

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

FRIDAY, 13 DECEMBER 2002

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

SECTION A: FINANCIAL ACCOUNTING**Question 1****JBN Limited's Trial balance for year ended 30 June 2002**

	Notes	Dr (Shs)	Cr (Shs)
Construction revenue (Road from Busunju to Hoima)	1		37,000,000
Other Sales	2		75,000,000
Construction costs incurred	1	50,000,000	
Administrative costs		100,000,000	
Cost of other sales		14,000,000	
Construction and Bank Balances		117,000,000	
Receivables from Soigi	2	16,000,000	
Receivables – Construction contracts		37,000,000	
Revenue reserves (1 July 2001)			119,000,000
Furniture & fittings (cost)		70,000,000	
Accumulated Depreciation (furniture and fittings)			14,000,000
Machinery & equipment [cost]		175,000,000	
Accumulated Depreciation [machinery & equipment]			87,500,000
Bank overdraft			34,000,000
Accrued salaries and wages			12,500,000
Share capital			<u>200,000,000</u>
		<u>579,000,000</u>	<u>579,000,000</u>

Notes to the Trial Balance:**1. Construction of Road from Busunju to Hoima.**

The company was engaged to construct the road from Busunju to Hoima. The road construction is expected to take 3 ½ years.

The total contract price was agreed to be Shs. 185,000,000. In terms of application of IAS 11, construction contracts, the outcome of the contract cannot be estimated reliably.

The following information is available:

- Contract costs incurred and recognised as expense during the year are Shs. 50,000,000.
- Percentage of completion based on surveys of work done is 20%.
- The company has accrued construction income of 20% x total contract revenue (20% x 185,000,000) is Shs. 37,000,000.
- Total contract costs incurred that it is probable will be recovered is Shs. 28,000,000.

2. Other Sales

Included in other sales is an amount of Shs. 16,000,000 in respect of goods shipped to a customer in a foreign country 'Soigi' that are subject to installation.

The installation is a significant part of the contract which has not yet been completed. After review of the draft financial statements with the Directors, it has been concluded that your company has not transferred to the foreign customer in Soigi the significant risks and rewards of ownership of these goods.

3. Depreciation

The company's policy is to calculate depreciation to write off the cost of non-current assets on a reducing balance basis over useful lives as follows.

	%
Furniture and fittings	10
Machinery and equipment	25

The policy has always been used consistently in the past years. This year straight-line method ignoring scrap value has been used with the above rates.

The depreciation expense has been included in administrative expenses.

Required:

Prepare:

- (a) Possible journal vouchers to record adjustments on the balances in the trial balance to ensure compliance with International Accounting Standards. Your Journal vouchers should include narrations.

(12 marks)

- (b) Using the adjusted balance and in accordance with IAS 1 prepare a balance sheet at 30 June 2002 and income statement for the year ended 30 June 2002.

(8 marks)

(Total 20 marks)

SECTION B**Question 2****Balance Sheet of Mali Limited as at 30 June 2002**

	30 June 2002	30 June 2001
	Shs	Shs
Property, Plant and Equipment	155,000,000	176,000,000
Current Assets		
Inventories	28,000,000	37,000,000
Trade Receivables	44,000,000	63,580,000
Prepayments	81,000,000	61,560,000
Cash and Bank	<u>78,000,000</u>	<u>52,000,000</u>
	<u>231,000,000</u>	<u>214,140,000</u>
Current Liabilities:		
Bank overdraft	16,440,000	12,860,000
Trade payables	<u>181,063,000</u>	<u>64,810,000</u>
	<u>197,503,000</u>	<u>77,670,000</u>
Net current Assets	<u>33,497,000</u>	<u>136,470,000</u>
	<u>188,497,000</u>	<u>312,470,000</u>
Financed by:		
Share capital	250,000,000	250,000,000
Long term loan received in cash	50,000,000	
Revenue reserves	(150,703,000)	1,270,000
Revaluation surplus	<u>39,200,000</u>	<u>61,200,000</u>
	<u>188,497,000</u>	<u>312,470,000</u>

The following notes relate to the Balance Sheet:

1. Movement on non-current assets balance:

	Shs
At 1 July 2001 (Net Book value)	176,000,000
Additions	30,000,000
Disposals (Net Book Value)	(14,000,000)
Written off assets charged to revaluation surplus	(22,000,000)
Depreciation charge for Year	<u>(15,000,000)</u>
	<u>155,000,000</u>
Profit on disposal of non-current assets	210,000,000

2. There were no dividends paid during the year.

Required:

- (a) Prepare Mali Ltd's cash flow statement in accordance with IAS 7 for the year ended 30 June 2002. **(16 marks)**
- (b) Prepare Mali Ltd's statement of changes in equity for year ended 30 June 2002. **(4 marks)**
- (Total 20 marks)**

Question 3

- (a) Explain the difference between jointly controlled operations and jointly controlled assets. **(4 marks)**
- (b) Your company is a venturer in a jointly controlled operation. It has dedicated the following assets to the jointly controlled operation:

	Shs
Machinery	200,000,000
Heavy earth moving equipment	<u>750,000,000</u>
	<u>950,000,000</u>

The following expenses relating to the jointly controlled operation were incurred directly:

	Shs
• Salaries	20,000,000
• Fuel and motor running costs	17,000,000
• Depreciation of assets dedicated to joint venture (Not yet recorded)	106,000,000

The joint venture agreement states that your company takes 48% of any income from sale of the joint product. This year the total revenue from the sale of the product is Shs. 208,000,000 representing goods sold on credit and customers are yet to pay.

Other joint costs that have to be shared according to revenue sharing percentages amount to Shs 34,000,000. This represents ground rent that is yet to be paid.

Your company has one account where all transactions of the joint venture are recorded. The balance on this account as at end of the year is as follows:

	Shs
Non-current assets dedicated to Joint Venture	950,000,000
Salaries	20,000,000
Fuel and vehicle running costs	<u>17,000,000</u>
	<u>987,000,000</u>

This balance has been reported as part of current assets in your company's balance sheet as shown below:

Muto Limited Balance Sheet as at 30 June 2002.

	Shs million
Non-current assets	860
Current Assets	
Trade receivables	218
Jointly controlled operations	987
Cash and Bank	<u>68</u>
	<u>1,273</u>
Current liabilities	
Trade payables	<u>28</u>
Net current assets	<u>1,245</u>
	<u><u>2,105</u></u>
Financed by:	
Share Capital	2,000
Long term loans	90
Revenue Reserves	<u>15</u>
	<u><u>2,105</u></u>

This is the first year your company has been a venturer in the jointly controlled operation.

Required:

Reconstruct the balance sheet of Muto Limited to reflect the correct way of accounting for jointly controlled operations.

(20 marks)

Question 4

- (a) Explain the purpose and entries in the following accounts used in the public sector accounting:

- (i) The General Account of Vote (GAV). **(4 marks)**
- (ii) Exchequer Account. **(4 marks)**
- (iii) Appropriation Account. **(4 marks)**

- (b)

- (i) What is the difference between budgetary accounting and commitment accounting approaches as used in the public sector?

(4 marks)

- (ii) What is fund accounting? Outline its merits and demerits.

(4 marks)

(Total 20 marks)

SECTION C: AUDIT THEORY

Question 5

You are an audit assistant involved in the audit of the financial statements of DML Limited a large manufacturing company for the year ended 30 June 2002.

According to the audit plan, you are assigned the audit of property, plant and equipment, inventory and trade payables.

In the course of the audit, you have made the following observations:

- 1 Out of the 30 motor vehicles, 12 have been revalued and the arising revaluation surplus of Shs. 85,000,000 has been recorded in the books as follows:

	Shs.	Shs
Debit: Motor Vehicles	85,000,000	
Credit: Revaluation income (income statement)		85,000,000

- 2 Management has refused to sign credit customers' confirmation letters amounting to Shs. 4,500,000. Their argument is that they do not want to disturb their valued customers with such trivial amounts. One of the client's staff has even wondered why you cannot use other alternative audit procedures on these trivial amounts other than wasting valuable time of their valued customers.
- 3 You have extracted the following inventory figures:

Item	Units	Quantity	Current selling price Shs.	Cost price Shs.
Sweets	boxes	800	25,000	15,000
Chewing gum	boxes	1,400	32,000	18,000

These are the only inventories the company had at year-end.

Because of a new chewing gum in town, the estimated selling price is Shs. 15,000 per box of chewing gum and 20,000 for a box of sweets. The inventory balance on the draft balance sheet is Shs. 64,000,000.

- 4 A customer made an order with a cheque of Shs. 35,000,000 to be supplied with equivalent boxes of sweets. On receipt of the cheque and local purchase order (L.P.O.) the client recorded the amount as follows:-

	Shs.	Shs
Debit: Bank	35,000,000	
Credit: Sales		35,000,000

At year-end, the boxes of sweets ordered for had not been supplied to the customer.

Required:

Write a Memo to the Audit Manager explaining the audit and financial reporting implications including recommendations for each of the above scenarios.

(20 marks)

Question 6

Write short notes on the following:

- (a) Audit sampling and sampling risk. **(5 marks)**
- (b) Related parties. **(3 marks)**
- (c) Material inconsistency. **(3 marks)**
- (d) Computer Assisted Audit Techniques (CAATs). **(3 marks)**
- (e) Going concern assumption. **(3 marks)**
- (f) Inherent risk. **(3 marks)**

(Total 20 marks)

Question 7

- (a) Under the provisions of the Companies Act (Cap 85 of the Laws of Uganda):
 - (i) What qualifications must an external auditor possess? **(2 marks)**
 - (ii) Which persons are explicitly disqualified from acting as external auditors? **(3 marks)**
 - (iii) What are the duties of an external auditor? **(5 marks)**
- (b) With reference to the provisions of the Companies Act and the Accountants Statute, 1992 explain how the external auditor's independence is ensured. **(10 marks)**

(Total 20 marks)