

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**THURSDAY, 17 JUNE 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.

## SECTION A

### Question 1

Financial reporting is important to the success of an organisation.

**Required:**

- (a) What is the primary purpose of financial reports?  
(2 marks)
  - (b) Give the uses of **four** key financial statements prepared by companies.  
(8 marks)
  - (c) State and explain the **four** qualitative characteristics of financial statements.  
(8 marks)
  - (d) State and explain **two** elements of financial statements.  
(2 marks)
- (Total 20 marks)**

## SECTION B

### Question 2

- (a) Financial statements in Uganda are prepared according to International Financial Reporting Standards.

**Required:**

Explain why the process of developing financial reporting standards is complicated.

- (b) Distinguish between depreciation and amortization.  
(4 marks)
- (c) Makamuti Ltd bought computer equipment worth Shs 11 million with an estimated useful life of 5 years and residual value of Shs 1 million.

**Required:**

Using the reducing balance method, compute the depreciation charge in year 2.

- (d) (i) Define the term 'long-term contract'.  
(1 mark)
- (ii) Explain how revenue is treated under long-term contracts.  
(2 marks)
- (e) One of the methods of recognizing revenue on a long-term contract is the percentage of completion method. Zikwe Construction Ltd recognizes long term contract revenue using the percentage of completion method and

estimates the percentage of completion based on expenditure incurred as a percentage of total estimated expenditure.

Zikwe Construction Ltd has a contract to repair roads in Kampala for a price of Shs 10 billion. This will take 3 years and the repair costs are estimated at Shs 6 billion.

**Required:**

- (i) At the end of year 1 the company has spent Shs 3 billion. Total costs to completion are estimated to be Shs 3 billion. Compute the amount of revenue to be recognised in year 1.  
**(2 marks)**
- (ii) At the end of year 2, the company has spent Shs 5.4 billion. Total costs to complete are estimated to be Shs 600 million. Compute the amount of revenue to be recognised in year 2.  
**(2 marks)**
- (iii) At the end of year 3, the construction is completed. The company has spent a total of Shs 6 billion. Compute the amount of revenue to be recognised in year 3.  
**(2 marks)**

**(Total 20 marks)**

**Question 3**

The following trial balance was extracted from the books of Okot Ltd as at 31 December 2009:

	<b>Dr</b> <b>Shs '000'</b>	<b>Cr</b> <b>Shs '000'</b>
Share capital:		
Authorized and issued 40,000 shares of Shs 1,000 per share		40,000
Inventory 1 January 2009	13,428	
8% debentures		20,000
Share premium		10,000
Free hold property at cost	50,000	
Furniture and fittings at cost	3,000	
Bad debts	601	
Wages and salaries	9,820	
Purchases	90,620	
Sales		121,498
Provision for bad debts 1 January 2009		250
Provision for depreciation on furniture and fittings 1 January 2009		750
Insurance	693	
Office expenses	1,142	
Balance at bank	14,294	
Debenture interest	800	
Rates paid to 31 July 2009	210	
Retained earnings 1 January 2009		2,900
Trade receivables	16,923	
Trade payables		12,989
Rent received		390
Directors' salaries	6,000	
General expenses	1,246	
	<u>208,777</u>	<u>208,777</u>

**Additional information:**

- (i) Inventory at 31 December 2009 was Shs 16,426,000.
- (ii) Provision for bad debts to be increased to Shs 300,000.
- (iii) Shs 796,000 has been included in the wages and salaries account which represents the wages cost of extending the company's freehold property.
- (iv) Rent receivable due at 31 December 2009 was Shs 130,000.
- (v) Insurance paid in advance at 31 December 2009 amounted to Shs 86,000.
- (vi) Depreciation on furniture and fittings to be provided for at 5% per annum on cost.

- (vii) Outstanding debenture interest is to be paid.
- (viii) Shs 7,000,000 to be transferred to the general reserve.
- (ix) A provision for dividends of 10% on issued share capital to be made.

**Required:**

Prepare, in a form suitable for publication:

- (a) a statement of comprehensive income for the period ended 31 December 2009.

**(12 marks)**

- (b) a statement of financial position as at 31 December 2009.

**(8 marks)**

**(Total 20 marks)**

**Question 4**

- (a) The public sector is concerned with providing basic services including police, military, public roads, primary education, health care for the poor etc. To achieve the above objectives, the government collects revenues from taxpayers. However, these funds have to be accounted for so that value for money is realised.

**Required:**

Mention and explain **four** characteristics of public sector accounting.

**(8 marks)**

- (b) To ensure accountability for the funds collected the position of Accountant General was created in the civil service of Uganda.

**Required:**

Explain **six** duties of the Accountant General.

**(6 marks)**

- (c)
  - (i) Distinguish between cash accounting system from accruals accounting system.
  - (ii) Give **two** reasons why public sector entities in Uganda should adopt the accruals accounting system.

**(6 marks)**

**(Total 20 marks)**

## SECTION C

### Question 5

According to International Standard on Auditing (ISA) 200: Overall Objective of the Independent Auditors and the Conduct of an Audit in Accordance with International Standards on Auditing, the objective of an audit is to enable the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with applicable financial reporting framework and give a free and fair view.

**Required:**

- (a) State **two** advantages and **two** disadvantages of an audit. (4 marks)
  - (b) (i) What do you understand by 'audit committees'? (2marks)  
(ii) Give **two** advantages and **two** disadvantages of audit committees. (4 marks)
  - (c) Describe the procedure that must be followed to remove auditors from office. (4 marks)
  - (d) Explain the responsibility of directors in the preparation of financial statements. (6 marks)
- (Total 20 marks)**

### Question 6

- (a) Audit planning is a vital area of the audit, primarily conducted at the beginning of the audit process to ensure the audit is conducted in an effective manner.

**Required:**

State and explain **five** items that have to be considered when planning for an audit.

**(10 marks)**

- (b) Various audit standards state that internal controls are needed within an accounting system.

**Required:**

Explain why internal controls are needed within an accounting system.

**(4 marks)**

(c) Giving examples, explain the following types of internal controls:

- (i) preventive controls.
- (ii) detective controls.
- (iii) corrective controls.

**(6 marks)**

**(Total 20 marks)**

### **Question 7**

Mukasa has qualified as an accounting technician and has been offered a job as assistant internal auditor in a busy organisation.

#### **Required:**

(a) Distinguish between financial internal audit and operational internal audit.

**(4 marks)**

(b) Describe the role of internal auditing in ensuring that organisations achieve their corporate objectives.

**(8 marks)**

(c) List **four** types of activities carried out by an internal audit department.

**(4 marks)**

(d) Under what circumstances do external auditors rely on the work of internal audit department?

**(4 marks)**

**(Total 20 marks)**