INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 2 EXAMINATIONS

L2.1: FINANCIAL ACCOUNTING

THURSDAY: 13 JUNE 2013

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and only **five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings

QUESTION ONE

Siphoron, a limited liability company, compiles its financial statements to 30 June annually. At 30 June 2012, the company's list of account balances was as follows:

	Rwf '000'	**Rwf '000'**
Sales revenue		14,800
Purchases	8,280	
Inventory at 1 July 2011	1,390	
Distribution costs	1,080	
Administrative expenses	1,460	
Land at valuation	10,500	
Buildings: Cost	8,000	
accumulated depreciation at 1 July 2011		2,130
Plant and equipment: cost	12,800	
accumulated depreciation at 1 July 2011		2,480
Trade accounts receivable and payable	4,120	2,240
Cash at bank	160	
Ordinary shares of 50c each: as at 1 July 2011		10,000
-issued during year		4,000
Share premium account: as at 1 July 2011		2,000
-arising on shares issued during year		2,000
Revaluation reserve as at 1 July 2011		3,000
Accumulated profits		3,140
10% loan notes (redeemable 2021)		2,000
(issued 1 April 2012 with interest payable 31 March and 30 September each year)		
	47,790	**47,790**

The following matters remain to be adjusted for in preparing the financial statements for the year ended 30 June 2012:

1. Inventory at 30 June 2012 amounted to Rwf 1,560,000 at cost. A review of inventory items revealed the need for some adjustments for two inventory lines:

   (i) Items which had cost Rwf 80,000 and which would normally sell for Rwf 120,000 were found to have deteriorated. Remedial work costing Rwf 20,000 would be needed to enable the items to be sold for Rwf 90,000.

   (ii) Some items sent to customers on sale or return terms had been omitted from inventory and included as sales in June 2012. The cost of these items was Rwf 16,000 and they were included in sales at Rwf 24,000. In July 2012, the items were returned in good condition by the customers.

2. Depreciation is to be provided as follows:

   Buildings: 2% per year on cost.

   Plant and equipment: 20% per year on cost.

   80% of the depreciation is to be charged in cost of sales, and 10% each in distribution costs and administrative expenses.

3. The land is to be revalued to Rwf 12,000,000. No change was required to the value of the buildings.

4. Accrued expenses and prepayments were:

	Accrued expenses	Prepayments
	Rwf '000'	Rwf '000'
Distribution costs	190	120
Administrative expenses	70	60

5. No dividends were paid during the year and no dividend is proposed for the year.

Required:

(a) Prepare the company's statement of comprehensive income for the year ended 30 June 2012 and balance sheet as at that date for publication, complying as far as possible with the provisions of IAS 1 (Presentation of Financial Statements) and other relevant IFRS. **(15 marks)**

(b) Prepare the statement of changes in equity as presented in IAS1 (Ignore notes to the financial statements). **(5 marks)**

(Total 20 marks)

QUESTION TWO

(a) List and explain **three** ways in which the use of historical cost accounting may cause financial statements to be misleading. **(10 marks)**

(b) The term "reserves" is frequently found in limited companies statements of financial position.

Required:

(i) Explain the meaning of "reserves" in this context **(2 marks)**

(ii) Give two examples of reserves and explain how each of your examples comes into existence.

(c) A company's issued share capital may be increased by a bonus (capitalization) issue or by a rights issue. **(3 marks)**

Required:

Define 'bonus issue' and 'rights issue' and explain the fundamental difference between these two types of share issue. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

While reviewing the draft accounts of Sunshine Ltd for the year ended 31st December 2012 as prepared by the Chief Accountant, the Managing Director suggests that the written down value of Machinery is very low. To support her argument she produces the following schedule of Machinery on hand at 31 December 2012:

Item	Year of Purchase	Cost (Rwf)	Life	Estimated Scrap Value (Rwf)

Machinery 1	2004	205,000	20	25,000
Machinery 2	2009	185,000	20	25,000
Machinery 3	2007	375,000	10	50,000
Machinery 4	2010	470,000	10	50,000
Machinery 5	2007	67,500	8	7,500
Machinery 6	2011	125,000	15	5,000
Truck	2012	1,050,000	4	250,000

After discussing the matter the following policy is agreed:

1. Each item of machinery to be depreciated on a straight line basis to its estimated scrap value over its estimated life.
2. A full year's depreciation to be charged in the year of purchase.
3. On investigation you ascertain that: There is no machinery register and Machinery which includes the truck is shown in the accounts at cost less proceeds of sales.
4. For some years depreciation was charged at 15% on the reducing balance and then from 31st December 2004 at 10% of cost less proceeds of sales on a straight line basis.
5. The Machinery account for the year ended 31st December 2012 was as follows:

Machinery

	Rwf.		**Rwf.**
Opening balance		Opening balance	
Cost less sales	4,100,000	Depreciation to date	3,050,000
Truck at cost less trade in of old Truck	700,000	Depreciation for year	480,000
Balance c/d	3,530,000	Balance c/d	4,800,000
	8,330,000		8,330,000

You are required to show, after implementing the new policy:

i. The Machinery Account as it should appear in the books of the company for the year ended 31st December 2012. **(15 marks)**

ii. The entries which should appear in the Statement of financial position as at 31st December 2012. **(3 marks)**

iii. A note explaining the effect on the profits upon the change of depreciation policy. **(2 marks)**

(Total: 20 marks)

QUESTION FOUR

Ms. Annie Marie formed All-in-one Traders, a sole proprietorship five years ago. Her initial capital injection was Rwf 1,000,000 cash. For a number of years, Annie's husband maintained the accounting records, but early in 2011 he became seriously ill. Ms. Marie consulted a CPA firm whose manager told her to keep a record of her cash receipts and payments and a list of her assets and liabilities, at the beginning and end of the year, and the firm would prepare financial statements for her at the end of the year.

On 31 October 2011, Ms Marie presented the following data to the Manager of the CPA firm.

	Rwf
Cash receipts during the current year:	
Collections from trade debtors	1,906,900
Proceeds of bank loan (repayable before 31 October 2012)	400,000
Cash sales	873,000
Interest on overdue customers account	15,900
Rent from building property	180,000
Total cash receipts	**3,375,800**
Cash payments during the current year:	
Trade creditor	2,256,500
Acquisition of equipment	250,000
Operating expenses	476,100
Insurance premium	9,800
Withdrawals by owner for personal use	110,000
Carriage inwards	124,000
Bank loan (including interest of Rwf 6,000)	156,000
Other liabilities	34,000
Total cash payments	**3,416,400**

Additional information:

(i) Although the primary source of revenue is from trading, All-in-one Traders also earns income from rent and interest. All-in-one Traders conducts business from the ground floor of its two-floor storey building. The first floor is rented to a Mobile phones-retailer for a monthly rent. The retailer pays 6 month's rent in advance on 1st March and 1st September every year. All-in-one Traders increased rent from Rwf 15,000 per month to Rwf 20,000 per month with effect from 1 September 2011. All-in-one Traders charges interest on overdue customers' accounts, which customers usually pay together with the principal amount due. Interest owing by customers on 31st October 2011 was Rwf 5,000.

The following balances of assets and liabilities were extracted on 31st October 2010

Balances	**Rwf**
Prepaid insurance	19,000
Cash at bank	184,600
Trade debtors	585,600
Interest due on customers' accounts	9,000
Stock	389,000
Equipment (net)	1,240,000
Building (net)	2,000,000
Bank loan	100,000
Interest owing on bank loan	5,000
Trade creditors	475,000
Other liabilities	34,000

Debts amounting to Rwf 14,000 had been written off during the accounting period, of which Rwf 8,500 was from sales of the previous accounting year, Ms. Marie estimated that Rwf 14,200 of the 31 October 2011 debtor's balances may be uncollectable and a provision is required.

(ii) Returns inwards and returns outward all applicable to current year's sales and purchases are Rwf 60,000 and Rwf 50,000 respectively.

(iii) Cash discounts taken by credit customers in the year are Rwf 41,300 discounts on purchases are Rwf 64,000.

(iv) Depreciation is to be provided on reducing balance on non-current assets held at year end at the rate of 5% per annum on building and 25% per annum on equipment. There were no disposals of plant assets during the year.

(v) Interest owing on the bank loan at 31st October 2011 was Rwf 17,500. The amount paid for insurance includes a premium of Rwf 8,000 paid to cover the firm against fire for the Company six months to 31st January 2012.

(vi) Stock in hand on 31st October 2011 was valued at Rwf 985,000.

(vii) On 31 October 2011 the amounts owing to suppliers was Rwf 523,000 and the amount owing by customers was Rwf 663,200 (excluding interest on overdue accounts). All purchases of stock are on credit.

(viii) Ground rent and land rates for the year amounted to Rwf 50,000. The bills received in respect of the two are not yet paid.

Required:

Prepare All-in-one Traders Trading, Profit and loss Account for the year ended 31st October 2011 and a Balance Sheet as at that date (show your workings). **(Total:20 marks)**

QUESTION FIVE

The following balances relates to Kigali Limited for years 2009 and 2010

Balance Sheet		**2009**			**2010**	
	Cost	**Deprecia-tion**	**Net Book Value**	**Cost**	**Deprecia-tion**	**Net Book Value**
	Rwf '000'	**Rwf '000'**	**Rwf '000'**	**Rwf '000'**	**Rwf '000'**	**Rwf '000'**

Plant	200	80	120	220	100	120
Building	1,000	200	800	1,800	220	1,580
Investments at cost			920			1,700
Land			1,000			1,600
Stock			860			1,260
Debtors			1,100			1,300
Bank			800			1,000
Ordinary shares at Rwf 20 each			60			-
Share premium			4,740			6,860
Revaluation Reserve			800			1,000
Profit and Loss Account			240			280
10% Debentures			-			400
Creditors			500			500
Proposed Dividends			2,000			3,000
Bank			800			1,200
			400			400
Profit & Loss Account			-			80
Sales			4,740			6,860
Cost of Sales						
Gross Profit						
Expenses			4,000			4,000
Net profit			2,000			2,400
Dividends			2,000			1,600
			1,200			1,200
Balance b/f			800			400

Required:

(a) Calculate for Kigali Ltd. for 2009 and 2010 the following ratios:

(i). Return on capital employed
(ii). Debtors turnover
(iii). Creditors turnover
(iv). Current ratio
(v). Quick assets (acid test) ratio
(vi). Gross profit percentage
(vii). Net profit percentage

(viii). Dividend cover

(ix). Gearing ratio **(9 marks)**

(b) Using the summarised accounts given and ratios you have just prepared, comment on the financial position and prospects of Kigal Ltd. **(3 marks)**

(c) Discuss the qualities of useful financial statements **(6 marks)**

(d) To what extent do international financial reporting standards assist in achieving some of these qualities? **(2 marks)**

(Total: 20marks)

QUESTION SIX

(a) Define the term accounting standards and give four reasons why a professional accounting body issues accounting standards. **(5 marks)**

(b) Accounting ratios are widely used by businesses as indicators of their financial performance in the present and for predicting the future. Discuss the five limitations associated with their use for this purpose. **(5 marks)**

(c) List and explain the principal distinctions between partnerships and limited companies. **(10 marks)**

(Total: 20marks)

QUESTION SEVEN

(a) Explain the terms factory cost and prime cost as used in manufacturing accounts. **(4 marks)**

(b) Delin Ltd. manufactures sharpeners called Belina on small scale basis. On 1 January 2010, 6000 units of Belina were in stock. During 2010, the company manufactured 200,000 units and sold 190,000 units at a price of Rwf 6 each.

The following balances were extracted from the books of account on 31 December 2010.

	Rwf
Stock of raw material 1.1.10	23,280
Stock of raw material 31.12.10	32,560
Purchase of raw material	269,000
Carriage on raw material	82,400
Direct wages	185,400
Factory expenses:	
Rent and rates	76,800
Power	34,400
Insurance	31,280
Plant and Machinery (Net of depreciation on 1.1.10)	300,000

The following additional information was available:

1. Stocks of work-in-progress on 1 January and 31 December 2010 were of insignificant value and are to be ignored.
2. Plant and machinery are to be depreciated using reducing balance method at 10 %.
3. Finished units of Belina are valued at factory cost.
4. Factory cost per unit of Belina was the same in 2009 and 2010.

Required:

(i) The manufacturing account for the year ended 31 December 2010, showing clearly the prime cost and factory costs of producing Belina. **(10 marks)**

(ii) The trading account for the year ended 31 December 2010. **(6 marks)**

(Total: 20marks)

End of question paper