CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

# F1.3: FINANCIAL ACCOUNTING

DATE: FEBRUARY 2025

MODEL ANSWERS AND MARKING GUIDE

# SECTION A

**QUESTION ONE:**

a) Principles of accounting (2 marks for each well-explained principle, max 6 and 1 mark for each outlined principle not explained
b) Measurement bases (Award 1 mark for each correct measurement base well explained, Max. 4 marks, award 0.5 marks only if a measurement base is given and not explained)
c)

| Particulars | Marking |
|---|---|
| Revenues | 0.5 |
| Less Return inwards | 0.5 |
| Net Revenues | |
| Less Cost of goods sold(W1) | |
| Gross Profit | |
| Add other operating incomes | |
| Rental income | 0.5 |
| Gross Income | |
| Less Operating costs(W2) | |
| Earnings Before Interest and Tax (EBIT) | |
| Less Interest expenses(W6) | 0.5 |
| Earnings Before Tax (EBT) | |
| Less Tax of 30% | 0.5 |
| Profit for the year | |
| Add revaluation surplus(W7) | |
| **Total comprehensive income** | 0.5 |

| | |
|---|---|
| Non-Current Assets | |
| Buildings(W4) | |
| Motor Vehicle(W3) | |
| Computers and Accessories(W5) | |
| Total Non-current Assets | |
| Current Assets | |
| Receivables | 0.5 |
| Cash at hand | 0.5 |
| Cash at Bank | 0.5 |
| Staff Debtors | 0.5 |
| Inventory(W7) | |
| Total Current Assets | |
| **Total Assets** | 0.5 |
| Total Equity and Liabilities | |
| Equity | |
| Ordinary share capital(W11) | |
| Retained earnings | 0.5 |

| | |
|---|---|
| Revaluation reserve(W10) | |
| Total Liabilities | |
| Non-current Liabilities | |
| Loan from BRD | 0.5 |
| Current Liabilities | |
| Payables | 0.5 |
| Provisions for legal proceedings | 0.5 |
| Income tax payable(W12) | |
| Accrued Salary | 0.5 |
| Interest payable(W9) | 0.5 |
| **Total Equity and Liabilities** | 0.5 |

| | |
|---|---|
| **1 Cost of Goods sold** | |
| Opening Inventory | 0.5 |
| Add purchases | 0.5 |
| Less Return outwards | 0.5 |
| Less closing inventory(W7) | |
| **COS** | |
| **2 Operating costs** | |
| Maintenance and Repairs | 0.5 |
| Salaries and Wages(W8) | |
| Office stationaries | 0.5 |
| Light and Power | 0.5 |
| Telephone expenses | 0.5 |
| Transport and Delivery costs | 0.5 |
| Depreciation(W6) | 0.5 |
| Provision for legal proceeding | 0.5 |
| **Total operating costs** | |
| 3 Vehicle | |
| At cost | 0.5 |
| Less acc Depreciation | 0.5 |
| NBV as at 01/11/2021 | 0.5 |
| Depreciation rate | |
| Less (Depreciation expense is 20% of NBV as at 01/11/2021) | 0.5 |
| **NBV as at 31 October 2022** | |
| 4 Building | |
| At cost | 0.5 |
| Less acc Depreciation | 0.5 |
| NBV as at 01/11/2021 | 0.5 |
| Depreciation rate | |
| Less (Depreciation expense is 5% of Cost) | |
| Add Revaluation surplus | 0.5 |
| **NBV as at 31 October 2022** | |
| 5 Computer and Accessories | |

| | |
|---|---|
| At cost | 0.5 |
| Less acc Depreciation | 0.5 |
| NBV as at 01/11/2021 | 0.5 |
| Depreciation rate | |
| Less (Depreciation expense is 50% of NBA as at 01/11/2021) | 0.5 |
| **NBV as at 31 October 2022** | |
| **6 Total Depreciation** | |
| **7 Closing inventory** | |
| As at 31st October 2022 | 0.5 |
| Less repair costs | 0.5 |
| **Closing inventory** | |
| **8 Salaries and Wages** | |
| As per the TB | |
| Add Withheld salary of Jacques | 0.5 |
| Less Salary Advance provided to Fred Munyemana | 0.5 |
| **Total Salaries and wages for the year** | |
| **9 Interest expense** | |
| Total Loan | 0.5 |
| Interest rate | |
| Interest expense for 12 months | |
| **Interest expense for FY ended 31 October 2022(4 Months)** | 0.5 |
| **10 Revaluation reserve** | |
| Revalued Amount at at 31st October 2022 | 0.5 |
| Carrying amount | 0.5 |
| **Revaluation surplus** | |
| **11 Share capital** | 0.5 |
| Par share price | |
| No of shares (500,000,000/2) | 0.5 |
| Transferred retained earnings | |
| Add existing | |
| **Total ordinary share capital as at 30/10/2022** | |
| **12 Income tax payable** | |
| Total income tax | 0.5 |
| Less Prepayments made | 0.5 |
| **Tax Payable** | |

**Note: a student who does its workings at the face of the financial statements should be awarded full marks as the one who does them separately**

iii) Statement of changes in equity (Award 0.5 Mark for each correct line item including 1 mark for grand total Max. 4 Marks).

4

| **Total Marks** | **40** |
|---|---|

**Detailed Answers**

a) Principles of accounting

- **Going Concern.** Continuity of the entity in its present form for the foreseeable future/there is no intention to put the company into liquidation or to drastically cut back the scale of operations
- **Prudence.** Cautious presentation of the entity's financial position. Profits are recognized only when realized while losses are provided for as soon as they are foreseen
- **Accruals.** Revenue earned in the period matched with costs incurred in earning it, not as money is received or paid. It is an accounting concept that requires transactions to be recorded in the time period in which they occur, regardless of when the actual cash flows for the transaction are received.
- **Consistency.** There is similar accounting treatment of like items within each accounting period and from one period to the next. The consistency principle states that business should maintain the same accounting methods or principles throughout the accounting periods, so that users of the financial statements or information are able to make meaningful conclusions from the data.
- **Entity.** That the accounts recognize the business as a distinct separate entity from its owners
- **Money Measurement.** Accounts only deal with those items to which a monetary value can be attributed
- **Materiality.** If omission, misstatement or non-disclosure affects the view given, the item is material and disclosure is required. Materiality is a concept that determines whether the omission or misstatement of information in a financial report would impact a reasonable user's decision-making. If information is significant, it is material. If the information is insignificant or irrelevant, it is said to be immaterial.
- **Substance over Form.** Recognizes economic substance from legal form e.g. assets acquired on hire purchase. Substance over form in accounting refers to a concept that transactions recorded in the financial statements and accompanying disclosures of a company must reflect their economic substance rather than their legal form.

b) The framework identifies four measurement bases, which are used to a different degree on different items and in varying combinations in financial statements:

1. **Historical cost:** Historical cost is used where the basis for computing the carrying amount of an asset is the amount of cash paid to acquire it in the first place.
2. **Current cost:** This measurement base corresponds to the amount of cash that would need to be paid to replace the item today. The idea here is to state financial statements in such a way that current economic conditions are considered, as opposed to just reflecting historical "price tags" from past transactions.
3. **Realizable value**: A realizable value is the amount of cash that could be obtained if the asset were sold today in an orderly, non-forced transaction.

4. **Present value**: A present value is equal to the discounted value of all future benefits that are expected to be generated by the asset in the normal course of business.

c)

**i) Statement of Profit or Loss and other comprehensive income**

| **Particulars** | **FRW "000"** | **FRW "000"** |
|---|---|---|
| Revenues | 3,560,000 | |
| Less Return inwards | (18,500) | |
| **Net Revenues** | | **3,541,500** |
| Less Cost of goods sold(W1) | 1,952,350 | |
| Gross Profit | | 1,589,150 |
| Add other operating incomes | | |
| Rental income | 15,000 | |
| **Gross Income** | | **1,604,150** |
| Less Operating costs(W2) | 675,740 | |
| **Earnings Before Interest and Tax (EBIT)** | | **928,410** |
| Less Interest expenses(W9) | 3,933 | |
| **Earnings Before Tax (EBT)** | | **924,477** |
| Less Tax of 30% | 277,343 | |
| **Profit for the year** | | **647,134** |
| Add revaluation surplus(W10) | 118,250 | |
| **Total comprehensive income** | | **765,384** |

**ii) ii) Statement of Financial Position**

| **Non-Current Assets** | **FRW "000"** | **FRW "000"** |
|---|---|---|
| Buildings(W4) | 700,000 | |
| Motor Vehicle(W3) | 95,600 | |
| Computers and Accessories(W5) | 31,250 | |
| **Total Non-current Assets** | | **826,850** |
| Current Assets | | |
| Receivables | 350,000 | |
| Cash at hand | 500 | |
| Cash at Bank W13 | 339,250 | |
| Staff Debtors | 5,470 | |
| Inventory(W7) | 543,400 | |
| **Total Current Assets** | | **1,238,620** |
| **Total Assets** | | **2,065,470** |
| | | |
| Total Equity and Liabilities | | |
| Equity | | |
| Ordinary share capital | 750,000 | |
| Retained earnings | 647,134 | |
| Revaluation reserve(W10) | 118,250 | |
| **Total Equity** | | **1,515,384** |
| Total Liabilities | | |
| Non-current Liabilities | | |

| | | |
|---|---|---|
| Loan from BRD | 188,790 | |
| **Total Non-current Liabilities** | | **188,790** |
| Current Liabilities | | |
| Payables | 215,000 | |
| Provisions for legal proceedings | 6,250 | |
| Income tax payable(W12) | 69,336 | |
| Accrued Salary | 2,560 | |
| Interest payable(W9) | 3,933 | |
| Total Current Liabilities | | **297,079** |
| Total Equity and Liabilities | | **2,001,253** |

**iii) iii) Statement of Change in Equity**

| **Particulars** | **Ordinary capital** | **Retained earnings** | **Revaluation reserve** | **Total** |
|---|---|---|---|---|
| As at 01/11/2021 | 500,000 | 295,000 | - | 795,000 |
| Profit for the year | | 647,134 | | 647,134 |
| Addition for the year(W10) | | | 118,250 | 118,250 |
| Transfer made during the year | 250,000 | -250,000 | | 0 |
| **Total** | **750,000** | **692,134** | **118,250** | **1,560,384** |

| **1 Cost of Goods sold** | |
|---|---|
| Opening Inventory | 650,000 |
| Add purchases | 1,852,000 |
| Less Return outwards | -6,250 |
| Less closing inventory(W7) | -543,400 |
| **COS** | **1,952,350** |

| **2 Operating costs** | |
|---|---|
| Maintenance and Repairs | 28,000 |
| Salaries and Wages(W8) | 447,090 |
| Office stationaries | 25,000 |
| Office refreshments | 25,000 |
| Light and Power | 12,000 |
| Telephone expenses | 38,500 |
| Transport and Delivery costs | 7,500 |
| Depreciation(W6) | 86,400 |
| Provision for legal proceeding | 6,250 |
| **Total operating costs** | **675,740** |

| **3 Motor Vehicle** | |
|---|---|
| At cost | 128,000 |
| Less acc Depreciation | -8,500 |
| NBV as at 01/11/2021 | 119,500 |
| Depreciation rate | 20% |

| | |
|---|---|
| Less (Depreciation expense is 20% of NBV as at 01/11/2021) | 23,900 |
| **NBV as at 31 October 2022** | **95,600** |
| | |
| **4 Building** | |
| At cost | 625,000 |
| Less acc Depreciation | 12,000 |
| NBV as at 01/11/2021 | 613,000 |
| Depreciation rate | 5% |
| **Less (Depreciation expense is 5% of Cost)** | **31,250** |
| **NBV 31.10.2022** | **581,750** |
| Add Revaluation surplus | 118,250 |
| NBV as at 31 October 2022 | 700,000 |
| | |
| **5 Computer and Accessories** | |
| At cost | 95,000 |
| Less acc Depreciation | 32,500 |
| NBV as at 01/11/2021 | 62,500 |
| Depreciation rate | 50% |
| Less (Depreciation expense is 50% of NBA as at 01/11/2021) | 31,250 |
| NBV as at 31 October 2022 | 31,250 |
| | |
| **6 Total Depreciation** | **86,400** |
| | |
| 7 Closing inventory | |
| As at 31st October 2022 | 560,000 |
| Less repair costs | -16,600 |
| Closing inventory | 543,400 |
| | |
| **8 Salaries and Wages** | |
| As per the TB | 450,000 |
| Add Withheld salary of Jacques | 2,560 |
| Less Salary Advance provided to Fred Munyemana | -5,470 |
| Total Salaries and wages for the year | 447,090 |
| | |
| **9 Interest expense** | |
| Total Loan | 188,790 |
| Interest rate | 6.25% |
| Interest expense for 12 months | 11,799 |
| Interest expense for FY ended 31 October 2022(4 Months) | 3,933 |
| | |
| **10 Revaluation reserve** | |
| Revalued Amount as at 31st October 2022 | 700,000 |
| **Carrying amount** | **581,750** |
| **Revaluation surplus** | **118,250** |
| | |
| **11 Share capital** | 500,000,000 |
| Par share price | 2 |

| | |
|---|---|
| No of shares (500,000,000/2) | 250,000,000 |
| Transferred retained earnings | 250,000,000 |

**12 Income tax payable**

| | |
|---|---|
| **Total income tax** | 277,343 |
| Less Prepayments made | 208,007 |
| **Tax Payable** | **69,336** |

**13 Cash at Bank**

| | |
|---|---|
| Balance as per TB | 339,250 |
| Loan from BRD | 118,790 |
| **Bank balance** | **458,040** |

## SECTION B

**QUESTION TWO**

**MARKING GUIDE**

**a)** Limitations of ratio analysis (1 mark for each well explained limitation, max 4 marks)

**b)**

| | |
|---|---|
| Cash flows from Operating activities | |
| Profit before tax | 1 |
| Depreciation expense | 1 |
| Loss on the disposal of Machinery(W1) | |
| Interest expense | 1 |
| Increase in inventory | 1 |
| Increase in Receivables | 1 |
| Increase in Payables | 1 |
| **Cash generated from operating activities** | |
| Less Interest paid | 1 |
| **Less Tax Paid (W2)** | |
| Net cash from operating activities | |
| | |
| Cash from investing activities | |
| Acquisition of Machinery | 1 |
| Cash proceeds from disposal of Machinery | 1 |
| **Dividend paid** | |
| Net cash spent on investing activities | |

| | |
|---|---|
| | |
| Cash from financing activities | |
| Loan repaid (W3) | |
| **Cash collected from issued shares (W4)** | |
| Net cash flows spent on financing activities | |
| Decrease in cash and cash equivalents | 0.5 |
| Cash balance as at 01/01/2021 | 1 |
| **Cash Balance as at 31/12/2021** | 0.5 |
| | |
| 1 Disposal of Machinery | |
| Sales proceeds | 0.5 |
| Less Carrying Value | 0.5 |
| **Loss on disposal** | |
| | |
| 2 Tax Paid | |
| Opening tax payable | 0.5 |
| Add tax for the year | 0.5 |
| Less Closing tax payable | 0.5 |
| **Tax Paid** | |
| | |
| 3 Loan repaid | |
| Opening Loan balance | 0.5 |
| Closing loan balance | 0.5 |
| **Loan repaid** | |
| | |
| 4 Issued shares | |
| Opening Share capital | 0.5 |
| Opening share premium | 0.5 |
| Total opening | |
| Closing share capital | |
| closing share premium | 0.5 |
| Total closing | |
| **Cash collected from issued shares** | |

| | |
|---|---|
| Total | 20 |

**Detailed Answers**

**a) Limitations of ratio analysis**

- The source information on which ratios are based is usually the final accounts of a business comprising of the Statement of Comprehensive Income and the Statement of Financial Position of the concern in question. The Statement of Financial Position is a position of the firm at a specific point in time. If the Statement of Financial Position has been drawn up one month earlier or later it would perhaps have shown a completely different picture especially the Current Asset/Current Liability situation. The Statement of Financial Position is a static piece of accounting information and therefore any ratio based wholly or partly on Statement of Financial Position figures must suffer from the same defect. In addition, seasonal variations must also be considered.

- The revenue accounts of a business i.e. the Statement of Comprehensive Income show a cumulative or dynamic situation. In other words, the underlying trends of the concern would be equally well shown by revenue accounts drawn up for periods of less than one year bearing in mind seasonal variation. Therefore, more reliability may be placed on those ratios computed wholly from revenue account figures.
- A ratio by itself may be almost worthless, a standard will, therefore, have to be established, this may be found either from a firm at a similar stage of development in the same industry, or from previous years' accounts of the same firm. As sources of information, these have their limitations as they are based on published accounts.
- Ratio analysis does not provide the answers to business problems. It is a tool, which enables the financial manager or investigator to ask the right questions.

b) Zindiro Business Company Cash flow statement for the year ended 31st December 2021

| | FRW "000" | FRW "000" |
|---|---|---|
| Cash flows from Operating activities | | |
| Profit before tax | 392,000 | |
| Depreciation expense | 118,000 | |
| Loss on the disposal of Machinery(W1) | 18,000 | |
| Interest expense | 28,000 | |
| Increase in inventory | (4,000) | |
| Increase in Receivables | (18,000) | |
| Increase in Payables | 6,000 | |
| **Cash generated from operating activities** | **540,000** | |
| Less Interest paid | (28,000) | |
| **Less Tax Paid (W2)** | **(108,000)** | |
| Net cash from operating activities | | 404,000 |
| | | |
| Cash from investing activities | | |
| Acquisition of Machinery | (90,000) | |
| Cash proceeds from disposal of Machinery | 12,000 | |
| **Dividend paid** | **(66,000)** | |
| Net cash spent on investing activities | | (144,000) |
| | | |
| Cash from financing activities | | |
| Loan repaid (W3) | (300,000) | |
| **Cash collected from issued shares (W4)** | **32,000** | |
| Net cash flows spent on financing activities | | (268,000) |
| Decrease in cash and cash equivalents | | (8,000) |
| Cash balance as at 01/01/2021 | | 56,000 |
| **Cash Balance as at 31/12/2021** | | **48,000** |

1 Disposal of Machinery

| | |
|---|---|
| Sales proceeds | 12,000 |
| Less Carrying Value | 30,000 |
| **Loss on disposal** | **(18,000)** |

2 Tax Paid

| | |
|---|---|
| Opening tax payable | 86,000 |
| Add tax for the year | 124,000 |
| Less Closing tax payable | (102,000) |
| **Tax Paid** | **108,000** |

3 Loan repaid

| | |
|---|---|
| Opening Loan balance | 500,000 |
| Closing loan balance | 200,000 |
| **Loan repaid** | **300,000** |

4 Issued shares

| | |
|---|---|
| Opening Share capital | 340,000 |
| Opening share premium | 24,000 |
| Total opening | 364,000 |
| Closing share capital | 360,000 |
| closing share premium | 36,000 |
| Total closing | 396,000 |
| **Cash collected from issued shares** | **32,000** |

**QUESTION THREE**

**a)** Difference between exchange and non-exchange transactions in accordance with IPSAS 9 and IPSAS 23 award 1.5 marks for well explained definition of each max 3 marks 3

**b)** i) Statement of revenue and expenditure (Award 0.5 Marks for each posting except totals and subtotals, Max. 7 Marks) 7

ii) - Statement of financial position (Award 1 Mark for each correct posting that doesn't require working except totals and subtotals, Max. 6 Marks) - Workings award as indicated below 10

| | |
|---|---|
| Depreciation | |
| Vehicle | |
| NBV at 01/07/2021 | 0.5 |
| Depreciation rate | |
| Depreciation expense | 0.5 |
| **NBV as at 30/06/2022** | |
| | |
| Furniture and Equipment | |
| NBV at 01/07/2021 | 0.5 |
| Acquisitions for the year | |
| Total before depreciation for the year | |
| Depreciation rate | |
| Depreciation expense | 0.5 |
| **NBV as at 30/06/2022** | |
| | |
| Building | |
| At cost | 0.5 |
| Accumulated depreciation (5%*2) | |
| Depreciation rate | |
| Depreciation expense | |
| NBV as at 30/06/2022 before revaluation | 0.5 |
| Revaluation surplus | |
| **NBV as at 30/06/2022** | |
| | |
| Total Depreciation | |
| | |
| Revaluation Reserve | |
| Revalued amount | 0.5 |
| Carrying value | 0.5 |
| **Revaluation surplus** | |

Total 20

Detailed Answers

a) Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. This might be thought of as being equivalent to a commercial transaction which explains why this IPSAS is based on an IFRS (IAS 18, Revenue). So when, for example, a public sector provides goods and/or services for which it receives in return a payment that is related to their market value then it should apply IPSAS 9 in its accounting treatment. If on the other hand, there is no exchange of approximately equal value then IPSAS 23 will apply – such transactions will be described as 'non-exchange' in nature. This will be the case for many public sector transactions. For example, when governments raise taxation revenues, there is no direct correlation between them and consequent expenditures. Although the taxpayer will rightly expect 'value' from their tax contributions, it is not normally possible to directly match their individual contributions to say expenditures on health, education, defence or many other public services.

b)

i) RAB' Statement of Revenue and Expenditure for the period ended 30th June 2022

| | | |
|---|---|---|
| Revenues | FRW "000" | |
| Transfer from exchequer | 2,500,000 | |
| Transfers from government ministry | 185,000 | |
| Domestic taxes collected | 102,000 | |
| Donations | 56,000 | |
| **Total Revenues** | | **2,843,000** |
| | | |
| Expenditures | | |
| Salaries and wages | 865,000 | |
| Office stationaries | 68,500 | |
| Office refreshments | 35,000 | |
| General expenses | 45,200 | |
| Transfers to other government agencies | 200,000 | |
| Sitting allowances | 1,200 | |
| Telephone expenses | 24,000 | |
| Donations to needy families | 83,560 | |
| Mission Allowances | 66,000 | |
| Depreciation(W4) | 194,503 | |
| **Total expenditures** | | **1,582,963** |
| **Surplus for the year** | | **1,260,037** |

ii) RAB' statement of financial position as at 30th June 2022

| | | |
|---|---|---|
| **Non-Current Assets** | **FRW "000"** | **FRW "000"** |
| Furniture and Equipment(W2) | 554,512 | |
| Buildings(W3) | 700,000 | |
| Motor Vehicle(W1) | 64,875 | |
| **Total Non-Current Assets** | | **1,319,387** |
| **Current Assets** | | |

| | | |
|---|---|---|
| Cash at bank | 126,800 | |
| Inventory | 25,000 | |
| Receivables | 32,000 | |
| **Total Current Assets** | | **183,800** |
| **Total Assets** | | **1,503,187** |
| **Equity and Liabilities** | | |
| Equity | | |
| Revaluation reserve(W5) | 117,750 | |
| Surplus for the year | 1,260,037 | |
| **Total Equity** | | **1,377,787** |
| Liabilities | | |
| Payables | 88,900 | |
| PAYE Payable | 36,500 | |
| **Total Current Liabilities** | | **125,400** |
| **Total Equity and Liabilities** | | **1,503,187** |

**Workings**

| | | |
|---|---|---|
| 1 | Vehicle | |
| | NBV at 01/07/2021 | 86,500 |
| | Depreciation rate | 25% |
| | Depreciation expense | 21,625 |
| | **NBV as at 30/06/2022** | **64,875** |
| | | |
| 2 | Furniture and Equipment | |
| | NBV at 01/07/2021 | 156,800 |
| | Acquisitions for the year | 536,340 |
| | Total before depreciation for the year | 693,140 |
| | Depreciation rate | 20% |
| | Depreciation expense | 138,628 |
| | **NBV as at 30/06/2022** | **554,512** |
| | | |
| 3 | Building | |
| | At cost | 685,000 |
| | Accumulated depreciation (5%*2) | 68,500 |
| | Depreciation rate | 5% |
| | Depreciation expense | 34,250 |
| | NBV as at 30/06/2022 before revaluation | 582,250 |
| | Revaluation surplus | 117,750 |
| | **NBV as at 30/06/2022** | **700,000** |
| 4 | Total Depreciation | 194,503 |
| | | |
| 5 | Revaluation Reserve | |
| | Revalued amount | 700,000 |
| | Carrying value | 582,250 |
| | **Revaluation surplus** | **117,750** |

**QUESTION FOUR**

**a)** **autonomous items in bank reconciliation exercise.** Award 1 mark for each autonomous item outlined- max 4 marks 4

**b)** i) adjusted cashbook (award 1 mark for each correct posting made as per the model answers-max 6 marks) 6

ii) bank reconciliation (award 1 mark for each correct posting made as per the model answers-max 5 marks) 5

**c)** As indicated below 5

| | |
|---|---|
| Total cost of the extraction machine | 0.5 |
| Government Grant granted (50%) | 0.5 |
| Depreciation of the machine | |
| Amortization of the Grant over 20 years | |
| | |
| **P&L Extract** | |
| Depreciation | 0.5 |
| Amortization income | 0.5 |
| Net impact in P&L | |
| | |
| **SFP Extract** | |
| **Non-Current Assets** | |
| Extraction machine | 0.5 |
| Acc Depreciation | 0.5 |
| Net Book Value | |
| **Non-current Liabilities** | |
| Deferred Income | 1.0 |
| | |
| **Current Liabilities** | |
| Deferred Income | 1.0 |

5.

Total 20

**a) autonomous items in bank reconciliation exercise**

- Bank Charges and Commission
- Bank Interest
- Standing Orders
- Credit Transfers (Bank Giro)
- Returned Cheques
- Direct Debits

**b) i) Adjusted Cashbook**

| **Details** | **FRW "000"** | **Details** | **FRW "000"** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Dividends received | 90,000 | Bal B/f | 135,000 |
| Reversal of re-issued cheque | 11,250 | Bank charges | 15,750 |
| | | Correction of under cast | 4,500 |
| | | Correction of drawn cheque | 22,500 |
| | | | |
| Bal C/d | 76,500 | | |
| | **177,750** | | **177,750** |

**ii) Bank Reconciliation**

| | | |
|---|---|---|
| Balance as per bank statement | | 78,750 |
| Less payments not presented | | |
| Cheque to Miss Colombe | 225,000 | |
| Re-issued cheque not presented | 11,250 | |
| **Total un presented cheques** | | **236,250** |
| Add lodgments not on bank statement | | |
| Cheque received from TNT | 180,000 | |
| Interest on deposits delayed | 54,000 | |
| **Total un lodged cheques** | | **234,000** |
| **Balance as per adjusted cashbook** | | **76,500** |

c) Government Grant

**Determination of Grant per year**

| | |
|---|---|
| Total cost of the extraction machine | 2,000,000 |
| Government Grant granted (50%) | 1,000,000 |
| Depreciation of the machine | 100,000 |
| Amortization of the Grant over 20 years | 50,000 |

**P&L Extract**

| | |
|---|---|
| Depreciation | (100,000) |
| Amortization income | 50,000 |
| Net impact in P&L | (50,000) |

**SFP Extract**

| | |
|---|---|
| Non-Current Assets | |
| Extraction machine | 2,000,000 |
| Acc Depreciation | (100,000) |
| Net Book Value | 1,900,000 |
| | |
| Non-current Liabilities | |
| Deferred Income | 900,000 |
| | |
| Current Liabilities | |
| Deferred Income | 50,000 |

**QUESTION FIVE**

**a)** Ratio analysis. Award 0.5 marks for the formula of each ratio asked-max 2.5 marks. Award 1.5 marks for computation of each ratio asked-max 5 marks as indicated below 2.5

| | Marks |
|---|---|
| Formula for Capital employed | 0.5 |
| | |
| Profit before interest and tax | 0.5 |
| Capital Employed | |
| Correct answer of ROCE | 0.5 |
| | |
| Long term debt | 0.5 |
| Shareholders' equity | 0.5 |
| Correct answer of Gearing ratio | 0.5 |
| | |
| Profit before interest and tax | 0.5 |
| Interest expense | 0.5 |
| Interest cover | 0.5 |
| | |
| Current Assets | |
| Less Inventory | |
| | 0.5 |
| Current Liabilities | 0.5 |
| Correct answer of Quick ratio | 0.5 |
| | |
| Trade receivables | 0.5 |
| Credit sales | 0.5 |
| Correct answer of Receivables days | 0.5 |

7.5

**b)** Award 1 mark for each interpretation of each of the above ratio by comparing the performance of the period except for return on capital employed where you award 2 marks-max 6 marks 5

**c)** Award 2 marks for the definition of temporary difference and 2 for the definition of permanent different-max 4 marks 4

Total 20

a) i)

| | | |
|---|---|---|
| Return on Capital employed= EBIT/Capital employed | | |
| Capital employed=Shareholders equity plus long term debts | | |
| EBIT | 640,800 | 153,400 |
| Capital Employed (TA- CL) or (TE+LL) | 4,472,100 | 4,265,200 |

| | | |
|---|---|---|
| ROCE | 14.33% | 3.60% |
| | | |
| Gearing ratio=Total long-term debt/ (shareholders equity plus long term debt) | | |
| Long term debt | 2,500,000 | 2,447,840 |
| Shareholders' equity+ long term debt | 4,472,100 | 4,265,200 |
| Gearing ratio | 55.90% | 57.40% |
| | | |
| Interest Cover=EBIT/Interest expense | | |
| EBIT | 640,800 | 153,400 |
| Interest expense | 125,000 | 105,000 |
| Interest cover | 5.13 times | 1.46 times |
| | | |
| Quick ratio=Current asset less inventory/Current liabilities | | |
| Current Assets | 1,303,100 | 1,193,400 |
| Less Inventory | -485,000 | -458,600 |
| | 818,100 | 734,800 |
| Current Liabilities | 416,000 | 586,200 |
| Quick ratio | 1.97 | 1.25 |
| | | |
| Receivable collection period (Trade receivables/credit sales) *365 | | |
| Trade receivables | 685,600 | 589,000 |
| Credit sales | 2,584,200 | 1,895,200 |
| | 97 days | 113 days |

**Required:**

**ii) Using the ratios calculated above, assess the performance of KIC comparing 2021 with 2020.**

- The performance of the company grew by almost 11% from 3.6% recorded in last financial year to 14.3% mainly due to increase in earnings before interest and tax
- The gearing level of the company reduced from 57.4% recorded in 2020 compared to 55.9% mainly due to increase in shareholders' equity as result of rapid increase in the profitability of the company with debt level almost remaining same.
- Interest cover measures the capacity of the company to use its operating profit to service its long-term sources of finance. The capacity of the company increased during the year due to increase of operating profit. The capacity of the company increased from 1.46 times to 5.13 times of interest expense
- Quick ratio measures the liquidity capacity of the company to service its short-term financial obligations. The quick ratio of the company moved from 1.25 to 1.97. it is recommended to have a quick ratio of at least 1 depending for companies with low inventory turnover. Ideally the performance of the company is stable

Receivable collection days decreased from 133 days in 2020 to 97 days in 2021. This ideally means that the company is more efficient in recovering its debts. However, this should be done in a careful manner to avoid upsetting debtors.

b) Difference between temporary difference and permanent difference

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and the tax base of the asset or liability. The tax base is the amount attributed to that asset or liability for tax purposes (often known as the Tax Written Down Value) whereas permanent differences are Some income and expenses may not be chargeable / deductible for tax and therefore there will be a permanent difference between accounting and taxable profits. That is, the difference will not reverse in the future

## End of question paper