

CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATION
F1.3: FINANCIAL ACCOUNTING

WEDNESDAY: 2 DECEMBER 2020

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 where applicable.
7. Any assumptions made must be clearly and concisely stated.

SECTION A

QUESTION ONE

- a. The Board of directors and in some cases of small businesses top management are responsible for preparation and faithful representation of financial statements.
- i. **Explain the meaning for ‘Faithful representation’ under the Qualitative attributes for financial statements.** (4 marks)
 - ii. **Explain Three (3) responsibilities of Company directors with regard to preparation of Financial Statements.** (6 marks)
- b. In preparing accounts of sole traders and other small businesses, the records may fall short of the complete system of double entry.
Explain Three (3) situations when the accountant may be required to prepare accounts arising from incomplete records. (6 marks)
- c. Intego trading company is owned by Mr Vedaste who deals in wholesale trading of different home consumables from Kimironko market. The business does not keep a full set of accounting records. However, the following information was extracted from the business records.

1) Bank account extract summary for the year ended 31 December 2018.

Dr	RWF	Cr	RWF
31 Dec 2017 balance b/d	786,030	Payments to company suppliers	28,728,000
Cash from receivables	38,304,000	Purchase of Motor Vehicle (RAD 101 M)	5,187,000
Sale of private land by the Mr. Vedaste	7,980,000	Rent and district taxes	1,037,400
Sale of Vehicle (RAC 111 A)	837,900	Salaries for employees	6,024,900
	-	Vehicle expenses	1,336,650
	-	Admin and stationery expenses	542,640
	-	Withdraw from bank account for personal use	3,670,800
	-	Service and maintenance	259,350
	-	Motor Insurance	319,200
	-	31 Dec 2018 balance c/d	801,990
	47,907,930		47,907,930

2) Other assets and liabilities other than balance at bank.

Description	31 Dec 2017	31 Dec 2018
Accounts payable	1,875,300	1,033,410
Accounts Receivable	2,920,680	3,790,500
Accrual: Rent and district taxes	79,800	103,740
Motor Vehicles;	-	-
RAC 111 A - Cost	3,990,000	-
RAC 111 A - Accumulated depreciation	3,192,000	-
RAD 101 M- Cost	-	5,187,000
RAD 101 M - Accumulated depreciation	-	To be determined
Inventory	1,955,100	2,354,100
Motor insurance (prepayment)	63,840	79,800

- The business makes all payments and only accepts receipts via bank transfer on the company account in Bank of Kigali.
- Rwf 119,700 owing from Habimana was included in the Receivables amount as at 31 December 2018 (see (2) above). However, this should be written off, as it is irrecoverable.
- The company depreciates its non-current assets at 20% on cost annually. A full depreciation is charged in the year an asset is purchased while no depreciation is charged in the year of disposal of the asset.

Required:

- i. **Statement of affairs to determine opening balance of capital on 01 January 2018.** (4 marks)
- ii. **Ledger accounts for the year ended 31 December 2018 for the following:** (8 marks)
 - Revenue;
 - Purchases;
 - Rent and district taxes;
 - Motor Insurance.
- iii. **Statement of profit and loss for the year ended 31 December 2018.** (6 marks)
- iv. **Statement of Financial Position as at 31 December 2018.** (6 marks)

NB: In your answers to (iii & iv) please refer to workings from (i&ii).

(Total: 40 marks)

SECTION B

QUESTION TWO

- a. **State and explain four (4) qualitative characteristics of financial information.** (8 Marks)
- b. Liam Shema started a furniture and hardware shop in Kanombe on 02 February 2019 and undertook the following transactions during that year (All monies were paid and received through bank account);
- On 1/2/19 he paid Rwf 15,000,000 into the business bank account.
 - On 15/2/19 he borrowed RWF 12,000,000 from COPEDU.
 - He paid RWF 18,000,000 on 1/3/19 for a nearby storehouse to be used as a small showroom for his furniture.
 - On 1/3/19 Liam Shema bought and paid for furniture worth RWF 10,000,000 that he plans to sell in his shop.
 - Mr Shema also bought furniture for resell from Gisozi traders at RWF 16,000,000 on 2/3/19 agreeing to pay within 30 days.
 - He made the first sell of furniture for RWF 9,500,000. This had cost him RWF6,500,000. The sale was made on 5/3/19 and received by bank transfer on the same day.
 - Furniture that had been purchased for RWF1,200,000 was sold to Kazungu for RWF 1,600,000 on credit on 8/3/19.
 - On 12/3/19 Liam Shema received from Kazungu RWF1,000,000 for furniture he sold on credit earlier in the month.
 - On 15/3/19 he paid RWF 8,000,000 of the amount he owed to his suppliers.

Required:

Post the above transactions in the following ledger accounts:

- i. **Bank account;** (3 marks)
- ii. **Inventory account;** (2 marks)
- iii. **Capital account.** (1 mark)

- c. The cashbook of Access Law chambers was as follows for the month of March 2020.

Date	Description	RWF	Date	Description	RWF
1-Mar	Balance b/d	504,000	5-Mar	L. Levy	96,000
9-Mar	Kalima traders	60,000	10-Mar	Salaries & wages	156,000
15-Mar	K. Blaise	264,000	17-Mar	Lillian	48,000
29-Mar	M. Claude	96,000	28-Mar	Gatenga Stationery	144,000
30-Mar	H. Lionel	54,000	28-Mar	PKF	96,000
			30-Mar	Office admin	48,000
				<i>Balance c/d</i>	<i>390,000</i>
		978,000			978,000

The bank statement showed as follows.

Date	Description	Dr	Cr	Running Balance
1-Mar	Bal b/d			504,000
8-Mar	withdraw	6,000		408,000
10-Mar	Deposit		60,000	468,000
10-Mar	withdraw	56,000		312,000
17-Mar	Deposit		264,000	576,000
19-Mar	withdraw	8,000		528,000
30-Mar	withdraw	8,000		480,000

Required:

- i. **Prepare a statement reconciling the cash book and the bank statement.** (4 marks)
- ii. **Explain two (2) reasons for preparing a bank reconciliation statement.** (2 marks)

(Total: 20 marks)

QUESTION THREE

- a. The conceptual framework of IFRS / IAS sets out the concepts, the content and the objectives of financial statements. The underlying assumptions for preparation of financial statements should be on accrual basis and on a going concern basis.

Required:

- i. **Explain the accrual concept of accounting.** (2 marks)
 - ii. **Explain two (2) reasons why a company would not prepare its financial statements on going concern basis.** (2 marks)
 - iii. **Identify and explain any three (3) elements of financial statements.** (6 marks)
- b. The objective of IAS 10: Events after the reporting date is to set out the circumstances in which an entity should adjust its financial statements for events that occur after the Balance sheet date but before the Financial Statements are approved by the Board of Directors.

Case study: Murame Ltd deals in the sale of vehicle spare parts in Kigali special economic zone with a financial year ending 31 December each year. Shortly after reporting the 2019 results in February 2020, a major credit customer went into liquidation and it is feared that about Rwf 20 Million may be irrecoverable. 60% of the receivable amount relates to sales made in December 2019 while the rest relates to sales made in 1st week of January 2020. Directors have different views on treatment of this matter and have resolved to seek professional guidance.

Required:

- i. **Advise the directors of Murame Ltd on the accounting treatment with regard to 2019 financial statements, refer to the standard's provisions with regard to adjusting events.** (4 marks)
- ii. **Explain what is meant by events after the reporting period'.** (2 marks)

c. In accordance to IAS 37: Provisions, Contingent Liabilities and Contingent Assets explain the accounting treatment of the following scenarios in financial year 2019 financial statements;

- i. In November 2019 Company's senior marketing executive was dismissed on alleged misconduct and violation of company's code of conduct and the staff took the case to court for justice. First hearing is scheduled in 5 months' time and there is no indication of the company losing the case at this stage. (2 marks)
- ii. A Road construction company in Kigali loses a court case in the first hearing for illegally destroying one citizen's house along the roadway. The company has appealed but the lawyer estimates about RWF 10 Million could be eventually paid. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- a. One of the core areas dealt with in accordance with IAS 16: Property, Plant and Equipment is the determination of depreciation charges;
 - i. State three (3) factors considered in assessment of depreciation of an asset. (3 Marks)
 - ii. What is meant by Fair value of an Asset? (1 mark)
- b. The following balances were extracted from the books of Volt Enterprises working in Kigali Special Economic Zone for the year ended 31 December 2018.

Detail	RWF Million	RWF Million
Purchases	14,716	-
Sales	-	25,740
Inventory at 31 January 2018	936	-
Sales and distribution costs	1,144	-
Electricity	494	-
Travel and staff training costs	83	-
Bad debts written off	62	-
Allowance for bad debts as at 1 January 2018	-	44
Salaries and wages	4,394	-
Consultancy fees	1,664	-
Administrative expenses	2,126	-
Dividends paid out to shareholders	270	-
Owners' equity	-	2,600
10% Shareholders Loan	-	1,300
Retained earnings 1 January 2018	-	1,232
Fixtures and fittings - cost	5,106	-
Fixtures and fittings - Accumulated depreciation at 1 January 2018	-	2,272
Motor Vehicle - cost	3,328	-
Motor Vehicle - Accumulated depreciation at 01 January 2018	-	962
Trade Receivables	2,881	-

Detail	RWF Million	RWF Million
Trade Payables	-	2,980
Cash at bank	-	83
Petty cash balances	99	-
	37,213	37,213

Additional information:

- Inventory as at 31 December 2018 was valued to be RWF 947,752,000.
- The company intends to pay 2018 bonus to staff in March 2019 for an amount of about RWF 60,000,000.
- Consultancy costs include payment of RWF 60,000,000 for period of November 2018 to February 2019.
- The company depreciates its assets annually in the following way:
 - 1) Fixtures and fittings - 5 years on cost, zero residual value;
 - 2) Motor Vehicles - 20% on reducing balance method, residual value estimated to be zero.
- Controlling team reviewed company's receivable balances at end of 2018 and recommended the following which have to be put into account. Additional irrecoverable debt of RWF 25,000,000 should be posted. Also, a general provision for potential bad debts of 5% on remaining balance needs to be made as well.
- The interest on Shareholders loan for 2018 was yet to be paid as at year end.

Required:

In accordance with IAS 1: Preparation of Financial Statements, prepare:

- Statement of profit or loss for the year ended 31 December 2018.** (8 marks)
- Statement of Financial Position as at 31 December 2018.** (8 marks)

(Total: 20 marks)

QUESTION FIVE

A trial Balance is an internal control that checks and confirms the accuracy of the General ledger for different accounts. Control accounts form part of double entry and normally respective control accounts balances should balance.

Required:

- Why is it important to have control accounts?** (2 marks)
- State and explain at least three (3) errors which cannot be detected by the trial balance?** (6 marks)
- Kweli traders is a medium sized business in Kigali city market. The company's trial balance extracted at 30 June 2019 showed an imbalance with the credit side of the Trial Balance exceeding the debit side by RWF 1,175,725 which the accountant had no choice but to post in the suspense account. After a detailed examination by Nobel professional services, the following were identified:

- Goods returned to suppliers worth RWF 6,946,650 were credited to sales returns account as RWF 4,011,825. The corresponding entry was rightly posted.
- An understatement of RWF 574,400 was identified in the 'return inwards' ledger, the corresponding entry also understated by the same amount in the receivables control account.
- Petty cash balance worth RWF 1,920,650 at end of the month was erroneously omitted in the trial balance.
- Cheque received from one of the company's customers was debited to the customer's account and credited in the bank account, the cheque amount was RWF 87,955.
- Repair and Maintenance of company's staff van worth RWF 1,543,700 was paid during the month of June 2019 to Akagera Motors. The right amount of RWF 1,543,700 was posted to the bank account, but RWF 646,200 was credited to the Motor Vehicle account, this needed to be corrected.
- The company had paid medical insurance for staff for 2018 worth RWF 9,000,000. The Insurance has indicated the premiums for 2019 would increase by 20%. By end of June 2019 the company had not been invoiced for the insurance and the accounting team made no accounting entry because no invoice was received.
- One of the company's credit sales worth RWF 2,000,000 was debited to receivables account and credited to sales account. Upon investigation, Nobel professional services found out that the above amount was VAT inclusive, the VAT rate in Rwanda is at 18%.

Required:

- Prepare journal entries with relevant narrations to correct the above errors.** (10 marks)
- Prepare the suspense account.** (2 marks)

(Total: 20 marks)

End of question paper.