INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

FRIDAY: 7 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

The following information, for the year ended 31 December, 2018 relates to Ganza who runs a wholesale shop, dealing in general merchandise in Burera town.

1. Assets and liabilities on 1 January 2018:

	Frw '000'
Land	17,500
Building	40,000
Shop fittings & fixtures	2,500
Delivery van	8,000
Inventory	2,000
Desktop computers	1,500
Trade receivables	2,200
Trade payables	5,500
Bank	6,000
Accrued salary	1,000
Prepaid utilities	100

2. Summary of bank transactions for the year ended 31 December 2018:

Deposits:	Frw '000'
Payments by debtors	15,000
Cash sales	100,000
18% bank loan (acquired 1 July, 2018)	20,000
Payments:	
Payments to creditors	40,000
Purchases	20,000
Trading licences	500
Auditor's fees	600
Utility bills	1,500
Purchase of new desktop computer	875
Staff salaries	12,000
Rent for display space	3,000

3. At the beginning of the year, Ganza had 2 desktop computers purchased on the same date at Frw 1,000,000 each with accumulated depreciation of Frw 250,000 each. One of the computers was disposed of at the beginning of the year for Frw 400,000.
4. For risk management purposes, Ganza banks cash from sales at the end of every week after deducting the following weekly expenses: drawings Frw 50,000, miscellaneous expenses of Frw 75,000, wages of casual staff of Frw 54,400 and cash purchases of Frw 125,000.
5 The costs of the buildings, shop fittings & fixtures and the delivery van were Frw 60,000,000; Frw 3,200,000 and Frw 20,000,000 respectively. They are depreciated at annual rates of 2%, 10% and 12.5% on cost respectively. Computers are depreciated at 25% per annum on cost.

6 Bad debts written off, discounts allowed and discounts received amounted to Frw 200,000; Frw 75,000 and Frw 25,000 respectively.

7 Interest on the bank loan is outstanding.

8 Full year's depreciation for non-current assets is provided for in the year of acquisition and no depreciation is charged in the year of disposal.

9 Balances on 31 December, 2018:

	Frw '000'
Inventory	2,650
Trade receivables	3,220
Trade payables	4,320
Accrued salary	820
Prepaid utilities	120

REQUIRED:

Prepare, for Ganza, for the year ended 31 December 2018, a statement of:

(i) Affairs as at 1 January, 2018 **(5 Marks)**

(ii) Profit or loss. **(19 Marks)**

(iii) Financial position. **(16 Marks)**

(Total 40 Marks)

(Hint: Show all your workings)

SECTION B

QUESTION TWO

(a) Accounting profits and taxable profits may not be the same due to permanent or temporary differences.

REQUIRED:

Giving **two** examples in each case, explain what is meant by temporary and permanent differences. **(4 Marks)**

(b) A company completed construction of a warehouse to store its finished goods on 1 January 2017. The roof of the ware house is replaceable every 10 years while the wall and foundation component has a useful life of 50 years. The cost of the roof is Frw 10,000,000 and the wall and foundation of Frw 40,000,000.

REQUIRED:

Following the requirements of IAS 16: Property, Plant and Equipment, (separate components), compute the depreciation and carrying amount of the warehouse as at 31 December 2017. **(2 Marks)**

(c) Ngoma Ltd completed construction of an office building on 31 December, 2009. The construction process is estimated to have taken 12 months. The building has an estimated useful life of 40 years. The costs incurred were as follows:

	Frw '000'
Purchase cost of land	24,000
Legal fees to draft land purchase agreement	1,000
Construction materials	40,000
Labour costs during construction	7,500
Architectural costs	6,000
Plan approval costs	2,000
Cost of transferring land into the company's name.	2,500
Salary of staff in estates department (note 2)	24,000
Grand opening of the building (note 3)	5,000

Additional information:

1 Ngoma Ltd uses historical cost as the measurement base and uses the straight line method of depreciation.

2 Ngoma Ltd employs engineers in the estates department who were paid Frw 24,000,000, representing their annual salary for 2009. The engineers were required to provide a monthly report on the progress of the construction activities but were given no additional allowance.

3 The grand opening ceremony took place on 31 December 2009.

4 Ngoma Ltd started providing for depreciation of the building on 1 January 2010.

REQUIRED:

Compute the**:**

(i)	Cost of land	**(1 Mark)**
(ii)	Cost of the office building	**(2 Marks)**
(iii)	Carrying amount of the office building as at 1 January, 2018.	**(2 Marks)**
(iv)	Revenue expenditure related to construction of the building for the year ended 31 December, 2009.	**(1 Mark)**

(d) Gashumba and Gera opened up a firm in Kigali to export coffee to Europe. On 1 January 2017, they entered into a 20-year lease with the owner of a building to lease the ground floor. The annual lease payments were Frw 40,000,000 per annum payable at the year end. To obtain the lease, legal and registration costs of Frw 12,000,000 were incurred. The rate implicit in the lease is 6% and the present value of the minimum payments is Frw 458,760,000.

REQUIRED:

Prepare extracts of the statements of profit or loss and financial position for the years ended 31 December 2017 and 2018. **(8 Marks)**

(Total 20 Marks)

(Hint: Use IFRS 16 and present the workings to two decimal places)

QUESTION THREE

(a) Citing **two** examples, explain the term 'cash equivalents' as used in IAS 7: Statement of Cash Flows. **(3 Marks)**

(b) Explain the importance of a statement of cash flows. **(3 Marks)**

(c) Mukunzi and Isaro are partners in an audit firm, Excellent Associates. They are auditing a client, Keza Ltd who has provided the following financial statements and the additional information.

Statement of financial position as at 31 December, 2018

	2018	2017
Non-current assets:	Frw '000'	Frw '000'
Property, plant & equipment	2,795,900	1,520,000
Accumulated depreciation	(636,000)	(576,000)
	2,159,900	944,000
Investments	100,000	-
Total noncurrent assets	2,259,900	944,000
Current assets:		
Inventory	794,000	1,192,000
Trade receivables	784,000	664,000
Bank	-	10,000
Total current assets	1,578,000	1,866,000
Total assets	3,837,900	2,810,000
Equity & liabilities:		
Ordinary share capital	1,100,000	700,000
Share premium	250,000	150,000
Revaluation reserve	200,000	0
Retained earnings	588,000	274,000
	2,138,000	1,124,000
Non-current liabilities:		
16% bank loan	400,000	788,000
Current liabilities:		
Trade payables	592,000	262,000
Accrued expenses	144,000	128,000
Taxation	192,000	174,000
Dividends payable	215,900	197,000
Interest payable	112,000	137,000
Bank overdraft	44,000	-
Total current liabilities	1,299,900	898,000
Total liabilities	1,699,900	1,686,000
Total equity & liabilities	3,837,900	2,810,000

Statement of profit or loss for the year ended 31 December, 2018.

	Frw '000'
Revenue	5,361,200
Cost of sales	(3,560,000)
Gross profit	1,801,200
Distribution costs	(251,200)
Administrative costs	(681,000)
Operating profit	869,000
Interest	(112,000)
PBT	757,000
Tax	(227,100)
Profit after tax	529,900
Dividends	(215,900)
Profits c/d	314,000

Additional Information:

1 Property plant & equipment at cost includes land, buildings and equipment valued as follows: land Frw 800,000,000; 2 buildings each costing Frw 1,200,000,000; and equipment of Frw 795,900,000.
2 During the year, one of the buildings which had been acquired on 1 January 2005 at a cost of Frw 840,500,000 was disposed off on 1 January 2018 for Frw 650,000,000. The building was being depreciated at rate of 2% per annum.
3 At year end, the company decided to revalue land to its fair value which has been incorporated in the financial statements.

REQUIRED:

As an audit trainee at Excellent Associates, compute the following items which will be included in the statement of cash flows:

(i) Depreciation expense **(2 Marks)**
(ii) Tax paid **(2 Marks)**
(iii) Interest expense paid **(2 Marks)**
(iv) PPE acquired during the year **(2 Marks)**
(v) Dividends paid **(2 Marks)**
(vi) Gain or loss on disposal **(2 Marks)**

(d) Indicate the category of cash flows where each of the above computations is going to be reflected in the statement of cash flows. **(2 Marks)**

(Total 20 Marks)

QUESTION FOUR

Kamonyi Ltd and Gitarama Ltd are two companies selling petroleum products in the Southern Province. Due to limited capital, both firms have expressed need to sell off or partner with a strategic investor to expand their businesses. Habimana Petroleum Co. Ltd from Kigali is interested in expanding its business in the same area and has expressed interest to buy off one of the companies. Statements of profit or loss and financial position for Kamonyi Ltd and Gitarama Ltd for the year ended 31 December, 2018 are as follows:

Statements of profit or loss

	Kamonyi Ltd	Gitarama Ltd
	Frw '000'	Frw '000'
Sales	2,648,700	3,290,000
Cost of sales	(1,550,000)	(2,019,000)
Gross profit	1,098,700	1,271,000
Operating expenses	(374,000)	(457,000)
Operating profits	724,700	814,000
Finance costs	(87,000)	(60,900)
Profit before tax	637,700	753,100
Tax	(191,310)	(225,930)
Net profit	446,390	527,170

Statements of financial position

	Kamonyi		Gitarama	
Non- current assets:	Frw '000'	Frw '000'	Frw '000'	Frw '000'
Property, plant & equipment	950,000		800,000	
Accumulated depreciation	(285,0000	665,000	(240,000)	560,000
Current assets:				
Inventory	350,000		430,000	
Accounts receivable	450,000		560,000	
Bank	275,000	1,075,000	300,000	1,290,000
Total assets		1,740,000		1,850,000
Equity & liabilities:				
Share capital	780,000		850,000	
Share premium	25,000		40,000	
Retained earnings	500,000	1,305,000	572,300	1,462,300
Non- current liabilities:				
Bank loan		120,000		50,000
Current liabilities:				
Accounts payable	300,000		290,000	
Outstanding expenses	15,000	315,000	47,700	337,700
Total Equity and Liabilities		1,740,000		1,850,000

Additional information:

The purchases for Kamonyi Ltd and Gitarama Ltd are Frw 1,750,000 and Frw 1,889,000 respectively.

Hint: Assume that all sales and purchases were on credit.

REQUIRED:

(a) Compute the following ratios for Kamonyi Ltd and Gitarama Ltd for the year ended 31 December 2018. :

(i) Return on capital employed. **(1 Mark)**
(ii) Operating profit margin. **(1 Mark)**
(iii) Assets turnover. **(1 Mark)**
(iv) Debtors' collection period. **(1 Mark)**
(v) Creditors' payment period. **(1 Mark)**
(vi) Inventory days. **(1 Mark)**
(vii) Debt to capital employed. **(1 Mark)**
(viii) Interest cover. **(1 Mark)**
(ix) Current ratio. **(1 Mark)**
(x) Acid test ratio. **(1 Mark)**

(b) As a financial consultant appointed by directors of Habimana Ltd, write a brief report outlining the strengths and weaknesses of the two businesses and advise the directors on which business to acquire. **(10 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) Explain the meaning of the term 'life subscription' as used in non-profit making organisations and explain why life subscription received is not recognised as income in one financial period. **(2 Marks)**

(b) The following information relates to Ngoma Rotary Club located in the Eastern Province:
Statement of affairs as at 1 January, 2018:

	Frw '000'		Frw '000'
Non - current assets:		Non-current liabilities:	
Equipment & fittings (cost 8 million)	4,000	Life subscription	10,000
Furniture (cost 7 million)	5,000	Current liabilities:	
Motor vehicles (cost 25 million)	20,000	Coffee café payables	2,500
Current assets**:**		Ordinary subscription	2,100
Rent prepaid	300	Professional fees	1,200
Ordinary subscription	600	Café wages	800
Coffee cafe inventory	1,900	Utilities	500
Receivables from coffee café	3,400	Accumulated fund	31,000
Bank balance	12,900		-
	48,100		48,100

Summary of receipts and payments for the year ended 31 December 2018:

Receipts:	Frw '000'	Payments:	Frw '000'
Cash and bank balance b/d	12,900	Coffee café cash purchases	3,540
Collections from Women's Day run	1,500	Payments to café credit suppliers	2,300
Coffee café cash sales	6,350	Rent	2,800
Donations	2,800	Insurance	900
Fundraising dinner income	4,000	Coffee café wages	1,200
Ordinary subscriptions	6,200	Professional fees	2,000
Receipts from café debtors	3,000	Health camp costs	4,600
Life subscription	8,000	Fuel	1,250
		Utilities	800
		General cleaning costs	500
		Publications and advertisements	1,000
	-	Cash and bank balance c/d	23,860
	44,750		44,750

Additional information:

1 Closing balances as at 31 December 2018:

	Frw '000'
Coffee café trade receivables	2,600
Coffee cafe inventory	2,500
Coffee café trade payables	1,800
Ordinary subscription in arrears	1,120
Prepaid ordinary subscription	1,800
Rent prepaid	400
Fuel accrued	750
Utilities accrued	860

2 Non-current assets are depreciated using straight line method as follows: motor vehicles at 20% per annum; furniture and equipment at 10% per annum.

3 The costs are shared between the café and club as follows:

	Club	Café
Rent	¾	¼
Fuel	½	½
Utilities	¼	¾

4 Life subscription is recognised over a period of 20 years. The opening life subscription has a remaining life of 10 years.

REQUIRED:

Determine the:

(i) Sales and purchases to be included in the trading account of the café. **(4 Marks)**

(ii) Ordinary subscription income to be included in the income and expenditure statement of the Rotary Club. **(3 Marks)**

(iii) Expense for rent, fuel and utilities to be included in the profit or loss statement of the café. **(6 Marks)**

(iv) Life subscription to be included in the income and expenditure statement and the statement of financial position. **(2 Marks)**

(v) Carrying amounts of all the non-current assets as 31 December 2018. **(3 Marks)**

(Total 20 Marks)