

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**TUESDAY, 19 JUNE 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 REPORTING****Question 1**

Extel Company Ltd had the following non-current assets in its books as at 30 April 2006:

	<b>Cost Shs million</b>	<b>Depreciation Shs million</b>
Land and buildings (land Shs 60 million)	360.00	110.00
Motor vehicles	227.50	84.25
Furniture and fittings	328.50	87.40
Office Equipment	39.85	17.80

During the year ended 30 April 2007, the following took place:

- (i) Land and buildings were revalued by Shs 200 million. 70% of the revaluation surplus is attributable to land and 30% is attributable to the buildings. The buildings have a remaining useful life of 20 years from 1 May 2006.
- (ii) A motor vehicle which was purchased three years ago for Shs 60 million and depreciated at 20% on straight line basis was sold off for Shs 35 million.
- (iii) An item of office equipment which had cost Shs 15 million and was fully depreciated by 30 April 2006 was scrapped off for Shs 4 million.
- (iv) Furniture worth Shs 5 million was purchased during the year.
- (v) The following depreciation methods and rates are applied:
  - Motor vehicles 20% on straight line basis.
  - Furniture and fittings 10% on reducing balance basis.
  - Office equipment 10% on straight line basis.

**Required:**

Prepare a non-current assets movement schedule to reflect the above transactions for the year ended 30 April 2007.

**Note:** Land and buildings should be disclosed separately. The schedule should have a totals column.

**(20 marks)**

**SECTION B****Question 2**

- (a) The Accounting Standards normally require construction contracts to be accounted for using the percentage of completion basis. However, under certain circumstances, construction contracts should be accounted for using the completed contracts basis.

**Required:**

Discuss the principles that underlie each of two methods and circumstances in which their use is appropriate.

**(6 marks)**

- (b) ABC Construction Company Ltd is partly through a contract to construct a new football stadium for the Uganda Government at a contracted price of Shs 600 million. Details of the progress of this contract at 1 April 2006 are shown below:

	<b>Shs million</b>
Cumulative sales revenue invoiced	300
Cumulative cost of sales to-date	224
Profit to-date	76

The following information has been extracted from the accounting records at 31 March 2007:

	<b>Shs million</b>
Total progress payment received for work certified at 28 February 2007	360
Rectification costs	34
Total costs incurred to-date (excluding rectification costs)	390

ABC Construction Company Ltd has received progress payments of 90% of the work certified at 28 February 2007.

ABC Construction Company Ltd's Surveyor has estimated the sales value of the further work completed during March 2007 was Shs 40 million.

At 31 March 2007 the estimated remaining costs to complete the contract were Shs 90 million. All estimates are taken to be reliable. ABC Construction Company Ltd calculates the percentage of completion of its contracts as the proportion of sales value earned to date compared to the contract price.

**Required:**

Prepare extracts of the financial statements of ABC Construction Company Ltd for the above contract for the year ended 31 March 2007. Show your workings.

(14 marks)  
(Total 20 marks)

**Question 3**

The International Accounting Standards Board (IASB) has sole responsibility for setting accounting standards. The foremost qualification for IASB membership is technical expertise and the Trustees exercise their best judgment to ensure that the IASB is not dominated by any particular constituency or regional interest.

**Required:**

- (a) State **four** constitutional IASB membership requirements. (8 marks)
- (b) Describe the IASB's standard setting process including how standards are produced, enforced and occasionally supplemented.

(12 marks)  
(Total 20 marks)

**Question 4**

Write short notes on the following with regard to the Public Finance and Accountability Act:

- (a) Statutory expenditure. (4 marks)
- (b) Voted expenditure. (4 marks)
- (c) Supplementary provisions. (4 marks)
- (d) Virements. (4 marks)
- (e) Excess expenditure. (4 marks)

(Total 20 marks)

**SECTION C: AUDITING**

**Question 5**

- (a) Computer-Assisted Audit Techniques (CAATs) are used to assist an auditor in the collection of audit evidence from computerized systems.

**Required:**

Briefly explain **four** advantages of CAATs.

(8 marks)

- (b) You are considering using audit software as part of your substantive testing of the data files in the sales and inventory systems of your client.

**Required:**

- (i) Briefly explain **three** of the difficulties of using audit software.  
(6 marks)
  - (ii) List **three** audit tests that you can programme into your audit software for the sales and inventory system of your client, explaining the reason for each test.  
(6 marks)
- (Total 20 marks)**

**Question 6**

Internal controls may be preventive, detective or corrective.

**Required:**

- (a) What is the importance of effective internal control systems?  
(4 marks)
  - (b) Briefly explain **six** types of internal controls that should be instituted by a school.  
(12 marks)
  - (c) State **four** factors that may lead to the ineffectiveness of internal control systems.  
(4 marks)
- (Total 20 marks)**

**Question 7**

You have been assigned to your firm's audit of the financial statements of one of the firm's clients for the year just ended. At the planning meeting, attended by the audit team for which you are the leader, the audit manager confirmed that the firm would adopt a risk-based approach to the audit. The manager also explained the risk model comprising detection risk, control risk and inherent risk. The audit manager mentioned the need to portray professionalism during the execution of this assignment.

**Required:**

- (a) Explain what is meant by the term risk-based approach to an audit. Also comment on each of the components of the risk model identified.  
(12 marks)
  - (b) Briefly explain **four** personal qualities that an auditor should possess.  
(8 marks)
- (Total 20 marks)**