
CERTIFIED ACCOUNTING TECHNICIAN (CAT)

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 8 JUNE 2018

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.

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QUESTION ONE

- (a) Explain, with examples, the difference between prime costs and overhead costs. **(3 Marks)**
- (b) Kivu Company Ltd manufactures household plastic utensils. The following trial balance is for the year ended 31 December, 2017.

| Details | Dr | Cr |
|------------------------------------|------------------|------------------|
| | (Frw '000') | (Frw '000') |
| Sales | | 1,500,000 |
| Inventory 1 January, 2017: | | |
| Finished goods | 55,000 | |
| Raw materials | 25,000 | |
| Work in progress | 23,400 | |
| Electricity costs | 27,500 | |
| Land | 540,825 | |
| Plant & machinery at cost | 200,500 | |
| Delivery vehicles at cost | 62,500 | |
| Office furniture at cost | 45,000 | |
| Office computers at cost | 12,500 | |
| Accumulated depreciation: | | |
| Plant & machinery | | 40,100 |
| Delivery vehicles | | 23,438 |
| Office furniture | | 18,000 |
| Office computers | | 3,125 |
| Direct manufacturing license costs | 7,500 | |
| Factory direct wages | 15,000 | |
| Rent | 46,500 | |
| Capital | | 152,400 |
| Returns of finished goods | 1,200 | |
| Insurance | 18,750 | |
| Cash and bank | 13,500 | |
| Trade receivables & payables | 240,000 | 62,525 |
| Carriage inwards on raw materials | 313 | |
| Carriage outwards | 16,200 | |
| Delivery vehicle running expenses | 4,125 | |
| Machine repairs | 6,125 | |
| Salesmen commission costs | 2,400 | |
| Advertising costs | 4,800 | |
| Show room expenses | 1,200 | |
| Office stationery | 5,250 | |
| Discount received on raw materials | | 625 |
| Retained earnings | | 37,500 |
| Purchases of raw materials | 462,625 | |
| Total | <u>1,837,713</u> | <u>1,837,713</u> |

Additional information:

1. Closing inventory at 31 December, 2017:

| | Frw '000' |
|---------------------------|-----------|
| Finished plastic utensils | 39,000 |
| Work in Progress | 15,300 |
| Raw materials | 24,500 |

2. Non-current assets are depreciated as follows:

| Non-current asset | Rate |
|---------------------|-------|
| Delivery vehicles | 12.5% |
| Office furniture | 10% |
| Office computers | 20% |
| Plant and machinery | 10% |

3. Rent and insurance expenses outstanding by the end of the financial year amount to Frw 5,000,000 and Frw 6,400,000 respectively.
4. Electricity Frw 7,500,000 relates to the financial year ending 31 December, 2018.
5. Apportion the following expenses as follows:

| | Factory | Administration | Selling & distribution |
|-------------|---------------|----------------|------------------------|
| Rent | $\frac{1}{2}$ | $\frac{1}{4}$ | $\frac{1}{4}$ |
| Insurance | $\frac{1}{2}$ | $\frac{1}{4}$ | $\frac{1}{4}$ |
| Electricity | $\frac{1}{2}$ | $\frac{1}{4}$ | $\frac{1}{4}$ |

REQUIRED:

Prepare, for Kivu Company Limited for the year ended 31 December, 2017, the following:

- (i) Manufacturing statement. **(9 Marks)**
- (ii) Statement of profit or loss. **(15 Marks)**
- (iii) Statement of financial position as at 31 December. **(13 Marks)**
- (Total: 40 Marks)**

QUESTION TWO

- (a) The Law No 27/2017 governing companies in Rwanda, requires the board of directors to prepare an annual report disclosing the affairs of the company during the accounting period. The same law requires that certain accounting records be kept for accountability purposes.

REQUIRED:

- (i) Explain any **five** contents of an annual report as per the law governing companies in Rwanda
(5 Marks)
- (ii) Identify the accounting records that should be kept by businesses as required by the law governing companies in Rwanda.
(5 Marks)

- (b) The following statement of financial position relates to Rulindo Ltd as at 1 February, 2017 before issue of shares.

| | |
|--|-----------|
| Non-current assets: | Frw '000' |
| Property, plant & equipment | 800,000 |
| Current assets: | |
| Trade receivables | 62,500 |
| Bank and cash | 45,000 |
| Total assets | 907,500 |
| Equity and liabilities: | |
| Ordinary share capital Frw 200 per share | 720,000 |
| Share premium | 35,000 |
| Non-current liabilities: | |
| Loan | 100,000 |
| Current liabilities: | |
| Trade payables | 37,500 |
| Other current liabilities | 15,000 |
| Total equity & liabilities | 907,500 |

Additional information:

- The authorized share capital of Rulindo Ltd is composed of 10,000,000 shares.
- 5 000,000 shares were issued in February at Frw 250 per share. Applicants were required to pay for the shares in full on application.
- 6,000,000 shares were applied for and applications for excess 1,000,000 shares were refunded.

REQUIRED:

Prepare, for Rulindo Ltd:

- (i) Journal entries to record the issue of shares. (3 Marks)
- (ii) Determine the closing balance on the bank, ordinary share capital and share premium accounts.
(4 Marks)

- (iii) Statement of financial position after the issue of shares. (3 Marks)

(Total: 20 Marks)

QUESTION THREE

- (a) Nyanza Sugar Factory Ltd has 2,000 bags of sugar of 50kgs each, ready for sale to supermarkets as at 31 December, 2017. The cost of manufacturing each bag is Frw 50,000. Due to floods, 200 bags are damp and can now be sold for Frw 30,000 per bag with costs to sell of Frw 1,000 per bag. The remaining bags can be sold for Frw 65,000 each and the selling costs include transport costs and loading fees of Frw 250 and Frw 100 per bag respectively.

REQUIRED:

Determine the value of inventory following the requirements of IAS 2: Inventory.

(6 Marks)

- (b) Explain:
- (i) **two** examples, of what is considered to be change in accounting policy and change in accounting estimate as per IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.
- (ii) when a change in accounting policy is permitted by IAS 8.
- (c) The following statements of profit or loss are for the years ended 31 December, 2016 and 2017 for Kibeho Ltd.

| | 2017 | 2016 |
|----------------------|-----------|-----------|
| | Frw '000' | Frw '000' |
| Sales | 90,000 | 70,500 |
| Less cost of sales | (49,400) | (36,550) |
| Gross profit | 40,600 | 33,950 |
| Distribution costs | (12,300) | (6,700) |
| Administration costs | (11,450) | (5,400) |
| Net profit | 16,850 | 21,850 |

It has been discovered that inventory valued at Frw 5,340,000 had not been counted when the inventory counting was being done for the year ending 31 December 2016 and therefore, it is not incorporated in the above accounts. Financial statements for the year ending 31 December 2017 have also been affected.

Closing inventory for the year ended 31 December 2017 is correctly valued.

REQUIRED:

Prepare the corrected statements of profit or loss for the years ended 31 December, 2017 and 2016.

(4 Marks)

- (e) Rwanda has adopted the International Public Sector Accounting Standards (IPSASs) for use by the public sector entities.

REQUIRED:

Explain any **two** advantages that accrue to an entity that uses IPSASs.

(2 Marks)
(Total: 20 Marks)

QUESTION FOUR

- (a) With an illustration of a machinery purchased at Frw 25,000,000 with a depreciation charge of 20% per annum for a period of two years, explain the difference between straight line and reducing balance methods used in the computation of depreciation. **(4 Marks)**
- (b) Hakizimana Ltd established a shoe making factory in 2014. The following information relates to the period from January, 2014 to December, 2016.
1. Bought a shoe moulding machine (1) at Frw 13,000,000 on 1 January, 2014. Frw 2,000,000 was spent on installation of the machine in the factory.
 2. On 1 February, 2014, Frw 7,000,000 was spent on acquisition of a threading machine (1) from China. An additional Frw 3,000,000 was spent on taxes of which Frw 1,000,000 was VAT that was refunded by tax authority.
 3. On 20 March 2014, a leather cutter was acquired from Japan at a cost of Frw 8,000,000.
 4. Hakizimana Ltd obtained big contracts from schools which necessitated acquisition of more machines. Another shoe moulding machine (2) was acquired on 1 February, 2016 at a cost of Frw 15,000,000 from China. Total non-refundable taxes paid amounted to Frw 1,000,000; installation costs were Frw 2,000,000 and annual maintenance fees Frw 400,000.
 5. On 31 July, 2016, shoe moulding machine (1) was disposed of at Frw 6,000,000.
 6. On 1 December, 2016 Hakizimana Ltd topped Frw 7,000,000 to get a superior threading machine (2) in exchange for the old threading machine (1) acquired in 2014 from China. The old threading machine was exchanged at an agreed value of Frw 6,000,000.
 7. The company depreciates all non-current assets using straight line method. The shoe moulding machines are depreciated at 20% per annum while the threading machine and leather cutter are depreciated at the same rate of 15 %per annum.
 8. Hakizimana Ltd charges a full year's depreciation in the year of purchase but no provision is made in the year of disposal.

REQUIRED:

Prepare, for Hakizimana Ltd, for the years ended 31 December 2014, 2015 and 2016:

- | | | |
|-------|--|------------------|
| (i) | A non-current assets account | (5 Marks) |
| (ii) | An asset accumulated depreciation account. | (6 Marks) |
| (iii) | An asset disposal account. | (5 Marks) |

(Provide for all the necessary workings)

(Total: 20 Marks)

QUESTION FIVE

- (a) Explain any **four** limitations of using accounting ratios in interpretation of financial statements.

(2 Marks)

- (b) Mbarushimana Ltd is a newspaper company listed on the stock exchange of Rwanda. The directors have requested the finance director to comment on the performance of Mbarushimana Ltd in comparison with the industry and the previous year, before a rights issue is made. The following information is provided:

| | 2017 | 2016 | Industry average (2017) |
|-------------------------------------|-----------|-----------|-------------------------|
| Profitability: | | | |
| Return on capital employed | 12% | 10% | 15% |
| Operating profit margin | 15% | 14% | 15% |
| Asset utilization ratios: | | | |
| Assets turnover | 2 times | 2times | 1.8 times |
| Debtors days | 45 days | 50 days | 60 days |
| Solvency ratios: | | | |
| Gearing ratio (debt/ debt + equity) | 25% | 30% | 35% |
| Interest cover | 20 times | 19 times | 24 times |
| Liquidity ratios: | | | |
| Current ratio | 2 times | 2.5 times | 1.8 times |
| Acid test ratio | 0.8 times | 0.7 times | Once |
| Shareholder ratios: | | | |
| Earnings per share | Frw 115 | Frw 120 | Frw 120 |
| Dividend yield | 2.5% | 2% | 5% |

REQUIRED:

Comment on the performance of Mbarushimana Ltd in 2017 comparing with 2016 and the industry averages.

(18 Marks)

(Total: 20 Marks)

END OF QUESTION PAPER

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