

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

MONDAY, 25 NOVEMBER 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

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SECTION A

*This section has **one** compulsory question to be attempted*

Question 1

The following list of balances was extracted from the books of the Bwire Ltd as at 31 March 2013:

	Shs '000'	Shs '000'
Ordinary share capital		600,000
8% preference shares		200,000
7% debentures		400,000
General reserve		482,000
Land at cost	222,000	
Buildings at cost	444,000	
Plant & machinery at cost	1,520,000	
Retained earnings 1 April 2012		140,000
Share premium		80,000
Inventory 1 April 2012	140,000	
Sales and purchases	660,000	1,160,000
Discounts allowed and received	12,800	18,000
Trade receivables and payables	192,000	108,000
Accumulated depreciation on machinery 1 April 2012		336,000
Bank balance	30,000	
Carriage inwards	4,400	
Distribution costs	128,400	
Power and lighting	11,600	
Debenture interest	28,000	
Directors' remuneration	51,200	
Interim dividends:		
Ordinary	22,000	
Preference	16,000	
Allowances for doubtful debts		6,000
Other administration expenses	47,600	-
	<u>3,530,000</u>	<u>3,530,000</u>

Additional information:

1. Inventory as at 31 March 2013 was valued at Shs 164 million.
2. Distribution costs owing at 31 March 2013 amounted to Shs 600,000.
3. Depreciation is to be provided on plant and machinery at 10% on cost.
4. The allowance for doubtful debts is agreed at 2.5% of trade receivables.
5. The directors agreed to transfer Shs 60 million to the general reserve.

Required:

Prepare a:

- (a) statement of profit or loss and other comprehensive income for the year ended 31 March 2013 for publication.

Note: Clearly distinguish between administration and distribution costs.

(10 marks)

- (b) statement of changes in equity.

(10 marks)

(Total 20 marks)

SECTION B

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

Question 2

The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Required:

- (a) Identify any **five** users of financial statements information and briefly explain their information needs.

(10 marks)

- (b) Identify and briefly explain any **five** elements of financial statements.

(10 marks)

(Total 20 marks)

Question 3

International Accounting Standard (IAS) 11: Construction Contracts, prescribes the accounting treatment of revenue and costs associated with construction contracts which run into different accounting periods.

Revenue and costs associated with construction contracts shall be recognized as revenue and expenses when the outcome of the construction contract can be estimated reliably by reference to the stage of completion of the contract activity at the end of the reporting period. An expected loss on the construction contract shall be recognized as an expense immediately.

Required:

- (a) Distinguish between fixed price contract and cost plus contract.

(4 marks)

- (b) State the **four** conditions that must be satisfied for the outcome of a fixed price contract to be estimated reliably.

(8 marks)

- (c) The following amounts had been spent on a fixed price construction contract being undertaken for ATC Ltd for the year ended 31 October 2013. By that date, the contract was 80% complete and work worth Shs 2,000 million had been certified by the architect.

	Shs million
Materials	800
Wages	700
Direct labour	500

Required:

Prepare a contract account showing the profit to be recognized in the statement of profit or loss and other comprehensive income for the year ended 31 October 2013.

(8 marks)

(Total 20 marks)

Question 4

- (a) The Local Governments (Financial and Accounting) Regulations 2007 allows districts to use cash basis accounting and the urban authorities to use accrual accounting.

Required:

- (i) Distinguish between cash accounting and accrual accounting in relation to local government accounting.

(4 marks)

- (ii) Explain the merits and demerits of cash accounting.

(4 marks)

- (b) The following details were extracted from the books of Luga District Local Council for the year ended 30 June 2013:

- Local revenue: Shs 20.6 billion was collected; Shs 2.4 billion was still outstanding.
- Government grants: Government had released Shs 54 billion towards grants; an unconditional grant of Shs 12 billion was yet to be received.
- Donors and NGOs: Shs 19 billion had been received from donors and NGOs.
- Expenditure:
 - Security: Shs 2.6 billion had been spent; Shs 1.4 billion was still owing.
 - Planning: Shs 14 billion had been spent.

- (c) Finance: Shs 12 billion had been spent; Shs 2.1 billion was still owing.
- (d) Social welfare: Shs 6.2 billion had been spent on this vote.
- (e) Agriculture and veterinary: Shs 15 billion had been spent on this vote; Shs 2.5 billion was still owing.
- (f) Education: Shs 25 billion had been spent on this vote; Shs 5.4 billion was still owing.
- (g) Health: Shs 18 billion had been spent on this vote; Shs 5.6 billion was still owing.
- (h) Capital expenditure: Shs 2.6 billion had been spent on this vote; Shs 1.2 billion was yet to be spent.

Required:

Prepare an expenditure and revenue account for Luga District Local Council for the year ended 30 June 2013.

(12 marks)
(Total 20 marks)

SECTION C

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

Question 5

- (a) The auditor should be an independent person who is appointed to examine the organization, its records and its financial statements prepared from them, and thus form an opinion on the accuracy and correctness of the financial statements. The primary aim of an audit is to enable the auditor to say 'these accounts show a true and fair view'.

Required:

- (i) Explain **three** qualities required of an auditor. **(6 marks)**
- (ii) Explain **four** types of audits that can be undertaken. **(8 marks)**
- (b) The role of an auditor has been evolving in the current environment.

Required:

Mention **six** other services that can be provided by the auditors.

(6 marks)
(Total 20 marks)

Question 6

International Standard on Auditing (ISA) 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment defines internal control system as comprising the control environment and control procedures.

Required:

- (a) Distinguish between internal controls and internal check. (4 marks)
 - (b) Explain the **four** major objectives of a system of internal control. (8 marks)
 - (c) Explain briefly any **four** categories of internal control. (8 marks)
- (Total 20 marks)**

Question 7

Internal audit department is becoming a requirement in most organizations both public and private.

Internal auditing is an independent, objective assurance activity designed to add value and improve on organizational objectives. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Required:

- (a) Describe the **five** stages in internal audit planning (10 marks)
 - (b) Explain **five** aspects an external auditor has to consider before relying on the work of the internal auditor. (10 marks)
- (Total 20 marks)**