

**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 1 EXAMINATIONS  
F1.3: FINANCIAL ACCOUNTING  
WEDNESDAY: 29 NOVEMBER 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 to attempt **three (3)**.
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

The following trial balance was extracted from the books of Kigali Property Managers Ltd (KPML) for the year ended 31 October, 2017.

		<b>Dr.</b>	<b>Cr.</b>
	<b>Note</b>	<b>Frw "000"</b>	<b>Frw "000"</b>
Commission			36,500
Rent income			85,000
Furniture	<b>3</b>	20,000	
Bank interest			175
Property management costs		130,000	
Utilities	<b>2</b>	12,800	
Payroll costs	<b>5</b>	96,500	
Commission receivable	<b>1</b>	11,250	
Office supplies	<b>4</b>	7,500	
15% 5 year loan from Gasabo Bank Ltd	<b>2</b>		25,000
Property insurance costs	<b>6</b>	6,250	
Cash at hand		2,150	
Bank			199
Accounts receivable and payable	<b>7</b>	12,000	4,000
Bad debts	<b>7</b>	1,150	
Property repairs		7,225	
Rent expenses		6,900	
Motor vehicles	<b>3</b>	21,750	
Computers	<b>3</b>	1,675	
Service charge and management fees			200,000
Fuel for generator		4,000	
Buildings	<b>3</b>	219,500	
Communication		2,000	
Accumulated depreciation:			
Motor vehicles			7,830
Furniture			1,000
Computers			838
Buildings			16,000
Retained profit/ (loss)		6,509	
Share capital			192,617
		<b><u>569,159</u></b>	<b><u>569,159</u></b>

**Notes:**

1. The commission receivable was in respect of a commission earned during the year ended 31 October, 2016. This amount was received in full by cheque during the year ended 31 October, 2017 and had not been recorded.
2. Half of the loan interest expense for the year was paid by cheque and had not been recorded. The remaining portion had not been paid by the year end. 20% of the utilities were prepaid.
3. The company's depreciation policy is as tabulated below:

<b>Asset</b>	<b>Rate per annum (%)</b>	<b>Method</b>
Buildings	5	Straight line
Computers	25	Straight line
Motor vehicles	20	Reducing balance
Furniture	5	Straight line

4. Included in the figure for property insurance costs was Frw 1 million relating to office supplies. Property insurance costs incurred relate to the period 1 September, 2017 to 30 August, 2018.
5. The payroll costs include Frw 1.5 million in salary advance to a number of staff to be recovered in January, 2018.
6. The company issued invoices for Frw 9 million in respect of property management fees for one of the estates on 29 October, 2017. These had not yet been recognized nor had the money been collected by the year end.
7. The company anticipates that it may not recover 2% of the total accounts receivable for the year.

**REQUIRED:**

- (a) Prepare, for KMPL for year ended 31 October, 2017 a statement of:
  - (i) Profit or loss. **(19 Marks)**
  - (ii) Financial position as at 31 October. **(15 Marks)**
  
- (b) Explain the guidance provided by IAS 1: Presentation of Financial Statements on offsetting with respect to:
  - (i) Assets and liabilities. **(1 Mark)**
  - (ii) Incomes and expenses. **(1 Mark)**

- (c) **IPSAS 1: Presentation of Financial Statements** requires, among other components of financial statements, a statement of changes in net assets/ equity to be prepared.

**REQUIRED:**

Explain the purpose of this statement and any **three** items that are presented on the face of it. **(4 Marks)**

**(Total 40 Marks)**

**SECTION (B)**

*Attempt any three questions in this section.*

**QUESTION TWO**

- (a) (i) Explain what is meant by the term "**contra entry**" in control accounts. **(1 Mark)**
- (ii) By way of journal entries, illustrate the application of contra entries to record transactions in a situation where a customer is also a supplier. **(3 Marks)**
- (b) Explain the term "**share premium**" and the purpose of a creating a reserve for share premium. **(4 Marks)**
- (c) Gisagara Transporters Ltd uses a lorry to generate revenue for the business. The lorry is legally owned by Nyanza Industries Ltd.

**REQUIRED:**

Explain, with justification, whether this lorry should be recognised and recorded in the books of Gisagara Transporters Ltd. **(3 Marks)**

- (d) Kivu Manufactures Ltd incurred the following costs on the equipment they imported on 1 January, 2017:

1	Invoice amount Frw 8,750,000
2	Taxes paid Frw 6,125,000 (of which 20% were refundable)
3	Installation Frw 1,500,000
4	Testing the equipment Frw 500,000. The company also incurred additional Frw 200,000 and Frw 100,000 in service and fuel costs respectively to ensure the equipment is working as planned. The accountant included this equipment in the non-current asset register at a cost of Frw 17,175,000.

**REQUIRED:**

Comment, with justification, on the cost at which the equipment was included in the non-current assets register (clearly show your workings where applicable).

**(6 Marks)**

- (c) Explain the recognition criteria for an item to be classified as an intangible asset as per IAS 38: Intangible Assets.

**(3 Marks)**

**(Total 20 Marks)**

**QUESTION THREE**

- (a) The Conceptual Framework for Financial Reporting, issued by the International Accounting Standards Board in September 2010, guides on the qualitative characteristics of financial information and recognizes that “cost is a pervasive constraint on the financial information that can be provided by financial reporting”.

**REQUIRED:**

Justify, the statement, “cost is a pervasive constraint on the financial information that can be provided by financial reporting”

**(4 Marks)**

- (b) Kirezi is a businesswoman who does not keep proper books of account for her retail shop business. The following information has been obtained for the year ended 30 September, 2017:

1. Total cash sales were Frw 2,750,000; cash purchases were Frw 1,250,000. She recalls collecting Frw 1,765,000 from her debtors and paying her supplies Frw 420,000 through the bank.
2. Other cash payments during the year included utilities Frw 205,000 and licenses Frw 50,000. One day during the year, thieves broke into the shop and got away with cash, the exact amount taken by thieves was never established.
3. Kirezi deposited Frw 1,536,000 into the business bank account as additional capital. She also paid for rent Frw 150,000 per month as well as the shopkeeper’s wages Frw 62,500 per month through the bank during the year. She had also been drawing some money from the business’ bank account on a weekly basis but does not recall how much she took from the business throughout the year.
4. The following balances were also obtained from her business records:

	<b>30 September 2017</b>	<b>01 October 2016</b>
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	Frw "000"	Frw "000"
Rent owing	234	500
Accounts payable	867	532
Bank balance	167	(124)
Cash balance	40	
Inventory	1,240	960
Prepaid electricity	447	321
Accounts receivable	1,072	1,120
Computers		900
Furniture		2,650

**REQUIRED:**

Determine for Kirezi, the:

- (i) Value of the cash that was stolen during the year. **(7 Marks)**
- (ii) Gross profit for the year ended 30 September, 2017. **(9 Marks)**

**(Total 20 Marks)**

**QUESTION FOUR**

- (a) Distinguish between a cash discount and a trade discount and explain the accounting treatment of each. **(2 Marks)**
- (b) Rusizi Agricultural Initiative (RAI) received a government grant Frw 50 million towards promoting the activities of the organization.

**REQUIRED:**

Explain the **two** approaches laid out in IAS 20: Accounting for Government Grants and Disclosure of Government Assistance, which could be used by RAI to account for the grant, clearly bringing out the arguments in support of each method. **(6 Marks)**

- (c) The following information was extracted from the non-current assets register of Nyabihu Manufacturers Ltd as at 1 July, 2016.

Asset	Cost	Date of	Depreciation	
	Frw '000'	acquisition	Method	Rate per annum
Land	80,000	1 July, 2012	-	-
Plant & machinery	24,000	1 January, 2015	Straight line	12.5%
Equipment	16,000	30 June, 2015	Straight line	12.5%

Additional information:

During the year ended 30 June, 2017 the company:

1. Acquired a motor vehicle Frw 18 million on 1 October, 2016. Management agreed that motor vehicles be depreciated at 25% per annum on reducing balance.
2. Revalued the land upwards on 1 July, 2016 to Frw 20 million.

3. Acquired additional plant and machinery on 1 January, 2017 for Frw 8 million.
4. disposed of equipment on 1 January, 2017 for Frw 2.46 million. The disposed of equipment had cost Frw 6 million on 30 June, 2015.
5. Wrote off, at book value, a component of plant and machinery on 30 June, 2017. The component of plant and machinery that was written off had cost Frw 4 million on 1 January, 2015.

The company time apportioned depreciation were applicable. Depreciation is assumed to accrue evenly throughout the year. The company's financial year ends on 30 June each year.

**REQUIRED:**

Prepare, for Nyabihu Manufacturers Ltd, a property, plant and equipment movement schedule as per IAS 16: Property, Plant and Equipment, for the year ended 30 June, 2017. **(12 Marks)**

**Hint:** Full depreciation schedules for the years ended 30 June, 2014, 2015 and 2016 are not required. **(Total 20 Marks)**

**QUESTION FIVE**

- (a) The following information was extracted from the books of Nyamasheke Wholesalers Ltd.

Statement of profit or loss for the year ended 30 June, 2017

	Note	Frw
Sales		20,000,000
Cost of sales		(12,000,000)
Gross profit		8,000,000
Other incomes	1	7,302,000
Salaries and wages		(8,000,000)
Other expenses	2	(5,200,000)
Interest expense		(320,000)
Profit before tax		1,782,000
Tax		(534,600)
Profit after tax		1,247,400

Extract from the statement of financial position as at:

	30 /06/ 2017	30 /06/ 2016
	Frw	Frw
Accounts payable	3,750,000	2,970,000
Accounts receivable	6,400,000	4,263,000
Inventory	6,700,000	8,700,000

Salaries and wages owing	2,560,000	4,300,000
Interest expense outstanding	241,000	120,000
Tax payable	402,000	321,000

**Additional information:**

1. Other incomes were received in cash. However, the figure includes a gain on disposal of a non-current asset Frw 1,302,000.
2. Included in other expenses was depreciation Frw 2,220,000.

**REQUIRED:**

Determine the net cash flows from operating activities using the direct method in accordance with IAS 7: Statement of Cash Flows. (**Note: Interest paid is part of operating activities**) **(14 Marks)**

- (b) “Ratio analysis is the cornerstone of fundamental analysis of any business. The various ratios used are standardized, and convenient to users. However, this is not to say that ratio analysis does not have limitations. The analysis should be done with caution...” remarked the managing director of CTI Investments Ltd at a conference on financial analysis held in Kigali recently.

**REQUIRED:**

Examine the limitations of ratio analysis.

**(6 Marks)**  
**(Total 20 Marks)**

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**End of question paper**