



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

WEDNESDAY, 25 AUGUST 2021
MODEL ANSWERS AND MARKING GUIDE

QUESTION ONE

Marking Guide

	<i>Marks</i>
a) ICPAR responsibilities – 1 mark for each correct responsibility, Max 5)	5
b) Users of financial statements – 1 mark for each correct user, Max 5)	5
c) i) Advantages of control accounts 2 marks for each correct advantage, Max 4)	4
ii) Sales ledger control account -1 mark for each entry except balances	5
Purchases ledger control account -1 mark for each entry except balances	5
d) i) Opening statement of affairs – 0.5 marks for each figure except the final figure	4
ii) The statement of trading, profit of loss - 0.5 for each entry including sub totals except the gross profit and net profit	6
iii) The statement of financial position - 0.5 for each entry excluding sub totals and totals – (Note: Long term loan is not a sub total)	6
Total marks	40

Detailed answer

A. In accordance with Article 7 of ICPAR Law 2008, ICPAR is responsible for;

- Providing members with professional education in accountancy and related fields
- Advising on curricula for any accountancy courses
- Developing teaching programs to organize examinations and issuing certificates in matters relating to the accounting profession
- Establishing continuing professional development requirements
- Issuing and promoting the implementation of accounting and auditing standards in the public and private sector
- Advising the government on matters relating to the profession
- Setting ethical requirements for members
- Issuing license of exercising the accounting profession to qualifying members requesting such license and withdrawing it in case of misconduct
- Operating a quality assurance (QA)
- Review system for all audits
- Taking disciplinary measures against members

B. Users of financial statements.

- **Existing or potential shareholders:** Financial information is required in relation to profit, dividends and other indicators of return on their investment.
- **Lenders:** Financial information is required by lenders / financiers to assess the credit worthiness of the borrower.

- **Investment analysts:** Investment analysts require financial statements in order to assess whether to recommend company's securities to their clients.
- **Government:** Government require financial statements as basis for taxation and ensuring compliance to company law and other regulatory frameworks.
- **Suppliers:** Suppliers require financial statements to assess whether it is safe to extend credit to the customer.
- **Competitors:** Most companies will attempt to gain access to financial statements of competitors to evaluate their financial condition, this in return can work as basis to improve their competitive advantage.

In addition to the above users, there are a number of other users that include customers, employees, auditors, etc

C.

i. **Advantages of control accounts:**

- Control accounts help to check arithmetic accuracy of all creditors' accounts in purchase ledger and all debtors accounts in sales ledger.
- Control accounts help with early identification of errors more easily since they aggregate all transactions from different individual accounts of suppliers and customers.
- They make fraud more difficult. With segregation of duties and most control accounts not allowing direct posting and manual journals, they act as another level of security in accounting.
- Control accounts save time while extracting the trial balance. This is because control account enables the total of debtors and creditors figure be entered in the trial balance in one figure.

ii.

SALES LEDGER CONTROL ACCOUNT

Frw				
Date	Details	Dr	Cr	Balance
1-May	Balance b/f	822,676		822,676
2-May	Invoices to customers	1,250,000		2,072,676
8-May	Sales returns		23,529	2,049,147
19-May	Receipt from debtors		1,049,265	999,882
20-May	Bad debts written off		13,235	986,647
25-May	Discount allowed		11,765	974,882
	Balance c/f			974,882

PURCHASE LEDGER CONTROL ACCOUNT

Frw				
Date	Details	Dr	Cr	Balance
1-May	Balance b/f		462,500	(462,500)
4-May	Invoiced purchases on credit (50%)		300,000	(762,500)
11-May	Purchase returns	19,118		(743,382)
21-May	Payment to suppliers	532,111		(211,271)
25-May	Invoiced purchases		669,118	(880,389)
29-May	Discount received	11,176		(869,213)
	Balance c/f			(869,213)

D.

i. Jacques Opening statement of account as at 01 January 2020.

	Frw '000	Frw '000
Assets:		
Delivery van - Cost	1,243	
Delivery van - Accumulated depreciation	(124)	1,119
Inventory	1,554	
Trade receivables	1,430	
Bank	522	3,507
Liabilities:		
Trade payables		280
Opening capital		4,346

ii.

Jacques Statement of trading, profit or loss

For the year ended 31 December 2020.

	Frw '000	Frw '000
Sales (W1)		15,543
Cost of sales:		
Opening Inventory	1,554	
Purchases (W2)	12,626	
Closing Inventory	(2,487)	<u>11,693</u>
Gross profit		3,850
Fuel for delivery van	400	
Rent of office premises	218	
Electricity and Internet	177	
Wages and salaries	995	
Depreciation (1,243-124)*10%	112	
Interest on loan (1,554*15%*3/12)	58	<u>1,960</u>
Net profit		<u>1,890</u>

iii.

Jacques Statement of Financial Position

As at 31 December 2020.

	Frw '000	Frw '000
Non-current assets:		
Motor Van - Cost	1,243	
Motor van - Acc. Depreciation	(236)	1,007
Current assets:		
Inventory	2,487	
Trade receivables	3,821	<u>6,308</u>
Total Assets		<u>7,315</u>
Capital:		
Capital balance as at 01 Jan 2020	4,346	
Injection of owner's cash	270	
Drawings	(1,958)	
Accumulated profit	1,890	4,548

Long term loan		1,555	
Current Liabilities:			
Trade payable	684		
Bank overdraft	470		
Accrued interest on loan	58	1,212	
<i>Total equity and Liabilities</i>		<i>7,315</i>	

W1: Trade Receivable	Frw '000
Closing Balance	3,821
Add: Cash receipts	13,153
Less: Opening Balance	<u>(1,430)</u>
<i>Sales</i>	<i><u>15,543</u></i>

W2: Trade Payable	Frw '000
Closing Balance	684
Add: Payments	12,222
Less: Opening Balance	<u>(280)</u>
<i>Purchases</i>	<i><u>12,626</u></i>

QUESTION TWO

Marking guide

a)	Marks
i)The treatment of Cash flows from interest and dividend received and paid	2
ii)The treatment of cash flows arising from taxes on income	2
b) Each of 11 figures in statement of cash flows excluding subtotals	11
Net increase in cash and cash equivalent	1
Cash and cash equivalent at the start of the year	1
Cash and cash equivalent at the end of the year	1
Corporate Income tax working	1
Property, plant and Equipment working	1
Total marks	20

- a.
- Cash flows from interest and dividends paid and received should be disclosed separately. Each should be classified in a consistent manner from period to period as either operating (Paid or received), investing (Received) or financing (Paid) activities.
 - Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flow from operating activities unless they can be specifically identified with financing and investing activities.
- b.

Milbridge Ltd Statement of cash flow for the year ended 31 July 2020.

	Frw '000	Frw '000
Profit before taxation		813
Adjustments for:		
Depreciation	62	
Interest expenses	50	112
		925
Increase in inventory	(113)	
Increase in trade Receivables	(63)	
Increase in trade and other payables	113	(63)
		863
Interest paid (50-25)	(25)	

Income tax paid (W1)	(175)	(200)
Net cash flow from Operating activities		663
Cash flow from investing activities (W2)		
Cash flow from financing activities:		
Loan repayment	(125)	
Dividends paid	(125)	
Net cash flow from Financing activities		(250)
Net increase in cash and cash equivalent		413
Cash and cash equivalent at the start of the year		1,913
Cash and cash equivalent at the end of the year		2,325

W1. Corporate income tax account

	Frw		Frw
		Bal b/f	175
<i>Tax paid</i>	175	<i>P&L (Balancing figure)</i>	275
Bal c/d	275		
	<u>450</u>		<u>450</u>

W2. Property, plant and equipment

	Frw		Frw
Opening NBV	125		
<i>Acquisitions</i>	-	Depreciation for year	63
		Closing NBV	62
	<u>125</u>		<u>125</u>

QUESTION THREE

a) i) Government grant recognition conditions (1 mark each correct condition	2
ii)Methods for presenting grants that relate to assets (1 mark for each correct method)	2
b) i) 8 First Journal Entries 0.5 marks each	4
2 Last Journal Entries 1 mark each	2
ii)1) Cash Account	2
2)Office Equipment Account	1
3) Income Account	1
4) Debtors Account	1
5) Creditors Account	1
iii) 8 figures in the Trial Balance 0.5 Marks each	4
Total marks	20

a.

i. Government grants shall not be recognized until there is reasonable assurance that;

- The entity shall comply with the conditions attached to the grant
- The grant shall be received.

ii. Two methods of presenting government grant relating to assets:

- Recognizing grant as deferred income that is recognized in profit or loss statement in a systematic basis over the useful of the asset.
- The other method deducts the grant in calculating carrying amount of the asset. The grant is recognized in profit or loss statement over the life of a depreciable asset as a reduced depreciation charge.

b.

i.

Description	Dr Frw	Cr Frw
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: 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 for 15 days		
Cash at Bank	375,000	
Debtors		375,000
19 Dec: Collected money from credit customers		
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		

ii.

Cash at Bank			
	Frw		Frw
Capital	12,500,000	Rent	375,000
Income	800,000	Equipment	200,000
Debtors	375,000	Salaries and wages	150,000
Income	1,300,000	Creditors	250,000
		Balance c/d	14,000,000
	14,975,000		14,975,000

Equipment			
	Frw		Frw
Creditors	300,000		
Bank	200,000	Balance c/d	500,000
	500,000		500,000

Income			
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	Frw		Frw
		Bank	800,000
		Debtors	675,000
Bal c/d	4,075,000	Bank 50%, Debtors (50%)	2,600,000
	<u>4,075,000</u>		<u>4,075,000</u>

Debtors			
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	Frw		Frw
Income	675,000	Bank	375,000
Income	1,300,000		
	<u>1,975,000</u>	Bal c/d	1,600,000
	<u>1,975,000</u>		<u>1,975,000</u>

Creditors			
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	Frw		Frw
Bank	250,000	Equipment	300,000
Bal c/d	50,000		
	<u>300,000</u>		<u>300,000</u>

ii. Olivier
Trial Balance on 31 December 2020

	Dr		Cr
	Frw		Frw
Office equipment	500,000		
Debtors	1,600,000		
Cash at bank	14,000,000		
Capital			12,500,000
Creditors			50,000
Service rendered (Income)			4,075,000
Rent	375,000		
Salaries and wages	150,000		
	<u>16,625,000</u>		<u>16,625,000</u>

QUESTION FOUR

Marking Guide

a) 5 Components of partnership deed 1mark each	5
b) i) Profit or loss account and appropriation account for the period ended 30 June 2020	
Profit per trial balance	0.5
Adjustments to profit (0.5 per each adjustment)	1
Adding back Interest on partners drawings (1 mark per each partner's drawing)	3
Deducting Interests on capital (1 mark per each partner's interest)	3
Deducting Salary paid to partner Mutoni	1
Residual Profit/loss Sharing(0.5 marks per each partner)	1.5
ii) Muhoza, Mutoni and Ngabire Partnership Statement of Financial position as at 30 June 2020	
Non-Current assets presented correctly	1
Current assets presented correctly	1
Capital Accounts presented correctly	1
Current accounts presented correctly	1.5
Loan from partner-Ngabire presentation	0.5
Total marks	20

Detailed answer

A. Contents of a partnership deed.

- Name(s) and address(s) of both the firm and the partners indicate the parties to the agreement
- Capital to be contributed by each partner indicates the contribution that each partner will bring to the partnership
- The profit-sharing ratios that may be expressed as a fraction or as a percentage and they are used when partners share profits or losses from the partnership.
- Salaries to be paid to any partners who will be involved in the active management of the business
- Any interest to be charged on drawings made by the partners.
- Interests to be given to the partners on their capital balances.
- Procedures to be taken on the retirement or admission of a partner.

B.

i.

Muhoza, Mutoni and Ngabire Partnership			
Profit or loss account and appropriation account for the period ended 30 June 2020			
	Frw '000		Frw '000
Profit per trial balance			7,875
Add: Merchandize taken by Mutoni			290
			8,165
Less: Interest on loan by partner Ngabire			(300)
Net profit			7,865
Add: Interest on partners drawings:			
Muhoza (15%*70500)	11		
Mutoni (15%*190500)	29		
Ngabire (15%*210000)	32		71
Less: Interest on capital			
Muhoza (10%*6,250)	625		
Mutoni (10%*3,750)	375		
Ngabire (10%*2,500)	250		(1,250)
Less: Salary paid to partner Mutoni			(750)
			5,936
Sharing of profit / Loss:			
Muhoza (45%*5,476)	2,671		
Mutoni (30%*5,476)	1,781		
Ngabire (25%*5,476)	1,484		5,936

ii.

Muhoza, Mutoni and Ngabire Partnership			
Statement of Financial position as at 30 June 2020			
	Frw '000		Frw '000
Non-Current assets:			
Building	6,875		
Fixtures and fittings	2,500		
Motor Vehicles	5,625		15,000

Current assets:			
Trade and other receivables		2,500	
Inventory as at 30 June 2020		2,500	
Cash and cash equivalents (W2)		3,904	8,904
			23,904
Current Liabilities:			
Trade and other payables			(3,125)
			20,779
Capital Accounts:			
Muhoza		6,250	
Mutoni		3,750	
Ngabire		2,500	12,500
Current accounts (W1)			
Muhoza		3,465	
Mutoni		1,772	
Ngabire		542	5,779
Loan from partner-Ngabire			2,500
			20,779

Working 1: Partners current account (Frw '000)

	Muhoza	Mutoni	Ngabire		Muhoza	Mutoni	Ngabire
Bal b/f		625	1,250	Bal b/f	250		
Drawings	71	191	210	Salary		750	
Merchandize		290		Interest on loan			300
Interest on drawings	11	29	32	Interest on capital	625	375	250
Balane c/d	3,465	1,772	542	Share of profit	2,671	1,781	1,484
	3,546	2,906	2,034		3,546	2,906	2,034

Working 2: Cash and Cash equivalent

	Frw '000
Per Trial Balance	4,375
Less Drawings:	
Muhoza	(71)
Mutoni	(191)
Ngabire	(210)
Adjusted balance	3,904

QUESTION FIVE

Marking Guide

a)		
i)	Explaining the treatment of subscriptions received in advance	2
ii)	Explaining the treatment of arrears of prior's subscriptions	2
iii)	Explaining the treatment of life members 'subscription	2
b)	i) Statement of affairs as at 01 January 2019.	
	Non-current assets:	
	Building - Net book value	1
	Equipment - Net book value	1
	Cash and cash equivalent	0.5
	Accrued income (Subscriptions)	1
	Trade payable (Electricity)	1
	Subscriptions in advance	0.5
	ii) Subscription account (0.5 marks for each correct posting)	3
iv)	Income and Expenditure account -12 correct incomes/expenses (No marks are allocated to totals)	6
Total marks		20

- a.
- i. **Subscriptions received in advance** are recognized as a current liability in the statement of financial position and subsequently transferred to income statement as income in the right period.
 - ii. **Arrears of prior year's subscriptions** are excluded from current year / period income in the statement of income and expenditure since they were included in the previous year's income and expenditure.
 - iii. **Life members' subscriptions** are recognized in income and expenditure account over a defined period of time.

b.

i.

Gatenga sports centre

Statement of affairs as at 01 January 2019.

	Frw '000	Frw '000
Non-current assets:		
Building - Net book value	51,429	
Equipment - Net book value	9,429	
Cash and cash equivalent	5,829	
Accrued income (Subscriptions)	514	67,200
Trade payable (Electricity)	171	
Subscriptions in advance	171	(343)
<i>Opening capital</i>		66,857

ii.

Subscription account			
Receipts	Frw '000	Payments	Frw '000
Balance B/D	514	Balance B/D	171
Income & Expenditure acc (Balancing figure)	3,171	Bank receipt	3,429
Balance C/D	257	Balance C/D	343
	3,943		3,943

iii.

Gatenga sports centre

Income and expenditure account, for the year ended 31 December 2019.

Income:	Frw '000	Frw '000
Donations	686	
Subscriptions (171+3429+343-257-514)	3,171	
Talent show (1029-257)	771	
Grant for daily operations of the club	1,800	
Sponsorships	1,371	
Total Income		7,800
Expenditure:		
Rent	857	
Office stationery	129	
Telephone expenses	686	
Electricity (257+771-171)	857	
Coaching expenses	1,800	
Dancing outfit expenses	1,200	
Depreciation (9,429+1,714-10,714)	429	
Total expenditure		(5,957)
Excess of expenditure over income		1,843

End of model answer and marking guide