

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**TUESDAY, 21 JUNE 2005**

#### **INSTRUCTIONS TO CANDIDATES:**

1. Time allowed: **3 hours**
2. Attempt **all** the questions in Section A, any **two** questions in Section B and any **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 has been extracted from the books of Learner Limited for the year ended 31 December 2004.

**Learner Limited**  
**Trial Balance for the Year ended 31 December 2004**

	DR	CR
	Shs '000	Shs '000
Share capital		1,000,000
Long-term borrowings		2,000,000
Short-term borrowings		500,000
Sales		5,000,000
Purchases	1,000,000	
Opening Inventory	200,000	
Salaries and wages	300,000	
Electricity and water	50,000	
Professional fees	5,000	
Trade receivables	200,000	
Payables		100,000
Cash in hand	5,000	
Cash at Bank	3,320,000	
Bank overdraft		250,000
Property and equipment	850,000	
Accumulated Losses	2,916,763	
Other income		25,000
Depreciation expense	48,000	
Provision for bad debts		69,000
Fine on lost court case	1,350	
Interest on loans/overdraft	2,840	
Bank charges	742	
Insurance	3,105	
Repairs and maintenance	41,200	-
	<u>8,944,000</u>	<u>8,944,000</u>

Additional information:

- (a) Inventory at 31 December 2004 had a cost of Shs. 180,000,000, and a net realisable value of Shs. 210,000,000.
- (b) Provide for bad debts at 10%.
- (c) Included in repairs and maintenance expense is a cost of Shs. 40,000,000 representing newly acquired furniture. Since the furniture was acquired towards the year-end, depreciation thereon may be ignored.

- (d) An advance to the manager of Shs. 20,000,000 has been included as part of salaries and wages. The advance is recoverable from the manager's salary with effect from February 2005 to November 2005.

**Required:**

In accordance with International Financial Reporting Standards, prepare Learner Ltd's:

- (a) Income statement for the year ended 31 December 2004. **(10 marks)**
- (b) Balance sheet as at 31 December 2004. **(10 marks)**
- (Total 20 marks)**

**Question 2**

The following balances were extracted from the ledgers of Kyakasoti Factory Limited.

Account balances on specific accounts as at 31 December 2004, 31 December 2003 and 31 December 2002.

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>Shs '000</b>	<b>Shs '000</b>	<b>Shs '000</b>
Share capital	150,000	100,000	20,000
Revaluation surplus	9,000,000	8,000,000	2,500,000
Directors' loan to the company	900,000	750,000	400,000
Retained earnings	1,811,900	1,286,000	1,030,000
Accumulated depreciation	236,400	185,900	145,500
Bank loan	-	25,000	55,000

Transactions during the year on specific accounts for each of the years ended 31 December 2004 and 31 December 2003.

	<b>2004</b>	<b>2003</b>
	<b>Shs '000</b>	<b>Shs '000</b>
Freshly issued share capital during the year	50,000	80,000
Surplus on fresh non-current assets revaluation	1,000,000	5,500,000
Dividends paid during the year	30,000	50,000
Directors' loans to the company	150,000	350,000
Profit for the year before taxation	600,000	421,000
Taxation expense for the year	44,100	35,000
Depreciation expense for the year	50,500	40,400
Effect of change in accounting policy (Debit)	-	80,000
Reduction in provision for bad debts	4,000	16,000
Repayment of loan	25,000	30,000

Additional information:

- (i) The change in accounting policy in 2003 resulted in an additional expense of Shs. 80 million that was charged directly to retained earnings.
- (ii) The reduction in provision for bad debts has already been correctly treated as an accounting estimate in arriving at the above profits for the year before taxation.
- (iii) Depreciation expense has already been correctly recorded in arriving at the profit for the year before taxation.

**Required:**

- (a) Prepare Kyakasoti's Statement of Changes in Equity in accordance with IAS1: Presentation of Financial Statements.

**(12 marks)**

- (b) Explain why some account categories have not been included in the Statement of Changes in Equity.

**(8 marks)**

**(Total 20 marks)**

### Question 3

Mobik Ltd sells cooking gas in containers which are returnable after use. These containers cost Shs 20,000 each and are charged out to customers on sale or return basis, within six months at Shs 26,000 each.

If they are returned within six months' period, they are credited at Shs 23,000 each.

At 31 December 2004, Mobik valued all returnable containers in customers' custody and containers held in stock at Shs 16,000 each.

The following are physical containers held by the:

	1 January 2004	31 December 2004
Company	2,760	3,144
Customers	4,790	2,190

During the year, 3,100 new containers were purchased, 20,620 were invoiced to customers and 17,600 were returned. On inspection 260 required repairs costing Shs 325,000 and 56 had to be sold as scrap for Shs 60,000.

**Required:**

Prepare:

- (a) Containers stock account. **(8 marks)**
- (b) Containers suspense account. **(6 marks)**
- (c) A Statement showing the profit or loss on dealing in containers.

**(6 marks)**

**(Total 20 marks)**

**Question 4**

- (a) Distinguish between Accrual accounting and Commitment accounting as used in the Public Sector? **(5 marks)**
- (b) Busaga Local Government had the following entries in its cash book for the month of May 2005.

	Shs 000
Balance brought forward	18,750
Receipts for May	156,250
Payments:	
- Salaries	81,250
- Stores used in May	6,250
- Stores to be used in June	875
- Other costs	72,500

Other information:

Stores acquired but not yet paid for:

- Used in May	4,375
- To be used in June	2,750

Stores ordered but not yet delivered:

- To be used in June	6,000
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A market tenderer was due to make a payment of Shs. 32,500,000 during May but had not done so by the end of the month.

**Required:**

Prepare the Revenue account and Balance Sheet for the month of May 2005 for Busaga Local Government under:

- (i) Cash Accounting. **(5 marks)**
- (ii) Accruals Accounting. **(5 marks)**
- (iii) Commitment Accounting. **(5 marks)**
- (Total 20 marks)**

## SECTION C: AUDIT THEORY

### Question 5

- (a) Distinguish between auditing ‘around the computer’ and Auditing ‘through the computer’?  
(4 marks)
  - (b) Give three types of General Internal Controls in a computerized system.  
(3 marks)
  - (c) Give five types of Application Internal Controls in a computerized system.  
(5 marks)
  - (d) Briefly explain how the Computer-Aided Auditing Technique (CAAT) works.  
(4 marks)
  - (e) Give two merits and two demerits of CAATs.  
(4 marks)
- (Total 20 marks)**

### Question 6

- (a) Explain the term professional ethics.  
(4 marks)
  - (b) Write short notes on the following ethical principles:
    - (i) Integrity.  
(4 marks)
    - (ii) Competence.  
(4 marks)
    - (iii) Due care.  
(4 marks)
    - (iv) Objectivity  
(4 marks)
- (Total 20 marks)**

### Question 7

Employee costs are a major expense for both public and private sector organisations. Payroll frauds sometimes occur despite having centralized systems.

During the audit of the payroll in an organisation:

- (a) Give four tests the Internal Auditor will carry out to evaluate the systems of Internal Controls over payroll.  
(4 marks)
  - (b) Give four tests the Internal Auditor will perform to confirm compliance with legal requirements.  
(4 marks)
  - (c) Give eight tests the Internal Auditor will perform on the payroll transactions.  
(8 marks)
  - (d) Give two analytical review tests the Auditor will perform on the payroll.  
(4 marks)
- (Total 20 marks)**