

**CERTIFIED ACCOUNTING TECHNICIAN**

**LEVEL 2 EXAMINATIONS**

**L2.1: FINANCIAL ACCOUNTING**

**FRIDAY: 01 DECEMBER 2017**

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**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 while Section (**B**) has **four(4)** questions, **three(3)** to be attempted.
4. Marks allocated to each question are shown at the end of the question.
5. Show all your workings.
6. All iCPAR Examination rules and regulations apply.

## SECTION (A)

*This section has one compulsory question*

### QUESTION ONE

- (a) The International Accounting Standards Board's (IASB) conceptual framework for financial reporting identifies attributes that make information provided in the financial statements useful to users.

**REQUIRED:**

- (i) Explain the fundamental qualitative characteristics of financial information. **(4 Marks)**
- (ii) Explain why lenders are interested in the financial information of the business before providing credit and identify the type of information they are interested in from the financial reports. **(3 Marks)**
- (b) Accountants operating in the business world are faced with ethical dilemmas, some of which are difficult to resolve without guiding principles.

**REQUIRED:**

Explain the ethical principles accountants are expected to adhere to according to the iCPAR code of ethics. **(5 Marks)**

- (c) Huye is a limited company operating in Huye district dealing in general merchandise. Their trial balance for the year ended 30 June, 2017 is as follows:

	Dr. Frw '000'	Cr. Frw '000)
Purchases & sales	75,000	255,000
Sales & purchases returns	8,750	3,750
Plant & machinery at cost	420,000	
Buildings at valuation	325,000	
Land at cost	305,000	
Revaluation reserve		37,500
Accumulated depreciation:		
Plant & machinery		50,000
Buildings		70,000
Utilities	15,000	
Salaries	22,500	
Discounts	175	750
Stationery	18,750	
Inventory 1 July, 2016	3,750	
Bad debts	8,750	
Insurance	2,500	
5 year bank loan		214,425

	Dr. Frw '000'	Cr. Frw '000)
Share premium		105,000
Share capital Frw 400 per share		300,000
Rent	50,000	
Proceeds from issue of shares		150,000
Cash	12,500	
Bank	25,000	
Dividends paid	7,500	
Retained earnings		125,000
Repairs	21,250	
Trade receivables & payables	10,000	20,000
	<u>1,331,425</u>	<u>1,331,425</u>

**Additional information:**

- Inventory as at 30 June, 2017 was ascertained at a cost of Frw 8,750,000. However, further scrutiny of the inventory revealed that items which cost Frw 2,000,000 had a realisable value of Frw 1,500,000. The cost of the remaining inventory was less than the net realizable value.
- Land was revalued to Frw 350,000,000 at the end of the year.
- Non-current assets are depreciated as follows:

Asset	Rate (%)	Method
Buildings	5	Reducing balance
Plant & machinery	5	On cost

- On 3 January, 2017 there was an issue of 300,000 shares at Frw 500 per share. The accountant was able to pass the debit entry but was not sure of the corresponding credit entry. This amount has been credited in the account 'proceeds from issue of shares' in the trial balance.
- Utilities Frw 1,000,000 were prepaid by 30 June, 2017.
- Stationery expenses Frw 2,000,000 were outstanding by 30 June, 2017.
- Rent was paid on 1 January, 2017 covering a period of twelve months.
- The loan was acquired on 1 July, 2016 at 12% per annum and interest thereon is outstanding.

**REQUIRED:**

Prepare, for Huye Ltd for the year ended 30 June, 2017 a statement of:

- (i) Profit or loss and other comprehensive income. **(14 Marks)**
- (ii) Changes in equity. **(5 Marks)**
- (iii) Financial position as at 30 June. **(9 Marks)**
- (Total 40 Marks)**

**SECTION (B)**

*Attempt three questions in this section.*

**QUESTION TWO**

Musanze Ltd is an indigenous supermarket that is being taken over by an international company from France. Media reports cite high levels of debt, losses and poor liquidity position in 2016 as the reasons for the takeover. Gasabo Ltd is the main competitor of Musanze Ltd in Rwanda. The management of Gasabo Ltd is restless following the news of the takeover since Musanze Ltd was viewed as a big company far from a takeover. The directors of Gasabo Ltd are requesting for an evaluation of the performance of Gasabo Ltd and Musanze Ltd before the next board meeting. Statements of profit or loss for the two companies for the year ended 31 December, 2016 as follows:

	Musanze Ltd		Gasabo Ltd	
	Frw	Frw	Frw	Frw
Sales		2,220,000		3,000,000
Less cost of sales:				
Opening inventory	400,000		320,000	
Purchases	800,000		1,280,000	
Closing inventory	(240,000)	(960,000)	(280,000)	(1,320,000)
Gross profit		1,260,000		1,680,000
Operating expenses		(860,000)		(1,080,000)
Operating profit		400,000		600,000
Finance costs		(12,000)		(80,000)
Profit Before tax		388,000		520,000
Tax		(116,400)		(156,000)
<b>Net profit</b>		<b>271,600</b>		<b>364,000</b>

Statements of financial position as at 31 December, 2016

	Musanze Ltd		Gasabo Ltd	
	Frw	Frw	Frw	Frw
<b>Non-current assets:</b>				
Property, plant & equipment at cost	200,000		400,000	
Accumulated depreciation	(80,000)	120,000	(100,000)	300,000
<b>Current assets:</b>				
Inventory	240,000		280,000	
Accounts receivable	500,000		400,000	

Bank	100,000		50,000	
Cash	<u>20,000</u>	<u>860,000</u>	<u>160,000</u>	<u>890,000</u>
<b>Total assets</b>		<b><u>980,000</u></b>		<b><u>1,190,000</u></b>
<b>Equity &amp; liabilities:</b>				
Share capital	780,000		580,500	
Share premium	15,600		9,000	
Retained earnings	<u>78,000</u>	873,600	<u>25,500</u>	615,000
<b>Non-current liabilities:</b>				
Bank loan		80,000		540,000
<b>Current liabilities:</b>				
Trade accounts payable	16,000		20,000	
Expenses payable	<u>10,400</u>	<u>26,400</u>	<u>15,000</u>	<u>35,000</u>
<b>Total equity and liabilities</b>		<b><u>980,000</u></b>		<b><u>1,190,000</u></b>

**REQUIRED:**

From the financial information provided above:

(a) Compute the following ratios:

- (i) Gross profit margin. **(1.5 Marks)**
- (ii) Operating profit margin. **(1.5 Marks)**
- (iii) Current ratio. **(1.5 Marks)**
- (iv) Acid test ratio **(1.5 Marks)**
- (v) Debtor days. **(1.5 Marks)**
- (vi) Creditor days. **(1.5 Marks)**
- (vii) Gearing ratio. **(1.5 Marks)**
- (viii) Interest cover. **(1.5 Marks)**

(b) As the accountant of Gasabo Ltd, write a report to the board commenting on the profitability, liquidity, management efficiency and gearing position of Gasabo Ltd and Musanze Ltd. In the report comment on the reasons being cited by media. **(8 Marks)**

**(Total 20 Marks)**

**QUESTION THREE**

- (a) Explain why small businesses find it difficult to keep proper books of account. **(2 Marks)**
- (b) Rukundo is a sole trader dealing in stationery but does not keep proper books of account. She approached the bank for a loan and the bank whereupon the bank asked her to submit financial information pertaining to her business. She approached you with the following information relating to the financial year ended 31 December, 2016.

1. **Assets and liabilities:**

	<b>1 January, 2016</b>	<b>31 December, 2016</b>
	<b>Frw '000'</b>	<b>Frw '000'</b>
Buildings	7,500	?
Land	5,500	?
Inventory	7,500	11,250
Trade receivables	4,500	6,750
Trade payables	3,400	3,000
Prepaid electricity	250	158
Bank balance	725	?
Accrued salaries	225	300

2. **Cheque payments during the year:**

	Frw '000'
Purchases	22,500
Electricity	1,250
Salaries	2,500
Insurance	1,000
Purchase of motor vehicle	3,750

3. The gross profit margin is 25% (or 33 1/3 % mark-up) on goods sold.
4. Purchases returns and discounts received from suppliers amounted to Frw 1,500,000 and Frw 1,240,000 respectively.
5. The total cash received from both cash and credit sales amounted to 17,080,000.

**REQUIRED:**

Determine the following for Rukundo for the year ended 31 December, 2016:

- (i) Purchases. **(3 Marks)**
- (ii) Sales. **(4 Marks)**
- (iii) Opening capital. **(4 Marks)**
- (iv) Bank balance as at 31 December. **(4 Marks)**
- (v) Expense for electricity and salaries. **(3 Marks)**

**(Total 20 Marks)**

#### QUESTION FOUR

- (a) Explain why accountants need to provide for depreciation of non-current assets. **(2 Marks)**
- (b) Ngoma Ltd operates a fleet of trucks that supply sand and other building materials to construction sites. The following were the balances in the fleet of trucks register as at 1 January, 2015.

	Frw '000'
Cost	300,000
Accumulated depreciation	<u>(75,000)</u>
Net book value	<u>225,000</u>

**Additional information:**

1. A truck which was bought on 3 April, 2012 at a cost of Frw 45,000,000 was disposed of on 4 February, 2015 at Frw 24,500,000.
2. Purchased two trucks on 3 August, 2015 at a cost of Frw 50,000,000 per truck. Frw 1,500,000 was spent on both vehicles in redesigning their bodies to enable them carry more sand.
3. On 3 January, 2016 a truck purchased on 2 April, 2011 at a cost of Frw 37,500,000 was destroyed in an accident. Negotiations with the insurance company show that the company will be compensated Frw 10,000,000.
4. On 4 February, 2016 Ngoma Ltd topped up Frw 20,000,000 to get a new truck from Kibungo Motors Ltd in exchange for an old one. The old truck exchanged was purchased on 3 June, 2010 at Frw 62,500,000 and exchanged at an agreed value of Frw 10,000,000.
5. Trucks are depreciated at 12.5% per annum on a straight-line basis and the accounting policy is to provide for full depreciation in the year of purchase and none in the year of disposal.

**REQUIRED:**

Prepare for Ngoma Ltd for the year ended 31 Dec 2015 and 31 December 2016:

- (i) A trucks account. **(3 Marks)**
- (ii) An accumulated depreciation account. **(4 Marks)**
- (iii) A truck disposal account. **(8 Marks)**
- (iv) Extracts of financial statements. **(3 Marks)**

(Total 20 Marks)

**QUESTION FIVE**

- (a) International Accounting Standard (IAS) 10 Events after the Reporting Period requires classification of events after the financial reporting date as adjusting or non-adjusting events.

**REQUIRED:**

Explain, with **two** examples, what is meant by ‘adjusting’ and ‘non-adjusting’ events and the treatment of such events in the financial statements. **(6 Marks)**

- (b) Keza Bakery Ltd supplies birthday cakes to Nkunzi Supermarket on sale or return basis (where the supermarket only pays Keza Ltd for cakes sold cash and in case they are not sold, they are returned). Keza Bakery Ltd has just delivered cakes worth Frw 500,000 to the supermarket and the accountant has included this under revenue though the cakes are not yet sold by the supermarket.

**REQUIRED:**

Comment on the treatment of the above transaction by the accountant of Keza Bakery Ltd and suggest how the error can be corrected in case his treatment is wrong. **(4 Marks)**

- (c) IAS 7: Statement of Cash flows requires cash flows to be categorized as cash flows from operating, financing and investing activities.

**REQUIRED:**

Distinguish between cash flows from operating and investing activities. **(4 Marks)**

- (d) Uwera Ltd has provided the following information for the financial year ended 30 June, 2017.

<b>Item</b>	<b>Frw ‘000’</b>
Profit before interest and tax (PBIT)	542,000
Depreciation charge for year	15,600
Payment of dividends	180,000
Increase in accounts payable	48,000
Acquisition of new equipment	384,000
Cash from issue of shares	3,200,000
Payment of long-term debt	300,000
Proceeds from sale of land	312,000



Loss on sale of land	20,000
Decrease in inventories	92,000
Taxes paid	136,000
Interest paid	216,000
Increase in accounts receivable	100,000

**REQUIRED:**

Using the indirect method, determine the cash flows to be presented under operating, investing and financing activities as per IAS 7.

**(6 Marks)**

**(Total 20 Marks)**

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**End of question paper**