

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 1 EXAMINATIONS

F1.3: FINANCIAL ACCOUNTING

WEDNESDAY: 30 NOVEMBER 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) IAS 1: Presentation of Financial Statements (revised) sets out the requirements for the presentation of financial statements and also provides guidance on what constitutes a complete set of financial statements.

REQUIRED:

Identify the four components of financial statements and explain the purpose for preparing each component. **(8 Marks)**

- (b) Explain the five broad classes/ elements of financial statements as laid down by the International Accounting Standards Board's (IASB) conceptual framework for financial reporting. **(5 Marks)**

- (c) Habimama, an accountant of Musanze Enterprise Limited included copyrights and equipment as items of Property, Plant and Equipment (PPE) under IAS 16 in the statement of financial position.

REQUIRED:

Comment, with justification, on the treatment of the copyrights and equipment as part of Property Plant and Equipment. **(4 Marks)**

- (d) Kayonza Trading Company Limited (KTC Ltd) has provided the following trial balance as at 30 June, 2016.

	Dr	Cr
	Frw '000'	Frw '000'
Sales revenue		236,909
Inventory 1 July, 2015	3,000	
Discounts	1,000	1,500
Returns	300	350
Purchases	65,000	
Equipment at cost	200,000	
Accumulated depreciation 1 July, 2015		60,000
Salaries and wages	12,000	
Electricity	13,900	
Trade receivables	34,000	
Advertising expenses	12,780	
General expenses	76,089	
Carriage outwards	5,470	
Rent	7,670	
Trade payables	-	45,000
7% bank loan	-	100,000
Bank loan interest paid	5,000	
Bank		43,000
Ordinary Share capital 1 July, 2015		101,000
Share premium 1 July, 2015		43,200
Revaluation reserve 1 July, 2015		23,400
Retained earnings 1 July, 2015		52,000
Dividends paid	34,000	
Cash at hand	136,150	
Land at cost	100,000	
	706,359	706,359

Additional information:

- 1 Closing inventory as at 30 June, 2016 was valued at Frw 4,500,000.
- 2 Included in the trade receivables, is an amount of Frw 4,000,000 which should be written off following the death of the customer. A provision for doubtful debts of 5% of the remaining receivables should be made.
- 3 An invoice for advertising of Frw 6,590,000 relating to the period ended 30 June, 2016, was received on 3 July 2016. This has not yet been included in the books of account.
- 4 On 3 June, 2016 one of the directors was advanced a loan of Frw 34,500,000 in cash to be repaid on 3 August, 2016. This transaction was omitted from the books of account.
- 5 On 17 July, 2016 management started processing a loan from NCB Bank. The loan of Frw 643,550,000 was finally obtained on 3 August 2016 to be used to acquire a building. This amount is considered material.
- 6 On 1 January, 2016 an amount of Frw 13,900,000 was paid for electricity covering a period of 10 months.
- 7 Included in the sales revenue is an amount of Frw 10,000,000 received from a customer for goods to be delivered on 3 August, 2016.
- 8 The current tax for the period is estimated at Frw 5,000,000
- 9 Land was revalued on 30 June, 2016 to Frw 123,900,000.
- 10 The company depreciates equipment at 5% reducing balance.
- 11 Salaries of Frw 2,000,000 were outstanding by the end of the financial year.

REQUIRED

- (i) Profit or loss and other comprehensive income for the period ended 30 June 2016. **(8 Marks)**
- (ii) Changes in equity for the period ended 30 June, 2016. **(3 Marks)**
- (iii) Financial position as at 30 June, 2016. **(10 Marks)**
- (iv) Explain the treatment of loan acquired from NCB Bank. **(2 Marks)**

(Total 40 Marks)

SECTION B

Attempt three questions in this section.

QUESTION TWO

- (a) Explain the term 'inventory' as applied in IAS 2: Inventory. **(2 Marks)**
- (b) Explain the inventory valuation methods allowed by IAS 2. **(4 Marks)**
- (c) Gasabo Textiles Ltd deals in school uniform materials. By the end of the reporting period to 30 September, 2016 there were 1,000 square meters of the grey material each costing Frw 8,000. A square meter is sold for Frw 8,500. In order to motivate the sales agents, a commission of 1% per square meter is paid to the agent who finds a customer. A delivery cost for the 1,000 square meters of material is estimated at Frw 200,000.

REQUIRED:

- Determine the value of closing inventory as at 30 September, 2016. **(5 Marks)**
- (d) Explain, with examples in each case, what would be considered to be a change in accounting policy and a change in an accounting estimate. **(4 Marks)**

- (e) Uwera Ltd bought equipment on 1 January, 2012 for Frw 1,000,000. For the first two years (to 31 December, 2013) the equipment was being depreciated at 10% using the reducing balance method but with effect from 1 January, 2014 there was a change to the straight line method. The estimated useful life of the equipment at the date of the change was 5 years.

REQUIRED:

Determine the net book value of the equipment as at 31 December, 2014 and 31 December, 2015 after the change to straight line method. **(5 Marks)**

(Total 20 Marks)

QUESTION THREE

- (a) Distinguish between issuing shares at par and at a premium. **(2 Marks)**
- (b) The statement of financial position of Kigali Finance Company Limited (KFC Ltd) as at 1 January, 2016 prior to issue of shares was as follows.

Non-current assets:	Frw '000'	Frw '000'
Property plant & equipment		400,000
Current assets:		
Inventory	100,000	
Cash and bank	140,000	240,000
Total assets		640,000
Equity & liabilities:		
Equity & reserves		
Share capital Frw 1,000 per share		300,000
Share premium	200,000	
Retained earnings	100,000	300,000
Current liabilities		
Trade payables		40,000
Total equity and liabilities		640,000

On 2 January, 2016 KFC Ltd issued 2,000,000 ordinary shares at Frw 1,500 per share. All subscribers were to pay for them in full, on application. All shares issued were subscribed and fully paid for.

REQUIRED:

- (i) Show the double entry to record receipt of money from issue of shares at Frw 1,500 per share and the statement of financial position after the issue. **(5 Marks)**
- (ii) Show the double entry if shares were issued at par and the statement of financial position after the issue. **(4 Marks)**
- (c) Explain any three:
- (i) Requirements of the Companies Act regarding financial statements preparation. **(6 Marks)**
- (ii) Advantages of operating a business as a company other than as a sole proprietorship. **(3 Marks)**

(Total 20 Marks)

QUESTION FOUR

- (a) Distinguish between property, plant and equipment and investment property. **(2 Marks)**
- (b) Kicukiro Limited has provided the following financial statements for the year ended 31 December:

Statement of profit or loss

	2015		2014	
	Frw '000'	Frw '000'	Frw '000'	Frw '000'
Revenue		200,000		160,000
Less cost of goods sold				
Opening inventory	25,000		30,000	
Purchases	145,000		110,000	
Closing inventory	(30,000)	(140,000)	(25,000)	(115,000)
Gross profit		60,000		45,000
Less operating expenses				
Salaries and wages	3,000		2,000	
Electricity	4,000		12,000	
Depreciation of assets	6,000		3,000	
Other expenses	5,000	(18,000)	2,000	(19,000)
Net profit		42,000		26,000

Statement of financial position

	31 December, 2015		31 December, 2014	
	Frw '000'	Frw '000'	Frw '000'	Frw '000'
Property, plant & equipment at cost	600,000		600,000	
Accumulated depreciation	(200,000)		(104,000)	
		400,000		496,000
Inventory	30,000		25,000	
Accounts receivables	60,000		45,000	
Bank	55,000	145,000	20,000	90,000
Total assets		545,000		586,000
Equity and liabilities:				
Equity:				
Share capital		300,000		300,000
Retained earnings		100,000		75,000
Non-current liabilities:				
Bank loan		104,400		50,000
Current liabilities:				
Trade payables	40,000		70,000	
Expenses payable	600	40,600	91,000	161,000
		545,000		586,000

REQUIRED:

Compute and interpret the following ratios for the two years:

- (i) Current ratio (3 Marks)
 - (ii) Net profit margin (3 Marks)
 - (iii) Return on capital employed (4 Marks)
 - (iv) Gearing ratio (4 Marks)
 - (v) Receivables collection period (4 Marks)
- (Total 20 Marks)**

QUESTION FIVE

- (a) Hakiza has a Hardware Shop in Kirehe District and has provided the following transactions for the month of August, 2016.

S/N	Transaction detail
1	Cash sales from cement Frw 200,000.
2	Credit sales of paint Frw 304,000.
3	Jane bought floor tiles on 28 August, 2016 Frw 1,000,000 cash but she has no space to put these tiles. She requested that she picks the tiles on 10 September, 2016.
4	Hakiza has a policy where customers can open accounts and deposit money and later pick their goods. In August, 30 customers opened up accounts totaling to Frw 2,000,000 but for goods to be picked starting January 2017.
5	A customer who took paint on credit in August worth Frw 30,000 was declared bankrupt.
6	9 bags of cement initially sold for Frw 120,000 in August, were returned and accepted by Hakiza.

REQUIRED:

- (i) Determine the revenue for August, 2016. (3 Marks)
 - (ii) Justify the inclusion or exclusion of items 1 to 6 above in determining the revenue for August, 2016. (6 Marks)
- (b) Explain, with examples, the following accounting concepts.
- (i) Historical cost. (2 Marks)
 - (ii) Substance over form. (2 Marks)
 - (iii) Money measurement. (2 Marks)
 - (iv) Business entity. (2 Marks)
- (c) Explain any three books of original entry and the purpose for which each book is prepared. (3 Marks)

(Total 20 Marks)

End of question paper



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