

# **THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

## **ATC(U) EXAMINATIONS**

### **LEVEL THREE**

#### **INTRODUCTION TO FINANCIAL REPORTING – PAPER 12**

**TUESDAY, 20 JUNE 2006**

#### **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 REPORTING

### Question 1

The International Accounting Standards Board's (IASB's) framework for the preparation and presentation of financial statements sets out the concepts that underlie the preparation and presentation of financial statements for external users. Uganda subscribes to the framework since it adopted the International Financial Reporting Standards.

**Required:**

- (a) State **four** purposes of IASB's framework. (4 marks)
- (b) State **five** potential users of company published financial statements, briefly explaining for each one, their likely information needs from those statements. (10 marks)
- (c) Qualitative characteristics are the attributes that make the information provided in financial statements useful to users.  
Explain three of the principal qualitative characteristics of financial statements. (6 marks)

(Total 20 marks)

## SECTION B

### Question 2

Zinco Ltd. disclosed the following reserves in its financial statements as at 31 December 2004.

	Shs'000
Share premium	880,000
Revaluation reserve	1,440,000
Retained earnings	1,634,000

During the year ended 31 December 2005, the following occurred:

- (i) Zinco Ltd issued 100,000 additional Shs. 200 ordinary shares at Shs. 450 each, fully paid and 200,000 8% Shs 2,000 preference shares at Shs. 2,400 each fully paid.
- (ii) Zinco Ltd revalued its freehold properties from Shs. 2 billion to Shs 2.4 billion. Before this revaluation, it had sold an unused warehouse property for Shs. 280 million. This warehouse had previously been revalued from its purchase cost of Shs 120 million to Shs 200 million. No depreciation is provided on freehold properties.
- (iii) The company made profits after tax of Shs 616 million including the surplus on disposal of warehouse property. Interim dividends for the year

were Shs. 40 per ordinary share together with the payment of full year's dividend on the new preference shares.

**Required:**

Prepare a statement showing the changes in the reserves of Zinco Ltd for the year ended 31 March 2005.

(20 marks)

**Question 3**

- (a) Define the term Royalty. (1 mark)
- (b) Explain the following terms as used in royalty accounts:
- (i) Minimum rent. (1 mark)
  - (ii) Short workings. (1 mark)
  - (iii) Unrestricted right of recoupment. (1 mark)
  - (iv) Restricted right of recoupment. (1 mark)
- (c) XYZ Ltd leased a plot of land from Mega Ltd upon the basis of a royalty of Shs. 10,000 per ton extracted, subject to a minimum rent of Shs. 50 million per annum. XYZ Ltd has the power to recoup short workings during the first three years of the lease. The annual output was as follows:-

Year	Tonnes of Output
2001	3,000
2002	5,000
2003	6,000
2004	7,000
2005	6,000

XYZ Ltd's year end is 31 December each year.

**Required:**

Write up the following ledger accounts in the books of XYZ Ltd., for the five years:

- (i) Royalties payable account.
- (ii) Landlord's account.
- (iii) Short workings account.

(15 marks)

(Total 20 marks)

**Question 4**

The budgeted and actual expenditure figures (hypothetical) of the Ministry of Finance and Economic Development as at 30 June 2005 were as follows:-

<b>Vote</b>	<b>Original Budget (Shs' 000)</b>	<b>Actual (Shs'000)</b>
001 Staff Training	10,000	9,750
002 Aids Support Fund	55,000	65,000
003 UPE Education Funds	150,000	145,000
004 Staff Salaries	400,000	500,000
005 Computer Software	8,000	6,000
006 Communication Expenses	4,500	3,800
007 Motor Vehicles	65,400	78,200
008 Expatriate Salaries	650,000	750,000
499 Appropriation – in - Aid	344,000	300,000

The following supplementary budget during the year was duly authorized:

<b>Vote</b>	<b>Shs'000</b>
001 Staff training	(2,000)
003 UPE Education Funds	6,000
004 Staff Salaries	100,000
006 Communication Expenses	1,200

While preparing the actual budget, the accountant either over or under stated the figures as follows:-

<b>Vote</b>	<b>Shs' 000</b>
002 Aids Support Funds over stated by	5,000
005 Computer Software understated by	1,500
007 Motor Vehicles overstated by.	8,200

**Required:**

Prepare the Ministry's Appropriation Account for the year ended 30 June 2005.  
(20 marks)

### SECTION C: AUDITING

#### Question 5

"When using the work performed by an expert, the auditor should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit".

**Required:**

- (a) Give **three** examples of experts whose work may be relied upon by auditors and for each expert, state the nature of such work. (6 marks)
  - (b) State **three** factors that the auditor will consider when deciding whether that expert's evidence is necessary. (6 marks)
  - (c) If it is the intention of the auditor to place reliance on the work of an expert, it is important to hold a consultation between auditor, client and expert, at the time the expert is appointed to reach agreement on the work to be performed.  
List and explain **four** items that should be agreed upon by these parties. (8 marks)
- (Total 20 marks)

#### Question 6

Financial statement assertions are the representations of the directors that are embodied in the financial statements. By approving the financial statements, the directors are making representations about information therein.

**Required:**

- (a) Give **five** financial statement assertions. (10 marks)
  - (b) For each of the financial statement assertions stated in (a) above, indicate the audit verification procedure that would prove/ disprove it. (10 marks)
- (Total 20 marks)

#### Question 7

Company Auditors are commonly appointed by shareholders.

**Required:**

- (a) Give three provisions on auditor appointment as stated in the Companies Act. (6 marks)
  - (b) The auditor has various detailed duties to perform in order to achieve the overall duty to report on the true and fair view. Identify and briefly explain any three such duties. (6 marks)
  - (c) In order to fulfill the auditor's duties, various legal rights are given to the auditor. Give four of the rights of the auditor. (8 marks)
- (Total 20 marks)