

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

TUESDAY, 16 DECEMBER 2003

INSTRUCTIONS TO CANDIDATES:

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

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SECTION A: FINANCIAL ACCOUNTING**Question 1**

The following trial balance was extracted from the books of Amanda Ltd for the year ended 30 June 2003:

	Debit	Credit
	Shs '000'	Shs '000'
Freehold land	18,000	
Buildings at cost	40,000	
Plant and machinery at cost	38,500	
Furniture and fittings at cost	18,000	
Accumulated depreciation 1 July 2002:		
• Buildings (5%)		4,500
• Plant and machinery (20%)		16,800
• Furniture and fittings (15%)		4,800
Share Capital		50,000
Sales		80,000
Purchases	20,000	
Opening inventory	10,000	
Salaries and wages	5,000	
Taxes payable to URA (1 July 2002)		6,000
Bank Charges	3,000	
Trade payables and receivables	8,000	12,000
Bank balances	2,000	4,000
Dividends paid	6,000	
Transport costs	1,500	
Accumulated losses 1 July 2002	23,500	
Long term loan		18,000
Interest on loans	2,600	-
	<u>196,100</u>	<u>196,100</u>

Additional information

- (i) In preparing its financial statements, Amanda Ltd makes a distinction between current/non-current assets/liabilities in accordance with **IAS 1: Presentation of Financial Statements**.
- (ii) Inventory at 30 June 2003 had a selling price of Shs. 5,000,000 while its cost was Shs. 4,500,000. The inventory should be valued in accordance with **IAS 2: Inventories**.
- (iii) Sales include a deposit from a customer of Shs. 6,000,000 for an item that was still in the stores of Amanda Ltd by 30 June 2003. Revenue should be recognized in accordance with **IAS 18: Revenue**.
- (iv) Salaries totalling Shs. 2,000,000 were outstanding by 30 June 2003 and were not recorded in the general ledger until they were paid on 3 August 2003.

- (v) The following items of property, plant and equipment were acquired or disposed off:

	Acquired Shs '000'	Sold Shs '000'	Date of Purchase
Packaging machine	12,000		1 July 2002
Old packaging machine [cost]		1,500	1 July 2001
Building	10,000		1 June 2003
Furniture and fittings	3,500		1 May 2003
Old furniture disposed [cost]		1,500	1 June 2001

Amanda Ltd's policy is to charge a full year's depreciation in the year of acquisition of an asset and no depreciation in the year of its disposal.

During the year ended 30 June 2003, Amanda Ltd sold the old packaging machine at Shs. 2,000,000 while the old furniture was sold at Shs. 2,800,000.

The disposals have not been correctly accounted for. The disposed off assets are still in the ledger, and are therefore part of the balances in the trial balance. The cash received was debited to bank and credited to sales account.

Depreciation is to be provided for on a straight-line basis, using the rates indicated on the trial balance.

Required.

Prepare the income statement for Amanda Ltd for the year ended 30 June 2003 and balance sheet as at that date, in compliance with **IAS 1: Presentation of Financial Statements**.

(20 marks)

SECTION B: FINANCIAL ACCOUNTING**Question 2**

- (a) What information do the users of Financial Statements derive from a Cash Flow Statement prepared in accordance with **IAS 7: Cash Flow Statements**.

(4 marks)

- (b) The Balance Sheet of Kamuli Limited as at 31 December 2002 is given below:

	2002 Shs (000)	2001 Shs (000)
Property, plant and equipment	120,000	85,000
Investments	30,000	-
Inventory	21,000	15,000
Trade receivables	16,000	20,000
Sundry receivables	8,000	-
Cash and bank balances	<u>2,000</u>	<u>12,000</u>
	<u>197,000</u>	<u>132,000</u>
Share capital	163,000	90,000
Accumulated profits	25,000	15,500
Bank overdraft	6,000	25,000
Trade payables	<u>3,000</u>	<u>1,500</u>
	<u>197,000</u>	<u>132,000</u>

Income Statement for the year ended 31 December 2002

	Shs (000)
Revenue	190,000
Cost of Sales	<u>(140,000)</u>
Gross profit	50,000
Profit on disposal of assets	<u>18,000</u>
	68,000
Distribution costs	(10,000)
Administrative costs	(15,000)
Finance costs	<u>(8,000)</u>
Profit before tax	35,000
Taxation	<u>(10,000)</u>
Profit after tax	25,000
Dividends paid	<u>(15,500)</u>
Profit for the year	<u>9,500</u>

Additional information:

Note on property, plant and equipment.

	Shs. (000)
Cost:	
As at 1 January 2002	125,000
Additions (paid in cash)	65,000
Disposals	<u>(15,000)</u>
As at 31 December 2002	<u>175,000</u>
Accumulated Depreciation:	
As at 1 January 2002	40,000
Disposals	(5,000)
Charge for the year	<u>20,000</u>
As at 31 December 2002	<u>55,000</u>

Required:

Prepare a cash flow statement for the year ended 31 December 2002 in accordance with **IAS 7: Cash Flow Statements**.

(16 marks)

(Total 20 marks)

Question 3

One of the Oil Companies in Kampala deals in cooking, welding and laboratory gas. This gas is supplied in cylinders.

After using the gas, customers can return the cylinders within 4 months. The Oil Company purchases the empty cylinders from the manufacturer at a cost of Shs. 65,000 each.

The customers are charged Shs. 100,000 for each cylinder which includes the cost of gas of Shs. 20,000 being the cost of gas. If customers return the empty cylinders within 4 months, they are credited with Shs. 50,000 for each cylinder.

At the end of the year, the oil company values all returnable cylinders in the customers' hands and in its warehouse at Shs 40,000 each.

The following additional information is also available:

Number of cylinders	30 June 2002	30 June 2003
In company's store	17,500	8,000
With customers	22,300	14,600

In 2003, the Oil Company acquired 10,000 new empty cylinders, while 30,000 cylinders were dispatched to customers. The customers, in 2003, returned 23,000 while 20,700 cylinders were sold to customers as scrap for Shs 20,000 each. The repair costs of some cylinders amounted to Shs. 185,000.

Prepare:

- (a) A fully closed cylinders' stock account for the year ended 30 June 2003
(5 marks)
 - (b) A fully closed cylinders suspense account for the year ended
30 June 2003.
(10 marks)
 - (c) A statement of Profit / Loss on the cylinders for the year ended 30 June
2003
(5 marks)
- (Total 20 marks)**

Question 4

- (a) What is meant by "Appropriations-in-Aid" as used in Public Sector
Accounting?
(3 marks)
- (b) Explain the use of the 'Vote Book' in Public Sector Accounting.
(2 marks)
- (c) The Ministry of Justice and Constitutional Affairs has prepared the
following statement for the year ended 30 June 2003:

Code	Budget Estimate Shs 000	Actual Expenditure Shs 000
101 Travel costs	80,000	79,000
102 Printing and Stationery	111,000	122,000
103 Development Expenditure	66,000	65,000
104 Water and Electricity	22,000	33,000
105 Staff costs	128,000	135,000

The Ministry was exceptionally authorized to have Appropriations-in-Aid amounting to Shs 64 million from its non-tax revenue.

The Ministry also had an approval to use a supplementary budget during the year which was as follows:

Code	Shs (000)
102 Printing and Stationery	7,000
105 Staff costs	2,200

During the year ended 30 June 2003 the Ministry collected Shs. 60 million for all its non tax revenue sources.

Required:

Prepare the Ministry's Appropriation Account for the year ended 30 June 2003.

(15 marks)
(Total 20 marks)

SECTION C: AUDIT THEORY**Question 5.**

- (a) Explain the difference between accounting and auditing. **(4 marks)**

- (b) Auditors should observe the principles of integrity, independence and objectivity in carrying out their work.

Required:

Explain the meaning of the following

- (i) The auditor having integrity. **(4 marks)**
 (ii) The auditor's independence. **(4 marks)**
 (iii) The auditor being objective. **(4 marks)**
- (c) What action can the external auditor take, if he is denied access to certain accounting records?

(4 marks)**(Total 20 marks)****Question 6**

- (a) The Chief Internal Auditor is very unhappy with the work of the external auditors. He has complained that the external auditors are duplicating his work and are therefore adding no value to the auditee company.

Required:

Explain the difference between internal and external auditing.

(10 marks)

- (b) Explain the meaning of the following:

- (i) A material misstatement. **(3 marks)**
 (ii) Audit risk. **(4 marks)**
 (iii) Audit Sampling. **(3 marks)**

(Total 20 marks)**Question 7**

- (a) Explain why in manufacturing concerns, the audit of 'Inventory' should always be identified as a critical audit area?

(6 marks)

- (b) The following figures have been extracted from the draft financial statements of a company that you are now auditing for the financial year ending 30 June 2003.

	2003	2002
	Shs 000	Shs 000
Purchases	350,000	200,000
Office Costs	61,000	60,000
Employee Related Costs	110,000	50,000
Sales	500,000	800,000

Required.

From the draft financial statements, identify and justify the critical audit areas that you would immediately investigate?

(6 marks)

- (c) Give five indicators that would show that a company has going concern problems.

(5 marks)

- (d) What is meant by 'Computer Assisted Audit Techniques (CAATS)'?

(3 marks)

(Total 20 marks)