

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**WEDNESDAY, 18 JUNE 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**

BB Ltd's year ended on 30 April 2008. The following balances were extracted from the books of the company as at 30 April 2008:

	<b>Shs '000'</b>
Ordinary shares of Shs 1 each fully paid	500,000
General reserve	400,000
Plant replacement reserve	300,000
Lease hold land and buildings at cost	655,000
Motor vehicles at cost	106,500
Plant and machinery at cost	544,000
Sundry trade payables	324,000
Balance at bank	892,100
Inventories, 1 May 2007	106,400
Sales	2,805,200
Purchases	1,825,300
Overhead expenses	194,560
Selling expenses	164,280
Administration expenses	223,920
Retained profit, 1 May 2007	292,460
Taxation account	70,000
Trade receivables	567,500
Interim dividends paid 31 October 2007	24,500
Accumulated depreciation 1 May 2007	
• Lease hold land and buildings	327,500
• Plant and machinery	302,900
• Motor vehicles	64,200
Allowance for doubtful debts 1 May 2007	10,300
Cash in hand	92,500

Additional information:

- (a) Inventories on 30 April 2008 amounted to Shs 114,500,000.
- (b) Administration expenses include the managing director's salary of Shs 100 million and that of the sales director of Shs 60 million.

Benefits in kind received by the Managing Director were valued at Shs 4,590,000 for the year.

- (c) Allowance for doubtful debts is to be adjusted to 2% of the outstanding trade receivables as on 30 April 2008.

- (d) Provisions should be made as follows:
  - (i) Audit fees Shs 3,150,000.
  - (ii) Depreciation on leasehold land and buildings at 5% on cost, plant and machinery at 12 ½ % on cost, and motor vehicles at 20% on cost, and;
  - (iii) Non-executive directors' fees Shs 10 million (Shs 5 million each).
- (e) The balance on taxation account represents the provision made on 30 April 2007 and not yet paid. The corporation tax for the year ended 30 April 2008, is estimated at Shs 76 million based on a rate of 30%.
- (f) The directors wish to transfer Shs 100 million to general reserves.

**Required:**

Prepare in the form suitable for publication and complying as far as possible with the minimum requirements of the Companies Act (Cap 110) of the laws of Uganda, and the **IAS 1**: Presentation of Financial Statements:

- (a) BB Ltd's income statement for the year ended 30 April 2008. **(8 marks)**
- (b) BB Ltd's balance sheet as at 30 April 2008. **(7 marks)**

**Note:** Include the accounting policies of BB Ltd (note 1) and the movement on non-current assets (note 2) and the Companies Act disclosures.

**(5 marks)**  
**(Total 20 marks)**

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

The following are balance sheets of CF Ltd, as at 30 April:

			<b>2007</b>	<b>2008</b>
	<b>Note</b>	<b>Shs '000'</b>	<b>Shs '000'</b>	<b>Shs '000'</b>
Non-current assets at cost	1	600		730
Accumulated Depreciation		<u>220</u>		<u>240</u>
			380	490
<b>Current assets</b>				
Inventory		81		90
Accounts receivable		90		86
Cash		<u>4</u>		<u>7</u>
		<u>175</u>		<u>183</u>
<b>Current liabilities</b>				
Trade Accounts payable		48		50
Bank Overdraft		13		18
Accrued dividends		<u>18</u>		<u>22</u>
		<u>79</u>		<u>90</u>
Net current assets			<u>96</u>	<u>93</u>
<b>Total assets less current liabilities</b>			<u>476</u>	<u>583</u>
<b>Equity and liabilities</b>				
Ordinary share capital of Shs 1 per share	3	150		200
<b>Reserves</b>				
Share premium account		50		80
Revaluation surplus		-		50
Retained earnings		<u>176</u>		<u>203</u>
			376	533
<b>Non-current liabilities</b>				
10% loan notes	2		<u>100</u>	<u>50</u>
<b>Total equity and long term liabilities</b>			<u>476</u>	<u>583</u>

**Notes:**

## 1. Non-current assets

During the year non-current assets which had cost Shs 100,000, and which had a book value at 30 April 2007 of Shs 20,000 were sold for Shs 25,000.

## 2. Loan

Interest is due half yearly on 31 October and 30 April and was paid on the due dates.

Shs 50,000 of the 10% loan was repaid on 30 April 2008.

## 3. Share capital

The increase in share capital took place on 1 August 2007.

4. Taxation has not been allowed for and is to be ignored in your answer.
5. An interim dividend of Shs 10,000 was paid to all shares in issue at 6 January 2008.

**Required:**

Prepare a cash flow statement for the year ended 30 April 2008 using the indirect method.

Your answer should comply as far as possible with the requirements of **IAS 7: Cash flow Statements** and should include a reconciliation of operating profit to net cash flow from operating activities.

**(20 marks)**

**Question 3**

The Capital Markets Authority (CMA) is a semi autonomous body established by statute to regulate and promote the development of capital markets industry in Uganda.

**Required:**

- (a) What are capital markets?  
**(4 marks)**
- (b) Briefly explain any **four** functions of the Capital Markets Authority of Uganda.  
**(8 marks)**
- (c) Name any **two** products that are currently available in the Uganda's capital markets industry.  
**(4 marks)**
- (d) Briefly explain any **four** of the governing laws of Uganda's Capital Markets Industry.  
**(4 marks)**

**(Total 20 marks)**

#### Question 4

The public sector plays a fundamental role in the political and economic structure of a country. The two basic concepts of financial reporting in the public sector are accountability and stewardship.

**Required:**

- (a)
  - (i) State the main objectives of public sector accounting.
  - (ii) Identify the main users of public sector accounts and describe their information needs.
- (b) Different public sector organizations adopt different accounting techniques. Briefly explain the following accounting techniques as used in public sector organisations:
  - (i) Budgetary accounting.
  - (ii) Cash accounting.
  - (iii) Accruals accounting.
  - (iv) Commitment accounting.
  - (v) Fund accounting.

**(10 marks)**

**(10 marks)**

**(Total 20 marks)**

### SECTION C

#### Question 5

Contuors Ltd is a company dealing in drugs internationally. It has 40 employees (25 in Uganda). It is owned by ABC Ltd, a company registered in Egypt and is known to deal with several other overseas companies also owned by that company. The company has four directors who are all Ugandan residents and who do not own any shares in the company. The company is heavily indebted to its bankers. You are on the team of newly appointed auditors.

**Required:**

- (a) List some possible related parties of this company.
- (b) From the auditors' point of view, what risks are there that not all the disclosure requirements may be met?
- (c) Set out a section in the overall audit plan covering the audit requirements of related parties.

**(4 marks)**

**(6 marks)**

**(10 marks)**

**(Total 20 marks)**

### Question 6

A good and well established internal control system helps organisations to safeguard their assets and operations thus achieve high profits and efficiency.

**Required:**

- (a) What do you understand by the term “internal control system”?  
(5 marks)
- (b) Briefly state and explain any **five** internal controls that you may need to deploy as a bursar of a school.

(15 marks)  
(Total 20 marks)

### Question 7

The objective of an audit of financial statements is to enable auditors to give an opinion on those financial statements taken as a whole and thereby provide reasonable assurance that the financial statements give a true and fair view (where relevant) and have been prepared in accordance with relevant accounting or other requirements.

**Required:**

- (a) What is meant by ‘opinion’, ‘taken as a whole’, ‘reasonable assurance’, ‘true and fair view’ in the context of the definition above?  
(15 marks)
- (b) State the procedures required in undertaking an audit of financial statements.

(5 marks)  
(Total 20 marks)