

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL THREE

#### INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

**MONDAY, 26 NOVEMBER 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 on a fresh page in your answer booklet.
6. Please, read further instructions on answer booklet, before attempting any question

**SECTION A**

*This section has one compulsory question to be attempted*

**Question 1**

The following trial balance was extracted from the books of Walusubi Ltd as at 31 October 2012:

	Dr '000'	Cr '000'
Inventory 1 November 2011	1,346,880	
Purchases / sales	9,903,640	18,861,480
Sales returns / purchases returns	544,800	484,880
Carriage inwards	25,360	
Carriage outwards	175,160	
Warehouse wages	1,640,960	
Administration salaries and wages	1,108,760	
Salesmen's wages	1,220,440	
Share capital		4,000,000
Share premium		480,000
General reserve		192,000
Revenue reserve 1 November 2011		559,000
Plant and machinery	2,440,000	
Accumulated depreciation on plant and machinery		865,160
Motor vehicle hire	338,800	
General distribution expenses	92,800	
General administration expenses	191,960	
Trade receivables / payables	6,494,280	1,218,280
Rent receivable		148,600
Directors remuneration:		
Marketing	196,000	
Others	600,560	
Cash	717,000	
Bills payable		<u>228,000</u>
	<u>27,037,400</u>	<u>27,037,400</u>

Additional information:

- (i) Inventory at 31 October 2012 was valued at Shs 1,651,120,000.
- (ii) Depreciation for plant and machinery is apportioned as distribution costs 60% and administration expenses 40%.
- (iii) Proposed auditors fees Shs 284,000,000.
- (iv) Depreciate plant and machinery at 20% on cost.

- (v) Of the motor hire expense Shs 220,000,000 is for distribution purposes.
- (vi) Corporation tax of Shs 954,000,000 to be provided.
- (vii) Dividend of Shs 1,500,000,000 is proposed.
- (viii) Warehouse wages are charged to distribution.

**Required:**

Prepare, in a form suitable for publication, a statement of:

- (a) comprehensive income for Walusubi Ltd for the period ended 31 October 2012.  
(12 marks)
- (b) financial position as at 31 October 2012.  
(8 marks)

(Total 20 marks)

**SECTION B**

*Attempt two of the three questions in this section.*

**Question 2**

IAS 2: Inventories prescribes the accounting treatment for inventories.

**Required:**

- (a) Explain the meaning of the following terms as used under IAS 2:
  - (i) Inventories (3 marks)
  - (ii) Net realizable value (2 marks)
  - (iii) Fair value (2 marks)
- (b) ATC Ltd, a manufacturing company, uses a raw material, P12 in the manufacturing process. During the month of November 2012, the following transactions took place regarding the raw material:
  - 1 November: received 100 units at Shs 480,000 per unit.
  - 6 November: received 100 units at Shs 560,000 per unit.
  - 17 November: issued 80 units to production.
  - 21 November: received 200 units at Shs 720,000 per unit.
  - 29 November: issued 240 units to production.

**Required:**

Determine the value of inventory of material P12 at 30 November 2012 using the first in first out (FIFO) method of inventory valuation to be included in the financial statements.

**(10 marks)**

- (b) Explain why FIFO and average cost methods are recommended by the standard for inventory valuation.

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

The following trial balance was extracted from the books of a government department for the year ended 30 June 2012:

	Dr Shs	Cr Shs
Transfers from Treasury –current		4,896,322,499
Transfers from Treasury –capital		166,530,666
Non-tax revenue		28,670,000
Miscellaneous receipts		233,000
Employee costs	1,968,673,162	
Goods and services consumed	2,717,473,834	
Consumption of property, plant and equipment	108,064,000	
Transfer to other organizations	144,660,000	
Cash	9,340,710	
Transfers to Treasury	135,392,493	
Accounts payable		121,764,206
Accumulated fund 1 July 2011		(129,916,172)
	<u>5,083,604,199</u>	<u>5,083,604,199</u>

**Required:**

Prepare a statement of:

- (a) financial performance for the year ended 30 June 2012.

**(10 marks)**

- (b) financial position as at 30 June 2012.

**(2 marks)**

- (c) changes in equity as at 30 June 2012.

**(2 marks)**

- (d) The Third Schedule of the Public Finance and Accountability Act (2003) provides for the submission of accounts by the Accountant General to the Auditor General and the Minister, and by accounting officers to the Accountant General.

**Required:**

Outline, with brief details, any **three** accounts that accounting officers are required to submit to the Accountant General.

**(6 marks)**

**(Total 20 marks)**

**Question 4**

- (a) Identify any **four** users of financial statements and briefly explain their information needs. **(8 marks)**
- (b) Explain the role of the Capital Markets Authority in Uganda. **(2 marks)**
- (c) International Accounting Standard (IAS) 18: Revenue, is applied in accounting for revenue arising from the sale of goods, the rendering of services, and the use by others of entity's assets yielding interest, royalties and dividends.

**Required:**

- (i) Define the term 'revenue' as used in the standard. **(2 marks)**
- (ii) Describe any **four** conditions that must be satisfied before the recognition of revenue from the sale of goods under the standard. **(8 marks)**

**(Total 20 marks)**

## SECTION C

*Attempt two of the three questions in this section.*

### Question 5

Okrut, an ATC finalist has been introduced to auditing and is excited about the new subject. He feels that on completion of the course, he should be able to set up a small practice/ firm to provide audit services. He is of the view that the small practice will enable him to study further and be able to expand in future.

#### Required:

Explain the following issues to Okrut:

- (a) **three** objectives of auditing. (6 marks)
  - (b) **three** qualities that an auditor must possess to enable him/her issue reliable reports. (6 marks)
  - (c) **four** other services that auditors provide other than auditing. (4 marks)
  - (d) **two** circumstances under which an auditor may resign. (4 marks)
- (Total 20 marks)**

### Question 6

One of the issues that always comes up whenever there is fraud is that there are no systems in place to detect and prevent the occurrence of such frauds.

#### Required:

- (a) Explain **five** types of controls that can be put in place to detect and prevent fraud. (10 marks)
  - (b) Describe **five** controls that may be put in place regarding cash at hand and in bank in an organisation. (10 marks)
- (Total 20 marks)**

### Question 7

The internal audit function is a department in most organizations both small and big. Musoke, a new entrant to the ATC course, does not understand why one should hire external auditors when internal auditors exist in an organization.

**Required:**

Write a memo to Musoke explaining to him:

- (a) **three** differences between internal and external auditing. (6 marks)
  - (b) **five** areas which need to be evaluated by an external auditor before placing reliance on the work of internal auditors. (10 marks)
  - (c) **two** essential elements of internal auditing. (4 marks)
- (Total 20 marks)**