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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 1 EXAMINATIONS**

**F1.3: FINANCIAL ACCOUNTING**

**DATE: TUESDAY 26, NOVEMBER 2024**

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

## **SECTION A**

### **QUESTION ONE**

- a) The IASB's Conceptual Framework for Financial Reporting (2018) Paras. 4. provides definitions for the elements of financial statements;

**Required:**

**Define the following and provide two examples of each element of financial statements, as per the Conceptual Framework:**

- i) Asset** (2 Marks)
- ii) Liability** (2 Marks)
- iii) Equity** (2 Marks)
- iv) Expenses** (2 Marks)
- v) Income** (2 Marks)

- b) Carbon is a limited liability entity. A trial balance for the year ended 31 December 2023 is presented below.

<b>Trial balance</b>	<b>DR</b>	<b>CR</b>
	<b>FRW “000”</b>	<b>FRW “000”</b>
Revenue		450,000
Purchases	180,000	
Administrative expenses	140,000	
Distribution expenses	56,000	
Plant and machinery— <b>cost</b>	150,000	
Plant and machinery — accumulated depreciation at 1 January 2023		30,000
Trade receivables	36,000	
Allowance for receivables — 1 January 2023		2,500
Inventory — 1 January 2023	33,000	
Equity share capital		10,000
Trade payables		32,000
Retained earnings — 1 January 2023		25,500
8% Loan — repayable 31 December 2028		50,000
Cash	5,000	
	<b>600,000</b>	<b>600,000</b>

**Additional information:**

1. The current year's tax charge was estimated at FRW 5,000,000.
2. It was established that trade receivables amounting to FRW 1,500,000 are irrecoverable. In addition, it was decided that an allowance for bad and doubtful debts should be increased by FRW 1,000,000
3. Depreciation on plant and machinery is charged at 20% per annum on a reducing balance basis. Depreciation is charged to cost of sales.
4. The loan amount was received on 1 October 2023. Interest has been accrued.
5. Closing inventory has been correctly valued at FRW 27,000,000.

6. A customer bought goods on credit from Carbon for FRW 1,000,000 on 5 December 2023. The customer returned these goods on 28 December 2023. No entries have been posted for this return. The cost of goods sold was FRW 600,000
7. Carbon is being sued by a customer regarding the sale of goods that the customer believes to be defective. Legal advisers think that it is probable that Carbon will lose the case and that they will have to pay damages of FRW 20,000,000 in 2025. Legal expenses are charged to administrative expenses

**Required:**

**i) Prepare the statement of profit and loss of Carbon Ltd for the financial year ended 31 December 2023.** (10 Marks)

**ii) Prepare the statement of financial position of Carbon Ltd as at 31 December 2023.** (10 Marks)

c) The Accounting Equation:  $ASSETS = CAPITAL + LIABILITIES$ . It follows from this that:  $ASSETS - LIABILITIES = CAPITAL$ . The term “net assets” is often used to refer to assets – liabilities, and so: **NET ASSETS = CAPITAL**

On 1 January 2023, net assets of the business were FRW 25,000,000 and on 31 December 2023, they increased to FRW 32,000,000. During the year the owner had introduced more capital of FRW 10,000,000 and had made drawings of FRW 7,000,000.

**Required:**

**Calculate the profit for the year ended 31<sup>st</sup> December 2023** (2 Marks)

d) In line with IAS 8-*Accounting policies, changes in accounting estimates and errors*

**Required:**

**Discuss the following:**

**i) Retrospective application of changes in accounting policies and estimates** (2 Marks)

**ii) Two Conditions under which an entity can change an accounting policy** (2 Marks)

**iii)** The draft statement of financial position as at 31<sup>st</sup> December 2023 of Vale reported retained earnings of FRW 1,644,900 and net assets of FRW 6,957,300. Following the completion of the draft statement of financial position as of 31<sup>st</sup> December 2023, it was discovered that several items of inventory had been measured at selling price as at 31<sup>st</sup> December 2022. This meant that the carrying amount of opening inventory for 2023 was overstated by FRW 300,000. The closing inventory had been correctly measured in the draft statement of financial position as at 31<sup>st</sup> December 2023.

**Required:**

If the error is corrected before the 2023 financial statements are finalised, **what amounts will be reported to retained earnings and net assets in the statement of financial position as at 31<sup>st</sup> December 2023? Explain using your workings** (4 Marks)

**(Total: 40 Marks)**

## **SECTION B**

### **QUESTION TWO**

- a) **Evaluate the impact of artificial intelligence (AI) on the future of computerized accounting systems and differentiate Cloud-based accounting software from traditional desktop-based accounting software** ( 3 Marks)
- b) **Explain one potential risk associated with implementing a computerized accounting system in a medium-sized business.** (1 Mark)
- c) Mukantayomba recently registered his business with Rwanda Development Board. He plans to prepare a monthly financial statement, during the month of December 2023, which is also the first month in business he completed the following transactions:
1. 01 December: Deposited FRW 12,500,000 in business on company account as initial investment and money to be used to make first purchases before making some income.
  2. 03 December: Paid FRW 375,000 by cheque for office rent for the month of December.
  3. 04 December: Purchased office equipment worth FRW 300,000 on credit from KK supplier, due to be paid in 30 days.
  4. 08 December: Completed his first job as consultant with a client and was immediately paid FRW 800,000 by cheque
  5. 11 December: Completed work for another client and raised a bill of FRW 675,000 to be paid in 45 days.
  6. 12 December: Due to fast growth, he paid FRW 200,000 through cheque for additional equipment from KK supplier
  7. 15 December: Paid FRW 150,000 by cheque to an assistant employee who helped him to bill the clients
  8. 19 December: Collected FRW 375,000 from a customer who he initially did a job for, on credit.
  9. 26 December: Paid FRW 250,000 by cheque being part of a liability owing to a supplier for purchase of office equipment.
  10. 30 December: Completed work for a new client, who paid him FRW 1,300,000 by cheque being 50% on the total for a design job.

#### **Required:**

**Prepare relevant Journal entries for the accounts affected.**

(10 Marks)

d) The following data was extracted from the books of John enterprises for the month of July 2023.

July 1: Credit purchases from: K Hill FRW 380,000; M Norman FRW 500,000

July 3: Credit sales to: E Rigby FRW 510,000 E Phillips FRW 246,000

July 8: Credit sales to: A Green FRW 307,000; H George FRW 250,000;

July 12: Returns outwards to: M Norman FRW 300,000; N Senior FRW 160,000.

July 24: Credit purchases from: Ferguson FRW 550,000; K Endeavour FRW 900,000.

July 31: Returns inwards from: E Phillips FRW 27,000; E. Rigby FRW 30,000.

**Required:**

**Prepare sales journal, purchase journal, returns inwards journal, returns outwards journal for the above transactions**

(6 Marks)

**(Total: 20 Marks)**

**QUESTION THREE**

a) IAS 1 presentation of financial statements outlines a complete set of financial statements which comprises of: Statement of financial position as at the end of the period, Statement of comprehensive income for the period; Statement of changes in equity for the period; Statement of cash flows for the period, and Notes to account

**Required:**

**Provide a brief description of each of the above .**

(5 Marks)

**b) State one indicator considered when determining whether performance obligations are satisfied at a point in time?**

(1 Mark)

c) IFRS 15 Revenue from Contracts with Customers identifies five steps in the core principle of recognising revenue.

**Required:**

**State FIVE steps in the recognition process?**

(5 Marks)

d) Digger commenced contract X47 on 1 July 2023. Performance obligations under the contract are to be satisfied over time and the stage of completion is regularly assessed.

Details for the first year of the contract were as follows:

	<b>FRW'000'</b>
Amounts invoiced	2,400
Costs incurred at date of last assessment	1,800
Costs incurred since last assessment	200
Amounts received	2,100
Total contract price	4,200
Estimated costs to complete	1,200
Survey of performance completed	2,520

The company invoices the customer immediately it receives an assessment of the amount of the work done.

**Required:**

**What amount should Digger include as cost of sales for the X47 contract for the year ended 30 June 2024, assuming revenue is based on performance completed? (4 Marks)**

e) DM purchased its only item of plant on 1 October 2021 for FRW 200,000. DM charges depreciation on a straight-line basis over five years.

Tax depreciation is allowed as follows:

50% of additions to property, plant and equipment in the accounting period in which they are recorded;

25% per year of the written down value in subsequent accounting periods except that in which the asset is disposed of.

Income tax on profits is at a rate of 25%.

**Required:**

**Calculate the amount of deferred tax liability in DM's statement of financial position as at 30 September 2023, in accordance with IAS 12 Income Taxes? (5 Marks)**  
**(Total: 20 Marks)**

**QUESTION FOUR**

a) Explain the following terms ,indicating whether they are assets or liabilities

- i) **Accrued expense** (2 Marks)
- ii) **Prepaid expenses** (2 Marks)
- iii) **Justify whether Accrued income is an asset or a liability** (1 Mark)

**b)** Olivier, a sole trader received his bank statement for the month of June 2023. As at that date the bank balance was FRW 706,500 whereas his cash book balance was FRW 2,366,500. His accountant investigated the matter and discovered the following discrepancies:

1. Bank charges of FRW 3,000 had not been entered in the cashbook.
2. Cheques drawn by Olivier totalling FRW 22,500 had not yet been presented to the bank.
3. He had not entered receipts of FRW 26, 500 in his cashbook.
4. The bank had not credited Mr Olivier with receipts of FRW 98,500 paid into the bank on 30 June 2023.
5. Standing order payments amounting to FRW 62,000 had not been entered into the cashbook.
6. In the cashbook Olivier had entered a payment of FRW 74, 900 as FRW 79, 400.
7. A cheque for FRW 15, 000 from a debtor had been returned by the bank marked “refer to drawer” but had not been written back into the cashbook.
8. Olivier had brought forward the opening cash balance of FRW 329, 250 as a debit balance instead of a credit balance.
9. An old cheque payment amounting to FRW 44, 000 had been written back in the cashbook but the bank had already honoured it.
10. Some of Olivier’s customers had agreed to settle their debts by paying directly into his bank account. Unfortunately, the bank had credited some deposits amounting to FRW 832, 500 to another customer’s account. However, acting on information from his customers. Olivier had actually entered the expected receipts from the debtors in his cashbook.

**Required:**

- i) **A statement showing Olivier’s adjusted cashbook balance as at 30 June 2023.**  
(10 Marks)
  - ii) **A bank reconciliation statement as at 30 June 2023**  
(5 Marks)
- (Total: 20 Marks)**

## QUESTION FIVE

Kicukiro Ltd and Gasabo Ltd are two companies operating in cement production industry. The following information were extracted from their books as at 31 December 2023

Statement of Profit or Loss for the year ended 31 December 2023

Particulars	Kicukiro Ltd		Gasabo Ltd	
	FRW''000''	FRW''000''	FRW''000''	FRW''000''
Sales revenue		1,500,000		2,000,000
Cost of sales		(700,000)		(1,350,000)
<b>Gross profit</b>		<b>800,000</b>		<b>650,000</b>
<b>Operating expenses</b>				
Administrative	150,000		135,000	
Selling and Distribution	185,000		150,000	
Depreciation	200,000		185,000	
Finance cost			35,000	
Total expenses		(535,000)		(505,000)
Net profit for the year		<b>265,000</b>		<b>145,000</b>

Statement of Financial Position as at 31 December 2023

Particulars	Kicukiro Ltd		Gasabo Ltd	
	RWF''000''	RWF''000''	RWF''000''	RWF''000''
Assets				
Non-current assets				
At cost	3,500,000		4,000,000	
Accumulated depreciation	(450,000)		(385,000)	
<b>Net book value</b>		<b>3,050,000</b>		<b>3,615,000</b>
Current assets				
Inventory	100,000		50,000	
Receivable	850,000		350,000	
Bank			45,000	
<b>Total current asset</b>		<b>950,000</b>		<b>445,000</b>
<b>Total assets</b>		<b>4,000,000</b>		<b>4,060,000</b>
<b>Equity and Liability</b>				
Share capital	1,200,000		2,000,000	
Retained Earnings	1,500,000		530,000	
		<b>2,700,000</b>		<b>2,530,000</b>
Long term loan	200,000		400,000	
Current liabilities	1,100,000		1,130,000	
		<b>1,300,000</b>		<b>1,530,000</b>
<b>Total Equity and Liabilities</b>		<b>4,000,000</b>		<b>4,060,000</b>



**Required:**

a) Calculate the following ratios for both Kicukiro Ltd and Gasabo Ltd for the year ended 31 December 2023.( assume 365 days)

- |                                  |           |
|----------------------------------|-----------|
| i) Gross profit Margin           | (2 Marks) |
| ii) Net profit Margin            | (2 Marks) |
| iii) Inventory turnover period   | (2 Marks) |
| iv) Receivable collection period | (2 Marks) |
| v) Current ratio                 | (2 Marks) |
| vi) Quick ratio                  | (2 Marks) |
| vii) Debt ratio                  | (2 Marks) |

b) IAS7, statement of cashflows splits cashflows into the following headings:

- i) Cashflows from operating activities
- ii) Cashflows from investing activities
- iii) Cashflows from financing activities

**Required:**

Explain each of the above categories giving two examples in each (6 Marks )  
(Total: 20 Marks)

**End of the Question Paper**

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