
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 7 DECEMBER 2018

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

- (a) Identify and explain any **four** elements of financial statements. **(6 Marks)**
- (b) The historical cost method is the most commonly adopted measurement base in valuation of non-current assets.

REQUIRED:

Explain any **two** advantages and **two** limitations of historical cost accounting. **(4 Marks)**

- (c) Kibehe Consultants Ltd offers bookkeeping and taxation services. They also provide recruitment services for accountancy positions, filing tax returns, tax planning, preparation of financial reports and development of accountancy training materials for clients. The following is their trial balance for the year ended 31 December, 2017.

Details	Dr. 'RWF 000'	Cr. 'RWF 000'
Income from recruitment services		30,000
Salaries for full time staff	18,750	
Utilities	7,500	
Furniture at cost	11,250	
Computers at cost	7,500	
Motor vehicles at cost	20,100	
Accounting software	7,500	
Accumulated depreciation/ amortization 1 Jan, 2017:		
Furniture		4,500
Computers		3,750
Motor vehicles		6,030
Accounting software		1,500
Rent	15,000	
Allowances for hired consultants	12,500	
Meals and refreshments	4,500	
Stationery expenses	6,000	
Motor vehicle maintenance costs	5,000	
License fees	500	
Bidding costs	3,750	
Tax consultancy income		45,580
Staff training costs	6,250	
Internet costs	5,100	
Evaluation fees	7,000	
Bank charges	300	
Book keeping income		30,540
Cash and bank balance	7,500	

Details	Dr. 'RWF 000'	Cr. 'RWF 00'
Incomes receivable	37,500	
10% bank loan		28,500
General expenses	6,400	
Capital 1 Jan, 2017		21,500
Retained earnings 1 Jan, 2017		9,500
Drawings by directors	9,000	
Income from development of training materials	=	<u>17,500</u>
Total	<u>198,900</u>	<u>198,900</u>

Additional information:

- Evaluation fees are charged by the Procurement and Disposal Authority to appraise and shortlist firms that are allowed to provide consultancy services to government departments. The fees in the trial balance relate to an assessment carried out in 2017 and valid for a period of four years (1 January 2017 to 31 December, 2020).
- Included in tax consultancy income is an amount of RWF 6,444,000 for clients, who paid for VAT filing services for the period 1 July, 2017 to 30 June, 2018. VAT filing for clients is done on a monthly basis.
- The depreciation and amortization of non-current assets is on straight-line basis as follows:

Furniture	10 years useful life
Computers	20 % on cost
Motor vehicles	6 years useful life
Accounting software	5 years useful life

- Utilities RWF 4,500,000 was outstanding as at 31 December, 2017.
- Included in incomes receivable is RWF 3,400,000 that should be treated as a bad debt written off.
- Staff training costs RWF 1,450,000 are prepaid.
- Kibeho Consultants Ltd is required to refund RWF 2,500,000 to a certain ministry for not designing all the accounting training materials as per their agreement with that ministry. Kibeho Consultants Ltd has agreed to the refund but has not yet paid.
- The loan was acquired at the start of the financial year and the loan interest is outstanding.
- The estimated tax for the year ended 31 December, 2017 is RWF 3,205,000.

REQUIRED:

Prepare, for Kibeho Consultants Ltd, for the year ended 31 December, 2017, a statement of:

- Profit and loss. **(18 Marks)**
 - Financial position **(12 Marks)**
- (Total 40 Marks)**

SECTION B (CHOOSE ANY THREE QUESTIONS)

QUESTION TWO

- (a) Explain any **four** advantages of maintaining control accounts to a business entity. **(4 Marks)**
- (b) Entries in the ledgers are from books of prime entry that are supported by source documents.

REQUIRED:

In light of the aforementioned statement, identify the items that are presented in the sales ledger control account (other than opening and closing balances), their respective books of prime entry and source documents.

Hint: Present the answer in a tabular form as illustrated hereunder:

sales ledger control account	prime entry	document

(6 Marks)

- (c) The financial year of Gasabo Ltd ended on 31 December, 2017 .You have obtained the following information for the financial year from their books of original entry:

	RWF '000'
Sales ledger balance 1 January, 2017	10,569
Purchases ledger balance 1 January, 2017	13,454
Cash purchases	62,500
Credit purchases	75,000
Cash sales	112,500
Credit sales	150,000
Total payments to cash and credit suppliers during the period	125,400
Total receipts from cash and credit customers during the period	205,670
Discounts received	5,000
Discounts allowed	3,750
Refund from suppliers due to excess payment	2,000
Balance in the sales ledger set off against balance in the purchases ledger	1,000
Credit notes received from credit suppliers	1,200
Credit notes issued to credit customers	1,560
Bad debts written off	2,250
Interest charged to customers for delayed payment	1,350
Interest charged by suppliers for delayed payment	500

REQUIRED:

Prepare sales and purchases ledger control accounts for Gasabo Ltd for the year ended 31 December, 2017. **(10 Marks)**

(Total 20 Marks)

QUESTION THREE

- (a) A sand mining company has published its Corporate Social Responsibility (CSR) policy statement where it has indicated that it will restore the environment after its sand mining activities. It has restored the environment in other countries where similar mining activities are carried out. However, in this particular country, there is no legal requirement to restore the environment after operations.

REQUIRED:

Explain the types of obligations recognized under IAS 37: Provisions, Contingent Liabilities and Contingent Assets and discuss whether an obligation exists in the scenario above.

(6 Marks)

- (b) Kigali Motors Ltd sells sports cars. The probability of cars being returned because of defects is 5% of the cars sold. From past experience, 60%, 20% and 20% of cars that are returned require minor, moderate and major repairs respectively. The cost of a minor, moderate and major repair is estimated at RWF 1,250,000, RWF 2,500,000 and RWF 5,000,000 each respectively. During the financial year ending 30 June, 2018 300 cars were sold.

REQUIRED:

Determine the provision that should be made as at 30 June, 2018.

(4 Marks)

- (c) In 2017, Keza Ltd, a biomass energy company, received a Government grant of RWF 6,250,000 towards the purchase of biomass equipment for environmental protection. The cost of the non-current asset is RWF 11,250,000. The accounting policy is to treat the grant as deferred income. The useful life of the equipment is 5 years and the accounting policy is to charge full year's depreciation in the year of purchase and none in the year of disposal.

REQUIRED:

Prepare extracts of the profit or loss and the statement of financial position for the years ended 31 December, 2017 and 2018 as per IAS 20: Accounting for Government Grants and Disclosure of Government Assistance.

(6 Marks)

- (d) The Government of Rwanda has just adopted the International Public Sector Accounting Standards (IPSASs) for use by the public sector entities.

REQUIRED:

Explain any **four** challenges that are likely to be faced by the Government of Rwanda during the implementation process of IPSAS.

(4 Marks)

(Total 20 Marks)

QUESTION FOUR

- (a) Explain any **four** factors that cause depreciation of non-current assets. **(4 Marks)**
- (b) Gatanazi Contractors Ltd (GCL), a new construction firm, has been hired by Byumba Town Council to upgrade roads and open up new feeder roads. The following transactions took place during its three years of operations:
1. Bought two new graders A and B on 1 January, 2015 at RWF 230,000,000 and RWF 240,000,000 respectively. Additional costs incurred were freight RWF 150,000, assembling RWF 100,000 and testing RWF 90,000 for each grader. Each grader requires servicing every after four months at a cost of RWF 150,000.
 2. Acquired three trucks I, II, III on 1 July, 2015 at RWF 60,000,000, RWF 55,000,000 and RWF 70,000,000 respectively.
 3. Acquired a loader on 1 October, 2016 at a cost of RWF 75,000,000.
 4. Sold Grader A on 30 April, 2017, at RWF 190,000,000.
 5. Sold Truck II on 3 July, 2017 after it was involved in an accident at RWF 35,000,000.

The non-current assets are depreciated on straight-line basis as follows:

Graders and loaders	10%
Motor vehicles	12.5%

The company charges full depreciation in the year of purchase and none in the year of disposal.

The financial year of GCL runs from 1 January to 31 December.

REQUIRED:

Prepare the following accounts in the books of GCL for the year ended 31 December, 2017:

- (i) Combined non-current assets account **(5 Marks)**
- (ii) Accumulated depreciation account **(7 Marks)**
- (iii) Assets disposal account **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

- (a) Internal controls are viewed as a vital component in achievement of an organization's objectives.

REQUIRED:

Discuss the importance a strong internal control system to a business entity. **(6 Marks)**

- (b) Discuss the enhancing qualitative characteristics which underpin the preparation and presentation of financial statements as per the International Accounting Standards Board's conceptual framework for financial reporting.

(6 Marks)

- (c) Discuss any **four** advantages and **four** disadvantages of global harmonization of accounting standards.

(8 Marks)

(Total 20 Marks)



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