CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY, 29 MARCH 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking guide

		Marks
a	**i)** 01 mark for definition of concept and 01 mark for explanation and example. Maximum 02 marks	2.0
	ii) 01 mark for each well explained point, maximum 04 marks	4.0
	iii) 02 marks for each well explained point, award marks to any 5 valid points	10.0
	Subtotal for this section	*16.0*
b	**i)** *Opening accumulated fund:*	
	0.5 marks for each valid line item with correct amount, maximum 04 marks	4.0
	ii) *KGL Golfers Casino Trading account:*	
	0.5 marks for each valid Revenue and cost of sales lien item, 02 marks for W1 - purchases	4.0
	iii) *Income and expenditure account*	
	0.5 marks for each valid income line item, maximum 02 marks	2.0
	0.5 marks for each valid expenditure line items, with exception of depreciation & interest, which should carry 01 marks each. Award maximum of 04 marks for this section	4.0
	01 marks for each correct workings for the following: W2-Subscriptions & W3- Sundry expenses	2.0
	Subtotal for this section	*16.0*
c	*Statement of financial position:*	
	0.5 marks for each valid line item under 'Assets, award maximum of 2.5 marks for this section	2.5
	Max. 1.5 marks for equity section (01 mark for Life membership, 01 mark for accumulated fund & 0.5 marks for Current year deficit)	2.5
	0.5 marks for each valid Liability line item, Maximum 2.5 marks	2.0
	Award 0.5 marks for valid Assets total and 0.5 marks for right Equity & Liabilities total	1.0
	Subtotal for this section	*8.0*
	Total marks	**40.0**

Model answers

(a)

i. **Accounting Ethics** refer to following specific rules and guidelines set by governing bodies that every person associated with accounting profession should follow to prevent misuse of financial information or their management position.

The concept of **Independence** is very key concept in accounting. Accountants in public practice should be independent in fact and appearance when providing accounting related and assurance services. Accountants who lack independence compromise the integrity of financial markets and reliability of information. There are five major threats to independence.

- Self-interest threat
- Self-review threat
- Advocacy threat
- Intimidation threat
- Familiarity threat.

ii. Books of original entry (prime entry) is where initial journal entries are recorded and kept with all relevant support documents, details of transactions which provided existence and accuracy of the financial transaction before it is posted to individual ledgers. There are different examples of books of original entry;

- **Cash Journal**: This is where all types of payments and receipts done with cash are recorded and maintained.
- **Bank Journals**: Similar to cash journal, Bank journals are also maintained for a period which holds all transactions involving cash in and cash out to and from the bank accounts.
- **Sales Journals:** a Sales journal is a book of original entry where every transaction directly related to sales / Revenue recognition of the organization is recorded.
- **Purchases Journal:** Is a book where original entries of transactions relating to purchases are recorded.

iii. Benefits of Financial Statements:

- The balance sheet which contains detailed investment of the company's assets, the company's debts and equity levels help investors and creditors understand the position of the company's performance.
- The Income Statement contains Revenue, expenses and profits / (losses). Using Income statement can help investors to evaluate the past performance and determine the future cash flow.
- The Cash flow statement gives investors an idea if the company has enough funds to pay off its expenses, purchases and other business operations.
- The Statement of Changes in equity is mainly important to equity shareholders. A steady increase in company's retained earnings is a sustainable sign of company's net worth.
- The Financial position helps Management in understanding the performance of the company in comparison to other businesses and sector.
- Liquidity, debt and profitability are essential metrics the lenders rely on to judge the company's credibility for debt.
- The government uses the business performance of these companies in various sectors to assess the economy's performance and also, for taxes assessment.

(b)

i.

Kigali Golfers Opening Accumulated Fund

As at 01 January 2020

	FRW '000	FRW '000
Equipment	22,591	
Inventory	25,753	
Cash and cash equivalent	20,162	
Golfers' subscriptions accrued	847	
		69,354
Less:		
Casino creditors	1,158	
Other creditors	169	
		(1,327)
Accumulated fund (Balancing figure)		***68,026***

ii.

Kigali Golfers Casino Hall Trading Account

For the Year Ended 31 December 2020

KGL Golfers Casino Trading account		
	FRW '000	**FRW '000**
Casino hall cash sales		119,731
Less: Cost of goods sold		
Opening Inventory	25,753	
Purchases (W1)	97,394	
Closing Inventory	(11,324)	
		(111,824)
Gross Profit		**7,907**

W1: Purchases	**RWF'000**
Creditor's c/f	6,269
Bank	92,283
Creditor's b/f	(1,158)
Purchases in the year	**97,394**

iii.

Kigali Golfers' Income and Expenditure Account

For the Year Ended 31 December 2020

	FRW '000	FRW '000
Income:		
Golfers Subscription (W2)	28,238	
Life membership	254	
Corporate advertisement	1,788	
Casino hall **Gross** profits	7,907	
		38,188
Expenditure:		
Rent	25,302	
Electricity and water	7,766	
Staff costs	48,344	
Sundry expenses (W3)	1,920	
Depreciation of equipment (22,591x20%)	4,518	
Interest on loan (15,000*15.5%/12*4)	775	
		(88,625)
Surplus / (Deficit)		***(50,437)***

iv.

Kigali Golfers Statement of Financial Position

As at 31 December 2020

	FRW '000	FRW '000
Non-Current assets:		
Equipment (NBV b/f)	22,591	
Depreciation	(4,518)	
		18,073
Current assets		
Inventory	11,324	
Subscriptions owing	1,497	
Cash and cash equivalent	10,604	
		23,424
Total assets		***41,497***
Equity & Liabilities		
Life membership	1,440	
Accumulated fund b/f	68,026	
Deficit	(50,437)	

		19,030
Noncurrent Liabilities		
BPR Loan		**15,000**
Current Liabilities:		
Bar creditors	6,269	
Sundry creditors	424	
Accrued Interest on loan	775	
		7,468
Total equity and Liabilities		***41,497***

SECTION B

QUESTION TWO

Marking guide

		Marks
a		
	i) 02 marks for a well explained answer	2.0
	ii) 02 marks for a well explained answer	2.0
	iii) 01 mark for each valid point, maximum 02 marks	2.0
	Subtotal for this section	*6.0*
b	i) 01 mark for each valid item, maximum 03 marks	3.0
	ii) 0.5 marks for each valid point in calculation of net closing inventory value, maximum 04 marks	4.0
	Subtotal for this section	*7.0*
c		
	i) 01 mark for valid definition of intangible asset	1.0
	ii) 01 mark for each valid points under criteria for recognition of intangible assets	2.0
	iii) 01 mark for well stated treatment of intangible assets	1.0
	iv) 1.5 marks for valid calculation of annual depreciation for patents, 1.5 marks for correct calculation of depreciation for trademark, maximum 03 marks for this section	3.0
	Subtotal for this section	*7.0*
	Total marks for Question two	**20.0**

Model answers

(a)

i. Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions of users of financial information. Materiality depends on size and nature of the misstatement judged in the surrounding circumstances.

ii. 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.

iii. An entity can change accounting policy if;

- 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.

(b)

i. Circumstances where net realizable value can be less than cost include the following;

1. In case of an increase in costs or a drop in the selling price
2. In case of physical deterioration of inventory
3. In case of obsolescence of the inventory items
4. A strategic decision to sell at a loss probably due to a marketing strategy or in response to a potential error in production cost calculation or raw materials costing.

ii.

	RWF		**RWF**
Cost			350,000,000
Accidentally destroyed			(5,200,000)
Less: Damaged inventory:			
Cost	3,200,000		
Selling price	2,100,000		
Less: Costs incurred to sell	(720,000)		
NRV		**1,380,000**	
Lower between cost and NRV			(1,380,000)
Net value of closing Inventory			***343,420,000***

(c)

i. Per paragraph 8 of IAS 38 Intangible assets, an intangible asset is an identifiable non-monetary asset without physical substance.

ii. Intangible assets can be recognized if;

- It is probable that expected future economic benefits that are attributable to the asset will flow to the entity, and
- The cost of the asset can be measure reliably.

iii. On initial recognition, Intangible assets should be measured at cost.

iv. Amortization calculation:

1. Patent	**FRW Million**
Cost	500
Useful life (years)	50
Annual depreciation (500/50)	**10**
2. Trademark	
Cost	1,000
	Perpetual
Useful life (Renewable after every 10 years)	
Depreciation cost	-
Total annual depreciation	**10**

QUESTION THREE

Marking guide

Question three		Marks
a	i) 01 Mark for any valid point, maximum 04 marks	4.0
	ii) 01 Mark for any valid point, maximum 04 marks	4.0
b	i) *Control accounts:*	
	01 marks for each valid item (name and amount) in Receivables control account & 01 marks for right balances, maximum 05 marks	5.0
	01 marks for each valid item (name and amount) in Payables control account & 01 marks for right balances, maximum 05 marks	5.0
	ii) 02 marks for any two valid importance of control accounts	2.0
	Total marks	**20.0**

Model answers

(a)

i. Reasons for differences between cash book and bank statement.

- Cheques paid in the bank but not yet credited in cash book
- A cheque was issued for payment, credited in the cash book but not cashed for payment in the bank, hence missing on the bank statement.
- Standing orders, bank charges and other direct payments made by the bank on business account but not yet reflected in the cash book
- Errors made by the bank of the company accountants in recording transactions. For example, Bank statement has Dr of FRW 8,938 but cash book has Cr FRW 8,398.

ii. Benefits of preparing bank reconciliation statement.

- **Detecting errors:** Bank reconciliations help in spotting accounting errors, which are common in most businesses.
- Helps in tracking and recognising interests, fees and other direct charges that the bank normally applies periodically without recurring instruction from client.
- Helps in detecting potential fraudulent transactions.
- Bank reconciliation statement helps the business to confirm all receipts from clients, which helps to avoid awkward situations with client reconciliations in the future.

(04 Marks)

(b)

i. Receivables and payable control accounts.

Receivables control account			
Receipts	**FRW**	**Payments**	**FRW**
Balance b/f	877,867	Contra	22,490
Bad debts recovered	2,092	Sales day book overstated	6,345
		Bad debt written off	11,000
		Balance C/d	840,124
	879,959		**879,959**
Balance B/d	840,124		

Payables control account			
Receipts	**FRW**	**Payments**	**FRW**
Contra	22,490	Balance b/f	714,421
Purchase returns-Mushi	2,200	Omission-Ngarama Supplies	8,500
Balance C/d	719,864	Purchases-Jabana	21,633
	744,554		**744,554**
		Balance B/d	719,864

ii. Importance of control accounts:

- Control accounts help to check the accuracy of entries made in personal accounts in the receivables and payables ledger.
- Control accounts assist in spotting errors where accounting postings are made daily or weekly or even monthly.
- Using control account balances to generate a Trial balance makes it easy and quick as opposed to having all the individual clients and supplier accounts separately in trial balance, it can become cumbersome.

QUESTION FOUR

Marking guide

		Marks
a	02 marks for the right differentiation of direct and indirect methods of cashflow statement	2.0
b	*Cash flow statement:*	
	Operating Activities:	
	Profit before income tax	0.5
	Add back:	
	Depreciation	0.5
	Finance costs	0.5
	Profit on sale of assets	1.0
	Changes in working capital:	
	Increase in inventory	0.5
	Increase in Receivables	0.5
	Increase in payables	0.5
	Interest paid	1.0
	Income tax paid (W1)	1.0
	Investing Activities:	
	Acquisition of non-current assets (W2)	0.5
	Disposal of non-current assets	0.5
	Financing Ativities:	
	Issue of shares	0.5
	Redemption of debentures	1.0
	Dividends paid (W3)	1.0
	Net decrease in cash and cash equivalent	0.5
	Cash and cash equivalent at the start	0.5
	Cash and cash equivalent at the end	0.5
	W1: Taxation	2.0
	W2: PPE	2.0
	W3: Dividends	2.0
	General layout	1.0
	Total marks	**20.0**

Model answers

(a) The direct method uses only the cash transactions, i.e., cash spent, and cash received to produce the cash flow statement.
The indirect method uses profit/loss before income tax as a base and adjustments are made for non-cash items like depreciation, incomes like profit on the sale of scraps, and net adjustments between current assets & liabilities to produce the overall cash flows from operating activities

(b) Edge Traders Ltd Cash Flow Statement
For the Year Ended 31 December 2020

	FRW '000	FRW '000
Operating Activities:		
Profit before income tax	55,673	
Add back:		
Depreciation	7,642	
Finance costs	2,911	
Profit on sale of assets	1,294	**67,520**
Changes in working capital:		
Increase in inventory	(12,024)	
Increase in Receivables	(10,449)	
Increase in payables	21,976	
Interest paid	(2,911)	
Income tax paid (W1)	(21,991)	**(25,399)**
Net cash flow from Operating activities		**42,121**
Investing Activities:		
Acquisition of non-current assets (W2)	(35,287)	
Disposal of non-current assets	5,159	
Net cash flow from Investing activities		**(30,128)**
Financing Activities:		
Issue of shares	38,808	
Redemption of debentures	(32,340)	
Dividends paid (W3)	(24,578)	
Net cash flow from Investing activities		**(18,110)**
Net decrease in cash and cash equivalent		**(6,117)**
Cash and cash equivalent at the start		12,988
Cash and cash equivalent at the end		**6,869**

Workings:

W1: Taxation

Bal C/f	19,404
Add: P&L cost	19,404
Less: Bal b/f	(16,817)
Tax paid	**21,991**

W2: PPE

Bal C/f	154,453
Add: Depreciation	7,642
Add: Disposal	3,865
Less: Bal b/f	(130,673)
Purchased	**35,287**

W3: Dividends

Bal C/f	19,404
Add: P&L cost	25,872
Less: Bal b/f	(20,698)
Dividends paid	**24,578**

QUESTION FIVE

Marking guide

		Marks
a	i) 02 marks for correct differentiation of cost and revaluation model	2.0
	ii) *Recognition in financial statements:*	
	Depreciation = (cost-residual value)/Useful life	2.0
	Income statement extract FYE 30 June 2018 (Depreciation expense)	1.0
	Balance sheet extract as at 30 June 2018 (Machine net book value)	1.0
	Income statement extract FYE 30 June 2019 (Depreciation expense)	1.0
	Balance sheet extract as at 30 June 2019 (Machine net book value)	2.0
	Residual value and useful life have changed, depreciation changes effectively, depreciation changes, award 01 mark for right calculation of new depreciation charge	1.0
	Income statement extract FYE 30 June 2020 (Depreciation expense)	1.0
	Balance sheet extract as at 30 June 2020 (Machine net book value)	1.0
	Subtotal for this section	*12.0*
b	i) 02 marks for right explanation of accrual accounting	2.0
	ii) *accounting treatment (Award the following marks for right calculation of the line items below)*	
	Bad debts written off	0.5
	Increase in provision for bad debts	1.0
	Provision for discount allowed	2.0
	Statement of Financial Position entries	
	Trade Receivables	0.5
	Less:	
	Bad debts provision	1.0
	Provision for discount allowed	1.0
	Subtotal for this section	*8.0*
	Total marks	**20.0**

Model answers

(a)
i. AIS 16 permits two accounting models for subsequent measurement of Property, plant and Equipment.

- **Cost model:** The assets are carried at their historical cost, less accumulated depreciation and impairment costs.
- **Revaluation model:** The assets are carried at revalued amount, being the fair value at the date of revaluation less subsequent depreciation and impairment, provided that the fair value can be measured reliably.

ii. Accounting treatment of Machine for years 2018, 2019 and 2020.

		30 June 2018
Depreciation = (cost-residual value)/Useful life		
(132,632,000-22,105,000)/10	=	11,052,700
Income statement extract FYE 30 June 2018:		
Depreciation expense		11,052,700
Balance sheet extract as at 30 June 2018:		
Machine (132,632,000-11,052,700)		121,579,300

		30 June 2019
Depreciation does not change since it is straight line		
Income statement extract FYE 30 June 2019:		
Depreciation expense		11,052,700
Balance sheet extract as at 30 June 2019:		
Machine (132,632,000-22,105,400)		110,526,600

		30 June 2020
Residual value and useful life have changed, depreciation changes effectively		
Depreciation = (cost-residual value)/Useful life		
(110,526,000-16,579,000)/5	=	18,789,520
Income statement extract FYE 30 June 2020:		
Depreciation expense		18,789,520
Balance sheet extract as at 30 June 2020:		
Machine (110,526,600-18,789,520)		(91,737,080)

(b)

i. The accrual principle is an accounting concept that requires transactions to be recorded in the time period in which they occur, regardless of when the actual cash flows for the transaction are received. The idea behind the accrual principle is that financial events are properly recognized by matching revenues against expenses when transactions – such as a sale – occur, rather than when the actual payment for the transaction may be received.

ii.

Statement of profit and loss account entries	**FRW**
Bad debts written off	450,000
Increase in provision for bad debts (22,500,000-450,000)x5%-392,800	709,700
Provision for discount allowed (22,500,000-450,000)x1%	220,500
Statement of Financial Position entries	
Trade Receivables	22,500,000
Less:	
Bad debts provision (22,500,000-450,000)x5%	(1,102,500)
Provision for discount allowed (22,500,000-450,000)x1%	(220,500)
Net Trade Receivables	***21,177,000***

END OF MARKING GUIDE AND MODEL ANSWERS