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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 1 EXAMINATIONS**

**F1.3: FINANCIAL ACCOUNTING**

**DATE: TUESDAY 25, APRIL 2023**

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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 where applicable.
7. Any assumptions made must be clearly and concisely stated.
8. This question paper should not be taken out of examination room.

## SECTION A

### QUESTION ONE

a) Ange is a Chief Accountant at Rwanda Mountain Company Ltd (RMC Ltd). During the preparation of financial statements for the year ended 31 December 2022 to be presented to the Auditors for review she was busy and needed assistance in reports preparation. You are the Financial Accountant and she was assigned you to assist in the exercise of gathering different financial data and preparing financial statements thereof.

#### **Required:**

As a Financial Accounting expert, explain three (3) financial statements and their objectives? (6 Marks)

b) The trial balance below was extracted from books of RMC Ltd as at 31 December 2022

Particulars	FRW"000"	FRW"000"
Employee benefits	1,358,000	
Office refreshments	85,000	
Rent income		560,000
Maintenance and Repairs	640,000	
Office stationaries	68,500	
Electricity	120,000	
Equity as at 01 Jan 2022 at FRW 500 per share		800,000
Share premium		200,000
Long term loan		8,000,000
Trade Receivables	650,000	
Trade Payables		452,000
Tax payable		48,000
Cash at Bank	4,500,000	
Sales		6,500,000
Purchases	1,800,000	
Computer and Accessories Depreciation as at 01 Jan 2022		28,000
Buildings Depreciation as at 01 Jan 2022		300,000
Motor Vehicle Depreciation as at 01 Jan 2022		400,000
Motor Vehicle at cost	2,200,000	
Buildings at cost	3,000,000	
Computers and accessories at cost	2,500,000	
Telephone expenses	38,000	
Inventory as at 01 Jan 2022	988,500	
Revaluation Reserve for building		100,000

Particulars	FRW"000"	FRW"000"
Retained Equity as at 01 Jan 2022		560,000
<b>Total</b>	<b>17,948,000</b>	<b>17,948,000</b>

**The following additional information is relevant**

- 1) On 17<sup>th</sup> January 2023, Board of Directors passed a resolution for dividend payout of FRW 3 per share for the year ended 31<sup>st</sup> December 2022. Financial statements were authorized for publication on 30<sup>th</sup> March 2023.
- 2) Inventory as at 31<sup>st</sup> December 2022 was FRW 890,000,000, however, during the inventory counting, inventories worth FRW 28,600,000 were damaged and not fit for sale. These inventories will require repair costs of FRW 14,000,000. After repair, the repaired inventory could be sold at FRW 28,600,000.
- 3) During the financial year ended 31<sup>st</sup> December 2022, sales were made with a standard warranty under which customers are covered for the cost of repairs of any manufacturing defect that becomes apparent within the first six months of sale and on 24<sup>th</sup> December 2022, one of their customers returned some goods with defect. The company's past experience and future expectations on provision to repair defects indicate that FRW 17,100,000 will be required to repair defects.
- 4) During the year ended 31<sup>st</sup> December 2022, RMC Ltd started the process of establishing the feasibility of extracting methane gas from Lake Kivu in Rubavu district. RMC Ltd undertook a feasibility study worth FRW 30,000,000 to ascertain the availability of methane gas. The company also spent development costs of FRW 100,000,000 after it established that methane gas is available and after obtaining the management commitment to complete the extraction. These had not been recorded in the books as they were still waiting for clarification on how to recognize them. The payment for feasibility and development costs and related payments made by bank was not recorded.
- 5) During the financial year ended 31<sup>st</sup> December 2022, RMC Ltd issued addition 200,000 shares at FRW 650 each paid through bank. But no records made for this issue.
- 6) The depreciation rate for buildings is 5% straight-line, 25% reducing balance for motor vehicles and 50% reducing balance for computers and their accessories. The depreciation is charged to administrative expense.
- 7) One customer who owed the company FRW 5,600,000 was declared bankrupt on 13<sup>th</sup> January 2023. This was part receivables as at 31<sup>st</sup> December 2022.
- 8) The long-term loan in the trial balance was received on 1<sup>st</sup> August 2022 to undertake methane gas extraction project. The annual interest rate applicable is 16% and interest for the year was not recorded.
- 9) RMC Ltd is subject to income tax of 30% as per the income tax law of Rwanda payable at 30<sup>th</sup> March of the following year
- 10) Towards end of year 2022, RMC Ltd hired a professional valuation expert to revalue their building and the expert concluded that the building was worth FRW 2.3 billion.

**Required:**

- i. Prepare RMC Ltd's Statement of Profit or Loss and other comprehensive income for the year ended 31<sup>st</sup> December 2022 in accordance with IAS 1. (17 Marks)**
  - ii. Prepare RMC Ltd's Statement of Financial Position as at 31 December 2022. (12 Marks)**
  - iii. Prepare RMC Ltd's Statement of Changes in Equity. (5 Marks)**
- (Total: 40 Marks)**

## SECTION B

### QUESTION TWO

a) Eric is a newly recruited Accountant at Rwanda Business Group (RBG), a company operating in manufacturing business. During the induction session with Head of Finance, he heard him emphasizing on the quality of the financial information to enable users of these financial information to make informed and quality decisions. He was wondering about the users that the Head of Finance was talking about and what he meant by qualitative financial information.

#### **Required:**

As a financial accounting student, **explain to Eric the following;**

**i) Four (4) users of financial information and their requirements from this financial information.** (8 Marks)

**ii) Two (2) Fundamental qualitative characteristics of these financial information.** (4 Marks)

b) During the release of Quarter 3 (Q3) mandatory financial performance of standard Bank Rwanda Plc on 30<sup>th</sup> November 2022. Chief Finance Officer of Standard Bank Rwanda Plc talked about the consistency of accounting policies that are based on while preparing financial statements in response to concerns over uncertainties paused by economic pressures as result of inflation and disruptions in supply chain management. He was quoted saying “Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets criteria of IAS 8 accounting policies, changes in accounting estimates and errors”

#### **Required:**

**What are the circumstances under which changes in accounting policies are accepted by IAS 8?** (2 Marks)

c) During the financial year ended 31<sup>st</sup> December 2022, Kigali Coalition Business Company (KCBC) received a government grant towards construction of wastes recycling plant in Kigali of FRW 800 million. The total investment of the plant was FRW 4.2 billion. The plant is expected to have a useful life of 20 years. During the preparation of financial statements, the Chief Finance Officer and Financial Reporting Accountant were arguing whether they are required to recognize the grant in their accounts or not. Depreciation is charged fully in the year of acquisition

#### **Required:**

As a financial Accountant expert, assist them in the following;

**i) Determining the conditions for recognizing the government grant in accordance with IAS 20 Accounting for government grants?** (2 Marks)

**ii) Compute and prepare extracts of statements of financial position and profit or loss and other comprehensive income using deferred income approach?** (4 Marks)

**(Total: 20 Marks)**

### QUESTION THREE

a) Kantengwa Aline operates a boutique in Kabeze Village of Kigali City and conducts most of her businesses on credit. In order to control her receivables collection system, she maintains a receivables control account. In preparing the accounts for the year to 31<sup>st</sup> December 2022, she discovered that the total of all the personal accounts in the receivable's ledger amounts to FRW12,752,000 whereas the balance on the receivables control account is FRW 12,550,000.

**Upon investigating the matter, the following errors were discovered.**

1. Sales for the week ending 27<sup>th</sup> March 2022 amounting to FRW 850,000 had been omitted from the control account.
2. A credit sale of FRW 300,000 had not been included in the personal account.
3. Cash received of FRW 750,000 had been entered in a personal account as FRW 570,000.
4. Faulty goods returned totaling FRW 100,000 had not been entered into the control account.
5. A personal account balance had been under-cast by FRW 200,000.
6. A contra item of FRW 400,000 with the trade payables had not been entered into the control account.
7. An irrecoverable debt of FRW 500,000 had not been entered into the control account.
8. Cash received of FRW 250,000 had been debited to a personal account.
9. Returns inwards valued at FRW 200,000 had not been included in the control account.
10. Cash received of FRW 80,000 had been credited to a personal account as FRW 8,000.
11. A cheque for FRW 300,000 received from a customer had been dishonored by the bank, but no adjustment made into the control account.

**Required:**

- i) **Prepare a corrected trade receivables control account balance as at 31<sup>st</sup> December 2022.** (5 Marks)
- ii) **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.** (5 Marks)

b) The following information was extracted from books of receipts and payments of Traffic Rules enforcement Agency (TREA) for the fiscal year ended 30<sup>th</sup> June 2022.

<b>Particulars</b>	<b>FRW "000"</b>	<b>FRW "000"</b>
Transfers from other government ministries		1,658,000
Fines and Penalties for violating road traffic rules		2,508,500
Levies charged on express roads		560,000
Loan from International Development Partners		4,400,000
Donations from Corporate entities as part of their Corporate Social Responsibility (CSR)		158,000
Furniture and Equipment	328,000	
wages, Salaries and employee benefits	890,000	
Professional and contractual services	416,800	
Other expense	68,000	
Bank Balance	240,820	
Maintenance of speed cameras	800,000	
Transport and travel	408,000	
Utilities	142,000	
Bad debt recovered		40,000
Purchase of speed cameras	1,107,380	
Purchase of computers and related accessories	652,800	
Office refreshments	920,000	
Purchase of Motor Vehicles	1,580,000	
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	
<b>Total</b>	<b>9,324,500</b>	<b>9,324,500</b>

**The following additional information is relevant**

1. The petty cash count that took place on 30<sup>th</sup> June 2022 revealed a balance in hand of FRW 1,250,500.
2. The Agency had fines and penalties of FRW 14,000,000 that was not recorded in the books of account.
3. Maintenance of speed cameras costs cover the period of 6 months from 1<sup>st</sup> April 2022 to 30<sup>th</sup> September 2022.
4. The TREA's apply full accrual of accounting policy.

**Required:**

**Prepare TREA's statement of Revenues and Expenditures for the year ended 30<sup>th</sup> June 2022.**

(10 Marks)

**(Total: 20 Marks)**

#### **QUESTION FOUR**

**a) The following information was extracted from books of Kagarama supermarket Ltd (KSL) for the month of January 2023.**

- 1) Bank statement as at 31<sup>st</sup> January 2023 revealed that the account was overdrawn by FRW 8,800,000 while the cash book has credit balance of FRW 5,200,000
- 2) Cheques deposited in Bank by KSL for FRW 5,800,000 but was not cleared till 31<sup>st</sup> January.
- 3) Cheques issued were FRW 2,500,000, FRW 3,800,000 and FRW 2,000,000 during the month. The cheque of FRW 3,800,000 is yet to be presented to Bank for payment by the supplier.
- 4) Interest on saving accounts directly credited on the Accounts of FRW 1,250,000 was wrongly entered as FRW 1,520,000 in Cash Book.
- 5) Amount transferred from fixed deposit Account into the current Account FRW 2,000,000 appeared only in Bank Statement.
- 6) Interest on overdrawn amount of FRW 930,000 was debited by Bank in Bank Statement and the information was received only on 3<sup>rd</sup> February 2023.
- 7) Direct deposit by Josiane of FRW 400,000 was not entered in Cash Book.
- 8) Rent expense of FRW 1,200,000 was paid by Bank as per the standing order instructions appeared in Bank Statement only.
- 9) Cheque issued to Mukankusi of FRW 480,000 was presented but dishonoured due to undisclosed reasons
- 10) Bank charges of FRW 96,000 appeared on the Bank statement but was not recorded in the Cashbook
- 11) Cheque of FRW 1,500,000 from Rusagara was lodged for payment on 29<sup>th</sup> January but was not cleared until 2<sup>nd</sup> February 2023.
- 12) Direct debits amount of FRW 484,000 appeared on Bank statement but not on cashbook

**Required:**

**i) Prepare KSL's adjusted cashbook for the month of January 2023** (10 Marks)

**ii) Prepare KSL's bank reconciliation statement for the month of January 2023** (6 Marks)

**b) What are the conditions that must be met for an asset to be recognized as an investment property?** (4 Marks)

**(Total: 20 Marks)**



### QUESTION FIVE

The following transactions were extracted from book of Angelique's Business for the month of December 2022

Date	Transactions
01/12	Injected capital in form of cash equivalent of FRW 1,800,000.
04/12	Purchased goods worth FRW 1,450,000 on credit from Rwanda Business Group.
05/12	Paid rent of FRW 300,000 by cheque for the month of December.
10/12	Sold some goods to Annah worth FRW 450,000 on cash.
12/12	Sold goods worth FRW 800,000 to Cyangugu business Ltd on credit.
13/12	Obtained a loan from Twizigamire Duterimbere Bank of FRW 4,000,000.
15/12	Paid business utilities worth FRW 68,000 by cash.
16/12	Returned some defect goods of FRW 150,000 to Rwanda Business Group and received a credit note from them.
18/12	Received a cheque of FRW 600,000 from Cyangugu business Ltd.
19/12	Paid in full the outstanding balance of Rwanda Business Group by cheque.
20/12	Received interests of FRW 35,000 on business savings account.
23/12	Bought some business equipment of FRW 1,200,000 by cheque.
26/12	Paid business assistant her December salary worth FRW 100,000 by cheque.
27/12	Bank charges for the month of December worth FRW 3,500.
28/12	Direct debit of FRW 80,000 for the loan interest of December instalment.

**Required:**

- a) Post the above transactions to the relevant ledger accounts (12 Marks)
  - b) Prepare the trial balance based on ledgers prepared in (a) above. (8 Marks)
- (Total: 20 Marks)**

**End of question paper**





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