

## **CERTIFIED ACCOUNTING TECHNICIAN**

### **LEVEL 2 EXAMINATIONS**

#### **L2.1: FINANCIAL ACCOUNTING**

**FRIDAY: 4 DECEMBER 2015**

#### **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

- (a) DISCLA Limited (DL) manufactures mattresses. The following trial balance was extracted from their books as at 31 December, 2014.

	Frw '000'	Frw '000'
Capital		1,450,000
Inventories 1 January, 2014:		
Raw materials	84,000	
Finished goods	50,200	
Work in progress	20,500	
Factory wages	300,000	
Royalties	10,300	
Purchase of raw materials	400,000	
Discounts	18,000	65,000
Carriage inwards on raw materials	55,500	
Returns outwards on raw materials		30,000
Factory machinery	290,000	
Administrative Computers	450,000	
Motor vehicles	250,000	
Accounts receivable/Accounts payable	275,000	380,000
Cash at Bank	128,000	
Cash in hand	233,300	
Sales		1,407,450
Commission on sales	25,000	
Sales representatives' salaries	150,000	
Salaries	120,000	
Factory power	60,000	
Rent	300,000	
Insurance	80,000	
Carriage outwards	15,000	
Bank charges	1,150	
Factory expenses	16,500	
	<b>3,332,450</b>	<b>3,332,450</b>

Additional information:

(i) Inventories 31 December 2014

	Frw '000'
Raw materials	30,000
Finished goods	15,000
Work in progress	10,000

(ii) Accrued salaries 30,000

(iii) Prepaid insurance 20,000

(iv) The following costs are to be apportioned as follows:

	Factory	Administrative	Selling & distribution
Salaries	50%	30%	20%
Rent	$\frac{1}{2}$	$\frac{1}{4}$	$\frac{1}{4}$
Insurance	60%	40%	Nil
Depreciation	50%	15%	35%

(v) Depreciation of Non-current assets is to be provided for on straight line basis at 10% per annum.

**REQUIRED:**

(i) Differentiate between direct and indirect costs as they relate to manufacturing, using examples. **(2 Marks)**

(ii) Manufacturing, trading and profit or loss account for DISCLA Limited for the year ended 31 December, 2014. **(17 Marks)**

(b) (i) State five roles of IASB as per the conceptual framework for financial reporting. **(5 Marks)**

(ii) State and explain the elements of financial statements. **(10 Marks)**

(iii) Explain the three different categories of cash flows as per IAS 7: Statement of Cash Flows. **(6 Marks)**

**(Total 40 Marks)**

## SECTION B

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

### QUESTION TWO

- (a) Distinguish between ordinary shares and preference shares. (6 Marks)
- (b) Alliance Consulting Ltd extracted the following Trial balance as at 30 June, 2015

Account balance	Frw '000'	Frw '000'
Fully paid up share capital		560,000
Share premium		50,000
Retained earnings		145,000
General reserves		45,000
Equipment	150,000	
Furniture and fittings	110,000	
Buildings	220,000	
Land	365,000	
Provision for depreciation :		
Equipment		15,000
Furniture and fittings		11,000
Buildings		22,000
Legal fees		280,000
Rent	140,000	
Salaries	70,000	
Accounts receivable/ accounts payable	99,000	65,000
Tax payable		19,000
10% treasury bills	90,000	
Goodwill	40,000	
5% debentures		60,000
Bank overdraft		12,000
	<b>1,284,000</b>	<b>1,284,000</b>

#### Additional information:

- (i) Consultancy fees Frw 20,000,000 remained outstanding and Frw 50,000,000 was received in advance.
- (ii) Prepaid rent was Frw 10,000,000 and outstanding salaries Frw 30,000,000.
- (iii) Interest on treasury bills and debentures remained outstanding.
- (iv) Depreciation is to be charged on Non-current assets at 5% per annum on reducing balance basis
- (v) Goodwill is to be amortized over a period of 4 years.

#### REQUIRED:

Prepare a statement of financial position for Alliance Consulting Ltd as at 30 June, 2015. (14 Marks)

(Total 20 Marks)

### QUESTION THREE

On 1 January, 2010 G & D Ltd purchased 10 trucks at Frw 30,000,000 per truck. On 30 June, 2012 one of the trucks was involved in an accident and completely destroyed. They sold the scrap at Frw 5,000,000. On 30 June, 2013 another truck was purchased at a cost of Frw 25,000,000 with freight and taxes amounting to



Frw 15,000,000. On 30 September, 2013 another trucks which was purchased on 1 January, 2010 was sold for Frw 20,000,000.

The company policy is to write off 15% of the original cost of trucks per annum and closes its books at 31 December. It is also the company policy is to charge full depreciation in the year of purchase and none in the year of disposal.

### REQUIRED:

- (a) Prepare the following accounts, as at 31 December, 2014:
    - (i) Non-current assets (Trucks) (4 Marks)
    - (ii) Disposal of non-current assets (Trucks) (6 Marks)
    - (ii) Accumulated depreciation (6 Marks)
  - (b) Explain and illustrate the following methods of depreciation:
    - (i) Straight line (2 Marks)
    - (ii) Reducing balance. (2 Marks)
- (Total 20 Marks)**

### QUESTION FOUR

- (a) Explain five importance of cash management to a business (10 Marks)
- (b) On 1 July, 2014 François, a retailer, had the following balances in his books:

Balances	Frw '000'
Premises	70,000
Equipment	20,000
Motor vehicle	15,000
Inventory	10,000
Accounts receivable	30,000
Accounts payable	18,000

François does not keep proper books of account, but his bank statements covering the 12 months from 1 July, 2014 to 30 June, 2015 were obtained from the bank and summarized as follows:

Receipts:	Frw '000'	Payments:	Frw '000'
Additional capital	300,000	Balance b/d	75,000
Cash from debtors	660,000	Purchases	110,000
Cash sales	150,000	Purchase of motor vehicle	90,000
		Motor vehicle expenses	25,000
		Salaries & wages	35,000
		Electricity & water	12,000
		Rent	50,000
		Miscellaneous expenses	10,000
		Balance c/d	703,000
	<b>1,110,000</b>		<b>1,110,000</b>

It was established that during the year ended 30 June, 2015 François had paid into the bank all the cash received from sales apart from the cash used to pay for miscellaneous expenses Frw 5,000,000 and to pay suppliers Frw 29,000,000.

**Additional information as at 30 June, 2015:**

- 1 Inventory was valued at Frw 5,000,000.
- 2 Accounts receivable amounted to Frw 40,000,000.
- 3 Frw 11,000,000 was owed to suppliers of goods bought on credit.
- 4 An amount of Frw 3,000,000 owed by an accounts receivable is to be written off as a bad debt.
- 5 Depreciation of non-current assets is to be charged as follows:

Asset	Frw '000'
Premises	14,000
Equipment	2,000
Motor vehicle	1,500

**REQUIRED:**

- (i) A statement of financial affairs as at 1 July, 2014. (4 Marks)
- (ii) A statement of profit or loss for the year ended 30 June, 2015. (6 Marks)

**(Total 20 Marks)**

**QUESTION FIVE**

- (a) The objective of general purpose financial reporting is to provide information about an entity's financial performance, financial position and changes in financial position to a wide range of users in making economic decisions.

**REQUIRED:**

In line with the above statement, describe any four users of such information and their information needs.

**(4 Marks)**

- (b) Accountants are required to prepare financial statements that comply with the generally accepted accounting principles (GAAP). Required: Explain the following accounting concepts and show how they help accountants in complying with the above requirements.

i) Accrual **(2 Marks)**

ii) Prudence **(2 Marks)**

iii) Going concern **(2 Marks)**

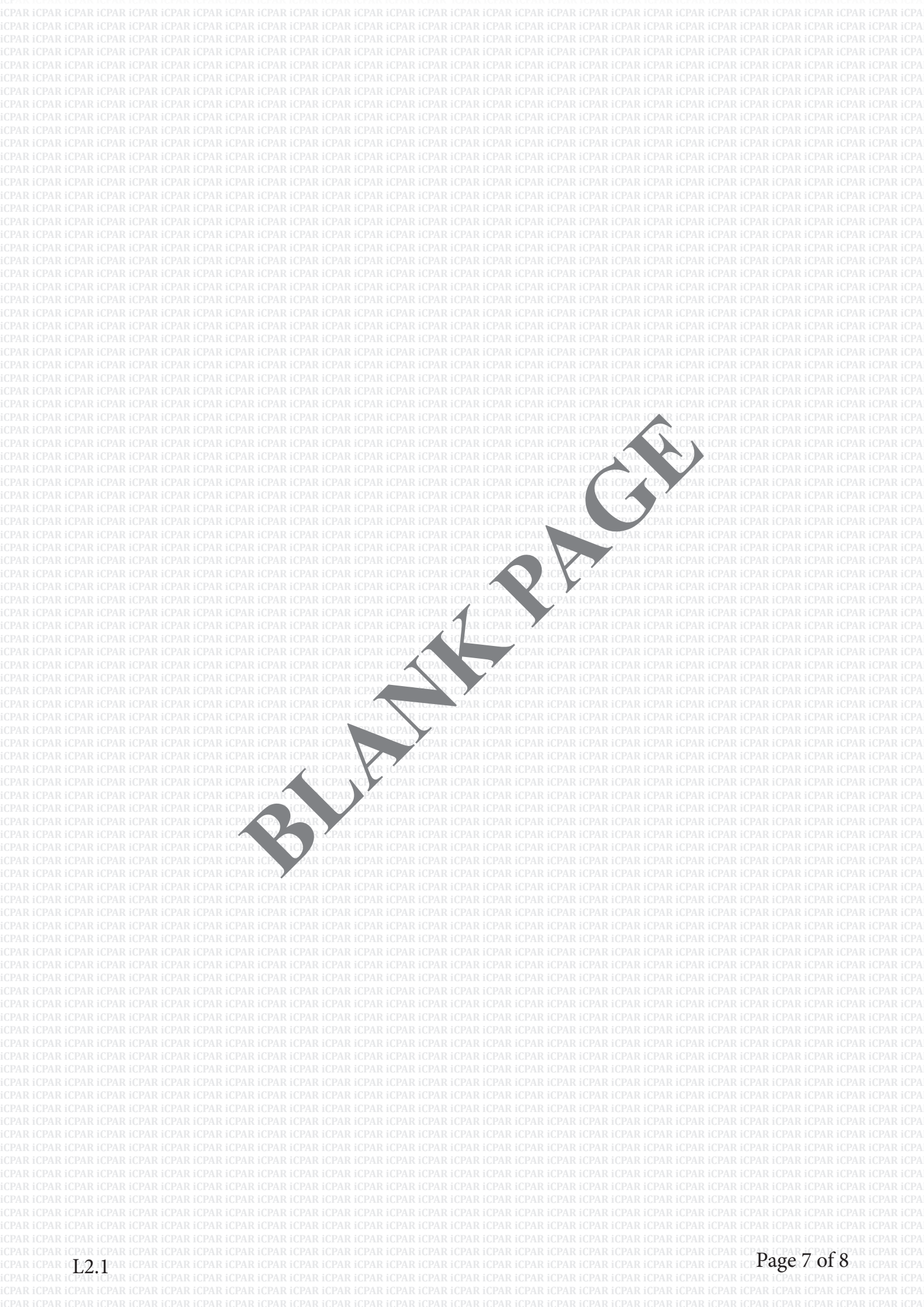
- (c) Explain the five fundamental principles that accountants are expected to adhere to while executing their professional duties. **(10 Marks)**

**(Total 20 Marks)**

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**End of question paper**



## L2.1