INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 12 JUNE 2015

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3hours 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) General purpose financial statements for the period are normally issued for users to enable them use the financial statements appropriately. As such the financial statements should possess certain fundamental and enhancing qualitative characteristics.

REQUIRED:

According to the IASB conceptual framework for reporting

(i) State any three users and their user needs of general purpose financial statements; **(6 Marks)**

(ii) What are the objectives of general purpose financial statements? **(2 Marks)**

(iii) Briefly explain the fundamental and enhancing qualitative characteristics of general purpose financial statements **(12 Marks)**

b) Sokorwa Ltd imports consumer goods and sell to local traders on wholesale terms. The company Accounts Assistant provided to you the following trial balance for the year ended 31 March 2015.

	Frw 000	Frw 000
8% Preferences shares		124,250
Advertising and carriage outwards	40,250	
Allowance for receivables, 1 April 2014		1750
Bank balance		7,000
Bank loan repayable in 2017 (Secured on warehouse)		21,125
Carriage inwards and insurance	6,125	
Dividend paid on 01 January 2015: -Preference	10,500	
Equipment and fittings at cost	103,250	
Equipment and fittings, accumulated depreciation, 1 April 2014		19,250
Importation taxes for purchases	19,250	
Inventory at 1 April 2014	28,000	
Land at cost	41,125	
Loading and offloading expenses	2,100	
Ordinary shares of par value Frw100 each		136,500
Purchases costs	306,250	
Rental income from warehouse		3,375
Retained earnings at 1 April 2014		26,250
Revenue		367,500
Salaries and wages	31,500	
Share premium account		14,000
Trade payables		42,350
Trade receivables	54,250	
Warehouse building at cost	131,250	
Warehouse, accumulated depreciation, 1 April 2014		10,500
Total	**773,850**	**773,850**

Additional information:

1. Closing inventory has been valued at cost Frw 30,600,000. The net realizable value was estimated to be Frw 29,000,000.

2. Off loading charges of Frw 180,000 had not been paid as at year end. Importation taxes amounting to Frw 600,000 was paid in March 2015 in advance.

3. No account receivable should be written off however the allowance for receivables should be adjusted to 5% of receivables balance at the end of the year

4. The equipment and fittings is to be depreciated at 10% reducing balance basis.

5. Warehouse building is to be depreciated over 50 year's straight line basis.

6. The bank loan was borrowed at an effective interest rate of 15% and interest for the year had not been paid as at year end.

7. Income tax for the year was assessed to be Frw 1,700,000.

8. Final dividends of Frw 2 per ordinary share and remaining dividend for the 8% preferences shares were proposed on 31 March 2015.

REQUIRED:

(i) Statement of profit or loss for the year ended 31 March 2015 **(10 Marks)**

(ii) Statement of financial position as at 31 March 2015 **(10 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) A Receipts and Payments account may replace the Income and Expenditure account for a non-profit making entity. Discuss this statement in the context of large non-profit organization **(4 Marks)**

b) Power for Women Group is a non-profit making entity that operates a retail business to assist in income generating activities so as to fund its expanding expenditure in its social work activities for women in Kayonza. The Accountant provided the following for you to assist in preparation of three control accounts:

31 December	2014	2013
	Frw"000"s	Frw"000"s
Subscriptions Accrued	250	180
Subscriptions Received in Advance	130	100
Receivables Balance	4,600	4,900
Amounts Received from Receivables in Advance	250	360
Payables Balance	1,800	1,730
Cash Sales	22,000	17,000
Cash Purchases	410	350
Returns Inwards from Credit Customers	68	
Returns Outwards to Credit Suppliers	55	
Discount Allowed to Credit Customers	480	
Discount Received from Credit Suppliers	510	
Cash And Cheques Paid to Payables	35,900	
Cash Received for Subscriptions	14,800	
Cash and Cheques Received from Receivables	50,600	
Customer's Cheque Dishonored	90	
Contra	480	
Refund to Customer by Cheque	80	
Bad Debt to Be Written Off – Receivables	180	
Subscriptions Accrued to be Written Off	28	

REQUIRED:

Use control accounts to determine the following;

(i) Subscriptions income for the year ended 31 December 2014 **(4Marks)**

(ii) Total sales for the year ended 31 December 2014 **(7Marks)**

(iii) Total purchases for the year ended 31 December 2014. **(5 Marks)**

(Total 20 Marks)

QUESTION THREE

Mbonubukeye Limited manufacturers farm implements. The following list of balances was extracted from the books of account of the company as at 31 December 2014.

Inventory as at 1 January 2014:	Frw
Raw Materials	1,270,000
Work In Progress	1,555,000
Finished Goods	1,163,000
Purchase of Raw Materials	4,576,750
Carriage of Raw Materials	98,000
Direct Labour	4,210,400
Office Salaries	1,670,950
Rent	260,000
Electricity (Office)	221,000
Depreciation Expense Machinery	510,000
Equipment (Office)	115,000
Sales	15,931,100
Electricity (Factory)	406,000

Additional information:

1. Inventory as at 31 December 2014 was given as follows :

Raw Materials	1,445,000
Work In Progress	1,230,000
Finished Goods	1, 442,000

2. Rent is to be apportioned between the factory and office in the ratio of 3:1
3. Finished goods are transferred from factory to sales at mark up of 20%
4. The values of opening and closing inventory are given at the transfer price

REQUIRED:

i) Manufacturing Account for the year ended 31 December 2014 **(12 Marks)**

ii) Statement of proft or loss for the year ended 31 December 2014 **(8 Marks)**

(Total 20 Marks)

QUESTION FOUR

The following information was extracted from the books of OPERA Ltd for the period ended 2013 and 2014

	2013 Frw "000"	2014 Frw "000"
Assets		
Non-Current Assets		
Land	40,000	60,000
Plant and Equipment	30,000	50,000
Fixtures and Fittings	48,500	120,000
	118,500	**230,000**
Current Assets		
Inventory	22,750	73,250
Trade Receivables	14,350	22,900
Cash	15,250	21,300
Total Current Assets	**52,350**	**117,450**
Total Assets	**170,850**	**347,450**
Equity And Liabilities		
Share Capital And Reserves		
Ordinary Share Capital	85,000	120,000
Share Premium	30,000	45,000
Revaluation	-	20,000
General Reserves	9,500	9,500
Retained Profit	4,800	11,250
Total Equity	**129,300**	**205,750**
Non-Current Liabilities		
7 % Debentures 2018	-	75,000
Current Liabilities		
Trade Payables	16,700	41,400
Bank Overdraft	3,950	2,650
Corporation Tax	8,400	10,150
Proposed Dividends	12,500	12,500
Total Liabilities	**41,550**	**141,700**
Total Equity and Liabilities	**170,850**	**347,450**

Statement of profit or loss year ended December 2014	
	Frw "000"
Net profit before tax	32,950
Taxation	(11,500)
Net profit after tax	21,450
Dividends	(15,000)
Retained profit for year	6,450

The following additional information is provided in relation to the year ended 31 December 2014.

a) Plant and Machinery with a book value of Frw 5,000,000 was sold for Frw 4,000,000.

b) New Plant was purchased for Frw 32,500,000.

c) Fixtures and Fittings with a net book value of Frw 8,500,000 were sold for Frw 9,000,000.

d) Depreciation provided on Fixtures and Fittings amounted to Frw 10,000,000

e) The Debentures were issued on 01 January 2014.

REQUIRED:

a) Statement of cash flows with reference to IAS 7 for the year ended 31 December 2014. **(16 Marks)**

b) State the reason why Direct Method may be better in presenting Cash Flows than the Indirect Method. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

The following financial statements were prepared from the books of Ration Ltd.

	Frw '000'	**Frw'000'**
Sales: Cash	400	
Credit	1,000	1,400
Cost of Sales		
Opening Stock	110	
Purchases (all on credit)	800	
Goods available	910	
Less Closing Stock	(140)	(770)
Gross Profit		630
Less: Expenses		(420)
Profit before Tax		210
Less: Estimated Corporation Tax		(100)
Profit after Tax		110

Balance Sheets as at 30 June

	2014	2013
	Frw '000'	Frw '000'
Non-Current Assets (Net)	370	400
Current Assets		
Stock	140	110
Debtors	80	60
Prepaid Insurance	2	3
Cash at Bank	13	-
Cash in Hand	45	12
	280	185
Less Current liabilities		
Creditors	20	66
Taxation	100	85
Dividends	90	68
Bank overdraft	-	41
	210	260
Net current assets	70	(75)
	440	**325**
Financed by:		
Ordinary shares	300	250
Profit and loss account	90	70
Total Equity	390	320
10% debentures	50	5
	440	**325**

REQUIRED:

(a) Calculate the following ratios for the year ended 30 June 2014

(i) Gross Profit Margin **(2 Marks)**

(ii) Net Profit Margin **(2 Marks)**

(iii) Stock Turnover **(2 Marks)**

(iv) Return on Capital Employed **(2 Marks)**

(v) Average Collection Period (In Days) **(2 Marks)**

(vi) Creditors Turnover **(2 Marks)**

(vii) Fixed Asset Turnover **(2 Marks)**

b) Calculate for the year ended 30 June 2013 and 2014:

(i) Current Ratio **(2 Marks)**

(ii) Quick Ratio **(2 Marks)**

(c) Name two limitations of ratio analysis **(2 Marks)**

(Total 20 Marks)

End of question paper