CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY 28, MAY 2024

MARKING GUIDE AND MODEL ANSWERS

QUESTION ONE

MARKING GUIDE

QN	Description	Marks
a	**Affirmative ethical principles which an accountant should strive for**	
	Award 2 marks for every principle correctly stated (2 marks * 5)	10
	Maximum marks awarded for part a	10
b		
i	**Preparation of statement of profit or loss**	
	Net sales	0.50
	Opening Inventory	0.50
	Purchases	0.50
	Closing Inventory	1.00
	Gross Profit	0.50
	Revaluation loss	0.50
	Depreciation - motor vehicle	1.00
	Increase in allowance	0.50
	Rent and rates	0.50
	Legal expenses	0.50
	Total expenses	0.50
	Profit before tax	0.50
	Income tax expense	0.50
	Profit for the year	0.50
	Maximum marks awarded for part b i	8.00

ii	**Preparation of statement of financial position**	
	Freehold Premises	0.50
	Motor Vehicle	0.50
	Total Non Current Assets	0.50
	Inventory	0.50
	Trade receivables	0.50
	Less: Allowance for Doubtful debts	0.50
	Net Realizable Value	0.50
	Prepaid Rent and rates	0.50
	Bank balance	0.50
	Total current assets	0.50
	Share capital	0.50
	General reserve	0.50
	Retained earnings	0.50
	Total Equity	0.50

	Trade payables	0.50
	Accrued legal expenses	0.50
	Current tax payable	0.50
	Accrued Audit fees	0.50
	Proposed dividend	0.50
	Total Current Liabilities	0.50
	Maximum marks awarded for part b ii	10
c	Conditions for capitalization of development costs	
	Award 2 marks for every condition correctly stated (2 marks * 6)	12
	Total	**40 Marks**

MODEL ANSWERS

a) Broad principles stated as affirmative ethical principles that an accountant should strive for:

The conduct towards which an accountant should strive is embodied in the following six broad principles stated as affirmative ethical principles: -

- **Independence, Integrity and Objectivity**
  An accountant should maintain his/her integrity and objectivity and, when engaged in the practice of public accounting, be independent of those he/she serves.
- **Competence and Technical Standards**
  An accountant should observe the profession's technical standards and strive continually to improve this competence and the quality of his/her services.

- **Responsibilities to Clients**
  An accountant should be fair and candid with his/her clients and serve them to the best of his/her ability, with professional concern for their best interests, consistent with his/her responsibilities to the public.
- **Responsibilities to Colleagues**
  An accountant should conduct himself/herself in a manner, which will promote co-operation and good relations among members of the profession
- **Other Responsibilities and Practice**
  An accountant should conduct himself/herself in a manner, which will enhance the stature of the profession and its ability to serve the public.
- **Responsibility of Members Not in Practice**
  An accountant not in practice must uphold the standards and etiquette of the profession The foregoing Ethical Principles are intended as a broad guideline. They constitute the philosophical foundation upon which the professional conduct of accountants is based.

b) i.

Binama Ltd		
Statement of Profit and loss for the year ended 31 December, 2023		
	FRW "000"	FRW "000"
Sales		763,850
Returns Inwards		-
Net Sales		763,850
Cost of goods Sold		
Opening Inventory	69,650	
Purchases	542,200	
Closing Inventory	(81,000)	(530,850)
Gross Profit		233,000
Other income		
Expenses		
Revaluation loss (295,000-290,000)	5,000	
Depreciation - motor vehicle (20%*113,250)	22,650	
Increase in allowance (2,050-1,375)	675	
Directors remuneration	19,000	
Wages and salaries	65,635	
Motor vehicles and delivery expenses	16,290	
Rent and rates (3,500-1,000)	2,500	
Legal expenses (3,220+75)	3,295	
Audit fees	600	
General expenses	29,230	
Total expenses		(164,875)
Profit before tax		68,125
Income tax expense		(1,050)
Profit for the year		**67,075**

ii)

Binama Ltd			
Statement Of Financial Position as at 31 December, 2023			
	Cost	Acc Dep	NBV
ASSETS	FRW "000"	FRW "000"	FRW "000"
NON CURRENT ASSETS			
Freehold Premises	290,000		290,000
Motor Vehicle	113,250	(56,400)	56,850
Total Non Current Assets			**346,850**
CURRENT ASSETS			
Inventory		81,000	
Trade receivables	111,975		
Less: Allowance for Doubtful debts	(2,050)		
Net Realizable Value		109,925	
Prepaid Rent and rates		1,000	
Bank balance		33,075	
Total current assets			**225,000**
Total Assets			**571,850**
EQUITY AND LIABILITIES			
EQUITY			
Share capital			400,000
General reserve			650
Retained earnings			98,575
Total Equity			**499,225**
NON CURRENT LIABILITIES			
			-
CURRENT LIABILITIES			
Trade payables		66,900	
Accrued legal expenses		75	
Current tax payable		1,050	
Accrued Audit fees		600	
Proposed dividend		4,000	
Total Current Liabilities			**72,625**
Total Equity & Liabilities			**571,850**

c) Conditions for capitalization of Development costs under IAS 38

Development costs may qualify for recognition as intangible assets provided that the following strict criteria can be demonstrated.

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.
2) Its intention to complete the intangible asset and use or sell it.
3) Its ability to use or sell the intangible asset.
4) There will be future economic benefits for the entity. The entity should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or the usefulness of the intangible asset to the business.
5) The availability of technical, financial and other resources to complete the development and to use or sell the intangible asset.
6) Its ability to reliably measure the expenditure attributable to the intangible asset during its development.

QUESTION TWO

MARKING GUIDE

QN	Description	Marks
a	**Adjusted cashbook**	
	Correct posting of opening balance	1
	Correction of undercasting	2
	Interest from savings account	2
	Interest expense	2
	Correction of transposition error	2
	Correct posting of dishonoured cheque	2
	Correct balance c/d	1
	Maximum marks awarded for part a	12
b	**Adjusted bank statement**	
	Correct posting of balance as per adjusted cashbook	1
	Correct psoting of cheque issued to Mukamana	2
	Banks wrongly debited cheque	2
	Lodgements not credited	2
	Correct summation of all posted transaction	1
	Maximum marks awarded for part b	8
	Total	**20 Marks**

MODEL ANSWERS

a) Adjusted cash book as at 31/10/2023

Dr		Adjusted cashbook as at 31/10/2023			Cr
Date	Particulars	Amount	Date	Particulars	Amount
			31/10/23	Balance b/d	3,630,000
	Undercast correction	300,000		Correction of transposition error	54,000
	Interest on savings	90,000		Dishonored cheque	210,000
				Direct debit	228,000
	Adjusted cashbook balance	**3,732,000**			-
		4,122,000			4,122,000

b) Bank Reconciliation statement as at 31/10/2023

Adjusted Bank Statement as at 31/10/2023		FRW
Balance as per adjusted cashbook		(3,732,000)
Add Ommitted cheque		1,560,000
Less: Debited cheque in error		126,000
Less: Outstanding lodgements		1,080,000
Balance as per bank statement		(3,378,000)

QUESTION THREE

MARKING GUIDE

QN	Description	Marks
a	**Difference between current and deferred tax**	
	Award 2 marks for current and 2 for deferred clear deferentiation	4
	Maximum marks awarded for part a	4
b	**Statement of cashflow**	
	Calculation of depreciation for the year (W1)	1
	Calculation of income tax (W2)	1
	Purchase of PPE (W3)	1
	Cash and cash equivalent beginning of year (W4)	0.50
	Cash and cash equivalent end of year (W4)	0.50
	Each item in the statement of cashflow award 0.5 marks (0.5 * 24)	12
	Maximum marks awarded for part b	16
	Total	**20 Marks**

MODEL ANSWERS

a) Briefly explain the difference between current tax and deferred tax

IAS 12 Income Taxes focuses on accounting for income taxes which recognises both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities.

Current Tax

Current tax for the current and prior periods is recognised as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due.

Current tax assets and liabilities are measured at the amount expected to be paid to/recovered from taxation authorities like, using the rates/laws that have been enacted or substantively enacted by the balance sheet date.

In Rwanda the corporate income tax rate is 30%.

Deferred Tax

Deferred tax can be an asset or a liability depending on the nature of temporary differences, unused tax losses or credits. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax bases.

Deferred Tax Liabilities

The amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred Tax Assets

The amounts of income taxes recoverable in future periods in respect of:

- Deductible temporary differences
- The carryforward of unused tax losses, and
- The carry forward of unused tax credits

b) Preparation of statement of cashflow

Akeza Ltd			
Statement of cashflow for the year ended 31st December, 2021			
		FRW "000"	FRW "000"
OPERATING ACTIVITIES			
Profit before tax		6,000	
Add non cash-items			
Add: Depreciation	W1	9,000	
Less: Gain on sale of motor vehicle (4,000-3,000)		(1,000)	
Less: Gain on sale of 5-year T-Bonds (2,500 - 2,000)		(500)	
Less: Interest receivable		(3,000)	
Add: Interest payable		5,000	
Changes in working capital			
Less: Increase in inventories (1,500 - 1,200)		(300)	
Less: Increase in receivables (3,000 - 2,500)		(500)	
Add: Increase in trade payables (2,600 - 1,000)		1,600	
Cash generated from operating activities		**16,300**	
Less: Interest paid		(5,000)	
Less: IncomeTax paid	W2	(7,400)	
Net cash used in operating activities			**3,900**
INVESTING ACTIVITIES			
Less: Acquisition of PPE	W3	(14,000)	
Less: Acquisition of intangible assets (4,000 - 3,000)		(1,000)	
Add: Proceeds from sale of motor vehicle		4,000	
Add: Proceeds from sale of 5-Year T-Bonds		2,500	
Add: Interest received		3,000	
Net cash used in investing activities			**(5,500)**
FINANCING ACTIVITIES			
Proceeds from sale of shares (10,000 * 300) + (10,000 * 100)		4,000	
Increase in loan from Bank		2,000	
Net cash from investing activities			**6,000**
Decrease in cash and cash equivalents			**4,400**
Add: Cash and cash equivalents on 01 January 2021	W4		1,700
Cash and cash equivalents on 31 December 2021			**6,100**

Workings

W1) Depreciation for the year			
	Accumulated Depreciation a/c		
	FRW "000"		FRW "000"
		Balance b/d	6,000
Disposal	2,000		
		Income statement (Bal fig)	**9,000**
Balance c/d	13,000		-
	15,000		15,000

W2) Income Tax Paid			
	Income Tax a/c		
	FRW "000"		FRW "000"
		Balance b/d	5,400
Cash paid (Bal fig)	**7,400**	Income statement	5,000
Balance c/d	3,000		-
	10,400		10,400

W3) Purchase of PPE			
	Property, Plant & Equiptment a/c		
	FRW "000"		FRW "000"
Balance b/d	18,000		
Purchase of PPE (Bal fig)	**14,000**	Disposal	5,000
	-	Balance c/d	27,000
	32,000		32,000

W4) Cash and Cash Equivalent		
	Beginning	End
	FRW "000"	FRW "000"
Short term investment (T - Bills)	1,000	5,000
Cash at Bank	500	1,000
Cash in Hand	200	100
	1,700	6,100

QUESTION FOUR

MARKING GUIDE

QN	Description	Marks
a	**Double entry**	
	Award 0.5 marks for each account with at least two correct figures including the balances except for fixtures, Stationery and Motor Cycle account	10
	Maximum marks awarded for part a	10
b	**Closing a/cs and trial balance**	
	Award 0.5 marks for each correct balance in the trial balance except for fixtures, Stationery and Motor Cycle account	10
	Maximum marks awarded for part b	10
	Total	**20 Marks**

MODEL ANSWERS

a) Post these transactions in necessary accounts following double entry

Debit **Creditor a/c (Pamba)** Credit

Date	Details	Amount	Date	Details	Amount
2-Mar	Returns	4,000	20-Jan	Purchases	44,100
31-Oct	Bal.c/f	40,100			
31-Oct	Total	44,100	31-Oct		44,100

Debit **Creditor a/c (Teresa)** Credit

Date	Details	Amount	Date	Details	Amount
31-Oct	Bal. c/f	30,600	20-Jan	Purchases	30,600

Debit **Creditor a/c (Malaika)** Credit

Date	Details	Amount	Date	Details	Amount
31-Oct	Bal.c/f	48,000	10-Feb	Fixtures	48,000

Debit **Creditor a/c (Mambo)** Credit

Date	Details	Amount	Date	Details	Amount
2-Mar	Returns	6,000	20-Jan	Purchases	18,000
31-Oct	Bal. c/f	12,000			
31-Oct	Total	18,000	31-Oct	Total	18,000

Debit **Creditor a/c (Shift Ltd)** Credit

Date	Details	Amount	Date	Details	Amount

31-Oct	Bal.c/f	17,000	28-Jan	stationery	17,000

Debtor a/c (William)

Date	Details	Amount	Date	Details	Amount
6-Feb	Sales	90,000	16-Mar	Return in	2,000
			31-Oct	Bal.c/f	88,000
31-Oct	Total	90,000	31-Oct	Total	90,000

Debit — Credit

Debtor a/c (Bendo)

Date	Details	Amount	Date	Details	Amount
6-Feb	Sales	150,000			
2-Apr	Sales	9,500			
			31-Oct	Bal. c/f	159,500
31-Oct	Total	159,500	31-Oct	Total	159,500

Debit — Credit

Debtor a/c (Harvard)

Date	Details	Amount	Date	Details	Amount
6-Feb	Sales	190,000	16-Mar	RIW	4,000
			31-Dec	Bal.c/f	186,000
31-Oct	Total	190,000	31-Oct	Total	190,000

Debit — Credit

Debtor a/c (Peter)

Date	Details	Amount	Date	Details	Amount
2-Apr	Sales	32,300	20-Jul		
			31-Dec	Bal. c/f	32,300
31-Oct	Total	32,300	31-Oct	Total	32,300

Debit — Credit

Debtor a/c (Karl)

Date	Details	Amount	Date	Details	Amount
2-Apr	Sales	14,250			
			31-Oct	Balance c/f	14,250
31-Oct	Total	14,250	31-Oct	Total	14,250

Debit — Credit

Bank a/c

Date	Details	Amount	Date	Details	Amount
1-Jan	Capital	400,000	8-Feb	Rent	5,500
2-Jan	Cash	208,000	8-Feb	Motorcycle	70,000
6-Mar	Hana	60,000	31-Oct	Bal. c/f	592,500
31-Oct	Total	668,000	31-Oct	Total	668,000

Debit		Cash a/c			Credit
Date	Details	Amount	Date	Details	Amount
1-Jan	Capital	600,000	2-Jan	Bank	208,000
21-Mar	Sales	9000	5-May	Purchase	15,000
			20-Feb	Cash	12,000
30-Oct			31-Oct	Bal. c/f	374,000
		609,000			609,000

Debit		Retuns inwards a/c			Credit
Date	Details	Amount	Date	Details	Amount
31-Oct	Sundry debtors	6,000	31-Oct	Bal. c/f	6,000

Debit		Sales a/c			Credit
Date	Details	Amount	Date	Details	Amount
		-	21-Mar	Cash	9000
31-Oct	Bal. c/f	495,050	31-Oct	sundry Debtors	486,050
		495,050	-	-	495,050

Debit		Loan a/c (Hana)			Credit
Date	Details	Amount	Date	Details	Amount
31-Oct	Bal. C/f	60,000	6-Mar	Bank	60,000
		60,000	-	-	60,000

Debit		Return outwards			Credit
Date	Details	Amount	Date	Details	Amount
31-Oct	Bal. c/f	10,000	31-Oct	Sundry Creditors	10,000

Debit		Purchases a/c			Credit
Date	Details	Amount	Date	Details	Amount
16-Jan	Cash	15,000			
31-Oct	Sundry Creditors	92,700	45230	Bal c/f	107,700
		107,700	-	-	107,700

Capital a/c

Debit					Credit
Date	Details	Amount	Date	Details	Amount
		-	1-Jan	Bank	400,000
31-Oct	Bal. c/f	1,000,000	1-Jan	Cash	600,000
		1,000,000	-	-	1,000,000

Rent a/c

Debit					Credit
Date	Details	Amount	Date	Details	Amount
8-Feb	Bank	5,500	31-Oct	Bal. C/f	5500

Motor cycle a/c

Debit					Credit
Date	Details	Amount	Date	Details	Amount
8-Feb	Bank	70,000	31-Oct	Bal. C/f	70,000
		70,000	-	-	70,000

Salaries a/c

Debit	Salaries				Credit
Date	Details	Amount	Date	Details	Amount
20-Feb	Cash	12,000	31-Oct	Bal.c/f	12,000
		12,000	-	-	12,000

Stationary a/c

Debit					Credit
Date	Details	Amount	Date	Details	Amount
28-Jan	Shift Ltd	17,000			
28-Aug			31-Oct	bal. C/f	17,000
		17,000	-	-	17,000

Fixtures a/c

Debit					Credit
Date	Details	Amount	Date	Details	Amount
10-Feb	Malaika	48,000			
5-Aug			31-Oct	bal. C/f	48,000
		48,000	-	-	48,000

b) Balance the accounts and extract a trial balance as at 31 October 2023

Muhozi Ltd			
Trial Balance as at 31 October 2023			
S/N	PARTICULARS	DEBIT	CREDIT
1	Sales		495,050
2	capital		1,000,000
3	Purchases	107,700	
4	Cash	374,000	
5	Bank	592,500	

6	Returns in wards	6,000	
7	Returns outwards		10,000
	Debtors:		
8	William	88,000	
9	Harvard	186,000	
10	Bendo	159,500	
11	Peter	32,300	
12	Karl	14,250	
13	Loan		60,000
	Creditors:		
14	Pamba		40,100
15	Mambo		12,000
16	Teresa		30,600
17	Shift Ltd		17,000
18	Malaika		48,000
19	Rent	5,500	
20	Salaries	12,000	
21	Motocycle	70,000	
22	Stationery	17,000	
23	Fixtures	48,000	
	Total	**1,712,750**	**1,712,750**

QUESTION FIVE

MARKING GUIDE

QN	Description	Marks
a	**Benefits of accruals basis accounting**	
	1 mark awarded for every correct point (1 mark * 5)	5
	Maximum marks awarded for part a	5
b	**Reasons for corporate governance**	
	1 mark awarded for every correct point (1 mark * 5)	5
	Maximum marks awarded for part b	5
c		
i	Partners appropriation account	
	Adjusted net profit available for appropriation	1
	Deduction of partners salaries	1
	Deduction of interest on capital	1
	Net profit balance	1
	Share of net profit balance	1
ii	Partners current accounts	
	Dr of drawings	1
	Interest on capital	0.5
	Partners salaries	0.5
	Interest on loan	1
	Balance of profit	0.5
	Balance of Angel on Dr side	0.5
	Balance of Brianon Cr side	0.5
	Correct format	0.5
	Maximum marks awarded for part c	10
	Total	**20 Marks**

MODEL ANSWERS

a) State any five benefits of transition from cash basis accounting to accruals basis accounting that would be realized in public financial management

1. Enhances quality and comparability of the financial statements
2. Improves accountability in the public service
3. Enhances transparency
4. Improves on consistency
5. Enhances accountability

b) Explain any five reasons for corporate governance

1. Ensure enterprise prosperity and survival
2. Furthers ethics, integrity and responsibility
3. Ensure participative model in decision making
4. Guarantees administration of justice on employees and other stakeholders through the application of rules and regulations
5. Ensures protection of employees right to employment by providing job security
6. Ensures a good positive corporate culture is established and enhanced

c) i. Prepare the two partners appropriation account for the year ended 31st March, 2022

Angel and Brian			
Appropriations account for the year ended 31st March, 2022			
		FRW "000"	FRW "000"
Net profit b/d			13,132.50
Less: Interest on partners loan	15% * 2,500,000		375
Adjusted net profit available for appropriation			12,757.50
Less: Partners salaries:			
Angel		5,000	
Brian		2,500	7,500
Less: Interest on capital			
Angel	10% * 8,500,000	850	
Brian	10% * 6,000,000	600	1,450
Net profit balance			**3,807.50**
Share of net profit balance:			
Angel	3/5		2,284.50
Brian	2/5		1,523
			3,807.50

ii. Prepare Angel and Brian partners current accounts for the year ended 31st March, 2022

		Partners Current Accounts			
	Angel	Brian		Angel	Brian
	FRW "000"	FRW "000"		FRW "000"	FRW "000"
Drawings	4,175	5,575	Interest on capital	850	600
			Partners salaries	5,000	2,500
			Interest on loan	375	-
			Balance of profit	2,284.50	1,523
Balance c/d	**4,334.50**	**-**	**Balance c/d**	**-**	**952**
	8,509.50	5,575		8,509.50	5,575

END OF MARKING GUIDE AND MODEL ANSWERS