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

**DATE: TUESDAY 25, FEBRUARY 2025**

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**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) Gilbert is a newly recruited Accountant at KGL Company who is not a Certified Accountant. During post Audit discussions with company's Auditors, he kept on hearing Auditors talking about company not adhering to key principles of accounting and was wondering what these are and what they mean.

**Required:**

As a Financial Accountant expert, **clearly explain any 3 principles of Accounting** (6 Marks)

b) The Conceptual framework defines elements of financial statements as assets, liabilities, and equity, which relate to a reporting entity's financial position, and income and expenses, which relate to a reporting entity's financial performance. However, for these elements to be recognised in financial statements, they must be quantified in monetary terms, which requires selecting a measurement basis.

**Required:**

**Explain FOUR measurement bases as used in accounting conceptual framework?**

(4 Marks)

c) Kigali IT Solutions Business Ltd (KISBL) is a Kigali based business that specialises in selling IT related Equipment. Its Financial Year (FY) starts in November and ends in October each year. Below is its Trial Balance for FY ended 31<sup>st</sup> October 2022

<b>Particulars</b>	<b>FRW"000"</b>	<b>FRW"000"</b>
Salaries and Wages	450,000	
Office refreshments	25,000	
Rent		15,000
Maintenance and Repairs	28,000	
Office stationaries	25,000	
Light and Power	12,000	
Ordinary share capital as at 01/11/2021 at FRW 2 per share		500,000
Receivables	350,000	
Payables		215,000
Cash at Bank	339,250	
Cash in hand	500	
Sales Revenues		3,560,000
Returns	18,500	6,250
Purchases	1,852,000	
Computer and Accessories Depreciation as at 01/11/2021		32,500
Buildings Depreciation as at 01/11/2021		12,000
Motor Vehicle Depreciation as at 01/11/2021		8,500
Transport and Delivery costs	7,500	
Motor Vehicle at cost	128,000	

Buildings at cost	625,000	
Computers and accessories at cost	95,000	
Telephone expenses	38,500	
Inventory	650,000	
Retained Earnings as at 01/11/2021		295,000
	<b>4,644,250</b>	<b>4,644,250</b>

#### **Additional information;**

1. Depreciation of Motor Vehicle is at a rate of 20% on a reducing balance method.
2. Depreciation for Buildings is at 5% straight line method of Depreciation
3. Depreciation for Computers and accessories is at 50% reducing balance method
4. KISBL was granted a business loan under the Economic Recovery Fund Phase II on 1<sup>st</sup> July 2022 of FRW 188,790,000 at an interest rate of 6.25% per annum for a period of 15 years by Development Bank of Rwanda (BRD) and was given grace period for only principal for one (1) year up to 30<sup>th</sup> June 2023. Interests are paid per semester in arrears
5. The inventory as at 31<sup>st</sup> October 2022 was FRW 560,000,000. However, during the preparation of financial statements in November 2022, it was discovered that some IT Equipment of FRW 51,000,000 in its stock had defaults and required FRW 16,600,000 as repair costs to be restored to their original state.
6. During the FY ended 31<sup>st</sup> October, KISBL fired Jacques as one of its employees for misconduct but on 25<sup>th</sup> October 2022, Jacques sued KISBL to court for dismissing him illegally. The available information indicates that it is probable that KISBL will lose the case and if it happens the history shows that it will be liable to pay Jacques FRW 6,250,000. KISBL withheld his last month salary until the legal proceedings are over. Jacques was earning gross salary of FRW 2,560,000 per months. This withheld salary was never recorded in the books of accounts
7. On 15<sup>th</sup> October 2022, Fred Munyemana, an employee of KISBL had a wedding and to finance his wedding his employer advanced him with FRW 5,470,000 to be repaid within 6 months effective from November 2022 salary. This amount was part of total salaries and wages reported in Trial Balance as at 31<sup>st</sup> October 2022
8. On 15<sup>th</sup> August 2022, KISBL Directors made a decision to convert retained earnings of FRW 1 per share into Ordinary Share capital
9. KISBL is subject to income tax of 30%; 75% of income tax had already been paid to the tax authorities
10. On 31<sup>st</sup> October 2022, KISBL hired a professional Valuer to revalue its building. The professional Valuer concluded that the value of the building as at 31<sup>st</sup> October 2022 was FRW 700,000,000

**Required:**

- i) Prepare KISBL's Statement of Profit or Loss and other comprehensive incomes for the year ended 31<sup>st</sup> October 2022 in accordance with IAS 1. (12 Marks)**
  - ii) Prepare KISBL's Statement of Financial Position as at 31<sup>st</sup> October 2022 (14 Marks)**
  - iii) Prepare KISBL's Statement of Changes in Equity for the year ended 31<sup>st</sup> October 2022. (4 Marks)**
- (Total: 40 Marks)**

## SECTION B

### QUESTION TWO

a) Explain FOUR limitations of ratio analysis as an interpretation tool in accounting: (4 Marks)

b) Zindiro Business Company is a company operating in the City of Kigali. Below is its statements of Profit or Loss for the year ended 31<sup>st</sup> December 2021 and Statement of Financial Position as at 31<sup>st</sup> December 2020 and 2021

#### Statement of profit or loss for the year ended 31<sup>st</sup> December 2021

	FRW "000"
Revenue	720,000
Cost of goods sold	70,000
<b>Gross Profit</b>	<b>650,000</b>
Operating expenses	230,000
<b>Earnings Before Interest and Tax (EBIT)</b>	<b>420,000</b>
Interest expense	28,000
<b>Earnings Before Tax (EBT)</b>	<b>392,000</b>
Tax	124,000
<b>Profit for the year</b>	<b>268,000</b>

#### Statement of financial positions

	2021		2020	
	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Non-current Assets				
Buildings	480,000		495,000	
Motor Vehicle	254,000		287,000	
IT related equipment	114,000		115,600	
Machinery	430,000		438,400	
<b>Total Non-current assets</b>		<b>1,278,000</b>		<b>1,336,000</b>
Current Assets				
Inventory	24,000		20,000	
Receivables	76,000		58,000	
Cash at hand	48,000		56,000	
Total current assets		<b>148,000</b>		<b>134,000</b>
<b>Total Assets</b>		<b>1,426,000</b>	-	<b>1,470,000</b>
Equity and Liabilities				
Equity				
Ordinary share capital	360,000		340,000	
Retained earnings	716,000		514,000	
Share premium	36,000		24,000	

<b>Total Equity</b>		<b>1,112,000</b>		<b>878,000</b>
Non-current Liabilities				
Loan from BK	200,000		500,000	
<b>Total Non-current liabilities</b>		<b>200,000</b>		<b>500,000</b>
Current Liabilities				
Trade payables	12,000		6,000	
Tax payable	102,000		86,000	
<b>Total current Liabilities</b>		<b>114,000</b>		<b>92,000</b>
<b>Total Equity and Liabilities</b>		<b>1,426,000</b>		<b>1,470,000</b>

1. Zindiro Business Company disposed of some of its non-current assets with proceeds of FRW 12,000,000. Non-current assets disposed of during the financial year had carrying value of FRW 30,000,000.
2. The total depreciation for the year ended 31<sup>st</sup> December 2021 was FRW 118,000,000
3. During the year ended 31<sup>st</sup> December 2021, Zindiro Business Company acquired new machinery equivalent of FRW 90,000,000
4. During the year ended the company declared and paid Dividends to Shareholders of FRW 66,000,000
5. It is company's policy to treat Dividends as an investing activity.

**Required:**

**Prepare a Statement of Cash Flows for Zindiro Business Company for the year ended 31<sup>st</sup> December 2021 in accordance with requirements of IAS 7 using the indirect method.**

(16 marks)

**(Total: 20 Marks)**

**QUESTION THREE**

- a) Briefly explain the difference between exchange and non-exchange transactions in accordance with IPSAS 9 and IPSAS 23 (3 Marks)

- b) RAB is a government agency responsible for promoting agricultural activities within the country to shift farmers from traditional farming to modern farming. Below is r receipts and payments account for the FY 2021/2022

	<b>FRW "000"</b>	<b>FRW "000"</b>
Transfer from Treasury		2,500,000
Transfers from other government ministries		185,000
Administrative fees collected		102,000
Donations		56,000
Furniture and Equipment	536,340	
Salaries and wages	865,000	
Office stationaries	68,500	

Office refreshments	35,000	
Miscellaneous 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	

<b>Assets and Liabilities as at 30/06/2022</b>	<b>FRW "000"</b>
Buildings at cost	685,000
Net Book Value of Motor Vehicle as at 01/07/2021	86,500
Net Book Value of Office furniture and equipment as at 01/07/2021	156,800
Receivables	32,000
Payables	88,900
PAYE Payable	36,500
Cash at bank	126,800
Inventory	25,000

### **Additional Information**

- It is the Agency policy to depreciate non-current assets as follows:
  - Buildings at 5% straight line method. The building was acquired 3 years ago
  - Furniture and Equipment at 20% reducing balance.
  - Motor Vehicle at 25% reducing balance.
  - It is the Agency's policy to account for full depreciation in year of acquisition and not in year of disposal
- To comply with the requirements of IPSAS 17 property, plant and Equipment, RAB on 30<sup>th</sup> June 2022 revalued its buildings and the revaluation revealed that the buildings had a value of FRW 700 million

### **Required:**

- Prepare a statement of Revenues and Expenditures for RAB for the year ended 30<sup>th</sup> June 2022 in accordance with IPSAS 1.** (7 Marks)
- Prepare statement of financial position as at 30<sup>th</sup> June 2022** (10 Marks)  
**(Total: 20 Marks)**

## QUESTION FOUR

- a) In bank reconciliation exercise, there are items that cannot easily be traced without bank statement due to their nature commonly called “autonomous items”. **Outline at least FOUR (4) autonomous items in bank reconciliation exercise?** (4 Marks)

b) On 31<sup>st</sup> December 2018, the bank statement of Muhoza Trading Limited with BK showed a credit balance of FRW 78,750 while the cash book balance revealed that the company had an overdrawn amount of FRW 135,000. On reviewing the bank statement with the cash book, the following observations were noted;

1. A cheque drawn for FRW 225,000 in favour of Miss Colombe had been entered in the cash book but had not been presented to the bank for payment.
2. A cheque received from TNT Trading Ltd amounting to FRW 180,000, had been entered into the cash book but not reflected in the bank statement
3. Bank charges of FRW 15,750 shown on the bank statement had not been entered into the cash book.
4. The payment side of the cash book had been under cast by FRW 4,500
5. Dividends received amounting to FRW 90,000 had been paid directly to the bank and not entered into the cash book
6. A cheque of FRW 11,250 given to a supplier was entered into the wrong side of cash book
7. A cheque of FRW 11,250 which was cancelled and reissued, was never reversed and the reissued cheque of same amount was equally entered in the cash book. Both cheques were part of unpresented cheque balance.
8. Muhoza Trading Limited instructed the Bank to transfer interest on Deposit of FRW 54,000 to its current account on 27<sup>th</sup> December 2018. However, the Bank did not reflect this in the current account until 3<sup>rd</sup> January 2019. Muhoza Trading Limited had entered this amount in the cashbook as at 31<sup>st</sup> December 2018.

### Required:

- i. **Prepare adjusted cashbook for Muhoza Trading Limited for the month of December 2018.** (6 Marks)
- ii. **Prepare Bank reconciliation statement for the month of December 2018.** (5 Marks)

c) Kamu Ltd, a business dealing in methane extraction in Lake Kivu received a 50% grant towards the cost of an extraction machine, which had a cash price of FRW 2 billion. The machine has an estimated useful life of twenty (20) years and its residual value is expected to be immaterial.:

### Required:

Using deferred income method of accounting for Government grants, **show the accounting treatment of the above-mentioned grant in both statement of financial position and statement of profit or loss in first year.** (5 Marks)

*Note: Show all the necessary workings.*

**(Total: 20 Marks)**



## QUESTION FIVE

a) Kanombe Investment Corporation (KIC) is an investment vehicle for Kanombe residents that deals in different investments in the City of Kigali. Below are its financial statements for the last financial years 2020 and 2021

### Statement of Profit or Loss

	2021	2020
	FRW "000"	FRW "000"
Revenue	2,584,200	1,895,200
Cost of goods sold	1,285,200	1,256,800
<b>Gross Profit</b>	<b>1,299,000</b>	<b>638,400</b>
Less Operating expenses	658,200	485,000
<b>Operating Profit</b>	<b>640,800</b>	<b>153,400</b>
Less Interest expense	125,000	105,000
<b>Profit before tax</b>	<b>515,800</b>	<b>48,400</b>
Less income tax	154,740	14,520
<b>Earning After Tax (EAT)</b>	<b>361,060</b>	<b>33,880</b>

### Statement of Financial Position

	2021		2020	
	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Non-Current Assets				
PPE	3,585,000		3,658,000	
<b>Total Non-current Assets</b>		<b>3,585,000</b>		<b>3,658,000</b>
Current Assets				
Inventory	485,000		458,600	
Receivables	685,600		589,000	
Cash	132,500		145,800	
<b>Total Current Assets</b>		<b>1,303,100</b>		<b>1,193,400</b>
<b>Total Assets</b>		<b>4,888,100</b>		<b>4,851,400</b>
Equity and Liabilities				
Equity				
Ordinary share capital	500,000		500,000	
Retained earnings	1,472,100		1,317,360	
		<b>1,972,100</b>		<b>1,817,360</b>
Liabilities				
Non-current liabilities				
Loan	2,500,000		2,447,840	
		<b>2,500,000</b>		<b>2,447,840</b>
Current Liabilities				
Trade payables	416,000		586,200	
<b>Total Liabilities</b>		<b>416,000</b>		<b>586,200</b>
<b>Total Equity and Liabilities</b>		<b>4,888,100</b>		<b>4,851,400</b>

**Required:**

As a financial Accountant expert, calculate the following ratios

- i) **Return on Capital employed** (2 Marks)
  - ii) **Gearing ratio (debt gearing ratio)** (2 Marks)
  - iii) **Interest cover** (2 Marks)
  - iv) **Quick ratio** (2 Marks)
  - v) **Receivables collection period** (2 Marks)
- b) Using the ratios calculated above, **assess the performance of KIC by comparing 2021 with 2020.** (6 Marks)
- c) **Explain the difference between temporary and permanent differences as per IAS 12 - Income Taxes** (4 Marks)
- (Total: 20 Marks)**

**End of question paper**