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## CERTIFIED ACCOUNTING TECHNICIAN

### LEVEL 1 EXAMINATION

#### L1.1: INTRODUCTION TO FINANCIAL ACCOUNTING

**MONDAY: 3 DECEMBER 2018**

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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 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 (COMPULSORY)

### QUESTION ONE

The following information relates to Northern Province Sports Club that also runs a bar as a profit making arm of the club.

Balances as at:

	1 January, 2017	31 December, 2017
	RWF '000'	RWF '000'
Receipts & payments account	24,500	
Sports facility (cost RWF 150,000,000)	100,000	
Motor vehicle (cost RWF 20,000,000)	15,000	
Bar inventory	1,400	740
Accounts payable (for bar purchases)	800	620
Ordinary subscription due	8,500	10,600
Ordinary subscription in advance	4,600	4,200
Utilities outstanding	3,400	2,300
Refrigeration unit (cost RWF 1,200,000)	820	
Salary advances to staff	520	230
Accounts receivable (for bar sales)	4,800	

Additional information:

- (i) Expenses paid during the year were salaries to staff RWF 7,900,000, rent RWF 6,400,000, utilities RWF 5,400,000, cash purchases RWF 2,000,000, payment to bar suppliers RWF 6,700,000, and payment for club's sports kits RWF 7,800,000.
- (ii) Incomes received during the year were receipts from debtors RWF 4,800,000, sale of sports kits RWF 10,000,000, donations RWF 15,000,000, gate collections RWF 9,000,000, bar cash sales RWF 11,000,000 and ordinary subscription RWF 16,000,000.
- (iii) The club apportions 2/5 of utilities and 20% of salaries to the bar and the balance to the sports club.
- (iv) The club introduced a no-credit sale policy in 2017.
- (v) The depreciation expense of the motor vehicles and the sports facility is charged to the club while the depreciation expense of the refrigeration unit is charged to the bar. The policy for depreciating assets is as follows.

Asset	Rate per annum	Method
Motor vehicle	20%	Reducing balance
Refrigeration unit	20%	Reducing balance
Sports facility	5%	Straight-line method

**REQUIRED:**

Prepare, for Northern Province Sports Club, a:

- (a) Statement of affairs as at 1 January, 2017. **(5 Marks)**
- (b) Receipts and payments account for 2017. **(7 Marks)**
- (c) Bar statement of profit or loss for the year ended 31 December, 2017. **(3 Marks)**
- (d) Statement of income and expenditure for the year ended 31 December, 2017. **(16 Marks)**
- (e) Statement of financial position as at 31 December, 2017. **(9 Marks)**

**(Total 40 Marks)**

## SECTION B (CHOOSE ANY THREE QUESTIONS)

### QUESTION TWO

- (a) Explain any **three** uses of a petty cashbook. **(3 Marks)**
- (b) The following cash book (bank column) and a bank statement were prepared for TAT Ltd for the month of September, 2018:

Cash book

Details	RWF '000'	Details	RWF '000'
Balance b/ d	22,500	Cheque no. 10	500
Cheque no. 110	3,000	Umutoni (supplier)	800
Cash	120	Cheque no. 11	1,050
Cheque no. 118	1,800	Cheque no. 12	1,000
Cheque no. 211	450	Cheque no. 13	650
Cheque no. 89	2,500	Cheque no. 14	500
Cash	550	Cash	3,000
Cheque no. 567	1,240	Cheque no. 15	7,500
Cheque no. 860	1,100	Cheque no. 16	1,400
Cheque no. 57	4,000	Cheque no. 18	440
Cheque no. 17	1,550		
Cheque no. 616	10,000		
Cheque no. 275	<u>4,200</u>	Balance c/ d	<u>36,170</u>
	<u>53,010</u>		<u>53,010</u>

### Bank statement

Details	Debit	Credit	Balance
	RWF '000'	RWF '000'	RWF '000'
Balance b/ d			22,500
Cheque no. 110		3,000	25,500
Cash		120	25,620
Cheque no. 10	500		25,120
Umutoni (supplier)	800		24,320
Cheque no. 118		1,800	26,120
Cheque no. 89		250	26,370
Bank charges	50		26,320
Cheque no. 12	1,000		25,320
Loan interest	475		24,845
Interest income		890	25,735
Cash		550	26,285
Direct transfer (MM Ltd)		3,250	29,535
Dividends		1,640	31,175
Cheque no. 17	1,550		29,625
Cash	3,000		26,625
Standing order (MTN)	150		26,475
Membership subscription to iCPAR	100		26,375
Cheque no. 15	750		25,625
Cheque no. 616		1,000	26,625
Direct transfer (Rukundo Enterprises)		6,000	32,625

Note:

Cheques no. 16 and 211 were dishonored and returned together with the bank statement.  
Any error, if found, is deemed to have occurred in the cash book.

### REQUIRED:

- Explain the meaning of 'timing differences' as used in bank reconciliation and give **two** examples of such differences. **(4 Marks)**
- Prepare an adjusted cash book for the month of September, 2018. **(8 Marks)**
- Prepare a bank reconciliation statement for the month of September, 2018. **(5 Marks)**

**(Total 20 Marks)**

### QUESTION THREE

- (a) Explain the:
- (i) Factors considered when determining the useful life of a non-current asset. **(3 Marks)**
  - (ii) Purpose of providing for depreciation of non-current assets. **(2 Marks)**
- (b) The following information relates to Gatagabo Ltd in respect of her non-current assets:
- (i) Acquired motor vehicle on 1 January, 2015 RWF 10,000,000. Motor vehicles are depreciated at 25% per annum.
  - (ii) Acquired plant and machinery on 15 December, 2015 RWF 15,000,000. Plant and machinery are depreciated at 20% per annum.
  - (iii) Acquired building and delivery van on 2 February, 2016 RWF 60,000,000 and RWF 22,500,000 respectively. Depreciation is 15% per annum and 25% per annum for the building and delivery van respectively.
  - (iv) Gatagabo Ltd depreciates all non-current assets using reducing balance method; full depreciation being charged in the year of purchase and none in the year of disposal.
  - (v) The company's financial year runs from 1 January to 31 December each year.

#### REQUIRED:

Prepare, for Gatagabo Ltd for the years ended 2015, 2016 and 2017, a combined:

- (i) Non-current assets account. **(3 Marks)**
  - (ii) Depreciation expense account. **(6 Marks)**
  - (iii) Accumulated depreciation account. **(6 Marks)**
- (Total 20 Marks)**

### QUESTION FOUR

- (a) Explain:
- (i) Any **three** cost based methods used in valuation of inventory. **(3 Marks)**
  - (ii) The effect of over valuing or under valuing inventory on the reported net profit and total assets in the statement of financial position. **(4 Marks)**
- (b) Kamanzi, a debtor, disappeared on realizing that he could not pay RWF 2,000,000 owed to Bugesera Enterprises Ltd in 2016. Consequently, the company made a write off of this debt on 31 December, 2016. In June, 2017 however, Kamanzi resurfaced and paid the company debt in full.

**REQUIRED:**

Show how the company should incorporate this payment in the books of account. **(3 Marks)**

- (c) Explain the difference between a cash discount and a trade discount, clearly bringing out the accounting treatment of each. **(4 Marks)**
- (d) The following information was extracted from the trial balance prepared for Gatera & Sons Enterprises, a sole proprietorship business for the year ended 30 June, 2018:

Account title	Dr. RWF '000'	Cr. RWF '000'
Carriage outwards	86	
Returns	340	230
Purchases and sales	46,000	68,000
Discounts	120	180
Inventory (1 July, 2017)	8,600	

Additional information:

- (i) Closing inventory was valued at RWF 2,400,000.
- (iii) During the year, inventory worth RWF 1,600,000 was damaged by fire while other items of inventory worth RWF 400,000 and RWF 100,000 were stolen and taken in kind by the business owner respectively.
- (iv) RWF 200,000 was incurred in respect of carriage inwards during the year.
- (v) Included in the purchases figure is RWF 2,000,000 relating to the purchase of a non-current asset.

**REQUIRED:**

Determine the value of inventory available for sale and cost of goods sold for the period. **(6 Marks)**  
**(Total 20 Marks)**

## QUESTION FIVE

- (a) Explain any **two** circumstances that may necessitate opening of a suspense account. **(2 Marks)**
- (b) The accountant of Rukundo Investments prepared the trial balance on 30 June, 2018. However, the debit side exceeded the credit side by RWF 2,900,000. He proceeded with the preparation of the financial statements by posting the difference to the suspense account. Subsequent investigations revealed following:
- 1 The sales day book had been under cast by RWF 500,000.
  - 2 Purchase of a motor vehicle RWF 2,000,000 had been debited in the purchases account as RWF 200,000. The entry in the cash book was correctly made.
  - 3 Discount received RWF 250,000 was debited in the discounts received account as RWF 520,000.
  - 4 Carriage outwards RWF 150,000 paid was omitted from the books.
  - 5 A bank overdraft RWF 1,800,000 was entered in the wrong side of the trial balance.
  - 6 A cheque RWF 2,500,000 from Akimana (debtor) was credited in Uwimana's (debtor) account.
  - 7 Payment to a supplier (Keza) RWF 1,120,000 was credited in the supplier's account and debited in the cash book.
  - 8 Cash payment for utilities RWF 300,000 was debited in the cash book as RWF 30,000. Utility account was properly posted.

### REQUIRED:

- (i) Identify the type of error(s) committed in each of the scenarios 1–8 above.  
(Hint: A single transaction may involve more than one error!) **(8 Marks)**
- (ii) Prepare, for Rukundo Investments, journal entries to correct the errors (ignore narrations). **(8 Marks)**
- (iii) Prepare, for Rukundo Investments, a suspense account duly balanced. **(2 Marks)**
- (Total 20 Marks)**