

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

TUESDAY, 17 JUNE 2003

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section **A**, **ANY two** questions in Section **B** and **two** questions in Section **C**.
3. Section **A** has **one** compulsory question each carrying 30 marks.
4. Section **B** has **three** questions and only **two** questions are to be attempted. Each question carries 20 marks.
5. Section **C** has **three** questions and only **two** questions are to be attempted. Each question carries 20 marks.
6. Please, read further instructions on the answer book.

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SECTION A**Question 1:**

You are provided with the following Trial Balance for Kiswa Limited for the year ended 31 December, 2002.

	DEBIT Shs '000'	CREDIT Shs '000'
Salaries and wages	16,000	
Selling and distribution costs	18,000	
Purchases	40,000	
Opening Stock	20,000	
Carriage inwards	1,000	
Discounts received		2,500
Turnover		85,000
Recovered bad debts		5,000
Motor vehicles- cost	25,000	
Furniture and fittings – cost	12,000	
Plant and Machinery – cost	48,000	
Motor vehicles- accumulated depreciation- 25%		12,500
Furniture and fittings – accumulated depreciation – 12%		4,320
Plant and Machinery – accumulated depreciation- 20%		28,800
Rent	12,000	
Provision for bad debts		4,400
Trade Receivables	22,000	
Trade payables		18,800
Cash and Bank	18,000	
Share Capital		20,000
Retained Profits	-	50,680
	<u>232,000</u>	<u>232,000</u>

Additional information

- (i) The inventories at 31 December 2002 were as follows:

Item	Cost Shs'000'	Net realisable value Shs'000'
Bags of rice	4,250	4,500
Bags of sugar	1,240	1,350
Cooking oil	1,420	1,340

- (ii) On 1 January 2002, the motor vehicles, furniture and fittings and plant and machinery were professionally revalued by Associated Surveyors on the basis of open market values in their current conditions as follows:

	Revalued to Shs.(000)
Motor Vehicles	16,000
Furniture and fittings	12,000
Plant and Machinery	<u>25,000</u>

Depreciation charge for the year has not yet been provided for. Depreciation is provided for on straight-line basis assuming no scrap values. The accounting for property plant and equipment should conform to the requirements of IAS 16, Property Plant and Equipment.

- (iii) Included as part of turnover is an amount of Shs. 7,000,000 being a deposit made by a customer for supply of rice. The rice had not yet been supplied by 31 December 2002. Revenue should be recognised only in full compliance with **IAS 18: Revenue**.
- (iv) Provision for bad debts should be at 30% of trade receivables.

Required:

Prepare a Balance Sheet at 31 December 2002 and income statement for the year ended 31 December 2002 in compliance with IAS 1, Presentation of Financial Statements.

(20 marks)

SECTION B

Question 2:

- (a) Distinguish between the direct and indirect methods of reporting cash flows from operating activities, under **IAS 7: Cash Flow Statements**.
(6 marks)
- (b) Explain how you would treat the following in preparing a cash flow statement in accordance with IAS 7.
 - i)
 - (i) Foreign currency cash flows **(2 marks)**
 - (ii) Extra ordinary items **(2 marks)**
 - (iii) Interest and dividends **(2 marks)**
 - (iv) Taxes on income **(2 marks)**
 - (v) Increase in carrying amount of property and equipment arising from their revaluation **(2 marks)**

(Total 20 marks)
- (c) Explain the meaning of a cash equivalent under **IAS 7**.
(4marks)
(Total 20 marks)

Question 3

At 1 January 2002, Bukoto Limited had the following assets:

	Cost Shs(000)	Date of purchase
Freehold land	40,000	1 January 1996
Buildings	190,000	8 June 1998
Desk top computer	7,000	6 March 1999
Pick-up	18,000	3 January 2000
Photocopier	6,000	5 February 2000
Reception fittings and table	14,000	4 October 2000
Machinery used in processing	75,000	11 January 2001
Lap top computers	14,000	11 July 2001
Chairs	16,000	3 August, 2001
Tables	12,000	3 August 2001
Prado for use by the General Manager	60,000	10 September 2001
Packing Machinery	90,000	10 November 2001

During the year ended 31 December 2002:

- (i) A new truck was bought in cash at Shs. 120,000,000. This amount includes input Vat of Shs. 17,435,897 that is recoverable.
- (ii) The machinery of the company was revalued to Shs. 180,000,000 at 1 January, 2002 by qualified property valuers on the basis of open market values,
- (iii) The photocopier was sold for Shs. 6,500,000.

Additional information

- The company provides for a full year's depreciation charge in the year of acquisition of an asset but does not charge any depreciation in respect of a disposed of asset in the year of disposal.
- Depreciation is provided for on a straight –line basis assuming no scrap vales at the following rates:

Motor vehicles	20%
Computers	30%
Furniture and fittings	25%
Buildings	5%
Plant and machinery	10%

Required:

Prepare a Property Plant and Equipment Schedule that would be included in the published financial statements of Bukoto Limited for the year ended 31 December 2002.

Hint: Use the following categories: Freehold land, Buildings, Motor vehicles, Plant and machinery, Furniture and fittings, and computers.

(20 marks)**Question four**

(a) Explain the treatment of the following at the close of a financial year, under the Treasury Accounting Instructions, 1991:

(i) How would net credit balances of votes be dealt with?

(2marks)

(ii) What would a net debit balance in the expenditure ledger under any vote represent?

(2marks)

(iii) How would a net debit balance in the expenditure ledger under any vote be dealt with?

(2marks)

(iv) How would the approach in iii above change if retrospective authority is subsequently given for the expenditure?

(2marks)

(v) If on completion of actions in i –v, you end up with a credit balance in the exchequer account, how would you dealt with it.

(2marks)

Hint: Explain how a debit or credit balance would arise in each of the above questions. In each of your answers in i to v, explain how the debit or credit balance would arise?

(b) Under the Local Government Financial Regulations Act, 1998, explain how the following funds are accounted for:

(i) Unconditional grants from Government

(2 marks)

(ii) Conditional grants from Government

(2 marks)

(iii) Equalisation grants from Government

(2 marks)

(iv) Unconditional donor funds

(2 marks)

(v) Conditional donor funds

(2 marks)**Total 20 marks)**

SECTION C: AUDIT THEORY**Question 5**

- (a) How would you audit a bank balance with the following bank reconciliation?

	Shs
Balance per cash book	385,000,000
Add: un-presented cheques	15,000,000
Less: deposits not credited	(75,000,000)
Unexplained difference	(45,000)
Standing order payments made by bank but not yet recorded	<u>(4,955,000)</u>
	<u>320,000,000</u>
	(10 marks)

- (b) How would you go over the audit of the following inventory balances?

	Shs	
Goods in transit	Shs 12,000,000	
Finished goods	Shs 8,000,000	(10 marks)
		(Total 20 marks)

Question 6

- (a) Distinguish between positive and negative debtors' confirmation requests.
(4 marks)
- (b) One of the responsibilities of the external auditor is to report to members.
What are the contents of an audit report on the audit of financial statements?
(6 marks)

Question 7

- (a) What professional procedures does the external auditor carry out before accepting a new client?
(4 marks)
- (b) Your friend would like to start an audit firm and has approached for advice. Advise him on what he must do to be permitted to practice as an auditor in Uganda.
(4 marks)
- (c) What are the rights of the external auditor under the Companies Act of Uganda?
(6 marks)
- (b) What must be proved by some one who places reliance on the auditors' report that the auditor was professionally negligent?
(6 marks)
- (Total 2 marks)**