
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 1 EXAMINATION**

F1.3: FINANCIAL ACCOUNTING

DATE: WEDNESDAY, 25 AUGUST 2021

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.

SECTION A

QUESTION ONE

- a. The Institute of Certified Public Accountants of Rwanda (ICPAR) was established under the Law No. 11 of 2008 (ICPAR Law 2008) with the mandate to regulate and grow the accountancy profession in Rwanda.

Explain the responsibilities of ICPAR with regard to regulating the accountancy profession in Rwanda? (5 Marks)

- b. The objectives of Financial Statements are to provide information about financial position, performance, and changes in financial position of an entity such that they are useful to a wide range of users in making economic decisions.

Explain any five users of financial statements? (5 Marks)

- c. i. **Explain two advantages of control accounts for an organization?** (4 Marks)

ii. The following information was extracted from books of B&B trading for the month of May 2020:

Date		Frw
1-May	Debtors at 01 May 2020	822,676
1-May	Creditors at 01 May 2020	462,500
2-May	Credit sales	1,250,000
4-May	Purchase of goods with 50% on credit and 50% paid upfront	600,000
8-May	Goods returned by debtors	23,529
11-May	Returns to suppliers	19,118
19-May	Payments received from debtors	1,049,265
20-May	Bad debts written off	13,235
21-May	Payments to suppliers	532,111
23-May	Cash sales	250,000
25-May	Credit purchases	669,118
25-May	Discount allowed	11,765
29-May	Discount received	11,176

You are required to prepare the sales and purchases ledger control accounts for the month of May 2020 and also calculate the debtor and creditor final position.

(10 Marks)

- d. Jacques is a Kigali based business man who has been in business for four years. He does not maintain a ledger for all his transactions. However, he has kept a record of his annual cash movements and some other important information, as shown below:

Summary of cash receipts and payments for the year ended 31 December 2020			
	Frw '000		Frw '000
Balance b/f	522	Drawings	1,958
Receipts from sales	13,153	Purchases	12,222
5-year Loan from Cogeбанque	1,555	Fuel for delivery van	400
Personal cash deposited on company account as capital injection	270	Rent of office premises	218
Balance c/f	470	Electricity and Internet	177
		Wages and salaries	995
	15,970		15,970

Assets and Liabilities as at 31 December:		
	2019	2020
	Frw '000	Frw '000
Van purchased 01 January 2019, cost	1,243	1,243
Van accumulated depreciation	124	To be determined
Inventory	1,554	2,487
Trade receivables	1,430	3,821
Trade payables	280	684

Additional information;

- Depreciation of delivery van is at a rate of 10% on a reducing balance method.
- The Loan from Cogeбанque was received on 01 October 2020 at 15% interest per year. This interest is payable in January 2021.

Required:

- i. Prepare the opening statement of affairs as at 01 January 2020. (4 Marks)**
 - ii. Prepare the statement of trading, profit of loss for the year ended 31 December 2020 (6 Marks)**
 - iii. Prepare a statement of financial position as at 31 December 2020. (6 Marks)**
- (Total: 40 Marks)**

SECTION B

QUESTION TWO

a. Explain how the following items are treated in the statement of cash flows as per IAS 7 Statement of Cash Flows:

i. Interest and dividends paid and received (2 Marks)

ii. Income tax (2 Marks)

b. In the year ended 31 July 2020, Milbridge Limited had the following trading activities:

Extract of statement of profit or loss for the year ended 31 July 2020

	Frw '000
Gross profit	1,275
Depreciation and amortization	(63)
Administration expenses	(350)
Operating profit	863
Interest expense	(50)
Profit before tax	813
Corporate income tax	(275)
Net profit after tax	538
Dividends	(125)
Retained earnings for the year	413

Statement of financial position as at 31 July

	2020	2019
	Frw '000	Frw '000
Property, plant and equipment	62	125
	-	-
Current assets:	-	-
Inventory	425	312
Receivables	288	225
Cash and cash equivalents	2,325	1,913
	3,038	2,450
Total assets	3,100	2,575
Shareholders' equity:		
Ordinary shares	750	750
Retained earnings	1,362	950
	2,112	1,700
Long term loan	375	500
Trade and other payables	313	200
Accrued interest	25	-

Corporate income tax payable	275	175
	<u>988</u>	<u>875</u>
Total equity and liabilities	<u><u>3,100</u></u>	<u><u>2,575</u></u>

Required:

Prepare a Statement of Cash Flows using the indirect method as per IAS 7 Statement of Cash Flows.

(16 marks)

(Total: 20 marks)

QUESTION THREE

- a. Government grants are assistance by government in form of transfer of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.
- i. **When should government grants be recognized?** (2 Marks)
 - ii. **Explain the two methods available for presentation of government grants relating to assets?** (2 Marks)
- b. Olivier is a Kigali based 3D art designer who recently registered his business with Rwanda Development Board. He plans to prepare a monthly financial statement, during the month of December 2020, which is also the first month in business he completed the following transactions:
- 01 Dec: Deposited Frw 12,500,000 in business on company account as initial investment and money to be used to make first purchases before making some income.
 - 03 Dec: Paid Frw 375,000 for office rent for the month of December.
 - 04 Dec: Purchased office equipment work of Frw 300,000 on credit, due to be paid in 30 days.
 - 08 Dec: Completed his first job with a client and was immediately paid Frw 800,000
 - 11 Dec: Completed work for another client and raised a bill of Frw 675,000 to be paid in 45 days.
 - 12 Dec: Due to fast growth, he paid Frw 200,000 for additional equipment.
 - 15 Dec: Paid Frw 150,000 to an assistant who helps him bill clients
 - 19 Dec: Collected Frw 375,000 from a customer who he initially did a job for, on credit.
 - 26 Dec: Paid Frw 250,000 being part of a liability owing to a supplier for purchase of office equipment.
 - 30 Dec: Completed work for a new client, who paid him Frw 1,300,000 being 50% on the total for a design job.

Required:

- i. Prepare relevant Journal entries for the accounts affected.** (6 Marks)
 - ii. Prepare T-Accounts for the following:**
 - 1) **Cash and Bank** (2 Marks)
 - 2) **Office equipment** (1 Mark)
 - 3) **Income** (1 Mark)
 - 4) **Debtors** (1 Mark)
 - 5) **Creditors** (1 Mark)
 - iii. Prepare a Trial Balance as at 31 December 2020.** (4 Marks)
- (Total: 20 Marks)**

QUESTION FOUR

- a.** When two or more persons wish to form a partnership, it is recommended that they agree on the terms upon which the partnership will be run. This is done in writing and a signed off document becomes a partnership deed. **Explain at least five components of a partnership deed?** (5 Marks)

- b.** Muhoza, Mutoni and Ngabire are traders in Kigali city market. They decided to form a partnership and agreed to share profits and losses in the ratio of 45%, 30% and 25% respectively per annum. They also agreed that drawings by any of the partners for personal use would attract interest at a rate of 15%, which they consider to be fair since it is slightly below the average bank's rate of 16.5%. According to the partnership deed, capital accounts shall attract interest of 10% for the partners.
The numbers in the trial balance below were used to prepare the statement of profit and loss for the period ended 30 June 2020:

	Dr	Cr
	Frw '000	Frw '000
Building	6,875	
Fixtures and fittings	2,500	
Motor Vehicles	5,625	
Trade and other payables		3,125
Trade and other receivables	2,500	
Cash and cash equivalents	4,375	
Inventory as at 30 June 2020	2,500	
Capital account:		
Muhoza		6,250
Mutoni		3,750
Ngabire		2,500
		-
Current account:		-

Muhoza		250
Mutoni	625	
Ngabire	1,250	
Loan advanced by Ngabire		2,500
Profit for the period		7,875
	26,250	26,250

The following information was omitted from the books but is equally relevant:

- i. The partners made the following drawings: Muhoza-Frw 70,500, Mutoni-Frw 190,500 and Ngabire- Frw 210,000.
- ii. Salary worth Frw 750,000 was paid to Mutoni during the year.
- iii. The loan advanced by partner Ngabire to the business attracted interest of Frw 300,000
- iv. In addition to cash drawings, Partner Mutoni took some merchandize worth Frw 290,000 for her family consumption on a family event.
- v. All capital amounts upon which interest would be based were to remain fixed.

Required:

- i. **Prepare a Statement of Profit or Loss account and a corresponding appropriation account for the year ended 30 June 2020.** (10 Marks)
- ii. **Prepare a Statement of Financial Position as at 30th June 2020.** (5 Marks)

Note: Show all the necessary workings.

(Total: 20 Marks)

QUESTION FIVE:

- a. Members of not-for-profit clubs and societies usually pay an annual subscription to the society and often may also pay a life members' subscription. **Explain the accounting treatment of the following under accounting for non-profit organizations;**
 - i. **Subscriptions received in advance.** (2 Marks)
 - ii. **Arrears of prior year's subscriptions.** (2 Marks)
 - iii. **Life members' subscriptions.** (2 Marks)
- b. Gatenga sports centre is a sports and talent development association with several members who believe in a good vision of talent development for young people in Kigali. Below is a summary of receipts and payments for the period ended 31 December 2019.

Receipts	Frw '000	Payments	Frw '000
Bank balance as at 01 Jan 2019	5,829	Rent	857
Donations	686	Office stationery	129
Membership subscriptions	3,429	Telephone expenses	686
Talent show	1,029	Electricity	771
Grant for daily operations of the club	1,800	Coaching expenses	1,800
Sponsorships	1,370	Talent show prizes	257
		Dancing outfit expenses	1,200
		Equipment	1,714
		Balance at 31 Dec 2019	6,729
	14,143		14,143

The following information is also available as at 31 December:

	2018	2019
	Frw '000	Frw '000
Building - Net book value	51,429	51,429
Equipment - Net book value	9,429	10,714
Subscriptions in arrears	514	343
Subscriptions in advance	171	257
Electricity payable	171	257

Required:

- i. Prepare a Statement of affairs indicating the opening accumulated fund as at 01 January 2019.**
- ii. Prepare a Subscription account.**
- iii. Prepare an Income and Expenditure account for the year ended 31 December 2019.**

(6 Marks)

(Total: 20 Marks)

End of question paper