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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS**

F1.3 FINANCIAL ACCOUNTING

DATE: TUESDAY, 26 JULY 2022

INSTRUCTIONS:

- 1. Time allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- 2. This examination has two sections: A and 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.
- 8. The question paper** should not be taken out of the examination room

SECTION A

QUESTION ONE

a) According to conceptual framework for financial reporting, for financial information to be useful to its various users must have fundamental qualitative characteristics

Describe the fundamental qualitative characteristics of useful financial information?

(4 Marks)

b) **Identify 6 users of financial information and what they need from these financial information**

(6 Marks)

c) The following trial balance was extracted from the books of Mushumba Mwiza Business Group (MWBG) Ltd for the year ended 31 December 2020

Particulars	Dr	Cr
	FRW 000	FRW 000
Insurance expense	75,000	
General expenses	10,000	
Staff salaries and wages	675,000	
Staff transport costs	49,500	
Telephone expenses	80,000	
Board allowances	20,000	
Irrecoverable debts	150,000	
Advertising costs	56,000	
Allowance for doubtful debt as at 1 Jan 2020		40,000
Marketing expenses	50,000	
Fuel expenses	35,000	
Vehicle maintenance	42,000	
Donations	10,000	
Ordinary share capital of FRW 100		1,800,000
Share premium		400,000
Retained earnings as at 1 Jan 2020		515,000
Loan note interest	33,000	
Loan notes		570,000
Payables		290,000
Tax	50,000	
Receivables	900,000	
Bank		94,000
Cash	15,000	
Purchases	3,570,000	
Discounts		90,000
Inventory as at 01Jan 2020	3,500	
Sales		6,130,000
Fittings and fixtures at cost	250,000	
Accumulated depreciation: fittings and fixtures		122,000
Building at cost	3,107,000	

Particulars	Dr	Cr
	FRW 000	FRW 000
Accumulated depreciation-Building		360,000
Furniture and equipment at cost	750,000	
Accumulated depreciation-furniture and equipment		420,000
Land at cost	740,000	
Motor vehicles at cost	240,000	
Accumulated depreciation-motor vehicle		80,000
Total	10,911,000	10,911,000

The following additional information are relevant;

- Salaries of FRW 1,600,000 was not paid until year end and no record made for these staff costs
- Due to rapid increase in number of Covid-19 cases in the city of Kigali, Government decided to put Kigali into total lockdown. The institutions that provide essential services were allowed to transport their staff to and from work during that period. Included in the transport cost is a coaster van hired at a cost of FRW 2,560,000 paid in advance covering 1 December 2020 up to 31 January 2021
- On 18 December 2020, MWBG Ltd's board of directors agreed and declared dividends to shareholders of FRW 2 per share but these dividends were paid in January 2021
- On 14 January 2021, a customer owing MWBG Ltd FRW 5,645,000 declared bankruptcies by the competent court and this triggered management of MWBG to increase their receivable allowances by 4% of total receivables
- The inventory as at 31 December 2020 was valued at FRW 8,456,000 based on its original cost. However, FRW 2,150,000 of these inventories has been in the warehouse for over 2 years and the management of MWBG Ltd agreed to sell it at 40% of the original cost in January 2021
- On 28 December 2020, MWBG Ltd issued new 800,000 ordinary shares at FRW 125 per share, consideration was received through bank. The issue of those shares has never been recorded
- Buildings are depreciated at 5% of cost. At 31 December 2020, the buildings were professionally valued at FRW 3,800,000,000 and this has to be incorporated into financial statements
- The following depreciation rates are applied where necessary
 - Motor vehicles at 25% reducing balance
 - Fittings and fixtures at 20% straight-line basis
 - Furniture and equipment at 20% reducing balance

Required:

Prepare the following for MWBG

- Statement of Profit or Loss and other comprehensive income for the year ended 31 December 2020** (14 Marks)
 - Statement of Changes in equity as at 31 December 2020** (5 Marks)
 - Statement of Financial Position as at 31 December 2020** (11 Marks)
- (Total: 40 Marks)**

SECTION B

QUESTION TWO

a) Smart Enterprise (SEL) Ltd is an international company registered in Rwanda since 2019. Their head office is located in Kigali Special Economic Zone (KSEZ). During the year ended 31 December 2020, SEL Ltd started construction of their head office building and construction process completed during the year. SEL Ltd received a grant from Government towards construction of their head office equivalent to FRW 286 million. Total costs incurred to construct the building was FRW 8.5 billion. It is the company's policy to depreciate all buildings over 20 years with full year's depreciation in the year of acquisition or construction. The profit before depreciation was FRW 1.2 billion. Grant is accounted for using deferred income approach

Required:

In accordance with IAS 20, prepare:

i) Extracts of the statement of profit or loss for the year ended 31 December 2020

(3 Marks)

ii) Extract statement of financial position as at 31 December 2020

(2 Marks)

b) East African Transporters (EAT) Ltd is a company operating in Rwanda that deals in the public transport across the East African countries. The company has a fleet of coaster vans and buses that they use to transport people within Rwanda and across East African countries.

The following vehicles were in their books as at 1 January 2020

Plate No	Cost	Accumulated depreciation
	FRW 000	FRW 000
XAD 562 C	62,500	36,133
XAE 146 A	84,400	21,100
XAC 965 Q	73,560	42,527
XAD 865 Z	42,000	18,375
XAE 123 D	38,800	9,700
XAE 456 A	69,000	17,250
XAE 457 A	36,700	9,175

The following transactions related to acquisition and disposal of fleet of Vehicles

- 1) On 1 February 2020, EAT Ltd purchased 3 coasters vans each costing FRW 55,000,000
- 2) On 30 June 2020, they sold vehicle plate No XAC 965 Q acquired 3 years ago for FRW 35,000,000
- 3) On 1 July 2020, they acquired 2 more buses each costing FRW 78,500,000. However, these prices included refundable VAT equivalent to FRW 2,564,000 on each Bus
- 4) On 30 August 2020, XAD 562 C was disposed off for FRW 21,560,000
- 5) Vehicle XAE 456 A was disposed off on 30 October 2020 for FRW 45,000,000

6) It's the company's policy to depreciate all assets on pro-rata basis and all vehicles are depreciated at a rate of 25% reducing balance

Required:

Prepare the following Accounts for the year ended 31 December 2020

- i) **Non-current assets account** (6 Marks)
 - ii) **Disposal Account** (6 Marks)
 - iii) **Detailed movement vehicle schedule** (3 Marks)
- (Total: 20 Marks)**

QUESTION THREE

Kanogo Sports Club (KSC) is a membership-based tennis club established by former Rweru tennis players with an objective of connecting former players. The following is an extract from their books of accounts as at 30 September 2020

Receipts	FRW	Payments	FRW
Bal b/d	2,000,000	Payments to payables	250,000,000
Membership fees	125,000,000	Rent expenses	72,000,000
Payments from Receivables	410,000,000	Stationaries	5,500,000
Donations	10,000,000	Electricity and water	2,500,000
Miscellaneous receipts	22,850,000	Salaries and wages	34,000,000
		Fuel consumption expenses	14,400,000
		Local and international travel expenses	5,250,000
		Bal c/d	186,200,000
Total	569,850,000	Total	569,850,000

The club also operates a bar and restaurant as a source of revenue to sustain the operations of the club. The following is an extract of the assets and liabilities of the club including the bar and restaurant for the year ended 30 September 2020

Particulars	At 1 October 2019	At 30 September 2020
	FRW	FRW
Carrying amount of furniture and equipment	62,540,000	
Land	300,000,000	300,000,000
Carrying amount of fittings and fixtures	15,500,000	
Carrying amount of vehicle	25,000,000	
Receivables	14,000,000	13,000,000
Payables	8,500,000	10,000,000
Accrued salaries and wages	2,000,000	1,500,000
Prepaid electricity and water	800,000	900,000

Inventory	25,000,000	30,000,000
Membership fees in arrears	12,450,000	16,450
Membership fees in advance	5,000,000	6,500,000

The following additional information is available

1. The amount paid for rent covers the period from 1 January 2020 to 31 December 2020
2. During the year, some furniture that were acquired 3 years ago were disposed off for FRW 8,845,000. The original cost of these furniture was FRW 20,000,000. This has not been accounted for in the books of accounts
3. Membership fees for the period ended 30 September 2020 were FRW 127,500,000
4. The club acquired a motor vehicle in July 2020 for the executive director for FRW 26,845,000 by cash. However, this vehicle was not accounted for anywhere in the books of KSC due to the fact that the accountant was not so sure of its accounting treatment
5. Furniture and equipment is depreciated at a rate of 25% using reducing balance
6. Motor vehicle and fixtures and fittings are depreciated at a rate of 20% on reducing balance and its club's policy to charge full depreciation in the year of purchase and non in the year of disposal

Required

Prepare the following for the year ended 30 September 2020

- a) **An opening statement of affairs as at 01 October 2019** (5 Marks)
- b) **Statement of revenue and expenditures for the year ended 30 September 2020** (10 Marks)
- c) **Statement of financial position as at 30 September 2020** (5 Marks)

Note: Show all your workings appropriately

(Total: 20 Marks)

QUESTION FOUR

Kicukiro Ltd and Gasabo Ltd are two companies operating in cement production industry. The following information were extracted from their books as at 31 December 2020

Statement of Profit or Loss for the year ended 31 December 2020

Particulars	Kicukiro Ltd		Gasabo Ltd	
	FRW"000"	FRW 000	FRW 000	FRW 000
Sales revenue		1,500,000		2,000,000
Cost of sales		(700,000)		(1,350,000)
Gross profit		800,000		650,000
Operating expenses				
Administrative	150,000		135,000	
Selling and Distribution	185,000		150,000	
Depreciation	200,000		185,000	

Finance cost			35,000	
Total expenses		(535,000)		(505,000)
Net profit for the year		265,000		145,000

Statement of Financial Position as at 31 December 2020

	Kicukiro Ltd		Gasabo Ltd	
Particulars	RWF''000''	RWF''000''	RWF''000''	RWF''000''
Assets				
Non-current assets				
At cost	3,500,000		4,000,000	
Accumulated depreciation	(450,000)		(385,000)	
Net book value		3,050,000		3,615,000
Current assets				
Inventory	100,000		50,000	
Receivables	850,000		350,000	
Bank			45,000	
Total current assets		950,000		445,000
Total assets		4,000,000		4,060,000
Equity and Liability				
Share capital	1,400,000		2,400,000	
Retained Earnings	1,500,000		530,000	
		2,900,000		2,930,000
Long term loan			850,000	
Current liabilities	1,100,000		280,000	
		1,100,000		1,130,000
Total Equity and Liabilities		4,000,000		4,060,000

Required:

a) Calculate and interpret the following ratios for both Kicukiro Ltd and Gasabo Ltd for the year ended 31 December 2020

- Gross profit Margin (2 Marks)
- Net profit Margin (2 Marks)
- Inventory turnover period (2 Marks)
- Receivable collection period (2 Marks)
- Current ratio (2 Marks)
- Quick ratio (2 Marks)
- Debt ratio (2 Marks)

b) Explain four main limitations of ratio analysis as a tool of financial information interpretation (6 Marks)

(Total: 20 Marks)

QUESTION FIVE

Ntwali, Mbonyi, Mucyo are in partnership sharing profits and losses in the ratio of 3:2:1 respectively. The following account balances were extracted from the books of the partnership as at 31 December 2020

Cost	FRW "000"
Buildings	850,000
Motor vehicle	82,500
Computers	36,000
Furniture and equipment	45,800
Accumulated Depreciation	
Buildings	85,000
Motor Vehicle	28,500
Computers	18,650
Furniture and equipment	8,650
Purchases	650,000
Sales	1,050,000
Salaries and wages	150,000
Stationaries	5,650
Accounts receivable	105,850
Accounts payable	68,520
Opening inventory	9,500
Cash at bank	45,000
Cash at hand	856
Current accounts	
Ntwali	58,500
Mbonyi	45,600
Mucyo	38,500
Capital Account	
Ntwali	100,000
Mbonyi	66,000
Mucyo	34,000
Drawings	
Ntwali	30,000
Mucyo	15,800
Mbonyi	35,000

The following additional information are available;

1. Included in the salaries and wages is salaries of the partners Mbonyi and Mucyo equivalent to FRW 20,000,000 each
2. Interest at 15% per annum is provided to fixed capital and current amounts
3. Interest at 10% per annum is charged on partners' drawings
4. Inventory as at 31 December 2020 was FRW 8,000,000
5. Depreciation is to be charged on non-current assets as follows

- a) Motor vehicle at 25% on reducing balance
- b) Computers and accessories at 50% on reducing balance
- c) Buildings at 5% on cost
- d) Furniture and equipment at 20% on straight line basis

Required:

- a) **Partnership's profit or loss for the year ended 31 December 2020** (4 Marks)
- b) **Appropriation account for the year ended 31 December 2020** (6 Marks)
- c) **Prepare current accounts of each partner for the year ended 31 December 2020** (6 Marks)
- d) **Outline four advantages and four disadvantages of partnerships** (4 Marks)

(Total: 20 Marks)

End of question paper

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