INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS
F1.3: FINANCIAL ACCOUNTING
WEDNESDAY: 07 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 to attempt **three(3)**.
4. Marks allocated to each question are shown at the end of the question.
5. Show all your workings.
6. All iCPAR Examination rules and regulations apply.

SECTION (A)

This section has one compulsory question

QUESTION ONE

(a) "Unethical behavior of accountants has continued to partly account for the collapse of most corporate entities…" remarked the partner of A & B Associates, a firm of certified public accountants while presenting on corporate failures in one of the seminars organised by iCPAR.

REQUIRED:

In view of the above statement, explain the implications of unethical behaviour on financial reports of corporate entities. **(4 Marks)**

(b) Explain the components of cost of an item that has met the recognition criteria as per IAS 16: Property, plant and equipment. **(3 Marks)**

(c) Explain the term 'provision' and the circumstances under which it should be recognised in the financial statements as a liability in accordance with IAS 37: Provisions, contingent liabilities and contingent assets. **(3 Marks)**

(d) Rubavu Company Limited is a manufacturer of quality timber products. The following information relates to the company for the year ended 31 December, 2016.

1. **Summarized cash book**

Details	Amount	Details	Amount
	Frw '000'		Frw '000'
Balance b/ f	6,160	Hand tools	1,000
Cash sales (note 5)	550,000	Consumables (e.g. nails etc)	10,000
Bank interest	80	Bank charges	230
Accounts receivable	24,000	Advertising	680
		Sales agents' commissions	7,200
		Salaries	86,000
		Carriage outwards	1,200
		Insurance (note 8)	4,800
		Direct labour	43,000
		Forest concession payments	100,000
		Heat and light	6,500
		Raw material cash purchases	230,000
		Annual loan repayment (note 9)	12,000
		Payment to creditors-raw materials	23,000
		Carriage on raw materials	16,000
		Balance c/ f	38,630
	580,240		**580,240**

2. **Other Ledger balances**

	1 January, 2016	31 December, 2016
Inventory	Frw '000'	(Frw '000')
Raw materials (at cost)	20,000	60,000
Work in progress	16,000	24,000
Finished goods (at cost)	40,000	76,000
Accounts payable-raw material	14,000	16,000
Accounts receivable	13,000	9,000
10% bank loan	120,000	
Share capital	100,000	
Share premium	10,000	
Accumulated profits/(losses)	(69,200)	
Prepaid insurance	600	

3. The closing inventory of finished goods had a net realisable value of Frw 70,000,000.
4. The company's Non-Current Assets as at 31 December, 2015 were as follows:

Asset	Cost Frw '000'	Accumulated depreciation Frw '000'
Wood shaping machine	50,000	10,000
Panel boring equipment	34,000	6,800
Delivery van	12,000	2,400
Office furniture	2,000	400
Office computers	800	160

5. Included in the sales figure is Frw 4,200,000 which related to rent income from subletting the company's warehouse in Rusizi.
6. The company depreciates all Non-Current Assets at 20% per annum on cost.
7. The company classifies its operating expenses into three broad categories: office and administration, selling and distribution and finance charges. The following overheads are to be apportioned as follows:

Overhead	Factory	Office and administration	Selling and distribution
Salaries	60%	25%	15%
Insurance	0.6	0.2	0.2
Heat and light	½	¼	¼

8. Insurance premium paid during this period related to the period 1 January, 2016 to 31 March, 2017.
9. Frw 3,000,000 of the annual loan repayment relates to loan interest and the balance represents a repayment of the principal amount.

REQUIRED:

Prepare for the year ended 31 December, 2016 the company's:

(i) Manufacturing account. **(8 Marks)**

(ii) Statement of Profit or Loss. **(14 Marks)**

(iii) Statement of Financial Position. **(8 Marks)**

(Total 40 Marks)

SECTION (B)

Attempt three questions in this section.

QUESTION TWO

(a) Define the term **"books of prime entry"** as used in bookkeeping and explain the purpose of any **two** books of prime entry. **(2 Marks)**

(b) The following balances were obtained from the accounting records of Mr. Munyaneza Paul as at 30 September, 2016.

Item	**Frw "000"**
Accounts receivable:	
Muhire	80,000
Rwagasana	60,000
Uwabandi	40,000
Accounts payable:	
Bizimungu	45,000
Karenzi	26,000
Kamanzi	16,000
Cash at bank	46,000
Cash in hand	2,000
Furniture and fittings	35,000
Computers	12,600
Motor vehicles	50,000

The transactions for the month of October, 2016 included:

Date	**Details**
4	Muhire settled his account by cheque after deducting 5% cash discount.
7	Paid Bizimungu amount due by cheque after deducting 6% cash discount.
12	Purchased goods for resale on credit from Kamanzi Frw 36,000,000.
14	Returned goods Frw 6,000,000 to Kamanzi because they did not meet the required specifications.
17	Acquired loan Frw 90,000,000 from XYZ Bank to finance the construction of his business premises. The money was deposited to his business' bank account.
20	Sold goods on credit to Uwabandi Frw 6,000,000, Rwagasana Frw 2,000,000 and Nsabimana Frw 780,000.
22	Issued a credit note Frw 200,000 to Uwabandi.
25	Nsabimana settled his account in full by cash.
26	Paid electricity bills by cash Frw 360,000 that was consumed at his place of residence and Frw 420,000 consumed within the business' premises and banked all cash at hand.
28	Withdrew cash from bank Frw 3,220,000 and paid; school fees for his daughter Frw 380,000, business license Frw 480,000 and purchased delivery van Frw 2,360,000.
31	Paid all his suppliers by cheque, in each case deducting 5 % discount.

REQUIRED:

(i) Post the transactions to the relevant ledgers accounts and balance off all ledger accounts. (Hint: for creditors and debtors prepare control accounts; ignore individual accounts). **(16 Marks)**

(ii) Extract a trial balance. **(2 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) Bizimungu an accountant of Nyabihu Enterprises extracted a trial balance at the end of the period and discovered that the total on the credit side was greater than that of the debit side by Frw 2,345,000. He set about to investigate the cause of the difference and discovered the following errors:

1	Purchases daybook was overcast by Frw 370,000.
2	An expenditure in respect of a building extension Frw 5,000,000 was debited to the building repairs account but the corresponding double entry was correctly made.
3	A cash discount received Frw 49,000 was credited to the discounts allowed account as Frw 94,000.
4	A cash discount received Frw 49,000 was credited to the discounts allowed account as Frw 94,000.
5	An invoice for Frw 1,200,000 to Gisenyi Enterprises was recorded in Gisenyi Enterprises' account as Frw 2,100,000 but the corresponding entry necessary to complete the double entry was not completed.
6	Sales daybook for the period had been over cast by Frw 3,860,000.
7	A cheque for Frw 2,000,000 from Mugemana was erroneously credited to Mugenzi account and debited to the cashbook.

REQUIRED:

(i) Write up a general journal to correct the above errors (ignore narrations and depreciation). **(4 Marks)**

(ii) Post the entries to the suspense account. **(3 Marks)**

(b) The information below relates to financial statements of Southern Province Enterprises for the year ended 31 December 2015 and 2016:

Statement of Profit or Loss

	2016	**2015**
	Frw '000'	Frw '000'
Turnover	385,000	320,000
Cost of sales	(231,000)	(240,000)
Gross profit	154,000	80,000
Administrative expenses	(46,200)	(32,000)
Profit before interest and tax	107,800	48,000
Interest expense	(14,300)	(6,400)
Profit before tax	93,500	41,600
Taxation	(28,050)	(12,480)
Profit after tax	**65,450**	**29,120**

Statement of Financial Position

	2016		2015	
	Frw '000'	**Frw '000'**	**Frw '000'**	**Frw '000'**
Non-current assets (book value)		699,500		539,400
Current assets:				
Inventories	35,000		23,000	
Other current assets	14,500	49,500	4,000	27,000
Total Assets		**749,000**		**566,400**
Capital and Liabilities:				
Share capital	500,000		500,000	
Accumulated profits	130,000	630,000	45,000	545,000
Non-Current Liabilities:				
Bank loan		70,000		8,000
Current Liabilities:				
Accounts payable	38,000		13,000	
Bank overdraft	1,200		-	
Other payables	9,800	49,000	400	13,400
Total Capital and Liabilities		**749,000**		**566,400**

REQUIRED:

Prepare a brief report on the company to be presented to the board based on the following ratios; Current ratio, Interest cover, Net profit margin, Debt-Equity ratio and return on Capital employed. **(13 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) Explain the meaning of the phrase 'events after the reporting period' clearly identifying, using examples in each case, types of these events as per IAS 10: Events after the reporting period. **(3 Marks)**

(b) Distinguish between capital expenditure and revenue expenditure and give **one** example in each case. **(2 Marks)**

(c) Shareholders of Uwamahoro Company limited (UCL) decided that the company be listed on the securities exchange. During the year to 31 December 2016, UCL issued 50,000 ordinary shares of Frw 2,000 per share at Frw 2,300 per share, that were payable as follows:

Frw 600 on application.

Frw 800 on allotment including premium.

Frw 500 on first call.

Frw 400 on second and last call.

Applications were received for 60,000 shares, the directors decided to reject excess applications and refund the money received on rejected applications. The calls were made and paid in full with the exception of one member with 200 shares who failed to pay on first, second and last calls and another member holding 50 shares who didn't pay on the second and last call. These shares were forfeited and later re-issued to Ndizeye at a price of Frw 4,000 per share.

REQUIRED:

Prepare the relevant ledger accounts to record the above transactions. **(15 Marks)**

(Total 20 marks)

QUESTION FIVE

(a) The objective of general purpose financial reporting is to provide financial information) about the reporting entity that is useful to *a wide range of users* in making decisions about providing resources to the entity. The financial information is about the entity's economic resources and the claims against the reporting entity. Financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims.

REQUIRED:

Identify and explain any **four** external users of financial information, clearly bringing out their informational needs. **(8 Marks)**

(b) The following information was extracted from the books of Kibuye Company Limited for the year ended 31 December, 2016:

1. Statement of Financial Position

	2016		**2015**	
Assets	**Frw '000'**	**Frw '000'**	**Frw '000'**	**Frw '000'**
Non-current assets				
Property and equipment - Net book value		13,700,000		8,300,000
Current assets				
Inventories	380,000		200,000	
Trade and other receivables	1,190,000		1,250,000	
Cash	105,000	1,675,000	45,000	1,495,000
Total assets		**15,375,000**		**9,795,000**
Equity and liabilities				
Equity:				
Share capital (Frw 5,000 ordinary shares)	1,900,000		1,100,000	
Share premium	95,000		30,000	
Retained earnings	11,407,000	13,402,000	7,540,000	8,670,000
Non- current liabilities				
5 year bank loan **		585,000		485,000
Current liabilities				
Bank overdraft	363,000			
trade and other payables	330,000		175,000	
Interest payable	55,000		40,000	
Current tax payable	640,000	1,388,000	425,000	640,000
Total Equity and Liabilities		**15,375,000**		**9,795,000**

** The bank loan is repayable on demand.

2. **Statement of Profit or Loss**

	Frw "000'
Sales	11,100,000
Cost of sales	(4,453,000)
Gross profit	6,647,000
Administrative expenses	(1,230,000)
Other expenses	(700,000)
Profit from operations	4,717,000
Interest payable	(100,000)
Profit before tax	4,617,000
Income tax expense	(600,000)
Profit for the period	**4,017,000**

3. During the year, the company acquired a new property for Frw 7,000 million and disposed of existing equipment that had a net book value of Frw 600 million for Frw 500 million.

4. The company issued shares during the year ended 31 December, 2016 and also paid dividends worth Frw 150 million.

REQUIRED:

Prepare, for Kibuye Company Limited for the year ended 31 December, 2016 a statement of cash flows using the indirect method in accordance to requirements of IAS 7: Statement of Cash Flows.

(12 Marks)

(Total 20 Marks)

End of question paper