INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 5 DECEMBER 2014

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.
6. Show all your workings.
7. Any assumptions made must be clearly and concisely stated.

SECTION A

This section has one compulsory question

QUESTION ONE

The following balances have been extracted from the books of Mutara Manufacturers, a small scale manufacturing enterprise, as at 31 December 2013:

		Frw '000'
Stocks as at 1 January 2013:	Raw materials	7,000
	Work in progress	5,000
	Finished goods	6,900
Purchases of raw materials		38,000
Direct labour		28,000
Factory overheads:	Variable	16,000
	Fixed	9,000
Administrative expenses:	Rent and rates	19,000
	Lighting	6,000
	Stationery and postage	2,000
	Staff salaries	19,380
Sales		192,000
Plant and machinery:	At cost	30,000
	Provision for depreciation	12,000
Motor vehicles (used for deliveries):	At cost	16,000
	Provision for depreciation	4,000
Creditors		5,500
Debtors		28,000
Drawings		11,500
Balance at bank		16,600
Capital at 1 January 2013		48,000
Provision for unrealized profit at 1 January 2013		1,380
Motor Vehicle running costs		4,500

Additional information:

1. Stocks at 31 December 2013 were as follows:

	Frw'000'
Raw materials	9,000
Work in progress	8,000
Finished goods	10,350

2. The factory output is transferred to the trading account at factory cost plus 25% of factory profit.

3. Depreciation is provided at the rates shown below on the original cost of fixed assets held at the end of each financial year:

- Plant and machinery at 10% per annum
- Motor vehicles 25% per annum

4. Amounts accrued at 31 December 2013 for direct labour amounted to Frw. 3,000,000 and rent and rates prepaid at 31 December 2013 amounted to Frw. 2,000,000.

Required:

(a) Manufacturing account for the year ended 31 December 2013 **(15 Marks)**

(b) Trading and profit and loss account for the year ended 31 December 2013. **(15 Marks)**

(c) Statement of Financial position as at 31 December 2013. **(10 Marks)**

(Total 40 Marks)

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

Janet and Ruth are sole proprietors carrying on business as wholesalers. Their financial statements for the year ended 31 March 2013 were as follows:

Income statements for the year ended 31 March 2013:

	Janet	**Ruth**
	Frw "000"	**Frw "000"**
Sales	144,000	140,000
Cost of sales:		
Opening inventory	28,000	3,200
Purchases	124,000	121,600
	152,000	124,800
Closing inventory	(32,000)	(4,800)
	120,000	120,000
Gross profit	24,000	20,000
Distribution costs	7,200	2,800
Administration expenses	8,160	9,500
	15,360	12,300
Net profit	**8,640**	**7,700**

Statement of financial position as at 31 March 2013:

	Janet	**Ruth**
	Frw "000"	**Frw "000"**
Assets:		
Non-current assets:		
Free hold property	20,000	14,000
Fixtures, fittings and equipments	21,750	13,840
Motor vehicles	12,000	6,000
Current assets:		
Inventory	32,000	4,800
Accounts receivables	28,800	11,200
Bank balances	8,950	11,360
Total assets	**123,500**	**61,200**
Capital and liabilities:		
Capital	108,000	30,800
Accounts payable	15,500	30,400
Total capital and liabilities	**123,500**	**61,200**

Additional information:

1. The amount of accounts receivable and accounts payable has not changed significantly over the year.
2. All sales are on credit
3. All the non-current assets are at written-down value.
4. Assume that inventories increased evenly over the year.

Required:

For each business, compute & comment on each of the following ratios,

i) Three profitability ratios **(10 Marks)**

ii) Current ratio **(2 Marks)**

iii) Acid test ratio **(2 Marks)**

iv) Inventory turnover ratio **(2 Marks)**

v) Total assets turnover ratio **(2 Marks)**

vi) Accounts receivable turnover ratio **(2 Marks)**

(Total 20 Marks)

QUESTION THREE

a) Many countries including Rwanda have adopted International Financial Reporting Standards (IFRSs) in preparation and presentation of Financial Statements.

Required:

Discuss 3 advantages and 2 disadvantages for Rwanda complying with IFRSs **(5 Marks)**

b) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* contains guidance on the use of accounting policies and accounting estimates.

Required:

Explain the basis on which the management of an entity must select its accounting policies and distinguish, with an example, between changes in accounting policies and changes in accounting estimates. **(5 Marks)**

c) The directors of Tango are disappointed by the draft profit for the year ended 30 September 2014. The company's assistant accountant has suggested two areas where she believes the reported profit may be improved:

(i) A major item of plant that cost Frw 20 million to purchase and install on 1 October 2010 is being depreciated on a straight-line basis over a five-year period (assuming no residual value). The plant is wearing and at the beginning of the current year (1 October 2013) the production manager believed that the plant was likely to last eight years in total (i.e. from the date of its purchase). The assistant accountant has calculated that, based on an eight-year life (and no residual value) the accumulated depreciation of the plant at 30 September

2014 would be Frw 7·5 million (Frw 20 million /8 years x 3). In the financial statements for the year ended 30 September 2013, the accumulated depreciation was Frw 8 million (Frw 20 million/5 years x 2). Therefore, by adopting an eight-year life, Tango can avoid a depreciation charge in the current year and instead credit Frw 0·5 million (Frw 8 million – Frw 7·5 million) to the income statement in the current year to improve the reported profit. **(5 Marks)**

(ii) Most of Tango's competitors value their inventory using the average cost (AVCO) basis, whereas Tango uses the first in first out (FIFO) basis. The value of Tango's inventory at 30 September 2014 (on the FIFO basis) is Frw 20 million, however on the AVCO basis it would be valued at Frw 18 million. By adopting the same method (AVCO) as its competitors, the assistant accountant says the company would improve its profit for the year ended 30 September 2014 by Frw 2 million. Tango's inventory at 30 September 2013 was reported as Frw 15 million, however on the AVCO basis it would have been reported as Frw 13·4 million.

(5 Marks)

Required:

Comment on the acceptability of the assistant accountant's suggestions in C (i & ii) above and quantify how they would affect the financial statements if they were implemented under IFRS. Ignore taxation.

(Total 20 Marks)

QUESTION FOUR

The following trial balance was extracted from the books of Malezi Ltd as at 31 October 2014:

	Frw "000"	Frw "000"
Building (cost)	10,000	
Plant & Equipment (cost)	1,400	
Motor vehicles (cost)	320	
Accumulated depreciation (1 November 2013)		
Building		4,000
Plant & Equipment		480
Motor vehicles		120
Cash at Bank	100	
Inventory (1 November 2013)	2,200	
Administration expenses	2,206	
Distribution costs	650	
Suspense		1,500
Retained earnings		360
Trade receivables	876	
Purchases	4,200	
Dividend paid	200	
Sales		11,752
Value Added Tax (VAT) payable		1,390
Trade payables		1,050
Share premium		500
Ordinary shares of Frw 100 each		1,000
	22,152	**22,152**

Additional information:

1. Inventory as at 31 October 2014 was valued at Frw **1,600,000**.
2. Depreciation is to be provided as follows:

    *Buildings **5%** on straight line basis.

    *Plant & Equipment **20%** on reducing balance basis.

    *Motor vehicle **25%** on reducing balance basis.

    Depreciation is to be charged to administration expenses.
3. An allowance for bad debts of **Frw 76,000** is to be made relating to a customer who was declared bankrupt. A further allowance for doubtful debts of **5%** is to be made with respect to the trade receivables as at 31 October 2014.
4. Corporation tax is at the rate of 35%.
5. The directors do not propose payment of dividends.
6. The suspense account of **Frw 1,500,000** relates to **10,000** new ordinary shares which were issued at par value of **Frw 150** each on 1 October 2014.

Required:

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

b)Statement of Financial position as at 31 October 2014. **(8 Marks)**

(Total 20 Marks)

QUESTION FIVE

Chungala Ltd is a public company incorporated to trade in recycled products. The accountant presented to the finance manager the following financial statements for the years 2013 and 2014.

Chungala Ltd

Statement of comprehensive income for the year ended 30 September 2014.

	"000"
Sales	9,348
Cost of sales	(5,688)
Gross profit	3,660
Distribution cost	(1,128)
Administration expenses	(1,200)
Operating profit	1,332
Gain on disposal	20
Interest paid	(60)
Profit before tax	1,292
Income tax expense	(304)
Profit after tax	988
Proposed dividends	(300)
Retained profit for the year	688
Retained profit brought forward	1,616
Retained profit carried forward	2,304

Chungala Ltd

Statement of financial position as at 30 September:

	2014	2013
Non- Current Assets:	**“000”**	**“000”**
Plant & Equipment	6,400	5,200
Motor vehicles	2,400	1,600
	8,800	**6,800**
Current Assets:		
Inventory	300	240
Accounts receivable	124	100
Bank balance	216	140
	640	**480**
Total assets	**9,440**	**7,280**
Equity and Liabilities		
Ordinary share capital(Frw 10 each)	5,200	4,800
Share premium	880	320
Retained profit	2,304	1,616
	8,384	**6,736**
Non- Current liability:		
Long term loan	320	80
Current liability		
Accounts payable	96	56
Taxation	480	320
Proposed dividends	160	88
	736	**464**
Total Equity and Liabilities	**9,440**	**7,280**

Additional information:

1. During the year, Plant & Equipment worth Frw 2,200,000 was acquired and motor vehicles which had cost Frw 200,000 were disposed off.
2. The book values of the plant & equipment and motor vehicles comprise:

	Plant & Equipment		**Motor vehicles**	
	2013	**2014**	**2013**	**2014**
	“000”	**“000”**	**“000”**	**“000”**
Cost	6,120	7,700	1,920	2,880
Accumulated depreciation	(920)	(1,300)	(320)	(480)
Net book value	**5,200**	**6,400**	**1,600**	**3,400**

3. Administrative expenses comprise

	“000”
Depreciation:	
Plant & Equipment	840
Motor Vehicles	300
Others	60
	1,200

4. Gain on disposal comprise:

Gain on disposal of plant & Equipment	40
Loss on disposal of motor vehicles	(20)
	20

Required:

Statement of cash flows for the year ended 30 September 2014 in conformity with requirements of International Accounting Standards **(IAS 7),** "Statement of cash flows". **(Total 20 Marks)**

End of question paper