

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**TUESDAY, 18 JUNE 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

You have just been appointed Assistant Senior Accountant in Balabyekubo Limited and you have been briefed that one of your tasks will be to prepare financial statements in accordance with International Accounting Standards.

You have been given the following balances extracted from the accounting system of Balabyekubo Limited for the financial years ending 31 December 2001 and 2000:

|   | <b>2001</b>     | <b>2000</b>     |
|---|-----------------|-----------------|
|   | <b>Shs '000</b> | <b>Shs '000</b> |
| Land - cost                               | 65,744          | 60,744          |
| Buildings - cost                          | 3,561           | 2,400           |
| Furniture and fittings - cost             | 3,318           | 3,318           |
| Motor Vehicles - cost                     | 139             | 139             |
| Computer Equipment - cost                 | 1,155           | 1,155           |
| Other Equipment - cost                    | 7,432           | 7,432           |
| Share capital                             | 28,000          | 28,000          |
| Bank balance- Standard Chartered          | 2,000           | 1,500           |
| Bank balance- Barclays                    | 7,000           | 5,000           |
| Inventories                               | 2,000           | 1,200           |
| Corporation tax liability                 | 894             | 600             |
| Trade receivables                         | 4,000           | 3,000           |
| Sundry receivables                        | 2,000           | 1,000           |
| Bank balance with UCB                     | (5,000)         | -               |
| Trade payables                            | 4,000           | 3,000           |
| Sundry payables                           | 6,000           | 4,000           |
| Revenue reserves at 1 January             | 47,725          | 38,000          |
| Accumulated depreciation:                 |                 |                 |
| Buildings                                 | 1,531           | 1,353           |
| Furniture and fittings                    | 2,020           | 1,688           |
| Motor vehicles                            | 43              | 8               |
| Computer equipment                        | 591             | 244             |
| Other equipment                           | 1,013           | 270             |
| Depreciation charge for the year          | 1,635           | 1,241           |
| Administrative expenses                   | 4,000           | 2,800           |
| Distribution costs                        | 1,280           | 900             |
| Cost of sales                             | 1,840           | 1,350           |
| Corporation tax expense                   | 638             | 594             |
| Dividend paid- appropriation for the year | 1,800           | 1,760           |
| Sales excluding VAT                       | 12,725          | 18,370          |

The Director of Finance has given you the following additional information:

1. The non-current assets are depreciated on straight-line basis to write off the value of assets over their expected useful lives at the following rates:

|                        | %  |
|------------------------|----|
| Buildings              | 5  |
| Furniture and Fittings | 10 |
| Motor Vehicles         | 25 |
| Computer Equipment     | 30 |
| Office Equipment       | 10 |
2. The valuation of inventory is consistent with IAS 2 and FIFO cost formula.
3. Taxation- current tax has been provided in the income statement on the basis of the results included therein adjusted in accordance with the provisions of the Income Tax Act, 1997. Ignore Deferred Tax.
4. There were no disposals of property and equipment in the year 2001.

**Required:**

Prepare a complete set of financial statements in accordance with IAS 1. The notes should be limited to that of property, plant and equipment, but all accounting policies should be stated.

**(20 marks)**

## SECTION B: FINANCIAL ACCOUNTING

### Question 2

- (a) Explain the Allowed and Benchmark Treatments in the correction of Fundamental Errors under IAS 8. **(6 marks)**
- (b) During 2001 Lubiri Limited discovered that they had erroneously included inventory of Shs. 4,700,000 in the financial statements for the year ended 31 December 2000. This inventory had in fact been sold by the end of 2000.

You have been provided with the following figures for 2000 (as reported) and 2001 (draft).

|                    | <b>2000</b>         | <b>2001(draft)</b>  |
|--------------------|---------------------|---------------------|
|                    | <b>Shs '000</b>     | <b>Shs '000</b>     |
| Sales              | 47,400              | 67,200              |
| Cost of goods sold | <u>(34,570)</u>     | <u>(55,800)</u>     |
| Profit before tax  | 12,830              | 11,400              |
| Income taxes       | <u>(3,880)</u>      | <u>(3,400)</u>      |
|                    | <b><u>8,950</u></b> | <b><u>8,000</u></b> |

- The retained earnings at 1 January 2000 were Shs 13,000,000.
- The cost of goods sold for 2001 includes the Shs 4,700,000 error in opening inventory.
- The income tax rate was 30% for 2000 and 2001.

#### Required:

Redraft the income statement for 2001, with the 2000 comparatives and retained earnings using both benchmark and alternative treatments.

**(14 marks)**  
**(Total 20 marks)**

### Question 3

- (a) Discuss the stages of developing an International Accounting Standard. **(10 marks)**
- (b) In December 2001, The International Federation of Accountants (IFAC) Public Sector Committee (PSC) released five new International Public Sector Accounting Standards (IPSASs).

#### Required:

State any four titles of the above standards and briefly explain the provisions of each of them.

**(10 marks)**  
**(Total 20 marks)**

**Question 4.**

- (a) Under IAS 18, Revenue, what conditions must be fulfilled before revenue from sale of goods can be recognised?

**(5 marks)**

- (b) What information do the users of financial statements derive from the cash flow statement under its various headings given in IAS 7?

**(15 marks)**

**(Total 20 marks)**

**SECTION C: AUDIT THEORY**

**Question 5**

Tick, Tight and Tough Security Services is a security firm which was formed by three retired police officers on 1 January 2000. The firm employs 200 night guards and 100 day guards. Its operations are in Kampala, Jinja and Entebbe.

The Managing Partner, Mr. Tick, does not see the value of engaging an external auditor, since they have efficient accounting and internal audit departments.

**Required:**

Assume that your name is Big Talk, working with SSS Associate Accountants. Write a memo to Mr. Tick briefly explaining to him the following:

- (a) The difference between financial accounting and auditing.

**(5 marks)**

- (b) The difference between external auditing and internal auditing.

**(5 marks)**

- (c) The benefits their firm would derive from engaging an external auditor.

**(10 marks)**

**(Total 20 marks)**

**Question 6**

- (a) Define the term internal control systems. (4 marks)
  - (b) Give and explain the types of internal controls that can be instituted in a large supermarket. (16 marks)
- (Total 20 marks)**

**Question 7**

ATM Certified Public Accountants employs you as audit assistant. You are on the audit team of Lucky Soap Manufacturing Ltd. for the year ended 31 March 2002. You have been assigned to verify the sales and trade receivables. In the interim subsequent events review, you have noted that a number of trade receivables have remained dormant for long.

**Required:**

- (a) Explain the term subsequent events. (4 marks)
  - (b) What possible audit procedures would you perform to verify:
    - (i) Sales? (8 marks)
    - (ii) Trade receivables? (8 marks)
- (Total 20 marks)**