

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

TUESDAY, 22 JUNE 2004

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 trial balance for the year ended 31 May 2004 for Kamwokya Limited is given below:

	Debit Shs'000	Credit Shs'000
Share Capital		60,000
Accumulated Profits		20,200
10% Debentures		23,500
Accounts Payable and Receivable	14,000	16,000
Sales		18,500
Inventory 1 June 2003	2,000	
Property, Plant and Equipment:		
Plant and Machinery (15%)	20,000	
Furniture and Fittings (10%)	15,000	
Buildings (2.5%)	10,000	
Leasehold land (20 years)	90,000	
Purchases	6,000	
Administrative expenses	4,500	
Distribution costs	5,500	
Finance costs	3,000	
Accumulated Depreciation:		
Plant and Machinery (15%)		7,000
Furniture and Fittings (10%)		14,500
Buildings (2.5%)		2,000
Leasehold land (20 years)		9,000
Cash and Bank	<u>2,500</u>	<u>1,800</u>
	<u>172,500</u>	<u>172,500</u>

Additional Information:

- (i) Depreciation is to be provided for on a straight-line basis.
- (ii) The debenture interest for the year has not yet been provided for. 20% of the debenture is repayable by 31 July 2004, while the remainder is repayable after 2 years.
- (iii) The bank reconciliation for the overdraft is as follows:

	Shs'000
Balance per cash book	(1,800)
Less: Bank charges in bank statement	<u>(200)</u>
Balance per Bank Statement	<u><u>(2,000)</u></u>

- (iv) Provision for bad debts should be made at 5% of trade receivables.
- (v) Inventory at 31 May 2004 had a cost of Shs 1,000,000. Its net realisable value was Shs. 800,000

Required:

- (a) Prepare an income statement of Kamwokya Limited for the year ended 31 May 2004. (10 marks)
- (b) Prepare a balance sheet as at 31 May 2004. (10 marks)
- (Total 20 marks)**

Hint: Use the formats in IAS 1: Presentation of Financial Statements.

SECTION B: FINANCIAL ACCOUNTING

Question 2

- (a) Explain how an expected future loss on a long-term construction contract is treated in the financial statements of a contractor. (4 marks)
- (b) What methods can be used to determine the stage of contract completion? (4 marks)
- (c) Goal Contractors Ltd has two contracts in progress, the details of which are as follows:

	Busunju Road Profitable Shs billion	Mityana Road Loss-marking Shs billion
Estimated total contract price	540	540
Actual cost incurred to-date	162	270
Estimated costs to completion	243	405
Progress payments involved and received	209	209

Required:

Show extracts from the income statement and the balance sheet for each contract assuming they are both:

- (i) 45% complete. (6 marks)
- (ii) 38% complete. (6 marks)
- (Total 20 marks)**

Question 3

The following information relates to the Property, Plant and Equipment of Matayo Limited for the year ended 31 May 2004:

- (i) Cost per General Ledger as at 31 May 2004, including the additions during the year but excluding disposals:

	Shs '000
Motor Vehicles	120,000
Computers	40,000
Furniture and Fittings	65,000
Plant and Machinery	125,000

- (ii) During the year ended 31 May 2004, the following assets were acquired:

Motor Vehicles (acquired on 3 June 2003)	Shs 4,500,000
Machinery	Shs 3,500,000

- (iii) During the year ended 31 May 2004, the following assets were disposed of:

	Historical cost Shs'000	Accumulated Depreciation Shs'000	Cash received Shs'000
Computer	13,000	3,100	14,000
Equipment	8,000	2,800	7,000

- (iv) All the motor vehicles were professionally revalued to Shs. 130,000,000 on 1 June 2003.
- (v) The Accumulated Depreciation account had the following balances at 31 May 2003:

	Shs'000
Motor Vehicles (20%)	25,000
Computers (30%)	16,000
Furniture and Fittings (15%)	13,000
Plant and Machinery (25%)	81,000

Depreciation is provided for on a straight line basis. No charge has yet been made for the year ended 31 May 2004.

- (vi) The disposals were not correctly recorded. The proceeds were credited to sales in the income statement and no other entry was made.
- (vii) The revaluation has not yet been recorded, as the bookkeeper was unsure of the entries that should be passed.

Required:

- (a) Calculate the profit or loss on the assets disposed of.
(4 marks)
 - (b) Prepare Matayo Ltd's Property, Plant and Equipment Schedule as at 31 May 2004.
(16 marks)
- (Total 20 marks)**

Question 4

- (a) A Vote Book of one controller in a government department had a negative balance. What does this mean and what action should be taken against the vote controller?
(4 marks)
 - (b) What is the purpose of the commitments column of the Vote Book?
(4 marks)
 - (c) What is the effect or implication of not abstracting a given payment in a local government?
(4 marks)
 - (d) Using examples drawn from the public sector, distinguish between cash and accrual accounting.
(8 marks)
- (Total 20 marks)**

SECTION C: AUDIT THEORY**Question 5**

- (a) Explain the external evidence that the external auditor can seek in the audit of bank balances; and how he would obtain it.

(4 marks)

- b) Your firm is the auditor of PPU Stationers Ltd and you are auditing the financial statements for the year ended 31 December 2003. The company has supplied you with its bank reconciliation. You have already entered the 'subsequently cleared date' on the reconciliation, which is the date cheques and deposits appeared on the January 2004 bank statement.

	Shs '000	Shs '000
Balance per bank statement 31 December 2003		(29,595)

Add Deposits not yet credited:

CB Date	Type	Date Subsequently cleared		
2003				
31 Dec	ARL	3 Jan	34,092	
24 Dec	CS	3 Jan	1,959	
27 Dec	CS	4 Jan	705	
28 Dec	CS	5 Jan	945	
29 Dec	CS	6 Jan	1,278	
30 Dec	CS	7 Jan	2,142	
31 Dec	CS	10 Jan	86	
20 Nov	CS	-	<u>1,000</u>	42,207

Less Uncleared cheques:

30 Dec	CP	3 Jan	3,648	
31 Dec	APL	18 Jan	30,936	
31 Dec	APL	19 Jan	33,792	
31 Dec	APL	18 Jan	29,196	
31 Dec	APL	20 Jan	45,933	
31 Dec	APL	21 Jan	26,013	
31 Dec	APL	19 Jan	38,607	
31 Dec	APL	21 Jan	18,296	
5 April	APL	-	20,000	
31 Dec	CP	3 Jan	<u>2,892</u>	<u>(249,313)</u>
Balance per cash book				<u>(236,701)</u>

Legend:

CB	=	Cash book Date
ARL	=	Accounts Receivable Receipt
CS	=	Receipts from Cash Sales
APL	=	Accounts Payable Payment
CP	=	Cheque payments- other expenses

All cheques for accounts payments are written out at the end of the month.

Required:

Give the matters, which cause you, concern from the scrutiny of the bank reconciliation and the investigations you will carry out on these items.

(16 marks)
(Total 20 marks)

Question 6

- (a) External Auditors are employed to express an opinion on the financial statements of the entity. They must ensure that they have sufficient appropriate evidence on which to base such opinion.

Required:

Explain the procedures by which auditors can obtain evidence.

(12 marks)

- (b) What factors can result into increased inherent risk at entity level?

(8 marks)
(Total 20 marks)

Question 7

- (a) What is meant by the term 'related party'?

(4 marks)

- (b) What are the qualities of an auditor?

(6 marks)

- (c) Explain how the external auditor of a Limited Liability Company can be dismissed from office.

(2 marks)

- (d) Explain how you would go over the audit of trade receivables.

(8 marks)
(Total 20 marks)