CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY, 28 NOVEMBER 2023

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

No	Details	Total Marks
A	Statement of Cashflows (0.5 for each line except totals)	7
	Notes (1 mark for each note except Share capital, Purchase of PPE and Cash equivalent)	7
	2 Marks for Share capital, Purchase of PPE and Cash equivalent	6
	Sub Total	**20**
B	Ratios (1 mark for formula, 1 mark for correct answer)	10
	Interpretation (2 marks for each correct interpretation)	10
	Sub Total	**20**
	Total Marks	**40**

Model Answers

a) Lewis and Ty co Statement of Cashflows as at December 2022

		2022
		FRW"000"
Profit before tax		26,000
Adjustments:		
Depreciation		8,000
Profit on disposal		- 5,000
Interest Expense		5,000
Cashflow from operating activities before WC		**34,000**
Increase in Inventory	W1	- 13,400
Increase in Trade receivable	W2	- 9,600
Decrease in Trade payable	W3	- 13,300
Interest paid		- 5,000
Tax Paid	W4	- 5,700
Cashflow from operating activities		**- 13,000**
Cashflow from Investing activities		
PPE Sales proceed		16,000
Purchase cost of PPE	W5	- 61,800
Cashflow from Investing activities		**- 45,800**
Cashflow from Financing activities		
Cash from Issue of Shares	W7	55,000
Cash from New borrowing	W8	20,000

Dividend paid	W9	- 4,200
Cashflow from Financing activities		**70,800**
Net Cash and cash equivalent for the period		**12,000**
Cash and Cash equivalent at the start		**118,000**
Cash and Cash equivalent at the End		**130,000**

W1	**Increase in Inventory**	**FRW"000"**
	Opening Balance	8,000
	Closing Balance	(21,400)
	Increase in Inventory	**(13,400)**

W2	**Increase in Trade receivable**	**FRW"000"**
	Opening Balance	32,000
	Closing Balance	(41,600)
	Increase in Trade receivable	**(9,600)**

W3	**Decrease in Trade payable**	**FRW"000"**
	Opening Balance	25,300
	Closing Balance	(12,000)
	Decrease in Trade payable	**13,300**

W4	**Tax Paid**	**FRW"000"**
	Opening Balance	5,700
	Tax charge for the year	7,800
	Closing Balance	(7,800)
	Tax Paid	**5,700**

W5	**Purchase cost of PPE**	**FRW"000"**
	Opening Balance	52,500
	Disposal of PPE	(11,000)
	Depreciation for the period	(8,000)
	Closing Balance	(95,300)
	Purchase cost of PPE	**(61,800)**

W6	**Currying value of Disposed assets**	**FRW"000"**
	Sales Proceed of PPE	16,000
	Profit from disposal	(5,000)
	Currying Value at disposal date	**11,000**

		2022	2021		Cash proceed
W7	**Issue of share**	**FRW"000"**	**FRW"000"**		**FRW"000"**
	Share Capital	150,000	100,000	-	50,000
	Share Premium	15,000	10,000	-	5,000
		165,000	**110,000**	**-**	**55,000**

W8	**New borrowing**		**FRW"000"**
	Opening Balance	-	50,000
	Closing Balance		70,000
			20,000

W9	**Dividend paid**		**FRW"000"**
	Opening Balance		3,000
	Profit/Loss		6200
	Closing Balance	-	5,000
			4,200

W10	**Cash and Cash equivalent at the start**	**FRW"000"**
	Short Term Investment	10,000
	Cash and Cash equivalent at the start	108,000
		118,000

b) Using the above information, Compute the following ratios for 2021 and 2022

Ratio	**Formula**	**2022**	**2021**
Gross profit Margin	(Gross Profit/Sales) *100	48.09%	43.11%
Pre-Tax profit Margin	(Profit before tax/Sales) *100	21.70%	11.38%
Current ratio	Current asset/Current liability	7.78	4.65
Acid test ratio	(Current asset-inventory)/Current liability	6.76	4.41
Debt ratio	Debt/ (debt + equity)	26.57%	28.33%

c) Comments

i) Gross Profit

Gross profit margin has been increased to 48.09% from 43.11%. This could be any of the following reasons:

1. Decrease in competitors which lead the company to boosts the sales from 167 million to 235 million and thus increase profitability,
2. Cost minimization on production level or change in sale mix

ii) Pre-tax profit Margin

Pretax margin of 21.7% was an improvement compared to prior year same period, this could be caused by company's policy to control the operating expenses which was the only cost taken into after gross profit or benefiting the saving from the economies of scale as Lewis and Ty co expend, it also worthier to note that in 2022 company has incurred un usual loss from fire of inventory which need to be adjusted before comparing the result as it should be 11.06% from 11.38% without considering loss of FRW 25,000 on inventory.

iii) Current Ratio

Current ratio of current year is higher than previous, even though the ratios shows that company has more than enough ability to cover current liability using current assets, it is more than required which is also not worthier to the company as it shows poor inventory, receivable management policy and cash are being keep without being used, their should invest the excess cash into short term security instead of keeping it on their accounts.

iv) Acid Test Ratio

Acid test ratio has also been slightly increasing from previous year, this ratio shows that Lewis and TY co has sufficient current assets in form of Receivable and bank/ cash to pay their current liabilities, however it has more than enough assets, this also could be caused by poor/ no receivable or cash management policy in place.

v) Debt Ratio

Debt ratio measures the mix level between debt and equity finance in organization's capital structure debt ratio shows that even though lewis and ty co increased their borrowing, debt risk was decreased from 28.33% up to 26.57%, this was caused by new shares issued and transfer of undistributed profit to retained earnings.

SECTION B

QUESTION TWO

Marking Guide

No	Details	Total Marks
(a)	Description (1 Mark for each correct description of term)	6
(b)	Event after reporting period (1 Maark for correct explanation and 0.5 Marks for Explaining type of Event)	2
	Treatment of transaction (1 Mark for correct treatment)	3
(c)	Roles of IAS (1 Mark for correct Role)	4
(d)	Components of Financial statements (1 Mark for correct difference)	5
	Total Marks	**20**

Model Answers

(a)

i) **Accounting Policy:** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements,

ii) **Accounting Estimate:** this an approximation of monetary amount in the absence of precise means of measurement, it is term used for an amount measured at fair value where there is estimation uncertainty, as well as for other amount that require estimate, it require an adjustment of the carrying amount of an asset, liability, or an amount of the periodic consumption of an asset, that results from the assessment of present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

iii) **Prior period Errors:** are omissions from, and misstatements in, the entity's financial statements for prior periods arising from a failure to use, or misuse, reliable information that: Was available when financial statements for those periods were authorized for issue; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud

iv) **Substance over form:** This is a characteristic of faithful representation, to be useful, financial information must…faithfully represent the substance of the phenomena that it purports to represent. In many circumstances the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon. For example, a business may have entered into a leasing agreement for some equipment. However, the terms are such that the business is really buying the equipment. The equipment should therefore be included in the statement of financial position as an asset of the business and the leasing agreement should be treated as a financing arrangement. Enhancing qualitative characteristics.

v) **Going Concern**: Continuity of the entity in its present form for the foreseeable future -there is no intention to put the company into liquidation or drastically to cut back the scale of operations.

vi) **Government Grants:** Those are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity

(b) Event after reporting period: Events after the Reporting Period are those events, favorable and unfavorable, that occur between the balance sheet date and the date when the financial statements are authorized for issue, they are two types of events:

i) **Adjusting events after the reporting period** where by an entity shall adjust the amounts recognized in its financial statements to reflect adjusting Events after the Reporting Period for example Discovery of fraud or errors that show the financial statements are incorrect and Settlement of a Court case after the Balance sheet date which confirms that the entity has a present obligation.

ii) **Non-adjusting events after the reporting period** where by an entity shall not adjust the amounts recognized in its financial statements to reflect no adjusting Events after the Reporting Period for example Issues of shares and debentures and A major business combination after the balance sheet or disposing of a major subsidiary.

Treatment of Transactions

i) The inventory was damaged in Feb 2023 however the inventory was purchased in December 2022, since inventory was known to be there before year end this is an adjusting event and should be treated as below:

Dr P/L (Loss on damaged goods) FRW 20,000,000
    Cr Inventory in transit FRW 20,000,000

ii) Since the receivable was there before closing financial period, the only portion of the receivable on which has taken before closing financial year end should be adjusted in 2022 and remaining to adjusted in 2023, so as far as 2022 is concerned the following adjustments should be done,

Dr P/L (bad debt) FRW 25,000,000
    Cr Trade receivable FRW 25,000,000

iii) Even though their evidence that investment was there before closing financial period but change in fair value happened in January 2023 and has no evidence of permanent diminution of the investment value so this is non-adjusting event, it will be taken in consideration as transactions of 2023.

(c) The roles of international accounting standard

i. It governs how particular types of transactions and events should be reported in financial statements
ii. It provides principles for preparing financial reports and determine the types and amount of information that must be provided to users of financial statements like inventory and creditors,
iii. it also brings transparency by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decision,
iv. to develop, in the public interest, a single set of high quality, understandable, enforceable reporting standards based upon clearly articulated principles,

(d) Component of Financial Statements

i. Statement of profit or loss and other comprehensive income: this first statement which shows entity's financial performance in the way that is useful to the wide range of use, this statement has two elements (Income and expense).

ii. Statement of change in equity: also referred to as statement of retained earnings, this is financial statement that measures the change in owners' equity throughout the specific accounting period.

iii. Statement of financial position: this is statement which shows an entity's assets, liabilities and equity (net asset) at a given point of time. It's having three elements (assets, liability and equity).

iv. Statement of cashflow: this is financial statements which shows entity's movement of cashflow in given period, it is an important tool used to manage entity's cashflow. This statement has 3 parts (Cashflow from operating activity, cash flow from investing activity and cashflow from financing activity).

v. Statement of Notes to account: this is last component of financial statements that shows necessary details about the statement that help in better understanding them. it is normally the explanatory notes to financial statements tells the reader important facts about the preparation and methodology used in the statements.

QUESTION THREE

Marking Guide

No	Details	Total Marks
a)	Difference of the terms (1 Mark for each correct description of the term)	4
b)	Provision of warrant (1 Mark for each correct figure of provision)	3
c)	Definition of the term (1 Mark for each correct definition)	3
d)	PPE Movement (0.5 Mark for each correct figure in the table except for Revaluation Gain)	9
	Revaluation Gain	1
Total Marks		**20**

Model Answers

a) **Performance obligation satisfied at point of time:** this is when an entity transfers a promised goods and services as stipulated in the contract immediately after signing the contract or within the period which is not more that current financial period while, **Performance obligation satisfied at over time**: this is when entity required to transfer the goods and services promised to deliver to the customer in the period of more that financial period, for example 3 years construction contract

Stand-alone selling price: this is price at which an entity would sell a promised good or services separately to a customer while **transaction price** is the of consideration to which an entity expects to be entitles in exchange for transferring goods or services to a customer, excluding amount collected on behalf of third parties.

b)

Details	Probability of defects	Cost of defects	Provision
No Defects	75%	Null	Null
Minor Defects	15%	5,000,000	750,000
Major Defects	10%	12,000,000	1,200,000
Total	**100%**	**17,000,000**	**1,950,000**

c) **Contingent liability**: is A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, and A present obligation that arises from past events but is not recognized because It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations, or The amount of the obligation cannot be measured with sufficient reliability.

Constructive obligation: is an obligation that derives from an entity's actions where By an established pattern or past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities, and As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Obligating event: is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation d)

PPE Movement

Details	**Land & Building**	**Plant & Machinery**	**Computer**	**ssi.net system**	**Motor Vehicle**	**System under development**	**Total**
Cost	**FRW "000"**	**FRW "000"**	**FRW "000"**	**FRW "000"**	**FRW "000"**	**FRW "000"**	**FRW "000"**
Opening Balance	56,000,000	20,000,000	10,000	6,000,000	-	-	82,010,000
Revaluation Gain	10,800,000	-	-	-	-	-	10,800,000
Acquisition	-	-	8000	-	150,000	5,000,000	5,158,000
Disposal	-	5,000,000	-	-	-		5,000,000
Total	**66,800,000**	**15,000,000**	**18,000**	**6,000,000**	**150,000**	**5,000,000**	**92,968,000**
Depreciation							
Opening Balance	4,000,000	7,200,000	3,000	120,000	-	-	11,323,000
Charge of the year	2,800,000	3,066,667	4,833	600,000	12,267	-	6,483,767
Disposal	-	2,226,667	-	-	-	-	2,226,667
Total	**6,800,000**	**8,040,000**	**7,833**	**720,000**	**12,267**	**-**	**15,580,100**
NBV	**60,000,000**	**6,960,000**	**10,167**	**5,280,000**	**137,733**	**5,000,000**	**77,387,900**

W1	**Cost of Building**	**FRW "000"**
	Land and Building	56,000,000
	Land	16,000,000
	Cost of Building	**40,000,000**

W3	**Depreciation of Motor Vehicle**	**FRW "000"**
	Cost	150,000
	Residual value	2,800
	Depreciable amount	147,200
	Full year depreciation	24,533
	6 Months depreciation	**12,267**

W4	**Cost of disposed asset**	**FRW "000"**
	Sales proceed	3,000,000
	Less Profit on disposal	226,667
	NBV at disposal date	**2,773,333**
	Accumulated depreciation	

W5	**Accumulated depreciation for disposed assets**	**FRW "000"**
	Cost of one Plant	5,000,000
	Depreciation for the first year	1,000,000.0
	Depreciation for the Second year	800,000.0
	Depreciation for the 8 Months	426,667
	Total depreciation	**2,226,667**

W5	**Depreciation of Computer**	**FRW "000"**
	Cost of existing Computer	10,000
	Opening Accumulated Depreciation	(3,000)
	Opening NBV	**7,000**
	Depreciation for Existing Computer **at 50%**	**3,500**
	New Computer cost	8,000
	Depreciation for new computer for 8 Months	**1,333**
	Total Depreciation	**4,833**

W5	**Revaluation Gain**	**FRW "000"**
	Cost of Building	40,000,000
	Accumulated Depreciation at end of the year	(6,800,000)
	NBV at the end of the year	**33,200,000**
	Cost of the land	16,000,000
	Total NBV	49,200,000
	Total Revalued Amount	(60,000,000)
	Gain on revaluation	**10,800,000**

QUESTION FOUR

Marking Guide

No	Details	Total Marks
	Statement of comprehensive Income (0.5 Mark for Correct line except total)	3.5
A	Notes to Statement of comprehensive income (1 Mark for each correct note except for Rent account)	5
	Rent account (1.5 Marks)	1.5
	Sub Total	**10**
	Statement of Financial Position (0.5 Marks for each correct line except for Totals)	6
B	Notes to statement of financial position (1 Marks except for Bank account)	2
	Bank account	2
	Sub Total	**10**
	Total Marks	**20**

Detailed Answers

W1 Statement of affair as at 01st January 2022

Assets	Amount FRW"000"	Amount FRW"000"
Equipment’s	5,600	
Transport van	4,400	
Inventory	2,000	
Trade receivable	12,000	
Prepaid Rent	700	
Total Assets		**24,700**
Loan from Dismas	3,000	
Bank overdraft	2,500	
Trade Payable	3,500	
Unpaid wages	900	
Total Liability		**9,900**
Capital as at 01st January 2022		**14,800**

Bank account as at 31st December 2022

Details	Receipt FRW"000"	Details	Payments FRW"000"
Cash sales	36,900	Bal B/d	2,500
Trade receivable	5,200	Cash purchase	23,500
Loan from Cyuzuzo	6,300	Rent expense	3,500
		Wages	2,100

Details	FRW"000"	Details	FRW"000"
		Equipment	11,400
		Trade payables	9,700
		Nyabyenda	3,758
		Interest on Overdraft	
Bal B/c	8,058		
	56,458		**56,458**

W3 Trade Receivables account as at 31st December 2022

Debit		**Credit**	
Details	**FRW"000"**	**Details**	**FRW"000"**
Bal B/d	12,000	Irrecoverable Debt	1,500
Credit Sales	8,300	Bank account	5,200
		Bal B/c	13,600
	20,300		**20,300**

W4 Trade Payable account as at 31st December 2022

Debit		**Credit**	
Details	**FRW"000"**	**Details**	**FRW"000"**
Bank account	9,700	Bal B/d	3,500
Bal B/c	7,400	Purchase	13,600
	17,100		**17,100**

W5 Rent account as at 31st December 2022

Debit		**Credit**	
Details	**FRW"000"**	**Details**	**FRW"000"**
Bal B/d	700	P/L	4,500
Bank account	3,500		
Bal B/c	300		
	4,500		**4,500**

W6 Wage account as at 31st December 2022

Debit		**Credit**	
Details	**FRW"000"**	**Details**	**FRW"000"**
Bank account	2,100	Bal B/d	900
Bal B/c	500	P/L	1,700
	2,600		**2,600**

W7

Interest Expense	**FRW"000"**
Opening loan balance	3,000
Additional Loan	6,300
Total Loans	**9,300**
Interest @ 15%	1,395

W8	Depreciation	FRW"000"
	Equipment Cost	7,000
	New Acquired Equipment	11,400
	Total Equipment	**18,400**
	Equipment Depreciation @10%	**1,840**
	Transport Van cost	5,500
	Van Depreciation @10%	550
	Total depreciation (550+1840)	**2,390**
	Equipment's NBV (18,400-1840)	15,160
	Transport Van NBV (5,500-1,100-550)	3,850

W9	Total Sales	FRW"000"
	Credit Sales	8,300
	Cash Sales	36,900
	Total Sales	**45,200**

W10	Total Purchase	FRW"000"
	Credit Purchase	13,600
	Cash Purchase	23,500
		37,100

Statement of Comprehensive income as at 31st December 2022

Sales		45,200
Less Cost of sales		
Opening Inventory	2,000	
Purchase	37,100	
Closing Inventory	(13,000)	26,100
Gross Profit		**19,100**
Expenses		
Rent Expense	4,500	
Wage Expense	1,700	
Interest	1,395	
Depreciation	2,390	
Total Expense		9,985
Profit for the year		**9,115**

Statement of Financial Position as at 31st December 2022

Non-Current Asset		
Equipment		15,160
Transport Van		3,850
		19,010
Current Asset		
Inventory	13,000	
Trade Receivable	13,600	
Cash at bank	-	
Total Current assets		**26,600**
Total Assets		**45,610**
Represented by:		
Capital		14,800
Profit for the year	9,115	
Drawings	(5,258)	3,858
		18,658
Non-Current Liabilities		
Loans		9,300
		9,300
Current Liabilities		
Trade Payable	7,400	
Unpaid Rent	300	
Unpaid wage	500	
Bank overdraft	8,057	
Unpaid interest	1,395	
Total Current Liability		**17,652**
Total Capital and Liability		**45,610**

QUESTION FIVE

Marking Guide

No	Details	Total Marks
A	Revenue and Expenditure Account (0.5 for each correct line)	6
	Net revenue account (0.5 for each correct line except for total and subtotals)	2
	1 Mark for each correct note (Pension liability and Transfer to government account)	2
	Sub total	**10**
B	Statement of Financial Position (0.5 for each correct line except for accumulated depreciation and totals)	9
	1 Mark for Accumulated depreciation	1
	Sub total	**10**
	Total Marks	**20**

Detailed Answers

Revenue and Expenditure accounts for the year ended 30th June 2022

Revenue	**FRW"000"**	**FRW"000"**
Postal income	903,000	
Telephone Income	4,505,600	
Other Miscellaneous Income	1,685,400	
Total Income		**7,094,000**
Expenditure		
Administration expenses	404,400	
Operational expenses	105,000	
International services expenses	1,341,000	
Miscellaneous expenses	1,691,400	
Maintenance expenses	843,000	
Loan interest	156,400	
Marketing Expenses	745,600	
Depreciation	544,300	
Increase in Pension Liability	(63,400)	
Total Expenditure		**5,767,700**
Surplus to Net revenue account		**1,326,300**

Net Revenue Account	**FRW"000"**	**FRW"000"**
Opening Balance		2,557,200
Surplus from Revenue and Expenditure	1,326,300	
Transfer to Gov account	(265,260)	
Corporation Tax	(154,500)	

Net Revenue Account for the period	**906,540**
Closing Balance	**3,463,740**

W1	Increase in Pension liability	FRW"000"
	Balance at the end	239,200
	Balance at the Start	302,600
	Increase in Liability	**(63,400)**

W2 Transfer to Gov Account	**FRW"000"**
Surplus from Revenue and Expenditure	1,326,300
Transfer @20%	265,260

Statement of Financial Position as at the year ended 30th June 2022

Non-Current asset	**FRW"000"**	**FRW"000"**
Land	1,500,000	
Buildings	3,403,400	
Plant and machinery	21,391,800	
Motor vehicles	903,400	
Furniture and office equipment	505,500	
Less Depreciation	(5,387,300)	22,316,800
Investments		1,145,700
Pension liability fund (cost)		542,800
Total Non-Current Assets		**24,005,300**
Current assets		
Inventory- stores	1,091,200	
Receivables- services	1,103,800	
Short term deposits	703,200	
Cash and bank balances	501,400	
Total Current Assets		**3,399,600**
Total Assets		**27,404,900**
Financed By:		
Equity	150,400	
General reserve- surplus retained	3,463,740	**3,614,140**
Non-Current Liability		
Pension liability fund	239,200	
Loans	20,507,000	**20,746,200**

Current Liability		
Payables- services	2,624,800	
Corporation Tax	154,500	
Transfer to Government account	265,260	**3,044,560**
Total		**27,404,900**

END OF MARKING GUIDE AND MODEL ANSWERS