



ICPAR
Unlimited possibilities

CERTIFIED PUBLIC ACCOUNTANTS FOUNDATION LEVEL 1 EXAMINATION

F1.3 FINANCIAL ACCOUNTING

DATE: TUESDAY, 26 JULY 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

a) Describe the fundamental qualitative characteristics of useful financial information

Identification of relevance and its description 2

Identification of faithful representation and its description 2

Maximum marks 4

b) Identify 6 users of financial information and what they need from this financial information?

	Marks
Identification of customer and explanation their need in the financial information	1
Identification of management and explanation their need in the financial information	1
Identification of lenders, suppliers and explanation their need in the financial information	1
Identification of Government and explanation their need in the financial information	1
Identification of Present and potential investors and explanation their need in the financial information	1
Identification of Employees and explanation their need in the financial information	1
Total	6

c)

i) statement of profit or loss account and other comprehensive income

	Marks
Award 0.5 for each correct line shown in the statement of comprehensive income excluding totals and subtotals	11
Working for closing inventory	1
Working for staff salaries and wages	1
Working for staff transport	1
Sub-total	14

ii) Statement of change in equity

Posting profit for the year in the statement of change in equity	1
Well recorded issued shares in share capital and share premium	2
Well posted revaluation surplus in statement of change in equity	1
Recorded dividend paid	1
Sub-total	5

iii) Statement of Financial Position

Award 0.5 for each correct line recorded in the financial position excluding totals and sub-totals	9.5
Award 1.5 mark for working made on building	1.5
Sub-total	11

Model Answer

a) Fundamental qualitative characteristics of financial information

Relevance: Relevant financial information is capable of making a difference in the decisions made by users. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value. The predictive and confirmatory roles of information are interrelated.

Information on financial position and performance is often used to predict future position and performance and other things of interest to the user, e.g., likely dividend, wage rises.

The manner of showing information will enhance the ability to make predictions, e.g., by highlighting unusual items. The relevance of information is affected by its nature and materiality

Faithful representation: Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena but must faithfully represent the substance of the phenomena that it purports to represent. To be a faithful representation, information must be complete, neutral and free from error. A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

b) Different users of financial information and their needs

Management will use comparisons to ensure that the business is performing efficiently and according to envisioned plan.

Employees, trade unions and so on need information to be able to assess the employer's stability and profitability, and their ability to provide remuneration and other benefits.

Governments need to be able to assess taxation and regulate industries, as well as using information for statistical purposes.

Present and potential investors will assess the company with a view to judging whether it is a sound investment. They need information on risk and return on investment and the ability of the entity to pay dividends.

Lenders and suppliers will want to judge its creditworthiness, to assess whether loans and related interest and invoices will be paid when due.

Customers will want to judge whether the company will continue in existence, especially where they have a long-term involvement with the company or a dependence on their products.

C) i) MWBG Ltd's statement of comprehensive income for the year ended 31 December 2020

Particulars	RWF''000''	RWF''000''
Sales		6,130,000
Cost of goods sold		
Opening inventory	3,500	
Purchases	3,570,000	
Less closing inventory W5	(7,166)	
Cost of goods sold		(3,566,334)
Gross profit		2,563,666
Add other incomes		
Discount received		90,000
Gross incomes		2,653,666
Less operating expenses		
Insurance	75,000	
General expenses	10,000	
Staff salaries and wages	676,600	
Staff transport costs	48,220	
Telephone expenses	80,000	
Board Allowances	20,000	
Irrecoverable debts	155,645	
Advertising costs	56,000	
Decrease in allowance for receivables	(4,226)	
Marketing expenses	50,000	
Fuel expenses	35,000	
Vehicle maintenance	42,000	
Donations	10,000	
Depreciation 66,000+40,000+155,350+50,000	311,350	
		(1,565,589)
Operating Profit		1,088,077
Less finance charges		
Interest		(33,000)
Profit before tax		1,055,077
Less tax		-
Profit for the year		1,055,077
Other comprehensive income		
Revaluation surplus		1,208,350
Total comprehensive income		2,263,427

ii) MWBG Ltd's statement of change in equity as at 31 December 2020

	Share capital	Share premium	Revaluation Reserve	Retained Earnings	Total
	FRW 000	FRW 000	FRW 000	FRW 000	FRW 000
At 1 January 2020	1,800,000	400,000		515,000	2,715,000
Profit for the year				1,055,077	1,055,077
Issued shares during the year	80,000	20,000			100,000
Revaluation surplus			1,208,350		1,208,350
Dividends declared				(36,000)	(36,000)
Total	1,880,000	420,000	1,208,350	1,534,077	5,042,427

iii) MWBG Ltds statement of financial position as at 31 December 2020

Particulars	RWF"000"	RWF"000"
Assets		
Non-current assets		
Buildings	3,800,000	
Furniture and Equipment	264,000	
Fixtures and Fittings	78,000	
Vehicles	120,000	
Land	740,000	
Total non-current assets		5,002,000
Current assets		
Receivables	858,581	
Prepaid transport cost: 2,560*1/2	1,280	
Tax	50,000	
Inventory	7,166	
Bank 800*125-94,000	6,000	
Cash	15,000	
Total current assets		938,027
Total Assets		5,940,027
Equity and Liabilities		
Equity		
Ordinary share capital	1,880,000	
Share premium	420,000	
Revaluation Reserve	1,208,350	
Retained Earnings	1,534,077	
Total Equity		5,042,427
Liabilities		
Long term liabilities		

Particulars	RWF''000''	RWF''000''
Long term loan	570,000	
Total long-term liabilities		570,000
Short-term liabilities		
Payables	290,000	
Proposed dividends 1,800,000/100*2	36,000	
Unpaid salaries	1,600	
Total short-term liabilities		327,600
Total Liabilities and Equity		5,940,027

Working

Working one	FRW “000”
Depreciation expense	
Furniture and Equipment at cost	750,000
Acc Depreciation	(420,000)
Carrying value	330,000
Depreciation rate	20%
Depreciation charge for the year	66,000
Net Book Value at 31st December 2020	264,000
Working two	
Vehicle at cost	240,000
Acc Depreciation	(80,000)
Carrying value	160,000
Depreciation rate	25%
Depreciation charge for the year	40,000
Net Book Value at 31st December 2020	120,000
Working three	
Building at cost	3,107,000
Acc Depreciation	(360,000)
Carrying value at 01 Jan 2020	2,747,000
Depreciation rate	5%
Depreciation charge for the year	155,350
Net Book Value at 31st December 2020	2,591,650
Revalued amount	3,800,000
Revaluation surplus	
	1,208,350
Working four	
Fixtures and Fittings at cost	250,000
Acc Depreciation	(122,000)
Carrying value at 01 Jan 2020	128,000
Depreciation rate	20%

Depreciation charge for the year	50,000
Net Book Value at 31st December 2020	78,000
Total depreciation on Non-Current Assets	311,350
Working five	
Closing inventory	
Original cost	8,456
Less inventory sold on cut price	(2,150)
Add 40% of value (lower between their costs and net realizable value)	860
Closing inventory	7,166
Working six	
Staff salaries and wages	
As per the trial balance	675,000
Add accrued salary	1,600
Total	676,600
Working seven	
Staff transport	
As per trial balance	49,500
less prepaid transport of Jan 2021: $2,560 \times \frac{1}{2}$	(1,280)
Total staff transport expense for 2020	48,220
Working eight	
Receivables	
As per trial balance	900,000
Less bad debts	(5,645)
Receivables before provisions	894,355
Allowance for provisions	(35,774)
Balance as at 31 December 2020	858,581
Working nine	
Allowance for receivables	
As per trial balance	40,000
New provisions	(35,774)
Decrease in allowance for receivables	4,226

SECTION B

QUESTION TWO

Marking Guide

a) Prepare extracts statement of profit or loss and statement of financial position for the first year using Deferred

	Marks
Award 0.5 mark for each correct line shown in the P/L (Maximum 2 marks)	2
Award 0.5 for each correct line shown in the balance sheet (extract) Maximum 2 marks	2
Computation of grant income	0.5
Computation of depreciation	0.5

b) Prepare the following Accounts for the year ended 31st December 2020

i) Non-Current Assets Account

	Marks
0.5 mark for each correct line shown in the non-current asset account (Maximum 6 marks)	6

ii) Disposal account

0.5 mark for each correct line shown in the disposal account (Maximum 6 marks)	6
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iii) Non-current asset movement schedule

Well computed total costs incorporating addition assets	1
Well computed cost of disposed asset included in movement schedule	1
Well computed accumulated depreciation	0.5
Well computed depreciation of disposed assets and included in computation of movement schedule	0.5
Sub-Total	3

Model Answer

QUESTION TWO

a)

i) Extract profit & loss (P&L) for the year ended 31 December 2020

	FRW 000
Profit before depreciation	1,200,000
Add Grant income	14,300
	1,214,300
Less depreciation	(425,000)
Net profit before tax	789,300

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

Non-current Assets

Building at cost	8,500,000,000
Less acc depreciation	(425,000,000)
Total Assets	8,075,000,000

Long term Liabilities

Deferred income Liability 286,000,000-14,300-14,300	257,400,000
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Current Liabilities

Deferred income Liability	14,300,000
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Workings:

		FRW
Depreciation: Cost of the asset/number of Economic useful life:	8,500,000,000/20	425,000,000
Deferred income for the first year = Grant/number of years of asset:	286,000,000/20	14,300,000

b)

i) Non-current Asset Account			
Details	FRW''000''	Details	FRW 000
Bal b/f as at 01 Jan 2020		Disposals	
XAD 562 C	62,500	30-Aug-2020	62,500
XAE 146 A	84,400		
XAC 965 Q	73,560	30-Jun-2020	73,560
XAD 865 Z	42,000		
XAE 123 D	38,800		
XAE 456 A	69,000	30-Oct-2020	69,000
XAE 457 A	36,700		

Additions during the year			
01 Feb 2020	165,000		
01 Jul 2020 78,500*2-2,564*2	151,872	Bal c/d	518,772
Total	723,832		723,832

ii) Disposal Account			
Asset	FRW''000''	Acc Depreciation	FRW ''000''
30-Jun-20 XAC 965 Q	73,560	30-Jun-20 (Acc Dep)	46,406
30-Aug-20 XAD 562 C	62,500	30-Aug-20 (Acc dep)	40,528
30-Oct-20 XAE 456 A	69,000	30-Oct-20 (Acc dep)	28,031
		Sales proceeds	
Gain on disposal: XAC 965 Q	7,846	30-Jun-20 XAC 965 Q	35,000
		30-Aug-20 XAD 562 C	21,560
Gain on disposal: XAE 456 A	4,031	30-Oct-20 XAE 456 A	45,000
		Loss on disposal: XAD 562 C	413
		Bal c/d	
Total	216,937		216,937

Working for disposed assets	
	FRW 000
XAC 965 Q	
Cost	73,560
Accumulated depreciation	(42,527)
Carrying value	31,033
Depreciation rate	25%
Depreciation charge	3,879
Carrying value as at disposal date	27,154
Proceed from disposal	35,000
Gain on disposal	7,846
XAD 562 C	
Cost	62,500
Accumulated Depreciation	(36,133)
Carrying value at start	26,367
Depreciation rate	25%
Depreciation charge	4,395
Carrying value at disposal date 30 Aug 2020	21,973
Proceed from disposal	21,560
Loss on disposal	(413)

XAE 456 A	
Cost	69,000
Accumulated Depreciation	(17,250)
Carrying value	51,750
Depreciation Rate	25%
Depreciation Charge	10,781
Carrying value at disposal date 30 Oct 2020	40,969
Proceed from disposal	45,000
Gain on disposal	4,031

iii). Non-current asset movement schedule

Opening balance	FRW 000	FRW 000
XAD 562 C		62,500
XAE 146 A		84,400
XAC 965 Q		73,560
XAD 865 Z		42,000
XAE 123 D		38,800
XAE 456 A		69,000
XAE 457 A		36,700
Additions		
01-02-20		165,000
01-07-20		151,872
Sub-total (cost)		723,832
Disposals		
30-06-20 XAC 965 Q		(73,560)
30-08-20 XAD 562 C		(62,500)
30-10-20 XAE 456 A		(69,000)
Sub-Total		(205,060)
Closing balance (cost)		518,772
Accumulated depreciation		
Opening balance		
XAD 562 C		36,133
XAE 146 A		21,100
XAC 965 Q		42,527
XAD 865 Z		18,375
XAE 123 D		9,700
XAE 456 A		17,250
XAE 457 A		9,175
	A	154,260
Depreciation of disposed assets		
XAC 965 Q	42,527+3,879	46,406
XAD 562 C	36,133+4,395	40,528
XAE 456 A	17,250+10,781	28,031

	B	114,965
Depreciation charge		
XAE 146 A	(84,400-21,100) *25%	15,825
XAD 865 Z	(42,000-18,375) *25%	5,906
XAE 123 D	(38,800-9,700) *25%	7,275
XAE 457 A	(36,700-9,175) *25%	6,881
01-02-20 (Addition)	165,000*25%*11/12	37,812.5
01-07-20 (Addition)	(78,500*2-2,564*2) *25%*6/12	18,984
Total charge for the year	C	92,684
Total accumulated depreciation bal c/d	A-B+C	131,979
Net Book Value		386,794

QUESTION THREE

Marking Guide

a) An opening statement of affairs

0.5 marks for each correct figure of opening balance for asset (9*0.5) 4.5

Well identified opening balance of liabilities 0.5

Maximum marks 5

b) Statement of revenue and expenditures for the year ended 30th September 2020

Working for trading account of bar and restaurant 2

Working for of purchases 0.5

Working for of sales 0.5

Working for of membership fees 0.5

Donation well posted in income and expenditure 0.5

Posting of miscellaneous incomes/receipts 0.5

Working for gain/loss on disposal of furniture 0.5

Rent expense for the period well posted 0.5

Posting of stationaries 0.5

Working for electricity and water 1

Working for salaries and wages 1

Posting of fuel consumption expenses 0.5

Posting of local and international travel expenses 0.5

Working for depreciation of all non-current asset 1

Maximum Marks 10

c) Statement of financial position as at 30st September 2020

Net Book Value of furniture and Equipment 0.5

Net Book Value of fixtures and fittings 0.5

Net Book Value of motor vehicle 0.5

Posting of correct figure of receivables 0.5

Posting of prepaid electricity and water 0.5

Posting of cash balance and its working 0.5

Posting of membership in arrears 0.5

Posting of inventory	0.5
Posting of accumulated surplus	0.5
Working for all short-term liabilities	0.5
Maximum Marks	5
Total marks	20

Model Answer

a) Statement of affairs as at 1 October 2019

Particulars	FRW 000	FRW 000
Furniture and Equipment	62,540	
Land	300,000	
Fittings and fixtures	15,500	
Vehicle	25,000	
Receivables	14,000	
Prepaid	800	
Cash	2,000	
Inventory	25,000	
Membership fees in arrears	12,450	
Total assets		457,290
Membership fees in advance	5,000	
Payables	8,500	
Accrued	2,000	
Less		15,500
Accumulated surplus		441,790

b) Statement of income and expenditure for the year ended 30 September 2020

	FRW 000	FRW 000
Membership fees	127,500	
Donations	10,000	
Miscellaneous receipts	22,850	
Gross profit of the bar and restaurant(W1)	162,500	
Gain on disposal(W10)	407.5	
Total revenue		323,258
Expenditures		
Rent expenses 72,000*9/12	54,000	
Stationaries	5,500	
Electricity and water (W4)	2,400	
Salaries and Wages(W5)	33,500	
Fuel consumption expenses	14,400	
Local and international travel expenses	5,250	
Depreciation 13,525.6+3,100+10,369	26,995	
Total expenditures		142,045

	FRW 000	FRW 000
Surplus (total revenues-total expenditures)		181,213

c) Statement of financial position as at 30 September 2020

	FRW 000	FRW 000
Furniture and equipment (W7)	40,577	
Fittings and fixtures (W8)	12,400	
Motor vehicle(W8)	41,476	
Land	300,000	
Total Non-current assets		394,453
Receivables	13,000	
Prepaid electricity and water	900	
Cash W11	168,200	
Membership in arrears W6	16,450	
Inventory	30,000	
Prepaid rent 72,000*3/12	18,000	
		246,550
Total Assets		641,003
Accumulated surplus	441,790	
surplus of the year	181,213	
		623,003
Membership paid in advance	6,500	
Accrued salaries and wages	1,500	
Payables	10,000	
		18,000
Total equity and liabilities		641,003

Working one

Profit or loss from restaurant from restaurant

	FRW 000	FRW 000
Sales (W3)		409,000
Less cost of sales		
Opening inventory	25,000	
Purchases (W2)	251,500	
Closing inventory	(30,000)	
		(246,500)
Gross profit		162,500

Workings two

Account payable control account			
	FRW 000		FRW 000
		Bal b/d	8,500
Payment	250,000	Purchase	251,500
Bal c/d	10,000		
	250,000		260,000

Working three

Account receivable control account			
	FRW 000		FRW 000
Bal b/d	14,000		
Sales (balance)	409,000		
		Receipt from debtors	410,000
		Bal c/d	13,000

Working four

Electricity and water			
	FRW 000		FRW 000
Payment	2,500		
Prepaid bal b/d	800	Consumption for the period (balance)	2,400
		Prepaid bal c/d	900

Working five

Salaries and wages			
	FRW 000		FRW 000
Accrued c/d	1,500		
Payment	34,000	Salary for the period	33,500
		Accrued bal c/d	2,000

Working six

Membership fees arrears			
	FRW 000		FRW 000
		Prepaid bal b/d	5,000
Prepaid bal c/d	6,500	Payment	125,000
Accrued b/d	12,450	Accrued c/f (Balance)	16,450
Member fee for the period	127,500		
	146,450		146,450

Working seven**Furniture and equipment**

	FRW 000
Carrying amount as at 01 Oct 2019	62,540
Less disposal	(8,437.5)
	54,102.5
Deprecation (25%*54,102,500)	(13,525.6)
NBV	40,577

Working eight: Fitting and fixtures

	FRW 000
Carrying amount as at 01 October 2019	15,500
Deprecation (20%*15,500,000)	(3,100)
NBV	12,400

Working nine: Motor vehicle

	FRW 000
Carrying amount as at 01 October 2019	25,000
Addition	26,845
	51,845
Depreciation (25%*51,845)	(10,369)
NBV	41,476

Working 10; Gain or loss on disposed furniture

		FRW 000
		NBV
cost	25%	20,000
Accumulated depreciation		
Y1	20,000*25%=5,000	15,000
Y2	15,000*25%=3,750	11,250
Y3	11,250*25%=2,812.5	8,437.5
Carrying value as at disposal year		8,437.5
Sales proceeds		8,845
Gain on disposal		407.5

Working 11: Cash balance

	FRW 000
Balance per Cash book	186,200
Disposal	8,845
Motor vehicle	(26,845)
Bal c/d	168,200

QUESTION FOUR

Marking Guide

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

		Marks
Gross profit margin	1 mark for correct calculation and 1 mark for interpretation	14
Net profit margin		
Inventory turnover period		
Receivable collection period		
Current ratio		
Quick ratio	1.5 mark for each well stated point Consider also, valid point provided by students but not found in the model answer	6
Debt ratio		
Limitation of ratio analysis		
Total		20

Model Answer QUESTION 4

a)

		Kicukiro Ltd		Gasabo Ltd	
	Formulae	FRW'000"	"	FRW 000	"
Gross profit Margin	(Gross profit/Sales) *100	800,000/1,500,000	53%	650,000/2,000,000	33%
Net profit Margin	(Net profit/sales) *100	265,000/1,500,000	18%	145,000/2,000,000	7%
Inventory turnover period	(Inventory/cost of sales) *365	(100,000/700,000) *365	52	(50,000/1,350,000)-365	13.5
Receivable collection period	(Receivable/Sales) *365	(850,000/1,500,000) *365	207	(350,000/2,000,000) *365	64
Current ratio	Current assets/current liabilities	950,000/1,100,000	0.9:1	445,000/280,000	1.58:1

Quick ratio	(Current assets- inventory)/current liabilities	(950,000- 100,000)/1,100,000	0.8:1	(445,000- 50,000)/280,000	1.4:1
Debt Ratio	(Long term debts/shareholder s equity) *100	(0/2,900,000) *100	0%	(850,000/2,930 ,000) *100	29%

Gross profit Margin

Kicukiro Ltd has 53% compared to 33% of its counterpart. This shows that Kicukiro is better to manage cost of sales than Gasabo Ltd

Net Profit Margin

Kicukiro Ltd has 18% compared to 7% of Gasabo Ltd. Kicukiro Ltd is still doing better in terms of managing its operating expenses. However, they all need to be efficient enough to manage their operating expenses

Inventory turnover period

Kicukiro has an inventory turnover period of 52 days compared to Gasabo's 13.5 days. This means that Gasabo is more efficient in turning their raw materials into finished products or turning inventory into cash.

Receivable collection period

Kicukiro requires 207 days to collect its debts compared to 64 days it takes Gasabo to collect its debts. The management of Gasabo is more efficient in managing its working capital compared to Kicukiro Ltd

Current Ratio

All companies are not able to pay their current liability using current assets, this situation may lead to liquidity problems especially for Kicukiro Ltd because they had worst current ratio. Normally better current ration should be 2:1

Quick Ratio

All companies performing bad in terms of liquidity because they can't pay current debts using quick assets. They need to improve to achieve at least 1:1

Debt Ratio

All companies are almost equity financed as even Gasabo that has long term debt of 850 Million is only 24% of its assets and any debt ratio that is below 50% is better. Kicukiro Ltd is financed

only by equity, this may be a fear for financial risk but this reduces efficiency in terms of operation

Q4 b: Limitation of ratios

- The base information is often out of date, so timeliness of information leads to problems of interpretation.
- Historical cost information may not be the most appropriate information for the decision for which the analysis is being undertaken.
- Information in published accounts is generally summarized information and detailed information may be needed.
- Analysis of accounting information only identifies symptoms, not causes, and is therefore of limited use.
- Comparison problems: trend analysis
 - ✓ Effects of price changes make comparisons difficult unless adjustments are made.
 - ✓ Impacts of changes in technology on the price of assets, the likely return and the future markets.
 - ✓ Impacts of a changing environment on the results reflected in the accounting information.
 - ✓ Potential effects of changes in accounting policies on the reported results.
- Comparison problems: across companies
 - ❖ Selection of industry norms and the usefulness of norms based on averages.
 - ❖ Different firms having different financial and business risk profiles and the impact on analysis.
 - ❖ Different firms using different accounting policies.
 - ❖ Impacts of the size of the business and its comparators on risk, structure and returns.
 - ❖ Impacts of different environments on results, e.g., different countries or home-based versus multinational firms

QUESTION FIVE

Marking Guide

a) Partnership's profit or loss and appropriation account for the year ended 31 December 2020

	Marks
0.5 for correct line shown in the statement of profit or loss (Maximum 3 marks)	3
Award one mark for working on depreciation	1
0.5 mark for each correct line shown in the appropriation account.	6
Note: Do No Award marks on computation of profit share	
2 marks for Ntwali current account	2
2 marks for Mbonyi current account	2
2 marks for Mucyo current account	2
0.5 mark for each advantage outlined (Maximum 2 marks)	2
0.5 marks for each outlined disadvantage of partnership (Maximum 2 marks)	2
Total	20

Model Answer

a) Ntwali, Mbonyi, Mucyo Partnership profit or loss account for the year ended 31 December 2020

	FRW 000	FRW 000
Sales		1,050,000
Cost of sales		
Opening inventory	9,500	
Purchases	650,000	
Closing inventory	(8,000)	
Cost of sales		(651,500)
Gross Profit		398,500
Expenses		
Salaries and wages 150,000-20,000*2	110,000	
Stationaries	5,650	
Depreciation 42,500+9,160+13,500+8,675	73,835	
Total expenses		189,485
Profit for the year		209,015

Workings

		FRW 000
1	Depreciation	
	Building's cost	850,000
	Depreciation for the year $850,000 \times 5\%$	42,500
2	Furniture and equipment	45,800
	Depreciation $45,800 \times 20\%$	9,160
3	Motor vehicle	82,500
	Depreciation $(82,500 - 28,500) \times 25\%$	13,500
4	Computers	36,000
	Depreciation charge $(36,000 - 18,650) \times 50\%$	8,675

b. Ntwali, Mbonyi, Mucyo Partnership Appropriation Account for the year ended 31 December 2020

FRW 000	FRW 000
Interest on fixed capital	Profit for the year 209,015
Ntwali: 15,000	Interest on Drawings
Mbonyi: 9,900	Ntwali: $30,000 \times 10\%$ 3,000
Mucyo 5,100	Mucyo: $15,800 \times 10\%$ 1,580
31 December 2020: Interest on current	Mbonyi: $35,000 \times 10\%$ 3,500
Ntwali: $58,500 \times 15\%$ 8,775	
Mbonyi: $45,600 \times 15\%$ 6,840	Profit to be shared: 125,705
Mucyo: $38,500 \times 15\%$ 5,775	
Salary for Mbonyi: 20,000	
Salary for Mucyo: 20,000	
Profit sharing/Current Account	
Ntwali: $3/6 \times 125,705$ 62,853	
Mbonyi: $2/6 \times 125,705$ 41,902	
Mucyo: $1/6 \times 125,705$ 20,951	

c) Partners' current account

Ntwali current account			
Interest on drawings	3,000	1 Jan 202 Bal b/d	58,500
Drawings	30,000	Interest on capital	15,000
		Interest on current	8,775
Balc/d		Profit shared	62,853
112,128			

145,128	145,128
Mbonyi current account	
Interest on drawings	3,500
Drawings	35,000
Bal c/d	85,742
124,242	124,242
1 Jan 202 Bal b/d	45,600
Interest on fixed capital	9,900
Interest on current	6,840
Profit share	41,902
Salary to partner	20,000

Mucyo current account

Interest on drawings	1,580	1 Jan 202 Bal b/d	35,800
Drawings	15,800	Interest on capital	5,100
		Interest on current	5,775
Bal c/d	70,246	profit share	20,951
		Salary to partner	20,000
87,626	87,626		

d) The following are the advantages of partnership

- 1) Less stringent reporting obligations – no requirement to make financial accounts publicly available, no audit requirement
- 2) Additional capital can be raised because more people are investing in the business
- 3) Division of roles and responsibilities and an increased skill set
- 4) Sharing of risk and losses between more people

The following are the disadvantages of partnership

- 1) Partners are jointly personally liable for all debts (unlimited liability)
- 2) There are costs associated with setting up partnership agreements
- 3) There may be issues of continuity of business in the event of death or illness of the partners
- 4) Slower decision making due to the need for consensus between partners
- 5) Unless a clause is written into the original agreement, when one partner leaves, the partnership is automatically dissolved and another agreement is required between existing partners

END OF MARKING GUIDE AND MODEL ANSWERS