

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**TUESDAY, 11 DECEMBER 2007**

#### **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**

You have been provided with the following trial balance of Alpha Ltd. as at 30 November 2007:

	<b>Shs '000'</b>	<b>Shs '000'</b>
Ordinary share capital of Shs 1,000 per share		504,375
Retained earnings at 1 December 2006		94,150
5% long term loans		201,750
Revenue		1,975,805
Discounts received		50,439
Trade payables		168,124
Buildings at cost	1,681,250	
Motor vehicles at cost	53,800	
Plant and machinery at cost	235,375	
Accumulated depreciation 1 December 2006:		
Buildings		672,500
Motor vehicles		20,175
Plant and machinery		80,700
Interest on long term loans	10,088	
Trade receivables	147,278	
Purchases	739,750	
Wages	164,762	
Marketing and promotions	83,390	
electricity	30,262	
Administrative expenses	201,750	
Inventory at 1 December 2006	403,500	
Bank	<u>16,813</u>	<u>-</u>
	<u><b>3,768,018</b></u>	<u><b>3,768,018</b></u>

The following notes are also available:

1. Audit fees not yet accrued amounted to Shs 6,725,000.
2. There are wages outstanding for the year ended 30 November 2007 of Shs 3,362,500.
3. An allowance for doubtful debts is to be established amounting to 5% of trade receivables.
4. Income tax of Shs 84,062,500 is to be provided for during the year.
5. A customer who owed the company Shs 12,777,500 died and his business ceased operations. This debt is not expected to be recovered.
6. Inventory as at 30 November 2007 was valued at Shs 269 million.

7. Included in the marketing and promotions expense is Shs 2,017,500 that relates to a promotions campaign scheduled to commence in January 2008.
8. Depreciation is to be provided as follows:
  - (i) Buildings: 2.5% per annum on their original cost. Allocate 50% to administrative expenses, 20% to cost of sales and 30% to distribution costs.
  - (ii) Motor vehicles: 12.5% per annum on their original cost, allocated to distribution costs.
  - (iii) Plant and machinery: 10% per annum of their written down value, allocated to cost of sales.
9. Wages and electricity charges should be apportioned as follows:

	<b>Cost of sales</b>	<b>Distribution costs</b>	<b>Administrative expenses</b>
Wages	60%	30%	10%
Electricity	50%	30%	20%

**Required:**

In accordance with **IAS 1: Preparation of Financial Statements**; prepare Alpha Ltd's:

- (a) income statement for the year ended 30 November 2007, classifying expenses by function. **(10 marks)**
- (b) balance sheet as at 30 November 2007. **(10 marks)**

**Hint: Show all your workings where appropriate.**

**(Total 20 marks)**

**SECTION B: FINANCIAL ACCOUNTING**

**Question 2**

- (a) Briefly explain the following terms as used in **IAS 7: Cash Flow Statements**:
  - (i) Cash flows from operating activities. **(2 marks)**
  - (ii) Cash flows from investing activities. **(2 marks)**
  - (iii) Cash flows from financing activities. **(2 marks)**
- (b) Explain, with the use of illustrations, how cash flows from operating activities are reported under **IAS 7: Cash Flow Statements**, using the:
  - (i) direct method. **(4 marks)**

(ii) indirect method.

**(6 marks)**

(c) State where the following are disclosed on the face of a cash flow statement prepared in compliance with **IAS 7: Cash Flow Statements**.

- (i) Proceeds from sale of non-current assets.
- (ii) Proceeds from issue of share capital
- (iii) Cash received from customers.
- (iv) Proceeds from long term borrowings.

**(4 marks)**

**(Total 20 marks)**

### Question 3

Mumbakas Ltd. sells cooking gas in returnable containers. These containers cost Shs 46,000 each. Containers are charged out to customers on a sale or return basis within nine months at Shs 50,000 each. If they are returned within nine months' period, they are credited at Shs 45,000 each.

At 30 November 2007, the value of all returnable containers held in stock and in customers' custody was agreed at Shs 35,000 each as was at 30 November 2006.

The following were the physical containers held on the given dates:

	<b>1 December 2006</b>	<b>30 November 2007</b>
Company	3,000	5,400
Customers	5,000	3,500

During the year 4,000 new containers were purchased, 25,000 were invoiced to customers and 23,500 were returned.

100 containers had to be sold as scrap for Shs 15,000 each. Also 500 containers were repaired at Shs 2,000 each.

#### 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) Briefly explain the following bases of accounting systems as applied in public sector accounting:
- (i) Cash accounting basis. **(3 marks)**
  - (ii) Accruals accounting basis. **(3 marks)**
  - (iii) Commitment accounting basis. **(3 marks)**
- (b) Bukoko Local Government had the following entries in its cash book for November 2007.

	<b>Shs '000'</b>
Balance brought forward on 1 November 2006	937,500
Receipts for November 2007	7,812,500
Payments:	
Salaries	4,062,500
Rent	1,812,500
Supplies used in November	312,500
Supplies to be used in December	43,750
Other information:	
▪ Supplies acquired and used in November not yet paid for	218,750
▪ Supplies acquired and to be used in December not yet paid for.	137,500
▪ Revenue from a market tenderer due for November but not yet received by the end of the month.	1,625,000

**Required:**

Prepare the revenue account for November 2007 for Bukoko Local Government under:

- (i) Cash Accounting. **(5 marks)**
  - (ii) Accruals Accounting. **(6 marks)**
- (Total 20 marks)**

## SECTION C: AUDITING

### Question 5

You work for an audit firm that is currently performing end of year procedures on one of its clients. Your audit manager has instructed you to represent the firm at the inventory counting exercise.

**Required:**

- (a) Describe the work you will do prior to the commencement of the inventory count.  
(5 marks)
  - (b) Describe the work you will do during the inventory count.  
(15 marks)
- (Total 20 marks)

### Question 6

The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

The idea to grasp is that one preparing a set of financial statements is making assertions about items in the financial statements when he / she puts them in the financial statements.

**Required:**

- (a) Identify and briefly explain any **five** such assertions that the one preparing financial statements may be making.  
(10 marks)
- (b) State any **six** basic techniques for collecting audit evidence.  
(6 marks)
- (c) Audit evidence tends to be persuasive rather than absolute. Auditors seek evidence from different sources and of different nature to support the same assertion. Consequently, auditors provide reasonable but not absolute assurance that the financial statements are free from misstatements.

**Required:**

State **two** aspects that constrain the quality and quantity of the evidence that is needed.

(4 marks)  
(Total 20 marks)

**Question 7**

The auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditors' report that may require adjustment of, or disclosure in, the financial statements have been identified.

**Required:**

- (a) State **five** procedures that are ordinarily performed to identify events that may require adjustment of, or disclosure in, the financial statements. **(10 marks)**
- (b) You are the auditor of ABC Ltd. The audit of ABC Ltd. for the year ended 30 June 2007 had the following events:

<b>Date</b>	<b>Event</b>
15 Aug. 2007	Bankruptcy of a major customer representing 20% of the trade receivables on the balance sheet.
30 Aug. 2007	Inventories that existed at the balance sheet date are sold at 20% below the carrying value.
10 Sept. 2007	The company paid cash to buy more non-current assets.
30 Oct. 2007	The company made a new issue of ordinary shares.
10 Nov. 2007	A fire completely destroyed the office building, the only non-current asset on the balance sheet.

The auditor's report was signed on 30 November 2007.

**Required:**

For each of the above events, state whether the events occurring on the given dates are adjusting or non-adjusting, giving reasons for your decision.

**(10 marks)**  
**(Total 20 marks)**