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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATIONS
F1.3 FINANCIAL ACCOUNTING
DATE: TUESDAY 25, APRIL 2023
MARKING GUIDE AND MODEL ANSWERS**

SECTION A

QUESTION ONE

Marking guide

a) Three (3) financial statements and their objectives

1 Mark for each statement mentioned Maximum 3

1 Mark for correct objective of each Maximum 3

Sub-total **6**

b)

(i) Statement of Profit or Loss account

	Marks
Award 0.5 mark for correct figure shown in the profit or loss account DNA: Do Not Award marks to the totals and subtotals	3.5
Award 0.5 mark for each correct figure of expense reported under working of administrative expense	4.5
Award 0.5 mark for each correct figure of expense reported under working of cost of sales	1.5
Award 0.5 mark for well computed depreciation of building, motor vehicle, computer and accessories	1.5
Computed revaluation loss	1
Offsetting reserve due to revaluation loss	0.5
Balance of revaluation loss charged to P/L	0.5
Finance charge	1
Research cost and warrant provision expensed award 0.5 each	1
Computed net realisable value for damaged stock award 1 mark And 1 for well computed closing stock	2
Sub-total	17

(ii) Statement of financial position

	Marks
Building	1
Motor vehicle	0.5
Computer and accessories	0.5
Development cost	1
Inventory	0.5
Receivable	1
Cash and bank balance	0.5
Share capital	0.5
Share premium	0.5
Retained earning	0.5
Long term loan	0.5
Trade payable	0.5
Interest payable	0.5
Warranty provision	1
Tax payable	1
Treatment of proposed dividend declared after end of year	1

Computed shares issued and added to share capital and share premium. Award 0.5 mark for each	1
Sub-total	12

(iii) Statement of Change in Equity

	Marks
Award 0.5 mark for correct figure shown in the statement of change in equity, excluding totals and subtotals	5

Total Marks 40 Marks

Model answers

a) Three (3) financial statements and their objectives

- **Statement of cash flows.** Refers to statement that provide information to users of financial statements about an entity's ability to generate cash and cash equivalents, as well as indicating the cash needs of the entity
- **Statement of financial position.** Reveals information about the economic resources that an entity controls, its financial structure, its liquidity and solvency and its ability to change. This information is contained in the Statement of Financial Position. Changes in financial position are revealed in a Cash Flow Statement.
- **Statement of profit or loss and other comprehensive income.** Means the return obtained from the resources utilized which the entity controls. This information can be extracted from the profit and loss account.
- **Statement of changes in equity:** shows the movements in the entity's equity for the period and transaction with owners

b) i.

RMC Ltd.'s Statement of Profit or Loss and other comprehensive income for the financial year ended 31st December 2022

	FRW "000"	FRW "000"
Sales		6,500,000
Less cost of sales (W10)		(1,912,500)
Gross profit		4,587,500
Add other incomes		
Rental income		560,000
Gross incomes		5,147,500
Less operating expenses		
Administrative expenses(W11)	(4,301,100)	
Other expenses(W12)	(47,100)	
		(4,348,200)

Operating profit	799,300
Less Finance cost(W5)	(533,333)
Profit before tax	265,967
Tax (30%)	(79,790)
Profit after tax	186,177

ii. RMC Ltd.'s Statement of Financial Position as at 31st December 2022

	FRW "000"	FRW "000"
Non-Current Assets		
Buildings	W6	2,300,000
Motor Vehicle	W9	1,350,000
Computer and accessories	W8	1,236,000
Intangible assets (Development costs)		100,000
Total Non-Current Assets		4,986,000
Current Assets		
Receivables	(W4)	644,400
Inventory	(W1)	876,000
Cash at bank	(W16)	4,500,000
Total Current Assets		6,020,400
Total Assets		11,006,400
Equity and Liabilities		
Equity		
Ordinary share capital	(W14)	900,000
Share premium	(W15)	230,000
Retained earnings	(W13)	746,177
Total Equity		1,876,177
Liabilities		
Non-Current Liabilities		
Long-term loan		8,000,000
Current Liabilities		
Trade Payables		452,000
Interest payable	(W5)	533,333
Warranty Provisions		17,100
Tax payable		127,790
Total current liabilities		1,130,223
Total Equity and Liabilities		11,006,400

iii. RMC Ltd.'s Statement of Changes in Equity.

Particulars	issued ordinary capital	Share premium	Revaluation Reserve	Retained Earnings	Total
	FRW	FRW	FRW	FRW	FRW
	000	000	000	000	000
As at 01/01/2022	800,000	200,000	100,000	560,000	1,660,000
Profit for the year				186,177	186,177
Revaluation loss			(100,000)		(100,000)
Issued shares	100,000	30,000			130,000
As at 31/12/2022	900,000	230,000	-	746,177	1,876,177

Workings

1 Inventory

FRW "000" FRW "000"

Closing inventory initially 890,000

Less Damaged inventory (28,600)

Add: Net realizable value of repaired stock 14,600

Closing Inventory **876,000**

Cost of damaged inventory 28,600

Net realizable value 28,600- 14,600

14,000

The lowest between cost and NRV will be considered, then it is

FRW 14,600

2 Research cost

30,000

3 Development costs

100,000

4 Receivables

As per trial balance 650,000

Less bankrupt customer (5,600)

Net receivables **644,400**

5 Interest

Acquired loan 8,000,000

Interest rate 16%

Months in arrears (August to 5

December 2022)

Total interest **533,333**

6 Building

Building at cost 3,000,000

Less acc depreciation		(300,000)
Charge for the year before revaluation	3,000,000*5%	150,000
Carrying value		2,550,000
Revalued amount as at 31 Dec 2022		2,300,000
Revaluation loss		(250,000)

7 Revaluation reserve

As per trial balance		100,000
Less loss for current period		100,000
Balance in reserve		0
Revaluation loss to be charged in P/L	250,000-100,000	150,000

8 Computer accessories depreciation

At cost		2,500,000
Less Acc depreciation		(28,000)
Carrying value		2,472,000
Depreciation rate		50%
Depreciation expense		1,236,000
Net Book Value		1,236,000

9 Motor Vehicle Depreciation

At cost		2,200,000
Less Acc depreciation		(400,000)
Carrying value		1,800,000
Depreciation rate		25%
Depreciation expense		450,000
Net Book Value		1,350,000

10 Cost of sales

Opening inventory		988,500
Purchases		1,800,000
Less closing inventory(W1)		(876,000)
Cost of sales		1,912,500

11 Administrative expenses

Employee benefits		1,358,000
Office refreshments		85,000
Maintenance and Repairs		640,000
Office stationaries		68,500
Electricity		120,000
Bad debts		5,600

Telephone expenses	38,000
Depreciation	1,836,000
Revaluation loss (w7)	150,000
Total Administrative costs	4,301,100

12 Other expenses	
Research costs	30,000
Warranty provisions	17,100
Total other expenses	47,100

13 Retained Earnings	
As per trial balance	560,000
Loss for the year ended 2022	186,177
Retained Earnings as at 31 December 2022	746,177

14 Ordinary share capital	
Ordinary share capital as at 01 Jan 2022	800,000
Issued shares	200
Par value for each share	500
Total issued in value	100,000
Total share capital as at 31/12/2022	900,000

15 Share premium	
Share premium as at 01/01/2022	200,000
Issued shares	200
Premium per share (FRW 650-500)	150
Share premium on issued shares	30,000
Total share premium as at 31 Dec 2022	230,000

16 Cash and bank	
Balance per TB	4,500,000
Shares issued	130,000
Less omitted payment for feasibility study	(30,000)
Less payment for development cost	(100,000)
Balance at the end	4,500,000

17 Proposed dividend declared on 17 Jan 2023, fall under IAS 10 events after reporting dates. The dividend proposed after end of the year, are not recognized in the financial statements, instead a disclosure is made in the notes

SECTION B

QUESTION TWO

Marking guide

a)

i) Users of financial information and their requirements from this financial information

1 mark for each user identified to maximum of 4

1 mark for each user requirement mentioned to maximum of 3 4

Sub-total 8

ii) Fundamental qualitative characteristics of these financial information Marking guide

1 mark for fundamental characteristic identified 2

1 mark for explanation of each 2

Sub-total 4

b) What are the circumstances under which changes in accounting policies are accepted by IAS 8?

1 mark for each circumstance 2

Sub-total 2

c)

i) Determining the conditions for recognizing the government grant in accordance with IAS

20 Accounting for government grants and disclosure of government assistance?

1 mark for each condition identified to the maximum of 2 marks 2

ii) Compute and prepare extracts of statements of Financial position and profit or loss and other comprehensive income?

1 mark for computation of depreciation 1

1 mark for computation of amortized grant 1

0.5 mark for net recognition of expense and income in P%L 0.5

0.5 marks for each recognition of asset, non-current liability and current liability 1.5

Sub-total 4

Grand Total 20

Model answers

a) (i)

- **Managers of the company** are appointed by the company's owners to supervise the day to day activities of the company. They need information about the company's financial situation as it is currently and as it is expected to be in the future. This is to enable them to manage the business efficiently and to make effective decisions.
- **Shareholders of the company.** The company's owners, want to assess how well its management is performing. They want to know how profitable the company's operations are and how much profit they can afford to withdraw from the business for their own use.
- **Trade payable and receivables** include suppliers who provide goods for the company on credit and customers who purchase the goods or services provided by the company. Suppliers want to know about the company's ability to pay its debts; customers need to know that the company is a secure source of supply and is in no danger of having to close down.
- **Providers of finance** to the company might include a bank which allows the company to operate an overdraft, or provides longer-term finance by granting a loan. The bank wants to ensure that the company is able to keep up interest payments, and eventually to repay the amounts advanced.
- **The taxation authorities** want to know about business profits in order to assess the tax payable by the company, including VAT.
- **Employees of the company** should have a right to information about the company's financial situation, because their future careers and the size of their wages and salaries depend on it.
- **Financial analysts and advisers** need information for their clients or audience. For example, stockbrokers need information to advise investors. Credit agencies want information to advise potential suppliers of goods to the company. Journalists need information for their reading public.
- **Government and their agencies** are interested in the allocation of resources and therefore in the activities of business entities. They also require information in order to provide a basis for national statistics.
- **The public.** Entities affect members of the public in a variety of ways. For example, they may make a substantial contribution to a local economy by providing employment and using local suppliers. Another important factor is the effect of an entity on the environment, for example as regards pollution.

ii) Fundamental qualitative characteristics of these financial information Marking guide

Faithful representation. Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena but must faithfully represent the substance of the phenomena that it purports to represent'. To be a faithful representation, information must be complete, neutral and free from error.

Relevance. Relevant financial information is capable of making a difference in the decisions made by user. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

There are also others like, **Materiality, Neutral depiction, Substance over form, Comparability, Verifiability, Timeliness and Understandability.**

b) What are the circumstances under which changes in accounting policies are accepted by IAS 8?

- It is required by a standard, or
- It provides more reliable and relevant information about the effects of the transactions, other events or conditions on the entity's financial position, performance or cash flows.

c) i) Determining the conditions for recognizing the government grant in accordance with IAS 20 Accounting for government grants and disclosure of government assistance?

- The entity will comply with the conditions attaching to them; and
- The grants will be received. When the entity assesses and confirm that the grant will be received and cash flow by promissory entity is available
- The value of grant can be estimated reliably. The entity must be able to demonstrate that the value of grant is measurable in monetary terms

ii) Compute and prepare extracts of statements of financial position and profit or loss and other comprehensive income?

Useful life	20
Asset value	4,200,000,000
Depreciation	210,000,000
Amortization of grant	
Grant	800,000,000
Grant period	20
Amortization of grant	40,000,000

Profit or Loss Statement Extract

Particulars

Amount (FRW)

Incomes

Grant income realized 40,000,000

Expenses

Depreciation 210,000,000

Statement of Financial Position Extract

Particulars

Amount (FRW)

Non-current Assets

Plant 3,990,000,000

Non-current Liabilities

Deferred Grant 760,000,000

Current Liabilities

Deferred Grant 40,000,000

The income that will be recognized in the next 12 months is treated as deferred grant in current liabilities and then the rest is treated as non-current liabilities

QUESTION THREE

Marking guide

a) i) Prepare a corrected trade receivables control account, bringing down the amended balance as at 31st December 2022.

0.5 marks for each correct posting including totals and balancing figure 5

ii) statement showing the adjustments that are necessary to the list of personal account balances so that it reconciles with the amended receivables control account balance

1 mark for each correct posting excluding subtotals and totals 5

b) TREA's statement of Revenues and Expenditures for the year ended 30th June 2022 0.5 for each correct posting to maximum of 10 marks excluding subtotals and totals 9.5

0.5 mark for adjusted prepayment on maintenance cost 0.5

Grand Total 20

Model answers**(a)(i)****Corrected Trade Receivables Control Account**

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Uncorrected Bal b/f	12,550,000	Faulty goods returned	100,000
Sales omission	850,000	Contra entry omitted	400,000
Cheque dishonored	300,000	Irrecoverable debt omitted	500,000
		Returns inwards omitted	200,000
		Amended balance c/d	12,500,000
	13,700,000		13,700,000
Bal b/d	12,500,000		

iii) Prepare a statement showing the adjustments that are necessary to the list of personal account balances so that it reconciles with the amended receivables control account balance.

Statement of Adjustments to List of Personal Account Balances

Particulars	Amount (FRW)	Amount (FRW)
Original total of list of balances		12,752,000
Add: debit balance omitted (b)	300,000	
Debit balance understated (e)	200,000	500,000
		<u>13,252,000</u>
Less: Transposition error (c): understatement of cash received cash debited instead of credited (2 × RWF250k) (h)	180,000 500,000	
Understatement of cash received (l)	72,000	(752,000)
		<u>12,500,000</u>

(b) TREA's statement of Revenues and Expenditures for the year ended 30th June 2022

Revenue	FRW "000"	FRW "000"
Transfers from other government ministries		1,658,000
Fines and Penalties for violating road traffic rules		16,508,500
Levies charged on express roads		560,000
Grants from International Development Partners		4,400,000
Donations from Corporate entities as part of their Corporate Social Responsibility (CSR)		158,000
Total Revenue		<u>23,284,500</u>
Other income		
Bad debt recovered		<u>40,000</u>
Total Income		<u>23,324,500</u>
Wages, Salaries and employee benefits	890,000	
Professional and contractual services	416,800	

Other expense	68,000
Maintenance of speed cameras	400,000
Transport and travel	408,000
Utilities	142,000
Office refreshments	920,000
Repairs and maintenance of Motor Vehicles	798,000
Transfers to other government agencies	158,000
Training costs	618,000
Communication expenses	51,200
Donations	80,500
Mission Allowances	65,000
Total Expense	5,015,500
Surplus	18,309,000
Workings	
Fines and Penalties for violating road traffic rules	2,508,500
Omitted fines	14,000,000
	<u>16,508,500</u>
Maintenance of speed cameras	
Balance per TB	800,000
Prepaid expense	<u>(400,000)</u>
	400,000

QUESTION FOUR

Marking guide

a)

i) Prepare KSL's adjusted cashbook for the month of January 2023

1 mark for each correct posting including balancing figure 10

ii) Prepare KSL's bank reconciliation statement for the month of January 2023

1 mark for each posting made 6

Subtotal 16

2 conditions that must be met for an asset to be recognized as an investment property?

marks for each condition identified as per IAS 40 4

Grand total 20

Model Answers

i)

Adjusted Cashbook

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Direct deposit by Josiane	400,000	Balance as per Cashbook	5,200,000
Transfer from fixed deposit account	2,000,000	Rent paid by standing order	1,200,000
Dishonored Cheque to MUKANKUSI	480,000	Interest on overdrawn amount	930,000
		Correction of overstatement of interests on remunerated Accounts	270,000
		Direct debit	484,000
Bal b/d	5,300,000	Bank Charges	96,000
Total	8,180,000	Total	8,180,000

ii) Prepare KSL's bank reconciliation statement for the month of January 2023

Bank Reconciliation

Particulars	Amount (FRW)	Amount (FRW)
Balance as per Bank Statement		(8,800,000)
Add:		
i) Cheque from RUSAGARA	1,500,000	
ii) cheques deposited but not cleared	5,800,000	
		<u>7,300,000</u>
Less:		
i) Cheques issued but not presented		(3,800,000)
Balance as per adjusted Cashbook		(5,300,000)

b) conditions that must be met for an asset to be recognized as an investment property?

- It is probable that the future economic benefits that are associated with the investment property will flow to the entity.
- The cost of the investment property can be measured reliably.

QUESTION FIVE

Marking guide

a) Post the above to the relevant ledgers

2 marks for Bank ledger account

2 marks for Cash ledger account

1 mark for Accounts receivable ledger account

1 mark for Accounts payable ledger account

0.5 marks for the rest of 12 ledger accounts

Sub-total

b) Prepare the trial balance based on ledgers prepared in (a) above balance.

0.5 marks for each correct posting excluding subtotals and totals

0.5 marks for the well-structured and presentation of trial balance

Sub-total

Grant Total

Model answers

a) Post the above to the relevant ledgers

Bank

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Loan	4,000,000	Rent	300,000
Account receivables	600,000	Accounts payable	1,300,000
Interest income	35,000	Business Equipment	1,200,000
		Salaries and wages	100,000
		Bank charges	3,500
		Interest expense	80,000
		Bal c/d	1,651,500
	4,635,000		4,635,000

Cash

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Capital	1,800,000	Utilities	68,000
sales	450,000	Bal b/d	2,182,000
	2,250,000		2,250,000

Accounts Receivable

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Sales	800,000	Bank	600,000
	800,000	Bal b/d	200,000
			800,000

Accounts Payable

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Returns outwards	150,000	Purchases	1,450,000
Bank	1,300,000	Bal b/d	-
	1,450,000		1,450,000

Salaries and wages

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Bank	100,000	Bal b/d	100,000
	100,000		100,000

Equipment

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Bank	1,200,000	Bal b/d	1,200,000
	1,200,000		1,200,000

Utilities

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Cash	68,000	Bal b/d	68,000
	68,000		68,000

Capital

Particulars	Amount (FRW)	Particulars	Amount (FRW)
	-	Cash	1,800,000
Bal b/d	1,800,000		
	1,800,000		1,800,000

Loan

Particulars	Amount (FRW)	Particulars	Amount (FRW)
	-	Bank	4,000,000
Bal b/d	4,000,000		
	4,000,000		4,000,000

Purchases

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Accounts payable	1,450,000		
		Bal b/d	1,450,000
	1,450,000		1,450,000

Sales

Particulars	Amount (FRW)	Particulars	Amount (FRW)
	-	Cash	450,000
Bal b/d	1,250,000	Accounts receivable	800,000
	1,250,000		1,250,000

Returns outwards

Particulars	Amount (FRW)	Particulars	Amount (FRW)
		Accounts receivable	150,000
Bal b/d	150,000	Accounts receivable	-
	150,000		150,000

Interest income

Particulars	Amount (FRW)	Particulars	Amount (FRW)
		Bank	35,000
Bal b/d	35,000		-
	35,000		35,000

Interest expenses

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Bank	80,000		
		Bal b/d	80,000
	80,000		80,000

Bank charges

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Bank	3,500	Bal b/d	3,500
	3,500		3,500

Rent

Particulars	Amount (FRW)	Particulars	Amount (FRW)
Bank	300,000	Bal b/d	300,000
	300,000		300,000

b) Prepare the trial balance based on ledgers prepared in (a) above balance.

Trial balance

Particulars	Debit (FRW)	Credit (FRW)
Returns outwards		150,000
Sales		1,250,000
Purchases	1,450,000	
Loan		4,000,000
Capital		1,800,000
Utilities	68,000	
Equipment	1,200,000	
Salaries and wages	100,000	
Accounts Receivable	200,000	
Cash	2,182,000	
Bank	1,651,500	
Bank charges	3,500	
Interest expenses	80,000	
Interest income		35,000
Rent	300,000	
Total	7,235,000	7,235,000

END OF MARKING GUIDE AND MODEL ANSWERS