CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATIONS

F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY 27, FEBRUARY 2024

MODEL ANSWERS AND MARKING GUIDE

SECTION A

QUESTION ONE

Marking Guide

Q/NO	Marks Awarding Guideline	Marks
Q1(a)	For each accounting concept correctly explained award two (2) marks	10
Q1b(i)	For each of the items below that is correctly posted in the manufacturing account award 0.5mark	
	Opening inventory of raw materials	0.5
	Purchased materials	0.5
	Add carriage inward	0.5
	Less materials returned	0.5
	Less closing inventory of materials	0.5
	Cost of materials consumed	0.5
	Add labour cost incurred	0.5
	Add labour cost owing	0.5
	Add other direct expenses	0.5
	Total prime cost	0.5
	Add indirect manufacturing costs	0.5
	Factory building depreciation	0.5
	Plant depreciation	0.5
	Rent	0.5
	Electricity and water	0.5
	Repair and maintenance	0.5
	Fuel cost	0.5
	Opening work in progress	0.5
	Closing work in progress	0.5
	Total cost of production for goods completed	0.5
	Sub-total	**10**
Q1b(ii)	For each of the correct amount of the following items award 0.5mark	
	Sales Revenue	0.5
	Less sales returns	0.5
	Opening inventory of finished goods	0.5
	Add total factory cost	0.5
	Closing inventory of finished goods	0.5
	Electricity and water	0.5
	Salaries and wages	0.5
	Rent	0.5
	Fuel	0.5
	Delivery van depreciation	0.5
	Advertising	0.5
	Selling and distribution	0.5
	Bad debts written off	0.5
	Auditing	0.5

	Repair and maintenance Travelling cost Communication cost Staff motivation cost Carriage outwards Profit before tax Corporation tax payable Retained profit for the year Add revenue reserves b/f Revenue reserves c/f	0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5
	Sub-total	**12**
Q1b(iii)	For each of the correct amount of these items award 0.5mark Factory building Plant Delivery van Inventories: Raw materials Inventories: work in progress Inventories: finished goods cash and bank balances Trade receivables Trade payables Direct labour owing Current tax payable Ordinary share capital Share premium Revenue reserve revaluation reserve Bank loan	 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5
	Sub-Total	**8**
Total		**40**

Model Answers

Q1(a)

Accrual concept -is an accounting concept about recognition and recording of transactions which states that an income/expense is recognized and recorded in the books of accounts once earned or incurred irrespective of whether cash was received/paid or not.

Prudence concept -it is an accounting concept which states that in business we always anticipate losses and therefore instead of overstating incomes and assets in the financial statements we should create provisions for anticipated losses. This concept state that income and assets should not be overstated at the same time in accounting, liability should not be understated and possible provisions should be made

Materiality concept - It is an accounting concept which determines whether an omission or misstatement of financial information in reports would impact a reasonable user's decision making. A transaction is deemed material if its omission could affect decision making process of users of financial information. All material transaction must be recorded, reported and disclosed as required by respective standards.

Duality Aspect concept -it is an accounting concept which indicates that each transaction made by a business impacts the business in two aspects. It explains origin of the concept and rule of double entry in accounting. In practice, each transaction should have debit and credit effect

Matching concept -it is an accounting concept which states that a company should match the revenues with the corresponding expenses of that accounting period. The cut off principle should be observed while preparing statement of comprehensive income and other reports

Q1b(ii)
Manufacturing Account

	FRW "000"	**FRW "000"**
Opening inventory of raw materials	50,000	
Purchased Materials	580,000	
Add carriage inward	25,000	
Less materials returned to suppliers	(15,000)	
Less closing inventory of materials	(45,000)	
Cost of materials consumed		595,000
Add labour cost incurred	150,000	
Add labour cost owing	50,000	
Total labour cost		**200,000**
Add other direct expenses		55,000
Total prime cost		**850,000**
Add indirect manufacturing costs		
Factory building depreciation	25,000	
Plant depreciation	150,000	
Rent	15,000	
Electricity and water	15,000	
Repair and maintenance	3,000	
Fuel cost	40,000	
Total indirect cost		**248,000**
Opening work in progress	75,000	
Closing work in progress	(90,000)	
		(15,000)
Total cost of production for goods completed		**1,083,000**

Q1b(ii)

Trading, profit and loss account	**FRW"000"**	**FRW"000"**
Sales revenue		2,109,000
Less sales returns		(100,000)
Net sales		**2,009,000**
Cost of goods produced and sold		
Opening inventory of finished goods	100,000	
Add total factory cost	1,083,000	
Less closing inventory of finished goods	(150,000)	
Total cost of goods produced and sold		**1,033,000**
Gross profit		**976,000**
Less operating expenses		
Electricity and water	5,000	
Salaries and wages	120,000	
Rent	10,000	
Fuel	10,000	
Delivery van depreciation	18,750	
Advertising	10,000	
Selling and distribution	40,000	
Bad debts written off	20,000	
Auditing	5,000	
Repair and maintenance	3,000	
Travelling cost	10,000	
Communication cost	2,000	
Staff motivation cost	1,000	
Carriage outwards	50,000	
Total operating expenses		**(304,750)**
Profit before tax		**671,250**
Corporation tax payable		(201,250)
Profit after tax		**470,000**
Add revenue reserves b/f		250,000
Revenue reserves c/f		**720,000**

Q1b(iii)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	FRW "000"	FRW "000"	FRW "000"
Non - Current Assets			
Factory building	500,000	150,000	350,000
Plant	800,000	350,000	450,000
Delivery van	100,000	43,750	56,250
Total non-current assets	**1,400,000**	**543,750**	**856,250**
Current Assets			
Inventories: Raw materials		45,000	
Inventories: work in progress		90,000	
Inventories: finished goods		150,000	
Cash and bank balances		400,000	
Trade receivables		340,000	
Total current assets			**1,025,000**
Total Assets			**1,881,250**
Equity And Liability			
Equity			
Ordinary share capital			500,000
Share premium			50,000
Revenue reserve			720,000
Revaluation reserve			50,000
Total equity			**1,320,000**
Long Term Debt			
Bank loan			250,000
Current Liabilities			
Trade payables		60,000	
Direct labour owing		50,000	
Current tax payable		201,250	
Total current liabilities			**311,250**
Total Equity and liability			**1,881,250**

SECTION B

QUESTION TWO

Marking Guide

Q/NO	Marks Awarding Guideline	Marks
Q2(a)	For any two correctly explained reason award 2marks	**4**
Q2(b)	For each correctly computed figure as indicated below award marks	
	Revaluation -correct revaluation 0.5mk, total column 0.5mk	1
	Acquisition/additions -each correct addition 0.5mk, total column	1.5
	0.5mk	1.5
	Disposal – for each correct disposal amount 0.5mk, total column	2.5
	0.5mk	2
	Balance 31st December 2023 each correct total 0.5mk including totals	3
	Balance 1st January 2023 each correct balance 0.5mk including total	2
	Disposal-each correct depreciation on disposal 0.5mk including total	2
	Additions/charge for the year each correct 0.5mk including total	0.5
	Balance 31st December 2023 each correct 0.5mk including total	16
	Total PPE net book value	
Total		**20**

Model Answers

Q2(a)

(i) It is the requirement of the concept of accounting called prudence which requires assets and incomes not to be overvalued by anticipating losses, it is reason as to why stock is always valued or re-measured at the lower value of cost and net realizable value.

(ii) Obsolescence - when stock has been in the warehouse for some time, there is value deterioration calling for re-measurement.

(iii) Discrepancies between accounting records and physical items of stock- this can be caused by theft, poor records, breakages etc.

(iv) For accurate computation of cost of goods sold. Stock being a component of the cost of goods sold, if not properly valued can lead to understatement or overstatement of the cost goods sold .

Q2(b)

Details	**Land**	**Building**	**Plant And Machinery**	**Motor Vehicles**	**Total**
Cost	**FRW "Million"**	**FRW "Million"**	**FRW "Million"**	**FRW "Million"**	**FRW "Million"**
Balance on 1 January 2023	750	500	400	600	2,250
Revaluation	150	-	-	-	150
Acquisition/additions	-	200	150	-	350
Disposal	-	(187.5)	-	(100)	(250)
Balance 31st December 2023	**900**	**512.5**	**550**	**500**	**2,500**
Depreciation					
Balance 1 January 2023	-	150	250	240	640
Disposal	-	(37.5)	-	(57.8125)	(95.3125)
Additions/charge for the year	-	25.625	75	79.453125	180.078125
Balance 31st December 2023	**-**	**138.125**	**325**	**261.640625**	**724.765625**
Net book value 31-Dec-22	750	350	150	360	1,610
Net book value 31-Dec-23	900	423	225	253	1,737.734375

Depreciation of the disposed motor vehicle

Deprecation of the disposed building
Carrying value = 150,000,000
Number years depreciated 4yrs
Method of depreciation straight line
Rate of depreciation 5%
Accumulated depreciation (4yrs × 5%) = 20%
150Million = 80% (after depreciating 20% for 4years)
20% = ?

$$= \frac{150,000,000 \times 0.2}{0.8}$$

=37,500,000
Original cost = carrying value + accumulated depreciation
= 150,000,000,000 + 37,500,000
= FRW 187,500,000.

Charge for the year
5% (512.5) = 25,625,000.
Plant and machinery depreciation
25% (550-250) = 75
=FRW 75,000,000.

Motor Vehicle Depreciation
Disposed motor vehicle
Cost of the disposed motor vehicle =FRW 100Million
Year of acquisition 2020
Number year till depreciation = 3year
Method of depreciation is reducing balance
Rate of depreciation 25%

Year 2020 = 25%(100) = 25m
Year 2021 =25%(100-25) = 18.75m
Year 2022 =25%(100-25-18.75) =14.0625m
Year 2023 none
Total accumulated depreciation = 57.8125m

Charge for the year
500 – (240 – 57.8125)
25%(500-182.1875)
= FRW = 79.453125

QUESTION THREE

Marking guide

Q/NO	Marks Awarding Guidelines	MARKS
Q3(a)	For correct amount of the items below award marks as indicated	
	Opening balances – each correctly posted award 0.5mk	1
	Credit sales correctly computed award 1mark	2
	Sales returns- correct amount	0.5
	Bad debts written off – correct amount well posted award 0.5	0.5
	Discount allowed – correct amount well posted	0.5
	Receipts from customers: cash – correct amount well posted	0.5
	Receipts from customers: bank – correct amount well posted	0.5
	Interest on overdue accounts – correct amount well posted	0.5
	Collection cost charged on overdue accounts- correct amount posted	0.5
	Set off –correct amount well posted	0.5
	Dishonoured receipt cheque – correct amount well posted	0.5
	Closing balance each correctly posted closing balance 1mk	2
	Total for the correct totals 1mark	0.5
		10
Q3(b)	For correct amount of the items below award marks as indicated	
	Opening balances- each balance correctly posted award 0.5mk	1
	Credit purchases correctly computed and posted award 1mk	2
	Purchase returns- correctly posted	0.5
	Cash discount received correctly posted	1
	Payment advanced to suppliers: cash – correctly posted	0.5
	Payment advanced to suppliers: bank – correctly posted	0.5
	Interest charged by suppliers on overdue accounts – correct amount	0.5
	Collection cost charged by suppliers on overdue accounts - correct	0.5
	Dishonoured payment cheque- correctly posted	0.5
	Set off – correct amount posted	0.5
	Closing balance- correct closing debit bal 0.5mk, credit balance 1mks	1.5
	Total – correct totals posted award 1mark	1
Total		**10**

Model Answers

Q3(a)

Sales Ledger Control Account (Vertical Account)

	DEBIT	**CREDIT**
	FRW	**FRW**
Opening balances	3,600,000	940,000
Credit sales 80% (55,000,000)	44,000,000	
Sales returns		1,100,000
Bad debts written off		1,200,000
Discount allowed		1,550,000
Receipts from customers: cash		2,200,000
Receipts from customers: bank		45,800,000
Interest on overdue accounts	2,500,000	
Collection cost charged on overdue accounts	2,000,000	
Set off		2,000,000
Dishonoured receipt cheque	2,000,000	
Closing balance	1,500,000	**810,000**
Total	**55,600,000**	**55,600,000**

Sales Ledger Control Account (T Account)

	FRW		**FRW**
Opening balance	3,600,000	Opening balance	940,000
Credit sales	44,000,000	Bad debts written off	
Interest on overdue a/c	2,500,000	1,200,000	
Collection cost charged	2,000,000	Sales returns	1,100,000
Dishonoured receipt cheque	2,000,000	Cash discount allowed	1,550,000
		Receipts from customers: cash	2,200,000
		Receipts from customers: bank	45,800,000
Closing balance	1,500,000	Set off	2,000,000
	55,600,000	Closing balance	**810,000**
			55,600,000

Q3(b) Purchases Ledger Control Account (Vertical Account)

	DEBIT	CREDIT
	FRW	**FRW**
Opening balances	560,000	2,540,000
Credit purchases 80% (35,000,000)		28,000,000
Purchase returns	1,500,000	
Discount received	1,350,000	
Payment advanced to suppliers: cash	2,000,000	
Payment advanced to suppliers: bank	26,500,000	
Interest charged by suppliers on overdue accounts		1,750,000
Collection cost charged by suppliers on overdue accounts		1,250,000
Dishonoured payment cheque		1,000,000
Set off	2,000,000	
Closing balance	1,880,000	1,250,000
Total	**35,790,000**	**35,790,000**

Purchases Ledger Control Account (T Account)

	FRW		FRW
Opening balance	560,000	Opening balance	2,540,000
Purchase returns	1,500,000	Credit purchases	28,000,000
Cash discount received	1,350,000	Interest charged on overdue a/c	1,750,000
Payment to suppliers: cash	2,000,000	Collection cost charged	1,250,000
Payment to suppliers: bank	26,500,000	Dishonoured payment cheque	1,000,000
Set off	2,000,000	Closing balance	1,250,000
Closing balance	1,880,000		
	35,790,000		**35,790,000**

QUESTION FOUR

Marking Guide

Q/NO	Marks Awarding Guidelines	Marks
Q4(i)	For every correctly posted amount of transaction into the cashbook award 0.5mark	11
Q4(ii)	For every correctly posted amount of transaction into the trade receivables account award 0.5mark	5
Q4(iii)	For every correctly posted amount of transaction into the trade payables account award 0.5mark	4
Total		**20**

Model answers

Q4(i)

CASHBOOK

DATE	DETAIL	DISC	CASH	BANK	DATE	DETAIL	DISC	CASH	BANK
I Jan	Bal b/f		2,500,000		1 Jan	balance			500,000
1 Jan	Cash			2,000,000	1Jan	Bank		2,000,000	
31 Jan	T/rec		1,200,000		31 jan	T/pay		750,000	
31 May	Share cap		10,000,000		31 jan	T/pay ABC	50,000		
31 May	Share pre		2,000,000		31 jan	T/pay XYZ	60,000		
31 Jan	T/rec DD	90,000		1,710,000	31 jan	T/pay PQR	75,000		
31 Jan	T/rec KK	100,000		1,900,000	31 Dec	Bal c/f		19,950,000	3,970,000
31 jan	T/rec MM	125,000		2,375,000					
31 Jan	M/Vehicle		5,000,000						
31 Jan		**315,000**	**20,700,000**	**7,985,000**			**185,000**	**20,700,000**	**7,985,000**

Q4(ii)

TRADE RECEIVABLES A/C

DATE	DETAILS	AMOUNT	DATE	DETAILS	AMOUNT
1st Jan 23	Balance	1,200,000	31st Jan 2023	cash	1,200,000
31st Mar 23	Sales -DD Ltd	1,800,000	31st July 2023	cash	1,710,000
31st Mar 23	Sales -KK Ltd	2,000,000	31st July 2023	cash	1,900,000
31st Mar 23	Sales - MM Ltd	2,500,000	31st July 2023	cash	2,375,000
			31st July 2023	cash discount	315,000
		7,500,000			**7,500,000**

Q4(iii)

TRADE PAYABLES A/C

DATE	DETAILS	AMOUNT	DATE	DETAILS	AMOUNT
		FRW			FRW
31st Jan 23	cash	750,000	1st Jan 2023	Balance	750,000
31st August 23	cash	950,000	31st Jan 23	Purchases-ABC Ltd	1,000,000
31st August 23	cash	1,140,000	31st Jan 23	purchases-XYZ Ltd	1,200,000

31st August 23	cash	1,425,000	31st Jan 23	purchases-PQR Ltd	1,500,000
31st August 23	Cash discount	185,000			
		4,450,000			**4,450,000**

QUESTION FIVE

Marking Guide

Q/NO	Marks Awarding Guidelines	Marks
Q5(a)	For every functional difference fairly well explained award 2marks	**8**
Q5b(i)	Transfers from exchequer Fees, fines and licenses Revenue from exchange transactions Other revenues Transfers from other ministries Total revenue Salaries and wages Transfers to other ministries Supplies and other consumables used Other expenses Finance cost Total expenses Add surplus as at 1st January 2023 Surplus as at 31^{st} December 2023	0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 **7**
Q5b(ii)	Property plant and Equipment Inventory Cash and cash equivalent Trade and other receivables Trade and other payables Reserves Accumulated surplus as at 31st December 2023 long term borrowings liability for long term employee benefits Total equity and liabilities	0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 **5**
Total		**20**

Model answers

Q5(a)

(i) IPSAS 17 does not require or prohibit the recognition of heritage assets. An entity that recognizes heritage assets is required to comply with the disclosure requirements of this Standard with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those heritage assets.

(ii) IAS 16 does not have a similar exclusion.
IAS 16 requires items of property, plant, and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired.

(iii) IAS 16 requires, where an enterprise adopts the revaluation model and carries items of property, plant, and equipment at revalued amounts, the equivalent historical cost amounts should be disclosed. This requirement is not included in IPSAS 17.

(iv) Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases are offset on a class of asset basis.

(v) IPSAS 17 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 17. IAS 16 only contains transitional provisions for entities that have already used IFRSs. Specifically, IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant, and equipment for reporting periods beginning on a date within five years following the date of first adoption of accrual accounting in accordance with IPSASs. The transitional provisions also allow entities to recognize property, plant, and equipment at fair value on first adopting this Standard. IAS 16 does not include these transitional provisions.

(vi) IPSAS 17 contains definitions of "impairment loss of a non-cash-generating asset" and "recoverable service amount." IAS 16 does not contain these definitions. This is an important distinction. A non-cash generating asset is one that is not held for the generation of a commercial return and there are a number of these in use in the public sector which would not be the case in the private sector.

Q5b(i)
STATEMENT OF FINANCIAL PERFORMANCE

Details	Debit	Credit
Revenues	**FRW**	**FRW**
Transfers from exchequer		250,000,000
Fees, fines and licenses		50,000,000
Revenue from exchange transactions		10,000,000
Other revenues		60,000,000
Transfers from other ministries		5,000,000
Total revenues		**375,000,000**
Expenses		
Salaries and wages	100,000,000	
Transfers to other ministries	50,000,000	
Supplies and other consumables used	40,000,000	
Other expenses	120,000,000	
Finance cost	10,000,000	
Total expenses		**320,000,000**
surplus for the period		**55,000,000**
add surplus as at 1st January 2023		75,000,000
Surplus as at 31st December 2023		**130,000,000**

Q5b(ii)
STATEMENT OF FINANCIAL POSITION

Details	FRW	FRW
Non-Current Assets		
Property plant and Equipment		400,000,000
Current Assets		
Inventory	10,000,000	
cash and cash equivalent	50,000,000	
trade and other receivables	20,000,000	
Total current assets	**80,000,000**	
Less Current Liabilities		
Trade and other payables	50,000,000	
working capital		**30,000,000**
Total net assets/capital employed		**430,000,000**
Equity And Long-Term Debt		
Equity		
Reserves		180,000,000
Accumulated surplus as at 31st dec 2023		130,000,000
Total Equity		**310,000,000**
Long Term Debt		
long term borrowings	100,000,000	
liability for long term employee benefits	20,000,000	

Total Long-Term Debt		**120,000,000**
Total Equity and Long-Term Debts		**430,000,000**

END OF MARKING GUIDE AND MODEL ANSWERS