
CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 1 EXAMINATION

LI.1: INTRODUCTION TO FINANCIAL ACCOUNTING

MONDAY: 10 JUNE 2013

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) The users of financial statements include customers; suppliers; investors and lenders.

Required:

For any **three** of the above users, state the need of that user for reviewing financial statements **(3 marks)**

- b) Explain the historical cost concept and money measurement concept. **(4 marks)**

- c) If capital expenditure is incorrectly treated as revenue expenditure, what is the effect on:

(i) Profit and net assets in the year in which the error is made. **(2 marks)**

(ii) Profit in the following year. **(1 mark)**

- d) The account balances extracted from the books of Lizzy as at 31 October 2012 are as follows:

	Frw
Capital	842,000
Buildings (net book value)	850,000
Furniture (net book value)	240,000
Equipment (net book value)	83,000
Long term investment	65,000
Discount received	3,500
Discount allowed	4,600
Opening inventory	52,200
Cash	4,500
Accounts receivable	85,000
Bank overdraft	14,500
Loan (repayable in 2008)	300,000
Purchases	560,000
Sales	1,050,000
Accounts payable	70,000
Loan (repayable on 30 December 2006)	68,000
Salaries and Wages	95,000
Drawings	25,000
Interest income	1,500
Rent income	14,000
Carriage outwards	3,500

Carriage inwards	1,600
Electricity and water	4,500
Insurance	44,000
Returns inwards	7,000
Returns outwards	4,000
Interest expense	36,800
Rent expense	29,800
General expenses	176,000

Additional information for the year:

- Closing inventory at 31 October 2012 was Frw 60,600.
- Interest income accrued Frw 5,500 while Rent income received in advance Frw 2,000.
- Electricity prepaid Frw 1,400 and water accrued Frw 4,300.
- Insurance premium paid of Frw 44,000 was for 10 months to 31 January 2013.
- Depreciation was to be provided on reducing balance basis for the year as follows:
 - Building 5%
 - Furniture 10%
 - Equipment 15%
- The long term investment were in shares of Beekey and had a fair value of Frw 71,000 at year end of which the change in fair value to be recognized in the income statement
- Good returned by a customer (included in receivables) of Frw 7,000 had not been recorded

Required:

- Income statement for the year ended 31 October 2012. **(17 marks)**
 - Balance sheet as at 31 October 2012. **(13 marks)**
- (Total 40 marks)**

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

Muammar Harafi had completed his financial statements for the year ended 31 March 2012, which showed a profit of Frw 81,208, when he realized that no bank reconciliation statement had been prepared at that date. When checking the cashbook against the bank statement and carrying out other checks, he found the following:

- A cheque for Frw 1,000 had been entered in the cashbook but had not yet been presented.
- Cheques from customers totaling Frw 2,890 entered in the cashbook on 31 March 2012 were credited by the bank on 1 April 2012.

3. Bank charges of Frw 320 appear in the bank statement on 30 March 2012 but have not been recorded by Muammar Harafi.
4. A cheque for Frw 12,900 drawn by Muammar Harafi to pay for a new item of plant had been mistakenly entered in the cash book and the plant account as Frw 2,900. Depreciation of Frw 290 had been charged in the profit and loss account for this plant.
5. A cheque for Frw 980 from a credit customer paid in on 26 March was dishonoured after 31 March and Muammar Harafi decided that the debt would have to be written off as the customer was now untraceable.
6. A cheque for Frw 2,400 in payment for some motor repairs had mistakenly been entered in the cash book as a debit and posted to the credit of motor vehicles account. Depreciation at 25% per annum (straight line) is charged on motor vehicles, with a full year's charge calculated on the balance at the end of each year.
7. The total of the payments side of the cash book had been understated by Frw 1,000. On further investigation it was found that the debit side of the purchases account had also been understated by Frw 1,000.
8. Muammar Harafi had instructed his bank to credit the interest of Frw 160 on the deposit account maintained for surplus business funds to the current account. This the bank had done on 28 March. Muammar had made an entry on the payments side of the cashbook for this Frw 160 and had posted it to the debit of interest payable account.
9. Muammar Harafi had mistakenly paid an account for Frw 870 for repairs to his house with a cheque drawn on the business account. The entry in the cashbook had been debited to repairs to premises account.
10. Muammar Harafi had also mistakenly paid Frw 540 to Paul, a trade supplier, to clear his account in the purchases ledger, using a cheque drawn on Muammar Harafi's personal bank account. No entries have yet been made for this transaction.
11. The cashbook showed a debit balance of Frw 4,890 before any correcting entries had been made. The balance in the bank statement is to be derived in your answer.

Required:

- a) Prepare an adjusted cash book showing the revised balance which should appear in Muammar Harafi's balance sheet at 31 March 2012. **(6 marks)**
- b) Prepare a bank reconciliation statement as at 31 March 2012. **(2 marks)**
- c) Draw up a statement for Muammar Harafi showing the effect on his profit of the adjustments necessary to correct the errors found. **(8 marks)**
- d) Prepare journal entries to correct items (9) and (10). Narratives are required. **(4 marks)**

(Total 20marks)

QUESTION THREE

- a) Describe any **two** errors that are not revealed by the trial balance. **(2 marks)**
- b) Uwamwiza had extracted the list of account balances which did not agree by a figure of Frw 31,000, credit totals exceeding debit totals. She went ahead and prepared the income statement for the year ended 30 September 2012 which showed a profit of Frw 1,030,000.

LI.1 After reviewing the accounts, she discovered the following errors:

1. The discount allowed total for the month of June 2012 of Frw 47,500 was credited in the discount received account, otherwise the specific entries in the accounts receivable was right.
2. A credit note issued by the entity to Mujenzi of Frw 60,700 was debited in Mujenzi's account and credited in the returns in account.
3. Purchases of Frw 33,000 by cheque was debited in the equipment account.
4. Rent expense of Frw 77,000 was debited in the insurance expense account.
5. Payment by cheque of Frw 39,000 for advertisement was debited in both accounts.
6. The returns in daybook was overcast by Frw 44,000.

Required:

- (i) Prepare the journal entries to correct these errors. **(12 marks)**
- (ii) Prepare the suspense account. **(3 marks)**
- (iii) Prepare a statement of corrected profit or loss for the period. **(3 marks)**

(Total 20 marks)

QUESTION FOUR

- a) State and explain briefly the main features and limitations of receipts and payments account. **(5marks)**
- b) Kipevu Social Club was formed on 1 January 2011. The following are the transactions for the year ended 31 December 2011:

	Frw
Subscriptions received for the current year	3,062,500
Cash paid for catering supplies	4,663,000
Cash takings for sale of food and drinks	5,662,000
Unpaid accounts for catering supplies	39,000
Stock of food at cost on 31 December 2011	52,000
Rates paid for the year	375,000
Insurance premiums for the year	125,000
Purchases of furniture at cost 1,500,000 of which one half is paid	750,000
Payment of wages to catering staff	1,000,000
Sale of club ties and bungles	462,000
Expenses of making club ties and bungles	225,000
Subscriptions in arrears 31 December 2011	75,000
Sale of gate tickets	75,000
Raffle prizes	30,000

Required:

- i) Receipt and payment account for the year ended 31 December 2011. **(9 marks)**
- ii) Income and expenditure account for the year ended 31 December 2011. **(6 marks)**

(Total 20marks)

QUESTION FIVE

- a) Explain the advantages of maintaining control accounts. **(6 marks)**
- b) The following balances were extracted from the books of Giporoso Wholesalers for the month of April 2012:

	Rwf.'000
Debit balances (1 April 2012):	
Sales ledger	1,428,000
Purchases ledger	10,500
Credit balances (1 April 2012):	
Sales ledger	40,500
Purchases ledger	553,800
Discounts received	142,500
Discounts allowed	209,700
Purchase	1,334,000
Cash sales	618,000
Credit sales	2,068,200
Credit notes issued to customers for returned goods	75,000
Sales ledger debit balances off-set against purchases ledger	36,900
Payment to creditors	1,159,200
Interest charged by creditors on overdue accounts	69,000
Receipt from customers	1,578,000
Bad debts written off	37,200
Customer's unpaid cheques	26,100
Interest charged to customers on overdue accounts	96,100
Debt collection expenses charged to debtors	10,800
Credit notes received from suppliers	26,700
Balances as at 30 April 2012:	
Purchases ledger (debit balance)	14,400
Sales ledger (credit balance)	50,700

Required:

- (i) Sales ledger control account for the month ended 30 April 2012. **(7 marks)**
- (ii) Purchases ledger control account for the month ended 30 April 2012. **(7 marks)**

(Total: 20 marks)

End of question paper

