INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATION

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 10 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) Belittle Limited has been making profits for the last 5 years. However, they have also been experiencing cash flow problems. The new Managing Director has requested the accountant to explain how the company can be making profits and yet experience cash flow problems.

Required

Prepare an appropriate response to the Managing Director. **(3 Marks)**

(b) The following receipts and payments account was prepared for the Patriots Sports Club of Kigali for the year ended 31 December, 2015.

	Frw '000'		Frw '000'
Subscriptions received	100,000	Balance b/ f	10,365
Donations	70,000	Fundraising expenses	12,875
Competition income	20,340	Donations to charities	49,680
Fundraising income	40,567	Rent	50,000
Coffee shop cash sales	34,500	Salaries	20,000
Receipts from coffee shop credit customers	49,700	Stationery	15,500
Balance c/ f	69,053	Conference expenses	35,980
		Payments to coffee shop credit suppliers	38,500
		Coffee blending machines	70,800
		Extension to the building	80,460
	384,160		**384,160**

Additional information:

1. Balances as at 31 December:

	2014	**2015**
	Frw '000'	**Frw '000'**
Coffee shop receivables	12,750	18,450
Coffee shop inventory	5,540	6,540
Coffee shop payables	6,560	7,840
Buildings (cost 105,800,000)	99,452	?
Motor vehicles (cost 86,500,000)	69,200	?
Ordinary subscriptions in arrears	21,460	21,900
Ordinary subscriptions in advance	15,340	17,350
Prepaid rent	3,505	4,505
Accrued salaries	4,395	4,500

2. 20% of the subscriptions received during the year were life subscriptions. Life subscriptions are recognized over a period of 20 years.
3. 20% of the rent, salaries and stationery are to be apportioned to the coffee shop.
4. The coffee blending machines are to be capitalized over a period of 5 years.

5. The extension to the building is also to be capitalized.

6. Buildings are depreciated at a rate of 2% per annum on cost while motor vehicles at 20% per annum on reducing balance. A full year's depreciation is charged in the year of acquisition.

Required:

(i) A statement of affairs for the Patriots Sports Club of Kigali as at 1 January, 2015. **(5 Marks)**

(ii) A statement of profit or loss for the coffee shop for the year ended 31 December, 2015. **(10 Marks)**

(iii) An income and expenditure statement for the Patriots Sports Club of Kigali for the year ended 31 December, 2015. **(12 Marks)**

(iv) A statement of financial position for the Patriots Sports Club of Kigali as at 31 December, 2015. **(10 Marks)**

(Total 40 Marks)

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

(a) Explain the following terms as used in public sector accounting:

(i) Cash accounting. **(2 Marks)**

(ii) Accrual accounting. **(2 Marks)**

(iii) Modified cash accounting. **(2 Marks)**

(b) Distinguish between International Financial Reporting Standards and International Public Sector Accounting Standards. **(4 Marks)**

(c) Rwanda adopted the International Public Sector Accounting Standards (IPSAS) with a view of improving the financial reporting of the public sector entities.

Required:

(i) Discuss four advantages that are likely to arise from the usage of the IPSAs by public entities. **(4 Marks)**

(ii) Discuss four challenges that are likely to be faced by Rwanda in the process of implementing the IPSAS. **(6 Marks)**

(Total: 20 Marks)

QUESTION THREE

Jean Pierre Limited is preparing to obtain a loan from Bank of Gisenyi in July, 2016 to expand their business operations in the neighboring countries which were found to be very lucrative in 2015. A discussion with the bank Credit Manager reveals that the bank normally advances big loans to clients basing on their financial statements of the previous financial year. Bank of Gisenyi, however, uses ratios which are very stringent to evaluate first time customers who desire to obtain big loans. The ratios on which the bank bases to evaluate customers are given below:

Ratio	**Bank required ratio**
Current ratio	3.0:1
Acid test ratio	2.5:1
Gearing ratio (debt to total capital employed)	10%
Interest cover	20 times
Gross profit margin	40%
Operating profit margin	20%
Return on capital employed	20%

Jean Pierre Limited has provided the following financial statements.

Statement of profit or loss for the year ended 31 December:

	2015		**2014**	
	Frw '000'	Frw '000'	Frw '000'	Frw '000'
Sales		555,000		400,000
Cost of sales:				
Opening inventory	120,000		85,000	
Purchases	350,800		285,000	
Closing inventory	(45,800)	425,000	(40,000)	330,000
Gross profit		130,000		70,000
Operating expenses		(40,000)		(30,000)
Operating profit		90,000		40,000
Finance costs		(8,000)		(5,000)
Profit before tax		82,000		35,000
Tax		(24,000)		(10,500)
Net profit		58,000		24,500

Statement of financial position as at 31 December:

	2015		**2014**	
Non-current assets	**Frw '000'**	**Frw '000'**	**Frw '000'**	**Frw '000'**
Equipment at cost	1,000,000		800,000	
Acc depreciation	(160,000)	840,000	(67,000)	733,000
Current assets				
Inventory	40,800		60,000	
Accounts receivable	78,000		75,000	
Bank	5,000	123,800	2,000	137,000
Total assets		963,800		870,000
Equity & liabilities				
Share capital	568,300		524,500	
Retained earnings	250,000	818,300	225,500	750,000
Non- current liabilities				
5 year bank loan		100,500		90,000
Current liabilities				
Trade payables		45,000		30,000
Total equity and liabilities		**963,800**		**870,000**

Required:

(a) Compute the following ratios:

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

(ii) Acid test ratio **(1 Mark)**

(iii) Gross profit margin **(1 Mark)**

(iv) Return on capital employed **(1 Mark)**

(v) Operating profit margin **(1 Mark)**

(vi) Gearing ratio **(1 Mark)**

(vii) Interest cover **(1 Mark)**

(viii) Debtors payment period **(1 Mark)**

(ix) Creditors payment period **(1 Mark)**

(b) As an Accountant in the finance department of Jean Pierre Limited, write a report to the Managing Director analyzing the performance of the company in 2015 compared to 2014. In your report highlight the possibility of obtaining the loan given the ratio requirements of the bank. **(11 Marks)**

(Total: 20 Marks)

QUESTION FOUR

(a) Explain the fundamental assumptions which underpin the preparation and presentation of financial statement as per International Accounting Standards Board (IASB). **(2 Marks)**

(b) Fernando & Sons Ltd have been trading for some years as wine merchants. The following list of balances has been extracted from their ledgers as at 30 September, 2015, for their just ended financial year.

	Frw '000'	**Frw '000'**
Ordinary share capital		200,000
Share premium		25,000
Retained earnings		20,000
General reserves		25,000
Interim dividends	10,000	
Sales		315,000
Purchases	100,000	
Return inwards/outwards	15,000	18,000
Carriage inwards	12,000	
Carriage outwards	7,500	
Drawings	2,200	
Heating & lighting	60,000	
Advertising	13,000	
Storage costs	14,000	
Discounts allowed/received	5,000	10,000
Provision for bad debts		4,000
Salaries & wages	35,000	
Drums	90,000	

Land	120,000	
Buildings	80,000	
Furniture	45,000	
Delivery van	30,000	
Provision for depreciation:		
Drums		9,000
Buildings		8,000
Delivery van		3,000
Furniture		4,500
Cash	65,500	
Bank		20,700
Accounts receivable/payable	28,000	75,000
10% bank loan		50,000
Opening inventory	55,000	
Total	**787,200**	**787,200**

Additional information:

(i) An inventory count at the end of the year showed that closing inventory at cost amounted to Frw 30,000,000 and the net realizable value on that same date was Frw 25,000,000.

(ii) A debtor owing Frw 1,000,000 became insolvent and was declared bankrupt.

(iii) The provision for bad debts is to be adjusted to 10 % of accounts receivable.

(iv) They provide depreciation as follows:

Drums	5% on cost
Buildings	3% on reducing balance
Furniture	2% on reducing balance
Delivery van	10% on cost

(v) At the end of the year, advertising costs Frw 2,000,000 remained outstanding.

(vi) Salaries and wages Frw 5,000,000 were prepaid.

(vii) Interest on bank loan is accrued at the year end.

(viii) The company transferred Frw 2,500,000 to general reserves.

(ix) Dividends Frw 1,500,000 were proposed on 5 October, 2015.

(x) The company issued 10,000 Frw 2,000 shares at Frw 2,500 per share on 1 October, 2015.

Require:

(i) Statement of profit or loss for the year 2015 **(6 Marks)**

(ii) Statement of changes in equity **(4 Marks)**

(iii) Statement of financial position **(6 Marks)**

(c) Advise Fernando & Sons Ltd on how to deal with events after the reporting period. **(2 Marks)**

(Total: 20 Marks)

QUESTION FIVE

(a) Distinguish between capital expenditure and revenue expenditure using two examples of each.

(4 Marks)

(b) The Geko Construction Ltd extracted the following trial balance for the year ended 31 December, 2011.

	Frw'000'	**Frw '000'**
Capital		1,750,000
Retained earnings		500,000
Revaluation surpluses		30,000
Accounts receivable/payable	200,000	120,000
Rent	400,000	
Salaries & wages	250,000	
Excavators	500,000	
Wheel loaders	350,000	
Graders	100,000	
Trucks	600,000	
Accumulated depreciation:		
Excavators		100,000
Wheel loaders		75,000
Graders		20,000
Trucks		120,000
Bank	315,000	
	2,715,000	**2,715,000**

Additional information:

(i) The following transactions took place in the four years of operations.

1	1 January, 2012, purchased 3 excavators each costing Frw 300,000,000.
2	30 June, 2012 purchased 2 wheel loaders each costing Frw 250,000,000.
3	1 April, 2013 purchased 4 graders each costing Frw 200,000,000.
4	31 December, 2013 sold one wheel loader acquired on 30 June, 2012 for Frw 200,000,000.
5	31 December, 2013 sold one wheel loader acquired on 30 June, 2012 for Frw 200,000,000.
6	30 September, 2014 sold 1 excavator acquired on 1 January, 2012 for Frw 280,000,000.
7	On 1 January 2014, purchased 5 trucks each costing Frw 220,000,000.

(ii) The company depreciates Non-current assets at 10% on cost. Depreciation is time apportioned where applicable.

Required:

Prepare the Non-current assets schedule as at 31 December:

(i) 2012 **(6 Marks)**

(ii) 2013 **(5 Marks)**

(iii) 2014 **(5 Marks)**

(Total: 20 Marks)

End of question paper

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