

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**WEDNESDAY, 10 DECEMBER 2008**

#### 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.

**SECTION A****Question 1**

A list of account balances of Tendo, a limited liability company at 30 November 2008 is given below:

	<b>Dr</b>	<b>Cr</b>
	<b>Shs '000'</b>	<b>Shs '000'</b>
Sales revenue		57,200
Purchases	36,000	
Inventory at 1 December 2007	9,000	
Storage costs	1,700	
Sales person's salaries and commissions	3,700	
Administrative salaries	6,140	
General administrative expenses	1,160	
General distribution expenses	980	
Directors' remuneration	1,740	
Loan interest paid	200	
Interim dividends paid	80	
Non-current assets - cost	36,000	
Accumulated depreciation 1 December 2007		7,800
Trade accounts receivable and payable	13,800	7,600
Allowance for doubtful debts 1 December 2007		400
Balance at bank		4,160
10% loan (repayable 2013)		2,000
Issued share capital (4 million ordinary shares)		8,000
Share premium account		2,600
Retained profit, 1 December 2007		17,440
Suspense account (see Note 3 below)	-	3,300
	<u>110,500</u>	<u>110,500</u>

The following information should be allowed for:

- Inventory at 30 November 2008 amounted to Shs 10 million. Inventories are valued at the lower of cost and net realizable value.
- A review of the trade receivables total of Shs 13.8 million showed that it was necessary to write off debts totaling Shs 800,000 and that the allowance for doubtful debts be adjusted to 2% of the remaining balance.
- Two transactions had been entered in the company's cash record and transferred to the suspense account shown in the trial balance. They are:
  - a receipt of Shs 3 million from an issue of 500,000 Shs 2 ordinary shares at a premium of Shs 4 per share.

- (b) a sale of some surplus plant. The plant had cost Shs 2 million and had a written down value of Shs 200,000. The sale proceeds of Shs 300,000 were credited to the suspense account but no other entries had been made. The profit on disposal should be allocated to cost of sales.
4. Depreciation should be charged to 10% per annum on cost at the end of the year and allocated to cost of sales.
5. Accruals and prepayments still to be accounted for are:
- |                                 | <b>Prepayments</b> | <b>Accruals</b>  |
|---------------------------------|--------------------|------------------|
|                                 | <b>Shs '000'</b>   | <b>Shs '000'</b> |
| General administrative expenses | 140                | 280              |
| General distribution expenses   | <u>80</u>          | <u>180</u>       |
|                                 | <u>220</u>         | <u>460</u>       |
6. Tax payable for the year amounted to Shs 300,000.
7. The sales revenue represents the net invoiced value of all goods sold during the year.
8. The company prepares its accounts on the historical cost basis of accounting.

### Required

Prepare, in the form suitable for publication, Tendo Ltd 's:

- (a) income statement for the year ended 30 November 2008. (11 marks)
- (b) balance sheet as at 30 November 2008. (6 marks)
- (c) notes to the financial statements:
- (i) Note 1: Accounting policies. (2 marks)
- (ii) Note 2: Profit on disposal of non-current assets. (1 mark)
- (Total 20 marks)**

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

The International Financial Reporting 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 the **five** purposes of IASB's framework. **(5 marks)**
- (b) Define each of the following terms as used in financial accounting:
- (i) Asset. **(2 marks)**
  - (ii) Revenue. **(2 marks)**
  - (iii) Expense. **(2 marks)**
  - (iv) Reserves. **(2 marks)**
  - (v) Liability. **(2 marks)**
- (c) State the likely information needs of each of the following users of company published financial statements:
- (i) Customers. **(1 mark)**
  - (ii) Suppliers. **(1 mark)**
  - (iii) Lenders. **(1 mark)**
  - (iv) Employees. **(1 mark)**
  - (v) Investors. **(1 mark)**
- (Total 20 marks)**

**Question 3**

Kalt Ltd supplies gas in expensive returnable containers. These containers cost Shs 80,000 each and are charged out to customers on sale or return basis within six months at Shs 104,000 each. Provided they are returned within six months' period, they are credited at Shs 92,000 each. At the end of the year, the company values all returnable containers in customers' hands and containers held in stock at Shs 64,000 each.

You are advised that:

	<b>1 November 2007</b>	<b>31 October 2008</b>
Containers held by Kalt Ltd	11,040	12,576
Returnable containers held by customers	19,160	11,640

During the year, 12,400 new containers were purchased, 82,480 were invoiced to customers and 71,840 were returned. On inspection, 1,040 containers required repairs costing Shs 11,300,000 and 224 containers had to be sold as scrap for Shs 9,124,000.

**Required:**

Prepare a:

- (a) containers stock account. (8 marks)
- (b) containers suspense account. (6 marks)
- (c) a statement showing the profit or loss on dealing in containers during the year ended 31 October 2008 for Kalt Ltd.

(6 marks)

(Total 20 marks)

**Question 4**

The budgeted and actual expenditure figures for the of Finance Department of a local authority as at 30 June 2008 were as follows:

Vote	Budget (Original) Shs '000'	Actual Shs '000'
001 Motor vehicles	196,200	234,600
002 Expatriate salaries	1,950,000	2,250,000
004 Staff training	30,000	29,250
005 AIDS support funds	450,000	435,000
006 UPE funds	165,000	195,000
007 Staff salaries	1,200,000	1,500,000
008 Computer software	24,000	18,000
009 Communication expenses	13,500	11,400
599 Appropriation-in-aid	1,032,000	900,000

The following supplementary budget during the year was duly authorized:

Vote	Shs '000'
004 Staff training	(6,000)
006 UPE funds	18,000
007 Staff salaries	300,000
009 Communication expenses	3,600

While preparing the actual budget, the accountant misstated the following votes:

Vote	(under)/overstatement Shs '000'
005 AIDS support funds	15,000
008 Computer software	(4,500)
007 Motor vehicles	24,600

**Required:**

Prepare the Finance Department's appropriation account for the year ended 30 June 2008.

**(20 marks)**

**SECTION C**

**Question 5**

Auditors should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. The accounting system and control environment should be sufficiently documented.

**Required:**

- (a) Define the term "control environment".  
**(2 marks)**
  - (b) What is the purpose of internal controls over the accounting and record keeping system of an enterprise?  
**(2 marks)**
  - (c) Define the term "control procedures" and explain any **five** specific control procedures that you are familiar with.  
**(12 marks)**
  - (d) State any **four** inherent limitations of internal controls.  
**(4 marks)**
- (Total 20 marks)**

**Question 6**

- (a) **ISA 500:** Audit Evidence, provides that the auditor should use management assertions to form a basis for the assessment of risks of material misstatement and the design and performance of further audit.

Assertions about different classes of transactions and events for a period under audit are categorized as follows:

- (i) Occurrence.
- (ii) Completeness.
- (iii) Accuracy.
- (iv) Cut-off.
- (v) Classification.

**Required:**

State the implicit or explicit management assertions made about classes of transaction and events for the period.

**(5 marks)**

- (b) **ISA 500:** Audit Evidence, states that the reliability of audit evidence is influenced by its source and its nature and is dependent upon the individual circumstances under which it is obtained.

**Required:**

- (i) Identify **five** different sources of audit evidence. (5 marks)
- (ii) Briefly describe the **five** generalizations/presumptions about the reliability of audit evidence. (10 marks)

(Total 20 marks)

**Question 7**

- (a) Define the term "auditing". (2 marks)
- (b) Why is there a need for an audit? (6 marks)
- (c) Briefly explain **six** personal qualities which a qualified auditor should possess. (12 marks)

(Total 20 marks)