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## **CERTIFIED PUBLIC ACCOUNTANT**

### **FOUNDATION LEVEL 1 EXAMINATION**

#### **F1.3: FINANCIAL ACCOUNTING**

**MONDAY: 10 JUNE 2013**

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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.

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## SECTION A

*This section has one compulsory question*

### QUESTION ONE

- a) The directors of Logisrwa, a limited liability company, are reviewing the company's draft financial statements for the year ended 31 October 2012. The following material matters are under discussion:
1. After the balance sheet date one of the company's factories was seriously damaged by fire. Insurance will only cover part of the loss suffered. The company's going concern status is not affected.
  2. Logisrwa guaranteed the overdraft of another company in 2010. No disclosure has been made in previous financial statements, but events in the latter part of the year ended 31 October 2012 suggest that it is probable that a liability will fall on Logisrwa in 2013.
  3. One of the company's directors was dismissed during 2012 for disclosing confidential information to a competitor. Logisrwa has commenced an action against this director, and the company has been advised that it is probable that substantial damages will be awarded.
  4. One of the company's buildings was revalued during the year. The directors are uncertain as to how the revaluation surplus should be included in the financial statements. The surplus has been separately disclosed as an item in the draft income statement.

#### **Required:**

Explain how each of these **four** matters should be dealt with in the financial statements for the year ended 31 October 2012, stating in each case the relevant accounting standard. **(10 marks)**

- b) Logisrwa trial balance at 31 October 2012 is shown below:

	Frw 000	Frw 000
Administrative expenses	3,700	
Cash and cash equivalents	4,320	
Cost of sales	4,740	
Distribution costs	1,240	
Administrative expenses	340	
Equity dividend paid	1,000	
Interest paid	60	
Closing Inventory	360	
Land at cost	14,600	
Long-term borrowings		4,000
Ordinary Shares Frw10 each, fully paid		12,600
Property, plant and equipment – at cost	6,400	
Long term provision		200
Accumulated depreciation for property, plant and equipment		3,840
Purchase of property, plant and equipment during the year	2,200	
Retained earnings		3,360
Revenue		13,800
Share premium		1,980
Suspense	60	
Taxation	120	
Trade payables		1,540
Trade receivables	2,180	
	41,320	41,320

**Additional information provided:**

1. The final dividend for the year to 31<sup>st</sup> October 2012 of Frw 850,000 was paid on 31 December 2012.
2. Long-term borrowings consist of a loan taken out on 1 May 2012 at 3% interest per year. Six months loan interest has been paid in the year to 31 October 2012.
3. The long term provision to be increased by Frw 60, 000 and charged to plant acquired during the year.
4. Property, plant and equipment is depreciated at 20% per annum using the straight line method. Depreciation of property, plant and equipment is considered to be part of cost of sales. Nancy plc's policy is to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal.
5. Purchased goods, invoiced at Frw 60,000 received in September 2012 were returned to the supplier in October. At 31 October 2012 the supplier had not issued a credit note. Nancy plc had correctly deducted the amount from purchases with the corresponding double entry posted to the suspense account.
6. The balance on the taxation account is the income tax underestimated in the previous year's financial statements. Current year's tax was assessed to be Frw 630,000

**Required:****For external purpose (Ignore part a) of this question)**

- (i) Statement of comprehensive income for the year to 31 October 2012, (16 marks)
- (ii) Statement of financial position at 31 October 2012. (14 marks)

Note: Your answer should be to the nearest Frw 000.

**(Total: 40 marks)**

**SECTION B**

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

**QUESTION TWO**

Kotirwa, a limited liability company, is preparing its statement of cash flows for the year ended 31 October 2012. The following is provided for Kotirwa Ltd

<b>Income statement for the year ended 31 October 2012</b>	
	<b>Frw "000"</b>
Sales revenue	28,775
Cost of sales	(14,821)
Gross profit	13,954
Distribution costs	(4,908)
Administrative expenses	(3,410)
Profit from operations	5,636
Interest received	57
Finance cost	(794)
Profit before tax	4,899
Taxation	(1,570)
<b>Profit for the period</b>	<b>3,329</b>

<b>Statements of financial position as at 31 October</b>		
	<b>2012</b>	<b>2011</b>
<b>Assets</b>	<b>Frw 000</b>	<b>Frw 000</b>
Non-current assets		
Cost	65,251	53,525
Accumulated depreciation	(14,798)	(12,509)
<b>Total non-current assets</b>	<b>50,453</b>	<b>41,016</b>
Current assets		
Inventory	16,503	14,563
Trade receivables	6,214	8,664
Bank	595	536
<b>Total current assets</b>	<b>23,312</b>	<b>23,763</b>
<b>Total assets</b>	<b>73,765</b>	<b>64,779</b>
Equity and liabilities		
Capital and reserves		
Sh1 Ordinary share capital	21,000	17,000
Share premium	7,892	6,425
Revaluation reserve	7,454	4,092
Retained earnings	19,979	18,190
<b>Total equity</b>	<b>56,325</b>	<b>45,707</b>
Non-current liabilities		
Long term loan	6,734	8,825
Current liabilities		
Trade payables	9,400	8,810
Interest payable	106	147
Taxation	1,200	1,290
<b>Total current liabilities</b>	<b>10,706</b>	<b>10,247</b>
<b>Total liabilities</b>	<b>17,440</b>	<b>19,072</b>
<b>Total equity and liabilities</b>	<b>73,765</b>	<b>64,779</b>

**Additional information:**

- (i) Dividends paid during the year were Frw 1,540,000.
- (ii) There were no amounts outstanding in respect of Interest receivable as at either year end.
- (iii) Total depreciation for the year was Frw 2,487,000.
- (iv) The only revaluation of non-current assets was of a piece of freehold land.
- (v) During the year, the company sold equipment for Frw 766,000 realizing a profit of Frw 66,000.

**Required:**

- (a) Prepare a statement of cash flows for Kotirwa for the year ended 31 October 2012 in accordance with IAS 7 –Statement of Cash Flows. **(17marks)**

(b) Calculate the following ratios for the year ended 31 October 2012

- (i) Overall gearing (1 mark)
- (ii) Acid test ratio (1 mark)
- (iii) Receivables collection period (days) (1 mark)

**(Total: 20 marks)**

### QUESTION THREE

The following Balances were extracted from the books of Kanombe Football Club;

	30 April 2011	30 April 2012
	<b>Frw.</b>	<b>Frw.</b>
Candy Shop creditors	46,250	31,850
Accruals: Stationery	2,880	3,840
Wages	6,840	9,120
Lighting	5,040	8,880
Subscriptions in arrears	21,360	23,280
Subscriptions in advance	10,800	9,100
Candy Shop stock	35,520	29,520
Cash in hand and at bank	64,800	-
Land and buildings	1,800,000	1,800,000
Fittings	417,600	-

The following are extracts from the receipts and payment account for the year ended 30 April 2012:

Payments			Receipts
Rent	150,000	Candy shop sales	139,920
Rates	48,000	Entrance fees	14,400
Lighting	43,680	Membership subscriptions	532,800
Wages	182,400	Donations	84,000
Printing and stationery	30,240		
General expenses	18,960		
Creditors for Candy shop	103,200		
Repairs to buildings	167,520		

Depreciation on fittings is to be provided at the rate of 10% per annum on cost.

No depreciation is to be provided on land and buildings

#### Required:

- a) Income and expenditure account for the year ended 30 April 2012 (10 marks)
- b) Balance sheet as at 30 April 2012 (10 marks)

**(Total 20 Marks)**

## QUESTION FOUR

The following information has been extracted from the accounts of Masaka Investments Ltd. for the year ended 31 December 2011. Comparable figures for the previous year are also shown.

### Profit statement for the year ended 31 December

	2011	2010
	Frw. "000"	Frw "000"
Sales	115,200	72,000
Cost of goods sold	<u>70,800</u>	<u>42,000</u>
Gross profit	44,400	30,000
Less: Trading expenses	<u>19,800</u>	<u>16,200</u>
	24,600	13,800
Less: Debenture interest	<u>900</u>	<u>900</u>
Net profit before taxation	23,700	12,900
Less: Corporation tax	<u>11 520</u>	<u>5,760</u>
Net profit after taxation	12,180	7,140
Less: Ordinary dividend	6,300	<u>4,500</u>
Undistributed profit for the year	<u>5,880</u>	<u>2,640</u>

### Balance sheet as at 31 December

	2011		2010	
	"000"	"000"	"000"	"000"
Assets at cost		44,400		33,600
Depreciation		<u>9000</u>		<u>7,200</u>
		35,400		26,400
<b>Current assets:</b>				
Stock	19,800		14,400	
Debtors	12,600		9,000	
Cash	<u>Nil</u>	<u>32 400</u>	<u>2,880</u>	<u>26,280</u>
		67,800		52,680
<b>Less: Current liabilities</b>				
Creditors	7,200		5,220	
Taxation	11,520		5,760	
Proposed dividends	6,300		4 500	
Bank overdraft	<u>2,340</u>	<u>27,360</u>	-	<u>15,480</u>
<b>Net assets</b>		<u>40,440</u>		<u>37,200</u>
Financed by:				
Ordinary share capital				
Authorized, issued and fully paid (Frw 25 per share)		18,000		18,000
Undistributed profits		<u>16,080</u>		<u>10,200</u>
		34,080		28,200
10% debentures (secured)		6,360		9,000
		<u>40,440</u>		<u>37,200</u>

**Required:**

- (a) Calculate six accounting ratios for both 2011 and 2010 that would help in assessing the profitability and liquidity positions of Masaka Investments Ltd. **(12 marks)**
- (b) Comment on Masaka Investment's liquidity position. **(4 marks)**
- (c) Comment on Masaka Investment's profitability position. **(4 marks)**
- (Total: 20 marks)**

**QUESTION FIVE**

The trial balance of Kayonza Ltd. as at 31 December 2011 was as follows:

	Frw	Frw
Share capital (10,000 Frw 20 Ordinary shares)		40,000
Purchases and Sales	244,000	400,000
Debtors and Creditors	80,000	28,000
Profit and loss 1 January 2011		76,000
Sales returns	8,000	
Buildings at cost	160,000	
Plant at cost	200,000	
Provision for depreciation:		
Plant		80,000
Buildings		8,000
Purchases returns		16,000
Selling expenses	28,000	
Bank		32,000
10% Debentures		120,000
Stock 1 January 2011	60,000	
Provision for bad debts		4,000
Operating expenses	36,000	
Administrative expenses	28,000	
Suspense account	_____	40,000
	<b><u>4,220,000</u></b>	<b><u>4,220,000</u></b>

**Additional information:**

- Stock at 31 December 2011 was Frw 72,000.
- Sales returns of Frw 4,000 have been entered in the sales day book as if they were sales. When this error was discovered, the debtors account had been corrected but the sales figure was not rectified.
- 1000 new shares were issued during the year at Frw 32. The proceeds have been credited to the suspense account.
- A fully depreciated plant which cost Frw 40,000 was sold during the year. No other entries except bank have been made. The remaining balance on the suspense account after (2 and 3) above represents the sale proceeds.
- A debtor of Frw 5,000 has been declared bankrupt. A general provision is required at 5% of debtors.

6. Rates of Frw 6,000 paid in December covering half year to 31 March 2012 have not been entered in the books.
7. Debenture interest has not been paid.
8. Depreciation on plant is at 10% on cost and buildings at 2% on cost.
9. The directors propose to pay a dividend of Frw 2 per share and transfer Frw 4, 000 to the general reserve.
10. Corporation tax at a rate of 30% on profits is estimated to be Frw 18,000.

**Required:**

- (a) Suspense account for the year ended 31 December 2011. **(3 marks)**
- (b) Statement of Income for the year ended 31 December 2011. **(10 marks)**
- (c) Statement of Financial Position as at 31 December 2011. **(7 marks)**

**(Total: 20marks)**

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**End of question paper**