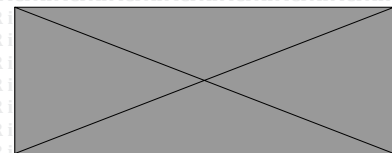




INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance



CERTIFIED ACCOUNTING TECHNICIAN LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 02 DECEMBER 2016

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. All iCPAR Examination rules and regulations apply**

SECTION A

This section has one compulsory question

QUESTION ONE

(a) Distinguish between:

- (i) A sole proprietorship and a limited company. **(6 Marks)**
- (ii) Profitability and liquidity. **(2 Marks)**

(b) Explain:

- (i) How the balance in the share premium account of a company can be utilized. **(4 Marks)**
- (ii) The importance of cash to a business. **(2 Marks)**

(c) Nyaruguru Distributors had the following trial balance for the year ended 31 December, 2015.

| | Dr. Frw '000' | Cr. Frw '000' |
|----------------------------------|-----------------------|-----------------------|
| Ordinary share capital | | 200,000 |
| Share premium | | 50,000 |
| Retained earnings | | 20,000 |
| Land (at cost) | 100,000 | |
| Buildings (at cost) | 180,000 | |
| Delivery van (at cost) | 50,000 | |
| Furniture and fittings (at cost) | 30,000 | |
| Trade receivables & payables | 28,000 | 15,000 |
| 15% bank loan | | 20,000 |
| Cash | 27,800 | |
| Bank | | 4,000 |
| 10% Treasury bill | 40,000 | |
| Purchases and sales | 115,000 | 320,000 |
| Returns | 20,000 | 15,000 |
| Carriage inwards | 2,000 | |
| Carriage outwards | 1,500 | |
| Inventory 1 January, 2015 | 15,000 | |
| Salaries and wages | 18,000 | |
| Insurance | 10,000 | |
| Repairs and maintenance | 5,000 | |
| Utilities | 3,500 | |
| Discounts | 1,500 | 800 |
| Provision for bad debts | | 2,100 |
| Commissions paid & received | 1,800 | 2,200 |
| Total | <u>649,100</u> | <u>649,100</u> |

Additional information:

- (i) The cost of inventory on 31 December, 2015 was Frw 2,000,000 and the net realizable value Frw 5,000,000.
- (ii) It is the company's policy to depreciate all Non-current assets at 10% per annum on cost.
- (iii) The provision for bad debts to be increased to Frw 3,000,000.
- (iv) Insurance of Frw 300,000 was prepaid.

- (v) Salaries and wages of Frw 2,000,000 and utilities of Frw 500,000 were accrued.
- (vi) Interest on the Treasury bill and bank loan remained outstanding.

REQUIRED:

Prepare for Nyaruguru Distributors:

- (i) Journal entries for the additional information (i) - (vi). (Ignore narrations). **(5 Marks)**
- (ii) Statement of profit or loss for the year ended 31 December, 2015. **(11 Marks)**
- (iii) Statement of financial position as at 31 December, 2015. **(10 Marks)**
- (Total 40 Marks)**

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

- (a) Explain the:
- (i) Term 'net realisable value' as per IAS 2: Inventory. **(2 Marks)**
- (ii) Different costs that constitute the cost of inventory as per IAS 2. **(3 Marks)**
- (b) The following balances were extracted from the books of Kagera Enterprises Limited for the period ended 31 December, 2015.

| Account Balances | Frw '000' |
|--|-----------|
| Ordinary share capital (Frw 2,000 per share) | 400,000 |
| Irredeemable preference shares | 100,000 |
| Share premium | 50,000 |
| General reserve | 20,500 |
| Retained earnings/ losses | 1,583 |

Additional information:

- (i) The company made an additional issue of 50,000 ordinary shares at a premium of Frw 250 during the period. The shares were fully subscribed and paid for by the end of the period.
- (ii) Dividends were paid at period end at the rate Frw 25 per ordinary share.
- (iii) The company made a profit before interest and tax of Frw 25,000,000.
- (iv) During the period, the company obtained a 9% bank loan Frw 81,000,000 on 1 August, 2015 to finance an expansion.
- (v) The tax liability for the year was estimated at Frw 4,370,000.
- (vi) Management agreed to transfer Frw 340,000 from retained earnings to the general reserve.

REQUIRED:

Statement of changes in equity for the period ended 31 December, 2015. **(15 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) IAS 17: Leases recognizes two types of leases, finance and operating lease.

REQUIRED:

Explain:

- (i) Any three characteristics of a finance lease. **(6 Marks)**
- (ii) How the concept of substance over form is applied under finance leases. **(2 Marks)**

(b) Gisenyi Machinery Limited (GM Ltd) leased a machine with a fair value of Frw 2,200,000 from Rolando Holdings Ltd on 1 January, 2013 for a period of 4 years. The machine has a useful life of 4 years. The interest rate implicit in the lease is 10% and lease payments are paid annually in arrears as follows:

| 31 December | Frw |
|-------------|---------|
| 2013 | 800,000 |
| 2014 | 800,000 |
| 2015 | 800,000 |
| 2016 | 308,220 |

REQUIRED:

- (i) Prepare a schedule of lease payments by GM Ltd showing how lease liability will change over the four years. **(4 Marks)**
- (ii) Prepare extracts of the financial statements of GM Ltd for year ending 31 December, 2013 and 31 December, 2014. **(12 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) Samuel Bizimungu started a small retail shop two years ago in Nyanza district. He does not keep proper books of account arguing that he is able to remember all the transactions that take place.

REQUIRED:

Explain to Samuel why he should keep proper books of account. **(3 Marks)**

(b) Accounting policies are usually applied consistently from period to period to allow users analyse trends over time in profit, cash flows and financial position.

REQUIRED:

Explain circumstances when a change in accounting policy is permitted. **(3 Marks)**

(c) An investor has an option of investing either in Ruhango Ltd or Huye Ltd which operate in the same industry. However, he is unable to make a decision given his level of financial education. The investor has hired you as a financial consultant to help him assess the performance of both companies and later recommend in which company he should invest his funds.

The following ratios relate to the two companies for the year ended 31 December, 2015.

| | Ruhango Ltd | Huye Ltd |
|-----------------------------------|--------------------|-----------------|
| Current ratio | 2.2:1 | 1:1 |
| Acid test ratio | 1.5:1 | 0.5:1 |
| Gross profit margin | 25% | 10% |
| Net profit margin | 15% | 8% |
| Receivables collection period | 30 days | 40 days |
| Average period of credit received | 35 days | 25 days |

REQUIRED:

- (i) Write a report to the investor analysing the performance of both companies based on the ratios above and recommend in which company the investor should invest his funds. **(10 Marks)**
 - (ii) Highlight to the investor four weaknesses associated with using ratios to analyse performance of both companies. **(4 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) The conceptual framework for financial reporting was issued by the International Accounting Standards Board in September 2010. Chapter 3 of the framework stipulates the qualitative characteristics of useful financial information.

REQUIRED:

Explain the fundamental and enhancing qualitative characteristics of useful financial information.

(10 Marks)

- (b) IAS 37: Provisions, Contingent Liabilities and Contingent Assets aims to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets.

REQUIRED:

Explain:

- (i) The term ‘contingent liabilities’ and its accounting treatment according to IAS 37. **(4 Marks)**
- (ii) Examples of events that may lead to recognition of a contingent liability and a contingent asset. **(2 Marks)**

- (c) Kivu Company Limited acquired equipment on 1 January, 2015 for Frw 10,000,000 and received Frw 4,000,000 in grants from the government towards the cost of the asset. The company’s policy is to treat grants as deferred income in accordance with IAS 20: Accounting for Government Grants and Disclosure of Government Assistance. The asset has a useful life of 8 years.

REQUIRED:

Prepare extracts of the statement of profit or loss for the year ended 31 December, 2015 and the statement of financial position as at 31 December, 2015 showing how the above transactions will be reported.

(4 Marks)

(Total 20 Marks)

End of question paper

