
CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATIONS

F1.3: FINANCIAL ACCOUNTING

WEDNESDAY: 10 JUNE 2015

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

The following trial balance was extracted from the ledger of Ubumwe Ltd for the financial year ended 31 December 2014:

	Notes	Dr. Frw “000”	Cr. Frw “000”
Ordinary share capital			40,000
Land at cost		19,200	
Motor vehicle at cost	1	11,840	
Furniture at cost	1	4,480	
Accounts receivable & payable		26,240	13,600
Bank balance		12,640	
Inventory, 1 January 2014		19,200	
20% bank loan			20,000
Purchases and sales		76,800	105,280
Returns		960	4,320
Salaries	5	19,200	
General expenses		5,600	
Bad debts	2	960	
Provision for bad debts	3		3,360
Commission received			10,880
Discounts		1,920	4,000
Accumulated depreciation:			
Furniture			288
Motor vehicle			352
Retained earnings, 1 January 2014			10,944
Rent	6	8,000	
Electricity		5,984	
		<u>213,024</u>	<u>213,024</u>

Notes:

1. The company charges depreciation on cost, at the rate of 10% on furniture and 20% on motor vehicle, per annum.
2. Bad debts of Frw 640,000 were written off on 30 December 2014 but have not yet been accounted for.
3. Provide for bad debts at the rate of 10% per annum.
4. Inventory at the 31 December 2014 was valued at Frw 23,520,000.
5. Salaries to the tune of Frw 1,920,000 had not yet been paid and had been omitted from the company's books.
6. 20% of the rent paid was for the following financial year.
7. The bank loan was obtained on 1 July 2013 for a period of 5 years. Interest is payable at the end of each financial year, but has not yet been accounted for

REQUIRED:

- (a) Journalize the adjustments. (Ignore narrations) **(7 Marks)**
- (b) Statement of Profit or Loss for the year ended 31 December 2014. **(15 Marks)**
- (c) Statement of Financial Position as at 31 December 2014. **(12 Marks)**
- (d) Briefly explain how the accruals and going concern concepts have affected the preparation of the statements, in (b) and (c) above. **(6 Marks)**
- (Total 40 Marks)**

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

The following information is available in respect of two enterprises X and Y in the same business sector for the year ended 31 December 2014:

	X	Y
	Frw “000”	Frw “000”
Sales	37,200	44,000
Cost of sales	20,460	28,600
Operating profit before interest	5,440	3,280
Share capital	4,000	8,000
Retained profits including for the current year	9,440	6,680
Inventory	3,600	5,280
Long term liabilities	2,000	6,000
Current assets including inventory	8,080	10,216
Current liabilities	4,280	7,056

REQUIRED:

- (a) Calculate the following ratios for X and Y as at 31 December 2014:
- (i) Gross profit percentage **(2 Marks)**
- (ii) Current ratio **(2 Marks)**
- (iii) Acid test ratio (Quick ratio) **(2 Marks)**
- (iv) Return on Capital Employed **(2 Marks)**
- (v) Operating profit percentage **(2 Marks)**
- (vi) Sales to Capital Employed **(2 Marks)**
- (b) Comment on the performance of both X and Y for the year ended 31 December 2014. **(4 Marks)**
- (c) Explain what is meant by working capital management. **(4 Marks)**

(Total 20 Marks)

QUESTION THREE

The following data were obtained from the books of Drum Ltd, a manufacturer, as at 31 December 2014:

	Frw"000"
Raw material purchases	160,000
Indirect materials	16,000
Carriage on materials	1,600
Direct labour cost	360,000
Raw material returns	3,600
Carriage outwards	24,000
Other overheads	108,000
Lighting	28,000
Power for production machines	116,000
Indirect labour costs	36,000
Office salaries	61,600
Administration expenses	100,000
Sales	3,368,000
Advertising	11,200
Bank charges	2,360
Delivery van expenses	6,800
Discounts allowed	3,600
Depreciation:	
Motor vehicle	2,000
Furniture	2,800
Fittings	5,200

The following additional information was provided:

1. Inventory

	1 January 2014	31 December 2014
	Frw"000"	Frw"000"
Raw materials	40,000	28,000
Work in progress	20,000	8,000
Finished goods	16,000	18,400

2. The production machines had the following balances at 1 January 2014:

	Frw"000"
Cost	640,000
Accumulated depreciation	371,200
Net book value	268,800

A machine which had cost Frw 80 million on 1 February 2012 was disposed of during the year at Frw 26 million. This transaction had not yet been accounted for in Drum Ltd's books. The firm depreciates its production machines at the rate of 40% per annum on the reducing balance basis.

- Frw 120 million payable for power for the production machines had not yet been accounted for.
- Lighting was apportioned as follows: factory $\frac{3}{4}$, office $\frac{1}{4}$.
- 70% of other overheads relate to the office while the balance to the factory.

6. A provision of bad debts amounting to Frw 12.8 million was made.
7. Advertising expenses of Frw 0.8 million were prepaid.
8. Manufactured goods are transferred from factory at cost plus 20% mark-up to cater for factory profit.

REQUIRED:

- a) Manufacturing account. **(8 Marks)**
 - (b) Statement of profit or loss for the year ended 31 December 2014. **(12 Marks)**
- Total (20 Marks)**

QUESTION FOUR

- (a) Briefly explain the following types of errors:
 - (i) Error of commission **(2 Marks)**
 - (ii) Error of principle **(2 Marks)**
 - (iii) Complete reversal of entries **(2 Marks)**
 - (iv) Compensating errors **(2 Marks)**
- (b) The trial balance of Ange, a sole trader, did not balance on 30 April 2015. The difference was put in the suspense account. The final accounts, which were then prepared, showed a net profit of Frw 64, 000.

During on audit, the following errors were noted:

- (1) A loan from BRD Bank of Frw 10,000,000 was entered correctly in cashbook but was not posted to the ledger.
 - (2) A cheque of Frw 400,000 for rent received was not entered in the books.
 - (3) Closing stock was overvalued by Frw 150,000
 - (4) Discount allowed of Frw 50, 000 was entered in the discount received account.
 - (5) The opening stock was understated by Frw 320, 000
 - (6) Prepaid insurance of Frw 220, 000 had been included in the profit and loss account.
 - (7) Goods destroyed by fire amounting to Frw 1, 200, 000 were written off in the profit and loss account.
- However the insurance company has agreed to compensate the full amount.

REQUIRED:

- (i) Journal entries to correct the errors. **(12 Marks)**
- Total (20 Marks)**

QUESTION FIVE

(a) The accounting profession is guided by the generally accepted accounting practices, commonly referred to as accounting standards

(i) Name and explain the advantages of the accounting standards in preparation of financial statements. **(5 Marks)**

(ii) What are the shortcomings of accounting standards **(5 Marks)**

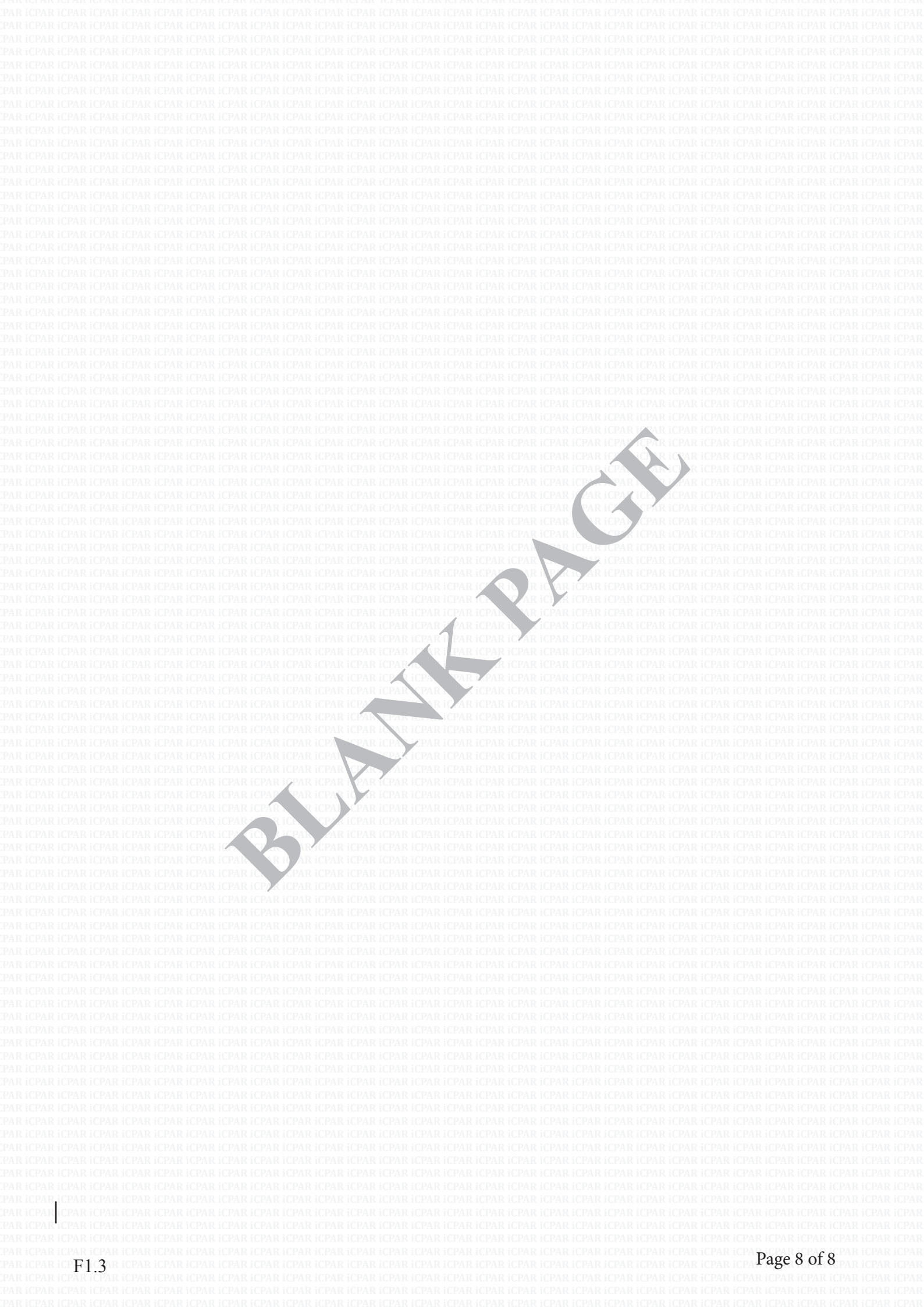
(b) Discuss the qualities of useful financial statements **(8 Marks)**

(c) Explain to what extent do international accounting standards assist in achieving some of the qualities explain in (b) above. **(2 Marks)**

Total (20 Marks)

End of question paper

BLANK PAGE



BLANK PAGE