QUESTION ONE
KAMWALA CONSTRUCTIONS LIMITED (KCL)

1. BACKGROUND

Kamwala Constructions Limited (KCL) is a privately owned medium sized company. KCL's core business is construction, with clients ranging from the public and private sector, including individuals. In recent years, KCL has participated in the construction of roads and other infrastructure in the various parts of Zambia.

KCL is a family owned business with the following as shareholders:

Mr John Pulis	Managing Director	–	30% shareholding
Mrs Julia Pulis	Finance Director	-	20% shareholding
Mr Cantona Pulis	Marketing Director	-	20% shareholding
Mr Sheatle Pulis	Non-executive director	-	20% shareholding
Mrs Karen Pulis	Non-executive director	-	10% shareholding

Mr John Pulis is the chairman and managing director.

Despite the fact that the company has grown significantly over the last seven years, only a small skeleton staff has been maintained. The accounting personnel mainly focus on processing the day to day transactions, with Mrs Julia Pulis exercising strict control on bankings. Consequently, no proper financial statements have been compiled for the current year. The last financial statements for the year ended 31 December 2009 were compiled by Mrs Julia Pulis and are still in draft form.

Following recent enquiries from the Zambia Revenue Authority (ZRA), the board have decided to obtain the services of an accounting firm to help them up-date their financial statements. One of the junior accounting personnel has recommended that Puta Financial Services (PFS) Ltd be approached for these services.

2. APPOINTMENT OF CONSULTING ACCOUNTANT

Your firm, Puta Financial Services (PFS) Ltd have been approached to assist KCL with the compilation of financial statements under the following terms:

a) Your role is to compile draft financial statements for the year ending 31 December 2010.
b) The pressure to finalise these accounts has arisen from the recent pronouncements from the Zambia Revenue Authority that small and medium sized companies would now be required to submit financial statements with an accountant's report from a qualified and registered accountant with the Zambia Institute of Chartered Accountants (ZICA).
c) The compilation of the draft financial statements should be completed by the end of March 2011.
d) Mr John Pulis has suggested that KCL can only afford a fixed fee of K15 million for this assignment.

You have decided to accept the appointment as accountant and consultant. The date now is 1 March 2011.

3. FINDINGS

Following your appointment, you conducted several enquiries and held several meeting with the directors. The results of your enquiries and meetings provided that:

a) The previous accountants expressed reservations on the financial statements as many of the figures included in the financial statements did not agree with the underlying records, especially with regard to transactions conducted by the directors on behalf of KCL.
b) The taxation and inventory figures were estimates and the accountant is expected to review these figures once the financial statements were finalised. The managing director has informed you that it is

not common practice for KGL to undertake inventory counts for the purpose of finalising financial statements. Furthermore, the inventory records were not up to date. Accordingly, the accountant is expected to suggest a reasonable inventory figure to ensure that the resulting taxation charge is affordable

c) The managing director and other directors seem to conduct business on behalf of KCL when they travel out of Zambia and buy a lot of materials on behalf of KCL. These are charged to cost of sales and credited to shareholder's loans

d) The management and direction of KCL is wholly dominated by John Pulis. Other directors seem very comfortable with this situation and express complete confidence and trust in John.

4. WORKING PAPERS

Your senior accountant Francis Nkole has since compiled the first draft set of financial statements for the year ended 31 December 2010. The financial statements compiled include the statement of financial position and the statement of income, including relevant supporting accounting policies and notes. However the statement of cash flows has not yet been prepared.

KAMWALA CONSTRUCTIONS LIMITED (KCL)
Statement of Director's Responsibilities
For the year ended 31 December 2010

Companies Act 1994 requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss for the period. In preparing those financial statements, the directors' are required to:

a) Select suitable accounting policies and the apply the consistently
b) Make judgements and estimates that are reasonable and prudent
c) State whether applicable accounting standards have been followed
d) Prepare the financial statements on an going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1994. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Board of Directors confirm that in their opinion:

a) The financial statements give a true and fair view of the state of the company's affairs at 31 December 2010 and of its profit and cash flows for the year then ended;
b) At that date of the this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when these fall due; and
c) The financial statements are drawn up in accordance with applicable accounting standards

This statement is made in accordance with a resolution of the directors

Signed at ..... on.....

.....	**.....**
DIRECTOR	**DIRECTOR**

KAMWALA CONSTRUCTIONS LIMITED (KCL)
Statement of Income
For the year ended 31 December 2010

						2010		2009
					NOTE	K'000		K'000
	Turnover				3	29,264,959		24,079,384
						==========		==========
	Profit/(Loss) before taxation					-1,643,509		-455,482
	Taxation				6	-95,000		-114,870
						----------		----------
	Retained (loss) for the year					-1,738,509		-570,352
						==========		==========

Statement of Changes in equity
For the year ended 31 December 2010

					K'000	K'000	K'000	K'000
	As at a1 April 2008				20,000	445,230	-174,520	290,710
	Loss after taxation				0	0	-570,352	-570,352
					----------	----------	----------	----------
	As at 31 March 2009				20,000	445,230	-744,872	-279,642
					=======	=======	=======	=======
	As at 1 April 2009				20,000	445,230	-744,872	-279,642
	Movement during the year				0	17,022	-1,738,509	-1,721,487
					----------	----------	----------	----------
	As at 31 March 2010				20,000	462,252	-2,483,381	-2,001,129
					=======	=======	==========	=======

KAMWALA CONSTRUCTIONS LIMITED (KCL)
Statement of financial position
As at 31 December 2010

						2010		**2009**
					NOTE	**K'000**		**K'0000**
	NON-CURRENT ASSETS							
	Property, plant and equipment					**4,651,210**		2,264,665
						---		---
	CURRENT ASSETS							
	Inventories					12,500,048		6,908,306
	Trade and other receivables					6,296,447		8,860,843
	Cash and bank balances					565,604		630,100
	Taxation					**749,506**		56,318
						---		---
						20,111,605		16,455,567
						---		---
	TOTAL ASSETS					**24,762,815**		**18,720,232**
						=====		**=====**
	EQUITY AND LIABILITIES							
	Share capital and reserves							
	Share capital					**20,000**		20,000
	Revaluation surplus					**462,252**		445,230
	Retained reserves					**-2,483,381**		-744,872
						---		---
						-2,001,129		-279,642
						---		---
	NON-CURRENT LIABILITIES							
	Shareholder's loan					**672,399**		142,288
	Long term loans					1,634,318		2,477,531
	Other loans					474,024		117,408
						---		---
						2,780,741		2,737,227
						---		---
	CURRENT LIABILITIES							
	Trade and other payables					23,093,131		14,582,711
	Bank overdraft					890,072		1,679,936
						---		---
						23,983,203		16,262,647
						---		---
	TOTAL EQUITY AND LIABILITIES					**24,762,815**		**18,720,232**
						==========		**==========**

KAMWALA CONSTRUCTIONS LIMITED (KCL)
Notes to the Financial Statements – 31 December 2010

1. Significant accounting policies

Basis of accounting
The accounts are prepared under the historical cost convention and modified by the revaluation of certain assets and have been prepared in accordance with applicable accounting standards

Depreciation
Depreciation is charged to write off the cost of tangible fixed assets over their expected useful lives on a straight line/reducing basis at the following annual rates

Motor vehicles	20%
Equipment, furniture and fittings	30%
Land and buildings	2%

Investment properties
During the year, KCL acquired an investment property. Although the directors have selected the fair value model, the investment property has been included in buildings and is being treated in the same way as other buildings.

Leasing transactions
During the year, KCL entered into various lease agreements to hire plant and equipment. Most of these agreements are short agreements lasting not more than two years. However, it is common practice for KCL to renew these short term agreements every year. Lease charges have been expensed and included in hiring charges.

Provision for repairs and refurbishments
During the year, the company planned to undertake major repairs on its plant and equipment. The estimated costs amounting to K 150 million have been included in repairs and as provisions in other payables.

Revenue recognition
Revenue represents the net amount raised and invoiced excluding value added tax. KCL recognises revenue in accordance with the accruals and matching concept. Accordingly, no profit is taken into account until the contract is completed, regardless of the value of work done at the statement of financial position in relation to the total contract price

2. Statement of Directors' responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss and cash flows for the year. In preparing those accounts, the directors have selected suitable accounting policies and then applied consistently, made adjustments and estimates that are reasonable and prudent and followed applicable accounting standards

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and taking reasonable steps for the prevention and detection of fraud and other irregularities

3. Income recognition

Revenue represents the net amount raised and invoiced excluding value added tax.

4. Property, plant and equipment

During the year KCL revalued its plant and equipment resulting in a revaluation surplus of K17.022 million. The depreciation for the year amounted to K615.378 million

QUESTION ONE

SECTION A

1) In relation to your appointment as company consultant and accountant for KCL,
   a) List and briefly describe SIX ethical and professional matters raised by the prospective appointment to provide professional services to Kamwala Constructions Limited (KCL)
   (12 marks)
   b) Comment on suitable course of action that should be taken by your firm in response to each of the SIX ethical and professional issues raised in (a) above.
   (12 marks)

2) Statement of cash flows
   a) Using the draft set of financial statements prepared by your senior accountant, prepare a statement of cash flows for the year ended 31 December 2010, in accordance with the requirements of IAS 7, using the indirect method (25 marks)

   b) Discuss the usefulness of the statement of cash flows such as the one prepared in (a) above.
   (5 marks)

SECTION B

3) In relation to the statement of accounting policies for KCL, discuss the extent to which the policies relating to the following comply with applicable accounting standards:
   a) Revenue (9 marks)
   b) Lease transactions (9 marks)
   c) Investment properties (8 marks)

4) Assuming that you are satisfied with the basis and preparation of these financial statements, draft the specimen report that you would issue as the reporting accountant for the financial statements of KCL for the year ended 31 December 2010. (10 marks)

5) With reference to accounting policy relating to repairs and refurbishments, comment on the suitability of the accounting treatment applied by KCL. You should support your answer with appropriate international accounting standards (10 marks)