iCPAR
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L 2.1 : FINANCIAL ACCOUNTING

FRIDAY : 13 JUNE 2014

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

This section has one compulsory question

QUESTION ONE

Siphoron, a limited liability company, compiles its financial statements to 30 June annually. At 30 June 2012, the company's list of account balances was as follows:

	Dr	Cr
	Frw '000'	**Frw '000'**
Sales revenue		14,800
Purchases	8,280	
Inventory at 1 July 2011	1,390	
Distribution costs	1,080	
Administrative expenses	1,460	
Land at valuation	10,500	
Buildings: Cost	8,000	
accumulated depreciation at 1 July 2011		2,130
Plant and equipment: cost	12,800	
accumulated depreciation at 1 July 2011		2,480
Trade accounts receivable and payable	4,120	2,240
Cash at bank	160	
Ordinary shares of 50c each: as at 1 July 2011		10,000
-issued during year		4,000
Share premium account: as at 1 July 2011		2,000
-arising on shares issued during year		2,000
Revaluation reserve as at 1 July 2011		3,000
Accumulated profits		3,140
10% loan notes (redeemable 2021) (issued 1 April 2012 with interest payable 31 March and 30 September each year)		2,000
	47,790	**47,790**

The following matters remain to be adjusted for in preparing the financial statements for the year ended 30 June 2012 :

1. Inventory at 30 June 2012 amounted to Frw 1,560,000 at cost. A review of inventory items revealed the need for some adjustments for two inventory lines :

   (i) Items which had cost Frw 80,000 and which would normally be sold for Frw 120,000 were found to have deteriorated. Remedial work costing Frw 20,000 would be needed to enable the items to be sold for Frw 90,000.

   (ii) Some items sent to customers on sale or return terms had been omitted from inventory and included as sales in June 2012. The cost of these items was Frw 16,000 and they were included in sales at Frw 24,000. In July 2012, the items were returned in good condition by the customers.

2. Depreciation is to be provided as follows :

   - Buildings: 2% per year on cost.
   - Plant and equipment: 20% per year on cost.

   80% of the depreciation is to be charged to cost of sales, and 10% each to distribution costs and administrative expenses.

3. The land is to be revalued to Frw 12,000,000. No change was required to the value of the buildings.

4. Accrued expenses and prepayments were:

	Accrued expenses	**Prepayments**
	Frw '000'	**Frw '000'**
Distribution costs	190	120
Administrative expenses	70	60

5. No dividends were paid during the year and no dividend is proposed for the year.

Required :

Prepare for publication, complying as far as possible with the provisions of IAS 1 (Presentation of Financial Statements) and other relevant IFRS

(a) Statement of profit or loss for the year ended 30 June 2012. **(20 Marks)**

(b) Statement of changes in equity **(5 Marks)**

(c) Statement of Financial Position as at 30 June 2012. **(15 Marks)**

(Total 40 Marks)

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

(a) List and explain **three** ways in which the use of historical cost accounting may cause financial statements to be misleading. **(9 Marks)**

(b) The term "reserves" is frequently found in limited companies statements of financial position.

Required :

(i) Explain the meaning of "reserves" in this context **(3 Marks)**

(ii) Give two examples of reserves and explain how each of your examples comes into existence. **(3 Marks)**

(c) A company's issued share capital may be increased by a bonus (capitalization) issue or by a rights issue.

Required:

Define 'bonus issue' and 'rights issue' and explain the fundamental difference between these two types of share issue. **(5 Marks)**

(Total: 20 Marks)

QUESTION THREE

While reviewing the draft accounts of Sunshine Ltd for the year ended 31 December 2012 as prepared by the Chief Accountant, the Managing Director suggests that the written down value of Machinery is very low. To support her argument she produces the following schedule of Machinery on hand at 31 December 2012 :

Item	Year of Purchase	Cost (Frw)	Life	Estimated Scrap Value (Frw)
Machinery 1	2004	205,000	20	25,000
Machinery 2	2009	185,000	20	25,000
Machinery 3	2007	375,000	10	50,000
Machinery 4	2010	470,000	10	50,000
Machinery 5	2007	67,500	8	7,500
Machinery 6	2011	125,000	15	5,000
Truck	2012	1,050,000	4	250,000

After discussing the matter the following policy is agreed:

1. Each item of machinery to be depreciated on a straight line basis to its estimated scrap value over its estimated life.

2. A full year's depreciation to be charged in the year of purchase.

3. On investigation you ascertain that: There is no machinery register and Machinery which includes the truck is shown in the accounts at cost less sales proceeds.

4. For some years depreciation was charged at 15% on the reducing balance and then from 31st December 2004 at 10% of cost less sales proceeds on a straight line basis.

5. The Machinery account for the year ended 31st December 2012 was as follows :

MACHINERY ACCOUNT

	Frw.		**Frw.**
Opening balance		Opening balance	
Cost less sales	4,100,000	Depreciation to date	3,050,000
Truck at cost less trade in of old Truck	700,000	Depreciation for year	480,000
Balance c/d	3,530,000	Balance c/d	4,800,000
	8,330,000		**8,330,000**

You are required to show, after implementing the new policy :

i. The Machinery account as it should appear in the books of the company for the year ended 31st December 2012. **(15 Marks)**

ii. The entries which should appear in the Statement of financial position as at 31st December 2012. **(3 Marks)**

iii. A note explaining the effect on the profits upon the change of depreciation policy. (2 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Explain the terms factory cost and prime cost as used in manufacturing accounts. **(4 Marks)**

(b) Delin Ltd. manufactures sharpeners called Belina on small scale basis. On 1 January 2010, units of Belina in stock were 6,000. During 2010, the company manufactured 200,000 units and sold 190,000 units at a price of Frw 6 each.

The following balances were extracted from the books of account on 31 December 2013.

	Frw
Stock of raw material 1.1.13	23,280
Stock of raw material 31.12.13	32,560
Purchase of raw material	269,000
Carriage on raw material	82,400
Direct wages	185,400
Factory expenses:	
Rent and rates	76,800
Power	34,400
Insurance	31,280
Plant and Machinery (Net of depreciation on 1.1.13)	300,000

The following additional information was available :

1. Stocks of work-in-progress on 1 January and 31 December 2013 were of insignificant value and are to be ignored.
2. Plant and machinery are to be depreciated using reducing balance method at 10 %.
3. Finished units of Belina are valued at factory cost.
4. Factory cost per unit of Belina was the same in 2012 and 2013.

Required :

(i) The manufacturing account for the year ended 31 December 2013, showing clearly the prime cost and factory costs of producing Belina. **(10 Marks)**

(ii) The trading account for the year ended 31 December 2013. **(6 Marks)**

(Total: 20 Marks)

QUESTION FIVE

The following information relate to Kigali Limited for years 2012 and 2013

Balance Sheet	**2012**			**2013**		
	Cost	**Depreciation**	**Net Book Value**	**Cost**	**Depreciation**	**Net Book Value**
	Frw '000'	**Frw '000'**	**Frw '000'**	**Frw '000'**	**Frw '000'**	**Frw '000'**
Plant	200	80	120	220	100	120
Building	1,000	200	800	1,800	220	1,580
			920			1,700
Investments at cost			1,000			1,600
Land			860			1,260
Stock			1,100			1,300
Debtors			800			1,000
Bank			60			-
			4,740			**6,860**
Ordinary shares at Frw 20 each			800			1,000
Share premium			240			280
Revaluation Reserve			-			400
Profit and Loss Account			500			500
10% Debentures			2,000			3,000
Creditors			800			1,200
Proposed Dividends			400			400
Bank			-			80
			4,740			**6,860**
Profit & Loss Account						
Sales			4,000			4,000
Cost of Sales			2,000			2,400
Gross Profit			2,000			1,600
Expenses			1,200			1,200
Net profit			800			400
Dividends			400			400
			400			-
Balance b/f			100			500
Balance c/f			**500**			**500**

Required:

(a) Calculate for Kigali Ltd. for 2012 and 2013 the following ratios :

i) Return on capital employed. **(1 Mark)**

ii) Debtor's turnover. **(1 Mark)**

iii) Creditor's turnover. **(1 Mark)**

iv) Current ratio. **(1 Mark)**

v) Quick assets (acid test) ratio. **(1 Mark)**

vi) Gross profit percentage. **(1 Mark)**

vii) Net profit percentage. **(1 Mark)**

viii) Dividend cover. **(1 Mark)**

ix) Gearing ratio **(1 Mark)**

(b) Using the summarized accounts given and ratios you have just prepared, comment on the financial position and prospects of Kigali Ltd. **(3 Marks)**

(c) Discuss the qualities of useful financial statements **(6 Marks)**

(d) To what extent do international financial reporting standards assist in achieving some of these qualities? **(2 Marks)**

(Total: 20 Marks)

End of question paper