

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 09 JUNE 2017

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 while Section (B) has four(4) questions, three(3) to be attempted.**
- 4. Marks allocated to each question are shown at the end of the question.**
- 5. Show all your workings.**
- 6. Any assumptions made must be clearly and concisely stated.**
- 7. All iCPAR Examination rules and regulations apply.**

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SECTION (A)

This section has one compulsory question

QUESTION ONE

- (a) Users of financial information make different types of economic decisions based on the financial reports published by an entity

REQUIRED:

- (i) Explain why accountants need to abide by ethical principles in the process of preparing financial reports. (3 Marks)
- (ii) Explain **four** components of financial statements. (4 Marks)
- (iii) Identify **four** users of financial information and explain their information needs. (4 Marks)

- (b) The International Accounting Standards Board's conceptual framework for financial reporting recognises a number of methods that can be used in determining the monetary amounts at which elements of financial statements are carried in the statement of profit or loss and statement of financial position.

REQUIRED:

Explain the:

- (i) **Four** measurement bases that are used in recognition of non-current assets as per the conceptual framework. (6 Marks)
- (ii) Advantages of recognising non-current assets at historical cost. (3 Marks)
- (c) Distinguish between the direct and indirect methods of presenting cash flows from operating activities as provided by IAS 7: Statement of Cash Flows. (4 Marks)
- (d) Kibungo Ltd is wholesaler/ distributor of household items for the last three years located in the East province. Their financial statements for the year ended 31 December, 2016 are as given below:

Statement of Profit or Loss

	Frw '000'
Sales	850,000
Cost of sales	(400,000)
Gross profit	450,000
Distribution costs	(125,000)
Administration costs	(145,000)
Operating profit	180,000
Finance costs	(14,700)
Profit before tax	165,300
Tax	(49,590)
Profit for the period	115,710

Statement of Financial Position as at 31, December:

	2016		2015	
	Frw '000'	Frw '000'	Frw '000'	Frw '000'
Non-current assets:				
Property plant equipment at cost	800,000		643,000	
Accumulated depreciation	(100,500)	699,500	(82,540)	560,460
Current assets:				
Inventory	90,500		65,540	
Accounts receivable	120,400		154,500	
Short-term investments	180,000		0	
Cash at hand	50,500	441,400	35,560	255,600
Total assets		<u>1,140,900</u>		<u>816,060</u>
Equity and Liabilities:				
Equity and reserves:				
Share capital	700,000		550,000	
Share premium	100,000		80,000	
Revaluation reserve	90,000		70,000	
Retained earnings	85,000	975,000	23,500	723,500
Non-Current Liabilities:				
15% bank loan		98,000		45,000
Current liabilities:				
Trade payables	20,756		15,500	
Tax payable	10,760		8,500	
Interest payable	5,200		4,900	
Bank overdraft	31,184	67,900	18,660	47,560
Total Equity and Liabilities		<u>1,140,900</u>		<u>816,060</u>

Additional information:

- During the year dividends of Frw 54,210,000 were paid.
- Non-current assets costing Frw 75,000,000 were disposed of at Frw 40,000,000. Total depreciation at the time of disposal amounted to Frw 40,000,000.
- There was a share issue during the year and all shareholders paid cash.

REQUIRED:

- Prepare a statement of cash flows for Kibungo Ltd for the year ended 31 December, 2016 using the indirect method in accordance with IAS 7. **(14 Marks)**
- Using information from the statement of cash flows in (d) (i) above, write a brief commentary on the cash position of Kibungo Ltd. **(2 Marks)**

(Total: 40 Marks)

SECTION (B)

Attempt three questions in this section.

QUESTION TWO

Kibeho Ltd is a company supplying building materials in the South province. The company's latest financial performance and financial position details are as given below:

Statement of Profit or Loss for the year ended 31 December:

	2016	2015
	Frw '000'	Frw '000'
Revenue	1,487,500	1,387,400
Cost of sales	(700,000)	(875,000)
Gross profit	787,500	512,400
Operating expenses	(472,500)	(204,500)
Operating profit	315,000	307,900
Finance costs	(25,725)	(19,765)
Profit before tax	289,275	288,135
Tax	(86,783)	(85,441)
Profit for the period	<u>202,492</u>	<u>202,694</u>

Statement of financial position as at 31 December:

	2016		2015	
	Frw '000'	Frw '000'	Frw '000'	Frw '000'
Non-current assets				
Property plant equipment		1,224,125		980,805
Current assets:				
Inventory	315,875		114,695	
Trade receivables	210,700		270,375	
Cash at bank and at hand	88,375	614,950	62,230	447,300
Total assets		<u>1,839,075</u>		<u>1,428,105</u>
Equity and liabilities:				
Ordinary share capital	1,225,000		1,022,770	
Share premium	175,000		202,230	
Retained earnings	148,750	1,548,750	41,125	1,266,125
Non-current liabilities:				
15% bank loan		171,500		78,750
Current liabilities:				
Trade payables	36,323		27,125	
Tax outstanding	27,930		23,450	
Expenses payable	54,572	118,825	32,655	83,230
Total equity and liabilities		<u>1,839,075</u>		<u>1,428,105</u>

Construction industry performance during the year ended 31 December, 2016:

Gross profit margin	50%
Operating profit margin	30%
Return on capital employed	18%
Current ratio	5 times
Acid test ratio	2.8 times
Inventory holding days	50 days
Debtors collection period	40 days
Creditors payment period	45 days
Interest cover	15 times
Gearing ratio	30%

Additional information:

- The purchases for the years ended 31 December, 2016 and 31 December, 2015 were Frw 901,180,000 and Frw 864,695,000 respectively.
- Assume that all sales and purchases were on credit.

REQUIRED:

(a) Compute for each of the two years the following ratios:

- (i) Gross profit margin **(1 Mark)**
- (ii) Operating profit margin **(1 Mark)**
- (iii) Return on capital employed **(1 Mark)**
- (iv) Current ratio **(1 Mark)**
- (v) Acid test ratio **(1 Mark)**
- (vi) Inventory holding days **(1 Mark)**
- (vii) Debtors collection period **(1 Mark)**
- (viii) Creditors payment period **(1 Mark)**
- (ix) Interest cover **(1 Mark)**
- (x) Gearing ratio **(1 Mark)**

(b) As the accountant of Kibeho Ltd, write a report to the managing director analysing the performance of the company in 2016 in relation to the previous year and industry performance. **(10 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) Explain the accounting records that are supposed to be kept by a company as required by the Law relating to companies of 2009. **(2 Marks)**

(b) Keza & Safi Enterprises Limited produces yoghurt in Nyarugenge district. For the year ended 31 December, 2015 they had the following trial balance.

	Dr.	Cr.
	Frw '000'	Frw '000'
Share capital		156,000
Goodwill	4,600	
Accounts receivable	3,000	
Accounts payable		1,200
Land & buildings at cost	150,000	
Furniture & fittings	8,000	
Retained earnings		28,350
4 Motor vehicles	40,000	
Investments	25,000	
Purchases of raw materials	2,000	
Return outwards of raw materials		200
Direct labour	750	
Manufacturing expenses	650	
Return inwards	80	
Discounts received on raw materials		100
Discounts allowed	50	
Carriage inwards	500	
Carriage outwards	160	
Sales		44,000
Inventory 1 January 2015:		
Raw materials	3,500	

	Dr.	Cr.
	Frw '000'	Frw '000'
Work in progress	1,120	
Finished goods	2,350	
Commissions	330	240
Utilities	450	
Repairs of factory machines	600	
Salaries & wages	1,950	
10% debentures		15,000
	<u>245,090</u>	<u>245,090</u>

Additional information:

- Inventory on 31 December, 2015 was as follows:

	Frw
Raw materials	1,200,000
Work in progress	800,000
Finished goods	3,000,000

- Frw 550,000 of raw materials in the closing inventory was expired and could not be used in production. These have not yet been accounted for.
- Salaries Frw 820,000 were accrued and utilities Frw 400,000 were prepaid.
- The cost of land was Frw 50,000,000.
- The motor vehicles used in delivery of goods to customers cost 30,000,000. The remaining vehicles are used for administrative work.
- The following expenses are to be apportioned as follows:

	Factory	Administrative	Selling & distribution
Salaries	50%	25%	25%
Utilities	80%	20%	-
Depreciation:			
Buildings	50%	12.5%	37.5%
Furniture & fittings	25%	75%	-

- 80% of manufacturing expenses are direct expenses.
- The investments earned interest of Frw 250,000.
- Interest on debentures remained outstanding.
- It is company policy to depreciate non-current assets at 5% per annum on reducing balance.

REQUIRED:

Prepare, for Keza & Safi Enterprises Limited for the year ended 31 December 2015, a:

- Statement of Manufacturing cost **(8 Marks)**
 - Statement of Profit or Loss. **(10 Marks)**
- (Total: 20 Marks)**

QUESTION FOUR

- A company bought machinery from Karongi Ltd at Frw 275,000,000. The accountant is contemplating whether to use straight line or reducing balance in depreciating the machinery.

REQUIRED:

Explain the:

- Difference between straight line method and reducing balance method of depreciation. **(2 Marks)**
- Circumstances when it is suitable to depreciate an asset using straight line method and reducing balance method. **(2 Marks)**
- Consistency concept and its application in depreciation of assets, clearly bringing out why consistency is emphasised in accounting for depreciation. **(3 Marks)**

- (b) The following transactions relate to the acquisition of land and construction of a shopping mall by Muhanga Properties Ltd for the year ended 31 December, 2015.

Details	Frw '000'
Purchase price of land	56,000
Fees for title verification in the relevant ministry	1,000
Legal fees for title transfer	2,500
Brokerage fees	4,650
Surveying fees	4,500
Cost of cutting crown grass and pruning palm trees	500
Cost of constructing the shopping mall (materials, labour, overheads)	225,000
Architect's fees for the design of the shopping mall	8,000
Building permit from the local authorities	575
Company sign writing at the entrance of the property	200
Cost of opening facility	12,000

Additional information:

Muhanga Properties Ltd paid brokerage fees to MM Ltd for identifying the seller of the land.

REQUIRED:

Determine the:

- Cost of land and buildings. **(4 Marks)**
 - Costs to be recognised as revenue expenses for the year ended 31 December, 2015. **(2 Marks)**
- (c) Rulindo Ltd purchased construction equipment on 4 January, 2013 at a cost of Frw 112,500,000 with an expected useful life of 10 years. Rulindo Ltd's policy is to depreciate equipment at 10% on reducing balance. On 2 January, 2016 the company decided to contact the authorised supplier who accepted to exchange the old equipment at an agreed value of Frw 76,500,000. Rulindo Ltd topped up cash Frw 55,500,000 to get the latest model of the equipment. The new asset is being depreciated basing on the company's policy.

REQUIRED:

Determine the:

- Net book value and accumulated depreciation of the disposed asset. **(4 Marks)**
- Gain or loss on disposal. **(1 Mark)**
- Carrying amount of the new asset after one year. **(2 Marks)**

(Total: 20 Marks)

QUESTION FIVE:

- With reference to non-profit making organisations, explain what is meant by 'ordinary subscription' and 'life subscriptions', clearly bringing out the treatment of life subscriptions. **(4 Marks)**
- Kamonyi Welfare Club offers body fitness services to its members. It also operates a canteen where members obtain refreshments and other items. The following are the assets and liabilities of the club as at 1 January, 2016:

	Frw
Gym equipment	80,000,000
Inventory	5,250,500
Subscriptions in arrears	420,000
Subscriptions in advance	300,000
Accounts receivable	2,560,000
Accounts payable	6,540,300
Prepaid rent	2,500,000
Accrued utilities	532,000

The club's receipts and payments for the year ended 31 December, 2016 were as follows:

Receipts	Frw	Payments	Frw
Subscriptions	25,000,000	balance b/ d	400,000
Receipts from credit customers	6,250,000	Payments to credit suppliers	9,600,000
Rally collections	5,750,245	Car washing expenses	1,202,000
Donations	12,300,000	Rent	5,500,000
Car washing revenue	15,222,000	Utilities	750,000
		Stationery	460,000
		Salaries	4,800,000
		Balance c/ d	41,810,245
	64,522,245		64,522,245

Additional information:

1. Balances 31 December, 2016:

	Frw
Accounts receivable	1,850,000
Accounts payable	2,300,00
Inventory	650,000
Subscriptions in advance	680,000
Subscriptions in arrears	400,000

- Utilities Frw 400,000 and rent Frw 780,000 remained outstanding.
- A canteen debtor of Frw 440,000 failed to pay and the debt was written off.
- Payment of Frw 1,000,000 to canteen credit suppliers attracted a discount of Frw 100,000 which has not yet been accounted for.

REQUIRED:

Prepare for the year 2016:

- An opening statement of affairs. (4 Marks)
 - Ordinary subscription account. (3 Marks)
 - Accounts receivable account. (2½ Marks)
 - Accounts payable account. (2½ Marks)
 - Rent account. (2 Marks)
 - Utilities account. (2 Marks)
- (Total 20 Marks)

End of question paper