
CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

WEDNESDAY: 5 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.

QUESTION ONE

The following information was extracted from the books of Kagugu Industries Ltd, manufacturers of ceramic products for the year ended 31 December, 2018.

Cash book:

Details	Frw '000'	Details	Frw '000'
Cash sales	375,000	Balance b/ d	2,550
Receipts from debtors	80,000	Utilities	20,125
		Direct factory wages	15,125
		Other direct expenses	12,500
		Indirect materials	20,150
		Sales commissions	2,100
		Promotion expense	1,700
		Payment to creditors	70,000
		Cash purchases of raw materials	37,600
		Rent	6,000
		Carriage outwards	200
		Carriage inwards on raw materials	600
		Manufacturing expenses	5,000
		Maintenance expenses	1,150
		Salaries	18,000
		Balance c/ d	<u>242,200</u>
	<u>455,000</u>		<u>455,000</u>

The opening and closing balances are as follows:

	1 January, 2018	31 December, 2018
	Frw '000'	Frw '000'
Raw materials	6,250	10,000
Work in progress	2,500	3,750
Finished goods	5,000	12,500
Office equipment (cost Frw 37.5 million)	33,750	?
Machinery (cost Frw 62.5 million)	46,875	?
Motor vehicles (cost Frw 15 million)	12,000	?
Office furniture & fittings (cost Frw 3 million)	2,850	?
Trade debtors	4,000	700
Trade creditors	7,600	1,100
Prepaid utilities	125	200
Accrued salaries	300	600

Additional information:

1. All transactions are effected through the bank.
2. 60% of manufacturing expenses related to indirect costs.
3. Apportionment of expenses is as follows:

	Factory	Selling & distribution	Office & administration
Rent	50%	?	20%
Salaries	$\frac{1}{2}$	$\frac{1}{4}$?
Utilities	70%	?	20%
Maintenance expenses	$\frac{3}{4}$		$\frac{1}{4}$
Depreciation on motor vehicles	60%	30%	?

4. The company's depreciation of non-current assets is as below:

Asset	Rate per annum
Office equipment	10% on reducing balance
Machinery	25% on cost
Motor vehicles	20% on reducing balance
Office furniture & fittings	5% on cost

REQUIRED:

Prepare for Kagugu Industries Ltd a statement of:

- | | | |
|-----|---|-------------------|
| (a) | Affairs as at 1 January, 2018. | (6 Marks) |
| (b) | Manufacturing costs for the year ended 31 December, 2018. | (10 Marks) |
| (c) | Profit or loss for the year ended 31 December, 2018. | (13 Marks) |
| (d) | Financial position as at 31 December, 2018. | (11 Marks) |

Hint: provide all workings

(Total 40 Marks)

QUESTION TWO

- (a) Nyanza Plastics Ltd manufactures and sells two products A and B. The company imports the raw materials it uses in the manufacturing process. The following information relates to closing inventory for the two products as at 31 December, 2018.

	Product A	Product B
Costs and anticipated revenue	Frw '000'	Frw '000'
Purchase of raw materials (cost, insurance and freight (CIF) value	8,000	12,000
Import duties and other non-refundable taxes on imported raw materials	2,800	4,200
Conversion (manufacturing) costs	6,500	4,500
Storage costs of finished products	1,800	1,500
Estimated revenue from sales	21,800	20,000
Estimated selling and distribution costs	1,700	2,400

REQUIRED:

Determine the value of closing inventory of products A and B to be included in the financial statement of Nyanza Plastics Ltd in accordance with IAS 2: Inventories.

(6 Marks)

- (b) IAS 38: Intangible Assets, provide for two methods of measurement of intangible assets subsequent to initial recognition of intangible assets.

REQUIRED:

Explain the conditions that must be observed by an entity that chooses to use the revaluation model subsequent to initial recognition.

(4 Marks)

- (c) The following are extracts of the financial statements for Gitarama Services Ltd for the years to 31 December, 2017 and 2018.

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

	Frw '000'
Expenditure for the year:	
Purchases of office supplies	(45,000)
Salaries & wages	(24,000)
Other expenses	(8,000)
Finance cost	(8,500)
Profit before tax	<u>26,500</u>
Tax	(7,950)

Extract of the statement of financial position as at 31 December:

	2018	2017
	Frw '000'	Frw '000'
Capital & liabilities::		
Share capital & reserves	127,150	108,600
Non-current liabilities:		
17% 3 year bank loan	50,000	
Current liabilities:		
Trade payables	7,900	10,500
Accrued salaries & wages	6,500	4,500
Finance cost	7,600	6,500
Bank		1,500
Taxation	4,500	5,500

REQUIRED:

Using the direct method in accordance to IAS 7: Statement of Cash Flows, determine the cash paid with respect to:

- (i) Employees. (2 Marks)
 - (ii) Taxes. (2 Marks)
 - (iii) Finance cost. (2 Marks)
- (d) With **two** examples, distinguish between property plant and equipment and investment property in accordance to IAS 16: Property, Plant and Equipment and IAS 40: Investment Property. (4 Marks)
- (Total 20 Marks)**

QUESTION THREE

- (a) Briefly explain why it is necessary to prepare a bank reconciliation statement. **(6 Marks)**
- (b) The accounts clerk of Gisenyi and Sons Ltd (GSL) failed to prepare a bank reconciliation for the month of April 2019. The following information for the months of April and May 2019 were extracted from the company's books.

Un-reconciled items from the month of April 2019:

Direct debits:	Frw '000'	Direct credits:	Frw '000'
Bank charges	360	Direct deposit (Bakunda)	3,400
Standing order charges	10	Interest received	200
Un-presented cheques:		Commission	2,300
Cheque No. 578091	460	Un-credited lodgements:	
Cheque No. 578093	234	Cheque No. 67236	4,700
		Cheque No. 10987	6,500

Cashbook (bank column) for the month of May 2019:

Details	Frw '000'	Details	Frw '000'
Balance b/ f	14,506	Cheque No. 580000	420
Cash sales (note 1)	40	Cheque No. 580001	670
Cash deposit	600	Cheque No. 580003	1,870
Cheque No. 245768	5,700	Cheque No. 580004	4,200
Cheque No. 140624	2,500	Cheque No. 580005	1,140
Cheque No. 8974	7,800	Standing order charges	10
Direct deposit (Bakunda)	<u>3,400</u>	Balance c/ d	<u>26,236</u>
	<u>34,546</u>		<u>34,546</u>

Bank statement for the month of May 2019

Details	Debit	Credit	Balance
	Frw	Frw	Frw
Balance b/ f			9,530,000
Cash deposit		600,000	10,130,000
Cash withdrawal - cheque No. 578092	760,000		9,370,000
Loan interest	860,000		8,510,000
Cheque No. 245768		5,700,000	14,210,000
Loan principal repayment	3,600,000		10,610,000
Monthly ledger fees	2,400		10,607,600
Cheque No 580000	240,000		10,367,600
Mobile banking transfer fees	24,000		10,343,600
New cheque book - express processing	12,000		10,331,600
Cheque certification	5,200		10,326,400
Bank letter charges	1,000		10,325,400
Bank statement charges	4,500		10,320,900
Interest:		16,000	10,336,900
Cheque No. 580001		67,000	10,403,900
Cheque No. 578091	460,000		9,943,900
Cheque No. 580005	1,140,000		8,803,900
Cheque No. 140624	5,200,000		3,603,900
Cheque No. 8974		7,800,000	11,403,900

Notes:

1. This amount was received by the company in cash and not through the bank. The accounts clerk erroneously recorded this amount in the bank column of the cash book.
2. Other bank charges include charges for telegraphic transfers as well as electronic transfers (EFTs) made by the bank.
3. The bank made errors cheques No. 140624 and No. 580001. Any other errors, if found, should be deemed to have been made in the cashbook.

REQUIRED:

Prepare for Gisenyi and Sons Ltd for the month of May 2019:

- (i) An adjusted cashbook. **(9 Marks)**
 - (ii) Bank reconciliation statement. **(5 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

The following journal entries were prepared to correct errors that were made by un-experienced bookkeeper in the books of Rukundo, a sole proprietor that operates a wholesale shop in Kayonza town. He reported a suspense account balance of Frw 11.5 million (credit) and a net profit of Frw 4.5 million.

No.	Details	Frw '000'	Frw '000'
1.	Sales	2,000	
	Suspense		2,000
2.	Machinery repairs	4,400	
	Machinery		4,400
3.	Purchases	10,000	
	Suspense		10,000
4.	Suspense	500	
	Utilities		500
5.	Accounts receivable	6,000	
	Sales		6,000
6.	Debtor (Akimana)	4,000	
	Debtor (Habimana)		4,000
7.	Insurance expense	1,200	
	General repairs		1,200

REQUIRED:

- (a) With an illustration in each case, explain:
- (i) Two reasons why a suspense account may be introduced in the books of account. **(3 Marks)**
 - (ii) Two errors that may result into opening of suspense account. **(3 Marks)**
- (b) Explain the errors committed and corrected from (1) to (7) above. **(7 Marks)**
- (c) Prepare:
- (i) The suspense account. **(2 Marks)**
 - (ii) A statement of corrected net profit. **(5 Marks)**
- (Total 20 Marks)**

QUESTION 5

- (a) Explain any **two** elements considered when computing an annual depreciation charge. **(2 Marks)**
- (b) Cyangugu Fruit Factory (CFF) Ltd processes and packs juice. The following information relates to their non-current assets as extracted from their asset register as at 31 December, 2017.

Asset	Date of purchase	Cost Frw '000'
Sugar syrup preparation tank	1 January, 2016	6,500
Fruit crusher	30 September, 2016	12,500

In December 2016, the Company's Board approved an expansion plan that was implemented by management in the period commencing January 2017. The following is an extract of transactions that took place as well as the company's policy on depreciation.

- On 30 March, 2017 the company disposed off the sugar syrup preparation tank in a part exchange arrangement for a new fruit sterilization machine. The invoice price of the sterilization machine was paid by part exchange of the sugar syrup preparation tank at book value (on the date of disposal) and a top up of Frw 4.3 million by cheque. Additional costs incurred in the acquisition included transport Frw 1.2 million, refundable taxes Frw 800,000, installation Frw 600,000 and testing Frw 200,000. Frw 1 million was incurred in servicing the sterilization machine in the year 2017.
- On 30 June, 2018 the company acquired an automatic bottle filling line machine at cost, insurance and freight (CIF) value Frw 16 million. The company was fined Frw 100,000 at Mombasa port due to the fact that the container spent a longer time than that provided for clearance. Installation costs and staff training costs on how to use the machine were Frw 950,000 and Frw 340,000 respectively.
- The company's policy is to depreciate all non-current assets at 20% per annum on cost. Depreciation expense is assumed to accrue evenly throughout the year.
- All transactions took place through the company's bank account. The company's financial year ends 31 December.

REQUIRED:

Prepare for CFF Ltd, for 2017 and 2018:

- Combined machine account. **(4 Marks)**
 - Combined accumulated depreciation of machinery account. **(11 Marks)**
 - Disposal of machine account **(3 Marks)**
- (Total 20 Marks)**

