

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

MONDAY, 18 JUNE 2012

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. Section **A** has **one** compulsory question carrying 20 marks.
3. Section **B** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
4. Section **C** has **three** questions and only **two** are to be attempted. Each question carries 20 marks.
5. Write your answer to each question in a separate answer booklet.
6. Please, read further instructions on answer booklet, before attempting any question

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SECTION A

This section has one compulsory question to be attempted

Question 1

- (a) Mr. Matango deals in retail business in downtown, Kampala under his company, Matango Ltd. He has heard about IAS 2: Inventories, but he is not sure what the standard is all about. He has now come to you for advice.

Required:

Explain to Mr. Matango the following terms as applied under IAS 2: Inventories:

- (i) Inventories. (2 marks)
 - (ii) Net realizable value. (2 marks)
 - (iii) Fair value. (2 marks)
- (b) During the inventory counting exercise at 31 March 2012, Matango Ltd discovered some slow moving items with a cost of Shs 55 million. Matango Ltd estimates that these items could be sold for Shs 50 million but would require repackaging which would cost Shs 4 million.

Required:

Show the amount at which the above items of inventory will be disclosed in the financial statements for the period ended 31 March 2012.

(4 marks)

- (c) Explain the following terms as used under IAS 16: Property, Plant and Equipment:

- (i) Carrying amount. (2 marks)
- (ii) Depreciable amount. (2 marks)
- (iii) Impairment loss. (2 marks)

- (d) During the financial year ended 31 March 2012, Vide Ltd incurred the following costs relating to equipment:

- Purchase price Shs 200 million.
- Import duties Shs 40 million.
- Site preparation Shs 20 million.
- Professional fees Shs 15 million.
- Accumulated impairment cost Shs 36 million.
- Accumulated depreciation Shs 25 million.

Required:

Compute the carrying amount of this equipment to be disclosed in the financial statements of Vide Ltd for the year ended 31 March 2012.

(4 marks)**(Total 20 marks)****SECTION B**

Attempt two of the three questions in this section.

Question 2

The following trial balance was extracted from the books of Mukolo Ltd for the period ending 31 December 2011:

	Dr	Cr
	Shs '000'	Shs '000'
Ordinary share capital of Shs 1,000 per share		2,000,000
Share premium		240,000
Retained earnings 1 January 2011		279,500
General reserve		96,000
Inventory 1 January 2011	673,440	
Purchases / sales	4,951,820	9,430,740
Returns inward/outwards	272,400	242,440
Carriage outwards	87,580	
Carriage inwards	12,680	
Warehouse wages	820,480	
Salesmen's salaries	610,220	
Administration wages and salaries	554,380	
Plant and machinery	1,220,000	
Motor van hire expenses	169,540	
Provision for depreciation on plant and machinery		432,580
General distribution expenses	54,260	
General administration expenses	95,980	
Directors' remuneration	390,280	
Rent receivable		74,300
Trade receivables / payables	3,247,140	609,140
Cash	358,500	
Bill of exchange payable		114,000
	<u>13,518,700</u>	<u>13,518,700</u>

Additional information:

- (i) Inventory at 31 December was valued at Shs 825,560,000.
- (ii) Depreciation on plant and machinery is apportioned as follows: distribution 60% and administration 40%.
- (iii) Accrued audit fees Shs 142,000,000.
- (iv) Depreciate plant and machinery at 20% per annum on cost.
- (v) Motor van hire expenses of Shs 110,000,000 relate to distribution.
- (vi) Corporation tax estimated at Shs 477,000,000 is to be provided for.
- (vii) The directors proposed dividends of Shs 750,000,000.

Required:

Prepare, in a format suitable for publication for the year ended 31 December 2011, for Mukolo Ltd, a:

- (a) statement of comprehensive income using a formation of expenses method.
(12 marks)
- (b) statement of financial position.

(8 marks)

(Total 20 marks)

Question 3

Ingrid carries out a retail business in Kampala. Shs has been informed that she can gain a lot if she adopted the practice of preparing financial statements for her business. She has approached you to explain to her the following:

- (a) objectives of financial statements. (4 marks)
 - (b) elements of financial statements. (8 marks)
 - (c) users of financial statements and their information needs. (8 marks)
- (Total 20 marks)

Question 4

- (a) The Public Finance and Accountability Act, 2003 provides for the designation, powers and duties of the Accountant General.

Required:

Outline **five** duties of the Accountant General.

(10 marks)

- (b) The following information was extracted from the books of Kwebu District Local Government as at 30 June 2011:

	Shs million
Land and buildings	400
Motor vehicles	50
Equipment	70
Work in progress	35
Prepayments	28
Cash and bank	40
Deposit accounts	60
Advances	25
Deposits payable	21
Overdraft	38
Surplus	60

Required:

Prepare an extract of the statement of financial position, showing how the above items will be disclosed according to:

- (i) cash basis accounting. **(5 marks)**
 (ii) accrual basis accounting. **(5 marks)**

(Total 20 marks)**SECTION C**

Attempt two of the three questions in this section.

Question 5

Okot owns a wholesale business in Gulu Municipality. He has heard a lot about the need to have his books audited. He has appointed you as an accounts assistant.

Required:

Write to a memo to Okot explaining to him:

- (a) why there is need for an audit.

(6 marks)

- (b) at least **five** services that may be provided to him other than auditing by auditors.
(5 marks)
 - (c) the qualities that an auditor needs to possess in order to form an opinion based on both truthfulness and fairness of financial statements.
(6 marks)
 - (d) **three** types of audit that can be undertaken.
(3 marks)
- (Total 20 marks)

Question 6

ISA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, suggests that there should be an overall audit plan which outlines the general strategy and detailed approach specified in an audit program.

Required:

Explain **ten** issues that should be considered in the audit plan.

(20 marks)

Question 7

Most organizations today keep their accounting records electronically. The earlier accounting records were kept in manual form.

Required:

- (a) Give **five** differences between a manual and a computer system of record keeping.
(10 marks)
- (b) Write short notes on each of the following as applied to a computerized accounting system:
 - (i) General controls.
 - (ii) Applications controls.
 - (iv) Audit trail.
 - (v) CAATS.

(10 marks)

(Total 20 marks)