

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

TUESDAY, 4 JUNE 2013

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 information was extracted from the books of Jimco Ltd for the year ended 30 November 2012:

Statement of financial position as at 30 November:

	2012		2011	
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Non-current assets:				
Cost or valuation	198,000		144,000	
Accumulated depreciation	<u>(100,800)</u>		<u>(86,400)</u>	
Net book value		97,200		57,600
Current assets:				
Inventories	61,200		68,400	
Receivables	68,400		52,200	
Cash at bank	<u>7,200</u>		<u>1,800</u>	
	136,800		122,400	
Current liabilities:				
Trade payables	66,600		57,600	
Income Tax	<u>12,600</u>		<u>10,800</u>	
	79,200		68,400	
Net current assets		<u>57,600</u>		<u>54,000</u>
Total assets less current liabilities		<u>154,800</u>		<u>111,600</u>
Equity and non-current liabilities				
Ordinary share capital	18,000		18,000	
Revaluation surplus	27,000		18,000	
Retained earnings	<u>55,800</u>		<u>39,600</u>	
		100,800		75,600
Non-current liabilities		<u>54,000</u>		<u>36,000</u>
Total equity and non-current liabilities		<u>154,800</u>		<u>111,600</u>

Summarized statement of comprehensive income for the year ended 30 November 2012:

	Shs '000'
Profits from operations	47,700
Finance cost (loan interest)	<u>(5,400)</u>
Profit before tax	42,300
Income tax expense	<u>(12,600)</u>
Net profit for the period	<u>29,700</u>

Notes:

1. The revaluation surplus arose from the revaluation of land that was not being depreciated.
2. Dividends paid during the year amounted to Shs 13,500,000.
3. The 2011 income tax liability was settled at the amount provided for during the year ended 30 November 2012.
4. Additional loan notes were issued on 1 December 2012. Interest was paid on 31 May 2011 and 30 November 2012.
5. During the year, non-current assets which had cost Shs 14,400,000 with a net book value of Shs 6,300,000 were sold for Shs 9 million.

Required:

Prepare a statement of cash flows statement for Jimco Ltd for the year ended 30 November 2012, using the indirect method.

NB: Show your working.

(20 marks)

SECTION B

Attempt two of the three questions in this section.

Question 2

- (a) International Accounting Standard (IAS) 1: Presentation of Financial Statements outlines the components of 'other comprehensive income' to be presented in a statement of comprehensive income. According to the standard, 'other comprehensive income' comprises items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other International Financial Reporting Standards.

Required:

Outline the components of 'other comprehensive income' as given under IAS 1.

(6 marks)

- (b) The following balances were extracted from the ledgers of ABC Ltd as at 30 November:

	2012	2011
	Shs million	Shs million
Ordinary share capital	100	75
Share premium	30	25
Revaluation surplus	600	500
Capital reserve	900	750
Retained earnings	1,160	1,200

The following transactions transpired during the year ended 30 November:

	2012	2011
	Shs million	Shs million
Issue of share capital	30	20
Dividends paid during the year	100	100
Depreciation expense for the year	75	75
Effect of change in accountancy policy	-	40
Transfer to capital reserve from profits	150	100
Revaluation of properties	100	-
Taxation expenses for the year	490	400

Additional information:

1. The change in accounting policy in 2011 resulted from inventory valuation and the effect was charged directly to retained earnings.
2. Depreciation expenses had already been correctly recorded in arriving at the profit for the year before taxation.
3. The taxation expenses for 2012 had not been subtracted from the profit before tax of Shs 700 million added to retained earnings.

Required:

Prepare a statement of changes in equity for ABC Ltd for the year ended 30 November 2012 in accordance with IAS 1 and in line with the information provided.

(20 marks)

Question 3

Koboko Ltd supplies gas in returnable containers. These containers cost Shs 160,000 each and are charged out to customers on a sale or return basis within six months at Shs 208,000 each. Provided they are returned within six months' period, they are credited at Shs 184,000 each. At the end of the year, the company values all returnable containers in customers' hands and containers held in inventory at Shs 128,000 each.

The following information is available as at:

	30 November 2012	1 December 2011
Containers held by Koboko Ltd	22,080	25,152
Returnable containers held by customers	38,320	23,280

During the year to 30 November 2012, 24,800 new containers were purchased, 164,960 were invoiced to customers and 143,680 were returned. On inspection, 2,080 containers required repairs costing Shs 22,600,000 and 448 containers had to be sold as scrap for Shs 18,248,000.

Required:

Prepare, for Koboko Ltd, for the year ended 30 November 2012 a containers:

- (a) inventory account **(11 marks)**
- (b) suspense account **(6 marks)**
- (c) Give three problems encountered in the management of returnable containers

(3 marks)**(Total 20 marks)****Question 4**

- (a) The budgeted and actual expenditure figures of the Ministry of Education and Culture as at 31 May 2013 were as follows:

Vote	Approved budget	Actual expenditure
	Shs '000'	Shs '000'
001 UPE Education funds	750,000	725,000
002 Aids support funds	275,000	325,000
003 Staff salaries	2,000,000	2,500,000
004 Computer software	40,000	30,000
005 Staff training	50,000	48,750
006 Communication expenses	22,500	19,000
007 Motor vehicles	327,000	391,000
008 Expatriate salaries	3,250,000	3,750,000
499 Appropriations	1,720,000	1,500,000

During the year to 31 May 2013, the following supplementary budget was duly authorized:

Vote	Shs '000'
001 UPE Education funds	30,000
003 Staff salaries	500,000
005 Staff training	(10,000)
006 Communication expenses	6,000

While preparing the actual budget, the accountant made the following errors:

Vote	Shs '000'
002 Aids support funds overstated by	25,000
004 Computer software understated by	7,500
007 Motor vehicles overstated by	41,000

Required:

Prepare the appropriations account for the Ministry of Education and Culture for the year ended 31 May 2013.

(17 marks)

- (b) Briefly explain the functions of an accounting officer outlined in the Public Finance and Accountability Act, 2003.

(3 marks)

(Total 20 marks)

SECTION C

Attempt two of the three questions in this section.

Question 5

During audit planning, the auditor is required to evaluate compliance with relevant ethical requirements including considering the appropriate competence and capacities expected of the engagement team as a whole.

Required:

- (a) Identify and explain **five** fundamental principles of professional ethics.
- (10 marks)**
- (b) Explain **five** matters that the auditor should take into consideration with regard to the appropriate competence and capabilities expected of the engagement team as a whole.

(10 marks)

(Total 20 marks)

Question 6

ISA 330: Auditor's Response to Assessed Risks: states that the auditor should obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatements, through designing and implementing appropriate responses to those risks.

Required:

Explain any **five**:

- (a) considerations that the auditor should make in determining whether it is appropriate to use audit evidence about the operating effectiveness of a client's internal controls obtained in previous audits.
- (10 marks)**
- (b) responses an auditor might give to address the assessed risks of material misstatements in previous audits.

(10 marks)

(Total 20 marks)

Question 7

The auditor should plan and perform the audit with the objective of obtaining sufficient audit evidence regarding the adequacy of disclosure of related party transactions and control of the entity in the financial statements. The auditor should review for completeness, information provided by the directors identifying material transactions with those parties that have been related parties for any part of the financial period.

Required:

- (a) Identify any **six** ways the auditor uses to verify the information provided by directors.

(12 marks)

- (b) In the course of checking, the audit staff will be constantly alert to matters which may reveal an undisclosed related party.

List any **four** such instances of undisclosed related party.

(8 marks)

(Total 20 marks)