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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 1 EXAMINATION**

**F1.3: FINANCIAL ACCOUNTING**

**TUESDAY, 30 NOVEMBER 2021**

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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
4. Section **B** has **four** questions, and only **three** are 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) One of the key responsibilities of International Accounting Standards Board (IASB) is to set and issue new standards. **Identify the process that this board must go through to set the new standards.** (6 Marks)
- b) Each element of financial statements is given in monetary value following the measurement procedures laid down by conceptual framework of financial reporting. **Using examples, explain the four measurement bases to attach monetary value to the financial items.** (6 Marks)
- c) Alex is a local Manufacturer and owns a factory in Gahanga Industrial zone. His trial balance as at 30<sup>th</sup> September 2020 was as follows:

<b>Particulars</b>	<b>FRW "000"</b>	<b>FRW "000"</b>
Materials Purchased	91,200	
Wages	57,600	
Sales		234,360
Work in progress as at 1 Oct 2019 (at cost)	10,200	
Stock of raw materials 1st Oct 2019 (at cost)	5,040	
Stock of finished goods 1st Oct 2019 (at cost)	6,000	
Salary of factory Management staff	11,400	
Salary of clerical staff	17,612	
Repairs- Factory building	480	
Repair- Machinery and Plant	2,400	
Rent and Rates	6,000	
Light and Power	7,680	
Canteen subsidy	1,920	
Motor expenses	4,980	
Postage and telephone	3,600	
Printing and Stationery	1,392	
Carriage and packing	9,792	
Capital account		43,200
Drawings	19,200	
Trade Creditors		38,400
Trade debtors	38,568	
Freehold property (at cost)	10,800	
Machinery and plant (written down value) 1st Oct 2019	8,400	
Motor van (written down value) 1st Oct 2019	6,600	
Bank overdraft		4,904
	<b>320,864</b>	<b>320,864</b>

**Notes:**

- 1) Depreciation is to be charged at the following rates:
- 2) Machinery and Plant 20% reducing balance  
Motor van @ 25% reducing balance
- 3) Inventory at 30<sup>th</sup> September 2020 were as follows:
  - a. FRW
  - ii. Raw materials 6,600, 000 at cost
  - iii. Finished goods 5,520,000 at transfer price
  - iv. Work in progress 10,800,000 at cost
- 4) Rates are prepaid to the extent of 432,000
- 5) Amounts outstanding are as follows:
  - a. Audit and Accountancy 1,800,000
  - b. Power 1,440,000
  - c. Telephone 216,000
- 6) Wages are paid in arrears, thus the wage in arrears as at 30<sup>th</sup> September were FRW1,280,000.
- 7) The following expenses are to be allocated as 60% to the factory and 40% to the office:
- 8) Rent and rates
- 9) Light and power
- 10) Canteen subsidy
- 11) Goods are transferred from factory to the sales department at cost plus 20%
- 12) Mr. John Peter is the factory manager, and he is entitled to a commission of FRW3,165,000 for the current period
- 13) Allowance for doubtful debt is to be made to 1% of debtors

**Required:**

- i) **Prepare a manufacturing account for Alex for the year ended 30 September 2020.**  
(Clearly show your workings of wage expenses) (8 Marks)
  - ii) **Prepare the statement of comprehensive income for Alex for the year ended 30 September 2020. (Clearly show your workings for total amount of inventory, depreciation, and allocation of overheads between manufacturing and profit or loss account)** (12.5 Marks)
  - iii) **Prepare the statement of financial position for Alex as at 30 September 2020.** (7.5 Marks)
- (Total: 40 Marks)**

## **SECTION B**

### **QUESTION TWO**

Mukantayomba is a partly qualified accountant who is doing an internship at ABAKI co which owns two coffee shops in Kigali. While working in CFO's office, the CEO argued with CFO about the ugly ratios and poor financial performance for the year 2020 due to increased competition and so the directors wish to investigate if this is a sector-wise problem. They have got equivalent ratios for the sector which are summarized in the table below.

#### **Sector average ratios for the year ended 31 December 2020**

Return on Capital Employed	9.30%
Quick ratio	0.8:1
Receivable's collection period	28 days
Gearing ratio	75%
Net Asset turnover	2.01

The following information has been extracted from the draft financial statements of ABAKI co for the year ended December 2020 for the two coffee shops

#### **Statement of profit or loss for the year ended 31 December 2020.**

	<b>Kisimenti shop FRW“000”</b>	<b>Downtown shop FRW “000”</b>
Revenue (60% are credit sales)	201,600	151,200
Cost of sales	140,000	105,000
<b>Gross profit</b>	<b>61,600</b>	<b>46,200</b>
Expenses	35,280	26,460
<b>Profit before Interest and tax</b>	<b>26,320</b>	<b>19,740</b>

#### **Statement of financial position as at 31 December 2020**

<b>Denomination</b>	<b>Kisimenti shop FRW“000”</b>	<b>Down town shop FRW“000”</b>
<b>Non- Current Assets</b>	<b>FRW“000”</b>	<b>FRW“000”</b>
Land and Building	220,000	275,000
office furniture	132,000	165,000
Total Non- Current Assets	352,000	440,000
Current Assets		
Bank	6,000	5,100
Account Receivables	36,000	30,600
Inventories	10,800	9,180
Total Current Assets	52,800	44,880
Total Assets	404,800	484,880
Equity		
Share Capital	238,000	226,100

Share Premium	83,840	79,648
Total Equity	321,840	305,748
Non-Current Liabilities		
10% Bank Loan	45,460	130,382
Current Liabilities		
Payables	22,500	29,250
Overdraft	15,000	19,500
Total Liabilities	82,960	179,132
Total Equity and Liabilities	404,800	484,880

**Required:**

- a) In line with the above, explain to Mukantayomba at least four categories of ratios. (4 Marks)
- b) Compute the following ratios for the two shops
- i) Acid test ratio (3 Marks)
  - ii) Gearing ratio (3 Marks)
  - iii) Return on Capital Employed ratio (3 Marks)
  - iv) Receivable collection period (3 Marks)
- c) Using the ratios calculated in part (b) and those provided in the question for the sector, assess the performance of ABAKI co for the year Ended 31 December 2020. (4 Marks)
- (Total: 20 Marks)**

**QUESTION THREE**

- a) IAS 38 Intangible Assets gives a clear distinction of how Research and Development expenditures should be treated. Using one example of each expenditure clearly explain how they are treated as per the standard. (2 Marks)
- b) You are given the following information extracted from the records of Butare Enterprise co for the Month of January 2021.

**Cashbook as at January 31, 2021.**

Date	Details	Dr	Date	Details	Cr
		FRW “000”			FRW “000”
1-Jan	Bal B/d	82,455	1-Jan	Alice	4,285
2-Jan	Peter	4,810	6-Jan	Jackson	1,105
2-Jan	John	5,515	14-Jan	David	2,555
10-Jan	Mutara co	11,560	17-Jan	Chantal	485
14-Jan	Olga & co	2,095	24-Jan	Joseph	1,715
21-Jan	Peace	1,635	29-Jan	Rent	1,300
23-Jan	Cash sales to Bank	2,645			

30-Jan	George	595			
31-Jan		-	31-Jan	Bal C/d	99,865
		<b>111,310</b>			<b>111,310</b>

**Bank Statement for January 31, 2021**

	Particulars	Payments	Receipts	Balance
		FRW “000”	FRW “000”	FRW “000”
1-Jan	Bal Bd			87,390
2-Jan	Cheque 836780	2,130		85,260
2-Jan	Remittance		880	86,140
5-Jan	Cheque 836781	3,685		82,455
6-Jan	Cheque 836782	4,285		78,170
6-Jan	charges	235		77,935
6-Jan	Counter credit		10,325	88,260
10-Jan	Standing order	685		87,575
11-Jan	Cheque 836783 Jackson	1,060		86,515
13-Jan	Remittance		11,560	98,075
17-Jan	Cheque 836784	2,555		95,520
17-Jan	Counter credit		2,095	97,615
23-Jan	Remittance		1,635	99,250
24-Jan	Counter credit		2,640	101,890
28-Jan	Cheque 836786	1,715		100,175
30-Jan	Cheque 310923	1,485		98,690

**Required:**

- i) Reconcile the opening balances of cash book and bank statement (6 Marks)
  - ii) Prepare an adjusted cashbook for the period (7 Marks)
  - iii) Prepare a bank reconciliation as at 31st January 2021 (5 Marks)
- (Total: 20 Marks)**

## QUESTION FOUR

- a) A company can issue ordinary shares or preference shares to raise its capital. **Clearly differentiate these two types of shares.** (2 Marks)
- b) In the year ended 31 December 2020, INYUNDO Ltd was floated with an authorized capital consisting of 20,000, 9% preference shares and 30,000 equity shares of FRW 25 each payable on application. All the money due on the shares was paid except for the amount due on the first and final call on 4,000 equity shares which directors decided to forfeit and reissue for next year at a discount of 10% of their face value.

### Required:

- i) **Prepare all relevant entries to record the above issue.** (12 Marks)
- ii) **From entries in b) above, prepare an extract of statement of financial position as of 31 December 2020.** (6 Marks)
- (Total: 20 Marks)**

## QUESTION FIVE

- a) Rwanda like many other countries across the globe decided to adopt accrual based IPSAS. Identify at least 5 advantages the country gains from using these standards. (5 Marks)
- b) Identify at least three roles of control account (3 Marks)
- c) You are given the following information extracted from the books of Mutimawurugo co,

On 1 July 2019, trade receivables ledger balances were FRW 45, 360 debit and FRW 192 credit, and the trade payables ledger balances were FRW 25, 500 credit and FRW 354 debit on the same date. During the year ended June 30, 2020 the following balances were available:

	FRW
Sales	312,780
Purchases	253,038
Discount allowed	10,950
Discount receivable	9,144
Returns inwards	4,350
Returns outwards	3,120
Irrecoverable debts written off	1,320

A debit balance of FRW 150 in Trade Payables ledger was correctly transferred to the Trade Receivables ledger; a contra entry of FRW 6, 000 was made between the ledgers in respect of Kalisa outstanding balances.

On 30<sup>th</sup> June 2020, Trade Receivables ledger balances were FRW 45, 858 debit, FRW nil Credit and the Trade Payables ledger balances were FRW 1,872 credit, FRW 204 debit.

**Required:**

- i) **Prepare a Trade Payables control account for the year-ended 30th June 2020.**

(6 Marks)

- ii) **Prepare a Trade Receivables control account for the year-ended 30th June 2020.**

(6 Marks)

**(Total: 20 Marks)**

**End of question paper**