

CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 1 EXAMINATION F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY, 29 MARCH 2022

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 to be attempted.
- 4. Section B has four questions, three questions to be attempted. Parapril 2022 CPARAPRIL 2022 C
- 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.

 $F1.3 \text{-}22 \text{-}i\text{CPARAPRIL} 2022 \text{-}i\text{C$

SECTION A

QUESTION ONE

(a)

Explain the concepts of Ethics and Independence in accounting profession?

(2 Marks)

ii. Describe the different books of original entry?

(4 Marks)

iii. Explain the benefits that financial statements provide to users of financial Information?

(10 Marks)

(b) Kigali Golfers is a Golf club that runs operations with funds from members mainly and other sources of income like a casino hall and other corporate advertisements. The following is a summary of receipts and payments for the year ended 31 December 2020.

Receipts Receipts Receipts Receipts Receipts Receipts Repril 2022 i CPARAPRIL 2022 i CPARAP Receipts Receipt	FRW' 000	Payments RAPRIL 2022 i CPA PRIL 2022 i CPARAPRIL 2022 i CPA PRIL 2022 i CPARAPRIL 2022 i CPA	RAPRIL20 FRW R RAPRIL20221 000 RAPRIL20221 000
Bank balance as at 01 January 2020	RIL2014,114	Casino supplies	RAPRIL 2 92,283
Cash balance as at 01 January 2020	RIL202 6,049 A RIL20221CPARA RIL20221CPARA	Rent of administration premises	RAPRIL2(25,302) RAPRIL2(221CPAR RAPRIL2(221CPAR
Loan from BPR 221CPARAPRIL20221CPAR P	15,000	Electricity and water	RAPRIL2027,766 RAPRIL2027,766
IL2022ICPARAPRIL2022ICPARAPRIL2022ICPARAP IL2022ICPARAPRIL2022ICPARAPRIL2022ICPARAP Golfers' subscriptions RAPRIL2022ICPARAP	RIL20 27,589 A RIL20221CPARA	Staff salaries and wages CPARAPRIL 2022 CPA	RAPRIL20 48,344 RAPRIL2022,CPAR RAPRIL2022iCPAR
Casino hall cash sales RAPRIL2022iCPARAP	119,731	Sundry expenses 0221CPA	RAPRIL2021,666
Life icpmembership par from 102 loyal apmembers APRIL 2022 CPARAPRIL 2022 CPARAPR	RIL2021,694 A	PRIL2022iCPARAPRIL2022iCPA PRIL2022iCPARAPRIL2022iCPA PRIL2022iCPARAPRIL2022iCPA	RAPRILZUZZICPAR. RAPRILZOZZICPAR. RAPRILZOZZICPAR.
IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAP IL 022iCPARAPRIL2022iCPARAP IL Corporate advertisements	ril202 1,788 a ril2022icpara ril2022icpara	Balance as at 31 December 2020	RAPRIL20 10,604 RAPRIL20221CPAR RAPRIL20221CPAR
IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARA IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAP	185,965	PRIL2022iCPARAPRIL2022iCPA PRIL2022iCPARAPRIL2022iCPA	185,965

Extract statement of financial position

IIL2022ICPARAPRIL2022ICPARAPRIL2022ICPARAPRI LIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRI	20 21 CPARAP31.Dec.2019	20221CPAR 31.Dec.2020
TL2U2ZICPARAPRIL2U2ZICPARAPRIL2U2ZICPARAPRI IL2U2ZiCPARAPRIL2U2ZiCPARAPRIL2U2ZiCPARAPRI	lzuzzicparapri FRW C '000 prii	L 022iCPARAP FRW 1000
Casino inventory 21 CPARAPRIL 2022 1 CPARAPRIL	l20221CPARAPRIL20225,753 PRII L20221CPARAPRIL202 25,753 PRII	L20221CPARAPRIL20231324R L2022iCPARAPRIL20 11,324 R
Casino creditors 221cparapril20221cparapri	L2022iCPARAPRIL2022i 1,158 PRII L2022iCPARAPRIL2022i 1,158 PRII	L2022iCPARAPRIL202 6,269 L2022iCPARAPRIL202 6,269
Sundry creditors 21CPARAPRIL20221CPARAPRI	L2022iCPARAPRIL2022iCP 169 PRII L2022iCPARAPRIL2022iCP 169 PRII	L2022iCPARAPRIL2022i 42 4 L2022iCPARAPRIL2022i 42 4
Golf equipment (Fixed asset)	L2022iCPARAPRIL202 22,591 PRII L2022iCPARAPRIL202 21,591 PRII	L2022iCPARAPRIL2022iCPARA L2022iCPARAPRIL2022iCPARA
Golfers' subscriptions RAPRIL 2022 CPARAPRI	L2022iCPARAPRIL2022iCI 847 PRII L2022iCPARAPRIL2022iCPARAPRII	L2022iCPARAPRIL202 1;497 L2022iCPARAPRIL2022 ;CP AR

Additional information

- 1. Golf equipment is depreciable at 20%.
- 2. 20 15% of life membership funds are allocated to Income and expenditure account every year.
- 3. The Loan from BPR was acquired at 15.5% annual interest. Kigali Golfers negotiated grace period for both interest and principal for a period of 6 months, the loan was acquired on 01 September 2020.

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Required:

ill20 Calculate the opening accumulated fund balance L2022iCPARAPRIL2022iCPA	ARAPRI(4 Marks)
1. Calculate the opening accumulated fund balance	Triuins

- ii. Prepare Kigali Golfers trading account for the Casino business for the year ended 31

 December 2020 (4 Marks)
- iii. Prepare Income and expenditure account for the year ended 31 December 2020

(8 Marks)

iv. Prepare Statement of Financial Position as at 31 December 2020 (8 Marks)

(Total: 40 Marks)

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SECTION B

QUESTION TWO

- (a) In line with IAS 8 Accounting policies, changes in accounting estimates and error, discuss the following.
- il. Materiality. 022iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL2022iCPARAPRIL202iCPARA
- ii. Retrospective application of changes in accounting policies and estimates. (2 Marks)
- iii. Conditions under which an entity can change an accounting policy. PARAPR (2 Marks)
- **(b)** In line with IAS 2 *Inventories*.
- i. 20 State three circumstances under which net realizable value is likely to be less than cost. 21 CPARAPRIL 2022 CPARAPRIL 2
- ii. Cablestone's closing inventory as at 31 December 2020 was reported to be FRW 350,000,000. This includes FRW 5,200,000 for items accidentally damaged during inventory arranging to prepare for year-end audit stock count. Additionally, there is FRW 3,200,000 relating to some inventory parts partially destroyed earlier on in September by a folklift, it is estimated that these items can be sold for FRW 2,100,000 but would cost the company about FRW 720,000 rework on them to be in a sellable position.

Required:

Calculate the closing value of inventory at year-end.

(4 Marks)

(c) The objective of IAS $38 - Intangible \ assets$ is to prescribe the accounting treatment of intangible assets that are not dealt with specifically in another standard.

Required:

- ill What is an intangible asset? CPARAPRIL 2022 iCPARAPRIL 2022 iCPARAPRIL 2022 iCPARAPRIL (1 Mark)
- ii. 20 When should intangible assets be recognized? PRIL20221CPARAPRIL20221CPARAPRI (2 Marks)
- iii. IAS 38 requirement on initial measurement of Intangible assets? 21CPARAPRIL (1 Mark)
- (d) Next Tech Ltd owns two intangible assets.
- 1. The first is a patent worth FRW 500 million with productive useful life of 50 years, beyond which the patent expires and cannot be renewed.
- 2. The second one is trademark worth FRW 1,000 million with a useful life of 10 years. However, the trademark can be renewed at marginal cost and hence virtually has a perpetual useful life. Calculate Next Tech's amortization expense per year? (3 Marks)

(Total: 20 Marks)

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QUESTION THREE

- (a) A bank reconciliation statement helps to match bank account balance as per business's cash book and the bank statement. PARAPRIL 2022 CPARAPRIL 2022 CPA
- i. Identify four reasons for possible differences between a cash book and bank statement.
- ii. Explain the benefits of preparing a bank reconciliation statement. (4 Marks)
- **(b)** Mr Peter Mugabo is a sole proprietor operating in Musanze city. He has tasked you to prepare control accounts for his receivables and payables accounts in a more professional and comprehensive manner. The balances he gave you for receivables and payables control accounts are FRW 877,767 and FRW 714,421 respectively. On investigation, the following are revealed:
- 1. A contra of FRW 22,490 had not been included in either of the accounts
- 2. The sales daybook had been overstated by FRW 6, 345 and this amount had not been included in the control account.
- 3. A bad debt of FRW 11,000 had been written off from customers list but not posted in the control account.
- 4. One supplier called Mushi had supplied damaged merchandize worth FRW 2,200. These were returned to the supplier but not recorded in the control account.
- 5. Invoice to Gisenyi traders of FRW 6,892 had not been entered in sales daybook as FRW 6,829 but correctly posted in respective control account.
- 6. FRW 8,500 owing to Ngarama supplies was omitted from respective control account.
- 7. Good purchased from Jabana Enterprise worth FRW 21,633 had been omitted from the relevant control account.
- 8. A bad debt of FRW 2,092 recovered had not been updated in the list of balances but has been included in the respective control account.

Required:

i. Prepare the receivables and payables control accounts. (10 Marks)

ii. Outline any two importance of preparing control accounts. (2 Marks)

(Total: 20 Marks)

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QUESTION FOUR

- (a) Differentiate between direct and indirect methods of preparing statement of cash flows as per IAS 7 Statement of cash flows.
- (b) The following are summarized financial statements of Edge Traders Ltd for the financial year 2020.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

		RAPRIL2022iCPARAPRIL2022: RAPRIL2022iCI 2019 RIL2022: RAPRIL <u>2022iC</u> PARAPRIL2022:	iCPARAPRIL2022iCPAR <i>a</i> iCPARAPRIL2022 2020 iCPARAP <u>RIL2022iC</u> PARA
		rapril ÆRW p \000 ril2022 rapril2022icparapril2022	icparap FRW 2 '000 ra icparapril2022icpara
IL2022iCPARAPRIL2022iCPARAPRIL202 IL S O22iCPARAPRIL2022iCPARAPRIL202			
Non-current assets		RAPRIL2022iCPARAPRIL2022	iCPARAPRIL2022iCPARA
Property, plant and equipment	2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iCP <u>AI</u>	RAPRIL202130,673RIL2022 RAPRIL202130,673RIL2022	iCPARAPRIL 154,453
		RAPRIL202 130,673 RIL2022 RAPRIL20221CPARAPRIL2022 RAPRIL20221CPARAPRIL2022	iCPARAPRIL 154,453 iCPARAPRIL2U22,CPARA iCPARAPRIL2022 iCPARA
il2022icparapril2022icparapril2022 Il Current assets)22icparapril2022			
ii 2022iCparapril2022iCparapril2022 ii Inventory april2022iCparapril2022		rapril202216parapril2022 rapril2022 87,965 ril2022	icparapril 209,989
Trade and other receivables		rapril2022i (parapril2022: rapril2022 48,937 ril2022:	icparapril2022 icpara icparapril2 59,386 a
Cash and cash equivalent		RAPRIL2022i 12,988 RIL2022 RAPRIL2022i 12,988 RIL2022	iCPARAPRIL2026,869
IL2022iCPARAPRIL2022iCPARAPRIL2022 IL2022iCPARAPRIL2022iCPARAPRIL2022	2iCPARAPRIL2022iCPAR 2iCPARAPRIL2022iCPAR	149,890 Labert 149,89	CPARAPRIL 166,244
il2022icparapril2022icparapril2022 Il Total assets Il2022icparapril2022	2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iCPAI	RAPRIL2022iCPARAPRIL2022 RAPRIL202 280,563 RIL2022	CPARAPRIL 320,697
	2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iCPAI	RAPRIL2022iCPARAPRIL2022	iCPARAPRIL2022iCPARA
Equity and Liabilities			
Owners' equity		RAPRIL2022iCPARAPRIL2022: RAPRIL202 1:55,232 RIL2022:	icparapril 2022 icpara icparapril 1 94,040
Retained earnings CPARAPRIL 2022		RAPRIL2022i43,766RIL2022	icparapril202727874 icparapril20 54, 16374
KCtanica Carlings 1L2022iCPARAPRIL2022iCPARAPRIL2022 1L2022iCPARAPRIL2022iCPARAPRIL2022	2iCPARAPRIL2022iCPAI	<u>Rapril 2022; 793,700 p.</u> 1L2022 Rapril 202 198,998 ril 2022;	CPARAPRIL 248,203
		RAPRIL2022iCPARAPRIL2022	iCPARAPRIL2022iCPARA
IL2022iCPARAPRIL2022iCPARAPRIL2022 IL2022iCPARAPRIL2022iCPARAPRIL2022			
Non-current liabilities PRIL2022 Debentures RIL20221CPARAPRIL2022		rapril2022icparapril2022 Rapril2022icparapril2022 Rapril2022i 32,340 ril2022	
II DCUCHTUICS RIL2022iCPARAPRIL2022 IL2022iCPARAPRIL2022iCPARAPRIL2022	2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iC PAI	RAPRIL2022 32,340 RIL2022 RAPRIL2022 33 4370 RIL2022	iCPARAPRIL2022iCPARA iCPARAPRIL2022iCPARA
		RAPRIL20221 CF);RAY RIL2022: RAPRIL20221CPARAPRIL2022:	iCPARAPRIL2022iCPAR <i>A</i> iCPARAPRIL2022iCPAR <i>A</i>
L2022iCPARAPRIL2022iCPARAPRIL2022 Current liabilities CPARAPRIL2022			
Trade and other payable PRIL 2022		RAPRIL2022iCPARAPRIL2022: RAPRIL2022i 1147110 RIL2022:	iCPARAPRIL2022iCPARA iCPARAPRIL2(33,686)
		RAPRIL2022iCPARAPRIL2022:	iCPARAPRIL2022iCPARA
(I <mark>Income tax</mark> ril2022icparapril2022 (12022icparapril2022icparapril2022		RAPRIL2022 [6,8] 7RIL2022 RAPRIL2022 CPARAPRIL2022	icparapril20 19,404 icparapril202216par
Dividends payable CPARAPRIL 2022	2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iCP AI	rapril2022j 20,698 ril2022 rapril2022iq5agaer il2022	CPARAPRIL 2019,404
		RAPRIL2022i 49,225 RIL2022 RAPRIL2022iCPARAPRIL2022 RAPRIL2022iCPARAPRIL2022	iCPARAPRIL20 72,494
Total equity and liabilities	2iCPARAPRIL2022iCPAI 2iCPARAPRIL2022iCPAI	280,563 il2022	CPARAPRIL 320,697

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SUMMARY OF STATEMENT OF PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020.

	parapril2022icparapril2022icpar parapril2022icparap FRW '000
Earnings before interest, tax depreciation and amortization (E	BITDA) 221 CPARAPRIL 266,226
II <mark>C</mark> 022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCI II <mark>Depreciation</mark> _{IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCI}	parapril2022icparapril2022icpar parapril2022icparapril2(7,642)
ILE 022;CPARAPRIL2022;CPARAPRIL2022;CPARAPRIL2022;CPARAPRIL2022;CI Finance costs L 2022;CPARAPRIL2022;CPARA	PARAPRIL2022iCPARAPRIL2(2,9171) PARAPRIL2022iCPARAPRIL2(2,9171)
Earnings before tax (EBT) 0221CPARAPRIL20221	PARAPRIL2022iCPARAPRIL2(55 , 673 R PARAPRIL2022iCPARAPRIL2(55,673R
Income tax RIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCI	PARAPRIL2022iCPARAPRIL(19,404)
Earnings after tax (EAT)	parapril2022icparapril2 36,269
Dividends PRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCI	parapril2022icparaprii(25,872)
II Retained profit 22icparapril2022icparapril2022icparapril2022icl	parapril2022icparapril2 $(10,397)$

Additional Information:

1. A Motorcycle (Part of property, plant and equipment) with a net book value of FRW 3,865,000 was sold for FRW 5,159,000 The company recognizes accounting profits from sale of assets as 'other income' in arriving at the annual trading profit.

Required:

Prepare a cash flow statement in accordance with IAS 7 - Statement of cash flows using indirect method.

(Total: 20 Marks)

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QUESTION FIVE

(a) The objective of IAS 16 - Property, $Plant \ and \ Equipment$ is to prescribe the accounting treatment for property, plant, and equipment. The principal issues are the recognition of assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them.

Required:

- i. Differentiate between cost and revaluation model of measurement subsequent to initial recognition of Plant, Property and Equipment. (2 Marks)
- ii. Jyambere Ltd purchased a machine on 01 July 2017 for a value of FRW 132,632,000 with an estimated productive life of 10 years and an estimated residual value of FRW 22,105,000 after the 10th year. On 01 July 2019 however, The Company reassessed the Machine's productive useful life to be only 5 years remaining and an estimated residual value of FRW 16,579,000.

Required:

How should the Machine be accounted for in the years ending 30 June 2018, 2019, and 2020? PARAPRIL 2022 PARAPRIL 2

(b)

i.120 Explain the accrual accounting principle.

(2 Marks)

- ii. The year-end receivables balance for all count financial services was FRW 22,500,000. **The following information is provided:**
- 1. A customer has been declared bankrupt owing FRW 450,000, this has to be written off.
- 2. The company maintains a policy of provision for doubtful debts of 5% on receivables balances.
- 3. The company also decided to make extra provision of 1% for potential discount to be granted to customers who pay timeously. PARAPRIL 2022 CPARAPRIL 2022
- 4.20 The irrecoverable debt provision at the start of the year was FRW 392,800.

Required:

Show the accounting treatment in the Statement of profit and loss and Balance sheet.

(6 Marks)

(Total: 20 Marks)

End of question paper

F1.3 21CPARAPRIL20221CPARAPRIL20221CPARAPRIL20221CPARAPRIL20221CPARAPRIL20221CPARAPRIL20221CPARAPRIPAGE 8 of 8