CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS
F1.3: FINANCIAL ACCOUNTING
DATE: TUESDAY 26, NOVEMBER 2024

MARKING GUIDE & MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

Q/N	CRITERIA FOR AWARDING MARKS	MARKS
Q1a (i)	(1 marks for definition, 0.5 marks for each example, max 1mark)	2
Q1a(ii)	(1 marks for definition, 0.5 marks for each example, max 1mark)	2
Q1a(iii)	(1 marks for definition, 0.5 marks for each example, max 1mark)	2
Q1a(iv)	(1 marks for definition, 0.5 marks for each example, max 1mark)	2
Q1a(v)	(1 marks for definition, 0.5 marks for each example, max 1mark)	2
Total		**10**

Q/N	CRITERIA FOR AWARDING MARKS	MARKS
Q1b (i)	award, 0.5mks for revenue,0.5 marks correct adjustment with sales return	1
	cost of sales, adjusted by opening, purchases, depreciation closing inventory	3
	gross profit	0.5
	administrative expenses, correctly adjusted by irrecoverable debt, allowance for receivables, provision	2
	distribution costs	0.5
	operating profit	0.5
	finance cost, correctly adjusted by 8% loan	1
	profit before tax	0.5
	income tax charge	0.5
	profit after tax	0.5
Total		**10**

Q/N	CRITERIA FOR AWARDING MARKS	MARKS
Q1b(ii)	Award correct adjusted property plant and equipment max 1.5 marks	1.50
	Award correct adjusted receivables max	2
	Award correct adjusted accrued interest max 1 mark	1
	Award correct adjusted retained earning max 1 mark	1
	Other 7 components of statement of financial position 0.5 mark each	3.5
	Award correct adjusted inventory max 1 mark	1
Total		**10**
Q1c	for correct computation of net profit	**2**
Q1d(i)	for correct explanation on Retrospective application of changes in accounting policies and estimates	**2**

Q1d(ii)	for Conditions under which an entity can change an accounting policy	**2**
Total		**6**

d) (iii)

	Marks
Retained earnings	
Net assets	1
Opening retained earnings will be reduced by	1
to correct the error but profits for 2023 will be increased by	1
Closing retained earnings therefore remains unchanged at	1
Total	**4**
Total	**(40 Marks)**

Model Answers

Q1(a)

i) Asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Examples of assets are the followings:

- Land and buildings
- Plant and machinery
- Fixtures, furniture,
- fittings and equipment
- Motor vehicles Stock of goods – for purpose of selling.
- Trade debtors/accounts receivables – owe the business amounts as a resort of trading.
- Other debtors – owe the firm amounts other than for trading. Cash at bank. Cash in hand

ii) Liability: is a present obligation of the entity to transfer an economic resource as a result of past events. Examples of Liability are the followings:

- Trade creditors/or accounts payable – owed amounts as a result of business buying goods on credit
- Other creditors - owed amounts for services supplied to the firm other than goods.
- Bank overdraft - amounts advanced by the bank for a short-term period

iii) Equity: is the residual interest in the assets of the entity after deducting all its liabilities

Examples are the following:

- Common Stock
- Retained Earnings
- Revaluation reserve
- share premium

iv) **Expenses:** Decreases in assets, or increases in liabilities, that result in decreases in equity other than those relating to distributions to holders of equity claims. Examples are the followings:

- Cost of Goods Sold
- Salaries and Wages Expense
- Rent and rates
- Interest expenses
- Selling and distribution

v) Income: Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims. Examples are the following:

- Sales Revenue
- Interest Income
- Rental income
- Discount received
- Reduction in provision for bad and doubtful debts

Q1b(i)

CARBON LTD
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31ST DECEMBER 2023

Particulars	**FRW '000'**
Revenue(w1)	449,000
Cost of sales	(209,400)
Gross profit	239,600
Administrative expenses (w3)	(162,500)
Distribution costs	(56,000)
Operating profit	21,100
Finance cost (w4)	(1,000)
Profit before tax	20,100
Income tax charge	(5,000)
Profit after tax	15,100

Q1b(ii)

CARBON LTD
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2023

NON-CURRENT ASSSETS	**FRW '000'**	**FRW '000'**
Property Plant and Equipment		96,000
Total Non-Current Assets		96,000
Current Assets		
Inventories	27,600	
Receivables (W6)	30,000	
Cash And Cash Equivalents	5,000	
Total Current Assets		62,600
Total Assets		**158,600**
Equity		
Equity Share Capital		10,000
Retained Earnings (W6)		40,600
Total Equity		50,600
Non-Current Liabilities		
8% Loan		50,000
Current Liabilities		
Trade Payables	32,000	
Accrued Interest	1,000	
Tax Payable	5,000	
Provision	20,000	
Total Current Liabilities		**58,000**
Total Equity and Liabilities		**158,600**

Workings

Revenue W1	**FRW '000'**	**FRW '000'**
Revenue As Per the Trial Balance	450,000	
Sales Return	(1,000)	
Net sales to the P&L AC	**449,000**	
Cost Of Sales W2		
Opening Inventory		33,000
Purchases		180,000
Depreciation (150,000-30,000) *20%		24,000
Goods Returned		(600)
Closing Inventory		(27,000)
Net cost of sales to the P&L AC		**209,400**
Administration Expenses W3		
Expense As Per the Trial Balance		140,000
Irrecoverable Debt (Note2)		1,500

Increase In Allowance for Receivables (Note2)		1,000
Provision-Defective Goods Claim (Note7)		20,000
Net total administration expenses		**162,500**
Finance Costs W4		
8% Loan	50,000	
Accrued Interest	50000*8%*3/12	(1,000)
Interest expense to P&L AC		**1,000**
Property Plant and Equipment W5		
Carrying Value as Per the Trial Balance		150,000
Accumulated Dep		(30,000)
Depreciation For the Year		(24,000)
Carrying value as at year-end		**96,000**
Receivables W6		
Carrying Value as Per Trial Balance		36,000
Allowance Per the Trial Balance		(2,500)
Increase In Allowance Required(W3)		(1,000)
Irrecoverable Debt (W3)		(1,500)
Sales Return (W1)		(1,000)
Carrying Value as At Year End		**30,000**
Retained Earnings W7		
R/E Brought Forward		25,500
Profit After Tax		15,100
R/E Carried Forward		**40,600**

Q1c

Particulars	**Amount**
Opening Capital	25,000,000
Capital Introduced	10,000,000
Drawing	(7,000,000)
Net Capital Before Adding Profit	28,000,000
Profit For the Year (Balancing Figure)	**4,000,000**
Closing Capital	32,000,000

Q1d(i) **Retrospective application of changes in accounting policies and estimates**

Retrospective application of changes in accounting policies and estimates means implementation of new accounting policies for a transaction or other event as if it had been implemented. In other words, retrospective will affect presentation of financial statements for previous periods.

Q1d(ii) conditions under which an entity can change an accounting policy

It is required by a standard

It provided more reliable and relevant information about effects of transactions, other events or conditions on the entity's financial position, performance of cash flows.

Q1d(iii)

Retained earnings FRW 1,644,900

Net assets FRW 6,957,300.

Opening inventory (last year's closing inventory) was measured at selling price and therefore overstated.

Opening retained earnings will be reduced by FRW 300,000 to correct the error but profits for 2023 will be increased by FRW 300,000.

Closing retained earnings therefore remains unchanged at FRW 1,644,900.

SECTION B

QUESTION TWO

Marking Guide

Q/NO	CRITERIA FOR AWARDING MARKS	MARK
Q2. a	Valid Explanation of the potential impact of AI on computerized accounting systems.	1
	Clear definition of cloud-based accounting software	1
	Clear definition of desktop-based accounting software.	1
Q2. b	Identification of at least one potential risks of using a computerized accounting system	1
Q2. c	Correct Journal Entries 0.5 marks each,20 journal entries, maximum 10 marks	10
Q2. d	Correct entries in sales journal, purchase journal, returns inwards	6
	Journal, returns outwards journal each 0.5 marks maximum 6 marks	
Total		**20**

Model answers

Q2.a

AI helps computerized accounting system by doing repetitive financial transactions automatically, like organizing data and information It's good at analyzing lots of financial information quickly to find patterns and cycles that people might miss. This makes financial reports more accurate and helps businesses make smarter decisions about money.

Cloud-based accounting software: This refers to accounting software that operates over the internet, where data is stored on remote servers (cloud servers) rather than on a local computer or network. Users access the software and their data through a web browser, allowing for remote access from any device with an internet connection
traditional desktop-based accounting software

Traditional desktop-based accounting software: This refers to accounting software that is installed and runs locally on a specific computer or network. The software and data reside on the user's own computer or server, and access is typically limited to the devices where the software is installed.

Q2.b

one potential risk associated with implementing a computerized accounting system in a medium-sized business. 1 mark

- Storing financial data digitally can expose the business to cyber threats like hacking or data breaches.
- Medium-sized businesses may lack robust IT resources to protect against these risks
- Switching to a new accounting system might cause problems integrating with existing software or systems
- This could lead to operational disruptions or delays in financial reporting

Q2.c

JOURNAL ENTRIES		
ACCOUNT TITLES	**DR**	**CR**
Cash at Bank	12,500,000	
Capital		12,500,000
01 Dec: Capital injection		
Rent expense	375,000	
Cash at Bank		375,000
03 Dec: Paid office rent		
Equipment	300,000	
Creditors		300,000
04 Dec: Purchase of equipment on credit		
Cash at Bank	800,000	
Service rendered (Income)		800,000
08 Dec: service rendered (Revenue)		
Debtors	675,000	
Service rendered (Income)		675,000
11 Dec: Revenue on credit		
Equipment	200,000	
Cash at Bank		200,000
12 Dec: Purchase of equipment		
Salaries and wages	150,000	
Cash at Bank		150,000
15 Dec: Paid assistant		
Cash at Bank	375,000	
Debtors		375,000
19 Dec: Collected money from credit customer		
Creditors	250,000	
Cash at Bank		250,000
26 Dec: Payment to creditors		
Cash at Bank	1,300,000	
Debtors	1,300,000	
Service rendered (Income)		2,600,000
30 Dec: Income with 50% paid, 50% on credit		

Q2d Prepare sales journal, purchase journal, returns inwards journal, returns outwards journal for the following transactions

PURCHASES JOURNAL		
DATE	DETAILS	AMOUNT
JULY, 1	K Hill	380,000
JULY, 1	M Norman	500,000
JULY, 24	: Ferguson	550,000
JULY, 24	K Endeavor	900,000
SALES JOURNAL		
JULY, 3	E Rigby	510,000
JULY, 3	E Phillips	246,000
JULY, 8	A Green	307,000
JULY, 8	H George	250,000
RETURN OUTWARDS		
JULY, 12	M Norman	300,000
JULY, 12	N Senior	160,000
RETURN INWARD JOURNAL		
JULY, 31	E Phillips	27,000
JULY, 31	E. Rigby	30,000

QUESTION THREE

Marking guide

QN	DESCRIPTION	MARKS
Q3a	***Statement of Financial Position***	
	Clearly identified as showing the financial position at the end of the period.	1
	Statement of Comprehensive Income	
	Correctly described as summarizing financial performance for the period, including comprehensive income.	1
	Statement of Changes in Equity	
	Accurately explained as detailing changes in equity during the period.	1
	Statement of Cash Flows	
	Accurately explained as detailing changes in equity during the period.	1
	Notes to the Financial Statements	
	Recognized as essential for additional disclosures and explanations	1
		5
Q3b	Any valid indicator considered when determining whether performance obligations are satisfied at a point	1
Q3c	Award I mark for any correctly stated step without looking at the order	**5**
Q3d	Cost	1
	Estimated cost to completion	1
	Performance completed	2
		4
Q3e	calculation of Depreciation for Accounting Purposes	1
	Calculation of Tax Depreciation	1

	Calculation of carrying amount and tax base for 1st year	1
	Calculation of carrying amount and tax base for 2nd year	1
	Calculation of Deferred Tax Liability	1
		5
Total		**20 Marks**

Model answers
Q3a
Statement of financial position as at the end of the period; is simply a list of all the assets owned and all the liabilities owed by a business as at a particular date. it shows the financial position of a company as at a given date. It shows the following items; assets, liabilities, capital and reserves of the company.
it shows the financial position of an entity at a specific date (end of the reporting period), detailing its assets, liabilities, and equity.

• **Statement of comprehensive income for the period**; Is a record of income generated and expenditure incurred over a given period. It summarizes the financial performance of the entity during the reporting period, including both profit or loss and other comprehensive income items e.g. revaluation surplus

• **Statement of changes in equity for the period**; shows the movements in the entity's equity for the period. It explains the changes in equity of the entity during the reporting period, including transactions with owners (e.g., dividends) and other changes not directly affecting owners (e.g., revaluations).

• **Statement of cash flows for the period,** Shows inflow and outflows of cash and cash equivalent. This provides information about the cash flows of the entity during the reporting period, classified into operating, investing, and financing activities

• **Notes to account**. These are integral part of the financial statements and provide additional information necessary for a complete understanding of the financial position and performance of the entity. They include explanations of accounting policies, specific items in the financial statements, and other disclosures required by accounting standard

Q3b

Indicators considered when determining whether performance obligations are satisfied at a point in time?
- The customer has the significant risks and rewards of ownership of the asset
- The customer has legal title to the asset
- The customer has an obligation to pay for the asset

Q3c) According to IFRS 15, revenue recognition involves the following steps:

1. **Identify the Contract with the Customer**: Determine if there is a contract that meets the criteria under IFRS 15.
2. **Identify the Performance Obligations**: Identify the promises to transfer goods or services to the customer.
3. **Determine the Transaction Price**: Determine the transaction price, which is the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to the customer.
4. **Allocate the Transaction Price**: Allocate the transaction price to each performance obligation based on their relative standalone selling prices.
5. **Recognize Revenue**: Recognize revenue when (or as) the entity satisfies each performance obligation by transferring control of the promised goods or services to the customer.

Q3d

	FRW "000"	
Costs to date (1,800 + 200)	2,000	
Estimated costs to completion	1,200	
total cost to completion	3,200	
Based on performance completed:	3200*2520/4200	1920
(work certified/contract price) *total costs to completion		

Q3e

1ST YEAR		ACCOUNTING		TAX
	COST	200,000		200,000
	DEPRECIATION FIRST YEAR	(40,000)		
	200000/5			
	40,000			
			FIRST YEAR ALLOWANCE 50%*200000	(100,000)
			100,000	
	CARRYING VALUE	160,000	WDV	100,000
2ND YEAR	DEP FOR YEAR 2	(40,000)		
			2ND YEAR ALLOWANCE 25%*100000	(25,000)
	CARRYING VALUE	120,000	TAX BASE /WDV	75,000

	TEMPORARY DIFFERENCE	120,000-75,000	45,000	
	DEFFERED TAX	45000*25%	11,250	
				TOTAL

CARRYING VALUE = COST - ACCUMULATED DEPRECIATION
TAX BASE = COST - ACCUMULATED TAX DEPRECIATION (CAPITAL ALLOWANCES)

Deferred tax liability year 1 = 25% × (160,000-100,000) = 15,000

Deferred tax liability year 2 = 25% × (120,000 -75,000) = 11,250

The liability to be shown in the statement of financial position as at 30th September 2023

Balance b/f 15,000

Charge for the year 11,250

Balance c/f 26,250

Liability to the statement of financial position FRW 26,250

QUESTION FOUR

Marking guide

Q4a(i)	definition I mark for Correct explanation and 1 mark for correct classification	2
Q4a(ii)	accrued expenses mark for Correct explanation and 1 mark for correct classification	2
Q4a(iii)	accrued income I mark for Correct explanation and 1 mark for correct classification	1
		5
Q4b(i)	Award 1 mark for each correct entry in updated cashbook, maximum 10 max	
	opening balance	1
	Receipts omitted	1
	payment overstated	1
	bank charges	1
	Standing orders	1
	Debtors (dishonored cheques)	1
	Error on opening balance	1
	opening balance wrongly entered	1
	Cheque payment	1
	closing balance	1
		10
Q4b(ii)	bank reconciliation statement	
	Cash at bank as per the updated cashbook	1
	Add: Unpresented cheques	1
	Less: Uncredited cheques	1
	less Error on bank statement	1
	Balance as per the bank statement	1
		5
Total		**(20 Marks)**

Model answers

i) Accrued Expense An accrued expense is an expense that has been incurred but not yet paid for by the end of the accounting period. These expenses are recorded to recognize the obligation that the company has to pay for services or goods received.

Classification: It is a current liability

ii) Prepaid Expenses Prepaid expenses are payments made for goods or services to be received in the future periods. These payments are recorded as assets initially and are expensed over time as the benefit is received.

Classification: It is current asset.

iii) Accrued Income

Classification: It is an asset (current asset)

Q4b.i

UPDATED CASHBOOK			
DETAILS	**DR FRW**	**DETAILS**	**CR FRW**
Bal. B/d as per cashbook	2,366,500	Bank charges	3,000
Receipts omitted	26,500	Standing orders	62,000
Payment overstated	4500	Debtors (dishonored cheques)	15,000
		Error on opening balance	329,250
		Balance C/F	329,250
		Cheque payment	44,000
		Balance c/d	1,615,000
	2,397,500		**2,397,500**

Q4b.ii

Bank Reconciliation Statement as at 30 June 2023.	**FRW**
Cash at bank as per the updated cashbook	1,615,000
Add: Unpresented cheques	22,500
Less: Uncredited cheques	(98,500)
less Error on bank statement	(832,500)
Balance as per the bank statement	706,500

QUESTION FIVE

Marking guide

QN	DESCRIPTION		MARKS
Q5a(i)	GROSS PROFIT	Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
Q5a(ii)	NET PROFIT	Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
Q5a(iii)	INVENTORY TURNOVER PERIOD	Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
Q5a(iv)	RECEIVABLE COLLECTIO PERIOD	Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
Q5(v)	CURRENT RATIO	Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
Q5(vi)	QUICK RATIO	Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
Q5a(vii)	DEBT RATIO		
		Kicukiro Ltd Calculation	1
		Gasabo Ltd Calculation	1
			14
Q5b(i)	Explanation (1 mark)		1
	Examples (0.5 mark each for two examples)		1
Q5b(ii)	Explanation (1 mark)		1
	Examples (0.5 mark each for two examples)		1
Q5b(iii)	Explanation (1 mark)		1
	Examples (0.5 mark each for two examples		1
			6
Total			**(20 Marks)**

Model answers

Q5a

		FRW"000"	
(i) Gross profit Margin	**Kicukiro Ltd** (Gross profit/Sales) *100	800,000/1,500,000*100	53%
	Gasabo Ltd (Gross profit/Sales) *100		33%

		650,000/2,000,000*100	
(ii) Net profit Margin	**Kicukiro Ltd** (Net profit/sales) *100	265,000/1,500,000	18%
	Gasabo Ltd (Net profit/sales) *100	145,000/2,000,000	7%
(iii) Inventory turnover period	**Kicukiro Ltd** Inventory/cost of sales) *365	(100,000/700,000) *365	52days
	Gasabo Ltd Inventory/cost of sales) *365	50,000/1,350,000 *365	14days
(iv) Receivable collection period	**Kicukiro Ltd** (Receivable/Sales)*365	(850,000/1,500,000) *365	207
	Gasabo Ltd (Receivable/Sales)*365	(350,000/2,000,000) *365	64
(v) Current ratio	**Kicukiro Ltd** Current assets/current liabilities	950,000/1,100,000	0.9:1
	Gasabo Ltd Current assets/current liabilities	445,000/1,130,000	0.39:1
(vi) Quick ratio	**Kicukiro Ltd** (Current assets-inventory)/current liabilities	(950,000-100,000)/1,100,000	0.8:1
	Gasabo Ltd (Current assets-inventory)/current liabilities	(445,000-50,000)/280,000	0.35:1
(vii) Debt Ratio	**Kicukiro Ltd** (Long term debts + current liabilities/shareholders equity) *100	1,300,000/4,000,000*100%	33%
	Gasabo Ltd (Long term debts + current liabilities /shareholders equity) *100	1,530,000/ 4,060,000	38%

Cash Flows from Operating Activities

- **Explanation**: Cash flows from operating activities represent the cash inflows and outflows directly related to the core business operations of a company. These include transactions that affect the net income. Examples are
- Cash received from customers
- Cash paid to suppliers and employees

Cash Flows from Investing Activities

Cash flows from investing activities include cash transactions for the acquisition and disposal of long-term assets and other investments not included in cash equivalents. These activities are related to the purchase and sale of long-term investments and property, plant, and equipment. Examples are;

- Purchase of machinery or equipment
- Sale of a subsidiary or disposal of fixed assets

Cash Flows from Financing Activities

Cash flows from financing activities represent the cash transactions related to the external financing of the company. These include inflows from issuing shares or debt, as well as outflows for repaying loans or paying dividends. Examples are

- Issuing shares or bonds
- Repayment of bank loans or payment of dividends

End of marking guide and model answers