

CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 1 EXAMINATION

F1.3: FINANCIAL ACCOUNTING

TUESDAY: 2 DECEMBER 2014

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.
7. Any assumptions made must be clearly and concisely stated.

SECTION A

This section has one compulsory question

QUESTION ONE

IAS 18 – Revenue defines revenue as ***“the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants”***.

Required:

- (a) From the following transactions of an enterprise, state whether each is revenue or not in accordance with the above definition and giving reasons for your answer.
 - (i) Administrative building is sold for Frw 15,000,000.
 - (ii) 20 million Frw100 preference shares are issued at nominal value.
 - (iii) The enterprise deals in the retail of widgets and makes sales of Frw 10 million during the year, 30% of which are on credit.
 - (iv) The enterprise sells some of its widgets to a retailer on sale or return. If the widgets are not sold by the retailer, they are returned for a refund. It is impossible to determine reliably how many widgets will remain unsold.

(8 Marks)
- (b) Discuss the statement that ‘the recognition of revenue in financial statements is objective’. **(6 Marks)**
- (c) Bidcal Ltd financial year ends on 30 November. As at 30 November 2014, the company’s account balances were as follows:

	DR	CR
	Frw ‘000’	Frw ‘000’
Sales revenue		14,800
Purchases	8,280	
Inventory	1,390	
Distribution costs	1,080	
Administrative expenses	1,460	
Land	10,500	
Buildings at cost	8,000	
Accumulated depreciation		2,130
Equipment at cost	12,800	
Accumulated depreciation		2,480
Accounts receivable and payable	4,120	2,240
Cash at bank	160	
Ordinary shares of 50 each		10,000
Ordinary shares issued during the year		4,000
Share premium account bal b/f		2,000
Share premium arising on shares issued during year		2,000
Revaluation reserve		3,000

	DR	CR
	Frw '000'	Frw '000'
Retained profits		3,140
10% loan notes (redeemable 2024) (issued 1 August 2013 with interest payable 31 March and 30 September each year)		2,000
	<u>47,790</u>	<u>47,790</u>

Additional information is as follows:

- (a) Inventory at 30 November was valued at Frw 1,560,000 at cost. A close check on inventory items revealed the need for some adjustments as follows;
- (i) Parts which had cost Frw 80,000 and which would normally be sold for Frw 120,000 were found to have deteriorated. Some work costing Frw 20,000 would be needed to enable the parts to be sold for Frw 90,000.
- (ii) Parts delivered to customers on sale or return terms had been omitted from inventory and included as sales in November 2014. The cost of these items was Frw 16,000 and they were included in sales at Frw 24,000. In November 2014, the parts were returned in good condition by the customers.
- (b) Depreciation is to be provided on cost and classified as follows:

	Charged to: cost of sales	Charged to: distribution cost	Charged to administration cost
Buildings at 2% per year	80%	10%	10%
Plant and equipment at 20% per year	80%	10%	10%

- (c) The land is to be revalued to Frw 12,000,000. No change was required to the value of the buildings.
- (d) Accrued expenses and prepayments were:

	Accrued expenses	Prepayments
	Frw "000"	Frw "000"
Distribution costs	190	120
Administrative expenses	70	60

- (e) No dividends were paid during the year and no dividend is proposed for the year.

Required:

- (a) Statement of profit or loss for the year ended 30 November 2014. (12 Marks)
- (b) Statement of financial position as at 30 November 2014. (8 Marks)
- (c) Statement of changes in equity as per requirements of IAS 1. (6 Marks)
- (Total 40 Marks)**

SECTION B

Attempt three of the four questions in this section.

QUESTION TWO

Josiane Teta runs a City Market stall selling curios of all descriptions. Most of her sales are for cash, although regular customers are allowed credit. No double entry accounting records have been kept, but the following information is available.

Net Assets Summary at 31 March 2013

	Frw '000'	Frw '000'
Motor Van (Pick up)		
Cost		3,000
Depreciation		<u>2,500</u>
Net Book value		500
Current Assets		
Stock	500	
Debtors	170	
Cash at bank	2,800	
Cash in hand	<u>55</u>	
	3,525	
Current liabilities		
Creditors	<u>230</u>	
Net current assets		<u>3,295</u>
Net assets		<u>3,795</u>

Additional information:

- Josiane Teta bought a new motor van in January 2014 receiving a part-exchange allowance of Frw 1,800,000 for her old van. A full year's depreciation is to be provided on the new van, calculated at 20% on cost.
- Josiane Teta has taken Frw 50,000 per week for her personal use. She also estimates that petrol for the van paid in cash, averages Frw 10,000 per week.
- Other items paid in cash during the year were:
 - Sundry expenses Frw 24,000
 - Repairs stall roof Frw 201,000
- Josiane Teta makes a gross profit of 40% on selling prices. She is certain that no goods have been stolen but remembers that when her friend Anne Kalembe was getting married, she gave her a wedding gift of curios worth Frw 100,000. Earlier in the year, she had presented curios worth Frw 200,000 to her mother to be sold at her brother's university fees fundraiser. Both these figures are stated at selling prices.
- Trade debtors and creditors at 31 March 2014 are Frw 320,000 and Frw 233,000 respectively, and cash in hand amounts to Frw 39,000. No stock count has been made and there are no accrued or prepaid expenses.

A summary of bank statements for the twelve months shows:

	Frw '000'
Credits	
Cash banked (all cash sales)	7,521
Cheques banked (all credit sales)	1,500
Dividend income	<u>210</u>
	<u>9,231</u>
Debits	
Purchase of motor van	3,200
Road license	80
Insurance on van	323
Creditors for purchases	7,777
Rent	970
Sundry	31
Accountancy fees	75
Bank overdraft interest	20
Returned cheque (assumed bad debt)	<u>29</u>
	<u>12,505</u>

Interest amounting to Frw 27,000 on bank overdraft for six months ended 31 March 2014 was debited in the bank statement on 1 April 2014.

Required:

Statement of profit or loss for the year to 31 March 2014 and a statement of financial position as at that date.

(Total 20 Marks)

QUESTION THREE

- a) An accountant working for Mr Mambo had prepared the following summary of the cash book for the month of March 2014

	Frw		Frw
Opening balance b/d	560,000	Payments	4,189,000
Receipts	<u>3,748,000</u>	Closing balance c/d	<u>119,000</u>
	<u>4,308,000</u>		<u>4,308,000</u>

The following discrepancies were discovered on checking the cash book against the bank statement;

- Bank charges of Frw 6,000 shown in the bank statement have not been entered in the cash book.
- The bank has debited a cheque of Frw 40,000 in error in the account of Mambo
- Cheques totaling Frw 120,000 have not been presented to the bank for payment.
- Dividends received for Frw 40,000 have been credited on the bank statement but not yet recorded on Mambo cash book
- There were cheques received of Frw 480,000 which were entered in the cash book but not yet credited by the bank.
- A cheque of Frw 17,000 has been returned by the bank marked as 'refer to drawer' but no entry relating to this has been made in the books.
- The opening balance in the cash book should have been Frw 650,000 and not Frw 560,000
- The bank statement shows that there is an overdraft at 3 March 2014 of Frw 174,000

Required:

A bank reconciliation statement as at 31 March 2014

(8 Marks)

- b) KK Traders bought a van in Jan 2010 for Frw 2,000,000. The policy of the company is to depreciate motor vehicles at a rate of 25% using straight line method. The motor van was sold in March 2013 at a cash price of Frw 900,000 (full depreciation is charged on the year of acquisition and none on the year of disposal)

Required:

Show the accumulated depreciation account since 2010 and disposal account.

(6 Marks)

- c) Briefly explain four reasons for preparing the statement of comprehensive income

(6 Marks)**Total 20 Marks****QUESTION FOUR**

- (a) Distinguish between direct and indirect methods of preparing a statement of cash flows as per international financial reporting standards **(3 Marks)**
- (b) Explain the accounting treatment of foreign currency cash flows during preparation of a statement of cash flows **(2 Marks)**
- (c) Briefly explain the importance of a statement of cash flows to a business entity **(3 Marks)**
- (d) Newman Ventures, a company that is in the business of selling building tiles, closes its year on 30 September every year. The following are the statements of financial position of Newman Ventures for the years ending 30 September 2013 and 2014.

Newman Ventures
Statement of Financial Position
As at 30 September

		2014		2013
	Frw'000'	Frw'000'	Frw'000'	Frw'000'
Assets:				
Non-current assets:				
Premises		95,000		55,000
Motor vans		46,000		35,000
Furniture		<u>25,000</u>		<u>28,000</u>
		<u>166,000</u>		<u>118,000</u>
Current assets:				
Inventories	28,000		20,000	
Account receivables	14,000		16,000	
Prepayments	6,000		8,000	
Cash in hand	-		3,000	
	48,000		47,000	
Less: Current liabilities:				
Account payables	23,000		15,000	
Interest payable	9,000		6,000	
Current tax	6,000		5,000	
Bank overdraft	4,000		-	
Proposed dividends	<u>3,000</u>		<u>4,000</u>	

	2014	2013
Frw'000'	Frw'000'	Frw'000'
	<u>45,000</u>	<u>30,000</u>
Working capital	<u>3,000</u>	<u>17,000</u>
Total Net assets	<u>169,000</u>	<u>135,000</u>
Represented by:		
Long term liabilities:		
15% debentures	30,000	20,000
Bank loan	6,000	10,000
	36,000	30,000
Equity and liabilities:		
Ordinary share capital	80,000	50,000
Share premium	20,000	15,000
Revaluation reserve	15,000	25,000
Retained profit	18,000	15,000
	<u>133,000</u>	<u>105,000</u>
Total equity and liabilities	<u>169,000</u>	<u>135,000</u>

Additional information

- Premises were revalued resulting in an increase in value by Frw 10,000,000 during the year. In addition, there was a further acquisition of premises amounting to Frw 40,000,000.
- Depreciation on motor vans amounting to Frw 4,000,000 was provided in the profit and loss account for the year. Motor vans with a net book value of Frw 8,000,000 were disposed off at a gain of Frw 3,000,000 during the year.
- The revaluation reserve was utilized to issue bonus shares amounting to Frw 20,000,000 at par during the year. Newman Ventures ordinary shares par value is Frw 20.
- Interest expense amounting to Frw 8,000,000 was charged to the statement of comprehensive income in the year.
- Tax amounting to Frw 6,000,000 was paid during the year.
- Total dividends for the year amounted to Frw 5,000,000.
- The profit after tax for the year amounted to Frw 8,000,000.

Required:

Prepare a statement of cash flows for the year ended 30 September 2014 in accordance with the requirements of IAS (12 Marks)

(Total: 20 Marks)

QUESTION FIVE

- (a) Explain the main features of Educational Institution's Accounts (4 Marks)
- (b) Vision School accounting year ends on 30 November. The trial balance for the year ended 30 November 2014 was as follows:

	Frw	Frw	Frw
School premises		1,215,000	
Furniture & Equipment		120,000	
Salaries for Instructors		338,000	
Other Salaries & General costs		449,000	
Capital account on 01/12/2013			1,200,000
Provision for extensions and improvements			120,000
Catering		114,000	
Bursaries		13,000	
Short-term deposit – Building Fund		121,000	
Inventories		14,000	
Debtors		12,000	
Cash in hand & at Bank		211,000	
Investments at cost (Bursary Fund)		110,000	
Fees collected from : Boarding students	1,005,000		
:Day students	<u>110,500</u>		1,115,500
Contributions from staff for meals			12,000
Income and Expenditure Account 1.12.2013			14,000
Building fund collections			121,000
Bursary Fund: Capital			110,000
:Income			7,500
Creditors for supplies			17,000
		<u>2,717,000</u>	<u>2,717,000</u>

Additional information:

- (i) Provision for extensions and improvements is to be increased by Frw 90,000.
- (ii) Unpaid operating costs as at 30 November 2014 amounted to Frw 15,000.
- (iii) The net cost of bursaries is to be written off.

Required

- a) The Income and Expenditure Account for the year ended 30 November 2014 (8 Marks)
- b) The Statement of financial position as at 30 November 2014 (8 Marks)
- (Total: 20 Marks)

End of question paper