

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**TUESDAY, 16 JUNE 2009**

#### INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.  
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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**

The International Accounting Standards Board (IASB) is the standard-setting body of the International Accounting Standards Committee (IASC) Foundation. The foremost objective of the organisation is to develop, in public interest, a single set of high quality, understandable and enforceable global accounting standards. The IASB's standard-setting process comprises six stages.

**Required:**

Identify and briefly describe the six stages of the IASB'S standard-setting process.

**(Total 20 marks)****SECTION B****Question 2**

Camrey Ltd has an authorized share capital of Shs 150 million made up of ordinary shares of Shs 1000 each. On 30 April 2009, the following balances were extracted from the books of the company:

	<b>Shs'000</b>
Ordinary shares, fully paid	100,000
General reserve	80,000
Revaluation surplus	60,000
Leasehold land at valuation	40,000
Buildings at cost	91,000
Motor vehicle at cost	21,000
Plant and machinery at valuation	108,000
Accounts payable	64,800
Balance at bank	178,420
Inventory on 1 May 2008	21,280
Sales revenue	561,040
Purchases	365,060
Overhead expenses	38,912
Selling expenses	32,856
Administrative expenses	44,784
Retained earnings 1 May 2008	58,492
Trade receivables	113,500
Allowances for depreciation 1 May 2008:	
Land	20,000
Buildings	45,500
Plant and machinery	60,580
Motor vehicles	12,840
Cash in hand	7,340

**Additional information:**

- (a) Inventory on 30 April 2009 amounted to shs 22,900,000
- (b) The directors wish to transfer Shs 20 million to general reserves.
- (c) The annual charge for depreciation is at the following rates on cost or valuation:
  - Land & buildings 5%
  - Plant & machinery 12.5%
  - Motor vehicles 20%

**Required:**

Prepare the following statements, complying as far as is practicable, to the minimum requirements of **IAS 1**: Presentation of Financial Statements.

- (a) Statement of financial position as at 30 April 2009  
(6 marks)
  - (b) Statement of comprehensive income for the year ended 30 April 2009  
(5 marks)
  - (c) Statement of changes in equity for the year ended 30 April 2009.  
(4 marks)
  - (d) The property, plant and equipment schedule showing balances as at 30 April 2009.  
(5 marks)
- (Total 20 marks)**

**Question 3**

- (a) Define the term royalty.  
(2 marks)
- (b) A landlord granted to Mining Company Ltd, a lease of mineral rights over his property for a period of ten years from 1 June 2004. The rent payable was a minimum of shs 80 million, merging in a royalty of shs 1,000 per ton payable annually.

Short workings could be recouped out of subsequent excess working over the period of the lease.

At the end of the first year, Mining Company Ltd, granted a sub-lease to Mining Lessees Ltd in respect of one-half of the area for a period of nine years.

Mining Lessees Ltd were to pay a minimum rent of shs 45 million merging in a royalty of shs 1,500 a ton payable annually. Short workings could be recouped out of subsequent excess workings in any of the three years immediately following that in which the short workings occurred.

The following tonnes of minerals were mined from the property:

	Mining Company Ltd	Mining Lessees Ltd
Year 1	40,000	-
Year 2	80,000	10,000
Year 3	55,000	23,000
Year 4	90,000	25,000
Year 5	70,000	40,000

**Required:**

Prepare the following ledger accounts for the period of five years in the books of Mining Company Ltd:

- (a) Royalties payable account. (5 marks)
- (b) Royalties receivable account. (4 marks)
- (c) Landlord's account. (5 marks)
- (d) Sub-tenant's account. (4 marks)

**(Total 20 marks)**

**Question 4**

- (a) Public sector plays a fundamental role in the political and economic structure of a country. It provides a great number of diversified services to the community. Public sector bodies derive powers from parliament.

**Required:**

Identify four public sector organisations. (4 marks)

- (b) The two basic concepts of financial reporting by public sector organisations are stewardship and accountability. Public sector accounting is concerned with financial accountability and economic accountability.

**Required:**

- (i) State **four** of the main objectives of public sector accounting. (8 marks)
- (ii) Identify any **four** main users of public sector accounting. (4 marks)
- (c) The users of public sector accounts are interested in financial viability and fiscal compliance.

**Required:**

Briefly explain what is meant by 'financial viability' and 'fiscal compliance'. (4 marks)

**(Total 20 marks)**

## SECTION C: AUDITING

### Question 5

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

International Standard on Auditing **560**: Subsequent Events provides guidance on the auditors responsibility regarding subsequent events.

**Required:**

- (a) What are subsequent events?  
(3 marks)
- (b) Identify the **two** types of subsequent events.  
(2 marks)
- (c) The audit procedures to identify subsequent events should be performed as near as practicable to the date of the auditor's report.

**Required:**

Briefly describe any **five** audit procedures that may be performed to identify subsequent events.

(15 marks)  
(Total 20 marks)

### Question 6

In recent years, many companies and other enterprises have failed. The reason for failure are many and varied but high gearing and high interest rates are often blamed.

A general feature of **IAS 1**: Presentation of Financial Statements is going concern. The Companies Act provides that the company shall be presumed to be carrying on business as a going concern. There are also lengthy statements of auditing standards on going concern.

**Required:**

- (a) What does the adoption of the going concern basis in financial statements mean?  
(4 marks)
- (b) State **four** procedures used by directors to review the going concern basis.  
(8 marks)
- (c) State **four** procedures used by auditors to review the going concern basis.  
(8 marks)  
(Total 20 marks)

### Question 7

Professional accountants are required to observe proper standards of professional conduct whether or not the standards required are written in the rules or are unwritten. They are specifically required to refrain from the misconduct which is difficult to define precisely but which includes any act or default which is likely to bring discredit on the accountant, the professional body or the profession generally:

**Required:**

Write brief notes on each of the following:

- |     |                       |           |
|-----|-----------------------|-----------|
| (a) | Independence.         | (4 marks) |
| (b) | Conflict of interest. | (4 marks) |
| (c) | Advertising.          | (4 marks) |
| (d) | Charging audit fees.  | (4 marks) |
| (e) | Insider dealing.      | (4 marks) |

**(Total 20 marks)**