profit | | 514,156.250 |
| Add: | | |
| Discount allowed | 2,400 | |
| Discount received | 2,400 | |
| Motor vehicle expense | 2,200 | |
| Purchases | 18,000 | |
| Sales | <u>1,200</u> | <u>26,200</u> |
| | | 540,356.25 |
| Less: | | |
| Purchases | 60,000 | |
| Utility | 220.5 | |
| Parking fees | 6,500 | |
| License fees | 50,000 | |
| Loss on damaged vehicle | <u>13,000</u> | <u>(129,720.5)</u> |
| Corrected net profit | | <u>410,635.75</u> |

Solution 4

- (a) The objectives of the International Accounting Standards Board (IASB):

To develop, in public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements.

To promote the use and rigorous application of standards.

To take into account the special needs of small and medium sized entities and emerging economies.

To bring about convergence of national standards and international accounting standards and international financial reporting standards to high quality solutions.

Benefits of adopting IFRS:

It allows for greater comparability –businesses using similar standards to prepare financial statements can more accurately compare with each other.

It makes the company more attractive to foreign investors.

Allows easy expansion to foreign countries.

It creates more flexibility—it is based on principles rather than rules.

Enables better access to foreign capital markets and investments.

- (b)

| | Shs |
|--|-----------|
| Depreciation for the year 2016: 28,000,000 (w1) x 20% | 5,600,000 |
| Depreciation for the year 2017: (28,000,000-5,600,000) x 20% | 4,480,000 |

Computing gain on disposal

| Shs | |
|--------------------------|-------------------|
| Gain on disposal | |
| Cost of new equipment | 28,000,000 |
| Accumulated depreciation | (10,080,000) |
| NBV at Disposal | 17,920,000 |
| Proceeds from disposal | <u>20,000,000</u> |

| | |
|------------------|-----------|
| Gain on disposal | 2,080,000 |
|------------------|-----------|

Working 1-Cost of the new equipment

| | Shs |
|--------------------------|-------------------|
| value of the old vehicle | 10,000,000 |
| Top up | 15,000,000 |
| Set up cost | 3,000,000 |
| | <u>28,000,000</u> |

(c)

(i)

| | Shs |
|---|------------------|
| Value of tools at the start | 5,400,000 |
| Add: cost of tools acquired during the year | 8,700,000 |
| | 14,100,000 |
| Less: value at close of the year | (12,000,000) |
| Depreciation charge for the year 2017 | <u>2,100,000</u> |

- (ii) The rationale for using revaluation method of depreciation is that as opposed to expensive non-current assets, tools are low cost items and numerous that it is not worth opening accounts for each them.

(d)

Step 1: Reinstate John as a debtor in the books for the year 2018:

| | | |
|---|---------------|---------------|
| Step 1: Re- recognise John as a debtor | | |
| Dr: John's Account | Shs 4,600,000 | |
| Cr: Bad debts recovered account | | Shs 4,600,000 |
| Step 2: Recognise repayment from John | | |
| Dr: Bank account | Shs 4,600,000 | |
| Cr: John's account | | Shs 4,600,000 |
| Step 3: Close off the bad debts recovered account to the P& L | | |
| Dr: bad debts recovered account | Shs 4,600,000 | |
| Cr: Profit or loss account | | Shs 4,600,000 |

Solution 5

(a)

Jojo Traders: Ledger accounts for the month of April 2021

Motor vehicle a/c

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|-----------|---------|---------------|------|---------|---------------|
| 1/10/2018 | Capital | 24,000 | | | |
| | | <u>24,000</u> | | Bal c/d | 24,000 |
| | | | | | <u>24,000</u> |

Capital a/c

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|---------|---------|---------------|-----------|-----------|---------------|
| | | | 1/10/2018 | Cash | 20,000 |
| | | | | Bank | 50,000 |
| | | | | M/vehicle | 24,000 |
| Bal c/d | | 99,000 | | | |
| | | <u>94,000</u> | | | <u>94,000</u> |

Cashbook

| Date | Details | Cash | Bank | Date | Details | Cash | Bank |
|------------|-----------|---------------|---------------|------------|--------------------|---------------|---------------|
| | | Shs '000' | Shs '000' | | | Shs '000' | Shs '000' |
| 1/10/2018 | Capital | 20,000 | 50,000 | 4/10/2018 | Purchases | 4,000 | |
| 18/10/2018 | Cash | 7,500 | | 6/10/2018 | Office computers | 10,500 | |
| 20/10/2018 | Okwalinga | | 1,250 | 8/10/2018 | Rent | | 2,750 |
| | Okoth | | 1,550 | 11/10/2018 | Salaries and wages | 6,000 | |
| | | | | 19/10/2018 | Kaigo | | 2,000 |
| | | | | | | | |
| | | | | | Fuel | 1,650 | |
| | | | | | Electricity | 150 | |
| | | | | | Water | 180 | |
| | | | | | Bal c/d | 5,020 | 48,050 |
| | | <u>27,500</u> | <u>52,800</u> | | | <u>27,500</u> | <u>52,800</u> |

| Creditors a/c | | | | | |
|---------------|---------|--------------|-----------|---------|--------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 13/10/2018 | Kaigo | 2,500 | 7/10/2018 | | |
| | Meddi | 2,000 | | Kaigo | 4,500 |
| 19/10/2018 | Kaigo | 2,000 | | Meddi | 4,200 |
| | Bal c/d | 2,200 | | | |
| | | <u>8,700</u> | | | <u>8,700</u> |

| Purchases a/c | | | | | |
|---------------|---------|---------------|------|---------|---------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 4/10/2018 | Cash | 4,000 | | | |
| 7/10/2018 | Meddi | 4,200 | | | |
| | Kaigo | 4,500 | | | |
| | | | | Bal c/d | 12,700 |
| | | <u>12,700</u> | | | <u>12,700</u> |

| Office computers a/c | | | | | |
|----------------------|---------|---------------|------|---------|---------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 6/10/2018 | Cash | 10,500 | | | |
| | | | | Bal c/d | 10,500 |
| | | <u>10,500</u> | | | <u>10,500</u> |

| Expenses a/c | | | | | |
|--------------|--------------|---------------|------|---------|---------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 8/10/2018 | Rent | 2,750 | | | |
| | Salaries and | | | | |
| 11/10/2018 | wages | 6,000 | | Bal c/d | 10,730 |
| 28/10/2018 | Fuel | 1,650 | | | |
| | Electricity | 150 | | | |
| | Water | 180 | | | |
| | | <u>10,730</u> | | | <u>10,730</u> |

| Sales a/c | | | | | |
|-----------|---------|---------------|------------|-----------|---------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| | | | 9/10/2018 | Okwalinga | 6,200 |
| | | | | Okoth | 3,500 |
| | | | 18/10/2018 | Cash | 7,500 |
| | | | 23/10/2018 | | |
| Balc/d | | 17,200 | | | |
| | | <u>17,200</u> | | | <u>17,200</u> |

| Debtors a/c | | | | | |
|-------------|-----------|--------------|------------|-----------|--------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 9/10/2018 | Okwalinga | 6,200 | 17/10/2018 | Okwalinga | 1,000 |
| | Okoth | 3,500 | | Okoth | 1,200 |
| 23/10/2018 | | | 20/10/2018 | Okwalinga | 1,250 |
| | | | | Okoth | 1,550 |
| | | | | Bal c/d | 4,700 |
| | | <u>9,700</u> | | | <u>9,700</u> |

| Return inwards a/c | | | | | |
|--------------------|-----------|--------------|------|---------|--------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 17/10/2018 | Okwalinga | 1,000 | | | |
| | Okoth | 1,200 | | Bal c/d | 2,200 |
| | | <u>2,200</u> | | | <u>2,200</u> |

| Return outwards a/c | | | | | |
|---------------------|---------|--------------|------------|---------|--------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| | | | 13/10/2018 | Kaigo | 2,500 |
| | Bal c/d | 4,500 | | Meddi | 2,000 |
| | | <u>4,500</u> | | | <u>4,500</u> |

(b)

Jojo Traders: Trial balance as at 30 April 2021

| Account title | Debits | Credits |
|------------------|----------------|----------------|
| | Shs '000' | Shs '000' |
| Motor vehicle | 24,000 | |
| Creditors | | 2,200 |
| Expenses | 10,730 | |
| Return inwards | 2,200 | |
| Cash | 5,020 | |
| Bank | 48,050 | |
| Capital | | 94,000 |
| Purchases | 12,700 | |
| Sales | | 17,200 |
| Return outwards | | 4,500 |
| Office computers | 10,500 | |
| Debtors | 4,700 | |
| | <u>117,900</u> | <u>117,900</u> |

ANSWERS TO TEST PAPER 7

CTA DECEMBER 2021

Solution 1

- (a) Role of accountants in organisations:

As creators of value, accountants take leadership roles in the design and implementation of strategies, policies, plans, structures and governance measures that set the course for delivering sustainable value creation.

As enablers of value, accountants inform and guide managerial and operational decision making and implementation of strategy for achieving sustainable value creation and the planning, monitoring and improving of supporting processes.

As preservers of value, accountants ensure the protection of a suitable value creation strategy against strategic, operational and financial risks and ensuring compliance with the regulations, standards and good practices.

As reporters of value, accountants enable the transparent communication of the delivery of sustainable value to stake holders.

- (b) Distinction between direct and indirect expenses:

Direct costs are costs that can be traced to an item being manufactured. In a mineral water bottling company, for example, the cost of a bottle and water per liter can be direct costs.

Indirect manufacturing costs are all those costs which occur in the factory or other places where production is being done, but which cannot easily be traced to the items being manufactured. In a mineral water bottling company, for example, costs of repair of bottling machines, cost of lubricants, etc. are indirect expenses.

- (c) BPL: Statement of manufacturing cost statement for the year ended 31 December 2020.

| | Shs '000' | Shs '000' | Shs '000' |
|--|-----------|-----------|-----------|
| Opening stock of raw materials | | 27,000 | |
| Add: Purchases of raw materials | 244,840 | | |
| Add: Carriage on raw materials | 14,000 | | |
| Less: Purchases returns | (3,300) | 255,540 | |
| Raw materials available for consumption | | 282,540 | |
| Less: Closing stock of raw materials | | 20,450 | 262,090 |
| Add: Direct expenses | | | 11,400 |
| Prime cost | | | 273,490 |
| Factory overheads: | | | |
| Depreciation-Factory building (250,000 x 5%) | | 12,500 | |

| | | | |
|---|--|----------------|---------------|
| Depreciation: Factory machinery (184,000 x10%) | | 18,400 | |
| Depreciation: Factory generator (8,800 x 25%) | | 2,200 | |
| Insurance (w1) | | 3,300 | |
| Salary and wages (w2) | | 22,080 | |
| Lighting and heating (24,500 x 0.8) | | 19,600 | |
| Repairs to plant and machinery | | 4,140 | |
| Fuel for generator | | 4,400 | |
| Other factory expenses | | <u>2,400</u> | <u>89,020</u> |
| Production cost | | | 362,510 |
| Add: Opening work in progress | | 4,570 | |
| Less: Closing work in progress | | <u>(3,210)</u> | <u>1,360</u> |
| Cost of goods manufactured | | | 363,870 |

| Workings | | | |
|-------------------------|---------------|---------------------------|---------------|
| Insurance expense (w1) | | | |
| Details | Shs '000' | Details | Shs '000' |
| Balance b/f | 2,800 | | |
| Cashbook | 7,600 | Factory | 3,300 |
| | | Office and administration | 1,980 |
| | | Selling and distribution | 1,320 |
| | | Balance c/f | 3,800 |
| | <u>10,400</u> | | <u>10,400</u> |
| | | | |
| Salaries and wages (w2) | | | |
| Details | Shs '000' | Details | Shs '000' |
| | | Balance b/f | 3,200 |
| Cashbook | 40,000 | Factory | 22,080 |
| | | Office and administration | 11,040 |
| | | Selling and distribution | 3,680 |
| | <u>40,000</u> | | <u>40,000</u> |

Solution 2

(a) Journal entries to record transactions in additional notes:

| Note | Account title | Dr | Cr |
|------|--------------------------------------|-----------|-----------|
| | | Shs '000' | Shs '000' |
| 1 | Inventory | 47,000 | |
| | Trading account | | 47,000 |
| 2 | Salary advance | 4,000 | |
| | Salaries and wages | | 4,000 |
| | Utility | 2,300 | |
| | Accrued utility | | 2,300 |
| 3 | Cash and bank | 57,500 | |
| | Share capital | | 50,000 |
| | Share premium | | 7,500 |
| 4 | Retained earnings | 5,000 | |
| | General reserve | | 5,000 |
| 5 | Bad debts | 5,600 | |
| | Account receivables | | 5,600 |
| | Profit or loss | 1,340 | |
| | Increase in provision | | 1,340 |
| 6 | Depreciation: Motor vehicles | 29,440 | |
| | Accum. Depreciation | | 29,440 |
| | Depreciation: Furniture and fittings | 920 | |
| | Accum. depreciation | | 920 |

(b)

(i) Bravo Company Limited: Statement of profit or loss for the year ended 31 December 2020:

| | Shs '000' | Shs '000' | Shs '000' |
|-------------------------------------|-----------|-----------|----------------|
| Sales | | | 557,550 |
| Cost of sales | | | |
| Opening inventory | | 40,430 | |
| Add: Purchases | | 230,000 | |
| Less: Closing inventory | | (47,000) | |
| Cost of sales | | | <u>223,430</u> |
| Gross profit | | | 334,120 |
| Add: Discount received | | | <u>4,300</u> |
| Total income | | | 338,420 |
| Less: Operating expenses | | | |
| Depreciation-motor vehicles | | 29,440 | |
| Depreciation-furniture and fittings | | 920 | |

| | | | |
|--------------------------------------|----------------|----------------|------------------|
| Discount allowed | | 3,100 | |
| Increase in prov. for doubtful debts | | 1,340 | |
| Rent | | 24,400 | |
| Utilities | 26,500+2,300) | 28,800 | |
| Salaries and wages | (38,400-4,000) | 34,400 | |
| Fuel, repairs and maintenance | | 76,870 | |
| Bad debts | (7,800+5,600) | 13,400 | |
| General expenses | | <u>123,000</u> | <u>(335,670)</u> |
| Profit for year | | | 2,750 |

(ii) Bravo Company Limited: Statement of changes in equity as at 31 December 2020:

| | Share capital | Share premium | Reserve | Retained earnings | Total |
|---------------------|---------------|---------------|-----------|-------------------|-----------|
| | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' |
| Bal. b/d | 500,000 | | 12,370 | (4,500) | 507,870 |
| Shares | 50,000 | 7,500 | | | 57,500 |
| Transfers | | | 5000 | (5,000) | - |
| Profit for the year | | | | 2,750 | 2,750 |
| Bal. c/d | 550,000 | 7,500 | 17,370 | (6,750) | 568,120 |

(iii) Bravo Company Limited: Statement of financial position as at 31 December 2020:

| | Shs '000' | Shs '000' | Shs '000' |
|-------------------------|----------------------|----------------|----------------|
| Non-current assets | Cost | Accum. Deprn | NBV |
| Land | 254,740 | | 254,740 |
| Motor vehicles | 184,000 | 66,240 | 117,760 |
| Furniture and fittings | 18,400 | 1,840 | 16,560 |
| Current assets: | | | |
| Inventory | | 47,000 | |
| Receivables | (56,000-5,600-5,040) | 45,360 | |
| Salary advance | | 4,000 | |
| Cash and bank | (58,500+57,500) | <u>116,000</u> | <u>212,360</u> |
| Total assets | | | <u>601,420</u> |
| Equity and liabilities: | | | |
| Share capital | | 550,000 | |
| Share premium | | 7,500 | |
| Reserves | | 17,370 | |
| Retained earnings | | (6,750) | 568,120 |
| Liabilities: | | | |
| Accrued utilities | | 2,300 | |
| Accounts payable | | <u>31,000</u> | <u>33,300</u> |

| | | | |
|------------------------------|--|--|----------------|
| Total equity and liabilities | | | <u>601,420</u> |
|------------------------------|--|--|----------------|

Solution 3

(a)

- (i) Debit note is a document stating that a debit entry has been made in an account and stating the amount of the entry and the reason for making it. A debit note is sent by a customer to a supplier to inform the supplier that the amount recorded in the customer's accounts as owing to the supplier has been reduced of an allowance, return of goods or cancellation.
- (ii) Credit note is a document stating that a credit entry has been made in an account and stating the amount of the entry and the reason for making it. A credit note is sent to a customer by a supplier to inform the customer that a previously invoiced charge has been canceled wholly or partly.
- (iii) Remittance advice note is a note sent by a buyer to the seller with the payment or evidence of payment and shows the details of the items against which payment is made.

(b)

- (i) Merits of preparing a cashbook:

Daily cash receipts and cash payments are easily ascertained.

Cash in hand at any time can easily be ascertained through cashbook balance.

Any mistake in the cashbook can be easily detected at the time of verification of cash.

Aids easy verification of cash by matching the cash balance with actual cash in hand.

(ii) Quality Timber Dealers Limited: Three-column cashbook for the month of April 2021

| Date | Details | Disc. All. | Cash | Bank | Date | Details | Disc. Rec. | Cash | Bank |
|------|-------------------------|------------|-----------|-----------|------|-------------------------|------------|-----------|-----------|
| | | Shs '000' | Shs '000' | Shs '000' | | | Shs '000' | Shs '000' | Shs '000' |
| 1 | Capital | | 2,700 | 50,300 | 1 | Wood planer machine | | | 7,000 |
| 3 | Bank (C) | | 5,000 | | | Wood cutter machine | | | 6,000 |
| 6 | Sales | | | 18,000 | 2 | Poles | | 2,000 | |
| 7 | Cash deposit | | 4,000 | | | Transport and loading | | 200 | |
| 8 | Cash sales | | 3,000 | | 3 | Cash (C) | | | 5,000 |
| | Cash (C) | | | 5,500 | 4 | Timber | | | 31,000 |
| 17 | Professional Masons Ltd | 40 | 1,960 | | | Loading and off loading | | 2,000 | |
| 22 | Ssonko | 96 | 2,304 | | 8 | Bank (C) | | 5,500 | |
| | Mukasa | 225 | 4,275 | | 21 | Transport and loading | | 2,000 | |
| | | | | | 23 | Mbaawo Masters Ltd | 1,000 | 5,000 | 14,000 |
| | | | | | 24 | Purchases | | 2,300 | 2,700 |
| | | | | | | Transport and loading | | 600 | |
| | | | | | 28 | Electricity | | 800 | |
| | | | | | | Rent | | 700 | |
| | | | | | | Machine repairs | | 400 | |
| | | | | | | Bal. c/f | | 7,239 | 8,100 |
| | | 361 | 23,239 | 73,800 | | | 1,000 | 26,239 | 73,800 |

Solution 4

(a)

(i) Journal entries to correct the errors:

| | Account title | Dr | Cr |
|---|---------------------------------------|-----------|-----------|
| | | Shs | Shs |
| 1 | Motor vehicle repairs | 400,000 | |
| | Motor vehicle | | 400,000 |
| 2 | Sales | 350,000 | |
| | Suspense | | 350,000 |
| | Purchases | 670,000 | |
| | Suspense | | 670,000 |
| 3 | Debtors account | 1,200,000 | |
| | Suspense | | 1,200,000 |
| 4 | Suspense | 720,000 | |
| | Cashbook | | 720,000 |
| 5 | Suspense | 4,900,000 | |
| | Other income (Insurance compensation) | | 4,900,000 |

(ii)

| Suspense account | | | |
|------------------------|------------------|---------------------|------------------|
| Dr | | | Cr |
| Details | Shs | Details | Shs |
| | | Balance per TB | 3,400,000 |
| Electricity | 720,000 | Sales overcast | 350,000 |
| Insurance compensation | 4,900,000 | Purchases undercast | 670,000 |
| | | Sales invoices | 1,200,000 |
| | <u>5,620,000</u> | | <u>5,620,000</u> |

(b)

(i) Purpose of preparing control accounts:

To aid the process of possible identification of errors committed while making postings to the relevant control accounts or ledger accounts.

To provide an internal check (control) where there is separation of the duties between preparing receivables and payables ledger control accounts and relevant receivables and payables ledger accounts.

To provide a check on the accuracy of the entries made in the debtors and creditors ledger accounts.

To aid in preparing financial statements as they provide quick balances for inclusion in the trial balance.

(ii) Extract of receivables and payables control accounts

| Dr Receivables control account | | Cr | |
|--------------------------------|---------------|------------------|---------------|
| Description | Shs '000' | Description | Shs '000' |
| Balance b/f | 3,402 | Balance b/f | 230 |
| Dishonoured cheques | 1,340 | Bank receipts | 10,500 |
| Interest earned | 340 | Cash receipts | 3,800 |
| Credit sales | 40,200 | Bad debts | 1,740 |
| | | Return inwards | 120 |
| | | Discount allowed | 316 |
| | | Balance c/f | 28,576 |
| | <u>45,282</u> | | <u>45,282</u> |

| Dr Payables control account | | Cr | |
|-----------------------------|---------------|---|---------------|
| Description | Shs '000' | Description | Shs '000' |
| | | Balance b/f | 7,500 |
| Bank payments | 8,400 | Interest on overdue accounts of suppliers | 170 |
| Cash | 4,300 | Credit purchases | 28,700 |
| Returns outwards | 490 | | |
| Discount received | 417 | | |
| Balance c/f | 22,763 | | |
| | <u>36,370</u> | | <u>36,370</u> |

(iii) Possible causes of a credit balance of on a receivables ledger account:

Possibility of an overpayment by customers.

Advance payments of debts for which invoices have not yet been sent.

An error committed in the amount on the customers' invoices.

Solution 5

- (a) Explanation of depreciable amount:
This is the historical cost or other amount substituted for historical cost in the financial statements less the estimated residual value.
- (b) Factors to consider when estimating the useful life of an asset:
Expected usage/consumption of the asset;
Expected physical wear and tear;
Obsolescence;
Legal or other limits on the use of the asset.

(c)

(i)

Yaffe Construction Services Limited: Combined truck and equipment account

| Dr | | | Cr | | |
|-----------|----------------------------|----------------|----------|-------------|----------------|
| Date | Description | Shs '000' | Date | Description | Shs '000' |
| 1/1/2018 | Bank: Concrete mixer truck | <u>150,000</u> | 31/12/18 | Balance c/d | <u>150,000</u> |
| 1/1/2019 | Balance b/f | 150,000 | | | |
| 1/7/2019 | Bank: Hoist lift | <u>10,000</u> | 31/12/19 | Balance c/d | <u>160,000</u> |
| | | 160,000 | | | 160,000 |
| 1/1/2020 | Balance b/d | 160,000 | 30/06/20 | Disposal | 150,000 |
| 30/6/2020 | Bank: Truck mounted crane | 102,500 | 31/12/20 | Balance c/f | 112,500 |
| | | <u>262,500</u> | | | <u>262,500</u> |

(ii)

Accumulated depreciation account

| Dr | | | Cr | | |
|------------|-------------|---------------|------------|------------------------------|---------------|
| Date | Description | Shs '000' | Date | Description | Shs '000' |
| 31/12/2018 | Balance c/d | <u>30,000</u> | 31/12/2018 | Depreciation: Concrete mixer | <u>30,000</u> |
| | | | 1/1/2019 | Balance b/f | 30,000 |
| | | | | Depreciation: Concrete mixer | |
| 31/12/2019 | Balance c/d | 55,000 | 31/12/2019 | | 24,000 |
| | | | | Depreciation: Hoist lift | |
| | | | 31/12/2019 | | 1,000 |
| | | <u>55,000</u> | | | <u>55,000</u> |

| | | | | | |
|------------|-----------------------------|---------------|------------|--|---------------|
| 30/06/2020 | Disposal: Concrete mixer | 63,600 | 1/1/2020 | Balance b/d | 55,000 |
| | | | 30/06/2020 | Depreciation: Concrete mixer | 9,600 |
| | | | 31/12/2020 | Depreciation: Hoist lift | 1,800 |
| | | | | Depreciation: Truck mounted crane | 10,250 |
| 31/12/20 | Balance c/f | 13,050 | | | |
| | | <u>76,650</u> | | | <u>76,650</u> |

(iii)

Disposal of assets account

| Dr | | | Cr | | |
|----------|-------------------|----------------|----------|-----------------------------|----------------|
| Date | Description | Shs '000' | Date | Description | Shs '000' |
| 30/06/20 | Concrete mixer | 150,000 | 30/06/20 | Accumulated depreciation | 63,600 |
| | Disposal expenses | 4,000 | | Bank | 140,000 |
| | Gain on disposal | 49,600 | | | |
| | | <u>203,600</u> | | | <u>203,600</u> |

(iv) Accounting for revaluation of land

Determination of the revalued amount

| | Shs '000' | Shs '000' |
|--------------------------|--------------|----------------|
| Revalued amount | | 250,000 |
| Historical cost of land | 126,000 | |
| Surveying and land title | <u>7,000</u> | <u>133,000</u> |
| Revaluation surplus | | 117,000 |

Land account

| Dr | | | Cr | | |
|------------|------------------|----------------|------------|-------------|----------------|
| Date | Description | Shs '000' | Date | Description | Shs '000' |
| 31/10/2019 | Bank | <u>133,000</u> | 31/12/2019 | Balance c/d | <u>133,000</u> |
| 1/1/2020 | Balance b/f | 133,000 | | | |
| 31/12/2020 | Revaluation gain | 117,000 | 31/12/2020 | Balance c/d | 250,000 |
| | | <u>250,000</u> | | | <u>250,000</u> |

Revaluation account

| Dr | | | Cr | | |
|------------|-------------|-----------|------------|-------------|-----------|
| Date | Description | Shs '000' | Date | Description | Shs '000' |
| 31/12/2020 | Balance c/f | 117,000 | 31/12/2020 | Land | 117,000 |

Solution 1

(a)

(i) Timeliness:

Financial information should be provided on time to be able to influence the decision of users. This means that users should have information within a reasonable time scale to influence their decisions.

In order to achieve timeliness, an accountant should:

- ✓ Adopt interim reporting. This reduces on the accountant's work to be done at the year-end. Thus, users are able to access financial reports on time.
- ✓ Use computerised accounting systems. Financial statements are easily extracted when systems are computerised.

(ii) Understandability:

Financial information should be presented clearly, precisely and concisely. However, financial information should not be left out on the basis that it will not be understood by users.

Understandability can be achieved by:

- ✓ Aggregating related information so that financial statements appear summarised.
- ✓ Use of explanatory notes which are properly linked with the other sets of financial statements.

(iii) Comparability:

Financial information is useful if it is likened with similar information. Financial statements that are comparable, with consistent accounting standards and policies applied throughout each accounting period, enable users to draw insightful conclusions about the trends and performance of the company over time. In addition, comparability also refers to the ability to easily compare a company's financial statements with those of other companies.

Comparability can be achieved by:

- ✓ Use, by an entity, of the same accounting policies from year to year. An entity should only change if the change leads to better presentation of events.
- ✓ Use of similar formats of presentation for prior financial statements.
- ✓ Showing comparative information.

(b)

(i) Abigail Enterprises: Ledger accounts for the month of January 2020:

Land account

| Dr | | | Cr | | |
|------|---------|---------------|------|----------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 1 | Bal b/f | 41,350 | 8 | Disposal | 5,000 |
| | | | | Bal c/d | 36,350 |
| | | <u>41,350</u> | | | <u>41,350</u> |

Motor vehicle account

| Dr | | | Cr | | |
|------|---------|---------------|------|---------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 1 | Bal b/f | 23,450 | | Bal c/d | 47,450 |
| 14 | Capital | 24,000 | | | |
| | | <u>47,450</u> | | | <u>47,450</u> |

Trade receivables account

| Dr | | | Cr | | |
|------|----------------|--------------|------|--------------------|--------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 1 | Bal. b/f | 8,350 | 9 | Discount (Kasegwa) | 30 |
| 5 | Sales (Kimani) | 300 | 9 | Cash (Kasegwa) | 1,970 |
| 16 | Sales (Kinene) | 400 | 16 | Cash (Kinene) | 1,850 |
| | | | 20 | Cash (Kimani) | 4,450 |
| | | | 20 | Discount (Kimani) | 50 |
| | | | | Bal c/d | 700 |
| | | <u>9,050</u> | | | <u>9,050</u> |

Cash at hand

| Dr | | | Cr | | |
|------|------------------------|---------------|------|-----------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 1 | Bal b/f | 16,000 | 3 | Purchases | 600 |
| 9 | Receivables: (Kasegwa) | 1,970 | 23 | Utilities | 100 |
| 16 | Receivables: (Kinene) | 1,850 | 23 | Drawings | 500 |
| 20 | Receivables: (Kimani) | 4,450 | 30 | Rent | 1,500 |
| | | | | Bal c/d | 21,570 |
| | | <u>24,270</u> | | | <u>24,270</u> |

Prepaid rent

| Dr | | | Cr | | |
|------|---------|--------------|------|---------|--------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 1 | Bal b/f | 1,000 | | Bal c/d | 1,000 |
| | | <u>1,000</u> | | | <u>1,000</u> |

Discount allowed

| Dr | | | Cr | | |
|------|-----------------------------|-----------|------|---------|-----------|
| Date | | Shs '000' | Date | | Shs '000' |
| 9 | T/receivables: (Kasegwa) | 30 | | Bal c/d | 80 |
| 20 | T/receivable (Kimani) | 50 | | | |
| | | <u>80</u> | | | <u>80</u> |

Returns out wards

| Dr | | | Cr | | |
|------|---------|------------|------|---------|------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | Bal c/d | 120 | 11 | Kisekka | 120 |
| | | <u>120</u> | | | <u>120</u> |

Bank account

| Dr | | | Cr | | |
|------|-----------------|---------------|------|----------------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 1 | Bal b/f | 14,850 | 22 | Purchases | 1,350 |
| 8 | Disposal (Land) | 15,000 | 28 | Loan | 654 |
| | | | 17 | Prepaid salary | 300 |
| | | | | Bal c/d | 27,546 |
| | | <u>29,850</u> | | | <u>29,850</u> |

Gain on disposal account

| Dr | | | Cr | | |
|------|-------------------------------|---------------|------|-----------------------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | Land | 5,000 | 8 | Bank | 15,000 |
| | Bal c/d (gain on disposal) | 15,000 | | Honest Dealers Ltd | 5,000 |
| | | <u>20,000</u> | | | <u>20,000</u> |

Honest Dealers Ltd

| Dr | | | Cr | | |
|------|------|--------------|------|---------|--------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 8 | Land | 5,000 | | Bal c/d | 5,000 |
| | | <u>5,000</u> | | | <u>5,000</u> |

Utilities account

| Dr | | | Cr | | |
|------|---------|------------|------|---------|------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 23 | Cash | 100 | | Bal b/d | 450 |
| | Bal c/d | 350 | | | |
| | | <u>450</u> | | | <u>450</u> |

Drawings account

| Dr | | | Cr | | |
|------|------|------------|------|---------|------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 23 | Cash | 500 | | Bal c/d | 500 |
| | | <u>500</u> | | | <u>500</u> |

Capital account

| Dr | | | Cr | | |
|------|---------|---------------|------|-----------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | Bal c/d | 68,720 | 1 | Bal b/f | 44,720 |
| | | <u>68,720</u> | 14 | M/vehicle | 24,000 |
| | | | | | <u>68,720</u> |

Retained earnings

| Dr | | | Cr | | |
|------|---------|---------------|------|---------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | Bal c/d | 12,500 | 1 | Bal b/f | 12,500 |
| | | <u>12,500</u> | | | <u>12,500</u> |

Bank loan

| Dr | | | Cr | | |
|------|---------|---------------|------|---------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 28 | Bank | 654 | 1 | Bal b/f | 35,400 |
| | Bal c/d | 34,746 | | | |
| | | <u>35,400</u> | | | <u>35,400</u> |

Trade payables

| Dr | | | Cr | | |
|------|------------------|---------------|------|---------------------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 11 | Returns (Kiseka) | 120 | | Bal b/f | 11,930 |
| | Bal c/d | 12,210 | | Purchases (Kisekka) | 400 |
| | | <u>12,330</u> | 3 | | <u>12,330</u> |

Purchases account

| Dr | | | Cr | | |
|------|----------------|--------------|------|---------|--------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 3 | Cash | 600 | | Bal c/d | 2,350 |
| | Trade payables | | | | |
| 3 | (Kisekka) | 400 | | | |
| 22 | Bank | 1,350 | | | |
| | | <u>2,350</u> | | | <u>2,350</u> |

Sales account

| Dr | | | Cr | | |
|------|---------|------------|------|-------------------------|------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | | | 5 | T/ receivables (Kimani) | 300 |
| | | | 16 | T/ receivables (Kinene) | 400 |
| | Bal c/d | 700 | | | |
| | | <u>700</u> | | | <u>700</u> |

Prepaid salary account

| Dr | | | Cr | | |
|------|------|------------|------|---------|------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 17 | Bank | 300 | | Bal c/d | 300 |
| | | <u>300</u> | | | <u>300</u> |

Rent account

| Dr | | | Cr | | |
|------|------|--------------|------|---------|--------------|
| Date | | Shs '000' | Date | | Shs '000' |
| 30 | Cash | 1,500 | | Bal c/d | 1,500 |
| | | <u>1,500</u> | | | <u>1,500</u> |

(ii) Abigail Enterprises: Trial balance as at 31 January 2020

| Details | Debits | Credits |
|-------------------|-----------|-----------|
| | Shs '000' | Shs '000' |
| Land | 36,350 | |
| Motor vehicles | 47,450 | |
| Trade Receivables | 700 | |
| Cash at hand | 21,570 | |
| Rent outstanding | | 500 |
| Discount allowed | 80 | |
| Returns outwards | | 120 |
| Bank | 27,546 | |
| Gain on disposal | | 15,000 |
| Honest Dealers | 5,000 | |

| | | |
|-------------------|---------|---------|
| Utilities | | 350 |
| Drawings | 500 | |
| Capital | | 68,720 |
| Retained earnings | | 12,500 |
| Bank loan | | 34,746 |
| Trade payables | | 12,210 |
| Purchases | 2,350 | |
| Sales | | 700 |
| Prepaid salary | 300 | |
| Prepaid rent | 1,000 | |
| Rent | 1,500 | |
| Total | 144,846 | 144,846 |

Solution 2

(a)

(i) Direct raw materials:

Direct materials represent those material costs that can be specifically and exclusively identified with a particular product. In other words, direct materials become part of the physical product.

For example, wood used in the manufacture of different types of furniture can be directly identified with each specific type of furniture such as chairs, tables, etc.

(ii) Direct labour:

Direct labour costs are those labour costs that can be specifically and exclusively identified with a particular product. The direct labour cost in producing a product includes the cost of converting the raw materials into a product, such as the costs of the machine operators engaged in the production process in the manufacture of televisions, for example.

The direct labour cost used to provide a service includes the labour costs in providing a service that can be specifically identified with an individual client or with a specific instance of service. The direct labour costs for a departmental store are the labour costs of the staff that can be attributed specifically to a department

(iii) Direct expenses:

These are expenses which can be identified with and allocated to cost centres or cost units.

Examples include hire of special machinery or plant for a particular job.

(b)

- (i) Zion Manufacturers Limited: Manufacturing statement for the year ended 31 December 2019:

| | | |
|--|-----------------|-----------------|
| Cost of raw materials used: | Shs '000' | Shs '000' |
| Opening raw materials | 23,400 | |
| Add: Purchases: | | |
| Cash | 126,600 | |
| Credit | <u>284,600</u> | 411,200 |
| Less: Closing stock | <u>(34,500)</u> | |
| Cost of raw materials used: | | 400,100 |
| Royalties paid | | 23,400 |
| Factory direct wages | | 34,500 |
| Direct manufacturing expenses (50% x 28,500) | | <u>14,250</u> |
| Prime cost | | 472,250 |
| Factory overheads: | | |
| Manufacturing overheads (50% x 28,500) | 14,250 | |
| Utilities (50% x 18,440) | 9,220 | |
| Depn: Plant and machinery (20% x 125,400) | 25,080 | |
| Depn: Computers (25% x 8,400 x ½) | 1,050 | |
| Machine repairs | 23,400 | |
| Insurance (40% x 19,420) | 7,768 | |
| Other salaries (50% x 45,000) | 22,500 | |
| Rent (50% x 54,400) | <u>27,200</u> | <u>130,468</u> |
| Cost of goods | | 602,718 |
| Add: Opening WIP | | 45,600 |
| Less Closing WIP | | <u>(34,500)</u> |
| Cost of goods manufactured | | <u>613,818</u> |

Workings:

| Trade payables | | | |
|----------------|----------------|------------------|----------------|
| Dr | Shs '000' | | Cr |
| | | | Shs '000' |
| Cash | 285,600 | Bal b/d | 21,500 |
| Bal c/d | 20,500 | Credit purchases | 284,600 |
| | <u>306,100</u> | | <u>306,100</u> |

| Utilities | | | |
|-----------|---------------|---------------|---------------|
| Dr | | | Cr |
| | Shs '000' | | Shs '000' |
| Bal b/d | 140 | Manufacturing | 9,220 |
| Cash | 18,460 | P and L | 9,220 |
| | | Bal c/d | 160 |
| | <u>18,600</u> | | <u>18,600</u> |

- (ii) Zion Manufacturers Limited: Statement of profit or loss for the year ended 31 December 2019:

| | | | |
|--|---------------|---------------|----------------|
| Sales: | | Shs '000' | Shs '000' |
| Cash sales | | 334,500 | |
| Credit sale | | 536,900 | |
| Total sales | | | 871,400 |
| Less: Cost of sales: | | | |
| Opening stock | 56,500 | | |
| Add: Cost of manufactured goods | 613,818 | | |
| Less: Closing stock | (76,500) | | <u>593,818</u> |
| Gross profit | | | 277,582 |
| Add: Other incomes: | | | |
| Commission received | | | <u>21,500</u> |
| Total income: | | | 299,082 |
| Less: operating expenses | | | |
| Selling and distribution expenses: | | | |
| Insurance (30% x 19,420) | 5,826 | | |
| Other salaries (2/8 x 45,000) | 11,250 | | |
| Rent (1/8 x 54,400) | 6,800 | | |
| Utilities (1/4 x 18,440) | 4,610 | | |
| Distribution expenses | 45,500 | | |
| Showroom expenses | 34,500 | | |
| Advertising | 18,850 | | |
| Depr. of delivery van (25% x 65,400) | <u>16,350</u> | 143,686 | |
| Office and administration expenses: | | | |
| Insurance (30% x 19,420) | 5,826 | | |
| Other salaries (2/8 x 45,000) | 11,250 | | |
| Rent (3/8 x 54,400) | 20,400 | | |
| Utilities (1/4 x 18,440) | 4,610 | | |
| Depr. of computers (25% x 8,400 x 1/2) | <u>1,050</u> | <u>43,136</u> | (186,822) |
| Net profit | | | 112,260 |

Workings:

| Advertising cost | | | |
|------------------|---------------|---------|---------------|
| Dr | Shs '000' | | Cr |
| | | | Shs '000' |
| Cash | 18,400 | Bal b/d | 2,400 |
| Bal c/d | 2,850 | P and L | 18,850 |
| | <u>21,250</u> | | <u>21,250</u> |

| Trade receivables account | | | |
|---------------------------|----------------|---------|----------------|
| Dr | Shs '000' | | Cr |
| | | | Shs '000' |
| Bal b/d | 25,500 | Cash | 535,450 |
| Credit sales | 536,900 | Bal c/d | 26,950 |
| | <u>562,400</u> | | <u>562,400</u> |

Solution 3

(a)

(i) Consistency concept:

This concept states that once an accounting method or accounting policy is chosen, it should be applied from period to period.

The application of this concept to accounting for depreciation of non-current assets is that once a method of depreciation is chosen, it should be applied from year to year. For example, straight-line method; reducing balance method.

(ii) Factors considered in computing depreciation using the straight-line method:

- ✓ Cost: This is the price at which the non-current asset was acquired.
- ✓ Salvage value: This is the amount that can be obtained after the non-current asset's useful life.
- ✓ Useful life: This is the estimated life of the non-current asset.

(b) Muzungu Consult Limited's Ledgers:

(i) Non-current assets account (Combined)

| Dr | Shs '000' | | Cr |
|----------------|-----------|-------------|-----------|
| Details | | Details | Shs '000' |
| 2018 | | | |
| Bal b/d | | | |
| Machinery | 320,000 | Disposals | 5,400 |
| | | (Computers) | |
| Computers | 75,500 | Bal c/d | 696,500 |
| Motor vehicles | 205,400 | | |
| Additions: | | | |

| | | | |
|----------------|----------------|----------------------------|----------------|
| Machinery | 95,000 | | |
| Computers: | | | |
| Trade in value | 2,000 | | |
| Cash topped up | 4,000 | | |
| | <u>701,900</u> | | <u>701,900</u> |
| 2019 | | | |
| Bal b/d | 696,500 | Disposals (Motor vehicles) | 34,400 |
| Additions | | | |
| Motor vehicles | 75,500 | Bal c/d | 737,600 |
| | <u>772,000</u> | | <u>772,000</u> |

(ii) Accumulated Depreciation account (Combined)

| Dr | Shs '000' | 2018: | Cr Shs '000' |
|--------------------------|----------------|---------------|-----------------|
| | | Bal b/d | |
| Disposal (Computers) | 2,700 | Machinery | 87,600 |
| Bal c/d | 288,095 | Computers | 20,500 |
| | | M/vehicles | 86,500 |
| | | Depreciation: | |
| | | Machinery | 41,500 |
| | | M/vehicles | 35,670 |
| | | Computers | 19,025 |
| | <u>290,795</u> | | <u>290,795</u> |
| | | 2019 | |
| | | Bal b/d | 288,095 |
| | | Depreciation: | |
| Disposal (Motor vehicle) | 17,544 | M/vehicles | 42,562 |
| Bal c/d | 373,638 | Computers | 19,025 |
| | | Machinery | 41,500 |
| | <u>391,182</u> | | <u>391,182</u> |

(iii) Disposal of assets account

| Dr | Shs '000' | Year 2018: | Cr Shs '000' |
|------------------|-----------|------------------|-----------------|
| Cost of computer | 5,400 | Acc. Depn. | 2,700 |
| | | Exchange value | 2,000 |
| | | Loss on disposal | 700 |
| | 5,400 | | 5,400 |
| Cost of M/V | 34,400 | Year 2019: | |
| | | Acc. Depn. | 17,544 |

| | | | |
|------------------|--------|------|--------|
| Gain on disposal | 144 | Cash | 17,000 |
| | 34,544 | | 34,544 |

Workings:

W1: Depreciation on disposal of computers and motor vehicles

Depn of disposed of computer

| | |
|-----------------------|-----------------------------|
| Cost | 5,400 |
| 01-Jan-16 | $5,400 \times 25\% = 1,350$ |
| 2017 | $5,400 \times 25\% = 1,350$ |
| Acc Depn of computers | 2,700 |
| Net Book value | 2,700 |

Acc Depn on disposed of vehicle

| | |
|------|---|
| 2017 | $34,400 \times 30\% = 10,320$ |
| 2018 | $(34,400 - 10,320) \times 30\% = 7,224$ |
| | 17,544 |

W2: Computation of annual depreciation charge

| Depreciation: Year 2018 | | Depreciation: Year 2019 | | |
|-------------------------|----------------------------------|-------------------------|--|---------|
| Machinery | | Machinery | | |
| Cost b/f | 320,000 | Opening balance | 415,000 | |
| Additions | 95,000 | Depreciation | $415,000 \times 10\% = 41,500$ | |
| | 415,000 | | | |
| Depreciation (10%) | 41,500 | | | |
| Motor vehicles: | Depn 2018 | Depreciation: Year 2019 | | |
| Motor vehicles | | Cost b/f | 205,400 | |
| Cost b/f | 205,400 | Addition | 75,500 | |
| Acc Depn | (86,500) | Disposal | (34,400) | |
| | 118,900 | | | 246,500 |
| Depreciation | $(118,900 \times 30\%) = 35,670$ | Acc Depn: | | |
| | | Bal b/f | 86,500 | |
| | | Depn for 2018 | 35,670 | |
| | | | 122,170 less Acc Depn on disposed of MV 17,544 | |

| | | | | |
|--------------|-----------------------|-------------------------|-----------------------|---------------|
| | | | | (104,626) |
| | | | | 141,874 x 30% |
| | | Depreciation | 141,874 x 30% | =42,562 |
| Working 3 | | | | |
| Computers: | | | | |
| Depn 2018 | | Depreciation: Year 2019 | | |
| Bal b/d | 75,500 | Cost b/f | 76,100 | |
| Addition | 6,000 | | | |
| Disposal | (5,400) | | | |
| | 76,100 | | | |
| Depreciation | 76,100 x 25% = 19,025 | Depreciation | 76,100 x 25% = 19,025 | |
| | | | | |

Solution 4

- (a) Advantages of a partnership compared with a sole proprietorship business:
- ✓ More capital can be raised in a partnership compared to a sole trader.
 - ✓ The partnership brings expertise/ management skills from different partners.
 - ✓ There is spread of risk compared to a sole trader who operates as one person.
 - ✓ A partnership is likely to exist for a longer period compared to a sole trader.
 - ✓ The partners have limited liability and are a separate entity from the business unlike in a sole proprietorship. The partners are thus not personally liable in case of any debts or any other liabilities.
 - ✓ Partnerships have certain rules and are governed by regulations of an authorised body which prevents it from mismanagement and help regulate it and operate it efficiently.
 - ✓ The partners in a partnership pay their personal income taxes on their share of the profits from the business, the partnership does not have to pay any special taxes but in a sole proprietorship, the proprietor has to bear the burden of all the taxes alone.

(b) Jackie and Jennifer Partnership:

(i) Determining net profit before appropriations

| | | Shs '000' | Shs '000' |
|---|--------------|-----------|----------------|
| Reported retained profit | | 9,800 | |
| Profit before retaining/ appropriation (9,800/10%) | | | 98,000 |
| Less: Interest on drawings | | | |
| Jackie | 2,000 x 4% | 80 | |
| Jennifer | 3,000 x 4% | 120 | (200) |
| Add: Interest on capital | | | |
| Jackie (105,000+5,000) x 10% | 110,00 x 10% | 11,000 | |
| Jennifer (89,000+6,000) | 95,000 x 10% | 9,500 | 20,500 |
| Add: salaries | | | |
| Jackie | (400 x 12) | 4,800 | |
| Jennifer | (400 x 12) | 4,800 | 9,600 |
| Net profit before appropriations | | | <u>127,900</u> |

(ii) Current accounts

| | Jackie | Jennifer | Details | Jackie | Jennifer |
|----------------------------|----------------|----------------|------------------------|----------------|----------------|
| | Shs '000' | Shs '000' | | Shs '000' | Shs '000' |
| Drawings | 2,000 | 3,000 | Bal b/d | 120,500 | 130,500 |
| Interest on drawings | 80 | 120 | Salaries | 4,800 | 4,800 |
| Bal c/d | 187,140 | 176,960 | Profit shared | 52,920 | 35,280 |
| | | | Interest on capital | 11,000 | 9,500 |
| | <u>189,220</u> | <u>180,080</u> | | <u>189,220</u> | <u>180,080</u> |

Capital accounts

| | Jackie | Jennifer | Details | Jackie | Jennifer |
|---------|----------------|---------------|-----------------------|----------------|---------------|
| | Shs '000' | Shs '000' | | Shs '000' | Shs '000' |
| Bal c/d | 110,000 | 95,000 | Bal b/d | 105,000 | 89,000 |
| | | | Additional capital | 5,000 | 6,000 |
| | <u>110,000</u> | <u>95,000</u> | | <u>110,000</u> | <u>95,000</u> |

(iii) Jackie and Jennifer: Statement of financial position as at 31 December 2019

| | Shs '000' | | Shs '000' |
|---------------------------------|-----------|--------------------------|----------------|
| Non-current assets: | Cost | Accumulated depreciation | NBV |
| Motor vehicles | 175,400 | 52,620 | 122,780 |
| Computers (85,400+15,600) | 101,000 | 25,250 | 75,750 |
| Furniture | 75,400 | 11,310 | <u>64,090</u> |
| | | | 262,620 |
| Current assets: | | | |
| Inventory | | | 45,800 |
| Trade receivables | | | 76,500 |
| Cash and bank | | | 306,880 |
| Total assets | | | <u>691,800</u> |
| Capital a/c: | | | |
| Jackie | | | 110,000 |
| Jennifer | | | 95,000 |
| Current a/c: | | | |
| Jackie | | | 187,140 |
| Jennifer | | | 176,960 |
| Retained profits (85,400+9,800) | | | 95,200 |
| Trade payables | | | 27,500 |
| Total capital and liabilities | | | <u>691,800</u> |

Solution 5

(a) Importance of bank reconciliation to a business:

- ✓ Bank reconciliation reveals errors that may have been committed either in the cashbook or in the bank statement.
- ✓ It reduces on the possibility of embezzlement of funds by the accounting staff.
- ✓ It helps in determining the actual cashbook balance, thus bringing books of account to date.
- ✓ Any undue delays in the clearance of cheques will be shown up by the reconciliation.
- ✓ Monthly preparation of bank reconciliation assists in the regular monitoring of cash flows of a business.
- ✓ Helps to know if customer payments have bounced or failed, and determining if any action is needed.
- ✓ Helps to keep track of a business' outstanding checks/ cheques and following up with payees.

(b) Kigege Limited (Kigege):

(i) Adjusted cashbook for the month of March 2019:

| | Shs | | Shs |
|---|-----------|-----------------------|-----------|
| Bal b/d | 3,500,000 | Bank charges | 40,000 |
| Correction of Supplier cheque (Cheque 001) | 180,000 | Excise duty | 65,000 |
| Debtor (Maria) | 2,300,000 | Withdrawal | 2,000,000 |
| Cancelled cheques (Mengo Enterprises) | 300,000 | Utilities | 400,000 |
| Interest from bank | 78,000 | Understated purchases | 360,000 |
| Rental income | 665,600 | Bal c/d | 4,518,600 |
| | | | |
| | 7,023,600 | | 7,023,600 |

(ii) Bank reconciliation statement for the month of March 2019:

| | Shs | Shs |
|-------------------------------------|---------|-------------|
| Balance as per adjusted cashbook | | 4,518,600 |
| Add: Un-presented cheques | | |
| Ongom Mary | 400,400 | |
| Lucky Enterprises | 504,600 | |
| On time Ltd | 605,000 | |
| Excellent Suppliers | 702,500 | |
| Smart Travels Ltd | 935,000 | |
| Bank error on cheque 030 | 900,000 | 4,047,500 |
| Less: Uncredited cheques | | |
| Jane Amuge | 205,000 | |
| Christine Kanu | 304,000 | |
| Eric Kinene | 402,000 | |
| Denise Achol | 308,400 | |
| Betty Ahumuza | 564,400 | |
| Bank error on cheque 0040 | 360,000 | |
| Bank error on mobile phone withdraw | 800,000 | (2,943,800) |
| Balance as per bank statement | | 5,622,300 |

(iii) Statement of corrected net profit:

| | Shs | Shs |
|----------------------|------------|-------------|
| Net profit | 35,800,500 | |
| Interest | 78,000 | |
| Rental income | 665,600 | 36,544,100 |
| Less: | | |
| Bank charges | 40,000 | |
| Excise duty | 65,000 | |
| Casual labourers | 2,000,000 | |
| Utilities | 400,000 | |
| Discount allowed | 40,000 | (2,545,000) |
| Corrected net profit | | 33,999,100 |

ANSWERS TO TEST PAPER 9

CTA DECEMBER 2022

Solution 1

(a) Importance of a partnership deed:

- ✓ It provides permanent records of terms and conditions of the partnership business.
- ✓ It helps to avoid confusion on profit and loss distribution ratio among the partners.
- ✓ It controls and monitors the rights, responsibilities and liabilities of all partners.
- ✓ In the event of death of a partner, it will serve as a basis for settling the accounts.
- ✓ It contains the rules and regulations governing the firm.
- ✓ In case of any dispute, the deed will serve as a reference point.

(b)

(i)

ABC Enterprises: Statement of profit or loss and appropriation for the year ended 31 December 2020

| | | Shs '000' | Shs '000' | Shs '000' |
|-------------------------|--|--------------|-----------|-----------|
| Sales revenue | | | | 1,111,950 |
| Returns | | | | (2,500) |
| Net sales revenue | | | | 1,109,450 |
| Less cost of sales | | | | |
| Opening stock | | | 45,500 | |
| Purchases | | 345,000 | | |
| Carriage inwards | | 700 | | |
| Returns | | (3,000) | 342,700 | |
| Closing inventory | | | 60,000 | (328,200) |
| Gross profit | | | | 781,250 |
| Add other incomes | | | | |
| Discounts received | | | 1,250 | |
| Commission received | | | 4,500 | 5,750 |
| Less operating expenses | | | | |
| Discounts allowed | | | 2,500 | |
| Commission paid | | | 12,000 | |
| Depreciation | | | | |
| Computers | | 20% x 45,000 | 9,000 | |

| | | | | |
|---------------------------------|----------------|-------------------------|---------|-----------|
| Buildings | | 5% x 250,000 | 12,500 | |
| Delivery van | | 10% x 56,000 | 5,600 | |
| Office expenses | | (21,500+1,650) | 23,150 | |
| Employee salaries | | (86,500+2,000) | 88,500 | |
| Advertising | | (23,500-450) | 23,050 | |
| Carriage outwards | | | 400 | |
| Utilities | | | 25,500 | |
| Loan interest | | (15% x 30,000 x 0.5) | 2,250 | 204,450 |
| Profit | | | | 582,550 |
| Appropriations | | | | |
| Add interest on drawings | | | | |
| Alex | (5% x 6,500) | | 325 | |
| Betty | (5% x 5,000) | | 250 | |
| Charles | (5% x 4,000) | | 200 | 775 |
| Less interest on capital | | | | |
| Alex | (10% x 30,000) | | 3,000 | |
| Betty | (10% x 30,000) | | 3,000 | |
| Charles | (10% x 30,000) | | 3,000 | 9000 |
| Less salaries | | | | |
| Alex | (400 x 9) | | 3,600 | |
| Betty | (400 x 9) | | 3,600 | |
| Charles | (400 x 9) | | 3,600 | 10800 |
| Net profit | | | | 563,525 |
| Retained profit (20% x 563,525) | | | | (112,705) |
| Profit to be shared | | | | 450,820 |
| Alex | | | 150,273 | |
| Betty | | | 150,273 | |
| Charles | | | 150,273 | |

(ii)

ABC Enterprises: Partners' current account

| | Shs '000' | Shs '000' | Shs '000' | | Shs '000' | Shs '000' | Shs '000' |
|----------------------------|--------------|--------------|--------------|------------------------|-----------|-----------|-----------|
| Details | Alex | Betty | Charles | Details | Alex | Betty | Charles |
| Bal b/d | 3,500 | | | Bal b/d | | 2,500 | 4,000 |
| Drawings | 6,500 | 5,000 | 4,000 | Interest on capital | 3,000 | 3,000 | 3,000 |
| Interest on drawings | 325 | 250 | 200 | Salaries | | | |
| | | | | | 3,600 | 3,600 | 3,600 |

| | | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|---------|
| Bal c/d | 146,548 | 154,123 | 156,673 | Profit | 150,273 | 150,273 | 150,273 |
| | 156,873 | 159,373 | 160,873 | | 156,873 | 159,373 | 160,873 |
| | | | | Bal b/d | 146,548 | 154,123 | 156,673 |

Solution 2

(a)

Errors that can be detected by a trial balance:

- ✓ Arithmetical errors. When a ledger account is not balanced off accurately, the trial balance will not agree.
- ✓ Double entry errors. Double entry principles are reflected by assets, expenses being reflected in the debit column while incomes, liabilities and equity in the credit column. If this is violated, it implies double entry errors were made in posting transactions.

Errors that cannot be detected by a trial balance:

- ✓ Errors of omission-Where a transaction is completely omitted from the books of account.
- ✓ Errors of commission-Where a correct amount is entered but in a wrong account.
- ✓ Error of principle-An item is entered in a wrong class of account.
- ✓ Error of original entry-Where the original figure is incorrect yet double entry is correctly done using the incorrect figure.
- ✓ Error of complete reversal –Where the correct account is used but each item is shown on the wrong side of the account.

(b)

(i)

Journal entries to correct errors:

| | | | Shs | Shs |
|---|----|------------------|------------|------------|
| 1 | Dr | Suspense account | 12,500,000 | |
| | Cr | Sales | | 12,500,000 |
| 2 | Dr | Cash | 500,000 | |
| | Cr | Sales | | 500,000 |
| 3 | Dr | Rent expense | 2,100,000 | |
| | Cr | General expense | | 2,100,000 |
| 4 | Dr | Debtor | 900,000 | |
| | Cr | Cash | | 900,000 |

| | | | | |
|---|----|-------------------|-----------|-----------|
| | | | | |
| 5 | Dr | Land | 1,500,000 | |
| | Cr | General expenses | | 1,500,000 |
| | | | | |
| 6 | Dr | Suspense account | 200,000 | |
| | Cr | Discount received | | 100,000 |
| | Cr | Discount allowed | | 100,000 |
| | | | | |
| 7 | Dr | Supplier | 1,200,000 | |
| | Cr | Suspense | | 1,200,000 |
| | | | | |
| 8 | Dr | Suspense | 1,800,000 | |
| | Cr | Utilities | | 1,800,000 |
| | | | | |
| 9 | Dr | Suspense | 1,000,000 | |
| | Cr | Purchases | | 1,000,000 |

(ii)

A suspense account

| | | | | |
|-------------------|------------|----------|------------|----|
| Dr | Shs | | Shs | Cr |
| Sales | 12,500,000 | Bal b/ d | 14,300,000 | |
| Discount received | 100,000 | Supplier | 1,200,000 | |
| Discount allowed | 100,000 | | | |
| Utilities | 1,800,000 | | | |
| Purchases | 1,000,000 | | | |
| | 15,500,000 | | 15,500,000 | |

(iii) Accounts after correction of errors

(a)

Sales account

| | | | | | |
|----|-----------------|-----------|---------|------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Closing balance | 463,500 | Bal b/d | 450,500 | |
| | | | Sales | 12,500 | |
| | | | Cash | <u>500</u> | |
| | | 463,500 | | 463,500 | |

(b)

Cash and bank account

| | | | | | |
|----|----------|------------|---------|---------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal. b/d | 34,500 | Debtor | 900 | |
| | Sales | <u>500</u> | Bal c/d | <u>34,100</u> | |
| | | 35,000 | | 35,000 | |

(c)

| Trade debtors' account | | | | | |
|------------------------|---------|------------|---------|-----------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 45,000 | Bal c/d | 45,900 | |
| | Cash | <u>900</u> | | | |
| | | 45,900 | | 45,900 | |

(d)

| Land account | | | | | |
|--------------|------------|--------------|---------|-----------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 1,200,000 | Bal c/d | 1,201,500 | |
| | G/ expense | <u>1,500</u> | | | |
| | | 1,201,500 | | 1,201,500 | |

(e)

| Utilities account | | | | | |
|-------------------|---------|-----------|----------|---------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 23,000 | Suspense | 1,800 | |
| | | | Bal c/d | <u>21,200</u> | |
| | | 23,000 | | 23,000 | |

Solution 3

(a)

(i) Matching concept

This concept requires that the expenses incurred during a period be recorded in the same period in which the related revenues are earned.

Application:

We recognize outstanding expenses as operating expenses for the period while prepaid expenses are not recognized.

(ii) Substance over legal form

This concept means that the transactions recorded in the financial statements must reflect their economic substance rather than their legal form.

Application:

A leased asset can be recorded by the lessee as his asset even if legally it is not his.

(iii) Money measurement concept

The money measurement concept states that a business should only record an accounting transaction on the face of a financial statement if it can be expressed in terms of money. This means that the focus of accounting transactions is on quantitative information, rather than on qualitative information.

Application:

Transactions that cannot be expressed in money terms such as employee competence, inherent goodwill are not reflected on the face of financial statements.

(iv) Consistency concept

The company's financial statements follow the same accounting principles, methods, practices and procedures from one accounting period to the next.

Application:

When a method of depreciation is chosen, it is applied every year unless the change is likely to lead to better presentation in the consumption of the asset.

(b)

Goodwill Limited's ledgers accounts

Purchases account

| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
|----|-------------------|--------------|---------|-----------|----|
| | Cash | 3,000 | Bal c/d | 4,000 | |
| | Birungi suppliers | <u>1,000</u> | | | |
| | | 4,000 | | 4,000 | |

Cash account

| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
|----|--------------------|-----------|-----------|---------------|----|
| | Bal/ b/d | 23,500 | Purchases | 3,000 | |
| | Sales | 1,000 | Computer | 1,800 | |
| | Sales -Kirunda | 2,000 | KE Ltd | 1,000 | |
| | Disposal –GL Comp. | 700 | Rent | 500 | |
| | | 27,200 | Bal c/d | <u>20,900</u> | |
| | | | | 27,200 | |

Trade payables account

| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
|----|---------------|---------------|--------------------|-----------|----|
| | Cash (KE Ltd) | 1,000 | Bal b/d | 30,000 | |
| | Bank (KE Ltd) | 1,000 | Purchases -Birungi | 1,000 | |
| | Bal c/d | <u>29,000</u> | | | |
| | | 31,000 | | 31,000 | |

Sales account

| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
|----|---------|-----------|---------------|--------------|----|
| | Bal c/d | 4,000 | Cash | 1,000 | |
| | | | Cash -Kirunda | 2,000 | |
| | | | Kirunda | <u>1,000</u> | |
| | | 4,000 | | 4,000 | |

| Bank account | | | | | |
|--------------|---------|-----------|---------|---------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 54,460 | KE Ltd | 1,000 | |
| | John | 2,000 | Loan | 8,000 | |
| | Peter | 3,000 | Land | 15,000 | |
| | | | Bal c/d | <u>35,460</u> | |
| | | 59,460 | | 59,460 | |

| Trade receivables account | | | | | |
|---------------------------|---------|-----------|------------------|---------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 65,400 | Bank -John | 2,000 | |
| | Kirunda | 1,000 | Bank -Peter | 3,000 | |
| | | | Returns -Kirunda | 300 | |
| | | | Bal c/d | <u>61,100</u> | |
| | | 66,400 | | 66,400 | |

| Return inwards account | | | | | |
|------------------------|---------|------------|---------|------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Kirunda | <u>300</u> | Bal c/d | <u>300</u> | |
| | | 300 | | 300 | |

| Computer account | | | | | |
|------------------|---------|-----------|------------------|-----------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 2,500 | Disposal account | 2,500 | |
| | Cash | 1,800 | | | |
| | Bal b/d | 1,800 | | | |

| Computer disposal account | | | | | |
|---------------------------|----------|-----------|------------------|--------------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Computer | 2,500 | Cash | 700 | |
| | | | Loss on disposal | <u>1,800</u> | |
| | | 2,500 | | 2,500 | |

| Rent account | | | | | |
|--------------|---------|--------------|---------|-----------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Cash | 500 | Bal b/d | 6,000 | |
| | Bal c/d | <u>5,500</u> | | | |
| | | 6,000 | | 6,000 | |

| Land account | | | | | |
|--------------|---------|---------------|---------|-----------|----|
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bal b/d | 234,000 | Bal c/d | 249,000 | |
| | Bank | <u>15,000</u> | | | |
| | | 249,000 | | 249,000 | |
| Loan account | | | | | |
| Dr | Details | Shs '000' | Details | Shs '000' | Cr |
| | Bank | 8,000 | Bal b/d | 65,000 | |
| | Bal c/d | <u>57,000</u> | | | |
| | | 65,000 | | 65,000 | |

Solution 4

(a)

(i) Residual value

A residual value, also known as salvage value or scrap value, is the estimated value of a non-current asset at the end of its useful life. For instance, a computer bought at Shs 2,000,000 with an estimated useful life of 3 years. At the end of 3 years, this computer may have a value of Shs 400,000. The Shs 400,000 is the residual value.

(ii) Cost

Cost is the price of acquisition of an asset and it includes the purchase price and other costs incurred to bring the asset to its intended use. These are costs directly attributable to bringing the asset to its location and conditions necessary for it to be capable of operating in the manner intended by management. For instance, if the purchase price of an asset is Shs 4,000,000; transport costs Shs 1,000,000 and installation costs Shs 500,000; total cost of the asset is Shs 5,500,000.

(iii) Depreciable amount:

It is the amount of the cost that can be depreciated on asset over time. It is represented by cost minus residual value. For instance, if the cost is Shs 4,000,000 and residual value is Shs 500,000, the depreciable amount is Shs 3,500,000.

(b)

✓ Consumption of an asset

Even consumption of the asset during its useful life calls for straight line method of depreciation. More consumption during the early years calls for reducing balance method of depreciation.

✓ The accounting manual of the entity

Accounting manuals of entities usually dictate the method to use in depreciation of the asset.

- ✓ The method advocated for by the taxation rules
To avoid differences between accounting depreciation and wear tear, some organizations opt to use the tax method of depreciation and the corresponding rates.
- ✓ Cost of repairs and maintenance of an asset.

(c)

(i) Using straight line method

Depreciation per annum = (cost less salvage value)/useful life

$$(3,000,000 - 200,000) / 5 = \text{Shs } 560,000$$

| Year | Depreciation charge (Shs) | Net Book Value (Shs) | Period |
|------|---------------------------|----------------------|-------------------------|
| 1 | 560,000 | 2,440,000 | 1 Jan 17 to 31 Dec 17 |
| 2 | 560,000 | 1,880,000 | 1 Jan 18 to 31 Dec 18 |
| 3 | 560,000 | 1,320,000 | 1 Jan 19 to 31 Dec 19 |
| 4 | 560,000 | 760,000 | 1 Jan 2020 to 31 Dec 20 |
| 5 | 560,000 | 200,000 | 1 Jan 2021 |

Using reducing balance

To determine the rate for reducing balance, the formula below is used:

$r = 1 - (S/C)^{1/n}$ Where r is the rate, S is the scrap value and C is the cost.

$$1 - (200,000 / 3,000,000)^{1/5}$$

$$1 - 0.581 = 0.418 = 0.42 = 42\%$$

| Yr | Depreciation charge | Depreciation (Shs) | NBV (Shs) | Period |
|----|----------------------|--------------------|-----------|-----------------------|
| 1 | (3,000,000) x 0.418% | 1,254,000 | 1,746,000 | 1 Jan 17 to 31 Dec 17 |
| 2 | (1,746,000) x 0.418 | 729,828 | 1,016,172 | 1 Jan 18 to 31 Dec 18 |
| 3 | (1,016,172) x 0.418 | 424,760 | 591,412 | 1 Jan 19 to 31 Dec 19 |
| 4 | (591,412) x 0.418 | 247,210 | 344,202 | 1 Jan 20 to 31 Dec 20 |
| 5 | (344,202) x 0.418 | 143,876 | ~200,323 | 1 Jan 2021 |

(ii) Determining the loss or gain on disposal

Using straight line method of depreciation

Net book value at the time of disposal Shs 760,000

Proceeds from disposal Shs 500,000

Loss on disposal Shs 260,000

Using reducing balance method

Net book value at the time of disposal Shs 344,202
 Proceeds from disposal Shs 500,000
 Gain on disposal = (500,000-344,202) = Shs 155,798

Solution 5

(a)

Excel Limited's two-column cashbook for the month of December 2020:

| Details | Cash | Bank | Details | Cash | Bank |
|---------|---------------|---------------|------------------------|---------------|---------------|
| | Shs '000' | Shs '000' | | Shs '000' | Shs '000' |
| Bal b/d | 12,500 | 10,600 | Purchases | 10,000 | 2,000 |
| Sales | 4,500 | | Office furniture | 1,200 | |
| Bank | 400 | | Stationery | 500 | |
| Debtor | 1,200 | | Cash | | 400 |
| Kagga | | 2,000 | Rent | 300 | |
| John | | 2,000 | Utilities | 100 | |
| | | | Wages | 200 | |
| | | | Kinene Suppliers | | 2,000 |
| | | | Dishonoured chq -Kagga | | 2,000 |
| | | | Bal c/d | 6,300 | 8,200 |
| | <u>18,600</u> | <u>14,600</u> | | <u>18,600</u> | <u>14,600</u> |

(b)

(i) Un-presented cheques

These are cheques that are issued by the entity but they are not yet debited by the bank. This could be due to timing differences.

They cause a difference between the cashbook balance and bank statement balance because they only appear in the cashbook (credit side) but not in the bank statement.

(ii) Un-credited cheques

These are cheques that are received by the entity but they are not yet credited by the bank. This could be due to timing differences.

They cause a difference between the cashbook balance and bank statement balance because they only appear in the cashbook (debit side) but not in the bank statement.

(iii) Direct credits

These are transactions that appear on the credit side of the bank statement but not debited in the cashbook. Examples include interest earned on the bank statement, customers that pay directly through the bank, etc.

How they cause a difference as they only appear in the bank statement but not in the cashbook.

(c)

(i) Gem Limited's adjusted cashbook

| Dr | | | Cr |
|----------------------------|-----------|-----------------------------|-----------|
| | Shs | | Shs |
| Balance b/d | 7,200,000 | Bank charges | 40,000 |
| Interest | 30,000 | Water bills- standing order | 100,000 |
| Kagimu | 200,000 | Wages | 1,000,000 |
| Samuel | 640,000 | Dishonoured cheque | 3,400,000 |
| Kena | 340,000 | Correction of error Jacob | 500,000 |
| Correction of error (Kelo) | 900,000 | Balance c/d | 4,270,000 |
| | 9,310,000 | | 9,310,000 |

(ii) Gem Limited's bank reconciliation statement for the period

| | | |
|-----------------------------------|---------------|-------------|
| | | Shs |
| Balance as per adjusted cash book | | 4,270,000 |
| Add un-presented cheques | | |
| Jack stationers | Shs 400,000 | |
| Nish Enterprises | Shs 300,000 | |
| Kella Ltd | Shs 250,000 | |
| Gella | Shs 340,000 | 1,290,000 |
| Less: Un-credited cheques | | |
| James | Shs 1,500,000 | |
| Peter | Shs 2,100,000 | |
| Nelson | Shs 2,300,000 | |
| Jackie | Shs 1,400,000 | |
| Jemimah | Shs 3,200,000 | |
| | | 10,500,000 |
| Balance as per bank statement | | (4,940,000) |

ANSWERS TO TEST PAPER 10

CTA MAY 2023

Solution 1

(a) Journal entries

| | | Dr | Cr |
|---|---|-----------|-----------|
| | | Shs '000' | Shs '000' |
| 1 | Closing inventory | 265,000 | |
| | Trading account | | 265,000 |
| 2 | Cash and bank | 86,000 | |
| | Revenue received in advance(for materials) | | 86,000 |
| 3 | Rental income arrears | 2,000 | |
| | Rental income | | 2,000 |
| 4 | Damaged floor tiles (profit or loss) | 300 | |
| | Trading account | | 300 |
| 6 | Cash and bank | 850 | |
| | Ordinary share capital | | 750 |
| | Share premium | | 100 |
| 7 | Depreciation-furniture and fittings | 550 | |
| | Accumulated depreciation-furniture and fittings | | 550 |
| | Depreciation-building | 18,750 | |
| | Accumulated depreciation-building | | 18,750 |

(b) .

Statement of profit or loss for the year ended 31 December 2021

| | Shs '000' | Shs '000' | Shs '000' |
|-------------------------------------|-----------|-----------|-----------|
| Sales | | | 1,120,000 |
| Less cost of sales | | | |
| Opening stock | | 367,000 | |
| Add purchases | 798,500 | | |
| Less damaged tiles | (300) | 798,200 | |
| | | 1,165,200 | |
| Less closing inventory | | (265,000) | (900,200) |
| Gross profit | | | 219,800 |
| Add other income | | | |
| Rental income (6,000+2,000) | | | 8,000 |
| Total income | | | 227,800 |
| Less operating expenses | | | |
| Utilities | | 7,120 | |
| Salary and wages | | 34,200 | |
| Depreciation-furniture and fittings | | 550 | |
| Depreciation-building | | 18,750 | |
| Trading license (2,500-1250) | | 1,250 | |
| General expenses | | 73,600 | |
| Transport | | 66,500 | |
| Damaged floor tiles | | 300 | (202,270) |
| Profit | | | 25,530 |

(c) .

Statement of changes in equity as at 31 December 2021

| | Share capital | Share premium | General reserve | Accumulated profits or loss | Total |
|---------------------|----------------|---------------|-----------------|-----------------------------|----------------|
| | Shs '000' | Shs '000' | Shs '000' | Shs '000' | Shs '000' |
| Balance b/f | 750,000 | | 13,000 | (29,150) | 733,850 |
| Issue of shares | 7,500 | 1,000 | | | 8,500 |
| Profit for the year | | | | 25,530 | 25,530 |
| Balance c/f | <u>757,500</u> | <u>1,000</u> | <u>13,000</u> | <u>(3,620)</u> | <u>767,880</u> |

(d) .

Statement of financial position as at 31 December 2021

| | Shs '000' | Shs '000' | Shs '000' |
|--|---------------|----------------|----------------|
| Non-current assets | | | |
| Land | 85,000 | - | 85,000 |
| Building | 375,000 | (75,000) | 300,000 |
| Furniture and fittings | <u>11,000</u> | <u>(2,200)</u> | <u>8,800</u> |
| | | | 393,800 |
| Current assets | | | |
| Inventory | | 265,000 | |
| Debtors | | 148,000 | |
| Trading license | | 1,250 | |
| Rental income | | 2,000 | |
| Cash and bank (26,330+86,000+8,500) | | <u>120,830</u> | 537,080 |
| Total assets | | | <u>930,880</u> |
| Equity and liabilities | | | |
| Ordinary share capital | | 757,500 | |
| Share premium | | 1,000 | |
| General reserve | | 13,000 | |
| Accumulated profits or loss(25,530-29,150) | | <u>(3,620)</u> | 767,880 |
| Current Liabilities | | | |
| Creditors (77,000+86,000) | | | 163,000 |
| Total equity and liabilities | | | <u>930,880</u> |

Solution 2

(a)

CTA-U: Statement of affairs as at 1 January 2021

| | Shs '000' | Shs '000' |
|------------------------------------|---------------|----------------|
| Land and buildings | 320,000 | |
| Computers and computer accessories | 6,700 | |
| Furniture and fittings | 7,400 | |
| Subscription in arrears | 8,670 | |
| Receipts and payments | 10,250 | |
| Salary advance | <u>695</u> | 353,715 |
| Less liabilities | | |
| Utilities outstanding | 120 | |
| Subscription in advance | <u>12,400</u> | (12,520) |
| Accumulated fund | | <u>341,195</u> |

(b) .

CTA-U: Statement of income and expenditure for the year ended 31 December 2021

| | Shs '000' | Shs '000' |
|--|--------------|----------------|
| Income | | |
| Life subscriptions (W1) | 960 | |
| Ordinary subscriptions (W2) | 39,030 | |
| Donations | 250,000 | |
| Sales of tickets for annual Marathon | 17,200 | |
| Sales of T-shirts and branded mugs | <u>5,620</u> | 312,810 |
| Expenditure | | |
| Setting up demonstration gardens | 21,300 | |
| Training of participants on income generating projects | 26,000 | |
| Salaries and wages (13,400+695) | 14,095 | |
| Purchase of pull-up banners | 750 | |
| Utilities | 1,280 | |
| Printing of annual marathon tickets | 4,200 | |
| Printing of T-shirts and branded mugs | 3,360 | |
| General expenses | 86,000 | |
| Depreciation-buildings | 11,000 | |
| Depreciation-computers and computer accessories | 1,675 | |
| Depreciation-furniture and fittings | <u>370</u> | (170,030) |
| Surplus | | <u>142,780</u> |

Workings

W1

| | |
|--|-----------|
| Life subscription for the year | Shs '000' |
| Life subscription received in the year (48,000 x 20%) | 9,600 |
| Income from life subscription recognized in the year (9,600 x 10%) | 960 |
| | |

W2-Determination of ordinary subscriptions for the year

| | | | |
|--|-----------|-----------------------|------------|
| Ordinary subscriptions received in the year (48,000,000-9,600,000) | | | 38,400,000 |
| | | | |
| Ordinary Subscription account | | | |
| Details | Shs '000' | Details | Shs '000' |
| Balance b/f | 8,670 | Balance b/f | 12,400 |
| Income and expenditure (balancing figure) | 39,030 | Receipts and Payments | 38,400 |
| Balance c/f | 9,800 | Balance c/f | 6,700 |
| | 57,500 | | 57,500 |

| | | | |
|----------------------------|-----------|-----------------|-----------|
| Salaries and wages account | | | |
| Details | Shs '000' | Details | Shs '000' |
| Balance b/f | 695 | | |
| Receipt and payments | 13,400 | Profit and loss | 14,095 |
| | 14,095 | | 14,095 |
| Utilities account | | | |
| Details | Shs '000' | Details | Shs '000' |
| Receipt and payments | 1,400 | Balance b/f | 120 |
| | | Profit and loss | 1,280 |
| | 1,400 | | 1,400 |

(c)

CTA-U: Statement of financial position as at 31 December 2021.

| | | | |
|-----------------------------------|--------------|----------------|----------------|
| Non-current assets | Shs '000' | Shs '000' | Shs '000' |
| Land and buildings | 320,000 | 11,000 | 309,000 |
| Furniture and fittings | 7,400 | 370 | 7,030 |
| Computer and computer accessories | <u>6,700</u> | <u>1,675</u> | <u>5,025</u> |
| | | | 321,055 |
| Current assets | | | |
| Subscription due | | 6,700 | |
| Receipts and payments | | <u>174,660</u> | <u>181,360</u> |
| Total assets | | | <u>502,415</u> |
| Accumulated fund and liabilities | | | |

| | | | |
|--------------------------------|--|----------------|----------------|
| Accumulated fund | | 341,195 | |
| Surplus | | <u>142,780</u> | 483,975 |
| Non-current liabilities | | | |
| Life subscriptions (8,640-960) | | | 7,680 |
| Current liabilities | | | |
| Life subscriptions | | 960 | |
| Subscriptions in advance | | <u>9,800</u> | <u>10,760</u> |
| Total equity and liabilities | | | <u>502,415</u> |

Solution 3

(a) Forms of business

- ✓ Sole proprietorship is a form of business, which is owned and run by an individual.
- ✓ Partnerships

A partnership is a relationship which subsists between persons carrying on a business in common with a view of profits. Partnerships are owned by a minimum of two and a maximum of 20 individuals.
- ✓ Companies

A company is a separate legal entity that exists independently from its owners. It is created and comes into existence when articles of incorporation are filed with the Registrar of Companies along with the prescribed fees.

(b)

(i) Journal entries

| Date | Particulars | Debits Shs '000' | Credits Shs '000' |
|------|--------------------------|---------------------|----------------------|
| 3 | Cash/Bank | 1,000 | |
| | Capital | | 1,000 |
| 5 | Cash | 4,670 | |
| | Debtors | | 4,670 |
| | Cash | 300 | |
| | Salary and wages advance | | 300 |
| 12 | Purchases | 7,000 | |
| | Cash | | 2,500 |
| | Creditors | | 4,500 |
| 14 | Drawings | 2,400 | |
| | Cash | | 2,400 |
| 21 | Cash | 10,200 | |
| | Debtors | 2,250 | |
| | Sales | | 12,450 |
| 28 | Utilities | 760 | |
| | Rent | 3,000 | |
| | Salaries and wages | 4,800 | |
| | Other expenses | 2,560 | |
| | Cash | | 11,120 |

(ii)

Ledger accounts for January 2022

| Capital account | | | | Accumulated depreciation-Refrigerator a/c | | | |
|-----------------|---------------|---------|--------------|---|------------|---------|------------|
| Details | Shs '000' | Details | Shs '000' | Details | Shs '000' | Details | Shs '000' |
| | | Bal b/f | 24,500 | Bal c/f | <u>200</u> | Bal b/f | <u>200</u> |
| Bal c/f | <u>25,500</u> | Cash | <u>1,000</u> | | | | |
| | 25,500 | | 25,500 | | | | |

| Cash account | | | | Salary and wages account | | | |
|--------------------------|-----------|--------------------|---------------|-------------------------------------|------------|---------|------------|
| Details | Shs '000' | Details | Shs '000' | Details | Shs '000' | Details | Shs '000' |
| Bal b/f | 15,035 | Purchases | 2,500 | Cash | <u>300</u> | Bal b/d | <u>300</u> |
| Capital | 1,000 | Drawings | 2,400 | | | | |
| Debtors | 4,670 | Utilities | 760 | Acc. Depn. – furniture and fittings | | | |
| | | | | | Shs '000' | | Shs '000' |
| Sales | 10,200 | Rent | 3,000 | Bal c/d | <u>205</u> | Bal b/d | <u>205</u> |
| Salary advance recovered | 300 | salaries and wages | 4,800 | | | | |
| | | Other expenses | 2,560 | | | | |
| | | Bal c/d | <u>15,185</u> | | | | |
| | 31,205 | | 31,205 | | | | |

| Furniture and fittings account | | | | Debtors account | | | |
|--------------------------------|--------------|---------|--------------|-----------------|--------------|---------|--------------|
| Details | Shs '000' | Details | Shs '000' | Details | Shs '000' | Details | Shs '000' |
| Bal b/d | <u>4,305</u> | Bal c/f | <u>4,305</u> | Bal b/d | 4,670 | Cash | 4,670 |
| | | | | Sales | <u>2,250</u> | Bal c/f | <u>2,250</u> |
| | | | | | 6,920 | | 6,920 |
| | | | | | | | |

| Refrigerator account | | | |
|----------------------|--------------|---------|--------------|
| Details | Shs '000' | Details | Shs '000' |
| Bal b/d | <u>1,000</u> | Bal c/f | <u>1,000</u> |

| Expenses account | | | |
|--------------------|--------------|---------|-----------|
| Details | Shs '000' | Details | Shs '000' |
| Utilities | 760 | P & L | 11,120 |
| Rent | 3,000 | | |
| Salaries and wages | 4,800 | | |
| Other expenses | <u>2,560</u> | | |
| | 11,120 | | 11,120 |

| Purchases account | | | |
|-------------------|--------------|---------|--------------|
| Details | Shs '000' | Details | Shs '000' |
| Cash | 2,500 | P & L | <u>7,000</u> |
| Creditors | <u>4,500</u> | | |
| | 7,000 | | 7,000 |

| Creditors account | | | |
|-------------------|--------------|-----------|--------------|
| Details | Shs '000' | Details | Shs '000' |
| Bal c/f | <u>4,500</u> | Creditors | <u>4,500</u> |

| Sales account | | | |
|---------------|---------------|---------|--------------|
| Details | Shs '000' | Details | Shs '000' |
| P & L | <u>12,450</u> | Cash | 10,200 |
| | 12,450 | Debtors | <u>2,250</u> |
| | | | 12,450 |

| Drawings account | | | |
|------------------|--------------|---------|--------------|
| Details | Shs '000' | Details | Shs '000' |
| Cash | <u>2,400</u> | Bal c/f | <u>2,400</u> |

(iii) Trial balance for January 2022

| | Debits | Credits |
|---|---------------|---------------|
| | Shs '000' | Shs '000' |
| Cash | 15,185 | |
| Capital | | 25,500 |
| Accumulated depreciation for refrigerator | | 200 |
| Accumulated depreciation for furniture and fittings | | 205 |
| Debtors | 2,250 | |
| Refrigerator (book value) | 800 | |
| Furniture and fittings (book value) | 4,100 | |
| Purchases | 7,000 | |
| Sales | | 12,450 |
| Expenses | 11,120 | |
| Creditors | | 4,500 |
| Drawings | 2,400 | |
| | <u>42,855</u> | <u>42,855</u> |

Solution 4

(a)

- (i) Substance over form. This concept requires transactions to be accounted for in accordance with their economic reality and not their legal form
- (ii) Accruals concept. This concept requires that transactions are recognized when earned (in the case of incomes) or when incurred (in the case of expenses) and not when cash changes hands.
- (iii) Consistency: the concept states that once an entity chooses and uses a particular policy or methods, it must be used continuously and consistently without changing to another. This prevents confusion and allows the accounts from one to be compared to another period. The change can only be allowed if it results into better presentation of financial statements.

(b)

- (i) Benefits of maintaining a cash book
 - ✓ To easily determine cash balances at a glance;
 - ✓ To reduce the number of entries made into the ledger;
 - ✓ Prevents mistakes and fraud.
- (ii) Circumstances under which contra entries occur:
 - ✓ Where a customer of a particular business is also a supplier to the same business.
 - ✓ Where double entries are being completed within the cashbook.

(c) Opio and Sons Enterprises: Three-column cashbook

| Details | Disc. allowed | Cash | Bank | Details | Disc. received | Cash | Bank |
|--------------------|---------------|-----------|-----------|---------------------|----------------|-----------|-----------|
| | Shs '000' | Shs '000' | Shs '000' | | Shs '000' | Shs '000' | Shs '000' |
| Balance b/f | | 80 | | Balance b/f | | | 600 |
| Receivables | 210 | 3,990 | | | | | |
| Loan | | | 40,000 | Purchases | 116 | | 5,684 |
| Bank | | 20,000 | | Cash | | | 20,000 |
| Sales | | 2,300 | | Bank | | 2,300 | |
| Bank | | | 2,300 | Payment to creditor | 201 | | 6,499 |
| Additional capital | | 5,000 | 10,000 | Cash | | | 2,350 |
| Receivables | | 600 | 1,000 | Drawings | | 350 | |

TEST PAPER 11 SOLUTIONS

CTA NOVEMBER 2023

Solution 1

(a)

Prime cost is defined as the accumulation of all costs directly incurred during the manufacture of a product. Prime cost includes all costs directly attributed to the production of output, and consists of expenses like direct material, direct labor, and other direct expenses.

Direct materials

Direct materials are those materials and supplies that are consumed during the manufacture of a product, and which are directly identified with that product.

Direct labor

Direct labor is production or services labor that is assigned to a specific product, cost center, or work order.

Direct expenses

Direct expense is an expense incurred that varies directly with changes in the volume of a cost object.

(b)

(i) Sea Manufacturing Limited (SML): Statement of manufacturing cost for the year ended 30 June 2021

| | Shs '000' | Shs '000' | Shs '000' |
|---|-----------|-----------|-----------|
| Opening stock of raw materials | | 205,000 | |
| Purchases | 925,000 | | |
| Carriage on raw materials | 124,800 | 1,049,800 | |
| Closing stock | | (105,400) | |
| Raw materials used in production | | 1,149,400 | |
| Add: Direct labor | | | |
| Factory wages (254,000-24,500) x 40% | | 91,800 | |
| Royalty payments | | 185,400 | |
| Prime cost | | | 1,426,600 |
| Add factory overheads | | | |
| Factory wages (254,000-24,500) x 60% | | 137,700 | |
| Depreciation of factory buildings | | 16,250 | |
| Depreciation of plant | | 85,062.5 | |

| | | |
|--|---------|-------------|
| Repairs of plant and machinery | 38,500 | |
| Salaries $(435,000-12,500) \times 1/4$ | 105,625 | |
| Utilities $(45,800+12,800) \times 1/5$ | 11,720 | |
| General expenses $(254,500+22,500) \times 3/8$ | 103,875 | |
| General factory overheads | 240,500 | |
| | | 739,232.5 |
| Add opening WIP | | 125,500 |
| Less closing WIP | | (100,000) |
| Cost of manufactured goods | | 2,191,332.5 |

- (ii) Sea Manufacturing Limited (SML): Statement of profit or loss for the year ended 30 June 2021

| | Shs '000' | Shs '000' | Shs '000' |
|---|--------------|-------------|-------------|
| Sales | | 3,500,000✓ | |
| Cost of sales | | | |
| Opening stock of finished goods | 925,000 | | |
| Cost of manufactured goods | 2,191,332.50 | | |
| Closing stock | (800,000) | | |
| Scrapped finished goods | (18,000) | | |
| Cost of sales | | 2,298,332.5 | |
| Gross profit | | 1201,667.5 | |
| Profit from sale of scrapped goods | | 21,500 | |
| Gross income | | | 1,223,167.5 |
| Less: Operating expenses | | | |
| Administrative expenses | | | |
| Salaries $(435,000-12,500) \times 1/2$ | | 211,250 | |
| Utilities $(45,800+12,800) \times 2/5$ | | 23,440 | |
| General expenses $(254,500+22,500) \times 3/8✓$ | | 103,875 | |
| Other administration expenses | | 105,500 | 444,065 |
| Selling expenses | | | |

| | | |
|---|---------|-----------|
| Salaries $(435,000 - 12,500) \times 1/4$ | 105,625 | |
| Utilities $(45,800 + 12,800) \times 2/5$ | 23,440 | |
| General expenses $(254,500 + 22500) \times 1/4$ | 69,250 | |
| Other selling expenses | 225,000 | 423,315 |
| Net profit | | 355,787.5 |

Solution 2:

(a) Sparkle Trading Enterprises' appropriation account

| | Shs '000' | Shs '000' |
|--|-----------|-------------|
| Net profit | | 2,119,110 |
| Add interest on drawings: | | |
| Camila $(40,800 \times 8\%)$ | 3,264 | |
| Dominic $(48,000 \times 8\%)$ | 3,840 | |
| Easton $(52,000 \times 8\%)$ | 4,160 | 11,264 |
| Less interest on capital: | | |
| Camila $(1,200,000 \times 12\%) + (12\% \times 20,000 \times 6/12)$ | 145,200 | |
| Dominic $(1,800,000 \times 12\%) + (12\% \times 30,000 \times 6/12)$ | 217,800 | |
| Easton $(800,500 \times 12\%) + (12\% \times 40,000 \times 6/12)$ | 98,460 | (461,460) |
| Less salary to partners | | |
| Camila | 500,000 | |
| Dominic | 400,000 | |
| Easton | 500,000 | (1,400,000) |
| Profit to be shared: | | 268,914 |
| Camila | | 107,565.6 |
| Dominic | | 107,565.6 |
| Easton | | 53,782.8 |

(b)

Current accounts

| Details | Camila | Dominic | Easton | Details | Camila | Dominic | Easton |
|----------------------|-----------|-----------|-----------|---------|-----------|-----------|-----------|
| | Shs '000' | Shs '000' | Shs '000' | | Shs '000' | Shs '000' | Shs '000' |
| Interest on drawings | 3,264 | 3,840 | 4,160 | Bal b/d | 96,000 | 120,000 | 45,200 |
| Drawings | 40,800 | 48,000 | 52,000 | Profit | 107,565.6 | 107,565.6 | 53,782.8 |

| | | | | | | | |
|---------|-----------|-----------|-----------|---------------------|-----------|-----------|-----------|
| Bal c/d | 804,701.6 | 793,525.6 | 641,282.8 | Salary | 500,000 | 400,000 | 500,000 |
| | | | | Interest on capital | 145,200 | 217,800 | 98,460 |
| | 848,765.6 | 845,365.6 | 697,442.8 | | 848,765.6 | 845,365.6 | 697,442.8 |

Capital account

| Details | Camila | Dominic | Easton | Details | Camila | Dominic | Easton |
|---------|-----------|-----------|-----------|--------------------|-----------|-----------|-----------|
| | Shs '000' | Shs '000' | Shs '000' | | Shs '000' | Shs '000' | Shs '000' |
| Bal c/d | 1,220,000 | 1,830,000 | 840,500 | Bal b/d | 1,200,000 | 1,800,000 | 800,500 |
| | | | | Additional capital | 20,000 | 30,000 | 40,000 |
| | 1,220,000 | 1,830,000 | 840,500 | | 1,220,000 | 1,830,000 | 840,500 |

(c) Sparkle Trading Enterprises: Statement of financial position as at 31 Dec 2021

| | Shs '000' | Shs '000' | Shs '000' |
|-------------------------|----------------------------------|-------------|------------------|
| Non-current assets | Cost | Acc. Deprn. | NBV |
| Land | 4,000,000 | - | 4,000,000 |
| Buildings | 1,880,200 | 800,000 | 1,080,200 |
| Fixtures and fittings | 1,068,900 | 106,890 | <u>962,010</u> |
| | | | 6,042,210 |
| Current assets | | | |
| Cash and bank | (1,000,000+ add. capital 90,000) | 1,090,000 | |
| Prepaid expenses | | 900,000 | |
| Accounts receivable | 400,000 | | |
| Allowance for bad debts | <u>(20,000)</u> | 380,000 | <u>2,370,000</u> |
| Total assets | | | <u>8,412,210</u> |
| Equity and liabilities | | | |
| Capital accounts: | | | |
| Camila | | 1,220,000 | |
| Dominic | | 1,830,000 | |
| Easton | | 840,500 | 3,890,500 |
| Current accounts: | | | |
| Camila | | 804,701.6 | |
| Dominic | | 793,525.6 | |
| Easton | | 641,282.8 | 2,239,510. |
| Non-current liabilities | | | |
| Bank loan | | | 1,500,000 |

| | | | |
|----------------------|--|---------|------------------|
| Current liabilities | | | |
| Outstanding expenses | | 420,600 | |
| Payables | | 361,600 | 782,200 |
| | | | <u>8,412,210</u> |

Solution 3

(a)

| Feb. | | Shs | Shs | |
|------|-------------------|------------|------------|---|
| 2 | Dr. Cash | 5,000,000 | | The cash and bank balance (which are assets) increased thus debiting. The capital of the business increased thus crediting. |
| | D. Bank | 10,000,000 | | |
| | Cr. Capital | | 15,000,000 | |
| 5 | Dr. Motor vehicle | 20,000,000 | | Assets in business in terms of vehicles are increased which explains why the vehicle account is debited. Cash of the business reduced thus credited. The liabilities of the business have increased thus Patrick is credited. |
| | Cr. Cash | | 2,000,000 | |
| | Cr. Patrick | | 18,000,000 | |
| 6 | Dr. Purchases | 2,000,000 | | Expenses for the business in terms of purchases increased thus debiting. The cash of the business reduced thus crediting. |
| | Cr. Cash | | 2,000,000 | |
| 7 | Dr. Purchases | 1,500,000 | | Expenses for the business in terms of purchases increased thus debiting. The liabilities increased thus crediting Balikudembe. |
| | Cr. Balikudembe | | 1,500,000 | |
| 8 | Dr. Cash | 500,000 | | Assets, specifically, cash increased thus debiting the cash account. The incomes of the business increased thus crediting sales income. |
| | Cr. Sales | | 500,000 | |
| 10 | Dr. Utilities | 200,000 | | Business expenses increased thus debiting the utilities account. The asset in terms of the bank balance reduces thus crediting the bank account. |
| | Cr. Bank | | 200,000 | |

| | | | | |
|----|--|-----------|-----------|---|
| 12 | Dr. Bank | 6,000,000 | | The bank increased thus debiting. The liabilities increased thus crediting. |
| | Cr. Bank loan | | 6,000,000 | |
| 14 | This is not a business transaction thus should not be recorded in the business books | | | |
| 16 | Dr. Salary | 600,000 | | Business expenses increased thus debiting the salary account. The asset in terms of the bank balance reduces thus crediting the bank account. |
| | Cr. Bank | | 600,000 | |

(b)

Cash

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|---------|-----------|------|---------------|-----------------|
| 2 | Capital | 5,000 | 5 | Pick-up truck | 2,000 |
| 8 | Sales | 500 | 5 | Purchases | 2,000 |
| | | = | | Bal. c/d | <u>1,500</u> |
| | | 5,500 | | | 5,500 |

Bank

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|---------|-----------|------|-----------|-----------------|
| 2 | Capital | 10,000 | 10 | Utilities | 200 |
| 12 | Loan | 6,000 | 16 | Salary | 600 |
| | | = | | Bal. c/d | <u>15,200</u> |
| | | 16,000 | | | 16,000 |

Pick-up truck

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|---------|---------------|------|----------|-----------------|
| 5 | Cash | 2,000 | | Bal. c/d | 20,000 |
| 5 | Patrick | 18,000 | | | |
| | | <u>20,000</u> | | | <u>20,000</u> |

Payables (Patrick)

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|----------|---------------|------|---------------|-----------------|
| | Bal. c/d | 18,000 | 5 | Pick-up truck | 18,000 |
| | | <u>18,000</u> | | | <u>18,000</u> |

Trade payables

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|----------|--------------|------|-----------|-----------------|
| | Bal. c/d | 1,500 | 7 | Purchases | 1,500 |
| | | <u>1,500</u> | | | <u>1,500</u> |

Sales

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|----------|------------|------|------|-----------------|
| | Bal. c/d | 500 | 8 | Cash | 500 |
| | | <u>500</u> | | | <u>500</u> |

Bank loan

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|----------|--------------|------|------|-----------------|
| | Bal. c/d | 6,000 | 12 | Bank | 6,000 |
| | | <u>6,000</u> | | | <u>6,000</u> |

Salary

| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
|------------|------|------------|------|----------|-----------------|
| 16 | Bank | 600 | | Bal. c/d | 600 |
| | | <u>600</u> | | | <u>600</u> |

| Capital | | | | | |
|------------|----------|---------------|------|------|-----------------|
| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
| | Bal. c/d | 15,000 | 2 | Cash | 5,000 |
| | | | 2 | Bank | 10,000 |
| | | <u>15,000</u> | | | <u>15,000</u> |

| Purchases | | | | | |
|------------|--------------|--------------|------|----------|-----------------|
| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
| 6 | Cash | 2,000 | | Bal. c/d | 3,500 |
| 7 | Balikuddembe | 1,500 | | | |
| | | <u>3,500</u> | | | <u>3,500</u> |

| Utilities | | | | | |
|------------|------|------------|------|----------|-----------------|
| Dr Date | | Shs '000' | Date | | Cr Shs '000' |
| 10 | Bank | 200 | | Bal. c/d | 200 |
| | | <u>200</u> | | | <u>200</u> |

Solution 4.

(a)

A debit opening balance on the bank account means that in the previous trading period, the bank receipts were more than the payments. In this current period, the business begins with a positive balance.

A credit opening balance on the bank account means that in the previous trading period, the bank payments were more than the receipts. In this current period, the business begins with a deficit.

(b) Two-column cashbook for the month of April 2021

| Date | Details | Cash | Bank | Date | Details | Cash | Bank |
|------|---------------------|--------------|--------------|------|--------------------------|--------------|--------------|
| | | Shs '000' | Shs '000' | | | Shs '000' | Shs '000' |
| 1 | Bal b/d | 3,000 | 10,000 | 8 | Royal Estates Ltd (rent) | | 450 |
| 5 | Delight Ltd (sales) | | 600 | 9 | Cash drawing | | 1,500 |
| 7 | Cash sales | 4,000 | | 15 | Utilities | | 100 |
| 9 | Bank | 1,500 | | 13 | Tom Ombeya | | 400 |
| 13 | Tom Ombeya | | 400 | 18 | Nakasero Investments | | 2,100 |
| 14 | Sales | 3,400 | | 20 | Deep freezer | 1,000 | |
| 21 | Sales | 4,000 | | 22 | Goliath Security Co. | | 2,000 |
| 26 | Cash | | 1,000 | 23 | Natural creations | | 1,000 |
| 28 | Sales | 4,500 | | 25 | Music system | 1,500 | |
| 30 | Peter Mukasa | | 600 | 26 | Bank | 1,000 | |
| 30 | Odoch Samuel | | 1,200 | 27 | KCCA license | | 400 |
| 30 | Among Annet | | 2,100 | | Ume Ltd | | 2,000 |
| | | | | | Stationers Ltd | | 1,200 |
| | | | | | Ecclesiastes Ltd | | 2,500 |
| | | | | | Bal. c/d | 16,900 | 2,250 |
| | | 20,400 | 15,900 | | | 20,400 | 15,900 |

(c)

(i) Updated cashbook (Bank column)

| | | | |
|----------------|-----------|-----------------------------------|-----------|
| | Shs '000' | | Shs '000' |
| Bal b/d | 2,250 | Standing order (Airtime) | 400 |
| CM Joan Alupo | 2,000 | Standing order (Loan installment) | 3,000 |
| CM James Olaba | 120 | Bank charges | 20 |
| Interest | 40 | Bal. c/d | 990 |
| | 4,410 | | 4410 |

(ii) HEL: Bank reconciliation statement for the month of April 2021

| | | |
|-----------------------------|-----------|-----------|
| | Shs '000' | Shs '000' |
| Bal as per updated cashbook | | 990 |
| Add un presented cheques: | | |
| Ume Ltd | 2,000 | |
| Stationers Ltd | 1,200 | |
| Ecclesiastes Ltd | 2,500 | 5,700 |
| Less uncredited cheques: | | |

| | | |
|-------------------------------|-------|---------|
| Peter Mukasa | 600 | |
| Odoch Samuel | 1,200 | |
| Amongi Annet | 2,100 | (3,900) |
| Balance as per bank statement | | 2,790 |

Solution 5

(a)

Useful life of assets

The depreciation rates are usually related to the useful life of the asset. For instance, the bigger the rate, it implies that the asset has lesser years of use. For instance, under straight line, 50 years of useful life, can correspond to 2% while 5 years of use may correspond to 20%. So, a business has different rates for different assets because the useful lives may differ.

Consumption rate

The degree at which the assets are consumed or used may differ and hence different depreciation rates.

In addition, the level of change in the technological environment and the age of the asset when purchased affects its rate of depreciation.

(b)

(i) Motor vehicles account

| | | Shs '000' | | | Shs '000' |
|---------------|---------------|------------------|----------------|----------|------------------|
| 2019 1 Jan | Bal b/d | | 2019 4 Mar | Disposal | 105,000 |
| | Coasters | 450,000 | | Bal c/d | 1,579,300 |
| | Hiaces | 325,000 | | | |
| | Land cruisers | 840,000 | | | |
| 3 Apr | Hiace | 69,300 | | | |
| | | <u>1,684,300</u> | | | <u>1,684,300</u> |
| | Bal b/d | 1,579,300 | 2020 10 Apr | Disposal | 205,000 |
| | | | | Bal c/d | 1,374,300 |
| | | <u>1,579,300</u> | | | <u>1,579,300</u> |
| | Bal b/d | 1,374,300 | | Bal c/d | 1,374,300 |
| | | | | | |
| | | <u>1,374,300</u> | | | <u>1,374,300</u> |

| | |
|-------------------|-----------|
| Cost of the Hiace | Shs '000' |
| Purchase price | 35,000 |
| Import taxes | 30,000 |

| | |
|-------------------------------|---------------|
| Car registration number plate | 1,000 |
| Fixing car seats | 3,300 |
| | <u>69,300</u> |

(ii) Accumulated depreciation account

| | Shs '000' | | Shs '000' |
|--------------------|----------------|---------------|----------------|
| Disposal (coaster) | 42,000 | Bal b/d | |
| Bal c/d | 731,488 | Coasters | 180,000 |
| | | Hiaces | 162,500 |
| | | Land cruisers | 280,000 |
| | | Depreciation | 150,988 |
| | <u>773,488</u> | | <u>773,488</u> |
| Disposal | 98,400 | Bal b/d | 731,488 |
| Bal c/d | 767,676 | Depreciation | 134,588 |
| | <u>866,076</u> | | <u>866,076</u> |
| Bal c/d | 902,264 | Bal b/d | 767,676 |
| | <u>902,264</u> | Depreciation | 134,588 |
| | | | <u>902,264</u> |

Workings

| Depreciation for the year 2019 | | | | | | |
|--------------------------------|----------|--|-----------|-----------|--------|------------------------|
| | Cost b/d | Additions and disposal during the year | | Cost c/d | Rate | Depreciation per annum |
| Coasters | 450,000 | Disposal | (105,000) | 345,000 | 10% | 34,500 |
| Hiaces | 325,000 | Addition | 69,300 | 394,300 | 12.50% | 49,288 |
| L/cruisers | 840,000 | Nil | Nil | 840,000 | 8% | 67,200 |
| | | | | 1,579,300 | | 150,988 |
| Depreciation for the year 2020 | | | | | Rate | |
| | Cost b/d | Additions and disposal during the year | | Cost c/d | Rate | Depreciation per annum |
| Coasters | 345,000 | 0 | - | 345,000 | 10% | 34,500 |
| Hiaces | 394,300 | 0 | - | 394,300 | 12.50% | 49,287.5 |
| Land cruisers | 840,000 | Disposal | 205,000 | 635,000 | 8% | 50,800 |
| | | | | 1,374,300 | | 134,588 |

(iii) Disposal account

| | | Shs '000' | | | Shs '000' |
|------------|-------------------|----------------|--------|------------------|----------------|
| 4 March | MV (Coaster) | 105,000 | 4 Mar | Acc. depn | 42,000 |
| | | | 4 Mar | Cash | 25,000 |
| | | | | Loss on disposal | 38,000 |
| | | <u>105,000</u> | | | <u>105,000</u> |
| 10th April | MV (Land cruiser) | 205,000 | 10 Apr | Acc. depn | 98,400 |
| | | | 10 Ap | Cash | 25,000 |
| | | | | Auto dealer | 25,000 |
| | | | | Loss on disposal | 56,600 |
| | | <u>205,000</u> | | | <u>205,000</u> |

Workings

Computing accumulated depreciation on disposed of assets

| Accumulated depreciation on disposed of Coaster | | | Accumulated depreciation on disposed of Land cruiser | | |
|---|-----------------|--|--|----------|--------|
| | (105,000 x 10%) | | | (8% x | |
| 2015 | 10,500 | | 2014 | 205,000) | 16,400 |
| 2016 | 10,500✓ | | 2015 | | 16,400 |
| 2017 | 10,500✓ | | 2016 | | 16,400 |
| 2018 | 10,500✓ | | 2017 | | 16,400 |
| | <u>42,000</u> | | 2018 | | 16,400 |
| | | | 2019 | | 16,400 |
| | | | | | 98,400 |

TEST PAPER 12 SOLUTIONS

CTA 1 - MAY 2024

Solution 1

(a)

GEGE Manufacturers Limited:

Statement of manufacturing cost for the year ended 31 December 2022

| | Shs '000' | Shs '000' |
|--|-----------|-----------|
| Opening inventory for raw materials | | 68,500 |
| Add: Purchase of raw materials | 341,650 | |
| Add: Transport of raw materials | 1,250 | |
| Less: Discount on raw materials | (2,150) | |
| Less: Raw materials returned | (2,800) | 337,950 |
| Raw materials available for production | | 406,450 |
| Less: Closing inventory for raw materials | | (34,650) |
| Raw materials for production | | 371,800 |
| Add: Direct costs | | |
| Royalties | 24,600 | |
| Direct wages | 12,600 | |
| Direct expenses | 4,450 | 41,650 |
| Prime cost | | 413,450 |
| Add: Factory overhead | | |
| Repairs and maintenance of plant and machinery | 13,600 | |
| Factory power | 3,400 | |
| Salaries [60% x (36,400+3,600)] | 24,000 | |
| Utilities [70% x (48,400-3,400)] | 31,500 | |
| Depreciation on: | | |
| Plant and machinery | 112,500 | |
| Motor vehicles | 9,600 | |
| Equipment | 4,723 | |
| Buildings | 4,320 | 203,643 |
| | | 617,093 |
| Add: Opening WIP | | 42,000 |
| Less: Closing WIP | | (40,000) |
| Cost of goods fully manufactured | | 619,093 |

(b)

Statement of profit or loss for the year ended 31 December 2022

| | Shs '000' | Shs '000' |
|--|--------------|-----------------|
| Sales | | 1,060,000 |
| Less: Sales returns | | <u>2,250</u> |
| Net sales | | 1,057,750 |
| Less: Cost of sales | | |
| Opening inventory for finished goods | 36,900 | |
| Add: Cost of goods fully manufactured | 619,093 | |
| Less: Closing inventory for finished goods | (56,400) | 599,593 |
| Gross profit | | 458,157 |
| Less: Administrative expenses | | |
| Salaries [10% x (36,400+3,600)] | 4,000 | |
| Utilities [20% x (48,400-3,400)] | 9,000 | |
| Depreciation on: | | |
| Motor vehicle | 1,920 | |
| Equipment | 4,723 | |
| Building | 1,080 | 20,723.2 |
| Less: Selling and distribution costs | | |
| Salesmen commission | 7,300 | |
| Salaries [30 x (36,400+3,600)] | 12,000 | |
| Utilities [10% x (48,400-3,400)] | 4,500 | |
| Depreciation on: | | |
| Motor vehicle | 7,680 | |
| Equipment | 2,362 | |
| Building | <u>1,800</u> | <u>35,641.6</u> |
| Net profit for the year. | | <u>401,792</u> |

(c)

Statement of financial position as at 31 December 2022

| | Shs '000' | Shs '000' | Shs '000' |
|---------------------|-----------|--------------------|-----------|
| Non-current assets | Cost | Acc. Depreciation. | NBV |
| Plant and machinery | 600,000 | 262,500 | 337,500 |
| Motor vehicles | 120,000 | 43,200 | 76,800 |
| Equipment | 80,000 | 26,208 | 53,792 |
| Buildings | 360,000 | 14,400 | 345,600 |
| | | | 813,692 |
| Current assets | | | |

| | | | |
|------------------------------|--|----------------|------------------|
| Closing inventory: | | | |
| Raw materials | | 34,650 | |
| Work in progress | | 40,000 | |
| Finished goods | | 56,400 | |
| Prepaid utilities | | 3,400 | |
| Trade receivables | | 60,080 | |
| Cash and bank balances | | <u>112,450</u> | <u>306,980</u> |
| Total assets | | | <u>1,120,672</u> |
| Equity and liabilities | | | |
| Equity | | | |
| Capital | | | 616,530 |
| Retained earnings | | 52,250 | |
| Net profit | | 401,792 | 454,042 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | | 46,500 | |
| Outstanding salaries | | 3,600 | 50,100 |
| Total equity and liabilities | | | <u>1,120,672</u> |

Solution 2

(a)

(i) The objectives of the IASB are:

- To develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions;
- To promote the use and rigorous application of those standards;
- In fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings; and
- To promote and facilitate adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.

(ii) Components of conceptual framework for financial reporting:

- the general purpose of financial reporting;
- the qualitative characteristics of accounting information;
- objectives of financial reporting;
- recognition and measurement in financial statements, and
- basic elements of financial statements.

(b)

(i) Limitations of financial statements.

- Historical costs

Financial reports are based on historical costs. When we check a financial statement, it is not reported according to the current position of the company. Therefore, when we judge the performance or other factors of a company, there is always a historical cost involved in the process, which is misleading because we want the reports to be in their current position. Therefore, financial statements do not provide the current value of assets and liabilities which is a big limitation of them.

- Inflation not adjusted

In financial statements, the assets and liabilities recorded are not inflation adjusted. Inflation is the price rise that occurs for a bucket of selected goods at a certain point in time. Missing high inflation value means items are recorded at lower costs. Such records can be misleading for the readers because they will take the price of items at a lower rate than actual when inflation is not adjusted in the financial statements.

- Personal bias

There is always a personal bias attached to the formation of financial statements. The assets and liabilities are usually determined by individuals or a group who have their own judgments which are applied to the formation of financial statements. Therefore, the amortization of assets, depreciation methods, etc., are prone to the personal judgment of the person using those assets. In order to prepare the assets, therefore, the people who prepare the assets depend on personal judgments. As personal judgment often leads to judgmental errors, financial statements are usually erroneous in nature.

- Reporting for a specific period

Financial reports are usually prepared for a specific period of time and they become unusable in other periods. For example, financial

statements made for the current year may not be usable after five years. As changes keep occurring in various specific time periods, users of financial statements should be aware of the changing nature of business over the years. In fact, financial statements may become useless after a certain period of time. Therefore, analysts who study a company's performance must take as many references as possible to make a judgment about the company's future.

- **Comparability**

Investors and analysts often compare two companies in the same industry or sector using their financial statements. However, as the accounting practices used, valuation of the company, personal judgment, etc. are different for different companies, they are often not comparable to one another. Therefore, the use of financial reports and statement for comparing the performance of two companies is often an arduous task for analysts.

- **Fraudulent practices**

Financial statements are prone to fraudulent practices and hence must be carefully observed before taking a call on any of them. There may be many motives for the financial managers to skew the company's reports to show the company is healthy when its actual condition is not so. There have been many reports of mishandling the financial processes and inflating or deflating the financial statements. The financial reports are just pieces of accounting practices and so they can easily be manipulated. Although it is impossible to manipulate books forever, there are chances of fraud in accounting. Therefore, one must be vigilant for fraudulent cases in the case of financial statements.

- **Ignorance of non-financial issues**

It is a major concern for the stakeholders that financial reports do not discuss non-financial issues like environmental, social, and governance concerns or the quality of management. They do not also consider the steps taken by the company to improve the conditions too. These issues are being discussed increasingly in the current period of time, and there is an increased awareness among the stakeholders. However, the financial statements do not provide any information or discussion over the same.

- **Non-verifiability**

Although auditors can audit financial reports, they are usually of no use to the readers because they cannot verify them. The financial statements, once prepared, act as the final call on the financial statute of the company. Non-verifiability is a major concern because it often offers accountants the power to manipulate the books. However, one can use the nature of non-verifiability as an act of responsibility to

prepare the financial statements responsibly which can increase the faith of stakeholders in that particular company.

- Cannot predict the future

Although many analysts and many investors use various tools to analyse the financial statement to predict the future, it is impossible to do so. There has been no financial policy that can predict the future with full compatibility and competence. The non-predictability of the future is the rule of nature and financial statements cannot supersede it.

(ii) Fundamental accounting assumptions underlying preparation of financial statements

- Going concern

This assumption is based on the principle that while making the financial statements of an entity, the preparer will assume that the company has no plans of winding up in the near future. So, the assumption is that the company will continue to exist indefinitely (far into the future), i.e. it will keep on existing for the foreseeable future.

- Consistency

This assumption states that unless and until changes are permitted in the accounting policies, procedures, standards, etc., policies that have been followed in accounting remain the same. This allows for uniformity in the financial statements of a company over the years. It also becomes easier to compare financial statements from previous years, something that is important to potential investors and other external stakeholders.

However, this does not mean that an entity cannot change accounting policies to stay relevant with time. This assumption does not completely prohibit change. Sometimes, it is necessary to make changes under the following conditions:

- If it is a statutory requirement and the entity will have to change its accounting policy to abide by the law.
- Other times a change in policy will allow them to represent their accounts more fairly and appropriately.
- Changes made in books of account can follow the Accounting Standards issued.

So, when an entity changes its policies or methods for the above reasons, the users of the financial statements must be informed. Whether there is a material effect in the current year or upcoming years, a disclosure must be made. This disclosure is usually made in the notes at the end of the balance sheet.

- **Accrual**
Under this assumption, accounting transactions are recorded in the books of account when they occur and not when money is transferred. So, as opposed to the cash system, in the accrual concept, the revenue or expenditure is recognized in the year they are realized or incurred.

(c) Qualitative characteristics of accounting information

Fundamental qualitative characteristics

Relevance

Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value, or both.

Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value.

Faithful representation

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have three characteristics—it would be complete, neutral and free from error. Of course,

perfection is seldom, if ever, achievable. The Board's objective is to maximize those qualities to the extent possible.

Enhancing qualitative characteristics

Verifiability

Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

Timeliness

Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

Understandability is the degree to which information is easily understood. Classifying, characterizing and presenting information clearly and concisely makes it understandable. Information that is understandable to the average user of financial statements is highly desirable.

Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyze the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Comparability

Comparability is the degree to which accounting standards and policies are consistently applied from one period to another. Financial statements that are comparable, with consistent accounting standards and policies applied throughout each accounting period, enable users to draw insightful conclusions about the trends and performance of the company over time. In addition, comparability also refers to the ability to easily compare a company's financial statements with those of other companies.

Solution 3

(a)

| Mabato Ltd | | | | | | | | | |
|--|----------------------|-------|---------|-------------|--------|----------------------------|-------|---------|-------------|
| Gas cylinder inventory account for the year ended 31 December 2022 | | | | | | | | | |
| Date | Details | Qty | Rate | Amount | Date | Details | Qty | Rate | Amount |
| 1-Jan | Bal b/d | | Shs | Shs | 5-Aug | Cash a/c | | Shs | Shs |
| | At the premises | 200 | 100,000 | 20,000,000 | | Sold cylinders | 20 | 20,000 | 400,000 |
| | With customers | 350 | 100,000 | 35,000,000 | 31-Dec | Cylinder Suspense a/c | | | - |
| 5-Sep | Cash a/c | | | - | | Hiring profit | | | 7,500,000 |
| | Purchased cylinders | 500 | 180,000 | 90,000,000 | | Cylinders kept permanently | 260 | 150,000 | 39,000,000 |
| | Repairs of cylinders | 30 | 35,000 | 1,050,000 | 31-Dec | Profit or loss a/c | | | |
| | | | | - | | Loss on usage | | | 22,150,000 |
| | | | | - | | Bal c/d | | | - |
| | | | | | | At the premises | 655 | 100,000 | 65,500,000 |
| | | | | - | | With customers | 115 | 100,000 | 11,500,000 |
| | | 1,050 | - | 146,050,000 | | | 1,050 | - | 146,050,000 |

(b) Cylinder suspense account

| Date | Details | Qty | Rate | Amount | Date | Details | Qty | Rate | Amount |
|--------|---------------------------------|-----|---------|------------|--------|----------------|-----|---------|------------|
| 20-Apr | Customers' a/c | | Shs | Shs | 1-Jan | Bal b/d | | Shs | Shs |
| | Cylinders returned by customers | 125 | 150,000 | 18,750,000 | | With customers | 350 | 150,000 | 52,500,000 |
| 31-Dec | Cylinder inventory a/c | | | - | 15-Jan | Customers a/c | | | - |
| | Hiring profit | | | 7,500,000 | | Cylinders | 150 | 200,000 | 30,000,000 |

| | | | | | | | | | |
|--|---|------------|----------------|-------------------|---|------------|------------|---|-------------------|
| | | | | | | dispatched | | | |
| | Cylinders kept permanently by customers | 260 | 150,000 | 39,000,000 | | | | | - |
| | Bal c/d | | | - | | | | | - |
| | With customers | <u>115</u> | <u>150,000</u> | <u>17,250,000</u> | | | - | - | - |
| | | <u>500</u> | - | <u>82,500,000</u> | - | - | <u>500</u> | - | <u>82,500,000</u> |

(c) Statement of profit or loss for the year ended 31 December 2022

| | Shs | Shs |
|---|------------------|---------------------|
| Profit on the cylinders sent to customers (immediate profit) -150 x (200,000-150,000) | | 7,500,000 |
| Add: Profit on cylinders kept permanently (260 x (150,000-100,000)) | | <u>13,000,000</u> |
| | | 20,500,000 |
| Less: | | |
| Repairs on cylinders | 1,050,000 | |
| Depreciation on cylinders purchased (500 x (180,000-100,000)) | 40,000,000 | |
| Loss on damaged cylinders (20 x 100,000) - (20 x 20,000) | <u>1,600,000</u> | <u>(42,650,000)</u> |
| Loss on usage of cylinders | | <u>(22,150,000)</u> |

Solution 4

(a)

(i) How an item of PPE is measured subsequent to initial recognition

Subsequent to initial recognition, property, plant and equipment (PPE) is measured either using the cost model or the revaluation model.

Under the cost model, the carrying amount of PPE is measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Under the revaluation model, the carrying amount of PPE whose fair value can be measured reliably should be measured using the revaluation model. Under this model, the carrying value is taken at the fair value of PPE at the date of revaluation less any subsequent accumulated depreciation and impairment loss.

(ii) Factors that should be considered when establishing the item's useful life:

- Expected usage/ frequency of use of the item;
- Age of the asset when purchased;
- Expected physical wear and tear;
- Technical or commercial obsolescence of the item, and
- Legal or other limits on the use of the asset.

(b)

(i) Combined non-current asset account

| Non-current asset account | | | | | |
|---------------------------|---------------------------------------|----------------|-----------|----------------------------------|----------------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| 1-Jul-20 | Balance b/f | 125,000 | | | |
| 1-Jan-21 | UBD X45T | 70,000 | 30-Jun-21 | Balance c/f | <u>195,000</u> |
| | | <u>195,000</u> | | | <u>195,000</u> |
| 1-Jul-21 | Balance b/f | 195,000 | | | |
| 30-Sep-21 | UBD X54S | 80,000 | | | |
| 31-Dec-21 | UBF X33A (book value- UBA Y77W) | 34,453 | 31-Dec-21 | Disposal account- UBA Y77W | 60,000 |
| | UBF X33A (Bank top up) | 46,000 | 30-Jun-22 | Disposal account- UBB T44F | 65,000 |
| 30-Jun-22 | Bank- coaster | 112,000 | 30-Jun-22 | balance c/f | 342,453 |
| | | <u>467,453</u> | | | <u>467,453</u> |
| 1-Jul-22 | Balance B/f | 342,453 | | | |

| Workings | | |
|---|---------------|--|
| Cost of UBD X45T | | |
| Purchase price | 65,000 | |
| Add: Clearance and Registration fees | 5,000 | |
| | <u>70,000</u> | |
| Cost of the 28-seater coaster | | |

| | | |
|----------------|---------|--|
| Purchase price | 50,000 | |
| Transport | 2,000 | |
| taxes | 60,000 | |
| | 112,000 | |

(ii) Combined accumulated depreciation account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|-----------|----------------------|---------------|-----------|-----------------------|---------------|
| | | | 1-Jul-20 | Balance b/f | 7,500 |
| | | | 30-Jun-21 | Depreciation-UBA Y77W | 13,125 |
| 30-Jun-21 | Balance c/f | 36,875 | | Depreciation-UBB T44F | 16,250 |
| | | <u>36,875</u> | | | <u>36,875</u> |
| | | | | | |
| 31-Dec-21 | Disposal-UBA Y77W | 25,547 | 1-Jul-21 | Balance B/f | 36,875 |
| | | | 31-Dec-21 | Depreciation-UBA Y77W | 4,922 |
| | | | 30-Jun-22 | Depreciation-UBB T44F | 12,188 |
| 30-Jun-22 | Disposal of UBB T44F | 28,438 | | Depreciation-UBD X54S | 15,000 |
| 30-Jun-22 | balance c/f | 25,057 | | Depreciation-UBF X33A | 10,057 |
| | | <u>79,041</u> | | | <u>79,041</u> |

| Workings | | |
|--|----------------------|-------|
| Accumulated depreciation b/f as at 1 July 2020 | | |
| UBA Y77W | | |
| Cost | 60,000 | |
| Depreciation (31 December, 2019-30 June, 2020) | (60,000 x 25%) x 0.5 | 7,500 |

(iii) Combined disposal account

| Date | Details | Shs '000' | Date | Details | Shs '000' |
|-----------|----------|-----------|-----------|---------------------------|-----------|
| 31-Dec-21 | UBA Y77W | 60,000 | 31-Dec-21 | Acc. Depreciation | 25,547 |
| | | | | Part exchange/ book value | 34,453 |
| | | 60,000 | | | 60,000 |
| | | | | | |
| 30-Jun-22 | UBB T44F | 65,000 | | Acc. Depreciation | 28,438 |
| | | | | Bank | 21,000 |
| | | | | Loss on disposal | 15,563 |
| | | 65,000 | | | 65,000 |

(iv) Bank Account (extract)

| | | Bank extract | | | |
|-----------|-------------------|--------------|-------------------------|------------------------|-----------|
| Date | Details | Shs '000' | Date | Details | Shs '000' |
| | | | Year ended 30 June 2021 | | |
| | | | 1-Jan-21 | UBD X45T | 70,000 |
| | | | Year ended 30 June 2022 | | |
| 30-Jun-22 | Proceeds-UBB T44F | 21,000 | 30-Sep-21 | UBD X54S | 80,000 |
| | | | 2-Dec-21 | Repairs of UBA Y77W | 4,700 |
| | | | 31-Dec-21 | UBF X33A (Bank top up) | 46,000 |
| | | | 30-Jun-22 | Bank-coaster UBG X70Y | 112,000 |
| | | | | Fuel | 800 |

Solution 5

(a) Reasons for the difference between the cashbook and the bank statement:

- Direct credits – these are amounts that have been directly credited to the bank account without the knowledge of the cashbook preparer.
- Direct debits – amounts that are directly debited in the bank statement without the knowledge of the cashbook preparer.
- Un-presented cheques – cheques that have been issued out but not yet presented to the bank for payment.
- Un-credited cheques – these are cheques that have been received but not yet credited in the bank statement.
- Dishonored cheques – these are cheques that have been either received or paid but rejected by the bank.
- Clerical errors – these are errors that have been made by either in the cashbook or in the bank statement.

(b)

(i)

| Adjusted cashbook | | | |
|---------------------|--------------------|-----------------|--------------------|
| | Shs | | Shs |
| Bal b/d | 127,730,000 | DH: | |
| DH: | | Chq no. 223 | 40,000,000 |
| Chq no. 6 | 36,000,000 | Chq no. 498 | 5,000,000 |
| Chq no. 16 | 6,380,000 | Bank charges | 35,000 |
| Interest on deposit | 2,700,000 | Stamp duty | 1,050 |
| Dividends | 4,200,000 | Insurance | 14,000,000 |
| Chq no. 443 | 50,000,000 | CBE- Chq no. 15 | 17,600,000 |
| CBE - Chq no. 11 | 900,000 | | |
| CBE - Chq no. 212 | 17,010,000 | | |
| CBE - Chq no. 912 | 22,500,000 | Bal c/d | <u>190,783,950</u> |
| | <u>267,420,000</u> | | <u>267,420,000</u> |

(ii)

Bank reconciliation statement

| | | |
|-------------------------------|-------------|--------------------|
| Bal as per adjusted cashbook | | 190,783,950 |
| Add: Un-presented cheques | | |
| Chq no. 12 | 10,100,000 | |
| Chq no. 13 | 11,750,000 | |
| Chq no. 14 | 3,800,000 | |
| BE-Chq no.7 | 43,200,000 | |
| BE-Chq no.9 | 50,050,000 | |
| BE - Chq No. 555 | 36,000,000 | 154,900,000 |
| | | 345,683,950 |
| Less: Un-credited cheques | | |
| Chq no. 723 | 6,660,000 | |
| Chq no. 654 | 1,200,000 | |
| Chq no. 512 | 2,000,000 | |
| BE-Chq no. 112 | 123,000,000 | <u>132,860,000</u> |
| Bal as per the bank statement | | <u>212,823,950</u> |

Note that CBE presents cashbook error whereas BE represents bank error.

TEST PAPER 13 SOLUTIONS

CTA 1 - DECEMBER 2024

Solution 1

(a) Sembe: Statement of profit or loss for the year ended 31 December 2023

| | Shs '000' | Shs '000' | Shs '000' |
|--------------------------------------|----------------|----------------|----------------|
| Sales | | | 1,234,500 |
| Less: Returns | | | <u>(2,250)</u> |
| Net sales | | | 1,232,250 |
| Less: Cost of sales | | | |
| Opening inventory | | 89,500 | |
| Add: Purchases | 345,000 | | |
| Add: Carriage inwards | 2,000 | | |
| Less: Return outwards | <u>(3,600)</u> | <u>343,400</u> | |
| Goods available for sale | | 432,900 | |
| Less: Closing inventory | | <u>156,500</u> | <u>276,400</u> |
| Gross profit | | | 955,850 |
| Add: Other incomes | | | |
| Discount received | | 5,500 | |
| Interest on treasury bill | | 8,500 | |
| Commission received | | 2,750 | |
| Reduction in provision (2,400-2,200) | | <u>200</u> | <u>16,950</u> |
| Gross income | | | 972,800 |
| Less: Operating expenses | | | |
| Depreciation: | | | |
| Motor vehicles | | 45,000 | |
| Equipment | | 17,712 | |
| Furniture | | 3,000 | |
| Amortization of goodwill | | 5,000 | |
| Interest on bank loan | | 45,000 | |
| Discount allowed | | 4,800 | |
| Commission paid | | 1,200 | |
| Salaries (48,500+600) | | 49,100 | |
| Utilities | | 54,000 | |
| Rent (36,000/18 x 12) | | 24,000 | |
| Carriage outwards | | <u>1,800</u> | <u>250,612</u> |
| Net profit for the year | | | <u>722,188</u> |

(b) Sembe: Statement of financial position as at 31 December 2023

| Assets | Shs '000' | Shs '000' | Shs '000' |
|--|-------------------|--------------------------|------------------|
| Non-current assets | Cost | Accumulated depreciation | NBV |
| Land | 800,000 | | 800,000 |
| Motor vehicles | 240,000 | 105,000 | 135,000 |
| Equipment | 120,000 | 39,312 | 80,688 |
| Furniture | <u>60,000</u> | <u>6,000</u> | <u>54,000</u> |
| | <u>1,220,000</u> | <u>150,312</u> | 1,069,688 |
| Intangible assets | | | |
| 8.5% Treasury bills | | | 100,000 |
| Goodwill | 40,000 | 5,000 | 35,000 |
| Current assets | | | |
| Closing inventory | | 156,500 | |
| Accrued interest on treasury bills | | 8,500 | |
| Prepaid rent | | 12,000 | |
| Trade receivables | 76,500 | | |
| Less: Provision for doubtful debts | <u>2,200</u> | 74,300 | |
| Cash and bank balances | | <u>794,000</u> | <u>1,045,300</u> |
| Total assets | | | <u>2,249,988</u> |
| Equity and liabilities | | | |
| Equity | | | |
| Ordinary share capital of 1,000,000 shares of Shs 800 each | (640,000+160,000) | 800,000 | |
| Share premium | (160,000+60,000) | 220,000 | |
| Retained earnings | 112,000 | | |
| Add net profit for the year | <u>722,188</u> | 840,188 | |
| General reserves | | 61,550 | |
| Drawings | | <u>(5,600)</u> | 1,916,138 |
| Liabilities | | | |
| Non-current liabilities | | | |
| 18% Bank loan | | | 250,000 |
| Current liabilities | | | |
| Trade payables | | 44,250 | |
| Accrued interest on bank loan | | 45,000 | |
| Outstanding salaries | | <u>600</u> | <u>89,850</u> |
| Total equity and liabilities | | | <u>2,249,988</u> |

Solution 2

(a) Sirimal's two-column cashbook for the month of June 2023

| | | Shs '000' | Shs '000' | | | Shs '000' | Shs '000' |
|------|--------------|---------------|----------------|------|-----------------|---------------|----------------|
| Date | Details | Cash | Bank | Date | Details | Cash | Bank |
| 2 | Capital | 30,000 | 60,000 | 5 | Purchases | 5,000 | |
| 15 | Loan | | 80,000 | 10 | Wages | 15,000 | |
| 16 | Debtor- Lala | | 5,000 | 13 | Creditor-Prasad | 2,000 | 5,000 |
| 18 | Sales | 4,500 | | 15 | D/Van | | 50,000 |
| 22 | Cash | | 3,000 | 20 | Purchases | 1,800 | 6,500 |
| | | | | 22 | Bank | 3,000 | |
| | | | | 25 | Rent | | 2,500 |
| | | | | 25 | Salaries | 2,400 | |
| | | | | | Bal c/d | <u>5,300</u> | <u>84,000</u> |
| | | <u>34,500</u> | <u>148,000</u> | | | <u>34,500</u> | <u>148,000</u> |
| | Balance b/d | 5,300 | 84,000 | | | | |

Capital a/c

| Date | | Shs '000' | Date | | Shs,000 |
|------|----------|----------------|------|-----------|----------------|
| | | | 2 | Cash | 30,000 |
| | | | 2 | Bank | 60,000 |
| | | | 2 | Furniture | 6,000 |
| | | | 2 | M/Vehicle | <u>40,000</u> |
| | Bal. c/d | 136,000 | | | <u>136,000</u> |
| | | <u>136,000</u> | | | |

Furniture a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|---------|--------------|------|----------|--------------|
| 2 | Capital | <u>6,000</u> | | Bal. c/d | <u>6,000</u> |
| | | | | | |

Motor vehicle a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|-----------|---------------|------|----------|-----------|
| 2 | Capital | 40,000 | | Bal. c/d | 100,000 |
| 15 | Bank | 50,000 | | | |
| 15 | Creditors | <u>10,000</u> | | | |
| | | 100,000 | | | 100,000 |

Purchases a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|-----------|---------------|------|----------|---------------|
| 5 | Cash | 5,000 | | Bal. c/d | 30,000 |
| 7 | Creditors | 15,000 | | | |
| 20 | Cash | 1,800 | | | |
| 20 | Bank | 6,500 | | | |
| 20 | Creditors | <u>1,700</u> | | | |
| | | <u>30,000</u> | | | <u>30,000</u> |

Creditors a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|----------|---------------|------|-----------|---------------|
| 13 | Cash | 2,000 | 7 | Purchases | 15,000 |
| 13 | Bank | 5,000 | 15 | Purchases | 1,700 |
| | Bal. c/d | 9,700 | 20 | | |
| | | <u>16,700</u> | | | <u>16,700</u> |

Sales a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|----------|---------------|------|---------|---------------|
| | Bal. c/d | 12,500 | 12 | Debtors | 8,000 |
| | | <u>12,500</u> | 15 | Cash | <u>4,500</u> |
| | | | | | <u>12,500</u> |

Rent a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|------|--------------|------|----------|--------------|
| 25 | Bank | 2,500 | | Bal. c/d | 2,500 |
| | | <u>2,500</u> | | | <u>2,500</u> |

Salaries and wages a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|------|---------------|------|----------|---------------|
| 10 | Cash | 15,000 | | Bal. c/d | 17,400 |
| 25 | Cash | 2,400 | | | |
| | | <u>17,400</u> | | | <u>17,400</u> |

Debtors' a/c

| Date | | Shs '000' | Date | | Shs '000' |
|------|-------|--------------|------|----------|--------------|
| 12 | Sales | 8,000 | 16 | Bank | 5,000 |
| | | <u>8,000</u> | | Bal. c/d | <u>3,000</u> |
| | | | | | <u>8,000</u> |

| Bank loan a/c | | | | | |
|---------------|----------|---------------|------|------|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | Bal. c/d | 80,000 | 15 | Bank | 80,000 |
| | | <u>80,000</u> | | | <u>80,000</u> |

| Motor vehicle supplier a/c | | | | | |
|----------------------------|----------|---------------|------|-----|---------------|
| Date | | Shs '000' | Date | | Shs '000' |
| | Bal. c/d | 10,000 | 6 | M/V | 10,000 |
| | | <u>10,000</u> | | | <u>10,000</u> |

(b) Sirimal's trial balance as at 30 June 2023

| | Debits | Credits |
|--------------------|----------------|----------------|
| Account title | Shs '000' | Shs '000' |
| Cash | 5,300 | |
| Bank | 84,000 | |
| Capital | | 136,000 |
| Furniture | 6,000 | |
| Loan | | 80,000 |
| Motor vehicle | 100,000 | |
| Purchases | 30,000 | |
| Creditors | | 9,700 |
| M/V supplier | | 10,000 |
| Sales | | 12,500 |
| Rent | 2,500 | |
| Debtors | 3,000 | |
| Salaries and wages | <u>17,400</u> | |
| | <u>248,200</u> | <u>248,200</u> |

Solution 3

(a)

(i) Reasons why the cashbook (Bank column) and the bank statement differ.

The balance on the bank statement may not at times agree with the balance in the cashbook. This can be attributed to a number of reasons that include the following:

- ✓ Cheques issued but not yet presented for payment.
- ✓ Cheques deposited into bank but not yet credited.
- ✓ Bank charges and interest on loan and overdraft.
- ✓ Interest and dividends collected by the bank.
- ✓ Dishonor of cheques and bills.
- ✓ Amount paid by parties directly into the bank.
- ✓ Payment made directly by the bank to others.
- ✓ Bills collected by the bank on behalf of its customer.
- ✓ Errors committed in recording the transactions by the business in the cash book or bank statement.

(ii) Errors that cannot be revealed by a trial balance

- ✓ Errors of omission
An error of omission refers to a mistake where the accountant skipped the entry in its entirety. It means that both the debit and credit aspects of the transaction are skipped, and it does not impact the arithmetical accuracy of the trial balance.
- ✓ Errors of commission
The error of commission refers to a situation where the accountant enters the accounting transaction in the wrong account belonging to the same class of accounts.

For example, you made a sale to Mr. X but entered the same in the account of Mr. Y. While both accounts belong to the same asset class, the entry is technically incorrect but does not impact the arithmetical accuracy, hence the trial balance, too.
- ✓ Errors of principle
The errors of principle are similar to errors of the commission but include general ledger accounts and not personal accounts. For example, you enter the purchase of capital machinery in the land and building account.
- ✓ Compensating errors
Compensating errors refer to a situation where two errors compensate for each other's arithmetic impact.

For example, you sold items worth Shs 50,000 and Shs 150,000 to Mr. X and Mr. Y, respectively, but ended up entering the sales value as Shs 100,000 against each of their accounts. Since the overall sales value remains the same, the trial balance will remain unaffected.
- ✓ Complete reversal errors
Complete reversal errors refer to a situation where an account that has to be debited is credited and vice versa. For example, a payment made to the creditor is credited to the creditor's account instead of

being debited. Simultaneously, the amount is also debited to the bank account instead of being credited.

✓ Duplication errors

Duplication errors refer to a situation where a transaction is recorded twice in the ledger. In such cases, since the double-entry was made twice, the trial balance cannot figure out any discrepancy caused by them.

(b)

(i) Shinny Enterprises: Adjusted cashbook

| | Shs | | Shs |
|-----------------------|-------------------|--------------------|-------------------|
| Bal b/d | 12,560,000 | Undercast | 2,000,000 |
| Unrecorded cash | 8,000,000 | Cash discount | 520,000 |
| Cash error | 33,750,000 | Cash error-Aisha | 4,550,000 |
| Cash error | 2,700,000 | Bank charges | 35,000 |
| Dishonoured chq- Fred | 4,200,000 | Standing order | 4,950,000 |
| Direct credits: | | Cash error | 2,400,000 |
| Dividends | 10,500,000 | Dishonoured cheque | 2,600,000 |
| Mary | 1,200,000 | Cash error-Martin | 12,100,000 |
| Joan | 9,200,000 | Stamp duty | 3,500 |
| Sam | 3,250,000 | Balance c/d | <u>56,201,500</u> |
| | <u>85,360,000</u> | | <u>85,360,000</u> |

(ii)

Bank reconciliation statement

| | | |
|-----------------------------------|------------|---------------------|
| Balance as per adjusted cash book | | 56,201,500 |
| Add un-presented cheques: | | |
| Muturi | 2,500,000 | |
| Paul | 3,600,000 | |
| Cyrus | 4,200,000 | |
| Ronnie | 2,100,000 | |
| Bank error | 9,000,000 | <u>21,400,000</u> |
| | | 77,601,500 |
| Less uncredited cheques | | |
| Peter | 9,550,000 | |
| Maureen | 4,800,000 | |
| Dismas | 2,100,000 | |
| Bank error | 12,320,000 | |
| Loren | 13,450,000 | <u>(42,220,000)</u> |

Balance as per bank statement

35,381,500

Solution 4

(a)

Factors to consider when determining the method of depreciation under IAS 16—
Property, Plant and Equipment

✓ Tax considerations

The amount of depreciation is tax-free for the business. Thus, in jurisdictions where the tax rates are very high, businesses might choose accelerated depreciation methods to reduce the tax burden.

✓ Nature of the asset

The asset may lose value due to its usage or the passage of time. If the asset loses its value due to usage, the units of production method will be used for calculating depreciation. Otherwise, other methods like straight-line depreciation, the double declining balance method, etc., can be used

✓ Legal provisions- the tax laws may prescribe the depreciation methods and the accountant may not want to adopt to avoid reconciliations.

✓ Technological factors. Assets that affected greatly by changes in technology will use reducing balance methods that provide for higher depreciation amounts in the earlier years of the asset.

✓ The rate of consumption of the asset.

(b) Wellness Center (WC)'s combined ledger accounts for:

(i)

Non-current assets account

| | | | | | |
|------------|------------------------|----------------|------------|----------|----------------|
| 31/12/2020 | Bal b/d: | Shs '000' | | | Shs '000' |
| | Anesthesia machines | 240,000 | | | |
| | X-ray machines | 360,000 | 31/12/2020 | Bal c/d | 660,000 |
| | Hospital stretchers | <u>60,000</u> | | | |
| | | <u>660,000</u> | | | <u>660,000</u> |
| 1/1/2021 | Bal b/d: | 660,000 | | | |
| 1-Jan-21 | Defibrillators | 48,000 | 31/12/2021 | Bal c/d | 708,000 |
| | | <u>708,000</u> | | | <u>708,000</u> |
| 1/1/2022 | Bal b/d: | 708,000 | 15/11/2022 | Disposal | 120,000 |
| 5/12/2022 | New anesthesia machine | | | | |
| | Exchange | 45,500 | 31/12/2022 | Bal c/d | 768,000 |
| | Bank | 134,500 | | | |
| | | <u>888,000</u> | | | <u>888,000</u> |
| 1/1/2023 | Bal b/d: | 768,000 | 1/3/2023 | Disposal | 20,000 |

| | | | | | |
|--|--|----------------|--|---------|----------------|
| | | | | Bal c/d | 748,000 |
| | | <u>768,000</u> | | | <u>768,000</u> |

(ii)

Accumulated depreciation account

| | | | Shs '000' | | Shs '000' |
|------------|----------|----------------|------------|----------------------|----------------|
| | | | 31/12/2020 | Bal b/d: | |
| | | | | Anesthesia machines | 60,000 |
| 31/12/2020 | Bal c/d | 139,200 | | X-ray machines | 72,000 |
| | | | | Hospital stretchers | 7,200 |
| | | <u>139,200</u> | | | <u>139,200</u> |
| | | | 1/1/2021 | Bal b/d | 139,200 |
| | | | | Depreciation: | |
| | | | | Anesthesia machines | 45,000 |
| 31/12/2021 | Bal c/d | 251,400 | | X-ray machines | 57,600 |
| | | | | Hospital stretchers | 7,200 |
| | | | | Defibrillators | 2,400 |
| | | <u>251,400</u> | | | <u>251,400</u> |
| | | | 1/1/2022 | Bal b/d: | 251,400 |
| 15/11/2022 | Disposal | 52,500 | | Depreciation: | |
| | | | | Anesthesia machines: | |
| | | | | Old machine left | 16,875 |
| 31/12/2022 | Bal c/d | 316,455 | | New machine | 45,000 |
| | | | | X-ray machines | 46,080 |
| | | | | Hospital stretchers | 7,200 |
| | | | | Defibrillators | 2,400 |
| | | <u>368,955</u> | | | <u>368,955</u> |
| | | | 1/1/2023 | Bal b/d: | 316,455 |
| 1/3/2023 | Disposal | 7,200 | | Anesthesia machines: | |
| | | | | Old machine left | 12,656.25 |
| | | | | New | 33,750 |
| | Bal c/d | 399,725 | | X-ray machines | 36,864 |
| | | | | Hospital stretchers | 4,800 |
| | | | | Defibrillators | 2,400 |
| | | <u>155,525</u> | | | <u>406,925</u> |

(iii)

Disposal of assets account

| | | Shs '000' | | Shs '000' |
|------------|---------------------|----------------|-------------------|----------------|
| 15/11/2022 | Anesthesia machine | 120,000 | Acc. Depreciation | 52,500 |
| | | | Exchange | 45,500 |
| | | | Loss on disposal | 22,000 |
| | | <u>120,000</u> | | <u>120,000</u> |
| 1/3/2023 | Hospital stretchers | 20,000 | Acc. Depreciation | 7,200 |
| | Gain on disposal | 200 | Bank | 13,000 |
| | | <u>20,200</u> | | <u>20,200</u> |

Workings:

Depreciation in year 1

| | | |
|---------------------|---------------|--------|
| Anesthesia machines | 25% x 240,000 | 60,000 |
| X-ray machines | 20% x 360,000 | 72,000 |
| Hospital stretchers | 12% x 60,000 | 7,200 |

Depreciation in year 2

| | | |
|---------------------|-------------------------|--------|
| Anesthesia machines | 25% x (240,000- 60,000) | 45,000 |
| X-ray machines | 20% x (360,000- 72,000) | 57,600 |
| Hospital stretchers | 12% x 60,000 | 7,200 |
| Defibrillators | 48,000 x 5% | 2,400 |
| | | |

Depreciation in year 3

| | | |
|-------------------------|--|--------|
| New Anesthesia machine | (134,500+45,500) x 25% | 45,000 |
| Old Anesthesia machines | Remaining cost (240,000- 120,000) = 120,000. Remaining Acc depn 60,000+45,000- 52,500 = 52,500. Remaining NBV (120,000- 52,500) = 67,500 x 25%= 16,875. Acc. Depn on the exchanged Anesthesia machine 25% x 120,000 = 30,000 in year 1 | 16,875 |

| | | |
|---------------------|--|--------|
| | $25\% \times (120,000 - 30,000) = 22,500$ Total is $30,000 + 22,500 = 52,500$ | |
| X-ray machines | $20\% \times (360,000 - 72,000 - 57,600)$ | 46,080 |
| Hospital stretchers | $12\% \times 60,000$ | 7,200 |
| Defibrillators | $48,000 \times 5\%$ | 2,400 |
| | | |

Depreciation in year 4

| | | |
|-------------------------|---|--------|
| New Anesthesia machine | $(134,500 + 45,500 - 45,000) \times 25\%$ | 33,750 |
| Old Anesthesia machines | Remaining NBV $(120,000 - 52,500 - 16,875) \times 25\% =$ | 12,656 |
| X-ray machines | $20\% \times (360,000 - 72,000 - 57,600 - 46,080)$ | 36,864 |
| | Acc. depreciation on disposed of stretcher $20,000 \times 12\%$ for 3 years = 7,200 Depreciation on remaining assets $(60,000 - 20,000) \times 12\% = 4,800$ | 4,800 |
| Hospital stretchers | | |
| Defibrillators | $48,000 \times 5\%$ | 2,400 |

Solution 5

(a)

Advantages of hire purchase

- ✓ Rather than one big lump sum, you can spread the purchase cost of high-ticket items. These include items such as motor vehicles, machinery, plant and equipment, where you can pay over a period of 3 to 5 years typically.
- ✓ As the hire purchaser, you will own the asset after paying the last instalment which can make it a favorable alternative to a lease.
- ✓ You will have immediate use of the item once the agreement with the vendor has been signed off, rather than wait until you have saved enough.
- ✓ Hire purchase is a simple way of financing and typically relatively easy to obtain.
- ✓ The interest rate on hire purchases is fixed for the duration of the agreement.
- ✓ There are fewer restrictions – e.g. leasing a vehicle, there are no mileage or conditional restrictions that must be met with a hire purchase agreement, as the car becomes yours once the term has ended. However, you must

remember that you're not the legal owner of the car during the agreement, so there could be stipulations on modifying the car until your agreement ends.

Disadvantages of hire purchase

- ✓ The asset involved is security for the loan, so it could be repossessed at any time should you fail to maintain your payments.
- ✓ The lender is the legal owner of the asset until all repayments have been made.
- ✓ Failing to maintain repayments will adversely affect your credit rating.
- ✓ Given the total amount you're likely to pay in repayments over the full term of the arrangement, this can be an expensive way of purchasing an asset.
- ✓ By the time the repayment term ends, and just as you become the asset's legal owner, the asset could have depreciated in value or become obsolete. This might be especially true given the length of most hire purchase agreements.

(b) Characteristics of joint ventures

A joint venture is a combination of two or more parties that seek the development of a single enterprise or project for profit, sharing the risks associated with its development. The parties to the joint venture must be at least a combination of two natural persons or entities.

Characteristics

- ✓ Agreement
The terms and conditions of the joint ventures are enforced on a written treaty having the signature of all the parties involved. The main things discussed in the agreement are that all the persons are willing to work with each other, the duration of this agreement, liabilities, model of association, financial share, etc.
- ✓ Parties
Those individuals included in the joint venture are known as co-venturers. Their number varies from two to more than two. These are the individuals who will do this business under the joint venture.
- ✓ No separate laws
There is no independent regulating body that governs the activities of the joint venture. However, the Ministry of Corporate Affairs, in association with the Registrar of Companies, keep an eye on companies in case the parties enter into a corporate structure. Besides that, there is no separate law or governing bodies which can take part in the joint venture.
- ✓ Duration
Joint ventures are for a short period and are not permanent. The duration depends upon the choices of all parties involved in joint ventures. Here, two

or more companies join hands to conquer various issues. These federations are temporary and terminate when the set goal is achieved.

✓ Create synergies

The persons and companies involved in joint ventures have various and different skills and experiences. Joining hands with each other can be beneficial for all parties in a way to extract the skills and abilities of each other. One company can have some particular skills that may not be present in another company. Similarly, the other company may have such experiences that may be absent in another. If these companies enter into a joint venture, it gives rise to synergies between them for a greater cause.

✓ No special name for the venture

Since the business is for a short period, any special and unique name is not required. The companies or parties can utilize their already used name, and the venture could be named based on the opinion of all parties.

✓ Shared control over the venture

All the parties involved in a joint venture have shared control over it. All the important decisions and factors will be enforced only after the agreement or per the terms and conditions quoted in the agreement.

✓ New innovation

As the parties use their technologies and human resources for the newly formed joint venture, there is the possibility of innovating new technology which was not in their mind. Maybe that innovation will be helpful for them as well as the customers of their brand.

✓ Shared resources

All the companies involved in the joint venture have to share their possessions, whether physical, workforce or any other possession, to move their planned project ahead. Since all the parties share their resources and financial burden, this step will be beneficial for all the parties involved, and collaborative learning and understanding will be achieved.

✓ Sharing of risk and profits

This feature is a very important consideration in the joint venture. All types of businesses can face risk sometimes, but a newly set up business is prone to risk associated with it. The profit from the business can-not be predicted, but the losses and risks can be examined in advance.

The joint venture agreement between two companies may be of different countries. It can have culture and technology diversification, geographical benefits and losses, target audience and many more considerations to overcome.

In this agreement, the joined parties are well familiar with the risk. Since they mutually share all the financial burdens, the risk will be shared as decided. In case of joint venture failure, this cushions each party for big losses. Accordingly, if they get profit from the business, that will be shared as per the signed agreement.

✓ Flexibility

A joint venture has a lot of flexibility and can adapt to the company's needs. The terms and conditions of the agreement between the companies should be specific concerning their activities. This promotes clarity and prevents ambiguity among the parties. The agreement also aids in defining the precise scope of work that each party must do.

✓ No illegal activities

A joint venture between two companies or parties from different nations is another option for conducting business. Before beginning any such joint venture, the rules and regulations set forth by the different governments must be compiled. These standards aid the government in monitoring the actions of businesses and guarantee that joint venture partners are engaging in lawful and legal activities.

(c)

(i)

| Equipment account | | | |
|-------------------|-------------------|---------|-------------------|
| | Shs | | Shs |
| Bank | 25,000,000 | | |
| Supplier | 68,075,000 | Bal c/d | 93,075,000 |
| | <u>93,075,000</u> | | <u>93,075,000</u> |
| Bal b/d | 93,075,000 | Bal c/d | 93,075,000 |
| Bal b/d | 93,075,000 | Bal c/d | 93,075,000 |

(ii)

| Hire purchase interest account | | | |
|--------------------------------|--------------|--------|--------------|
| | Shs | | Shs |
| Supplier's a/c | 3,403,750 | P or L | 3,403,750 |
| Supplier's a/c | 2,323,937.50 | P or L | 2,323,937.50 |
| Supplier's a/c | 1,190,134.38 | P or L | 1,190,134.38 |

(iii)

| Supplier's (DISCLA Ltd) account | | | |
|---------------------------------|-------------------|----------|-------------------|
| | Shs | | Shs |
| Bank | 25,000,000 | Cash | 93,075,000 |
| Bank | 25,000,000 | Interest | <u>3,403,750</u> |
| Bal. c/d | <u>46,478,750</u> | | |
| | <u>96,478,750</u> | | <u>96,478,750</u> |

| | | | |
|----------|----------------------|----------|----------------------|
| Bank | 25,000,000 | Bal b/d | 46,478,750 |
| Bal. c/d | 23,802,687.50 | Interest | 2,323,937.50 |
| | <u>48,802,687.50</u> | | <u>48,802,687.50</u> |
| | | Bal b/d | 23,802,687.50 |
| Bank | 24,992,821.88 | Interest | 1,190,134.38 |
| | <u>24,992,821.88</u> | | <u>24,992,821.88</u> |

(iv)

| Bank account | | | |
|--------------|--|-----------------|---------------|
| Shs | | | Shs |
| | | Initial deposit | 25,000,000 |
| | | Machinery | 25,000,000 |
| | | Supplier's a/c | 25,000,000 |
| | | Supplier's a/c | 25,000,000 |
| | | Supplier's a/c | 24,992,821.88 |

(v)

| Depreciation account | | | |
|----------------------|------------|--------|------------|
| | Shs | | Shs |
| Supplier's a/c | 18,615,000 | P or L | 18,615,000 |
| Supplier's a/c | 18,615,000 | P or L | 18,615,000 |
| Supplier's a/c | 18,615,000 | P or L | 18,615,000 |