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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 1 EXAMINATION**

**F1.3: FINANCIAL ACCOUNTING**

**WEDNESDAY: 4 DECEMBER 2019**

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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

### QUESTION ONE

- a) (i) State and explain any four qualitative attributes of financial information **(8marks)**  
 (ii) Explain the term substance over form **(2 Marks)**
- b) The following trial balance was extracted from books of Good Vibes Limited, a company with several supermarkets and restaurants across Kigali, as at 31 December 2018

	Dr Rwf million	Cr Rwf million
Land	447	
Motor vehicle	68	
Investment - 6%	100	
Trade receivables	325	
Intangible assets	200	
Trade payable		247
Fixtures and fittings	215	
Share premium		
Distribution costs	266	
Share capital – 150,00 shares at Rwf 1,000 each		150
Current tax payable		2
Revenue		1,688
Investment income		5
Bank		2
Accumulated Amortization - Intangible assets – 31.12.17		40
Retained Earnings - 31.12.17		482
Allowance for bad debts		12
Purchases	898	
Admin expenses	326	
Inventory 01.01.2018	79	
Accumulated depreciation – motor vehicle 31.12.17		25
Long term loan		125
Accumulated Depreciation - fixture fittings 31.12.17		146
<b>Total</b>	<b>2,924</b>	<b>2,924</b>

#### The following additional information is relevant

- (i) Good vibes Limited's inventory amounted to Rwf 93 million valued at cost at year-end. Included in this amount is some inventory, which has been damaged and is beyond repair. The cost of this Inventory is Rwf 3 million, this can be sold at 60% of the selling price. The company normally sells at a mark-up of 30% on cost.
- (ii) The company purchased some fixtures and fittings on 1<sup>st</sup> October 2018 for Rwf 60 million plus import duties of Rwf 3 million. The import duties were expensed as administrative expense and credited to the bank account rightly upon payment

- (iii) All expenses are evenly distributed between administrative and distribution costs respectively.
- (iv) Depreciation policy is as follows,
  - Fixtures and fittings 15% straight line method
  - Motor vehicle 20% reducing balance method.
  - Full year depreciation is charged in year of purchase and none in year of disposal
- (v) The company raised Rwf 80 million from sale of 50,000 shares all this amount was deposited into the bank account
- (vi) The intangible asset, which is company's software for sales, has finite useful life. This was reviewed on 1<sup>st</sup> January 2018. It was established that the intangible asset now has 10 years economic useful life after date of review.
- (vii) Income tax for 2018 was estimated to be Rwf 40 million, the company paid Rwf 28 million of it on 31<sup>st</sup> December 2018.
- (viii) The balance of interest that was due on investments was received on 31 December 2018. This was not recorded
- (ix) The provision for bad debts should be at 5% of trade receivables.

**REQUIRED:**

In alignment with IFRS, prepare,

- i) All the above information in the journal entries **(8Marks)**
- ii) A statement of profit or loss and other comprehensive incomes **(12 Marks)**
- iii) Statement of Financial Position **(10 Marks)**

N.B: show all the relevant workings with respective journal entries where applicable.

**(Total Marks 40)**

## **SECTION B**

**QUESTION TWO.**

The financial controller of Inzozzi enterprises Ltd has asked you to address the following for the financial year ended 31 December 2018.

- a) According to IAS 37 provisions, contingent liabilities and contingent assets, write brief explanations on the following,
  - i. A provision **(2 marks)**
  - ii. A contingent liability **(2 marks)**
  - iii. A contingent asset **(2 marks)**
  - iv. Recognition criteria for provisions **(3 marks)**

- b) The company just adopted IFRS 15 – revenue from contracts with customers and the core principle of IFRS 15 has a five-step model framework.
- i) Identify each of the five steps for revenue recognition. **(5 marks)**
  - ii) Explain the meaning of performance obligations in a contract as part of the five-step model under IFRS15. **(2 marks)**
- c) A former director of Inzozzi enterprises has sued the company claiming substantial damages for wrongful dismissal. The company lawyer has advised that the former director is unlikely to succeed with the claim, but the chances of Inzozzi enterprises owing money to the former director is high. The lawyer estimated the following potential liabilities;

Legal costs (whether ruling is in favour of company or not)	5 million
Settlement of claim if ex-director is successful	50 million

**REQUIRED:**

In accordance with IAS 37 – provisions, contingent liabilities and contingent assets describe how this claim should be treated in Inzozzi enterprises books. **(4 marks)**

**(Total 20 marks)**

**QUESTION THREE**

The objective of IAS 7 is to require the entity to provide information about the historical changes in cash and cash equivalents by means of cash flow statement, cash flows are classified into operating activities, investing and financing activities.

- a. With examples, explain the following;
  - i. Operating activities. **(2 marks)**
  - ii. Investing activities. **(2 marks)**
  - iii. Financing activities. **(2 marks)**
- b. Indatwa Ltd manufactures highly nutritious fortified foods for infants and breast-feeding mothers and its financial statements are as follows:

	<b>2018 Rwf million</b>	<b>2017 Rwf million</b>
Non-current assets		
Property plant & equipment	1,950	1,581
<b>Total non-current assets</b>	<b>1,950</b>	<b>1,581</b>
<b>Current assets</b>		
Inventory	362	389
Trade receivables	175	160
Cash and cash equipment	100	83

Total current assets	637	632
<b>Total assets</b>	<b>2,587</b>	<b>2,213</b>
<b>Equity &amp; liabilities</b>		
<b>Equity</b>		
Share capital	400	300
Share premium	50	20
Retained earnings	1,451	1,277
Revaluation surplus	74	120
<b>Total equity</b>	<b>1,975</b>	<b>1,717</b>
<b>Non-current liabilities</b>		
Long term loan	380	300
<b>Total non-current liabilities</b>	<b>380</b>	<b>300</b>
<b>Current liabilities</b>		
Trade payables	184	152
Bank overdrafts	10	18
Current income tax payable	38	26
<b>Total current liabilities</b>	<b>232</b>	<b>196</b>
<b>Total equity &amp; liabilities</b>	<b>2,587</b>	<b>2,213</b>

Indatwa limited statement of profit or loss and other comprehensive incomes for the year ended 31<sup>st</sup> December 2018

	Rwf million
Revenue	4,300
Cost of goods sold	(3,600)
<b>Gross profit</b>	<b>700</b>
Distribution and administrative costs	(300)
Finance costs	(42)
<b>Earnings before tax</b>	<b>358</b>
Income tax expenses	(46)
Profit for year	312
Loss on revaluation of property (net of tax)	(46)
<b>Total Compressive Incomes for the year</b>	<b><u>266</u></b>

Notes:

- i. Property plant and equipment with carrying value of Rwf 320,000,000 was sold for Rwf 280,000,000, this asset was purchased at Rwf 450,000,000

- ii. Depreciation of property, plant and equipment for the year was Rwf 356,000,000
- iii. Dividends paid during the year amounted to Rwf 138,000,000 and was reported in statement of charges in equity.

**REQUIRED:**

Prepare a statement of cash flows for Indatwa ltd for the year ended 31<sup>st</sup> December 2018 in accordance IAS 7 statement of cashflows. **(14 marks)**

**(Total 20 marks)**

**QUESTION FOUR**

a) Define and explain the following

- i) Suspense account. **(1 mark)**
- ii) Error of principle. **(1 mark)**
- iii) Complete reversal of entries **(1 mark)**
- iv) Error of omission **(1 mark)**

b) The trial balance for Mr Jean Luc kamanzi an architect contractor in Musanze district for the year ended 31<sup>st</sup> December 2018 did not balance. Mr Kamanzi identified the following issues, but he is not sure how to account for them and approached you for guidance and help,

1. Discount received of Rwf 500,000 had been debited to the discount allowed account
2. A payment of Rwf 1,500,000 for motor expenses had been debited to motor vehicles account.
3. A Rwf 3,500,000 payment in relation to insurance expenses had been debited to insurance and debited to trade payables by error. The balancing entry was posted to suspense account.
4. The total of the purchase's day book had been carried forward as Rwf 5,315,000, whereas the correct amount was Rwf 5,513,000, the correct amount had been posted to trade payables.
5. Mr kamanzi personally paid Rwf 20,000,000 towards purchase of a Volkswagen Amarrok pick-up for his business. The following entries were made in his financial statement,  
Debit bank 20,000,000  
Cr motor vehicle 20,000,000
6. An amount of Rwf 150,000 was charged on the bank statement by bank of Kigali for an international transfer, this amount had been debited to trade payables account,
7. A Value Added Tax credit of Rwf 6,700,000 motor vehicles was incorrectly assumed to be irrecoverable,

8. A prepayment of Rwf 3,200,000 was correctly entered in the bank account and was credited to rent payable. The balancing entry was posted to suspense account.
9. Mr kamanzi included a suspense credit balance of Rwf 902,000 to balance the trial balance,

**REQUIRED:**

- i. Prepare Journal entries with proper description to correct relevant transactions from the above information for the financial statements for the year ended 31/12/2018. **(12 marks)**
- ii. Prepare the suspense account for Mr Kamanzi in relation to the above transaction. **(4 marks)**

**(Total 20 marks)**

**QUESTION FIVE**

On 31<sup>st</sup> December 2018, the bank statement of Murenzi Trading Limited with Access Bank Rwanda Ltd showed a credit balance of Rwf 78,750 while the cash book balance revealed that the company had an overdrawn amount of Rwf 135,000.

On reviewing the bank statement with the cash book, the following observations were noted;

- i. A cheque drawn for Rwf 225,000 in favour of Miss Colombe had been entered in the cash book but had not been presented to the bank for payment.
- ii. A cheque received from TNT Trading Ltd amounting to Rwf 180,000, had been entered into the cash book but not reflected in the bank statement
- iii. Bank charges of Rwf 15,750 shown on the bank statement had not been entered into the cash book.
- iv. The payment side of the cash book had been undercast by Rwf 4,500
- v. Dividends received amounting to Rwf 90,000 had been paid directly to the bank and not entered into the cash book
- vi. A cheque of Rwf 22,500 drawn on a deposit account was wrongly entered into the cash book
- vii. A cheque of Rwf 11,250 which was cancelled and reissued, was never reversed and the reissued cheque of same amount was equally entered in the cash book. Both cheques were part of unpresented cheque balance.
- viii. Murenzi Trading Limited instructed the Bank to transfer interest on Deposit of Rwf 54,000 to its current account on 27<sup>th</sup> December 2018. However, the Bank did not reflect this in the current account until 3<sup>rd</sup> January 2019. Murenzi Trading Limited has entered this amount in the cash balance as at 31<sup>st</sup> December 2018.

**REQUIRED**

- a) Prepare adjusted Cash Book for Murenzi Trading Limited as at 31<sup>st</sup> December 2018 **(8 Mark)**
- b) Prepare Bank Reconciliation Statement of Murenzi Trading Limited with Access bank Rwanda Ltd as at 31<sup>st</sup> December 2018 **(12 Marks)**

**(Total 20 marks)**