



CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATIONS

F1.3: FINANCIAL ACCOUNTING

DATE: WEDNESDAY, 28 APRIL 2021

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 necessary.
7. Any assumptions made must be clearly and concisely stated.

SECTION A

QUESTION ONE

The following balances were extracted from the books of Kazubwenge manufacturers, a small manufacturing business for the year ended 31st December 2018.

SN	Accounts	Dr	Cr
1	Sales		18,676,800
2	Raw material purchases	4,560,000	
3	Plant and equipment @ cost	5,536,000	
4	Motor vehicle @ cost	2,880,000	
5	Furniture and fittings @ cost	368,000	
6	cash at Bank	108,000	
7	Accounts receivable	1,840,000	
8	Drawings	1,200,000	
9	Motor vehicle (used by salesmen)	2,880,000	
10	Capital		6,486,400
11	Accounts payable		1,720,000
12	Administration expenses	3,007,200	
13	Selling and distribution expenses	1,328,000	
14	Advertising expenses	240,000	
15	Factory direct wages	1,200,000	
16	Factory indirect wages	480,000	
17	Factory power	720,000	
18	Heat and light	320,000	
19	carriage inwards	80,000	
20	Rent & rates	400,000	
21	Return outwards		264,000
	Total	27,147,200	27,147,200

Addition Information:

i. Opening and closing inventories were as follows:

Particulars	Jan-18	Dec-18
Raw materials	160,000	304,000
Work in progress	320,000	608,000
Finished goods	480,000	912,000

ii. Accumulated depreciation

Furniture and fittings	184,000
Plant and equipment	2,768,000
Motor vehicle	480,000

Depreciation is to be charged on plant and equipment, motor vehicle, furniture and fittings at the rates of 20%, 25% and 10% per annum respectively on cost.

iii. Expenditure on heat and light, rent and rates is to be apportioned between the factory and office in the ratio of 5 to 3 and 3 to 2 respectively whereas the depreciation of motor vehicle will be shared 50:50.

Required:

Prepare for Kazubwenge Ltd a statement of:

- | | |
|---|-------------------------|
| a) Manufacturing Account, | (19 Marks) |
| b) Apportionment of shared costs, | (6 Marks) |
| c) Profit or loss and other comprehensive income. | (15 Marks) |
| | (Total:40 Marks) |

SECTION B

QUESTION TWO

As the Manager of Twihute SACCO, you have been invited to attend the board meeting which is evaluating the financial performance of the cooperative for the year ended December 2019. In the chairman's view, the performance for the year 2019 has been good and thus bonus should be given to both staff and Board Members whereas other members of the Board were worried about non-performing loans since they moved from Frw 5,650,200 in 2018 to Frw 12,350,000 in 2019 and the Profitability and Liquidity position which was below the average of the industry level.

The summary of Twihute financial statements is summarized hereunder:

Statement of Financial Position as at 31 December 2019

Item	Dec-19	Dec-18
Cash in vault	9,196,215	11,035,458
Cash in Banks and other FIs	140,190,230	182,247,299
Gross Loans	112,449,961	84,337,472
Non-current assets	58,152,143	50,592,364
Receivables	159,714,623	117,787,874
Total assets	479,703,172	446,000,467
5 years Borrowing from VUP	57,020,000	70,704,800
Total deposits	277,471,926	188,680,910
Other long-term payables	11,212,100	69,102,296
Total Liabilities	345,704,026	328,488,006
Paid up capital	42,560,750	42,560,750
Retained Profit/Ac Losses	70,359,329	55,348,179
Profit/Loss for the period	21,079,067	19,603,532
Total Equity	133,999,146	117,512,461
Total Equity and Liabilities	479,703,172	446,000,467

Statement of Financial Performance

Item	Dec-19	Dec-18
Interest on loan portfolio	17,994,093	14,395,274
Fees and commission received	6,486,280	4,864,710
Account management fees	1,971,239	1,872,677
recovery on loans (Written off and Provisions)	14,848,730	16,333,603
Total income	41,300,342	37,466,264
Bank charges	38,020	38,020
staff costs	5,278,319	5,014,403
Administrative expenses	5,871,050	4,408,795
Total Expenses	11,187,389	9,461,218
Gross profit	30,112,953	28,005,046
Income tax	9,033,886	8,401,514
Net Profit	21,079,067	19,603,532

Additional information:

The average performance of the sector is as follows:

Non- performing loans ratio: 7%

Net profit margin ratio: 45%

Liquidity ratio: 50%

Required:

- a) In line with the above concerns of the board members, compute the following ratios to support your intervention in the board meeting. (12 Marks)

i. Net profit and Return on capital employed ratios to show the Profitability of the SACCO

ii. Liquidity ratio (Current)

iii. Non-performing loan ratio

- b) **Basing on the ratios computed above, draft a report to the chairman of the board explaining the financial performance and advise him whether a bonus should be paid.** (8 Marks)

(Total:20 Marks)

QUESTION THREE

- a) Write short notes on the following:

i. Three users of accounting information and the main interest to such information.

(3Marks)

ii. Three enhancing qualitative characteristics of financial information.

(3Marks)

iii. Four ethical principles which should guide the conducts of a professional accountant.

(4Marks)

- b) Inyarwanda co. is a private limited company dealing in bakery. Its financial statements have not yet been authorised for issuance. Meanwhile the following issues have been highlighted by the accountant and need your assistance to treat the issues in accordance with International Financial Reporting Standards:

Issue 1: the company has huge amounts of stock as indicated in the table below but the accountant was confused with the price to use while computing the closing balance.

SN	item	Quantity	Cost price	Selling Price	Market price
1	Bread	12,500	800	1200	1000
2	Cakes	620	900	1500	700

Required:

As per IAS 2 Inventory, compute the value of the inventory to be disclosed in the balance sheet.

(4 Marks)

Issue 2: on 31 March 2020, the government announced a subsidy to cover 80% of the staff cost for any company having its office in the village. After the announcement, Inyarwanda co. hurried up and recognized a subsidy amounting to Frw 20,000,000.

Required:

As per IAS 20, briefly explain the recognition conditions which should be met before such grant is recognized. (3 Marks)

Issue 3: The Company has reported an intangible asset amounting to Frw 4,200,000 that the company has incurred in the research and development costs.

Required:

As per IAS 38 Intangible assets, not all expenditures related to research and development should be capitalized. Discuss. (3 Marks)

(Total:20 Marks)

QUESTION FOUR

Inyenyeri limited has an accounting year ending 30 June. The accountant is preparing the financial statements as at 30 June 2020 and need your assistance. The following trial balance has been extracted from the general ledger.

SN	Accounts	Dr	Cr
1	Building at cost	14,800,000	
2	Building accumulated depreciation, 1 July 2019		1,200,000
3	Plant at cost	4,400,000	
4	Plant accumulated depreciation, 1 July 2019		2,200,000
5	Bank balance		1,400,000
6	Sales		36,000,000
7	Purchases	22,800,000	
8	Inventory at 1 July 2019	3,200,000	
9	Cash	400,000	
10	Trade receivables	6,400,000	
11	Trade payables		5,000,000
12	Allowance for receivables		200,000
13	office expenses	6,500,000	
14	Insurance	300,000	
15	Discount allowed	150,000	
16	Discount received		400,000
17	Return in wards	250,000	
18	Return outwards		300,000
19	Retained Earnings at 1 July 2019		2,600,000
20	Equity share Frw 5000		8,300,000
21	Share Premium	-	1,600,000
	Total	59,200,000	59,200,000

The following additional information is also available:

- The allowance for receivables is to be increased by an additional 5% of trade receivables and should be treated as office expense.
- Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5 % per annum on their original cost.
- Closing inventory has been counted and is valued at Frw 1,500,000
- An invoice of Frw 300,000 for electricity cost relating to the quarter ended 31 July 2020 was received on 2 August 2020. Electricity bills are included in office expenses.

Required:

Prepare the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position of Inyenyeri Limited Company as at 30 June 2020.

(20 Marks)

(Total:20 Marks)

QUESTION FIVE.

- a) **Explain the difference between Partnership and Partnership deed as used in partnership accounting.** (2 Marks)
- b) The following list of balances as at 30 September 2020 has been extracted from the books of Bucyana and Rugira, trading partnership, sharing the balance of profits and losses in the proportions 5:3 respectively.

Accounts	Amount “Frw”
Sales	16,605,000
Stock on 1st October 2019	1,150,000
Purchases	9,410,000
Heat and light	205,000
Staff salaries	1,600,000
Telephone charges	145,000
Motor vehicle running expenses	281,000
Return outwards	102,500
Receivables	415,750
Payables	135,000
Discounts receivable	18,500
Carriage inwards	85,000
Fixtures and fittings at cost	1,300,000
Motor vehicles at cost	2,300,000
Balance at Bank	898,250

Current accounts credit balances

At 1st October 2019

Bucyana 180,000

Rugira 120,000

Capital account balances

On 1 October 2019:

Bucyana: 1,650,000

Rugira: 850,000

Addition information:

- FRW 500,000 is to be transferred from Bucyana's capital account to his Loan Account on 1 July 2020. The interest applicable is 10% per annum
- The salary of Frw 600,000 per annum was to be paid to Rugira from May 1, 2020
- The closing stock has been valued at a cost of Frw 1,600,000
- Depreciation is to be charged using the straight-line method at 25% and 10% for motor vehicle and fixtures and fittings respectively.
- During the year ended 30 September, 2020 Rugira had taken goods costing FRW 550,000 while Bucyana took goods worth Frw 1,200,000 for own use.
- Interest to be charged on capital: Bucyana Frw 62,000 while Rugira Frw 71,500

Required:

- Prepare a profit or loss appropriation account for the year ended 30 September 2020.**
(10 Marks)
 - Prepare a balance sheet as of 30 September 20X8 which should include summaries of the partners' capital and current accounts for the year ended on that date.**
(8 Marks)
- (Total:20 Marks)**