CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

MONDAY: 2 DECEMBER 2013

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections; **A & B.**
3. Section **A** has **one** compulsory question to be attempted.
4. Section **B** has **four** questions, **three** questions to be attempted.
5. Marks allocated to each question are shown at the end of the question.

SECTION A

This section has one compulsory question

QUESTION ONE

The chief accountant of Velosa Limited has extracted the following trial balance as at April 2013:

	Dr "Frw"	Cr "Frw"
Land and buildings at cost	355,000	
Plant and machinery at cost	558,000	
Provision for depreciation		158,000
Motor vehicles at cost	685,000	
Provision for depreciation		125,000
Furniture and equipment at cost	188,000	
Provision for depreciation		78,000
Stocks as at 1st May 2012	320,000	
Trade receivable and trade payable	430,000	333,000
Cash at bank	168,000	
Purchases and sales	1,840,000	2,980,000
Salaries and wages	420,000	
Rent and rates	125,000	
Office expenses	84,000	
Bank charges	12,600	
Telephone and postage	16,350	
Vehicles running expenses	230,000	
Repairs and maintenance	6,850	
Issued share capital		800,000
Profit and loss bal b/f 1st May 2012		814,800
Share premium		150,000
	5,438,800	**5,438,800**

Additional notes:

1. The closing stocks was valued at Frw 432,600
2. Goods sold at Frw 1,500 were returned on 30 April 2012 but the transaction was not recorded in the books. Their cost was Frw 1,200 the goods were received after stock taking was completed.
3. Accrued wages and telephone bills amounted to Frw 2,500 and Frw 6,250 respectively
4. Depreciation of the fixed assets is calculated on reducing balance at the following rates:

Plant and machinery	20% per annum
Motor vehicles	25% per annum
Furniture and fittings	15 % per annum

   Prepaid rates amounted to 2,000

5. The directors have proposed a dividend of 10% on the issued capital and a transfer of Frw 200,000 to General reserve

6. The corporation tax was assessed to be 30% of net profit before tax.

Required: (for internal use)

(a) Income statement for the year ended 30th April 2013. **(18Marks)**

(b) Statement of change in Equity **(6Marks)**

(c) Statement of Financial position as at 30th April 2013. **(16Marks)**

(Total 40Marks)

SECTION B

Attempt three questions out of the four questions in this section.

QUESTION TWO

(a) Explain the importance of ratio analysis to a business enterprise. **(2 Marks)**

(b) Identify users of financial information who may be interested in each of the following ratios specifying the user's needs:

(i) Current Ratio **(2 Marks)**

(ii) Net Profit Margin **(2 Marks)**

(iii) Stock Turnover **(2 Marks)**

(c) Citing suitable examples, explain the following terms:

(i) Accounting concepts **(2 Marks)**

(ii) Accounting policies **(2 Marks)**

(iii) Accounting standards **(2 Marks)**

(d) Explain the appropriate accounting treatment in the following transactions relating to the accounts of Trump Ltd. for the year ended 31 December 2012:

(i) A debtor who owed the company Frw 200,000 was declared bankrupt on 1st February 2013. 25% of the debt had been recovered when the accounts were approved by the directors on 15th March 2013. **(2 Marks)**

(ii) Some items of inventory purchased for Frw 300,000 were damaged in the warehouse during the year. These items were repaired at Frw 50,000 and sold to a customer on 2nd February 2013 at 75% of the normal selling price of Frw 400,000. **(2 Marks)**

(iii) On 10th December 2012, the company secured an order worth Frw 1,200,000 from a foreign based company. The goods were shipped on 10th January 2013 and included in sales for December 2012. **(2 Marks)**

(Total: 20 Marks)

QUESTION THREE

The following are extracts from the financial statements of Thomas and Sons Ltd

Statement of Financial Position as at 31 December: 2011: 2012

Assets	2011	2012
Non Current Assets	**Frw "000"**	**Frw "000"**
Land	2,000	2,400
Plant and equipment	3,400	6,700
Fixtures and fittings	2,000	2,500
Total non-current assets	**7,400**	**11,600**
Current assets		
Inventory	1,000	1,160
Trade receivables	460	720
Cash	360	15
Total current assets	1,820	1,895
Total Assets	**9,220**	**13,495**
Equity & Liabilities		
Share Capital & reserves		
Ordinary share capital	6,740	9,000
Share premium	300	600
Land Revaluation	-	400
Retained profit	940	2,104
Total Equity	**7,980**	**12,104**
Non Current liabilities		
10% Debentures	200	-
Current Liabilities		
Trade payables	730	900
Bank overdraft	20	131
Corporation tax	290	360
Total Liability	**1,040**	**1,391**
Total Equity & liabilities	**9,220**	**13,495**

Extract of Statement of Comprehensive Income for the year ended 31 December 2 012.

	Frw "000"
Net profit before tax	2,064
Taxation	(360)
Net profit after tax	**1,704**

The following additional information is provided in relation to the year ended 31 December 2012:

i) Plant and machinery with a book value of Frw 400,000 was sold for Frw 360,000.

ii) Depreciation provided on fixtures and fittings amounted to Frw 500,000 and on plant and equipment amounted to Frw 900,000.

iii) The debentures were redeemed on 31 December 2012.

iv) In August the company paid an interim dividend of Frw 540,000.

v) No land or fixtures and fittings were disposed of during the period.

Required:

(a) In relation to IAS 7 explain what is meant by the term "**cash equivalents**". **(3 Marks)**

(b) Prepare for Thomas and Sons, a Statement of Cash-Flows for the year ended 31 December 2012, in accordance with the requirements of IAS 7. **(17 Marks)**

(Total: 20 Marks)

QUESTION FOUR

(a) In relation to IAS 10 *' Events after the Reporting Period"* explain the following terms:

(i) Events after the reporting period. **(2 Marks)**

(ii) Adjusting events. **(2 Marks)**

(iii) Non-adjusting events **(2 Marks)**

(b) In relation to IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'* define the following terms:

(i) Provision. **(1 Mark)**

(ii) Contingent liability. **(1 Mark)**

iii) Contingent asset. **(1 Mark)**

iv) Obligating event.

(c) A meeting of the Directors of Remera Investment Company (RIC) Ltd is scheduled for 30 April 2013 to discuss the following matters with a view to finalising the accounts for the year ending 31 March 2013:

(i) A fire occurred in one of the warehouses of RIC Ltd on 15 April 2013, destroying inventory which had a cost price of Frw 100,000,000 and a net realisable value of Frw 150,000,000.

(ii) In August 2012, RIC Ltd received information that one of their largest customers had gone bankrupt and its properties seized by the Commercial court. At 31 March 2013, this customer owed RIC Ltd Frw 235,000,000. It is anticipated that RIC Ltd will now only receive 0.10 Frw for every Frw 1 they were owed.

(iii) In July 2012, RIC Ltd sold inventory which had been in one of their warehouses for the past two years, for Frw 75,000,000. This had been included in the financial statements, for the year ended 31 March 2012, as its cost price of Frw 105,000,000.

(iv) On 30 June 2012, an employee of RIC Ltd fell and injured his back at work. This employee has commenced legal action. The Solicitor for RIC Ltd informed the company on 10 January 2013, that it is probable they will be found liable and have to pay this employee Frw 33,000,000. The employee has worked for RIC Ltd for the past 4 years.

Required:

Advise the board on the accounting treatment of these issues. Your answer should give a detailed reason for the accounting treatment that you have chosen. **(10 Marks)**

(Total: 20 Marks)

QUESTION FIVE

a) Differentiate between tax revenue and non tax revenue for government of Rwanda sources of revenue and give an example of each. **(4 Marks)**

b) Differentiate between reserves, provision and allowance for doubtful debt. **(3 Marks)**

c) Logas provided the following information about its account receivables for the year ended 30 September 2013

	Frw
Receivables opening debit balances	2,500,000
Receivables opening credit balances	420,000
Allowance for doubtful debt opening balance	188,000
Sales (90% on credit and the rest cash sales)	19,310,000
Discount allowed	60,000
Returns out	210,000
Receipts (Cash and cheques) from receivables	14,600,000
Bad debt written off	55,000
Refunds in cash to customers with credit balances	130,000
Receivables closing credit balances	260,000

Additional information:

1. A sales invoice of Frw 100,000 during the year was discovered unrecorded
2. Additional bad debts to be written off Frw 12,000
3. Allowance for receivables is determined at the end of the year at Frw 210,000

4. A contra settlement of Frw120,000 was agreed with a customer who is also a supplier
5. The bank statement showed a dishonoured cheque of Frw 45,000 from a customer
6. A cheque received from a customer Frw150, 000 already credited in the control account but was not appearing in the bank statement because it was lost while in transit to the bank. No replacement yet received from the customer.

Required:

(a) Bad debt expense account **(2 Marks)**

(b) Allowance for doubtful debt account **(2 Marks)**

(c) Receivables ledger control account **(9 Marks)**

(Total: 20 Marks)

End of question paper

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