CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 1 EXAMINATION

L1.1: INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 6 JUNE 2016

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15minutes** (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) Accounting practices rest on certain guidelines applied when recording, measuring, processing and communicating financial information to the different users. Accounting is also governed by a set of rules that are commonly referred to as 'Generally Accepted Accounting Principles (GAAP)'.

Required:

(i)With reference to the GAAP, explain the following accounting concepts:

- Accrual **(1 Mark)**
- Going concern **(1 Mark)**
- Substance over form **(1 Mark)**
- Business entity **(1 Mark)**
- Consistency **(1 Mark)**

(ii) Explain the accounting equation. **(2 Marks)**

(b) Bizimana Francisco operates a small grocery business in Gatuna. The following transactions relate to his business activities for the year ended 31 December, 2015.

1	Started business in January, 2015 with cash Frw 12,000,000.
2	Made cash payment Frw 100,000 for trading license for the year 2015.
3	Made cash payment Frw 1,200,000 for shop rent for 6 months ending June, 2015.
4	Bought office furniture cash Frw 1,000,000.
5	Bought office computer cash Frw 800,000.
6	Bought goods cash Frw 5,000,000 for resale.
7	Made cash sales Frw 4,500,000.
8	Made cash payment Frw 750,000 for utilities.
9	Received cheque payment Frw 2,000,000 for goods sold.
10	Bought goods Frw 2,500,000 on credit from Paul.
11	Paid staff wages and salaries Frw 1,200,000 by cheque.
12	Made chegue payment Frw 1,300,000 for goods bought on credit from Paul.
13	Withdrew cash Frw 500,000 for personal use.
14	Bought goods cash Fwr 3,000,000 for resale.
15	Made cash contribution towards his cousin's wedding Fwr 1,300,000.
16	Made cash sale Fwr 7,000,000.
17	Made cash payment Fwr 2,500,000 for staff medical expenses.
18	Made cash donation Fwr 650,000 to Rwanda Red Cross Society.
19	Made cash payment Fwr 235,000 towards telephone expenses.
20	Made cash payment Frw 1,600,000 for shop rent for 8 months period ending February, 2016.
21	Received cheque payment Frw 5,500,000 for goods sold.

Required:

(i) Open the ledgers, post entries, balanced off ledger accounts. **(10 Marks)**

(ii) Prepare a trial balance as at 31 December, 2015. **(7 Marks)**

(iii) A statement of profit or loss for period ended 31 December, 2015. **(8 Marks)**

(iv) A statement of financial position as at 31 December, 2015. **(8 Marks)**

Total (40 Marks)

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

Mutesi is a sole trader in Gisenyi. She operates a business bank account through which all business related transactions are effected. On 27 November, 2015 Mutesi attended a business workshop organised by one of the local banks in the area. During the workshop, the presenter highlighted the importance of preparing bank reconciliation statements on a monthly basis.

On 2 December, 2015 Mutesi received a bank statement for the month of November, 2015 and upon verification with her records, the following issues were noted:

1	The bank statement had a credit closing balance Frw 3,500,000 whereas her cash book (bank column) had a debit closing balance Frw 4,770,000.
2	A cheque payment issued to a supplier Frw 300,000 had not yet been presented to the bank for clearance.
3	A cheque payment Frw 250,000 issued by Mutesi on 29 November, 2015 for clearing electricity bills had not yet been debited by the bank.
4	Bank charges Frw 100,000 deducted by the bank had not yet been captured in the cashbook.
5	A standing order for water bills Frw 200,000 had not been recorded in Mutesi's cashbook.
6	A cheque payment Frw 4,500,000 received from a customer had been recorded in the cash book as Frw 5,400,000.
7	A cheque payment received on 30 November, 2015 from a customer Frw 120,000 and deposited in the bank had not been credited to Mutesi's account by the bank.
8	A cheque payment from a customer Frw 500,000 banked on 28 November, 2015 had been dishonoured by the bank but this information had not been received by Mutesi.

Required:

(a) Differentiate between a bank statement and bank reconciliation statement. **(2 Marks)**

(b) Explain any six reasons why a cheque may be dishonoured by a bank. **(6 Marks)**

(c) Using the above information, prepare:

(i) An adjusted cashbook for the month ended 30 November, 2015. **(6 Marks)**

(ii) A bank reconciliation statement beginning with the adjusted cash book balance in (c) (i) above. **(6 Marks)**

Total (20 Marks)

QUESTION THREE

(a) (i) Explain the straight line method of calculating depreciation. **(4 Marks)**

(ii) Explain the factors that should be considered in estimating the useful life of an asset. **(6 Marks)**

(b) Kanzayire Enterprises Limited (KEL) is one of the leading hardware dealers in Kigali and has been in this business for the last 10 years. The company depreciates its motor vehicles at an annual rate of 20% on a straight line basis and charges full year depreciation in the year of acquisition and none in the year of disposal. The company's motor vehicles account had an opening balance of Frw 65,500,000 at the beginning of the year 2015. During the year ended 31 December, 2015, the company decided to dispose of one of its pick-up trucks which was bought at Frw 25,000,000 in 2012 for Frw 17,000,000 and instead acquired a Fuso Fighter truck at a cost of Frw 45,000,000.

Required:

(i) Differentiate between Current assets and Non-current assets. **(3 Marks)**

(ii) Prepare the following accounts as at 31 December, 2015:

- Motor vehicles **(2 Marks)**
- Motor vehicles depreciation **(1 Mark)**
- Motor vehicles disposal **(2 Marks)**
- Accumulated depreciation **(2 Marks)**

Total (20 Marks)

QUESTION FOUR

(a) With examples, differentiate between capital expenditure and revenue expenditure. **(4 Marks)**

(b) Identify and explain errors that may cause a trial balance not to balance. **(6 Marks)**

(c) Promise Rwanda Limited (PRL) is a distributor company dealing hardware. While extracting the trail balance for the year ending 31 December, 2015, the accountant noted a difference of Frw 44,250,000 being a shortage on the debit side and temporarily posted it to the suspense account so that the process of preparing the financial statements could continue as the causes of the imbalance were being investigated. Upon scrutiny, the following issues were discovered:

(i) The purchase of a motor vehicle for office Frw 25,000,000 had been recorded by debiting Frw 2,500,000 to the motor vehicles account and crediting Frw 25,000,000 to the bank account.

(ii) Credit sales Frw 4,250,000 to Muhabura Construction Ltd had been debited in error to Rubavu Construction Ltd.

(iii) A cheque payment to Munyaneza Investments Ltd Frw 37,500,000 had been correctly entered in the cash book but had not been entered in Munyaneza Investments Ltd's account.

(iv) The rent expense account had been under cast by Frw 7,500,000.

(v) A cheque Frw 23,250,000 received from Kabeho & Sons Ltd had been correctly recorded in the cash book, but had not been entered in Kabeho & Sons Ltd's account.

(vi) A sale of office furniture at book vale Frw 700,000 had been credited in error to the sales account.

(viii) Goods returned to Gitarama Roofings Ltd Frw 750,000 were recorded at a value of Frw 570,000 in the returns inwards journal.

Required:

(i) Journal entries to correct the above errors (ignore narrations). **(7½ Marks)**

(ii) A suspense account showing the correction of the errors. **(2½ Marks)**

Total (20 Marks)

QUESTION FIVE

(a) Explain the following terminologies as used in accounting:

(i) Financial accounting **(2 Marks)**

(ii) Management accounting **(2 Marks)**

(iii) Cost accounting **(2 Marks)**

(b) Differentiate between double entry system and a trial balance **(4 Marks)**

(c) Giving at least one example in each case, explain any five errors that cannot be detected by a trial balance. **(10 Marks)**

(Total 20 Marks)

End of question paper

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