CPA

Certified Public Accountant Examination

Stage: Foundation F1

Subject Title: F1.3 Financial Accounting

Examination Format Revision Pack

iCPAR

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

INSIDE COVER - BLANK

FINANCIAL ACCOUNTING
FOUNDATION 1

F1.3 EXAMINATION FORMAT REVISION QUESTIONS & SOLUTIONS

You are required to answer Question 1. You are also required to answer any **three** out of Questions 2 to 5.
(If you provide answers to all of Questions 2 to 5, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first three answers to hand for Questions 2 to 5 will be marked.)

Note: Students have optional use of the Extended Trial Balance, which if used, must be included in the answer booklet.

TIME ALLOWED:
3.5 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:
During the reading time you may write notes on the examination paper but you may not commence writing in your answer book.
Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.
You are reminded that candidates are expected to pay particular attention to their communication skills and care must be taken regarding the format and literacy of the solutions. The marking system will take into account the content of the candidates' answers and the extent to which answers are supported with relevant legislation, case law or examples where appropriate.
List on the cover of each answer booklet, in the space provided, the number of each question(s) attempted.

QUESTION 1

(a) List five different users of financial statements and briefly explain in each case the aspects of financial performance or financial position in which they are interested. **(10 marks)**

(b) The following trial balance was extracted from the books of Longford Ltd at 31 December 2008:

	Rwf '000	
	Debit	**Credit**
Buildings	125,000	
Land	200,000	
Plant and machinery	150,000	
Vehicles	62,500	
Retained profit		38,730
Ordinary shares Rwf100 each		200,000
8% Preference share capital		100,000
Share premium account		20,000
10% Debentures (redeemable in 2016)		50,000
Provision for depreciation:		
Buildings		25,000
Plant and machinery		60,000
Vehicles		22,750
Inventory	37,000	
Purchases/revenue	175,125	425,250
Trade receivables/trade payables	37,625	22,000
Returns	4,000	3,125
Discounts	3,250	2,150
Provision for doubtful debts	-	1,500
Bank	7,750	
Ordinary dividends	9,000	
Preference dividends	6,000	
Rents and rates	75,000	
Carriage inwards	2,000	
Carriage outwards	4,000	
Postage and stationery	6,000	
Wages and salaries	59,000	
Bad debts	6,575	
VAT		1,875
Electricity	2,555	
	972,380	972,380

The following additional information is available:

1. Inventory on hands 31 December 2008: Rwf40,500,000.
This excluded the following three items:
Item Cost Sales value Selling costs

Item	*(Rwf '000)*	Cost	Sales value	Selling costs
A		3,500	6,000	275
B		5,000	5,200	250
C		4,250	7,000	350

2. Included in revenue is an amount of Rwf1,500,000 for goods sent on approval to a customer. The mark up on these goods was 50%.

3. A customer has been declared bankrupt owing Rwf2,725,000. This is to be written off.

4. The provision from doubtful debts should be 5% of trade receivables.

5. The annual charge for rates is Rwf6m and these are paid up to 30 September 2008.

6. During the year Longford Ltd sold one of their vehicles for Rwf9m, which had not been received by 31 December 2008. This vehicle had been purchased in 2006 for Rwf20,000,000. Longford Ltd did not record any entry regarding this disposal in their books.

7. Depreciation is provided on non-current assets as follows:
    Buildings: 2% on cost
    Plant & machinery: 20% on cost
    Vehicles: 25% on written down value
A full year's depreciation is charged in the year of purchase and none in the year of sale.

8. On 20 December 2008 the directors of Longford Ltd proposed a final dividend of Rwf2 a share. The ordinary dividend figure of Rwf9,000,000, in the trial balance, relates to an interim dividend that was declared and paid during 2008.

9. The preference dividend outstanding and the debenture interest due should be provided for.

10. When preparing the accounts at 31 December 2007, closing inventory was overvalued by Rwf5,000,000 This has not been corrected in the accounts.

REQUIREMENT:
Prepare, for internal use, an Statement of Comprehensive Income for the year ending December 2008 and a Statement of Financial Position (balance sheet) as at that date.

(30 marks)
(Total: 40 Marks)

QUESTION 2

(a) Explain the following terms, giving two examples of each term:

(i) Capital expenditure

(ii) Revenue expenditure **(5 marks)**

(b) In relation to IAS 16 "*Property, Plant and Equipment*",

(i) State the definition of property, plant and equipment;

(ii) Explain the following terms 'Fair Value' and 'Carrying amount';

(iii) Explain the terms recognition and measurement. **(15 marks)**

(Total: 20 Marks)

QUESTION 3

The Receivables Control Account of MC Ltd as at 31 December 2008 showed a balance of Rwf105,250, while the Payables Control Account showed a balance of Rwf87,180.
Neither of these balances agreed with the respective list of balances.
On investigation of the difference, the following items were discovered:

(a) The sales day book had been under-cast by Rwf1,400.

(b) A balance, of Rwf2,500, due from D. Uwera was omitted from the list of balances.

(c) A bad debt of Rwf2,100 had been written off in the Receivables Ledger but no entry had been made in the Control Account.

(d) A purchase of goods from G Mukama of Rwf5,500 had been posted to the wrong side of his ledger account.

(e) Goods worth Rwf3,300 returned to a supplier had not been entered anywhere in the books.

(f) An invoice for Rwf660 had been entered in the Sales Day Book as Rwf606.

(g) It had been agreed with DC Ltd to set the balance on his account in the Payables Ledger of Rwf2,750 against his account in the Receivables Ledger. However this was only entered in the Receivables and Payables Ledger.

(h) During December 2008 sales returns of Rwf1,800 were posted to the Control Account as Rwf800.

(i) The purchase day book had been overcast by Rwf750.

(j) A refund of Rwf780 to a customer had been posted to the credit side of M. Gatera's account in the Payables Ledger.

(k) A balance of Rwf1,300 has been omitted from the list of payables balances.

REQUIREMENT:

(a) Prepare a computation of the correct balances that should be recorded in the Receivables and Payables Control Accounts**.** **(10 Marks)**

(b) Prepare a statement reconciling the original total balances, extracted from the ledger, with the corrected balances for each ledger **(10 Marks)**

(Total: 20 Marks)

QUESTION 4

Michael Nolan operates a furniture shop in with the majority of his business being to trade but he also has some cash sales to the general public. Michael does not keep a full and proper set of accounts and has recently transferred his business to you, his personal friend, knowing that you are currently studying accounting. After careful investigation, the following information has been obtained covering the year-ended 31st December 2010:

(i) <u>Assets & Liabilities at 31st December 2009 were as follows:</u>

	Rwf '000
Premises Cost	500,000
Accumulated Depreciation	200,000
Office Equipment Cost	80,000
Accumulated Depreciation	20,000
Inventory	200,000
Cash	6,000
Bank	56,000
Trade Receivables	24,000
Prepayment (Insurance)	4,000
Trade Payables	56,000
Bank Loan (repayable over 5 years)	60,000
Accruals (Rent)	6,000

(ii) During the year, Michael has maintained that the bulk of the receipts from sales were lodged to the bank account. The bank statement reveals that Rwf158,000,000 was lodged to the account in relation to credit sales for the full year. The closing balance at the year-end in relation to cash amounted to Rwf8,000,000.

Michael has said that he took Rwf8,000,000 and Rwf4,000,000 in drawings from the cash till during the year. The closing trade receivables balance amounted to Rwf20,000,000.

(iii) Michael makes a gross profit of 25% on the sales value of everything he sells and his sales occur evenly throughout the year.

(iv) On the night of the 31st July, there was a burglary at the shop and inventory was stolen. In trying to establish how much inventory was stolen, Michael was able to say that:

(a) He knew from his bank statements that he has paid Rwf44,000,000 to trade payables in the seven month period to 31st July 2010.

(b) He had trade payables due at the 31st July 2010 amounting to Rwf52,000,000.

(c) He performed an inventory count on the following day after the burglary and calculated inventory at Rwf180,000,000.

(v) On the 31st October, Michael had to scrap Rwf6,000,000 worth of inventory owing to water damage. His insurance company has confirmed to him that he will be covered in full for the furniture scrapped.

(vi) Purchases for the full year amounted to Rwf128,500,000

REQUIREMENTS:
For the year ended 31st December 2010:
(a) Calculate the opening capital position at the 1st January 2010 for Michael Nolan by preparing an opening statement of financial position. **(5 Marks)**
(b) Calculate the amount of inventory stolen, the cost of the closing inventory and the gross profit for the year ended 31st December 2010. **(15 Marks)**
(Total: 20 Marks)

QUESTION 5

BMH Ltd and ADH Ltd are both computer component manufacturers. You are provided with the following summarised information in relation to both companies:

Statement of Comprehensive Incomes for year ended
31 December 2011

	BMH Ltd	ADH Ltd
	Rwf m	Rwf m
Revenue	1,500	2,000
Cost of sales	1,000	1,600
Gross profit	500	400
Operating expenses	150	200
Operating profit	350	200
Interest on debentures	100	50
Profit before tax	250	150
Tax	50	30
Profit after tax	200	120
Dividends	70	100
Retained profits	130	20

Statement of Financial Position (balance sheet)s as at 31 December 2011

	BMH		ADH	
	Rwf m	Rwf m	Rwf m	Rwf m
Non-current assets				
Machinery at cost	4,000		4,830	
Less Depreciation	1,000	3,000	3,500	1,330
Buildings at cost	3,000		2,200	
Less Depreciation	1,140	1,860	600	1,600
Motors vehicles at cost	800		600	
Less Depreciation	350	450	550	50
		5,310		2,980
Current Assets				
Inventory	150		330	
Trade receivables	160		370	
Bank	240	550	-	700
		5,860		3,680
Equity and Liabilities				
Issued equity shares		3,000		2,000
Retained earnings		1,600		550
		4,600		2,550
Non-current liabilities				
10% Debentures		1,000		500
Current liabilities				
Dividends	70		100	
Bank overdraft	50		220	
Trade payables	140	260	310	630
		5,860		3,680

REQUIREMENT:
(a) Calculate the following ratios:
(i) Gross profit margin
(ii) Operating profit margin
(iii) Current ratio
(iv) Acid test ratio
(v) Inventory days
(vi) Receivable days
(vii) Payable days
(viii) Return on capital employed
(ix) Gearing ratio
(x) Interest cover

(10 marks)

(b) Comment on the performance of both companies in terms of profitability and liquidity, using the ratios that you calculated and any other relevant information in the question.

(10 marks)
(Total: 20 Marks)

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION 1

(a) Any *five* of the following:

1) Shareholders are interested in profitability, stability, growth potential and in dividend policy.
2) Employees are interested in the long-term stability of the company, the ability of the company to continue providing employment and meet wage demands.
3) Customers (Trade receivables) are interested in the ability of the company to maintain supplies and if relevant to supply an after sales service.
4) Creditors (Trade payables) are interested in the company being able to pay its obligations and continue doing business and in the case of long term creditors to pay interest, and principal in due course.
5) Government will be interested in profit levels for tax assessment purposes; it may also be interested in wage levels and other statistical information such as volume of output.
6) Competitors are interested in the performance of the business.
7) Financial analysts and advisers are interested in all aspects of a company's performance in order to advise their clients.

(b)

Statement of Comprehensive Income of Longford Ltd for year ended 31 December 2008

	Rwf '000	Rwf '000
Revenue (w1)	423,750	
Returns	(4,000)	419,750
Less Cost of Sales		
Opening inventory (w8)	32,000	
Purchases	175,125	
Carriage inwards	2,000	
Returns	(3,125)	
Closing inventory (w5)	(54,250)	151,750
Gross Profit		268,000
Discount received		2,150
		270,150

Less Expenses		
Discount allowed	3,250	
Increase in bad debt provision (w3)	170	
Carriage outwards	4,000	
Rent & rates (w9)	76,500	
Postage & stationery	6,000	
Wages & salaries	59,000	
Bad debts (w4)	9,300	
Electricity	2,555	
Depreciation (w6)		
Buildings	2,500	
Motor Vehicles	7,125	
Plant & machinery	30,000	
Loss on disposal (w7)	2,250	
Debenture interest (w11)	5,000	207,650
Net Profit		62,500
Appropriation account		
Net Profit		62,500
Ordinary dividends (w10)		49,000
Preference dividends (w12)		8,000
Retained profit for current year		5,500
Retained profit b/f(w8)		33,730
Retained profit c/f		39,230

Statement of Financial Position (balance sheet) of Longford Ltd as at 31 December 2008

	Rwf '000	Rwf '000	Rwf '000
Assets			
Non-Current Assets	Cost	Dep'n	NBV
Land	200,000		200,000
Buildings (w6)	125,000	27,500	97,500
Motor vehicles (w6)	42,500	21,125	21,375
Plant & machinery (w6)	150,000	90,000	60,000
	517,500	138,625	378,875
Current Assets			
Trade receivables (w2)	33,400		
Bad debt provision (w3)	(1,670)	31,730	
Closing inventory (w5)		54,250	
Sale of motor vehicle due		9,000	
Bank		7,750	102,730
Total Assets			481,605
Equity and Liabilities			
Equity			
Ordinary share capital			200,000
Share premium			20,000
8% Preference shares			100,000

Retained profits		39,230
		359,230
Non-Current Liabilities		
10% Debentures 2015		50,000
Current Liabilities		
Trade payables	22,000	
VAT	1,875	
Rates due (w9)	1,500	
Proposed ordinary dividends (w10)	40,000	
Debenture interest due (w11)	5,000	
Preference dividend due (w12)	2,000	72,375
Total equity and liabilities		481,605

	Workings		Rwf '000
W	1. Revenue		
	As per trial balance		425,250
	Less sale or return		(1,500)
			423,750
W	2. Trade receivables		
	As per trial balance		37,625
	Less sale or return		(1,500)
	Bad debt to write off		(2,725)
			33,400
W	3. Provision for bad debts		
	Opening provision (trial balance)		1,500
	Statement of Comprehensive Income		170
	Required closing provision [33,400*5%]		1,670
W	4. Bad debts		
	As per trial balance		6,575
	Bad debts to be written off (w2)		2,725
			9,300
W	5. Closing inventory		
	As per question		40,500
	Sale or return (1,500/150*100)		1,000
	Item A		3,500
	Item B 4,950		5,000
	Item C		4,250
		54,200	54,250
W	6. Depreciation		
	Buildings		

	Statement of Comprehensive Income: [125,000 *2%] =			2,500
	Statement of Financial Position (balance sheet): Depreciation to date = [25,000 +2,500] =			27,500
	Motor vehicles			
	Depreciation to date on vehicle sold during year.			
	2006 = (20,000 * 25%)			5,000
	2007 = (15,000 * 25%)			3,750
				8,750
	Statement of Comprehensive Income: [(Cost - sale) - (NBV - NBV sold)] * 25%	42500	(14,000)	7,125
	Statement of Financial Position (balance sheet): Depreciation to date [Dep'n per TB - Dep'n sold + Statement of Comprehensive Income =	22750	(8,750)	21,125
	Plant & Machinery			
	Statement of Comprehensive Income:: [150,000 * 20%] =			30,000
	Statement of Financial Position (balance sheet): Depreciation to date = [60,000 + 30,000] =			90,000
w	7. Loss on disposal of vehicle			
	NBV of vehicle sold: [20,000 – 8,750]			11,250
	Sale proceeds			9,000
	Loss on disposal			(2,250)
w	8. Error from previous year			
	Opening inventory [37,000 – 5,000] =			32,000
	Retained earnings [38,730 – 5,000] =			33,730
w	9. Rent and rates			
	As per trial balance			75,000
	Rates due			1,500
				76,500
w	10. Ordinary Dividends			
	Interim paid (Trial balance)			9,000
	Proposed [400,000 * 2c]			40,000
				49,000
w	11 Debenture interest			
	[50,000 * 10%] = (Statement of Comprehensive Income)			5,000
	Amount paid (trial balance) 0			-
	Therefore amount due: (current liability in Statement of Financial Position (balance sheet))			5,000
w	12 Preference dividend			
	[100,000* 8%]			8,000
	Amount paid (trial balance)			6,000
	Therefore amount due _ (current liability in Statement of Financial Position (balance sheet))			2,000

SOLUTION 2

(a) Capital expenditure is incurred when a business:

- Buys non-current assets, or
- Adds to the value of an existing non-current asset

2 examples of capital expenditure are:

(i) Cost of purchasing a new motor vehicle
(ii) Legal cost of buying land

Other could include: Extension to the existing factory
A second-hand computer controlled lathe

Revenue expenditure is expenditure incurred in the day to day running of a business
2 examples of revenue expenditure are:

(i) Payment of rent
(ii) Cost of repairs

Others could include: Wages and salaries
Interest on the overdraft
Coffee cherries to process before onward sale

(b)
(i) Property, plant and equipment are tangible assets that:

- are held by an enterprise for use in the production or supply of goods and services, for rental to others or for administrative purposes; and
- are expected to be used during more than one period – generally considered to be the fiscal year

(ii)

- Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- Carrying amount is the amount at which an asset is recognised in the Statement of Financial Position (balance sheet) after deducting any accumulated depreciation

(iii) Recognition
IAS 16 states that all items of property, plant and equipment are initially recognised at cost.
Cost is:

- Purchase price including import duties and non-refundable purchase taxes, but deducting trade discounts and rebates
- Directly attributable costs of bringing the asset to working condition for its intended use

Measurement
IAS 16 permits two accounting models of Measurement subsequent to initial recognition

(i) Cost model
(ii) Revaluation model

SOLUTION 3

(a)

Receivable control Account

Date	**Description**	Rwf '000	Date	Description	Rwf '000
Dec			Dec		
31	Balance	105,250	31	Bad Debt	2,100
31	Sales Day book	1,400	31	Contra	2,750
31	Sales Day book error (660-606)	54	31	Sales return (1,800-800)	1,000
			31	Closing balance	100,854
		106,704			106,704

Payables Control Account

Date	**Description**	Rwf '000	Date	Description	Rwf '000
Dec			Dec		
31	Returns	3,300	31	Balance	87,180
31	Contra	2,750			
	Purchase day book	750			
31	Closing balance	80,380			
		87,180			87,180

List of individual Receivable balances

	Rwf '000
Original balance (Balancing figure)	99,080
D. Uwera omitted balance	2,500
Sales Day book error (660-606)	54
M. Gatera	(780)
Closing adjusted Receivable Control a/c balance	100,854

List of individual Payable balances

	Rwf '000
Original balance (Balancing figure)	72,160
G. Mukama (5,500 x 2)	11,000
Returns	(3,300)
M. Gatera	(780)
Omitted balance	1,300
Closing adjusted Payable Control a/c balance	80,380

SOLUTION 4

(a) Michael Nolan - Opening Statement of Financial Position as at 1st January 2010

	Rwf '000	Rwf '000	Rwf '000	*Marks*
Non-Current Assets				
PPE (500,000 - 200,000 + 80,000 - 20,000)	360,000			
Total Non-Current Assets		360,000		0.50
Current Assets				
Inventory	200,000			0.50
Trade Receivables	24,000			0.25
Cash & Cash Equivalents	62,000			0.50
Prepayment	4,000			0.25
Total Current Assets		290,000		0.50
Total Assets			650,000	0.50
Equity & Liabilities				
Capital & Reserves				
Capital - Balancing Figure	528,000			1.00
Total Capital & Reserves			528,000	
Non-Current Liabilities				
Bank Loan	60,000			0.50
Total Non-Current Liabilities		60,000		
Current Liabilities				
Trade Payable	56,000			0.25
Accrued Rents	6,000			0.25
Total Current Liabilities		62,000		
			122,000	
Total Equity & Liabilities			650,000	

A = C + L

650,000,000 = C + 122,000,000

650,000,000 - 122,000,000 = C

C = 528,000,000

5 Marks

All values in Rwf thousands *Marks*

Bank Receipts from Credit Sales Calculation

T. Receivables Account

Balance B/D	24,000	Bank Receipt	158,000	
Credit Sales - Balancing Figure	154,000	Balance C/d	20,000	1.00
	178,000		178,000	
Balance B/D	20,000			

Bank Receipts from Cash Sales Calculation

Cash Account

Balance B/D	6,000	Drawings	12,000	
Cash Sales - Balancing Figure	14,000	Balance C/d	8,000	1.00
	20,000		20,000	
Balance B/D	8,000			

Sales			
Credit Sales	154,000		
Cash Sales	14,000		
Total Sales	168,000		1.00
Cost of Sales Calculation			
Gross Profit is 25% of Sales			
Therefore,			
Sales	100%	168,000	
less Cost of Sales	75%		
Gross Profit	25%		
Cost of Sales are 75% of Sales i.e. 75% x Rwf168,000		126,000	1.00
Goods Stolen Calculation			
Sales occur evenly throughout the year			
Total Sales		168,000	
Sales for 7 Months i.e. Rwf168,000 x 7 / 12		98,000	1.00
Cost of Sales is 75% of Sales i.e. Rwf98,000 * 75%		73,500	1.00
		200,000	
Opening Inventory			
Plus Purchases - See Trade Payable T-Account Below		40,000	
less Closing Inventory -180,000		(180,000)	
Cost of Sales		60,000	1.00
Therefore,			
Theoretical Cost of Sales		73,500	1.00
Actual Cost of Sales after burglary		60,000	
Cost of Goods Stolen		13,500	1.00

Purchases Calculation in relation to Goods Stolen

T. Payables Account

Bank Payments	44,000	Balance B/d	56,000	
Purchases - Balancing Figure			40,000	1.00
Balance C/D	52,000			
	96,000		96,000	
Balance B/D			52,000	

Double entries for Stolen and Damaged Goods

	Dr	Cr	
Goods Stolen			
Expenses	13,500		
Cost of Sales		13,500	1.00
Being costs of stolen inventory			
Insurance	6,000		
Cost of Sales		6,000	1.00
Being cost of damaged inventory scrapped			

Calculation of Closing Inventory				
Cost of Sales is 75% of Sales i.e. 168,000 x 75%			126,000	
Opening Inventory			200,000	
plus Purchases			128,500	
- Inventory Stolen in Burglary			(13,500)	
- Inventory Damaged and Scrapped			(6,000)	
- Closing Inventory(Balancing Figure)			X	
= Cost of Sales		126,000		2.00
Closing Inventory + 309,000 =	126,000			
	309,000			
Closing Inventory =	183,000			
Double Check				
Opening Inventory			200,000	
+ Purchases			128,500	
- Inventory Stolen in Burglary			(13,500)	
- Inventory Damaged and Scrapped			(6,000)	
- Closing Inventory			(183,000)	
= Cost of Sales		126,000		

Michael Nolan Statement of Comprehensive Income for the year-ended 31st December 2010

	Rwf '000	Rwf '000	Rwf '000	
Revenue			168,000	
Cost of Sales				
Opening Inventory	200,000			
+ Purchases	128,500	328,500		
- Inventory Stolen in Burglary	(13,500)			
- Inventory Damaged and Scrapped	(6,000)	(19,500)		
		309,000		
- Closing Inventory		(183,000)		
Cost of Sales Total			126,000	1.00
Gross Profit			42,000	
				15 Marks

SOLUTION 5

a	BMH Ltd		ADH Ltd	
Gross Profit margin	500/1500	33.33%	400/2000	20.00%
Operating profit margin	350/1500	23.33%	200/2000	10.00%
Current ratio	550/260	2.12:1	700/630	1.11:1
Acid test ratio	400/260	1.54	370/630	0.59
Inventory days	150/1000	55	330/1600	75
Receivable days	160/1500	39	370/2000	68
Payable days	140/1000	51	310/1600	71
Return on capital employed	350/5600	6.25%	200/3050	6.56%
Gearing ratio	1000/5600	17.86%	500/3050	16.39%
Interest cover	350/100	3.5 Times	200/50	4 Times

(b) Profitability

Both companies show a profit, although BMH Ltd's profit margins exceed those of ADH Ltd by a significant amount. The higher gross profit margin of BMH Ltd is either caused by the company selling their goods at a higher selling price or buying the goods cheaper from their suppliers.

The return on capital employed is almost identical for both companies.

Liquidity

BMH Ltd is in a healthy liquidity position with an acid test ration of 1.54:1, which is above the recommended level of 1:1. BMH Ltd has a working capital cycle of 25 days compared to 72 days for ADH Ltd. They have Rwf350,000,000 in their bank account, with a small bank overdraft, and can easily afford their interest repayments, with an interest cover of 3.5 times. They are a low geared company and should the need arise they are in a strong position to raise more debt finance.

ADH Ltd, however, is not in a strong liquidity position. They have an acid test ratio of 0.59:1. This means that excluding inventory they do not have enough short term assets to meet short term liabilities if required. They need to improve their cash-flow by reducing their working capital cycle. At present they will be missing out on any discounts for early settlement, as their payables days are 71. They will be incurring additional costs by holding inventory for 75 days compared to 37 days by BMH Ltd . The company has a bank overdraft of Rwf220m million, but are still proposing to pay dividends of Rwf100 million. ADH Ltd are also a low geared company but before they decide to raise additional loans they need to improve their cash-flows.

Marking Scheme

Question 1

(a) 2 marks for each user	10
(b) Notes adjustments	20
Statement of Comprehensive Income	
	5
Statement of Financial Position (balance sheet)	
	5
	Total 40

Question 2

(a) 2.5 marks for each term with examples	5
(b) (i) 3 marks for definition	3
(II) 2 marks for each term	4
(iii) 4 marks for each term	8
	Total 20

Question 3

(a) 5 marks for updating receivables control account	5
5 marks for updating payables control account	5
(b) 5 marks for reconciling receivables list	5
5 marks for reconciling payables list	5
	Total 20

Question 4

(a) Opening financial statement	5
(b) Analysis	15
	Total 20

Question 5

(a) 0.5 mark for each ratio	10
(b) 4 marks for commenting on profitability	4
6 marks for commenting on liquidity	6
	Total 20

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FINANCIAL ACCOUNTING
FOUNDATION 1

F1.3 EXAMINATION FORMAT REVISION QUESTIONS & SOLUTIONS

NOTES:

You are required to answer Question 1. You are also required to answer any **three** out of Questions 2 to 5.
(If you provide answers to all of Questions 2 to 5, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first three answers to hand for Questions 2 to 5 will be marked.)

Note: Students have optional use of the Extended Trial Balance, which if used, must be included in the answer booklet.

PRO-FORMA STATEMENT OF COMPREHENSIVE INCOME BY NATURE, STATEMENT OF COMPREHENSIVE INCOME BY FUNCTION AND STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ARE PROVIDED

TIME ALLOWED:
3.5 hours, plus 10 minutes to read the paper.
INSTRUCTIONS:
During the reading time you may write notes on the examination paper but you may not commence writing in your answer book.
Marks for each question are shown. The pass mark required is 50% in total over the whole paper.
Start your answer to each question on a new page.
You are reminded that candidates are expected to pay particular attention to their communication skills and care must be taken regarding the format and literacy of the solutions. The marking system will take into account the content of the candidates' answers and the extent to which answers are supported with relevant legislation, case law or examples where appropriate.
List on the cover of each answer booklet, in the space provided, the number of each question(s) attempted.

QUESTION 1

(a) The normal accounting procedure with credit sales is to recognise revenue on the sale when it is made and then to allow for the possibility of some bad debts.

Requirement:
Outline, by reference to appropriate accounting concepts, the justification for this approach.

(10 marks)

(b) The following trial balance was extracted from the books of Rosco Ltd at 31 December 2010:

	Debit Rwf '000	**Credit Rwf '000**
Ordinary shares Rwf 250 each		600,000
Share premium		130,000
Retained profit at 01/01/08		354,700
Returns	2,750	3,800
Purchases	500,000	
Discounts	6,250	4,500
Land	1,200,000	
Buildings	500,000	
Motor vehicles	250,000	
Office equipment	25,000	
Buildings depreciation		110,000
Motor vehicles depreciation		109,375
Office equipment depreciation		7,500
Carriage inwards	15,000	
Carriage outwards	22,500	
Inventory at 01/01/08	60,250	
Revenue		1,200,750
Advertising	18,000	
Bad debts	25,500	
Motor expenses	23,000	
Rent and rates	180,000	
Bank		50,000
Wages and salaries	200,250	
10% Debentures 2015		300,000
Interim dividend	56,000	
Debenture interest	20,000	
8% Preference shares		100,000
Provision for bad debts		4,875
Trade receivables/trade payables	98,000	81,000
General reserve		150,000
Preference dividend paid	4,000	
	3,206,500	3,206,500

The following additional information is also provided:
(a) Closing inventory at 31 December 2010 was valued at rwf75,250,000. This includes the following:

a) Goods which originally had cost Rwf4,200,000 but due to smoke damage will now have a sales value of Rwf2,000,000. When selling these goods the company will incur selling costs of Rwf250,000.
b) Goods valued at Rwf1,250,000 which the company received free of charge as part of the promotion of a new product.
c) A piece of equipment, valued at Rwf7,500,000, which Rosco Ltd purchased in June 2010. Rosco Ltd uses this equipment in their office. The cost of this equipment is included in the purchase figure in the trial balance.
d) One of Rosco Ltd's customers, who owed Rwf5.5m was declared bankrupt. This is to be written off.
e) The provision for bad debts should be 3% of trade receivables.
f) Closing inventory at 31 December 2009 was overstated by Rwf5m. This has not been corrected in the accounts.
g) Rent prepaid during the period was Rwf20m and the rates outstanding at the end of the year were Rwf5,000,000.
h) On 1 January 2011, the Directors of Rosco Ltd declared a final dividend of Rwf 5 a share. The dividend figure included in the trial balance was the interim dividend, which was declared and paid during 2010.
i) The revenue figure includes an amount of Rwf12,000,000, being the selling price of goods sent on approval to a customer. As at 31 December, the customer had not agreed to buy these goods. The mark-up on these goods was 20%.
j) Depreciation is to be charged as follows:
   Buildings 2% on cost
   Motor Vehicles 20% reducing balance
   Office equipment 10% on cost

   A full year's depreciation is charged in the year of purchase and none in the year of sale.
k) Provide for the debenture interest and preference dividend outstanding.

Requirement:
Prepare, for internal use, an Statement of Comprehensive Income for the year ending 31 December 2010 and a Statement of Financial Position (balance sheet) as at that date.

(30 marks)
(Total: 40 Marks)

QUESTION 2

(a) The Accounting Framework identifies two underlying assumptions of Financial statements as that of 'accruals concept' and 'going concern concept'.

Required:
Explain each of the above concepts. **(4 marks)**

(b) The Accounting Framework identifies four qualitative characteristics of financial statements.

Required:
Explain, in detail, each of the four qualitative characteristics. **(16 marks)**
(Total: 20 Marks)

QUESTION 3

(a) IAS 20, "*Accounting for Government Grants*", contains two acceptable methods of presenting grants relating to non-current assets.

Required:
Using the following example, prepare extracts of the financial statements under each of the methods for the years ended 31/12/10 and 31/12/11:

On 1st January 2010, Kerry Ltd purchased a machine for Rwf200,000. The machine is depreciated over five years, using the straight line method, at the end of which, it will have no scrap value. Kerry Ltd received a grant of Rwf50,000 towards the purchase of this machine.
(16 marks)

(b) Under IAS 20, "*Accounting for Government Grants*", which includes all grants, describe the accounting treatment of:

(i) Grants relating to income;
(ii) Non-monetary grants. **(4 marks)**
(Total: 20 Marks)

QUESTION 4

The bank account for the month of February 2009 for GWR Ltd was as follows:

Bank Account

Feb			Feb		Cheque No.	
			1	Opening Balance		1,200,000
1	PS Ltd	650,000	4	Jones Ltd	751	850,000
1	GG Supplies Ltd	820,000	7	T Cambwe	752	1,115,000
13	Sunshine Ltd	4,200,000	10	J Molone	753	250,000
21	T.K. Merchants	3,330,000	12	Satellite Ltd	DD	154,000
27	O Kelly	560,000	17	M Mahe	754	665,000
			18	C N	755	1,250,000
			23	ABC Ltd	SO	335,000
			24	Salaries transfer		1,300,000
			25	J B Ltd	756	258,000
			26	M Madden	757	450,000
			28	Closing Balance		1,733,000
		9,560,000				9,560,000

The Bank Statement for February 2009 was as follows:

Account Statement

Account Name: GWR Ltd **Account Number: 67702510**

Feb	Description	Debit	Credit	Balance	
1	Balance	0		1,190,000	
1	Cheque 749	120,000		1,070,000	
1	Cheque 748	600,000		470,000	
6	Cheque 751	805,000		335,000	O/D
9	DD water	150,000		485,000	O/D
12	DD Satellite	154,000		639,000	O/D
13	Credit		4,200,000	3,561,000	
19	Cheque 752	1,115,000		2,446,000	
20	Cheque 754	656,000		1,790,000	
21	Credit		3,300,000	5,090,000	
23	ABC Ltd - Standing Order	335,000		4,755,000	
24	Transfer	1,300,000		3,455,000	
26	N. Tansey - Standing Order	250,000		3,205,000	
27	Cheque 755	1,520,000		1,685,000	
28	Bank charges	125,000		1,560,000	

O/D represents an overdraft.
All entries in the Bank Statement are correct.

Required:
(a) Prepare a bank reconciliation statement for GWR Ltd as at 28 February 2009.
(17 marks)
(b) Outline three advantages of preparing a bank reconciliation statement on a regular basis.
(3 marks)
(Total: 20 Marks)

QUESTION 5

The following are extracts from the financial statements of Maya Ltd:

Statements of Financial Position as at 31 December 2010 and 2011

	2010	2011
	Rwf '000	Rwf '000
Assets		
Non-Current Assets		
Land	200,000	300,000
Plant and equipment	150,000	250,000
Fixtures and fittings	242,500	600,000
	592,500	1,150,000
Current assets		
Inventory	113,750	366,250
Trade receivables	71,750	114,500
Cash	76,250	106,500
	261,750	587,250
Total Assets	854,250	1,737,250
Equity & Liabilities		
Share Capital & reserves		
Ordinary share capital	425,000	600,000
Share premium	150,000	225,000
Revaluation	-	100,000
General reserves	47,500	47,500
Retained profit	24,000	56,250
	646,500	1,028,750
Non-Current liabilities		
7% Debentures 2018		375,000
Current Liabilities		
Trade payables	83,500	207,000
Bank overdraft	19,750	13,250
Corporation tax	42,000	50,750
Proposed dividends	62,500	62,500
	207,750	333,500
Total Equity & liabilities	854,250	1,737,250

Extract of Appropriation account for the year ended 31 December 2011:

	Rwf '000
Net profit before tax	164,750
Taxation	57,500
Net profit after tax	107,250
Dividends	75,000
Retained profit for year	32,250

The following additional information is provided in relation to the year ended 31 December 2011

- Plant and machinery with a book value of Rwf25,000,000 was sold for Rwf20,000,000.
- New plant was purchased for Rwf162,500,000.
- Fixtures and fittings with a net book value of Rwf42,500,000 were sold for Rwf45,000,000.
- Depreciation provided on fixtures and fittings amounted to Rwf50,000,000.
- The debentures were issued on 1 January 2011.

Requirement:

Prepare for Maya Ltd, a cash flow statement for the year ended 31 December 2011.

(Total: 20 Marks)

END OF PAPER

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SUGGESTED SOLUTIONS

SOLUTION 1

(a) The accruals concept requires income to be recognised in the period in which it is earned; this normally means the accounting period in which the sale is made and the goods delivered. The other aspect of the accruals concept is the required matching of costs with income earned. In the case of bad debt the cost is incurred when the sale is made, not when it is decided to write off the debt. Therefore, if it is deemed appropriate to provide for bad debts these should be charged to the period in which the sale is taken to income.

The prudence concept is defined as follows: " the inclusion of a degree of caution in the exercise of judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and that liabilities are not understated"

The prudence concept states that revenues and profits are not anticipated but recognised in the Statement of Comprehensive Income only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty. A credit sale normally involves the creation of a legally binding agreement and the physical transfer of the goods. These two factors will tend to result in the subsequent cash receipt.

Bad debts are another aspect of the prudence concept. Provision should be made for all losses as soon as they are anticipated. Past trading experience of the trader will lead him to expect that some debts will go bad. Provision should therefore be made at each year-end.

1(b)

Statement of Comprehensive Income of Rosco Ltd for year ended 31 December 2010

	Rwf '000	Rwf '000
Revenue (w1)		1,188,750
Returns		(2,750)
		1,186,000
Less Cost of Sales		
Opening inventory (w8)	55,250	
Purchases(w6)	492,500	
Carriage inwards	15,000	
Returns	(3,800)	
Closing inventory (w5)		
	(74,050)	
Gross Profit		
		(484,900)
Reduction in b/d provision (w3)		2,460
Discount received		4,500
		708,060
Less Expenses		
Discount allowed	6,250	
Carriage outwards	22,500	
Advertising	18,000	
Bad debts (w4)	31,000	
Motor expenses	23,000	
Rent & rates (w9)	165,000	
Wages and salaries	200,250	
Depreciation (w7)		
Buildings	10,000	
Motor vehicles	28,125	
Office furniture	3,250	
Debenture interest (w11)	30,000	537,375
Net Profit		170,685
Appropriation account		
Net Profit		170,685
Ordinary dividends (w10)		
		(56,000)
Preference dividends (w12)		(8,000)
Retained profit for current year		106,685
Retained profit b/f (w8)		349,700
Retained profit c/f		456,385

Statement of Financial Position (balance sheet) of Roscommon Ltd as at 31 December 2010

Assets

Non-Current Assets (w7)	Cost		NBV
		Depreciation	
Land	1,200,000	-	1,200,000
Buildings	500,000	120,000	380,000
Motor vehicles	250,000	137,500	112,500
Office furniture	32,500	10,750	21,750
	1,982,500	268,250	1,714,250
Current Assets			
Trade receivables (w2)	80,500		
Bad debt provision (w3)	(2,415)	78,085	
Closing inventory (w5)		74,050	
Rent prepaid		20,000	172,135
Total Assets			1,886,385
Equity and Liabilities			
Equity			
Ordinary share capital			600,000
Share premium			130,000
8% Preference shares			100,000
General reserve			150,000
Retained profits			456,385
			1,436,385
Non-Current Liabilities			
10% Debentures 2015			300,000
Current Liabilities			
Bank		50,000.00	
Trade payables		81,000	
Rates due		5,000	
Debenture interest due (w11)		10,000	
Preference dividend due (w12)		4,000	150,000
Total equity and liabilities			1,886,385

Workings

1. Revenue

As per trial balance	1,200,750
Less sale or return	(12,000)
	1,188,750

2. Trade receivables

As per trial balance	98,000
Less sale or return	(12,000)
Bad debt to write off	(5,500)
	80,500

3. Provision for bad debts

Opening provision (trial balance)	4,875
Statement of Comprehensive Income	2,460
Required closing provision [80,500 x 3%]	2,415

4. Bad debts

As per trial balance	25,500
Bad debts to be written off (w2)	5,500
	31,000

5. Closing inventory

As per question	75,250
Sale or return (12,000/120 *100)	10,000
Note a(i) in question	(4,200)
Note a(i) in question [2,000 -250]	1,750
Note a(ii) in question	(1,250)
Note a(iii) in question	(7,500)
	74,050

6. Purchases

As per trial balance	500,000
Office equipment	(7,500)
	492,500

7. Depreciation

Buildings: [500,000*2%]	10,000	Statement of Comprehensive Income
Buildings: Depreciation to date [110,000 + 10,000]	120,000	SoFP
Motor vehicles [250,000 – 109,375] 8 20%	28,125	Statement of Comprehensive Income
Motor Vehicles: Depreciation to date [109,375 +28,125]	137,500	SoFP
Office furniture [25,000 + 7,500] * 10%	3,250	Statement of Comprehensive Income
Office furniture: Depreciation to date [7,500 + 3,250]	10,750	SoFP

8. Error from previous year

Retained earnings brought forward [354,700 – 5,000]	349,700
Opening inventory [60,250 – 5,000]	55,250

9. Rent and rates

As per trial balance	180,000
Rent prepaid	(20,000)
Rates due	5,000
	165,000

10. Ordinary Dividends

Interim paid (Trial balance)	56,000

As the final dividend was proposed on 1 January 2011 they are not included in the accounts for the year ended 31 December 2010.

11. Debenture interest

[300,000 @ 10%]	30,000	Statement of Comprehensive Income
Amount paid (trial balance)	(20,000)	
Therefore amount due	10,000	current liability in Statement of Financial Position (balance sheet)

12. Preference dividend

[100,000* 8%]	8,000	
Amount paid (trial balance)	(4,000)	
Therefore amount due	4,000	current liability in Statement of Financial Position (balance sheet)

SOLUTION 2

(a) Accruals concept:
The effects of transactions and other events are recognised when they occur (and not as the 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.
Going concern:
The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.

(b) The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability
Users must be able to understand financial statements. They are assumed to have some business, economic and accounting knowledge and to be able to apply themselves to study the information properly. Complex matters should not be left out of financial statements simply due to its difficulty if it is relevant information.
Relevance
Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.
The relevance of information is affected by its nature and materiality.
Reliability
Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.
Information must also be reliable to be useful. The user must be able to depend on it being a faithful representation.
There key elements of reliability

- Neutrality
- Prudence
- Completeness

Comparability
Users must be able to compare an entity's financial statements:
(a) Through time to identify trends
(b) With other entities' statements, to evaluate their relative financial position, performance and changes in financial position

Comparability is not the same as uniformity. Entities should change accounting policies if they become inappropriate.

SOLUTION 3

(a) **Method 1: Reduce purchase price of asset**

Statement of Comprehensive Income extract for year ended		31/12/2010	31/12/2011
Depreciation		30,000	30,000

Statement of Financial Position (balance sheet) extract as at:	Cost	Dep'n	NBV
31/12/10	150,000	30,000	120,000
31/12/11	150,000	30,000	90,000

Method 2: Create a deferred income account

Statement of Comprehensive Income extract for year ended		31/12/2010	31/12/2011
Depreciation		40,000	40,000
Other operating income (grant)		10,000	10,000

Statement of Financial Position (balance sheet) extract as at 31/12/10	Cost	Dep'n	NBV
	200,000	40,000	160,000
Non- current Liabilities			
Deferred income (Government grant)			30,000
Current Liabilities			
Deferred income (Government grant)			10,000

Statement of Financial Position (balance sheet) extract as at 31/12/11	Cost	Dep'n	NBV
	200,000	80,000	120,000
Non- current Liabilities			
Deferred income (Government grant)			20,000
Current Liabilities			
Deferred income (Government grant)			10,000

(b)

(i) TWO WAYS OF ACCOUNTING FOR THIS TYPE OF GRANT

- Present grant received in Statement of Comprehensive Income, either separately or under a general heading such as “Other Income”
- Net grant off against related item of expenditure

(ii) A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for use by the entity. The fair value of the non-monetary asset should be assessed and accounted for in the accounts at the fair value.

SOLUTION 4

(a) Step 1: Reconcile opening balance in bank account with opening balance on bank statement Balance in bank account on 1 Feb.
Add items not yet debited:

Balance in Bank at 1 Feb	1,200,000	CR
Add items not yet debited		
PS Ltd	650,000	
GG Supplies Ltd	820,000	
	270,000	
Balance in Bank statement on 1 Feb	1,190,000	
Less unpaid cheques		
Cheque 749	120,000	
Cheque 748	600,000	
	470,000	
Balancing figure (u/p Chq from prev. month)	200,000	
	270,000	

Adjusted Bank Balance

Feb					
28	Balance	1,733,000	28	TK Merchants	30,000
	Cheque 751	45,000	28	Cheque 755	270,000
	Cheque 754	9,000	28	DD Water	150,000
			28	N. Tansey - Standing Order	250,000
			28	Bank charges	125,000
			28	Closing Balance	962,000
		1,787,000			1,787,000

Bank Statement Reconciliation		
Closing Balance		1,560,000
Less Unpaid Cheques		
Cheque 753	250,000	
Cheque 756	258,000	
Cheque 757	450,000	
Balancing figure u/p Chq	200,000	(1,158,000)
Add Lodgements not yet cleared		
O Kelly		560,000
Balance per adjusted bank Account		962,000

(b)
- It reduces the risk of fraud and theft
- Ensure the bank account in the books of the trader/company is correct
- Problems will be highlighted at an early stage

SOLUTION 5

Maya Ltd

Cash flow statement for the year ended 31 December 2011

	Rwf '000
Cash flow from operating activity	
Net profit before tax	164,750
Adjustment for:	
Depreciation charges (w1)	87,500
Interest expense (w2)	26,250
Profit on sale of non-current asset (w3)	(2,500)
loss on sale of non-current assets (w4)	5,000
Operating profit before working capital changes	281,000
Increase in inventories	(252,500)
Increase in trade receivables	(42,750)
Increase in trade payables	123,500
Cash generated from operations	109,250
Interest paid (w2)	(26,250)
Income tax paid (w5)	(48,750)
Net cash from operating activity	34,250
Cash flow from investing activity	
Payments to acquire tangible non-current assets (w6)	(612,500)
Receipts from sale of tangible fixed assets (w7)	65,000
Net cash used in investment activity	(547,500)
Cash flow from financing activities	
Issue of shares - *incl premium*	250,000
Debentures issued	375,000
Dividend paid (w8)	(75,000)
Net cash from financing activities	550,000
Increase in cash in period	36,750
Cash and cash equivalent at beginning of period (w9)	56,500
Cash and cash equivalent at end of period (w10)	93,250

<u>Working 1: Depreciation</u>	Rwf '000
Plant & equipment	
Value at start of year	150,000
Disposal	(25,000)
Additions	162,500
	287,500
Value at 31 December 2011	250,000
Depreciation	37,500
<u>Total depreciation</u>	
Plant & equipment	37,500
Fixtures	50,000
	87,500

Working 2: Interest expense

75,000x 7% =	26,250
Issued 1 Jan so whole year's interest due	

Working 3: Profit on sale of non-current asset

NBV of fixtures sold	42,500
Sale proceeds	45,000
Profit on sale	2,500

Working 4: Loss on sale of plant & machinery

NBV of asset sold	25,000
Sale value	20,000
Loss on sale	(5,000)

Working 5: Income tax paid

Amount due at start of year	42,000
Charge for year	57,500
	99,500
Actual amount due at end of year	50,750
Amount paid [19,900 – 10,150]	48,750

Working 6: Payment to acquire tangible non-current assets

Fixtures	
Value at start of year	242,500
-sale of fixtures	(42,500)
Depreciation	(50,000)
	150,000
Actual value 31/12/11	600,000
Fixtures purchased [600,000k – 150,000k]	450,000

Total tangible non-current assets purchased	
Fixtures	450,000
Plant	162,500
	612,500

Working 7: Receipts from sale of tangible non-current assets

Fixtures	45,000
Plant	20,000
	65,000

Working 8: Dividends paid

Amount due at start of year	62,500
Dividends for year	75,000
	137,500
Actual amount due at end of year	62,500
Amount paid [137,500k -62,500k]	75,000

Working 9: Cash and cash equivalent at beginning of period

Cash balance	76,250
Bank o/d	(19,750)
	56,500

Working 10: Cash and cash equivalent at end of period

Cash balance	106,500
Bank o/d	(13,250)
	93,250

Marking Scheme

Question 1		
(a)	4 marks for explaining accruals concept	4
	3 marks for explaining the matching concept	3
	3 marks for explaining prudence concept	3
(b)	Notes adjustments	20
	Statement of Comprehensive Income 5	
	Statement of Financial Position (balance sheet) 5	
		Total 40
Question 2		
(a)	2 marks for each concept	4
(b)	4 marks for each characteristics	16
		Total 20
Question 3		
(a)	6 marks for method of reducing cost of asset	6
	10 marks for deferred credit	10
(b)	2 marks for each item	4
		Total 20
Question 4		
(a)	4 marks for opening balance reconciliation	4
	10 marks for adjusted cash book	10
	3 marks for reconciliation statement	3
(b)	1 mark for each advantage	3
		Total 20
Question 5		
	Operating activities	10
	Investing & Financing activities	10
		Total 20

Q1 – Solution 1 : Extended Trial Balance – All values in RWF ‘000

	TB		Adjustments	Statement of Comprehensive Income		S o F P	
	Debit	Credit	Dr / (Cr)	Dr	Cr	Dr	Cr
Ordinary shares Rwf 250 each	-	600,000					600,000
Share premium	-	130,000					130,000
Retained profit at 01/01/08	-	354,700	5,000	106,685			456,385
Returns	2,750	3,800		2,750	3,800		
Purchases	500,000		(7,500)	492,500			
Discounts	6,250	4,500		6,250	4,500		
Land	1,200,000					1,200,000	
Buildings	500,000					500,000	
Motor vehicles	250,000					250,000	
Office equipment	25,000		7,500			32,500	
Buildings depreciation		110,000		10,000			120,000
Motor vehicles depreciation		109,375		28,125			137,500
Office equipment depreciation		7,500		3,250			10,750
Carriage inwards	15,000			15,000			
Carriage outwards	22,500			22,500			
Inventory at 1 Jan	60,250		(5,000)	55,250	74,050	74,050	
Revenue		1,200,750	12,000		1,188,750		
Advertising	18,000			18,000			
Bad debts	25,500		5,500	31,000			
Motor expenses	23,000			23,000			
Rent and rates	180,000			165,000		20,000	5,000
Bank		50,000					50,000
Wages and salaries	200,250			200,250			
10% Debentures 2015		300,000					300,000
Interim dividend	56,000			56,000			
Debenture interest	20,000			30,000			10,000

8% Preference shares		100,000					100,000
Provision for bad debts		4,875			2,460		2,415
Trade receivables/trade payables	98,000	81,000	(17,500)			80,500	81,000
General reserve		150,000					150,000
Preference dividend payable	4,000			8,000			4,000
	3,206,500	3,206,500		1,273,560	1,273,560	2,157,050	2,157,050