CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY 28, MAY 2024

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 questions** and only **three questions** are to be attempted.
4. Marks allocated to each question are shown at the end of the question.
5. Show all workings where applicable.
6. Any assumptions made must be clearly and concisely stated.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

a) Accountants, in their profession, should retain their integrity and objectivity in all phases of their practice and, when expressing "opinions" on financial statements, avoid involvement in situations that would impair the credibility of their independence in the minds of reasonable people familiar with the facts.

Required:

Explain any five broad principles stated as affirmative ethical principles which an accountant should strive for. (10 Marks)

b) The Following Trial Balance was extracted from the books of BINAMA Ltd on 31 December 2022

	FRW'000'	**FRW'000'**
Share capital issued: 8 million ordinary shares of FRW 10 Each		400,000
Freehold premises at cost	295,000	
Motor vans at cost:	113,250	
Accumulated depreciation of motor vans to 31 December 2021		33,750
Inventory in trade 31 December 2021	69,650	
Balance at bank	33,075	
Allowance for doubtful debts 31 December 2021		1,375
Trade Receivables and Payables	111,975	66,900
Directors' remuneration	19,000	
Interim dividends paid	1,000	
Wages and salaries	65,635	
Motor and delivery expenses	16,290	
Rates	3,500	
Purchases and Sales	542,200	763,850
Legal expenses	3,220	
General expenses	29,230	
Retained earnings: balance at 31 December 2021		36,500
General reserve: balance at 31 December 2021		650
	1,303,025	**1,303,025**

Additional information:

1. Inventory in trade, 31 December 2022, FRW 81,000,000 Cost and FRW 85,000,000 Net realizable value
2. Rates paid in advance, 31 December 2022, FRW 1,000,000.
3. Legal expenses unpaid amounted to FRW75,000
4. Allowance for doubtful debts to be increased to FRW 2,050,000.
5. Freehold premises were revalued to FRW 290,000,000
6. Provide for depreciation of motor vans at 20% of cost.
7. Audit fees of FRW 600,000 are yet to be paid
8. The tax assessed amounted to FRW 1,050,000
9. The directors recommended to transfer FRW 1,200,000 to the general reserve
10. The directors have proposed a final dividend of 1% on ordinary shares before year-end.

Required:

i) **Prepare a statement of profit or loss for the year ended 31 December 2022** (8 Marks)

ii) **Prepare a Statement of financial position as at 31 December 2022** (10 Marks)

c) **Explain six conditions that must be met for development costs to be capitalized as intangible assets in the statement of financial position in accordance with IAS 38 intangible assets** (12 Marks)

(Total: 40 Marks)

SECTION B

QUESTION TWO

Caleb's Cash Book shows an overdrawn position of FRW 3,630,000 on 31.10.2023, though his Bank Statement shows only FRW 3,378,000 overdrawn. Detailed analysis of the discrepancies of two records revealed the following:

1. A cheque of FRW 1,560,000 in favor of Mukamana has been omitted by the Bank from its statement, thus, cheque having been debited to another customer's account.
2. The debit side of cash book has been under caste by FRW 300,000.
3. A cheque of FRW 182,000 drawn in payment of water bills had been entered in the Cash Book as FRW 128,000 but was shown correctly in the Bank statement.
4. A cheque of FRW 210,000 from Karenzi that was deposited into the Bank for payment was dishonored although no entry relating to dishonored had been made in Cash Book.
5. The Bank had debited a cheque of FRW 126,000 to Caleb's A/c, by error. It should have been debited to Suzan's a/c.
6. An interest of FRW 90,000 on Caleb's savings account has been duly shown by Bank though no similar entry has been made in Cash Book.
7. A lodgment of FRW 1,080,000 on 31.10.2023 had not been credited by Bank.
8. Interest of FRW 228,000 had been directly debited by Bank and not recorded in Cash Book.

Required:

a) **Prepare adjusted cashbook as at 31/10/2023** (12 Marks)

b) **Prepare a bank reconciliation as at 31/10/2023** (8 Marks)

Total: 20 Marks)

QUESTION THREE

a) In reference to IAS 12 "Income taxes", **briefly explain the difference between current tax and deferred tax.** (4 Marks)

b) Below are the financial statements of Akeza Ltd for the year ended 31 December 2021.

Akeza Ltd

Income statement for the year ended 31 December 2021

	2021	**2020**
	FRW"000"	**FRW"000"**
Sales revenue		50,000
Cost of sales		(18,000)
Gross profit		**32,000**
Distribution costs	(3,000)	
Personnel expenses	(15,000)	
Administrative expenses	(6,000)	
Total operating expenses		**(24,000)**
Interest received	3,000	
Interest paid	(5,000)	
Finance cost		(2,000)
Profit before taxation		**6,000**
Taxation		(5,000)
Profit after taxation		**1,000**

AKEZA Statement of financial position as at 31 December 2021		
	2021	**2020**
ASSETS	**FRW'000**	**FRW'000**
Noncurrent assets		
Property plant and equipment	14,000	12,000
Intangible assets	4,000	3,000
5-year T-Bonds	-	2,000
Total noncurrent assets	**18,000**	**17,000**
Current assets		
Inventories	1,500	1,200
Receivables	3,000	2,500
Short term investments (90-days T-Bills)	5,000	1,000
Cash at Bank	1,000	500
Cash in hand	100	200
Total current assets	**10,600**	**5,400**
Total assets	**28,600**	**22,400**
Equity and liabilities		
Equity		
Share capital	11,000	8,000
Share premium	3,000	2,000
Retained earnings	6,000	5,000
Total equity	**20,000**	**15,000**
Non-current liabilities		
Loan from Bank	3,000	1,000
Current liabilities		
Trade payables	2,600	1,000
Tax payable	3,000	5,400
Total current liabilities	**5,600**	**6,400**
Total liabilities	**8,600**	**7,400**
Total equity and liabilities	**28,600**	**22,400**

Additional information

1. The proceeds from sale of 5-year T-Bonds amounted to FRW 2,500,000.
2. Motor vehicles with original cost of FRW 5,000,000 and net book value of FRW 3,000,000 were sold for FRW 4,000,000.
3. The following information related to property plant and equipment:

	2021	2020
	FRW'000	FRW'000
Cost	27,000	18,000
Accumulated depreciation	13,000	6,000
Net Book Value	**14,000**	**12,000**

4. During the year, 10,000 ordinary shares at FRW 300 each were issued at premium of FRW 100.

Required:

Prepare a statement of cash flows for the year ended 31 December 2021 using indirect method (16 Marks)

(Total: 20 Marks)

QUESTION FOUR

The following transactions took place during the year ending 31 October, 2023 in the books of Muhozi Ltd:

1	1-Jan	Started business with a capital of FRW 1,000,000, i.e., FRW 600,000 cash and the balance at the bank.
2	7-Jan	Put FRW 208,000 of the cash into a bank account
3	16-Jan	Bought goods for cash FRW 15,000
4	20-Jan	Bought goods on credit from: Pamba FRW 49,000; Mambo FRW 20,000; Teresa FRW 34,000 (less 10% trade discount in each case)
5	28-Jan	Bought stationery on credit from Shift Ltd FRW17,000
6	6-Feb	Sold goods on credit to: William FRW 90,000; Bendo FRW 150,000; Havard FRW190,000
7	8-Feb	Paid rent by cheque FRW 5,500
8	10-Feb	Bought fixtures on credit from Malayika Ltd FRW 48,000
9	20-Feb	Paid salaries in cash FRW12,000
10	2-Mar	Returned goods to: Pamba FRW 4,000; Mambo FRW 6,000
11	5-Mar	Bought motor cycle by cheque FRW 70,000
12	6-Mar	Received loan from Hana by cheque FRW 60,000
13	16-Mar	Goods returned to us by: William FRW 2,000; Havard FRW 4,000
14	21-Mar	Cash sales FRW 9,000
15	2-Apr	Sold goods on credit to: Bendo FRW10,000; Peter FRW34,000; Karl FRW15,000 (less 5% trade discount in each case)

Required:

a) **Post these transactions in necessary accounts following double entry** (10 Marks)
b) **Balance the accounts and extract a trial balance as at 31 October 2023** (10 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) The Government of Rwanda made a strategic decision to fully adopt the international public sector accounting standards (IPSAS). Transition to IPSAS meant a change in how financial reports are prepared. It resulted into adoption of accruals basis concept in recognition of transactions.

Required:

State any five benefits of transition from cash basis accounting to accruals basis accounting that would be realized in public financial management (5 marks)

b) Corporate Governance is defined as the system by which organizatons are directed and controlled.

Required:

Explain any five reasons for corporate governance (5 Marks)

c) Angel and Brian began trading on 1st April, 2021 when Angel who is an accomplished retailer in Kayonza entered into a partnership with Brian.

The following information relates to the partnership for the year ended 31st March, 2022

1. A net profit of RWF 13,132,500 had been made by the partnership according to the draft statement of profit or loss. No appropriation account or partners' current accounts had yet been completed and some adjustment may be necessary to the draft net profit figure.
2. On the 1st April, 2021, Angel made a loan of FRW 2,500,000 to the partnership. The interest on the loan was to be credited to Angel at a rate of 15%.
3. The partners are to be credited with annual salaries of FRW 5,000,000 for Angel and FRW 2,500,000 for Brian.
4. The interest on capital is at a rate of 10% per annum
5. The balances of net profits and losses are to be shared between Angel and Brian in the ratio of 3 to 2.
6. Angel made a drawing of FRW 4,175,000 while the drawing of Brian was FRW 5575,000.
7. Each partner is to make a separate capital account and current accounts. At the end of the year the balance in the capital accounts were FRW 8,500,000 and FRW 6,000,000 for Angel and Brian respectively.

Required:

i. **Prepare the partners appropriation account for the year ended 31st March, 2022** (5 Marks)

ii. **Prepare Angel and Brian partners current accounts for the year ended 31st March, 2022** (5 Marks)

(Total: 20 Marks

End of Question Paper

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