

**CERTIFIED PUBLIC ACCOUNTANT**  
**FOUNDATION LEVEL 1 EXAMINATION**

**F1.3: FINANCIAL ACCOUNTING**

**MONDAY: 3 DECEMBER 2012**

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

## SECTION A

*This section has one compulsory question*

### QUESTION ONE

- a) Explain each of the following terms:
- (i) Provision (1mark)
  - (ii) Reserve (1mark)
  - (iii) Retained earnings (1mark)
  - (iv) Ministries and general government departments (public sector) are expected to present their accounts in either **cash based or accrual based IPSAS**.  
**Required:** Differentiate between cash basis and accrual basis of accounting. (6mark)
  - (v) One of the government financial management functions is use of the parliamentarians (Deputies) in the financial process. In the recent past the parliament formed the Public Accounts Committee (PAC).  
Describe PAC and indicate its role in public sector financial management (6mark)

- b) You are presented with the following trial balance of Eyowe Ltd at 31 October 2012:

	Dr	Cr
	<b>Frw000</b>	<b>Frw000</b>
Buildings at cost	14,800	
Buildings, accumulated depreciation, 1 November 2011		1,200
Plant at cost	6,800	
Plant, accumulated depreciation, 1 November 2011		2,200
Land at cost	4,700	
Bank balance		1,000
Revenue		36,000
Purchases	22,200	
Discounts received		1,800
Returns inwards	700	
Salaries and wages (30% administration and 70% cost of sales)	3,600	
Energy expenses (10% administration and 90% cost of sales)	2,000	
Inventory at 1 November 2011	3,200	
Trade payables		5,000
Government grant received		2,400
Trade receivables	6,400	
Administrative expenses	1,600	
Allowance for receivables, at 1 November 2011		200
Director's remuneration	1,400	
Retained earnings at 1 November 2011		2,600
10% Loan notes		1,000
Dividend paid	600	
Selling and distribution cost	2,600	
Frw10 Ordinary shares		15,600

Share premium account		1,600
	<b>70,600</b>	<b>70,600</b>

**Additional information as at 31 October 2012:**

1. Closing inventory has been counted and its cost was Frw 3,750,000 and net realizable value was Frw 3,720,000
2. Land was revalued to Frw 5,900,000
3. An invoice of Frw 800,000 for energy expenses for October 2012 has not been received.
4. Loan note interest has not been paid for the year and the effective interest rate is 12%.
5. The allowance for receivables is to be adjusted to 5% of trade receivables after write off of bad debts of Frw 200,000
6. Grant received is in respect of plant that cost Frw 3,000,000 at the start of the year.
7. Plant is depreciated at 20% per annum using the reducing balance method. The entire charge is to be allocated to cost of sales.
8. Buildings are depreciated at 5% per annum on their original cost and charged on cost of sales
9. Tax has been calculated as Frw 4,500,000 for the year.
10. Dividend proposed of Frw. 1 per share

**Required:**

Prepare the following for external purposes:

- (i) Statement of comprehensive income for the year ended 31 October 2010. **(15 marks)**
  - (ii) Statement of financial position as at 31 October 2010. **(10 marks)**
- (Total 40 marks)**

## SECTION B

*Attempt three of the four questions in this section.*

### QUESTION TWO

You have been given the following summarized financial information for Bwiza Ltd:

<b>Income statements for years ended 31 October</b>	<b>2012</b>	<b>2011</b>
	<b>Frw 000</b>	<b>Frw000</b>
Revenue	245	155
Cost of sales	(150 )	(80 )
Gross profit	95	75
Distribution & administrative expenses	(32 )	(15 )
Profit before taxation	63	60
Income tax expense	(8 )	(5 )
Profit for the year	55	55

<b>Statements of financial position as at 31 October</b>	<b>2012</b>	<b>2011</b>
	<b>Frw000</b>	<b>Frw000</b>
<b>Non-current assets</b>		
Tangible assets	330	255
<b>Current assets</b>		
Inventory	50	20
Receivables	30	40
Cash and cash equivalents	5	75
Total current assets	85	135
<b>Total assets</b>	<b>415</b>	<b>390</b>
<b>Capital and reserves</b>		
Frw 1 ordinary share	350	350
Retained earnings	20	15
Total equity	370	365
<b>Current liabilities</b>		
Payables	45	25
Total equity and liabilities	415	390
	<b>2009</b>	<b>2008</b>
Notes	Frw	Frw
Dividends	50,000	50,000
Market price per share (at end of year)	1.10	1.06

#### Required:

- a) Calculate the following ratios for the two years:
- (i) Return on capital employed.
  - (ii) Quick/Acid test ratio.
  - (iii) Inventory turnover (days).

- (iv) Receivables collection period (days).
- (v) Earnings per share.
- (vi) Price earnings ratio.
- (vii) Dividend yield.
- (viii) Debt ratio.

(16 marks)

- b) Briefly explain **four** limitations of ratio analysis.

(4 marks)

(Total: 20 marks)

### QUESTION THREE

On 31 December 2002, the following balances were extracted from the books of Murenzi and Sons Manufacturing Co. Ltd:

	<b>Frw</b>
Sales	989,040,000
Purchases of raw materials	437,200,000
Carriage inwards	5,800,000
Carriage outwards	8,384,000
<b>Stock, 1 January 2011:</b>	
Raw materials	22,552,200
Work in progress	3,018,000
Finished goods	19,450,000
Plant and machinery, at cost	98,000,000
Office equipment, at cost	39,500,000
Rent and Rates	39,525,000
Electricity and water	13,440,000
<b>Wages and salaries:</b>	
Direct Labour	49,110,000
Indirect Labour	24,000,000
Administrative staff	91,015,000
Repairs to machinery	1,892,800
Other production expenses	32,640,000
Other administrative expenses	19,868,500

#### Additional information:

- i) Stock as at 31 December 2011:

Raw materials	11,529,000
Work in progress	9,484,000
Finished goods	18,190,000

- ii) Depreciation is to be provided for as follows:

Plant and machinery	15% on cost
Office equipment	20% on cost

iii) Salaries of administrative staff included an amount of Frw 10,000,000 paid to the factory manager

iv) Electricity and water was to be apportioned as follows:

Factory	75%
Administration	25%

v) Rent and rates was to be apportioned as follows:

Factory	80%
Administration	20%

**Required:**

- a) Briefly explain the difference between direct costs and indirect costs. **(2 marks)**
- b) Calculate the following
- i) Prime cost. **(4 marks)**
- ii) Total factory overheads. **(4 marks)**
- iii) Production cost of each unit of finished goods, assuming that Murenzi and Sons Manufacturing Co. Ltd had produced 500,000 units during the year. **(3 marks)**
- c) Prepare the Income Statement of Murenzi and Sons Manufacturing Co. Ltd for the year ended 31 December 2011. **(6 marks)**
- d) Calculate the mark up and gross profit margin rate from the Income statement of Murenzi and Sons Manufacturing Co. Ltd. **(1 mark)**
- (Total 20 marks)**

#### QUESTION FOUR

BPO Ltd is a publicly listed company in Rwanda's Capital Market. Details of its balance sheets as at 31 December 2010 and 2011 are shown together with other relevant information;

ASSETS	2011		2010	
	Frw '000'	Rwf '000'	Frw '000'	Frw '000'
Non-current assets at cost	2,180		1,910	
Accumulated depreciation	1,450		1,060	
Non-current assets (net)		730		850
Long term investments		2,500		2,500
<b>Current assets</b>				
Inventories		900		1,950
Sundry debtors		1,700		1,200
Interests receivable		100		-
Short term investments		670		135
Cash on hand and balances with banks		200	-	25
<b>Total assets</b>		<b>6,800</b>	<b>-</b>	<b>6,660</b>
<b>Equity and Liabilities:</b>				
Share capital		1,500		1,250
Reserves		3,410		1,380
Total shareholders' funds		4,910		2,630
<b>Non-current liabilities</b>				
Long term debts		1,110		1,040
<b>Current liabilities</b>				
Sundry creditors		150		1,890
Interests payable		230		100
Income taxes payable		400	-	1,000
<b>Total Equity and Liabilities</b>		<b>6,800</b>	<b>-</b>	<b>6,660</b>

#### Income Statement for the Period Ended 31 December 2011

	Frw '000'
Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expenses	(400)
Interest income	300
Dividend income	200
Foreign exchange loss	(40)
<b>Net profit before taxation and extraordinary income</b>	<b>3,350</b>

Extraordinary item-Insurance proceeds from flood disaster settlement	180
Net profit after extraordinary income	3,530
Income tax	(300)
<b>Net profit</b>	<b>3,230</b>

**Additional information:**

- An amount of Frw250,000 was raised from the issue of share capital and a further Frw 250,000 was raised from long term borrowings
- Interest expense was Frw 400,000 of which Frw 170,000 was paid during the period. Frw 100,000 relating to interest expense of the prior period was also paid during the period.
- Dividend paid were Frw 1,200,000
- Tax deducted at source on dividends received (included in the tax expense of Frw 300,000 for the year) amounted to Frw 40,000
- During the period, the enterprise acquired noncurrent assets for Frw 350,000. The payment was made in cash.
- Plant with original cost of Frw 80,000 and accumulated depreciation of Frw 60,000 was sold for Frw 20,000
- Foreign exchange loss of Frw 40,000 represents the reduction in the carrying amount of a short term investment in foreign currency designated bonds arising out of a change in exchange rate between the date of acquisition of the investment and the balance sheet date.
- Sundry debtors and sundry creditors include amounts relating to credit sales and credit purchases only.

**Required:**

Statement of Cash Flows as per IAS 7.

**(20 marks)**

**QUESTION FIVE**

- Distinguish between a Receipt and Payments account and an Income and Expenditure account.

**(6 marks)**

- The following is the receipts and payments account for Tufatanye Social Club as at 31 December 2011:

<b>Receipts</b>	<b>Frw.</b>	<b>Payments</b>	<b>Frw.</b>
Cash in bank	125,000	Salaries	135,000
Subscriptions	525,000	Office expenses	12,500
Annual dinner receipts	268,000	Annual dinner expenses	15,000
Donations	225,000	Telephone expenses	15,000
Dividends	25,000	Other expenses	20,000
		Postage	22,000
		Shares purchased	750,000
		Maintenance of plant	63,400
		Cash in bank	135,100
	<b>1,168,000</b>		<b>1,168,000</b>



The following additional information is available:

1. The value of the building owned by the club stood at Frw.5, 000,000 as at 1 January 2011 with depreciation being provided at the rate of 2% per annum on cost.
2. The club had 200 members paying subscriptions at the rate of Frw. 2,500 per member per annum.
3. As at 1 January 2011, no subscriptions had been received in advance, but subscriptions were outstanding to the extent of Frw. 10, 000 as at 31 December 2010 and Frw. 15,000 as at 31 December 2011.
4. Postage stamps in the custody of the secretary as at 1 January 2011 and 31 December 2011 were valued at Frw. 2,500 and Frw. 1,500 respectively.
5. The investment in shares as at 1 January 2011 stood at Frw. 50,000.
6. An amount of Frw. 2,500 in respect of annual dinner receipt was yet to be received as at 31 December 2011.
7. Frw 25,000 for hire of the hall where the dinner was hosted is still outstanding.
8. Telephone services are paid for in advance to the extent of Frw. 3,000.

**Required:**

- i) Income and expenditure account for the year ended 31 December 2011. **(7 marks)**
  - ii) Balance sheet as at 31 December 2011. **(7 marks)**
- (Total 20 marks)**

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**End of question paper**