
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 1 EXAMINATION

L1.1: INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 3 JUNE 2019

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

QUESTION ONE

- (a) The following trial balance was extracted from the books of Butare Milk Dealers for the year ended 31 December, 2018:

Account title	Dr. Frw '000'	Cr. Frw '000'
Capital		56,360
Inventory 1 January, 2018	1,500	
Purchases & sales	70,000	104,000
Trade receivables & trade payables	6,000	7,000
Land & buildings (note 3) at cost	50,000	
Milk cooling plant at cost	23,000	
Computers & computer accessories at cost	3,800	
Furniture & fittings at cost	8,000	
Cash	3,400	
Bank		500
Bad debts	240	
Retained earnings 1 January, 2018	400	
Accumulated depreciation 1 January, 2018:		
Milk cooling plant		4,600
Land & buildings		2,000
Computers & accessories		950
Furniture & fittings		400
Fuel costs	5,800	
Prepaid insurance 1 January, 2018 (note 4)	2,400	
Salaries & wages	12,000	
Utilities	3,950	
Repairs & maintenance	5,400	
15% bank loan (note 5)		20,000
Discounts allowed & discounts received	<u>180</u>	<u>260</u>
	<u>196,070</u>	<u>196,070</u>

Additional information:

- 1 Closing inventory was valued at Frw 4.5 million.
- 2 Milk worth Frw 860,000 was spoilt at year end. This adjustment had not been made by the year end.
- 3 The cost of the land was Frw 10 million.
- 4 The prepaid expenses relate to insurance that was running till 30 June, 2018. The insurance policy had not been renewed by 31 December, 2018.
- 5 The loan was obtained on 30 November, 2018. Interest on loan is deemed to accrue evenly throughout the year. The interest expense was paid in full on 31 December 2018. This payment had not been reflected in the books.

6 The company's depreciation policy is as follows:

	Rate (%)	Method
Furniture and fittings	5	Straight line
Land and Buildings	5	Straight line
Milk processing plant	20	Reducing balance
Computers and accessories	25	Reducing balance

- 7 Top management has decided to write off a debt of Frw 250,000 due from Cyanguu Milk Dealers whose business is now closed due to poor quality standards. In addition, management has decided that the provision for bad debts should be 5% of the outstanding receivables. Adjustments relating to these decisions have not yet been made in the books.
- 8 Salaries of Frw 640,000 were outstanding and fuel of Frw 890,000 was prepaid by the year end. No adjustments had been made to this effect.

REQUIRED:

Prepare, for Butare Milk Dealers for the year ended 31 December, 2018 a statement of:

- (i) Profit or loss **(15 Marks)**
(ii) Financial position **(14 Marks)**

Hint: Show all the workings

(b) The following information was extracted from the assets register of Rusizi Transporters Ltd:

Asset	Date of purchase	Cost (Frw '000')
Truck 1	1 January, 2017	20,000

The following transactions took place in the year 2018:

- 1 On 1 January 2018, the company acquired Truck 2 at connect at an invoice price of Frw 17 million. The company incurred Frw 8 million in taxes and Frw 2 million in other fees to clear and register the truck. The company's mechanic estimates monthly repair costs at Frw 620,000 and weekly fuel costs at Frw 340,000.
- 2 On 30 June 2018, Truck 1 was disposed off for Frw 14 million and on 1 July, 2018 Truck 3 was acquired for Frw 20 million. Additional costs incurred in relation to Truck 3 included: registration fees of Frw 3.62 million, clearing and forwarding fees Frw 380,000 and Frw 270,000 in salaries and wages paid to the driver of the truck in 2018.
- 3 The company depreciates all trucks at 20% per annum on reducing balance. Full year depreciation is provided in the year of purchase and none in the year of disposal. The company's financial year ends 31 December.
- 4 All transactions were effected through the company's bank account.

REQUIRED:

Prepare, for Rusizi Transporters Ltd for the year ended 31 December, 2018 the following accounts:

- (i) Combined trucks asset. **(5 Marks)**
- (ii) Combined depreciation of trucks expense. **(2 Marks)**
- (iii) Combined accumulated depreciation of truck. **(2 Marks)**
- (iv) Disposal of truck. **(2 Marks)**

(Total 40 Marks)

SECTION B

QUESTION TWO

Ngoga & Sons had the following transactions in the month of April 2019:

Date Transaction

- 1 April Started business with the following assets:
 - Motor vehicle Frw 3,750,000.
 - Furniture Frw 3 million.
 - Bank Frw 5 million.
 - Cash Frw 4 million.
- 2 April Paid rent Frw 125,000 cash
- Purchased goods by cheque Frw 1,375,000.
- 3 April Sold goods Frw 1 million cash.
- 5 April Purchased goods Frw 1.5 million on credit from Mulifi Enterprises.
- 6 April Paid wages Frw 150,000 cash.
- 7 April Paid motor vehicle repairs Frw 187,000 cash.
- 8 April Withdrew cash of Frw 1,450,000 from the bank for business use.
- 9 April Sold goods of Frw 2.5 million on credit to Biha Traders.
- 15 April Paid Mulifi Enterprises of Frw 1,455,000 cash the difference being discount received.
- 18 April Biha Traders returned goods Frw 10,000 because they were damaged.
- 20 April Biha Traders paid Frw 2,365,500 cash the difference being discount allowed.
- 25 April Used business cash Frw 350,000 to pay his home's utility bills.

REQUIRED:

Prepare, for Ngoga & Sons, the month of April 2019, the following:

- (i) General journal (ignore narrations and referencing) **(15 Marks)**
- (ii) Two-column cashbook **(5 Marks)**

QUESTION THREE

- (a) (i) Explain the circumstances under which the trade receivables account may have a credit opening balance. **(3 Marks)**
- (ii) The following information was extracted from the books of Kayibanda and Sons for the month of May 2019:

Details:	Frw '000'
Cash sales	4,600
Trade receivables 1 May, 2019	1,250
Trade payables 1 May, 2019	3,400
Cash purchases	780
Sales returns	34
Purchases returns	88
Amounts paid to credit suppliers	6,780
Amounts received from credit customers	1,900
Cash discounts allowed	234
Cash discounts received	367
Bad debts	120
Interest charged to customers	96
Dishonored cheques from customers	1,320
Trade receivables 31 May 2019	2,800
Trade payables 31 May 2019	2,000

REQUIRED:

Determine the credit purchases and credit sales for the month of May 2019. **(7 Marks)**

- (b) The following information was obtained from the books of the Rotary Club of Nyaruguru for the year ended 31 December, 2018:

1 Opening and closing balances:

	31 December, 2018	31 December, 2017
	Frw '000'	Frw '000'
Ordinary subscriptions in arrears	6,450	7,800
Ordinary subscriptions in advance	4,200	5,600
Life subscription	?	20,000
Other payables		2,700
Accrued utilities	430	820
Prepaid rent	700	1,600
Property, plant & equipment	?	42,000

2 Receipts and payments for 2018:

	Frw '000'		Frw '000'
Donations	17,000	Balance b/ f 1 January, 2018)	3,400
Revenue from raffles	3,200	Raffle expenses	2,400
sale of used items	5,400	Rent	3,500
Subscriptions	24,000	Purchase of additional equipment	14,600
	-	Balance c/ f	25,700
	<u>49,600</u>		<u>49,600</u>

3 10% of the subscriptions received relates to life subscription.

4 It is the club's policy to recognise 5% of total life subscriptions as income for the year.

REQUIRED:

Determine the club's:

- (i) Accumulated fund as at 1 January, 2018 **(4 Marks)**
 - (ii) Ordinary subscription, life subscription and rent to be recognised in the statement of income and expenditure. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

- (a) The accountancy profession exists to ensure that all interested parties entitled to financial information, have that information presented objectively. Accountants should, therefore, avoid or be aware of situations that might lead them to act unethically.

REQUIRED:

Explain **three** ways in which an accountant can resolve an ethical dilemma encountered in the course of his/ her duty. **(3 Marks)**

- (b) Explain the fundamental qualitative characteristics of accounting information. **(2 Marks)**
- (c) Explain the following accounting concepts:
 - (i) Historical cost **(1 Mark)**
 - (ii) Realization **(1 Mark)**
 - (iii) Money measurement **(1 Mark)**
 - (iv) Duality **(1 Mark)**
 - (v) Going concern **(1 Mark)**
- (d) The objective of financial statements is to provide information about the financial position, performance and changes in equity of an enterprise that is useful to a wide range of users in making economic decisions.

REQUIRED:

- (i) Identify **four** external users of accounting information and explain why they may be interested in accounting information provided by an entity. **(6 Marks)**
 - (ii) Explain **four** elements of financial statements. **(4 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) The cashbook (bank column) of Margaret & Co. Advocates for the month of March 2019 showed a debit balance of Frw 14,000,000 while the bank statement showed a credit balance of Frw 20,242,000. On further examination, the following issues were discovered:

- 1 Monthly ledger fees of Frw 10,000, standing orders for airtime and insurance of Frw 50,000 and Frw 210,000 respectively, loan interest of Frw 135,000 and loan principal repayment of Frw 625,000 were all not reflected in the cashbook.
- 2 A cheque received from Kengo Enterprises of Frw 400,000 was returned together with the bank statement unpaid.
- 3 A cheque of Frw 230,000 paid to Kanza Suppliers was debited in the cashbook as Frw 23,000.
- 4 Cheques received from customers: Ngeze Frw 1,000,000, Nirere Frw 1,500,000, Nizeyimana Frw 1,050,000 and Makuza Frw 900,000 were taken to the bank after the bank statement had been generated.
- 5 A cheque issued to Rukundo Enterprises of Frw 1,140,000 was dishonored by the bank due to some mismatches.
- 6 A client made a direct transfer of Frw 4,500,000 to Margaret & Co. Advocate's bank account. This is not reflected in the cashbook.
- 7 The following suppliers were paid on 2 March 2019: Sehene Traders Frw 2,000,000, Yuhi Enterprises Frw 1,600,000 and Kinigi Associates Frw 1,650,000 but had not presented the cheques to the bank for payments.
- 8 A cheque received from Bakunda of Frw 1,650,000 was debited in the cashbook as Frw 165,000.

REQUIRED:

Prepare, for Margaret & Co. Advocates for the month of March, 2019:

- (i) An adjusted cashbook **(6 Marks)**
- (ii) A bank reconciliation statement **(4 Marks)**

(b) The trial balance of Buyoya traders in Butare town failed to balance at the end of year 31 December 2018. The bookkeeper posted the difference to the suspense account but later discovered the following:

- 1 Purchases of Frw 134,000 was recorded as Frw 314,000.
- 2 A motor vehicle repair expense of Frw 200,000 was debited to the motor vehicle account.
- 3 The debit side of the cashbook was understated by Frw 2,400,000 and coincidentally the credit side of the sales account was, too, understated by the same amount.
- 4 Frw 1,250,000 was received from a debtor, Karamira but this was credited to Karamera's account.
- 5 A sale of goods Frw 2,200,000 on credit was debited in the sales account and credited to the accounts receivable account.
- 6 A sale of goods of Frw 4,000,000 was recorded on the sales invoice as Frw 400,000.
- 7 Drawings of Frw 1,500,000 was not recorded anywhere in the books.
- 8 A disposal of a non-current asset of Frw 2,000,000 was only recorded in the cashbook.
- 9 A cash payment to a supplier of Frw 400,000 was debited in the trade payables account as Frw 40,000 and credited to the cash account as Frw 400,000.
- 10 Goods worth Frw 200,000 sold on cash during busy hours of the day were not recorded in the books of account.

REQUIRED

Identify the type of error committed in each of the notes (1-10) above.

(10 Marks)
(Total 20 Marks)