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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 1 EXAMINATION**

**F1.3: FINANCIAL ACCOUNTING**

**DATE: TUESDAY, 29 MARCH 2022**

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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 to be attempted.**
- 4. Section B has four questions, three questions 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)
- i. 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	FRW'000	Payments	FRW'000
Bank balance as at 01 January 2020	14,114	Casino supplies	92,283
Cash balance as at 01 January 2020	6,049	Rent of administration premises	25,302
Loan from BPR	15,000	Electricity and water	7,766
Golfers' subscriptions	27,589	Staff salaries and wages	48,344
Casino hall cash sales	119,731	Sundry expenses	1,666
Life membership from loyal members	1,694		
Corporate advertisements	1,788	Balance as at 31 December 2020	10,604
	<b>185,965</b>		<b>185,965</b>

Extract statement of financial position

	31.Dec.2019	31.Dec.2020
	FRW '000	FRW '000
Casino inventory	25,753	11,324
Casino creditors	1,158	6,269
Sundry creditors	169	424
Golf equipment (Fixed asset)	22,591	-
Golfers' subscriptions	847	1,497

Additional information:

1. Golf equipment is depreciable at 20%.
2. 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.

**Required:**

- i. Calculate the opening accumulated fund balance (4 Marks)
  - 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)**

## SECTION B

### QUESTION TWO

(a) In line with IAS 8 – *Accounting policies, changes in accounting estimates and error*, discuss the following.

- i. **Materiality.** (2 Marks)
- ii. **Retrospective application of changes in accounting policies and estimates.** (2 Marks)
- iii. **Conditions under which an entity can change an accounting policy.** (2 Marks)

(b) In line with IAS 2 – *Inventories*.

- i. **State three circumstances under which net realizable value is likely to be less than cost.** (3 Marks)
- 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:**

- i. **What is an intangible asset?** (1 Mark)
- ii. **When should intangible assets be recognized?** (2 Marks)
- iii. **IAS 38 requirement on initial measurement of Intangible assets?** (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)**

### QUESTION THREE

(a) A bank reconciliation statement helps to match bank account balance as per business's cash book and the bank statement.

- i. Identify four reasons for possible differences between a cash book and bank statement. (4 Marks)
- 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)**

**QUESTION FOUR**

(a) Differentiate between direct and indirect methods of preparing statement of cash flows as per IAS 7 – *Statement of cash flows*. (2 Marks)

(b) The following are summarized financial statements of Edge Traders Ltd for the financial year 2020.

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER**

	2019 FRW '000	2020 FRW '000
<b>Non-current assets</b>		
Property, plant and equipment	130,673	154,453
	<u>130,673</u>	<u>154,453</u>
<b>Current assets</b>		
Inventory	87,965	99,989
Trade and other receivables	48,937	59,386
Cash and cash equivalent	12,988	6,869
	<u>149,890</u>	<u>166,244</u>
<b>Total assets</b>	<u>280,563</u>	<u>320,697</u>
<b>Equity and Liabilities</b>		
Owners' equity	155,232	194,040
Retained earnings	43,766	54,163
	<u>198,998</u>	<u>248,203</u>
<b>Non-current liabilities</b>		
Debentures	32,340	-
	<u>32,340</u>	<u>-</u>
<b>Current liabilities</b>		
Trade and other payable	11,710	33,686
Income tax	16,817	19,404
Dividends payable	20,698	19,404
	<u>49,225</u>	<u>72,494</u>
<b>Total equity and liabilities</b>	<u>280,563</u>	<u>320,697</u>

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

	<b>FRW '000</b>
Earnings before interest, tax depreciation and amortization (EBITDA)	66,226
Depreciation	(7,642)
Finance costs	(2,911)
<b>Earnings before tax (EBT)</b>	<b>55,673</b>
Income tax	(19,404)
<b>Earnings after tax (EAT)</b>	<b>36,269</b>
Dividends	(25,872)
<b>Retained profit</b>	<b>10,397</b>

**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.** (18 Marks)

**(Total: 20 Marks)**

## 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 10<sup>th</sup> 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? (10 Marks)

(b) i. Explain the accrual accounting principle. (2 Marks)

iii. 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.
4. 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**