

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

MONDAY, 28 NOVEMBER 2011

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 the question 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 following is a list of account balances from the books of Tired Ltd as at 31 December 2010.

	Dr Shs '000'	Cr Shs '000'
Sales revenue		113,600
Purchases	72,000	
Inventory 1 January 2010	18,000	
Storage costs,	3,400	
Salespersons salaries and commissions	7,400	
Administration salaries	12,280	
General administration expenses	2,320	
Directors' remuneration	3,480	
Loan interest paid	400	
Dividends – interim dividend paid	160	
Non-current assets at cost	72,000	
Accumulated depreciation 1 January 2010		15,600
Trade accounts receivable and payable	27,600	15,200
Allowance for doubtful debts 1 January 2010		800
Balance at bank		8,320
10% loan (repayable 2020)		4,000
Issued share capital (3,200 ordinary shares)		16,000
Share premium account		5,200
Accumulated profits 1 January 2010		34,720
Suspense account (see note 3)		7,560
General distribution expenses	<u>1,960</u>	
	<u>221,000</u>	<u>221,000</u>

The following additional information should be allowed for:

- (i) Inventory at 31 December 2010 amounted to Shs 20 million.
- (ii) A review of the trade accounts receivable total of Shs 27.6 million showed that it was necessary to write-off debts totaling Shs 1.6 million, and that the provision for doubtful debts should be adjusted to 2% of the remaining balances.
- (iii) Two transactions were entered in the company's cash records and transferred to the suspense account shown in the trial balance. They were:
 - a receipt of Shs 6,960,000 from the issue of 1,200 Shs 5,000 ordinary shares at a premium of Shs 800 per share.

- a sale of some surplus plant. The plant had cost Shs 4 million and had a written down value of Shs 400,000. The sale proceeds of Shs 600,000 were credited to the suspense account but no other entries were made.
- (iv) Depreciation should be charged at 10% per annum on cost at the end of the year and allocated to cost of sales.
- (v) Accruals and prepayments still to be accounted for are:
- | | Prepayments
Shs'000' | Accruals
Shs'000' |
|---------------------------------|-------------------------|----------------------|
| General administration expenses | 280 | 560 |
| General distribution expenses | 160 | 360 |
- (vi) The income tax payable for the year is Shs 130,000.

Required:

Prepare the following financial statements for the year ended 31 December 2010 for Tired Ltd, in accordance with IAS1; Presentation of Financial Statements:

- (a) Statement of comprehensive income. **(10 marks)**
- (b) Statement of financial position. **(10 marks)**
- (Total 20 marks)**

SECTION B**Question 2**

The following summarized statements of financial position relate to Olympic Ltd as at 30 June 2011:

	2011	2010
	Shs '000	Shs '000
Non-current assets at cost	650,000	500,000
Accumulated depreciation	<u>(300,000)</u>	<u>(200,000)</u>
	350,000	300,000
Investments at cost	50,000	200,000
Current assets:		
Inventory	700,000	400,000
Trade receivables	1,550,000	1,350,000
Cash and bank	-	100,000
	<u>2,250,000</u>	<u>1,850,000</u>
Current liabilities:		
Bank overdraft	60,000	-
Trade payable	790,000	650,000
Taxation	190,000	230,000
Dividends payable	<u>130,000</u>	<u>150,000</u>
	<u>1,170,000</u>	<u>1,030,000</u>
Total assets less current liabilities	<u>1,480,000</u>	<u>1,320,000</u>
Capital and reserves:		
Issued share capital	750,000	500,000
Share premium account	200,000	150,000
Retained profits	<u>530,000</u>	<u>670,000</u>
	<u>1,480,000</u>	<u>1,320,000</u>

Additional information:

- (i) During the year to 30 June 2011, some non-current assets originally costing Shs 25 million were sold for Shs 20 million in cash. The accumulated depreciation on these assets at 30 June 2010 amounted to Shs 10 million. Similarly, some of the investments originally costing Shs 150 million were sold for cash at their book value.
- (ii) The taxation balances disclosed in the above financial statements represent the actual amounts payable to the revenue authority. All taxes were paid on their due dates.
- (iii) No interim dividend was paid during the year to 30 June 2011.
- (iv) During the year to 30 June 2011, the company made a 1-for-2 rights issue of 250,000 Shs 1,000 ordinary shares at Shs 1,200 per share.

Required:

Prepare a statement of cash flows for the year ended 30 June 2011 in accordance with IAS7: Statement of Cash Flows.

(20 marks)

Question 3

CT Ltd dispatches its products to customers in bulk in wooden crates. The crates are bought from the manufacturers at Shs 15,000 each but are valued for stock purposes at Shs 10,000 each. Customers are charged a deposit of Shs 25,000 per crate, Shs 20,000 of which is refunded when the crate is returned.

At 1 January 2010, CT Ltd was holding 1,750 crates on its premises, whilst 1,460 were held by customers. The corresponding figures at the end of the year were 3,021 and 1,983 crates respectively.

During the year 2010, the company bought 2,000 crates, charged out 5,663 crates to customers and made refunds on 5,104 crates.

Of the remainder, 170 crates were scrapped and 36 were retained by customers.

The company incurred Shs 257,000 in making damaged crates re-usable.

Required:

(a) Prepare the following accounts for the year ended 31 December 2010:

(i) Crates stock account.

(8 marks)

(ii) Crates suspense amount.

(9 marks)

(b) Reconcile the profit derived from the crates suspense account to the profit on the hire of crates.

(3 marks)

(Total 20 marks)

Question 4

Public sector organizations provide a great number of diversified services to the community. A number of public sector bodies derive their powers from and are accountable to the Parliament.

Required:

- (a) State **five** objectives of public sector accounting. (10 marks)
 - (b) Identify any **four** users of public sector accounts. (4 marks)
 - (c) Briefly explain **three** user needs of public sector accounts. (6 marks)
- (Total 20 marks)**

SECTION C

Question 5

Very large organizations (and some small ones) have found a need for internal audit in addition to external audits. Internal auditors are employees of the organisation and work exclusively for the organisation, thus independence is not always easy to achieve.

Internal auditing is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation.

Required:

- (a) Explain **five** ways in which the internal auditors' independence can be enhanced. (10 marks)
 - (b) Identify and explain any **five** essential elements of internal audit. (10 marks)
- (Total 20 marks)**

Question 6

A statement of financial position may contain many liabilities under various heads. The auditor's duty is to verify the existence of the liabilities disclosed, verify the correctness of the descriptions given in the accounts and the adequacy of disclosure, and that all existing liabilities are actually included in the financial statements.

Required:

Describe the procedure of verifying liabilities in a given statement of financial position.

(20 marks)

Question 7

Before commencing any professional work, an accountant should agree, in writing, the precise scope and nature of the work to be undertaken. This is done through the medium of an engagement letter.

Required:

(a) Explain **four** uses of an engagement letter.

(8 marks)

(b) Explain **six** principle contents of an engagement letter.

(12 marks)

(Total 20 marks)