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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATION
F1.3: FINANCIAL ACCOUNTING**

DATE: TUESDAY 22, AUGUST 2023

INSTRUCTIONS:

1. Time Allowed: **3 hours 15 minutes** (15 minutes of reading and 3 hours writing).
2. This examination has two sections; **A & B**.
3. Section **A** has **one compulsory question**.
4. Section **B** has **four questions**, and only **three** are 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. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

a) State whether the following are or not adjusting events in the financial statements

- i. Settlement of a court case confirming that the entity had a present obligation at the balance sheet date.
- ii. Evidence that an asset was impaired at the balance sheet date, including the bankruptcy of a debtor, and selling prices achieved for inventory after the balance sheet date.
- iii. Discovery of fraud or error that indicates that the financial statements are misstated.
- iv. Determination after the balance sheet date bonuses relating to the year ended.
- v. A major business combination
- vi. Announcing a plan to discontinue an operation or a major restructuring.
- vii. Major purchases of assets, classification of assets as held for sale or destruction of assets by, for example, fire or flood after the reporting date
- viii. Commencing major litigation relating to events occurring after the balance sheet date.

(4 Marks)

b) Explain three importance and three limitations of financial accounting (6 Marks)

c) Burera Trading Company Ltd (BTC) is a company that operates several retail shops, some of which they own them while other are rented from others. The following is the company's trial balance as at 31 December 2021.

	FRW (000)	FRW (000)
Sales Revenue		12,200
Purchases	5,000	
Accounts payable		424
Accounts receivable	2,616	
Inventories 1 Jan 2021	500	
6% debenture loan		400
Administrative expenses	1,848	
Office Equipment at cost	1,200	
Office Equipment-Accumulated depreciation 01Jan 2021		240
Distribution costs	1,080	
Ordinary shares		4,400
Share premium account on 1 st Jan 2021		700
Retained profit on 1 st Jan 2021		1,700
Bank		100
Freehold property at cost	7,920	
Total	20,164	20,164

Additional information

1. The company does not depreciate its freehold property
2. The office equipment was purchased on 1 January 2019 with expected useful life of ten years and nil residual value. The related depreciations are charged to administrative costs
3. Six months' rent of FRW 26,000 included in administration expenses was paid on 1 October 2021 covering period from 1 October 2021 to 31 March 2022
4. An invoice of FRW 50,000 for advertisement during 2021 was received in January 2022 and is not reflected in the above trial balance. Advertisement is classified as distribution costs.
5. The debenture interest due for 2021 has not yet been accounted for
6. On 01 January 2021, the company received a government grant of FRW 400,000 towards the cost of an asset (Machinery). BTC Ltd acquired the machinery on 01 January 2021 at an exact value of grant and useful life of the machinery was 5 years and nil residual value. The grant has not been reflected anywhere in the company's books of accounts. It is the company policy to account for all government grants and assistance on deferred income basis. Depreciation for machinery is classified under cost of sales
7. On 1 January 2021 BTC purchased four floors building for its investment potential in Kigali at cost of FRW 40 million. Before this purchase, the board of directors advised the management of BTC Ltd to occupy the two up floors for their company's own use while the first two floors would be rented to others. The property official valuer has allocated the cost of the building in the following way:

2 First two floors (Reserved for investment):	50%
2 Up two floors (Occupied by BTC management):	50%

The building had a useful life of 50 years with no residual value. At the end of 2021, the building's fair value had risen to FRW 42 million. Investment properties are measured at fair value while own occupied assets are measured at cost model and related depreciation is charged to administrative costs. The purchase of building has been fully financed by a 10% loan. This has not been recorded at all.
8. As at the year end, the valuation of existing inventory was valued at cost and net realizable value of FRW 270,000 and FRW 301,000 respectively,
9. The company has an authorized share capital of 4 million ordinary shares of FRW 1 each and had an issued share capital of 3.5 million ordinary shares for FRW 1.2 each as at 31 December 2020. On 30 June 2021, the company issued 500,000 shares for FRW 1.8 each paid in cash. The entire proceeds of this issue have been recorded as part of FRW 4.4 million in the ordinary shares account
10. It is estimated that corporation tax charge for 2021 would be FRW 300,000 and has not been paid.

Required:

In accordance IAS 1 "Presentation of financial statements, prepare the following financial statements of BTC Ltd for the year ended 31 December 2021-

- a) **Statement of profit or loss and other comprehensive income.** (15 Marks)
 - b) **Statement of financial position.** (15 Marks)
- (Total: 40 Marks)**

SECTION B

QUESTION TWO

- a) Explain the components of working capital management (6 Marks)
- b) Hinga Weze Kawa Ltd (HWK) and Kawa Yacu Ltd (KY) are both engaged in agricultural business for growing coffee in western province of Rwanda. The following information shows financial ratios of each company for the year ended 31 December 2021.

Ratio type	HWK Ltd	KY Ltd	Industry average
Current ratio	2:1	1.5:1	2:1
Quick Asset (Acid test) ratio	1.7:1	0.7:1	1:1
Return on Capital Employed (ROCE)	20%	17%	15%
Accounts receivable days	53 days	29 days	45 days
Accounts payable days	60 days	75 days	45 days
Inventory (stock) turnover	23 times	25 times	20 times
Gross profit margin	40%	22%	20%

Required

- i) With the help of formulas, show how each of the above financial ratios are calculated. (3.5 Marks)
- ii) Using the above provided information for both companies, analyze their financial performance against one another and the industry average. (10.5 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Outline potential reasons for difference between cash book and bank statement balances. (2 Marks)

b) Quick Learning Center Ltd (QLC) cash book for the month ended 30 September 2021 presents the following information;

The cashbook balance as at 30 September 2021 was FRW 1,108,000 overdraft while balance as per bank statement at 30th September 2021 was an overdraft of FRW 1,353,000. All receipts are banked and all payments are made by cheque.

The investigation made by the accountant to discover reasons for differences between cashbook and bank balances revealed the following:

1. There were bank charges and commissions amounting to FRW 272,000 charged by the bank that have not been entered in the cash book.
2. Cheques issued to Iyamarere amounting to FRW 534,000 had been presented to the bank for payment on 15 October 2021.
3. Cheques received from Ayubu totaling FRW 1,524,000 had been entered in the cash book but had not been credited by the bank until 3 November 2021.
4. A cheque totaling FRW 44,000 for sundries had been entered in the cash book as a receipt instead of being a payment.
5. A cheque received from Namara Ltd of FRW 160,000 had been returned by the bank due to insufficient funds. No adjustment made in the cash book.
6. A cheque of FRW 1,968,000 has been erroneously credited to QLC account by the bank.
7. A standing order for a business rates instalment of FRW 300,000 had not been entered in the cash book.
8. During September 2021, dividends amount totaling FRW 124,000 were credited by the bank but no entries made in the cash book.
9. A cheque drawn amounting to FRW 122,000 for stationery had been incorrectly entered in the cash book as FRW 120,000
10. The debit balance brought forward as at 01 September 2021 in the cash book should have been FRW 1,422,000, not FRW 1,522,000
11. The bank credited the account of Mr. Mbaraga with FRW 425,000, yet the cheque has been drawn to Mr. Mbagara (real supplier of QCL Ltd).

Required

i) Prepare the adjusted cash book. (8 Marks)

ii) Prepare a bank reconciliation statement of QLC as at 30th September 2021. (10 Marks)

(Total: 20 Marks)

QUESTION FOUR

Mr. Kabaye operates a furniture shop in Kigali. He does not keep full and proper set of accounts and recently provided their business information to you as a professional accountant for the year ended 31 December 2021 as follows;

- The sales are mostly on credit. No sales record kept, but during the year debtors paid FRW 480,000 by cheque and FRW 14,004,000 by cash.
- Amount paid by cheque to suppliers during the year was FRW 316,000.
- Rental expense of FRW 38,000 and general expenses of FRW 31,000 was paid through bank, while Rent cost of FRW 4,000 was paid through cash.
- Mr. Kabaye took FRW 250,000 cash per week (for 52 weeks) as drawings.
- Other information is available:

Particulars	At 31 December 2020	At 31 December 2021
	FRW (000)	FRW (000)
Accounts receivable	55,000	66,000
Accounts payable	16,000	26,000
Rent owing		3,500
Bank balance	56,500	179,400
Cash balance	3,200	4,200
Stock	63,600	68,000

- Non-current asset consists of fixtures and fittings valued at FRW 33,000 as at 01 January 2021 and fixtures and fittings are normally depreciated at 25% per annum.

Required:

- Prepare the Statement of financial position as at 01 January 2021 of Mr. Kabaye. (5 Marks)
- Prepare the trial balance of Mr. Kabaye for the year ended 31 December 2021. (15 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Benefits of adopting IPSAS in Africa” is the article published in the journal “The new Times” published on 21 March 2021. Basically, it was linking the adoption of IPSAS and the economic growth in Africa.

Required:

Discuss the benefits of IPSAS adoption in Rwanda. (5 Marks)

b) Using examples, differentiate capital from revenue expenditure. (4 Marks)

c) The following records have been extracted from the financial record of the Ministry of growth for the year ended 31 December 2021.

Particulars	FRW (000)	FRW (000)
Buildings	37,000	
Accumulated depreciation-Buildings		12,600
Equipment	8,300	
Accumulated depreciation-Equipment		3,180
Insurance	600	
General reserves		200
Revenue from stadium		2,200
Youth development grants		440
Donations and fundraising income		700
Other revenue		350
General grant for operating activities		7,040
Receivables	240	
Investment property	1,840	
Bank	240	
Payables		1,780
Interest (5%) bearing long term loans		800
Staff costs	3,300	
General expenses	1,870	
Bank interest charges	30	
Loan interest paid	40	
Accumulated surpluses		24,170
Total	53,460	53,460

Additional information:

1. The Ministry depreciates their buildings over 45 years using the straight-line method, and their equipment using reducing balance basis at a rate of 25% per year. No entry has been made regarding this depreciation.

2. The insurance expenditure includes a prepayment of FRW 30,000 for the period up to 28 February 2022

3. A pay increase was announced in November 2021, and it is to be applied from 1 December 2021. The cost of the increase for 2021 is FRW 40,000
4. On 15 December 2021 a company that owed the ministry FRW 50,000 went bankrupt. It is unlikely that the amount owing will be recovered.

Required:

In accordance with IPSAS 1 (Presentation of Financial Statements), prepare;

- i) **Statement of Financial Performance for the period ended 31 December 2021.** (6 Marks)
- ii) **Statement of financial Position for the period ended 31 December 2021.** (5 Marks)
- (Total: 20 Marks)**

End of question paper.

