

## **CERTIFIED ACCOUNTING TECHNICIAN**

### **LEVEL 1 EXAMINATION**

#### **L1.1: INTRODUCTION TO FINANCIAL ACCOUNTING**

**MONDAY: 1 DECEMBER 2014**

#### **INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **two** sections; **A & B**.
- Section **A** has **one** compulsory question to be attempted.
- Section **B** has **four** questions, **three** questions to be attempted.
- Marks allocated to each question are shown at the end of the question.
- Show all your workings.
- Any assumptions made must be clearly and concisely stated.

## SECTION A

*This section has one compulsory question*

### QUESTION ONE

(a) What is an “**accounting policy**”? (2 Marks)

(b) The following categories of people are recognized as users of the information contained in financial statements:

- Owners.
- Financial analysts
- Lenders.

For each of the above users, identify the kind of information they may require, why they require it and the decisions they make from that information. (9 Marks)

c) Briefly explain the meaning of each of the following accounting concepts, giving in each case, an example of an application of each:

(i) Materiality (3 Marks)

(ii) Substance over form (3 Marks)

(iii) Money measurement (3 Marks)

d) Mutoni is a business woman operating a retail business in a small town. Due to the size of her business, she is not able to employ a qualified accountant on a permanent basis.

The following information was extracted from the books of the business as at 31 October 2013:

|                              | Frw     |
|------------------------------|---------|
| Freehold property (cost)     | 600,000 |
| Motor vehicles (NBV)         | 750,000 |
| Furniture and fixtures (NBV) | 240,000 |
| Stock                        | 390,000 |
| Trade debtors                | 500,000 |
| Bank overdraft               | 60,000  |
| Trade creditors              | 380,000 |
| Accruals                     | 15,000  |
| 10% loan                     | 600,000 |
| Provision for doubtful debts | 25,000  |

The following transactions took place during the financial year ended 31 October 2014:

1. Sales and purchases on credit amounted to Frw 2,080,000 and Frw 1,900,000 respectively.
2. The following transactions were carried out through the bank account:

|                                     | Frw.      |
|-------------------------------------|-----------|
| Sales – Cash                        | 720,000   |
| Purchases – Cash                    | 240,000   |
| Payments to trade creditors         | 1,940,000 |
| Purchase of furniture               | 200,000   |
| Salaries and wages                  | 160,000   |
| Lighting                            | 65,000    |
| General expenses                    | 35,000    |
| Interest on loan                    | 30,000    |
| Drawings                            | 60,000    |
| Repayment of loan on 30 April 2014  | 100,000   |
| Collections from trade debtors      | 1,890,000 |
| Proceeds from sale of motor vehicle | 120,000   |

3. The business depreciates motor vehicles at 20% per annum on a reducing balance basis. A full year's depreciation is provided on a motor vehicle acquired in the course of the year and no depreciation is provided on a motor vehicle disposed off in the course of the year.

The motor vehicle sold in the year had been purchased at Frw 250,000 and an accumulated depreciation of Frw 122,000 had been provided on it at the time of disposal.

4. Furniture is depreciated at 10% per annum on cost and in proportion to the period used in the year. The additional furniture was purchased on 1 May 2014 while the cost of furniture held on 31 October 2013 was Frw 400,000
5. Loan interest paid was for one-half year up to 30 April 2014
6. The business received discounts of Frw 40,000 and allowed discounts of Frw 70,000 during the year.
7. Bad debts of Frw 20,000 were written off. Provision for doubtful debts is to be maintained at 5% of the debtor's balance at the end of the year.
8. Accruals are in respect of lighting and on 31 October 2014, the amount accrued was Frw 19,000
9. Mutoni's business earns a normal gross profit rate of 25% on selling price.

**Required:**

(i) Statement of profit or loss for the year ended 31 October 2014 (12 Marks)

(ii) Statement of financial position as at 31 October 2014. (8 Marks)

**Total 40 Marks**

**SECTION B**

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

**QUESTION TWO**

- a) Distinguish between Trade Discount and Cash Discount. (4 Marks)
- b) Garage Kinamba Ltd received on 1 January, 2014 their monthly bank statement which showed that there was a bank overdraft of Frw 212,900. The bank statement balance was not in agreement with the balance shown in the bank column of the cash book. A reconciliation by the accountant revealed the following:
- (i) The bank statement records showed that a cheque for Frw 18,500 paid into the bank had been subsequently dishonoured. The company was unaware of the dishonoured cheque.
- (ii) The bank statement included a credit transfer of Frw 29,100 but after inquiries, it was discovered that the transfer related to another company.
- (iii) A hire purchase agreement for equipment had been entered by the company on 1 Dec 2013. The agreement required an installment of Frw 36,000 to be paid every month for 2 years. The amount for first installment was correctly paid and recorded by the company but the bank had erroneously debited another company's bank account.
- (iv) A cheque for Frw 15,400 had been received from a customer on 25 Dec, 2013 but had erroneously been entered in the cash book as Frw 14,500

- (v) Cheques totaling Frw 492,000 had been delivered to suppliers on 31 Dec but none of these cheques had been presented to the bank.
- (vi) A standing order of Frw 11,000 to a business partner had been duly paid by the bank. No entry has been made in the cash book to record this transaction.
- (vii) The company agent in Musanze had paid Frw 155,000 directly into the bank. The amount had not been reflected on the bank statement.
- (viii) A dividend received by cheque for Frw 34,000 paid to the company had been entered twice in the cash book.
- (ix) A page comprising debit entries in the cash book had been under cast by Frw 60,000 and the incorrect total carried forward to the next page.
- (x) Bank charges for the month of Dec 2013 amounting to Frw. 4,800 had been omitted from the cash book.

**Required:**

- 1) An adjusted cash book as at 31 Dec 2013 (12 Marks)
  - 2) Bank reconciliation statement as at 31 Dec 2013 (4 Marks)
- (Total 20 Marks)**

**QUESTION THREE**

The following is the receipts and payments account of Vision Club for the year ended 31 December 2013:

| Details                | Frw '000'           |                            | Frw '000'           |
|------------------------|---------------------|----------------------------|---------------------|
| Balance at 01/01/2013  | 102                 | Bar purchases              | 4,434               |
| Entrance fees          | 42                  | Wages                      | 416                 |
| Subscriptions for 2012 | 25                  | Rent                       | 186                 |
| Subscriptions for 2013 | 305                 | Heating and lighting       | 128                 |
| Subscriptions for 2014 | 35                  | Postage and stationery     | 33                  |
| Bar Sales              | 5,227               | Insurance                  | 18                  |
| Sale of investments    | 750                 | General expenses           | 46                  |
|                        |                     | Payments for new furniture | 450                 |
|                        |                     | Balance at 31/12/2013      | 775                 |
|                        | <b><u>6,486</u></b> |                            | <b><u>6,486</u></b> |

The following information is also provided:

| Details                           | 31 Dec 2012 | 31 Dec 2013 |
|-----------------------------------|-------------|-------------|
| Bar stock, at cost                | 272         | 315         |
| Creditors for bar purchases       | 306         | 358         |
| Rent due                          | 18          | 36          |
| Heating and lighting expenses due | 16          | 19          |
| Subscriptions due                 | 25          | 40          |
| Insurance paid in advance         | 5           | 7           |

- 2) On 31 December 2012, the club held investments which cost Frw 500,000. During the year ended 31 December 2013, these were sold for Frw 750,000.



- 3) Furniture was valued at Frw 300,000 on 31 December 2012. On June 2013, the club purchased additional furniture at a cost of Frw 520,000. Depreciation of all furniture is to be provided for at the rate of 10% per annum.

**Required:**

- (a) Income and expenditure account for the year ended 31 December 2013. **(12 Marks)**
- (b) Statement of financial position as at that date. **(8 Marks)**

**(Total 20 Marks)**

**QUESTION FOUR**

The following information is available for sole trader Mr. Ayim for the year ended 31 Dec 2013.

| Details  | Frw “000”  |
|--|------------|
| Opening receivables debit balances                       | 12,197,500 |
| Opening receivables credit balances                      | 82,250     |
| Credit sales   | 26,520,000 |
| Credit sales returns                                     | 816,250    |
| Cash received from customers (95% from credit customers) | 24,685,500 |
| Irrecoverable debts                                      | 542,500    |
| Irrecoverable debts previously written off but recovered | 157,500    |
| Opening allowances for receivables                       | 625,000    |
| Contra entry with balances on payables ledger            | 118,750    |
| Refunds to customers for over payment                    | 69,500     |

**Required:**

- a) With the aid of a receivables control account, calculate the closing receivables figure as at 31 December 2013. **(5 Marks)**
- b) Calculate the closing allowance for receivables assuming that Mr. Ayim wishes to set the closing allowances for receivables at 5% of outstanding receivables as at 31 December 2013. **(2 Marks)**
- c) Prepare appropriate statement of profit or loss and statement of financial position (extracts) to illustrate how the information above would be presented in the financial statements of Mr. Ayim for the year ended 31 December 2013. **(8 Marks)**
- d) Explain your understanding of prudence concept as used in accounting and illustrate how establishing an allowance for receivables can be considered as application of the prudence concept. **(5 Marks)**

**(Total 20 Marks)**

**QUESTION FIVE**

- (a) Name and explain four types of errors which are not disclosed by the trial balance. **(8 Marks)**
- (b) The trial balance of S. Djuma, a sole trader, did not balance as at 30 April 2014. The difference was put in the suspense account. The final accounts prepared then, showed a net profit of Frw. 640,000.

During audit, the following errors were noted:

- 1) A loan from UOB Bank of Frw 100,000 was entered correctly in cashbook but was not posted to the ledger.
- 2) A cheque of Frw 40,000 for rent received was not entered in the cash book.
- 3) Closing stock was overvalued by Frw 15,000.
- 4) Discount allowed of Frw 5,000 was entered in the discount received account.
- 5) The opening stock was understated Frw 32,000.
- 6) Prepaid insurance of Frw 2,200 had been included in the profit and loss account.
- 7) Goods destroyed by fire amounting to Frw 120,000 were written off in the profit and loss account. However the insurance company has agreed to compensate the full amount.

**Required:**

- |     |  |                  |
|-----|--|------------------|
| (a) | Journal entries to correct the errors. | <b>(8 Marks)</b> |
| (b) | Statement of corrected profit.         | <b>(2 Marks)</b> |
| (c) | Suspense account                       | <b>(2 Marks)</b> |

**(Total 20 Marks)**

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**End of question paper**



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