

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL THREE

INTRODUCTION TO FINANCIAL REPORTING – PAPER 12

WEDNESDAY, 4 JUNE 2014

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 has been extracted from the books of Cuning Ltd as at 31 March 2014:

	Dr	Cr
	Shs '000'	Shs '000'
Buildings at cost	1,160,000	
Plant at cost	540,000	
Motor vehicles at cost	1,175,000	
Furniture and fittings at cost	388,000	
Accumulated depreciation:		
Buildings		160,000
Plant		110,000
Motor vehicles		415,000
Furniture and fittings		167,000
Bank balance		190,000
Revenue		2,960,500
Purchases	1,360,000	
Inventory 1 April 2013	380,000	
Cash	440,000	
Trade receivables and payables	740,000	470,000
Administration expenses	545,000	
Distribution costs	140,500	
Discounts received		230,000
Equity shares		1,163,600
Share premium		300,000
Retained earnings	<u> </u>	<u>702,400</u>
	<u>6,868,500</u>	<u>6,868,500</u>

Additional information

- (a) An allowance for doubtful debts of 5% is to be made against trade receivables, and is to be treated as an administration expense.
- (b) Provide for depreciation as follows:
 - plant at 20% per annum on reducing balance.
 - buildings at 5% per annum on cost.
 - motor vehicles at 20% per annum on reducing balance.
 - furniture and fittings at 15% per annum on cost.
- (c) At 31 March 2014 inventory was valued at Shs 390,000,000.

- (d) An invoice for power and lighting of Shs 20,500,000 for the period was not received until 30 April 2014 when the financial statements were being prepared. This amount had not yet been accrued.

- (e) Expenses are to be allocated according to the following proportions:

	Cost of sales	Administration expenses	Distribution costs
• Depreciation:			
Buildings	$\frac{11}{20}$	$\frac{7}{20}$	$\frac{1}{10}$
Plant	1	-	-
Furniture and fittings	-	1	-
Motor vehicles	$\frac{7}{20}$	$\frac{3}{20}$	$\frac{1}{2}$
• Provision for doubtful debts	-	1	-
• Power and lighting	$\frac{17}{20}$	$\frac{3}{20}$	-

Required:

Prepare, in a form suitable for publication, Cuning Ltd's:

- (a) statement of profit or loss and other comprehensive income for the year ended 31 March 2014, using the 'cost of sales' method. **(10 marks)**
- (b) statement of financial position as at 31 March 2014. **(10 marks)**
- (Total 20 marks)**

SECTION B

Attempt two of the three questions in this section.

Question 2

The following information relates to the property, plant and equipment of Muhabura Ltd. for the year ended 30 November 2013:

- (i) The balances (at cost) per the general ledger as at 30 November 2013 were as follows:

	Shs '000'
Plant & machinery	25,000
Furniture and equipment	130,000
Motor vehicles	800,000
Computers and accessories	24,000
Freehold land	700,000

- (ii) During the year ended 30 November 2013 the following assets were acquired:

	Shs '000'
Motor vehicles	70, 000
Machinery	5, 000
Freehold land	100, 000
Equipment	10, 000

These additions are already included in the balances as at 30 November 2013 given in (i) above.

- (iii) During the year ended 30 November 2013, the following assets were disposed of:

	Cost	Accumulated depreciation	Cash received
	Shs '000'	Shs '000'	Shs '000'
Computers and accessories	5,000	3,750	3,000
Motor vehicles	100,000	80,000	16,000
Equipment	20,000	12,000	13,000

The disposals had not yet been adjusted against the ledger balances as at 30 November 2013.

- (iv) During the year ended 30 November 2013, the freehold land was professionally revalued to Shs 900 million. The revaluation surplus has not yet been recorded in the books because the bookkeeper was unsure of the necessary entries to pass.

- (v) The accumulated depreciation account had the following balances at 30 November 2011.

	Shs '000'
Freehold land (nil depreciation)	-
Plant and machinery (10%)	6,000
Furniture and equipment (15%)	36,000
Motor vehicles (20%)	292,000
Computers and accessories (25%)	12,000

Depreciation is provided for on a straight line basis; a full year's charge is made in the year of acquisition but none in the year of disposal; at the following rates: freehold land, nil; plant and machinery, 10%; furniture and equipment, 15%; motor vehicles, 20%; computers and accessories (25%). No charge has yet been made for the year ended 30 November 2013.

Required:

Prepare Muhabura Ltd's property, plant and equipment schedule as at 30 November 2013.

(20 marks)

Question 3

- (a) International Accounting Standard (IAS) 1: Presentation of Financial Statements; prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

Required:

Describe the following terms as applied under IAS 1.

- (i) General purpose financial statements **(2 marks)**
 - (ii) The objective of financial statements **(2 marks)**
- (b) Outline the components of 'other comprehensive income' section of a statement of profit or loss and other comprehensive income as given under IAS 1. **(6 marks)**
- (c) IAS 1 also sets out the minimum information to be presented in the statement of financial position. Give at least **six** line items that represent certain amounts in the statement of financial position. **(6 marks)**

- (d) In the preparation of a statement of financial position under IAS 1, assets are classified as non-current assets and current assets. Give **four** conditions that have to be fulfilled before an asset can be classified as a current asset.

(4 marks)

(Total 20 marks)

Question 4

The Local Governments (Financial & Accounting) Regulations 2007 allow rural local governments to prepare their financial statements using cash basis accounting while urban councils to use accrual basis accounting.

Required:

- (a) Explain the main differences between cash basis accounting and accrual basis accounting
- (10 marks)**
- (b) The following information was extracted from the books of Kyama Local Council as at 30 June 2013.

	Shs '000'
Government conditional grant	15,000,000
Government unconditional grant	12,000,000
Government equalization grant	6,000,000
Grant promised from European Union	10,000,000
Taxi park charges received	1,500,000
Taxi park charges outstanding	800,000
Donations	600,000
Purchase of furniture	130,000
Purchase of computers on credit	80,000
Stationery	135,000
Stationery outstanding	95,000
Salaries & wages	16,000,000
Power bill outstanding	15,000,
Travel	6,000,000

Required:

Using cash basis accounting, prepare an income statement for Kyama local council for the year ended 30 June 2013.

SECTION C

Attempt two of the three questions in this section.

Question 5

ISA 230: Audit Documentation, states that the objective of the auditor is to prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report; and evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

Required:

- (a) Explain **five** additional purposes of audit documentation. (10 marks)
- (b) State any **five** factors that determine the form, content and extent of audit documentation. (10 marks)

(Total 20 marks)

Question 6

ISA 300: Planning an Audit of Financial Statements, states that the objective of the auditor is to plan the audit so that it will be performed in an effective manner. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan.

Required:

- (a) Explain **five** benefits of adequate planning of the audit of financial statements. (10 marks)
- (b) Describe any **five** planning activities involved in establishing the overall audit strategy. (10 marks)

(Total 20 marks)

Question 7

ISA 500: Audit Evidence, states that the objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. The auditor considers the relevance and reliability of the information to be used as audit evidence. The audit evidence obtained from one source should be consisted with that obtained from another.

Required:

- (a) Explain any **four** audit procedures performed to test the accounting records of an entity to find out whether they are internally consistent and agree to the financial statements.
(8 marks)
 - (b) Explain **three** audit procedures that may be performed to draw reasonable conclusions on which to base the auditor's opinion.
(6 marks)
 - (c) Describe any **six** activities that may be used as risk assessment procedures, tests of controls or substantive procedures.
(6 marks)
- (Total 20 marks)**