

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

ATC(U) EXAMINATIONS

LEVEL III MODEL EXAMINATION PAPER

MAY 2002

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Section **A** has **one** compulsory question of 20 marks
3. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks
4. Section **C** has **three** questions and only **two** are to be attempted. Each question carries 20 marks
5. Please read further instructions on the answer booklet

SECTION A

Question 1

As an accounts officer of Laden Limited, you have just extracted the following trial balance.

Laden Limited			
Trial balance as at 31 December 2001			
	Note	Dr Shs '000	Cr Shs '000
Plant and property	1	40,000	
Motor vehicles	1	15,000	
Furniture and fittings	1	10,000	
Accumulated depreciation	1		
Plant & property			12,000
Motor vehicles			9,000
Furniture and fittings			4,500
Accumulated impairment loss (first recognized in 2001)			
Plant & property			8,000
Motor vehicles			1,000
Furniture and fittings			1,500
Long term investments	2	100,000	
Inventory		4,000	
Trade receivables		3,500	
Sundry receivables		1,500	
Trade payables			4,500
Sundry payables			3,000
VAT			1,000
Corporation tax			1,200
Share capital			20,000
Revaluation Surplus			50,000
Retained earnings			18,300
Long term loans	3	-	40,000
		<u>174,000</u>	<u>174,000</u>

You have also compiled the following information in form of notes:

- Composition of the carrying amounts of non-current assets is as follows:

	Ushs.('000)	COST ('000)	REVALUATION ('000)
Plant and property	40,000	10,000	30,000
Motor vehicles	15,000	6,000	9,000
Furniture and fittings	10,000	3,000	7,000

- The assets were professionally revalued by M/S JBN and Company, consulting surveyors on the basis of open values on 1 May 1999. The Surplus on revaluation was credited to the revaluation surplus account in the equity section of the balance sheet. Each year the difference between depreciation based on the revalued carrying amount of the asset (depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings. This transfer has not yet been done.
- Depreciation charge for the year has already been booked
- Depreciation is calculated on the straight line basis to write down the carrying amount of each asset to their residual values over their estimated useful life as follows:

	Rate
Plant and Property	10%
Motor vehicles	20%
Furniture and fittings	15%

Additions to non-current assets were only motor vehicles of Shs. 2,500,000. There was also a disposal of a fully depreciated vehicle that had been revalued at Shs 1,500,000 that realised cash proceeds of Shs. 900,000.

2. Out of the long term investments Shs. 60,000,000 will be realised on 3 May 2002.
3. Out of the long-term loans Shs. 15,000,000 falls due on 12 November 2002.

Required:

Prepare a balance sheet in a form suitable for publication in accordance with international accounting standards.

(20 marks)

SECTION B:

Question 2

An argument has ensued between the Director of Finance and the reporting accountant over the following financial reporting issues:

(a) Treatment of advances to contractors

The company advanced Shs 8,500,000,000 to a contractor who is currently improving the value of one of the company's buildings. The contract is irrevocable provided that the contractor executes the Terms of Reference and being 75% through it is almost certain that he will do it. The work will be completed within the next eight months and therefore the Director of Finance would like the amount to be disclosed as a current asset.

The reporting accountant on the other hand has insisted that such an asset does not fall in the definition of a current asset as defined in IAS 1. The reporting accountant has disclosed it as a non current asset, falling below property plant and equipment.

Required:

You have been requested to give your opinion on the financial reporting issue.

(5 marks)

(b) Complete set of financial statements

The Director of Finance has argued that a statement of changes in equity adds no value to the financial statements and therefore its omission does not create a departure from IAS. His argument is based on the fact the information disclosed in the statement of changes in equity is contained in other notes and components of the financial statements. The reporting accountant on the other hand has insisted that a complete set of financial statements must include a statement of changes in equity.

Required:

Write a memo to the director of finance explaining what a complete set of financial statements of a limited company consists of in accordance with International Accounting Standards. Explain the purposes of each component

(15 marks)

(Total 20 marks)

Question 3

- (a) With reference to International Accounting Standard 8 (IAS 8) explain the following with examples:
- (i) Extraordinary items. (4 marks)
 - (ii) Fundamental errors (4 marks)
- (b) How would you account for the following:
- (i) Changes in accounting policies, using the benchmark and allowed alternative treatments. (4 marks)
 - (ii) Fundamental errors using the benchmark treatment. (4 marks)
- (Total 20 marks)**

Question 4

Write short notes on the following as applied in central government accounting:

- (a) Consolidated fund. (4 marks)
 - (b) Appropriation account. (4 marks)
 - (c) Revenue account. (4 marks)
 - (d) Non-tax revenue account. (4 marks)
 - (e) Statutory accounts (4 marks)
- (Total 20 marks)**

SECTION C

Question 5

You work for an audit firm that is currently performing end of year procedures on one of its clients. Your audit manager has instructed you to represent the firm at the inventory taking exercise.

Required:

- (a) Describe the work you will perform prior to the commencement of the inventory count. (5 marks)
 - (b) Describe the work you will do during the inventory count. (15 marks)
- (Total 20 marks)**

Question 6

With reference to the ICPAU Code of Ethics, discuss whether a Certified Public Accountant (CPA) should accept an appointment as an external auditor in the following scenarios:

- (a) He has acquired a loan from the client, which is a Commercial Bank registered under the Financial Institutions Statute.
(4 marks)
 - (b) He performs accountancy work for the client and recently presented the following year's budget to the Board of Directors.
(4 marks)
 - (c) His son is a Director of the company.
(4 marks)
 - (d) There is an on going litigation involving the CPA and the client.
(4 marks)
 - (e) A former partner in his firm is now the finance director of the client.
(4 marks)
- (Total 20 marks)**

Question 7

- (a) Your audit manager has informed you that your firm has just been appointed auditors of Kuku Limited. The engagement letter has already been signed. He would like you to start developing the permanent audit file.
 - (i) What is a permanent audit file?
(4 marks)
 - (ii) What kind of working papers would you put on the permanent audit file?
(6 marks)
 - (b) You have just attended an ICPAU seminar on auditing and you have learnt that an auditor can place reliance on the control environment and reduce substantive tests.
 - (i) What is the meaning of internal controls?
(4 marks)
 - (ii) What work should the auditor perform and document to support his assessment that the control risk is low?
(6 marks)
- (Total 20 marks)**