

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING - PAPER 12

THURSDAY, 09 DECEMBER 2010

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, before attempting any question.

© 2010 Public Accountants Examinations Board

SECTION A**Question 1**

You have been provided with the following trial balance for Mamba Ltd as at 31 December 2009.

	Dr '000'	Cr '000'
Ordinary shares of Shs 1,000 per share		1,008,750
Retained earnings 1 January 2009		188,300
5% loan notes		403,500
Sales revenue and purchases	1,479,500	3,951,610
Discounts received		100,875
Trade accounts receivable and payable	294,555	336,250
Interest on loan notes	20,175	
Buildings at cost	3,362,500	
Plant and machinery at cost	470,750	
Motor vehicles at cost	107,600	
Accumulated depreciation 1 January 2009		
Buildings		1,345,000
Plant and machinery		161,400
Motor vehicles		40,350
Inventory 1 January 2009	807,000	
General expenses	403,500	
Electricity charges	60,525	
Marketing and advertising	166,780	
Wages and salaries	329,525	
Bank balance	33,625	
	<u>7,536,035</u>	<u>7,536,035</u>

The following notes are relevant:

1. Inventory at 31 December 2009 was valued at Shs 538 million.
2. Marketing and advertising expenses include Shs 4,035,000 paid in advance for a marketing campaign which was due to begin in January 2010.
3. Wages outstanding for the year to 31 December 2009 amounted to Shs 6,725,000.

4. A customer who owed the company Shs 25,550,000 ceased trading. The debt is not expected to be recovered and should be written off.
5. An allowance for doubtful debts is to be established amounting to 2 ½ % of trade receivables.

6. The expenses listed below should be apportioned as follows:

	Cost of sales	Distribution costs	Administratio n expenses
	%	%	%
General expenses	20	30	50
Wages and salaries	50	30	20
Electricity charges	50	20	30
Depreciation:			
Buildings	40	40	20
Motor vehicles	-	100	-
Plant and machinery	100	-	-

7. Depreciation is to be provided for as follows:
- (i) Buildings at 5% per annum on their original cost.
 - (ii) Motor vehicles at 25% per annum on their written down value.
 - (iii) Plant and machinery at 20% per annum on their written down value.
8. Income tax of Shs 168,125,000 is to be provided for during the year.
9. Audit fees not yet accrued amount to Shs 13,450,000.

Required:

Prepare the following financial statements for the year ended 31 December 2009 for Mamba Ltd, in accordance with IAS 1: Presentation of Financial Statements:

- (a) Statement of comprehensive income.

(12 marks)

- (b) Statement of financial position.

(8 marks)

Total 20 marks

SECTION B**Question 2**

The following are statements of financial position of Kashi Ltd for the year ended 31 December:

	2009		2008	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets		27,000		18,000
Less: Depreciation		<u>(9,000)</u>		<u>(5,600)</u>
		18,000		12,400
Current assets:				
Inventory	5,000		4,200	
Receivables	4,000		3,300	
Cash	<u>—</u>		<u>1,100</u>	
		<u>9,000</u>		<u>8,600</u>
		<u>27,000</u>		<u>21,000</u>
Equity and liabilities:				
Capital and reserves				
Ordinary share capital		2,500		2,000
Share premium		1,000		800
Accumulated profits		<u>6,500</u>		<u>5,500</u>
Shareholders' funds		10,000		8,300
Non-current liabilities:				
15% loan notes		8,000		6,000
Current liabilities:				
Trade and operating payables	3,300		2,400	
Taxation	1,900		1,700	
Proposed dividend	2,800		2,600	
Bank overdraft	1,000			
		<u>9,000</u>		<u>6,700</u>
		<u>27,000</u>		<u>21,000</u>

You are further informed that:

1. There were no sales of non-current assets during the year ended 31 December 2009.
2. The company does not pay interim dividends.
3. The issue of new loan notes and shares during the year ended 31 December in 2009 took place on 1 January.

Required:

- (a) Show your calculation of the net profit before tax for the year ended 31 December 2009
(5 marks)
- (b) Prepare a statement of cash flows for the year ended 31 December 2009 in accordance with IAS 7: Statement of Cash Flows.

(15 marks)**(Total 20 marks)****Question 3**

Hamida Ltd was engaged in three building contracts for the year ended 31 March 2010 as follows:

Contract	L Shs million	M Shs million	N Shs million
Fixed contract price	32,500	30,000	32,250
Progress billings to-date	13,000	14,250	17,415
Costs incurred to-date	10,400	16,500	16,125
Estimated costs to complete	18,850	16,995	9,675
Estimated percentage of work completed	40	50	60

Required:

Show how the above contracts would be reflected in the statement of comprehensive income and statement of financial position of Hamida Ltd for the year ended 31 March 2010.

(20 marks)

Question 4

The following information was extracted from the financial records of a government entity that has been preparing its financial statements on accruals basis for the year ended 30 June 2009:

Revenue	Note	Shs million
	s	
Taxes	1	8,000
Fees , fines, penalties and licences	2	1,600
Grant-in-aid	3	<u>20</u>
Total revenue		<u>9,620</u>
Expenses		
Wages, salaries and employee benefits	3	2,400
Supplies and consumables	4	1,800
Depreciation and amortization	-	1,000
Other expenses	5	60
Finance costs	6	<u>270</u>
Total expenses		<u>5,530</u>
Surplus		<u>4,090</u>

Additional information:

1. Tax receivable for the year amounted to Shs 1.6 billion and tax arrears received amounted to Shs 1.1 billion.
2. Prepaid licences and fees at the end of the year amounted to Shs 6 million.
3. The entity was given a grant of Shs 20 million to be received annually to provide scholarships for AIDS orphans. The entity had not received a cheque for the year 2008/09 but received the balance for the year 2007/08 of Shs 10 million in May 2009. Consequently the entity had not paid salaries for some staff amounting to Shs 5 million.
4. 10% of the supplies and consumables used are not yet paid for.
5. On 1 June 2009, the entity paid its insurance premium for the fire policy for the year 2009/10 amounting to Shs 4.8 million. Only the respective amount for 2008/09 is included in other expenses.
6. In addition to the interest or finance costs, the entity also repaid loans amounting to Shs 1.5 billion. The entity then paid outstanding interest for the year 2007/08 amounting to Shs 60 million and remained with an accrued interest for the year

2008/09 of Shs 45 million to be paid at the beginning of 2009/10. Due to cash flow problems, the entity raised another loan equal to the one redeemed in amount.

7. The entity purchased equipment worth Shs 1.2 billion in cash. One third of the amount used was raised from auctioning old equipment.

Required:

- (a) Using the above information, prepare a statement of cash receipts and payments for the year ended 30 June 2009. **(15 marks)**
- (b) Giving examples, state **five** characteristics of a government business enterprise. **(5 marks)**

(Total 20 marks)

SECTION C

Question 5

An audit has been defined as a process by which the auditor amasses paper. The more paper he has collected the better the audit he has done. The papers are then filed. The permanent audit file usually contains documents and matters of continuing importance which will be required for more than one audit.

Required:

State and briefly explain any **ten** documents or matters that will be contained or filed on a permanent audit file.

(20 marks)

Question 6

- (a) An internal control system is a whole system of controls, financial and otherwise, established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records.

Internal controls can be categorized as:

- (a) organisation
- (b) segregation of duties.
- (c) physical custody of assets.
- (d) authorisation and approval.
- (e) personal competence.

Required:

Give a brief explanation of each of the above types of internal control.

(10 marks)

- (b) An entity designs specific internal controls in specific areas of its business. This is done by identifying the control objectives and stipulating measures to achieve the objectives.

Required:

State any **five** measures an entity may stipulate to ensure that all cash to which it is entitled is received, properly accounted for, entered in the records and promptly deposited into the bank account intact.

(10 marks)

(Total 20 marks)

Question 7

- (a) Directors are responsible for producing financial statements. In doing so, they make assertions. The sort of assertions they make include the following:

- (i) Existence.
- (ii) Rights and obligations.
- (iii) Occurrence.
- (iv) Valuation.
- (v) Presentation and disclosure.

Required:

Briefly explain each of the above assertions.

(10 marks)

- (b) An auditor may obtain audit evidence by one or more of the following procedures:

- (i) Observation.
- (ii) Inspection.
- (iii) Confirmation.
- (iv) Recalculation
- (v) Inquiry.

Required:

Explain and give examples of what each of the above procedures involves.

(10 marks)

(Total 20 marks)