
CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

WEDNESDAY: 8 JUNE 2016

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) Explain the difference between the financial statements of profit making organizations and those of Non-profit making organizations. **(5 Marks)**
- (b) The Rotary club of Kagera provides recreational activities to its members. The club also operates a canteen as a profitable venture to supplement its incomes. The following information relates to the club for the period ended 31 December 2015.

Receipts and Payments Account

| | Frw '000' | | Frw '000' |
|-------------------------------|----------------------|-------------------------|----------------------|
| Subscriptions- ordinary | 9,000 | Balance b/f | 1,760 |
| Subscriptions-life | 20,000 | Canteen cash purchases | 5,800 |
| Income from fundraising event | 3,000 | Payment to suppliers | 8,000 |
| Donations | 5,000 | Electricity | 760 |
| Sale of investments | 800 | Insurance | 720 |
| Rent from club house | 400 | Salary to canteen staff | 500 |
| Canteen sales | 6,500 | Fundraising expenses | 4,000 |
| Canteen debtors | 7,500 | Rent of play ground | 14,000 |
| | | Other general expenses | 700 |
| | | Balance c/f | <u>15,960</u> |
| | <u>52,200</u> | | <u>52,200</u> |

Additional Information

- (i) The club's depreciation policy is as follows:

| Asset | Depreciation | |
|-------------------|--------------|------------------|
| Non-current asset | Rate (%) | Method |
| Buildings | 5 | Straight line |
| Motor vehicles | 20 | Reducing balance |

- (ii) The club apportions 20% and 40% of the electricity and insurance expenses respectively to the canteen.
- (iii) The club recognizes 5% of life subscriptions annually as income.

- (iv) Other balances were as follows:

| | 1 January, 2015 | 31 December, 2015 |
|-----------------------------------|-----------------|-------------------|
| | Frw '000' | Frw '000' |
| Buildings | 80,000 | |
| Motor vehicle | 10,000 | |
| Inventory for the canteen | 1,540 | 1,650 |
| Ordinary subscriptions in arrears | | 326 |
| Ordinary subscriptions in advance | 760 | 500 |
| Electricity accrued | | 543 |
| Insurance prepaid | 637 | |
| Canteen-suppliers | | 2,450 |
| Canteen debtors | 4,000 | 3,400 |
| Investments | 1,000 | |

Required:

- (i) Statement of affairs as at 1 January, 2015 (4 Marks)
- (ii) Canteen statement of profit or loss for the year ended 31 December, 2015 (4 Marks)
- (iii) An income and expenditure statement for the year ended 31 December, 2015 (15 Marks)
- (iv) Statement of financial position as at 31 December, 2015 (12 Marks)

(Total: 40 Marks)

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

- (a) Distinguish between the terms 'depreciable amount' and 'residual value'. (2 Marks)
- (b) A company acquired a machine on 30 September, 2014 at an invoice value of Frw 52,000,000. Other expenditure incurred in respect of the acquisition were:- transportation costs Frw 2,000,000, taxes Frw 24,000,000 (of which 10% was refundable), installation costs Frw 5,000,000 and testing of the machine Frw 300,000. Estimated service costs were Frw 1,000,000 quarterly while estimated fuel cost to run the machine was Frw 200,000 per month.

Required:

- (i) Compute the amount at which the machine should be recognized in the books of account. (5 Marks)
- (ii) Justify the inclusion and or exclusion of expenditure in (b) (i) above. (5 Marks)
- (iii) Compute the depreciation charge and net book value for the machine for the year ended 31 December, 2014 and 31 December, 2015, if the company depreciates machines at a rate of 25% per annum on a reducing balance method and time apportions depreciation where applicable. (2 Marks)

- (c) Explain the purpose of the following accounting documents:
- (i) Invoice (2 Marks)
 - (ii) Receipt (2 Marks)
 - (iii) Credit note (1 Mark)
 - (iv) Debit note (1 Mark)
- (Total: 20 Marks)**

QUESTION THREE

- (a) 'Ideally, whenever the cash book (bank column) balance is compared with the bank statement balance as at particular date, the two balances should be the same. However, this is not always the case...' remarked a lecturer of an accounting class.

Required:

Explain the causes of the differences in the balances of the cash book (bank column) and balance as per bank statement. (5 Marks)

- (b) Kigali Enterprises Ltd obtained their bank statement for the month of February, 2016 with the following details:

Reconciling items for the month of January, 2016

| | | | |
|----------------------|-----------|------------------|-----------|
| Uncredited cheques: | Frw '000' | Direct debits: | Frw '000' |
| No. 24001 | 450 | Loan installment | 655 |
| No. 10455 | 560 | Bank charges | 79 |
| Unpresented cheques: | | Direct credits: | |
| No. 04503 | 920 | Commission | 11 |
| No. 04504 | 113 | Interest | 19 |

Cash book (bank column) for the month of February, 2016

| Particulars | Frw '000' | Particulars | Frw '000' |
|--------------------|--------------|----------------------|--------------|
| | | Balance b/f | 102 |
| Cheque No. 00765 | 1,000 | Cheque No. 04501 | 480 |
| Cheque No. 10765 | 840 | Cheque No. 01089 | 3,000 |
| Cheque No. 240716 | 751 | Cheque No. 04505 | 412 |
| Cheque No. 1122765 | 245 | Cheque No. 04506 | 298 |
| Cheque No. 17654 | 600 | Cheque No. 04508 | 2,500 |
| Cheque No. 1321 | 210 | Cheque No. 04509 | 466 |
| Cheque No. 19234 | 123 | Cheque No. 04510 | 50 |
| Cheque No. 44531 | 455 | Cheque No. 04511 | 987 |
| Cash deposit | 700 | bank charges-January | 79 |
| Balance c/f | <u>3,450</u> | | |
| | <u>8,374</u> | | <u>8,374</u> |

Bank Statement for the month of February 2016

| | Debit | Credit | Balance |
|--------------------|-----------|-----------|-----------|
| | Frw '000' | Frw '000' | Frw '000' |
| Balance b/f | | | (783) |
| Cheque No. 00765 | | 1,000 | 217 |
| Cheque No. 04501 | 480 | | (263) |
| Cheque No. 01089 | | 300 | 37 |
| Cheque No. 1122765 | | 245 | 282 |
| Cheque No. 04505 | 412 | | (130) |
| Cheque No. 04506 | 298 | | (428) |
| Cheque No. 04508 | 2,500 | | (2,928) |
| Cheque No. 17654 | | 600 | (2,328) |
| Cheque No. 1321 | | 200 | (2,128) |
| Cheque No. 19234 | 321 | - | (2,449) |
| Cash deposit | | 700 | (1,749) |
| Cheque No. 04510 | 500 | | (2,249) |
| Commission | | 12 | (2,237) |
| Interest | | 17 | (2,220) |
| Bank charges | 82 | | (2,302) |
| Loan installment | 655 | | (2,957) |

Additional information:

- (i) Cheque No. 44531 was dishonored by the bank and returned together with the bank statement at the beginning of March, 2016.
- (ii) The bank made an error on cheque No. 19234. Any other errors, if found, should be deemed to have occurred in the cash book.
- (iii) The bank reconciliation for the month of January, 2016 was not performed.

Required:

- (i) Adjusted cashbook **(6 Marks)**
 - (ii) Bank reconciliation statement **(9 Marks)**
- (Total: 20 Marks)**

QUESTION FOUR

The following a list of balances was extracted from the books of KSS Ltd, which manufactures footwear, for the year ended 31 December, 2015.

| | Frw '000' |
|-------------------------------|-----------|
| Raw material purchases (cash) | 512,000 |
| Returns of raw materials | 5,000 |
| Direct labour | 120,000 |
| Royalties | 98,000 |
| Manufacturing expenses | 64,000 |
| Plant (at cost) | 320,000 |
| Bad debts | 3,400 |
| Indirect factory wages | 36,000 |
| General office expenses | 62,000 |
| Carriage on raw materials | 4,300 |
| Bank charges | 1,200 |

Additional information:

- (i) The following payments among others, were made using cheques; rent Frw 13,000,000, other factory expenses Frw 45,000,000, raw materials credit suppliers Frw 75,000,000.
- (ii) The company accounts for 45% of manufacturing expenses as direct cost and the remainder as factory overhead.
- (iii) The company apportions rent expense to factory, office & administration and selling & distribution in the ratio 60%, 20% and 20% respectively.
- (iv) Raw materials were returned to credit suppliers only.
- (v) The company depreciates all items of plant at 20% per annum on cost.
- (vi) The following balances are also relevant:

| | 1 January, 2015 | 31 December, 2015 |
|--------------------------------|-----------------|-------------------|
| | Frw '000' | Frw '000' |
| Inventories: | | |
| Finished goods | 80,000 | 240,000 |
| Work in progress | 12,000 | 22,000 |
| Raw materials | 28,000 | 14,000 |
| Other balances: | | |
| Creditors for raw materials | 40,000 | 140,000 |
| Accrued rent | 2,200 | |
| Prepaid other factory expenses | 800 | 1300 |

Required:

a) Manufacturing statement for KSS Ltd for year ended 31 December, 2015 (12 Marks)

b) Shows all workings (8 Marks)

(Total: 20 Marks)

QUESTION FIVE

- (a) Briefly explain the purpose of preparing financial statements. **(2 Marks)**
- (b) Organizations of different backgrounds and interests employ accountants. Explain the role of an accountant in any organization. **(6 Marks)**
- (c) Explain why it is necessary to regulate the accountancy profession. **(3 Marks)**
- (d) Explain the concept of materiality as used in accounting and any challenges faced in applying the concept. **(3 Marks)**
- (e) Briefly explain the limitations of financial accounting. **(6 Marks)**

(Total: 20 Marks)

End of question paper

