INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

MONDAY: 9 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

a) Financial statements for the period are normally issued for users use after the end of the period.

Required:

(i) Define events after the reporting date according to IAS 10 "Events after the reporting date"; **(3 Marks)**

(ii) Differentiate between adjusting and non-adjusting events after the reporting date. **(4 Marks)**

b) Lambert Ltd provided the following two events for your review:

1. A case that was pending in court against an insurance company for a claim for accident damage Frw 5,500,000 was decided by the court on the 4th February 2014. The court awarded the company a claim for the Frw 4,000,000 to be paid by the insurance company. There was no amount recognized in the financial statements for the year ended 31 December 2013.
2. On the 10 May 2014, inventory that cost Frw 650,000 was sold for Frw 510,000. This inventory was recorded in the inventory as at 31 December 2013 at cost.

The audited financial statements for year ended 31 December 2013 were to be signed by the directors on the 28th March 2014 to necessitate the filing of returns with RRA.

Required :

(i) For each of the two events, determine whether they fall within the requirements in IAS 10 'Events after the reporting date' and **(4 Marks)**

(ii) State with amounts included, what needs to be done for the financial statements to be complete to be signed. **(4 Marks)**

c) Livity Ltd is located in the free trade zone of Kigali. It buys and sells products from Malaysia after resizing them to smaller sizes. They provided for you the following trial balance for the year ended 31 March 2014.

	Frw "000"	**Frw "000"**
10% Non-redeemable preferences shares		49,700
Advertising and carriage outwards	16,100	
Allowance for receivables, 1 April 2013		700
Bank balance		2,800
Custom duties paid on importation of purchases	7,700	
Government grant balance as at 1 April 2013		3,450
Dividend paid on 01 January 2014: -Preference	4,200	
Equipment and fittings at cost	41,300	
Equipment and fittings, accumulated depreciation, 1 April 2013		7,700
Foreign exchange gain		6,350
Ordinary shares of par value Frw50 each		54,600
Importation transport, insurance and freight	2,450	

	Frw "000"	Frw "000"
Inventory at 1 April 2013	11,200	
Land at cost	16,450	
Purchases	122,500	
Retained earnings at 1 April 2013		10,500
Revenue		147,000
Salaries and wages	12,600	
Share premium account		5,600
Trade payables		16,940
Trade receivables	21,700	
Warehouse building at cost	52,500	
Warehouse expenses	840	
Warehouse, accumulated depreciation, 1 April 2013		4,200
Total	**309,540**	**309,540**

Additional information:

1. Closing inventory has been counted and valued at Frw 12,600,000 which was the net realizable value.
2. Warehouse expenses include fire insurance paid for the half a year to 31 August 2014 of Frw 120,000. The expense does not include expense for security of Frw 60,000 for the month of March 2014.
3. A customer with a balance of Frw 310,000 as at 31 March 2014 was declared insolvent by Nyarungenge Commercial Court. The amount owing should be written off as irrecoverable debt. Adjust the allowance for receivable to Frw 630,000
4. The equipment and fittings is to be depreciated at 10% reducing balance basis.
5. Warehouse building is to be depreciated over 50 years straight line basis which is the lease time for being in the free trade zone. However, the land is not to be depreciated since the lease can be renewed under other terms.
6. The government grant received amounted to Frw 3,750,000 when the warehouse was built. It is recognized as income (amortized) at the same rate as the warehouse over 50 years.
7. Income tax for the year was assessed and should be provided for Frw 700,000.
8. Final dividends of Frw 1 per ordinary share and remaining dividend for the 10% non-redeemable preferences shares were proposed on 31 March 2014.

Required:

(i) Statement of profit or loss for the year ended 31 March 2014 **(13 Marks)**

(ii) Statement of financial position as at 31 March 2014 **(12 Marks)**

Note: Your answer should be to the nearest Frw 000.

(Total: 40 Marks)

SECTION B *(Attempt three of the four questions in this section.)*

QUESTION TWO

a) State any four benefits of preparing the statement of cash flows **(4 Marks)**

b) Lango Ltd provided the following information for two years ended 31 March for you to assist in the preparation of statement of cash flows.

Assets	**2014**	**2013**
Non-current assets	**Frw "000"**	**Frw "000"**
Property, plant and equipment	24,000	20,200
Intangible assets	6,300	5,800
Investments	5,200	4,700
Total non-current assets	**35,500**	**30,700**
Other current assets	32,500	28,000
Cash and cash equivalents	10,000	3,700
Total assets	**78,000**	**62,400**
Equity And Liabilities		
Equity attributable to owners of the parent		
Share capital (Frw1 ordinary shares)	18,000	15,000
Share premium	1,000	-
Other reserves	2,000	-
Retained earnings	21,700	16,400
Total equity	**42,700**	**31,400**
Non-current liabilities		
Long-term borrowings	16,000	18,000
Current liabilities	**19,300**	**13,000**
Total liabilities	35,300	31,000
Total equity and liabilities	**78,000**	**62,400**

Additional information :

1. The profit for the year 2014 amounted to Frw 6,300,000 and this was after income tax paid in advance of Frw 400,000. Dividend was paid at the end of the year before the rest of profit being retained.
2. There was no disposal of property, plant and equipment during the year. The depreciation charge for the year amounted to Frw 500,000. Property was revalued upwards included in other reserves during the year by Frw 1,500,000.
3. Intangible asset amortization amounted to Frw 150,000. There was no disposal of intangible assets.
4. The investments value increased in value with the increase recognized in other reserves. There were no acquisitions or disposal of investments during the year.

Required:

(i) Prepare a statement of cash flows for Lango Ltd for the year ended 31 March 2013 in accordance with (IAS 7 Statement of Cash Flows). **(12 Marks)**

(ii) Calculate the debt to equity ratio for the two years and comment **(4 Marks)**

(Total: 20 Marks)

QUESTION THREE

The following draft accounts have been prepared by the treasurer of Progressive Members Only Club:

Income and Expenditure Account for the year ended 31 December 2013		
	Frw '000'	**Frw '000'**
Sundry income		24,127
Expenditure		
Use of premises	4,812	
Printing, postage and stationery	783	
Overdue members' subscriptions written off	120	
Members' welfare	520	
Restaurant purchases	7,720	
Wages	2,080	
Reference books purchased	2,331	(18,366)
Surplus for the year		**5,761**

Statement of Financial Position as at 31 December 2013

	Frw'000
Minibus (Cost:1 January 2011)	6,000
Library and furniture	1,380
Members subscriptions due	5,400
Cash in hand	120
Bank: Fixed deposit account	1,500
:Current account	2,810
10% Treasury bond (Frw 10 million nominal value)	10,000
	27,210
Less: Owing for restaurant purchases	(1,867)
Club funds as at 31 December 2013	**25,343**

Additional information :

1. The treasurer had little accounting knowledge and some figures appearing in the draft accounts were incorrect.
2. The club's policy on outstanding subscriptions was to write off amounts outstanding for a period exceeding five years. As at 1 January 2013, subscriptions outstanding from members were Frw 3,120,000
3. The club's premises were purchased on 1 October 2013 for Frw 4 million. This amount was posted to the use of premises account in the draft accounts.
4. The Treasury bond was purchased for Frw 9.3 million on 1 January 2009 by utilizing donations earmarked for a member's welfare fund. Up to 31 December 2012, the income received from this investment had been distributed to members. The income for the year ended 31 December 2013 was included under sundry income as resolved at the annual general meeting held on 10 April 2013.
5. The club runs a restaurant for the benefit of members. This restaurant sells stock at a mark-up of 30%. The income from restaurant sales amounting to Frw 9,927,000 was included under sundry income. There was no opening stock as at 1 January 2013 and the club owed suppliers Frw 1,625,000 as at 1 January 2013. Restaurant closing stock as at 31 December 2013 was not ascertained.
6. The balance on the fixed deposit account as at 1 January 2013 amounted to Frw 1,500,000 reflected in

the Statement of financial position as at 31 December 2013. No account was taken of interest amounting to Frw 100,000 which had been credited to the fixed deposit during the year.

7. As at 1 January 2013, cash in hand was Frw 100,000 and the bank current account was overdrawn by Frw 893,000.
8. The reference books purchased during the year are to be capitalized as part of the library. Library and furniture are to be revalued to Frw 5,000,000
9. Depreciation is to be provided based on the cost of the assets as follows:
    - Club premises 2% per annum
    - Minibus 20% per annum

Required :

(a) Income and expenditure account for the year ended 31 December 2013. **(10 Marks)**

(b) Statement of financial position as at 31 December 2013. **(10 Marks)**

(Total: 20 Marks)

QUESTION FOUR

Brilliant Ltd, a company dealing in retail products, has the following balances extracted from the books of accounts as at 30 April 2014 :

	Frw "000'"	**Frw "000"**
Freehold land: Cost	121,500	
Buildings: Cost	431,000	
Accumulate depreciation		68,960
Plant and machinery: Cost	64,172	
Accumulated depreciation		16,074
Sales		1,312,567
Purchases	839,004	
Cash in hand	1,268	
Creditors ledger control account		21,172
Electricity	6,917	
Ordinary share capital		50,000
Cash at bank	1,210	
Debtors ledger control account	61,074	
Suspense account	4,300	
Inventory as at 1 May 2013	41,912	
Retained profits		296,057
Motor vehicle expenses	4,174	
Sundry expenses	2,002	
Salaries and wages	121,600	
Directors remuneration	48,999	
Bank charges	1,621	
Motor vehicles: Cost	28,900	
Accumulated depreciation		14,712
	1,779,542	**1,779,542**

Additional information:

1. Provision for doubtful debts should be made at 2% of the debtors ledger balances after writing of bad debts amounting to Frw 1,370,000.
2. The suspense account was analyzed as follows:

	Frw "000"	Frw "000"
Bad debts written off during the year		512
Motor vehicle purchased on 1 October 2013		7,400
		7,912
Less: motor vehicle sold on 1 October 2013	3,000	
Amounts received in respect of a bad debt recovered	612	(3,612)
		4,300

3. The motor vehicle sold during the year had been purchased on 1 February 2011 for Frw 6,500,000.
4. Bank statement as at 30 April 2014 showed bank charges of Frw 533,000. This had not been recorded in the cash book.
5. The debtor's ledger control account did not agree with the list of balances in personal accounts. You ascertain that some invoices for May 2014 had been posted in the personal accounts as at April 2014. The list of balances was overstated by Frw 4,300,000.
6. Estimated corporation tax for the year ended 30 April 2014 was Frw 131,700,000.
7. The value of inventory as at 30 April 2014 amounted to Frw 62,047,000.
8. The directors proposed to pay an ordinary dividend of 10% of issued share capital.
9. The following petty cash expenditure had not been recorded :

	Frw "000"
Motor vehicle expenses	412
Sundry expenses	91
Casual workers wages	36

10. Depreciation is provided at the following rates:
    - Buildings 2% per annum on cost
    - Plant and machinery 20% per annum on reducing balance basis.
    - Motor vehicle 25% per annum on cost

    Full year's depreciation is provided in the year of purchase and none in the year of disposal.

Required:

a) Statement of Comprehensive Income for the year ended 30 April 2014. **(12 Marks)**

b) Statement of Financial Position as at 30 April 2014 **(8 Marks)**

(Total: 20 Marks)

QUESTION FIVE

Supreme Limited, a listed company, is a retailer that sells clothing. The Managing Director of the company is an aggressive person. Supreme Limited expanded in its operations and employed a famous designer to design new stylish clothing and to restyle its clothing products. Sales increased significantly during the year to 30 April 2013; however, the profitability of the company was disappointing. You are asked by the Managing Director to write a report to analyse the financial position of Supreme Limited for the year to 30 April 2013. The ratios of Supreme Limited for the years to 30 April 2012 and 2013 have been calculated as follows:

	2013	**2012**
Return on capital employed	10%	35%
Asset turnover	2 times	3 times
Gross profit margin	9%	19%
Net profit margin	2%	7%
Current ratio	0.7:1	0.7:1
Gearing ratio	30%	15%
Dividend cover	4 times	25%

REQUIRED:

(a) What are the problems of using ratio analysis in evaluating the performance of a company? **(4 Marks)**

(b) Evaluate the financial performance of Supreme Limited for the two years ended 30 April 2012 and 2013.

Your evaluation should include areas of:

(i) Management efficiency; **(6 Marks)**

(ii) Liquidity and gearing; **(3 Marks)**

(iii) Returns to shareholders; **(3 Marks)**

(iv) Working capital management. **(4 Marks)**

(Total: 20 Marks)

End of question paper