CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

DATE: TUESDAY 27, MAY 2025

MARKING GUIDE AND MODEL ANSWER

SECTION A

QUESTION ONE

Marking guide:

QN	Description	Marks
a	1 mark for the definition of financial accounting 1 mark for the definition of management accounting	**2**
b	1 mark for each assumption identified and 1 mark for explanation of each identified assumption to the max 8	**8**
C i)	3 marks for determination and posting of closing inventory 3 marks for determination and posting of net sales revenues 1 marks for determination and posting of purchases value 1 mark for determination and posting of cost of sales value 1 marks for determination and posting of commission from sales on behalf of Karongi 1 1 mark for determination and posting of selling expenses 3 marks for determination and posting of depreciation expenses on Non-current asset 1 mark for posting of interest income from term deposit account 1 mark for posting of allowance for bad debts 1 mark for posting of bad debts 1 mark for posting of advertisements 1 mark for posting of bank charges 1 mark for posting of interest on overdraft 1 mark for determination and posting of salaries and wages	**20**
ii)	1 mark for determination and posting of NBV of Buildings 2 marks for determination and posting of NBV of Motor Vehicle 1 mark for determination and posting of NBV of Furniture 1 mark for determination and posting of Receivables value 1 mark for determination and posting of Payables value 1 mark for determination and posting of Ordinary share capital 1 mark for determination and posting of Retained Earnings 1 mark for determination and posting of bank overdraft balance 1 mark for posting of cash balance	**10**

Model Answer

a) What is the difference between financial accounting and management accounting?

Financial accounting is mainly a method of reporting the financial performance and financial position of a business whereas Management accounting is a management information system which analyses data to provide information as a basis for managerial action.

b) Identify and explain main 4 GAAPs assumptions?

1) **Business Entity Concept.** As per this concept, the business is treated as distinct and separate from the individuals who own or manage it.
2) **Money Measurement Concept.** A business transaction will always be recoded if it can be expressed in terms of money.
3) **The Accounting Period Concept.** We have seen that as per the going-concern concept the business entity is assumed to have an indefinite life.
4) **Accruals basis.** The effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
5) **Going concern.** The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter into liquidation or to cease trading.
6) **Materiality**. Information is material if omitting it or misstating it could influence decisions that the primary users of general-purpose financial reports make on the basis of those reports which provide financial information about a specific reporting entity.
7) **Consistency** refers to the use of the same methods for the same items (i.e. consistency of treatment) either from period to period within a reporting entity or in a single period across entities

c) i. Gakwaya & Sons Ltd Statement of Profit or Loss and other comprehensive income for the financial year ended 31st October 2023

	Frw "000"	**Frw "000"**
Sales(W2)		134,500
Less cost of sales (W4)		(40,600)
Gross profit		93,900
Add other incomes		
Interest on term deposit account	3,750	
Commission on sales made on behalf of Karongi Ltd(W5)	1,500	
Allowance for bad debts	2,000	
		7,250
Operating profit		101,150
less operating expenses		

Depreciation(W7)	12,010	
Selling expenses (W6)	1,800	
Bad debts	1,250	
Advertisements	4,500	
Salaries and wages(W10)	36,000	
Bank charges	50	
Interest on overdraft	450	
Total operating expenses		(56,060)
Profit for the year		**45,090**

Gakwaya & Sons Ltd Statement of Financial Position as at 31st December 2022

	Frw "000"	**Frw "000"**
Non-Current Assets		
Buildings(W7a)	73,500	
Motor Vehicle(W7b)	88,830	
Furniture(W7c)	5,760	
Total Non-Current Assets		**168,090**
Current Assets		
Receivables(W9)	42,500	
Inventory(W1)	44,500	
Cash	3,200	
Total Current Assets		**90,200**
Total Assets		**258,290**
Equity and Liabilities		
Equity(		
Ordinary share capital(W12)	142,500	
Retained earnings(W11)	61,290	
Total Equity		**203,790**
Liabilities		
Current Liabilities		
Payables(W13)	41,500	
Bank Overdraft(W8)	13,000	
Total current liabilities		**54,500**
Total Equity and Liabilities		**258,290**

Workings

1		Inventory	Frw "000"	Frw "000"
		Initial closing inventory		56,000
	Less	Repair costs	(11,000)	
	Less	Overstatement in cost of returned goods(50%*6M*20/120)	(500)	
				(11,500)
		Closing Inventory		**44,500**
2		Sales		
		Initial recorded sales		154,500
	Less	Return inwards not recorded	3,000	
	Less	Return inwards recorded	2,000	
	Less	Sales made on behalf of Karongi Ltd	15,000	
				(20,000)
		Net sales		**134,500**
3		Purchases		
		Initial recorded purchases		54,750
	Less	Purchases made on behalf of manager		(3,000)
	Less	Return outwards		(1,250)
		Net Purchases		**50,500**
4		Cost of sales		
		Opening inventory		34,600
		Net purchases(W3)	50,500	
		Less Closing inventory (W1)	(44,500)	
				6,000
		Cost of sales		**40,600**
5		Commission on sales made on behalf of Karongi Ltd		
		Total Sales on behalf of Karongi Ltd		15,000
		% Commission on this sale		10%
		Commission in values		**1,500**
6		Selling expenses		
		As per trial balance		2,300
		Less expenses incurred on behalf of Karongi Ltd		(500)
		Selling expenses		**1,800**

Motor Vehicle adjustments

		Motor Vehicle at cost	20,000	
		Depreciation for year ended 31/10/2021	(2,000)	
		NBV as at 31/10/2021	18,000	
		Depreciation for the year ended 31/10/2022	(1,800)	
		NBV as at 31/10/2022	16,200	
7.a		Depreciation expense		
		Depreciation for Buildings		
		Buildings at cost	90,000	
	Less	Accumulated depreciation as at 1/11/2022	(15,000)	
		NBV		75,000
		Depreciation rate		2%
		Depreciation expense for Buildings		(1,500)
		NBV at 31/10/2023		73,500
7.b		Depreciation for Motor Vehicle		
		Motor Vehicle at cost		99,000
		Add the Netbook value of written back Motor vehicle		16,200
	Less	Accumulated depreciation as at 1/11/2022		(16,500)
		NBV as at 31/10/2022 after writing back the initial motor vehicle written off		98,700
		Depreciation rate		10%
		Depreciation expense for Motor Vehicle		(9,870)
		NBV at 31/10/2023		88,830
7.c		Depreciation for Furniture		
		Furniture at cost		9,200
	Less	Accumulated depreciation as at 1/11/2022		(2,800)
		NBV		6,400
		Depreciation rate		10%
		Depreciation expense for Furniture		(640)
		NBV at 31/10/2023		5,760
		Total depreciation		**12,010**
8		**Bank balance**		
		As per trial balance		(28,500)
	Less	cheque dishonored	1,500	
	Less	Bank charges	50	
		Interest on overdraft	450	-
				(2,000)
		Direct debit capital injection from shareholder		17,500
		Adjusted Bank balance		**(13,000)**

9		Receivables		
		As per trial balance		44,000
	Less	Return inwards not recorded	(3,000)	
	Add	Dishonored cheque from a debtor	1,500	
				(1,500)
		Net Receivables		**42,500**
10		Salaries and wages		
		As per trial balance		33,000
	Add	Manager's salary initially deducted		3,000
		Total salaries and wages		**36,000**
11		Retained earnings		
		Profit for the year		45,090
		Previously written off motor vehicle not written back		16,200
		Retained earnings as at 31/10/2023		**61,290**
12		Share capital		
		Initial share capital as at 01/11/2022		125,000
		New capital introducted		17,500
		Share capital as at 31/10/2023		**142,500**
13		Payables		
		As per trial balance		28,500
	Add	Dues to Karongi Ltd		15,000
		Less commission(W5)		(1,500)
	Less	Selling expenses to be recovered from them		(500)
		Payables as at 31/10/2023		**41,500**

QUESTION TWO

Marking guide

Answer	**Marks**
Q2 a) i)- Award 1 mark for each correct entry (Dr/cr) on forfeiture	2
- Award 1 mark for each correct entry (Dr/cr) on reinstatement	2
ii) - Award 2 marks for the correct definition of forfeiture of shares	2
- Award 2 marks for explaining the circumstances leading to forfeiture	2
b) i) Award 1 mark for each correct figure in the manufacturing account except for the total and subtotals	8
ii) Award 1 mark for each correct figure in the extract income statement except for total, subtotals, and manufacturing profit	4
Total	**20**

Model answers:

a) i) When Mr. Bucyekabiri's shares are forfeited, the company needs to account for the forfeiture with the following double-entry journal entry:

Account	**Debit (Frw)**	**Credit (Frw)**
Share Capital account	1,000	
Share allotment account		500
Forfeiture account		500

ii) The forfeiture of shares refers to the cancellation of shares that were previously issued to a shareholder due to their failure to meet certain obligations, usually related to the payment of share capital.

Shares are typically forfeited when a shareholder fails to pay a call or instalment on the shares as required by the company's Articles of Association. This action is usually taken as a last resort after providing the shareholder with due notice and an opportunity to rectify the non-payment. Once the shares are forfeited, the shareholder loses all rights and interests in the shares, including any dividends, and the company can subsequently reissue the forfeited shares to other parties. Forfeiture of shares is a mechanism used by companies to enforce payment of share capital and maintain the financial integrity of the company.

ii)

Manyuwa
Manufacturing account for the year ended 31 July 2023

	FRW	FRW
Direct Material used	14,000,000	
Direct factory wages	9,100,000	
Prime cost		**23,100,000**
Factory overheads		
Royalties for bags design	2,800,000	
Other factory overheads	70,000,000	
Manager's commission **(W1)**	4,742,500	
Total Factory overhead		**77,542,500**
Adjustment for WIP: Opening inventory	2,450,000	
- Closing Inventory	(3,500,000)	(1,050,000)
Production cost		99,592,500
Manufacturing profit (25%*99,592,500)		24,898,125
Transfer price		**124,490,625**

Manyuwa
Income statement (extract) for the year ended 31 July 2023

	FRW	FRW
Sales		220,500,000
Cost of goods Sold:		
Opening Inventory	6,300,000	
Transfer Price	124,490,625	
Closing Inventory	(7,700,000)	(123,090,625)
Gross Profit		97,409,375
Other Incomes		
Manufacturing profit		24,898,125
Total Incomes		122,307,500
Expenses		
Unrealized profit (1,540,000-1,260,000) **(W2)**		(280,000)
Profit before admin. Distribution & Finance costs		**122,027,500**

Workings

W1 - Manager's Commission		
	FRW	**FRW**
Direct Material used	14,000,000	
Direct factory wages	9,100,000	
Prime cost		23,100,000
Factory overheads		
Royalties for bags design	2,800,000	
Other factory overheads	70,000,000	
Total Factory overhead		72,800,000
Adjustment for WIP: Opening inventory	2,450,000	
- Closing Inventory	(3,500,000)	(1,050,000)
Production cost		94,850,000
Manufacturing profit (25%*94,850,000)		23,712,500
Manager's Commission (20%*23,712,500)		**4,742,500**
W2 - Allowance in opening and closing inventories		
Margin = 25*100/125	**20%**	
Opening Inventory (6,300,000*20%)	1,260,000	
Closing Inventory (7,700,000*20%)	1,540,000	

QUESTION THREE

Marking guide

Answer	**Marks**
Q3)a) i) Award 0.5 for each correct figure except for the total and subtotals	5
ii) Award 1 mark for any figure that requires working (max 3 marks) Award 2 marks for the working of the Bar profit (max 2 marks) Award 0.5 for each correct figure posted, except for the total and subtotals (Max 4)	9
b)- Award 2 marks for each valid reason provided - Consider valid reasons beyond those provided in the model answer	6
Total	**20**

Model answers:

a)

i)

Mayaga Handball club, Statement of affairs as at 01 March 2022

	FRW	FRW
Assets		
Subscription Accrued	335,000	
Expenses in advance	27,500	
Inventories of bar suppliers	175,000	
Equipment for hire (4,650,000 - 650,000)	4,000,000	
Fixed deposit	2,000,000	
Bank	70,000	
Total Assets		**6,607,500**
Opening Accumulated Fund		**6,024,500**
Liabilities		
Subscriptions in advance	500,000	
Accrued expenses	8,000	
Bar Creditors	75,000	
Total Liabilities		**583,000**

ii) Mayaga Handball Club
Bar Trading Account for the year ended 28 February 2023

	FRW	FRW
Sales		1,550,000
Cost of Goods Sold		
- Opening Inventory	175,000	
- Purchases (W2)	860,000	
- Closing Inventory	(215,000)	(820,000)
Gross Profit		**730,000**

Mayaga Handball Club
Income and expenditure Account for the year ended 28 February 2023

Incomes	**FRW**	**FRW**
Subscriptions (W1)	3,370,000	
Donations	205,000	
Proceeds from equipment hire	1,845,000	
Tickets sale	800,000	
Interest income	300,000	
Gross Profit from Bar (bar trading account)	730,000	
Total Income		**7,250,000**

Expenditure		
Hire of sports field	600,000	
Depreciation Eqpt for Hire (W4)	725,000	
Managers salary	2,000,000	
Players' Allowance	1,550,000	
Other expenses (W3)	344,000	
Total Expenditure		**(5,219,000)**
Surplus for the year		**2,031,000**

Workings

(1) Subscription Account

	FRW		FRW
Accrued b/f	335,000	Prepaid b/f	500,000
	-		-
Income & Expenditure	**3,370,000**	Receipts & Payments	3,350,000
	-		-
Prepaid c/f	375,000	Accrued c/f	230,000
	4,080,000		**4,080,000**

(2) Purchases Ledger Control Account

	FRW		FRW
		Bal b/f	75,000
Receipts & Payment	850,000		-
	-	Trading account (balancing figure)	860,000
Bal. c/f	85,000		-
	-		-
	935,000		**935,000**

(3) Other expenses

	FRW		FRW
Prepaid b/f	27,500	Accrued b/f	8,000
Receipts & Payments	330,000	**Income and expenditure**	**344,000**
Accrued c/f	12,500	Prepaid c/f	18,000
	370,000		**370,000**

Working 4

Opening balance of equipment for hire	4,650,000
Additional during the year	3,250,000
Less Accumulated depreciation	(650,000)
Netbook value before current year deprecation	**7,250,000**
Current year depreciation at 10%	**725,000**

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b) Companies should report the effects of climate and environmental issues in their financial statements for several important reasons:

- **Transparency and Accountability**: Reporting the impact of climate and environmental issues in financial statements promotes transparency and accountability. It allows stakeholders, including investors, regulators, and the public, to assess a company's environmental performance and its commitment to sustainability. This transparency builds trust and credibility.
- **Risk Management**: Climate and environmental issues can pose significant financial risks to companies. Reporting these issues in financial statements enables companies to identify, assess, and manage these risks effectively. It helps in understanding potential liabilities, regulatory changes, and supply chain disruptions related to environmental factors.
- **Compliance and Regulation**: Many countries have regulations in place that require companies to report on their environmental performance. Failing to disclose this information could lead to legal and regulatory issues. Reporting in financial statements ensures compliance with such regulations, reducing the risk of legal consequences.
- **Long-term Viability**: Climate and environmental issues have a long-term impact on a company's operations, reputation, and financial performance. Reporting these effects in financial statements allows stakeholders to evaluate a company's ability to adapt to changing environmental conditions, which is crucial for long-term viability and sustainable growth.
- **Stakeholder Expectations:** Meeting the growing expectations of stakeholders for environmental transparency.
- **Legal and Regulatory Compliance:** Adherence to legal requirements for environmental disclosure.
- And many more

QUESTION FOUR

Marking guide

Answer	**Marks**
Q5)a)i) Award 0.5 mark for each correct figure except for balance and total	4
ii) Award 1 mark for each correct figure including sub-totals and totals	6
b) Award 0.5 for each correct entry/figure in both control accounts, except for Totals and opening balances (max 10 marks)	10

Model answers:

a)

i) Adjusted Cashbook

Adjusted cashbook (Bank column)			
	FRW		FRW
Balance b/f	365,000	Standing order to Lobito	90,000
Bank Interest income not recorded in October	20,000	Bank charges	35,000
Correction of an error made by the bank (transit fund to Gatera)	75,000	Standing order - Water Bill	100,000
Cheque from Charles	70,000	Balance c/f	305,000
	530,000		**530,000**

ii) Bank Reconciliation for the month of November 2022

Decription	**FRW**
Adjusted cashbook balance	305,000
Add:	
Unpresented cheques: PEDRO	120,000
ALPHA	80,000
Less:	
Uncredited cheques: JEAN	(80,000)
MIKE	(85,000)
Bank statement balance	340,000

b)

Sales ledger control account			
	FRW		**FRW**
Balance b/f	3,360,000	Balance b/f	168,000
Credit sales	13,440,000	Bad debts	520,000
Refund to customers	356,000	Cash received	1,600,000
Interest overdue	580,000	Bank	9,600,000
Cheques dishonoured	560,000	Returns in	208,000
		Discount allowed	60,000
		Contras	212,000
Balance c/f	140,000	**Balance c/f**	**6,068,000**
	18,436,000		**18,436,000**

Purchases Ledger Control account			
	FRW		FRW
Balance b/f	152,000	Balance b/f	2,584,000

		credit purchases	8,400,000
Cash	2,000,000		
Discount received	180,000		
Bank	4,800,000		
Returns out	172,000		
Contras	212,000		
Balance c/f	**3,560,000**	Balance c/f	92,000
	11,076,000		**11,076,000**

QUESTION FIVE

Marking guide

Answer	Marks
a) 2 marks for the definition as per IFRS 15	2
b) 1 mark for each step identified to max 5 1 mark for the explanation of each step to max 5	10
c) i)4 Marks for determining the value of inventory after repair max 4 2 marks for comparing the NRV and the value/cost of the inventory ii) 0.5 marks for posting profit before adjustment 0.5 marks for subtracting the original value of inventory before adjustment 0.5 marks for adding the new value of inventory 0.5 marks for the new profit after adjustment	8
Total	**20**

Mode answer

a) **In accordance with IFRS 15 Revenue from contracts with customers, what does control of an asset mean?**

Control of an asset is described as per IFRS 15 Revenue from contract with customers as the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset.

b) **In accordance with IFRS 15 Revenue from contracts with customers, identify and explain 5 steps followed while recognizing revenue from contracts with customers?**

1) **Step 1: Identify the contract with a customer.** This is where the contract, agreed by both parties, and setting out the terms of the contract is identified. It must be commercially viable and it must be probable that payment will take place upon delivery of the goods or service.
2) **Step 2: Identify the performance obligations in the contract.** Each performance obligation must be distinct. For a simple sale of goods or services, it is simple to identify the single performance obligation.

3) **Step 3: Determine the transaction price.** This is the agreed value per the contract. This will be net of any trade discounts and volume rebates and is simply the amount at which the goods/services are sold to the customer. There is one exception: where a sale involves a cash (or settlement) discount. IFRS 15 refers to 'variable consideration'. This means the variable element of

the payment a business expects to receive for a sale. A cash/settlement discount allowed for payment by cash/prompt payment is one such variable consideration. IFRS 15 requires a business to estimate the amount of variable consideration it expects to receive, and reflect this in the transaction price. This gives rise to the following accounting treatment of cash/settlement discounts allowed:

i) If a customer is expected to take up a cash/settlement discount allowed, the discount is deducted from the invoiced amount when recording the revenue. If the customer subsequently does not take up the discount, the discount is then recorded as revenue.

ii) If the customer is not expected to take up the discount, the full invoiced amount is recognized as revenue when recording the sale. If the customer subsequently does take up the discount, revenue is then reduced by the discount.

4) **Step 4: Allocate the transaction price to the performance obligations.** This is the transaction price, allocated to each performance obligation. For a simple contract with one performance obligation, this step is very easy. However, if there are multiple performance obligations contained within the contract, such as the cell phone contract, the transaction price must be apportioned between the various performance obligations.

5) **Step 5: Recognize the revenue.** For most simple transactions with a single performance obligation, the full transaction price will be recognized when control of goods or services has been transferred to the customer. For long-term contracts, revenue will be recognized over time, as the performance obligation is fulfilled.

c) In accordance with IAS 2 Inventories, determine the value of the inventory to be recognized during the financial statements for the year ended 30th September 2023

i)IAS 2 Inventories contains the requirements on how to account for most types of inventories. The standard requires inventories to be measured at the lower of cost and net realizable value (NRV) and outlines acceptable methods of determining cost

Cost= Cost-Repair costs

Initial value of the inventory is Frw 146,800,000

Cost to repair the damaged inventory is Frw 39,685,600

Cost=146,800,000-39,685,600=107,114,400

Going with the principal of lower of cost and net realizable cost where the Net realizable value is Frw 107,890,000. The Value of inventory to be included is Frw 107,114,400

ii)Prepare Profit or Loss Statement extract for the year ended 30th September 2023 assuming the partnership has a draft profit of Frw 48,000,000 before adjustment

Profit before adjustment	48,000,000
Less original value of inventory	(146,800,000)
Add new value of Inventory after repair	107,114,400
New profit after adjustment	**8,314,400**

IAS 2 *Inventories* contains the requirements on how to account for most types of inventory. The standard requires inventories to be measured at the lower of cost and net realisable value (NRV) and outlines acceptable methods of determining cost

End of Marking Guide and Model Answers