CAT

Certified Accounting Technicians Examination

Stage: Level 1 L1.1

Subject Title: Introduction to Financial Accounting

Examination Format Revision Pack

iCPAR

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

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INTRODUCTION TO FINANCIAL ACCOUNTING

LEVEL 1

L1. 1 EXAMINATION FORMAT REVISION QUESTIONS & SOLUTIONS

NOTES

You are required to answer ALL THREE questions in Section A and TWO of the three questions in Section B (If you provide answers to all questions in Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand will be marked.)

TIME ALLOWED:
3 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.

Editor's note: Your answer should show that you understand the subject matter displayed in the question. The longer the answer (the more verbose it is) the harder it will be for the examiner to mark. So be succinct and leave out the padding unless you deem it really necessary!

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

L1.1- INTRODUCTION TO FINANCIAL ACCOUNTING

EXAMINATION FORMAT-REVISION QUESTIONS AND SOLUTIONS

SECTION A – Questions 1, 2 and 3 are compulsory.

QUESTION 1

The following trial balance was extracted from the books of Mr Muller, a sole trader, on 31 December 2011

	RWF	RWF
Buildings	220,400	
Accumulated depreciation on buildings		44,080
Fixtures, fittings and computers at cost	80,040	
Accumulated depreciation on fixtures, fittings and computers		19,980
Inventory as at 1/01/11	21,050	
Receivables and payables	140,540	129,880
Bank		8,140
Petty cash	430	
PAYE and VAT liability		17,980
Purchases and Sales	302,910	547,890
Returns	3,330	2,120
Discounts		4,140
Postage and Stationary	1,230	
Advertising and distribution	7,900	
Carriage inwards	6,720	
Power	4,570	
Telephone and internet	7,990	
Insurance	12,600	
Rent Received		25,000
Bank interest and charges	2,275	
Wages and salaries	80,990	
Allowance for receivables 1/1/11		8,130
Irrecoverable debts recovered		840
Drawings	7,550	
Capital		92,345
	900,525	**900,525**

The following information, which has *not* been accounted for above, is also available:

1. The inventory count as at 31 December 2011 showed the following information. Based on this information the value of closing inventory to be incorporated into the financial statements must be calculated.

Product	**Quantity in units**	**Cost per unit RWF**	**Sales Price per unit RWF**	**Costs to Sell per unit RWF**
A1	750	5.20	5.10	0.20
B2	6,060	3.15	3.75	0.80
C3	4,000	0.90	1.00	-

2. During 2011 Mr Muller took the following for personal use:

   - RWF 9,500 in inventory items;
   - RWF 4,100 from the bank.

   In addition, one third of the insurance costs above relate to Mr Muller's personal insurance.

3. Mr Muller carries out his business in a large building. A portion of this building is surplus to his requirements and is let out to a tenant. As at 31 December 2011, the tenant owes rental payments for November and December 2011 amounting to RWF5,000 in total. This has not been accounted for.

4. RWF3,140 is to be written off as an irrecoverable debt. Mr Muller has examined the receivables listing and has determined that the allowance for receivables is appropriate and need not be adjusted.

5. Allowances to be made for depreciation as follows:

   Buildings.. 3% straight line

   Fixtures, fittings and computers...... 15% reducing balance

   The depreciation policy is to charge a full year of depreciation in the year of acquisition and none in the year of sale/disposal.

6. A bank statement received in December 2011 showed bank interest and charges of RWF120 relating to November 2011.

7. RWF650 of advertising relates to an advertising campaign which is due to run in 2012 and therefore Mr Muller considers that the amount should be considered as a prepayment.

You are required to prepare:

a) The Statement of Comprehensive Income for the year ended 31 December 2011.

(10 Marks)

b) The statement of financial position as at that date.

(8 Marks)
(Presentation and format 2 Marks)
(Total 20 Marks)

QUESTION 2

a) Outline your understanding, with the use of relevant examples, of capital and revenue expenditure.

(4 Marks)

b) On 1 January 2011 Mr Balewa's books and records contained the following balances:

	RWF
Motor vehicles at cost	75,400
Accumulated depreciation motor vehicles	47,850

During 2011 the following occurred:

- On 1 February 2011 motor vehicle C was traded in against a new motor vehicle D.
- Motor vehicle C had been purchased on 1 September 2007 for RWF40,000.
- Mr Balewa wrote a cheque for RWF20,000 for motor vehicle D, on the date of purchase the list price of motor vehicle D was RWF35,700.
- The year end of the business is 31 December 2011.
- Motor vehicles are depreciated at 20% per annum on the straight line basis from the month of purchase to the month of sale.

You are required to:

i) Prepare the motor vehicles at cost account.

(2 Marks)

ii) Prepare the motor vehicles accumulated depreciation account for the year ended 31 December 2011.

(**3 Marks)**

iii). Prepare the disposal account for motor vehicle C.

(2 Marks)

c) The following information relates to the payroll costs for, Mrs Keita, a sole trader for the month of December 2011.

- Gross wages and salaries RWF40,000;
- Employers PAYE/Social Insurance RWF5,000;
- Net wages and salaries RWF29,000;
- Balances owed to the revenue authority was paid on 31 December 2011.

Note: The difference between gross and net wages and salaries relates only to salary taxes and employees PAYE/ social insurance.

You are required to:

Prepare appropriate journal entries to record the:

i) Wages expense in the books and records of Mrs Keita

(**3 Marks)**

ii) Payment of wages through the bank.

(2 Marks)

iii) Payment of PAYE/social insurance to the Revenue authority.

(2 Marks)
(Presentation and format (relating to all parts of the question) 2 Marks)
(Total 20 Marks)

QUESTION 3

On 7 January 2011, Mrs Gowon received her bank statements for the month ended 31 December 2010. The bank statement showed a balance of RWF23,575 (overdraft) as at 31 December while the cash book showed a balance of RWF41,540 (credit) as at the date. On examination of the cash book and the bank statement the following were discovered:

1. A dishonoured cheque of RWF1,540 had been recorded as cash receipts, in error, in the cash book;
2. Bank charges of RWF65 had not been recorded in the cash book;
3. Mrs Gowon has an approved overdraft level of RWF20,000 from her bank. The bank statement contains a penalty of RWF200 as Mrs Gowon exceeded the approved overdraft level. This has not been recorded in the cash book;
4. A cheque of RWF100 to replenish the petty cash tin, was recorded in the bank account but omitted from the cash book;
5. Cash receipts of RWF4,700 were posted as cash payments of RWF7,400 in the cash book;
6. On 17th December Mrs Gowon lodged cash of RWF610 to her bank personal account.

   This was lodged to the business bank account in error by the bank;
7. Standing orders of RWF770 had not been posted to the cash book;
8. Receivables of RWF4,350 were lodged directly to the bank account. No record had been made of this in the cash book;
9. Lodgements of RWF4,190, lodged to the bank account on 31 December 2010, had not been credited by the bank;

10. The following cheques, drawn on the bank account, had not been presented to the bank for payment as at 31 December 2010:

Cheque Number	**Date Cheque was written**	**RWF**
No: 1425	24 June 2010	925
No: 2651	11 November 2010	1,025
No: 3001	28 December 2010	5,240
No: 3010	31 December 2010	2,120

You are required to:

a) Prepare the adjusted cash book for the month of December 2010.

(10 Marks)

b) Prepare a statement on 31 December 2010, reconciling the adjusted cash book with the bank statement balance.

(5 Marks)

c) Explain, in report format, two reasons for preparing bank reconciliation on a regular basis.

(3 Marks)
(Presentation and format 2 Marks)
(Total 20 Marks)

SECTION B – Answer any TWO of the three questions in this Section

QUESTION 4

The following opening balances were extracted from the books of Mr Eze on 1 November 2011:

	Debit	**Credit**
	RWF	**RWF**
Non-current assets	98,550	
Receivables	11,200	
Bank		7,250
VAT		1,730
Payables		5,400
Electricity Due		940
Capital		94,430
	109,750	109,750

The following transaction took place for the month of November 2011:

Nov, 2 Purchased goods on credit at a cost of RWF7,200 plus VAT of 15%; Nov, 5 Sold goods on credit for RWF6,000 plus VAT of 15%;

Nov, 7 Receivables paid RWF4,500 by cheque. The payment was after a 10% discount had been allowed;

Nov, 10 Paid RWF2,000 in VAT by cheque;

Nov, 14 Purchased goods at a cost of RWF5,000 plus VAT of 15%, paid for these by cheque;

Nov, 19 Payables of RWF6,000 were paid by cheque. An additional discount of 5% was received due to the prompt payment;

Nov, 21 The outstanding balance owed on electricity was paid by cheque; Nov, 24 Sold goods for cash for RWF2,200 plus VAT of 15%;

Nov, 27 Paid wages and salaries of RWF700 by cheque;

Nov, 30 Purchased non-current asset of RWF4,000 by cheque.

You are required to:

a) Enter the opening balances in T Accounts.

(3 Marks)

b) Write up the original books of entry for November 2011 and post the balances to the ledger.

(12 Marks)

c) Balance the ledger accounts as at 30 November 2011.

(2 Marks)

d) Extract the trial balance as at 30 November 2011.

(3 Marks)
(Total 20 Marks)

QUESTION 5

a) A business can be carried out through the medium of a sole trader, partnership or limited company. For each of these business types:

- Write a brief note explaining each business type;
- Outline two advantages of carrying out business through each business type;
- Outline one disadvantage of carrying out business through each business type.

(12 Marks)

b) Provide a definition of accounting.

(2 Marks)

c) One aim of the accounting process is to communicate financial information. Outline the information provided by the Statement of Comprehensive Income and the Statement of Financial Position.

(6 Marks)
(Total 20 Marks)

QUESTION 6

a) The total sales figure of Mr Xulu is made up of both cash sales and credit sales. Mr Xulu did not maintain proper books and records for the year ended 31 December 2011, but Mr Xulu is in a position to provide you with the following information:

Credit Sales

Credit sales are made to larger corporate businesses. The following information is available for receivables for the year ended 31 December 2011.

	RWF
Receivables 1/1/11	77,210
Receivables 31/12/11	81,101
Interest charged to customer on overdue balances	4,230
Sales returns	36,000
Irrecoverable debts written off	4,210
Discounts allowed	730
Contra entry with payables	110
Cash received from credit customers	174,620

Cash Sales

Cash sales relate to sales made in Mr Xulu's shop. The following information relates cash movements in Mr Xulu's shop for the year ended 31 December 2011:

	RWF
Cash float 1/1/11	250
Cash float 31/12/2011	300
Sundry expenses paid in cash from the shop till	2,050
Cash lodged to the business bank account from the shop till	74,640
Drawings in cash from the shop till	1,670

You are required to:

i. Calculate the total sales figure for Mr Xulu for the year ended 31 December 2011.

(12 Marks)

ii. Outline in brief, the accounting principle/rule that allows for the calculation of the missing figures in part (i).

(2 Marks)

b) The following information is available for a business that did not maintain proper books and records for the year to 31 December 2011. He is only able to provide you with the following information:

RWF Purchases	204,200
Inventory as at 1 January 2011	64,250
Closing inventory as at 31 December 2011	59,110
Standard mark – up on cost of sales	15%

You are required to:

With the aid of a trading account, calculate the sales figure for the business.

(6 Marks)
(Total 20 Marks)

END OF PAPER

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SUGGESTED SOLUTIONS

SOLUTION 1

Mr Muller

Statement of Comprehensive Income for the year ended 31 December 2011

	2011	**2011**	**2011**
	RWF	**RWF**	**RWF**
Sales			547,890
Sales returns			-3,330
Net sales			544,560
Cost of sales			
Opening inventory		21,050	
Purchases	293,410		
Purchases returns	-2,120	291,290	
Carriage inwards		6,720	
		319,060	
Less closing inventory		-25,152	
			-
Cost of sales			293,908
Gross Profit			250,652
Discount received			4,140
Rent received and receivable			30,000
Less Expenses			
Postage and stationary		1,230	
Insurance		8,400	
Wages and salaries		80,990	
Telephone and internet		7,990	
Depreciation of buildings		6,612	
Depreciation of fixtures, fittings and computers		9,009	
Advertising and distribution		7,250	
Irrecoverable debts		3,140	
Irrecoverable debts recovered		-840	
Bank charges		2,395	
Power		4,570	
			-
Total expenses			130,746
Operating profit			154,046

Mr Muller
Statement of financial position as at 31 December 2011

	2011 RWF	2011 RWF	2011 RWF
Non-current assets			
Buildings	220,400	-50,692	169,708
Fixtures, fittings and computers	80,040	-28,989	51,051
			220,759
Current assets			
Closing inventory		25,152	
Receivables	137,400		
Allowances for receivables	-8,130	129,270	
Other debtors		5,000	
Cash		430	
Prepayments		650	
			160,502
Total assets			**381,261**
Equity and Liabilities			
Equity			
Capital		92,345	
Profit for 2011		154,046	
Accumulated profits		246,391	
Drawings		-25,350	
			221,041
Current Liabilities			
Payables		129,880	
PAYE and VAT		17,980	
Bank overdraft		12,360	
			160,220
Total Equity and Liabilities			**381,261**

Workings 1

Product	Quantity in units	Cost per unit RWF	Sales Price per unit RWF	Costs to Sell per unit RWF	NRV RWF
A1	750	5.20	5.10	0.20	4.90
B2	6,060	3.15	3.75	0.80	2.95
C3	4,000	0.90	1.00	-	1.00

Product	Quantity in units	Lower of Cost and NRV			Valuation
A1	750	4.90	*	=	3,675
B2	6,060	2.95	*	=	17,877
C3	4,000	0.90	*	=	3,600
				Total	25,152

Workings 2

	RWF
Purchases	302,910
Drawings	-9,500
Restated purchases	293,410

	RWF
Bank	-8,140
Bank Charges	-120
Drawings	-4,100
Restated bank	-12,360

Insurance
RWF12,600/3 = RWF4,200 - drawings

	RWF
Drawings as per TB	7,550
Purchases	9,500
Bank	4,100
Insurance	4,200
Restated drawings	25,350

Workings 3

	RWF
Rent received	25,000
November/December due	5,000
	30,000

Workings 4

	RWF
Receivables	140,540
Irrecoverable debts	-3,140
	137,400

Workings 5

Building at cost	RWF
Buildings as per TB	220,400
Annual depreciation- 3% SL	3%
	6,612

Fixtures, fitting and computers	RWF
Fixtures, fitting and computers	80,040
Accumulated depreciation	-19,980
	60,060
Annual depreciation - 15% RB	15%
	9,009

Workings 6

	RWF
Advertising as per TB	7,900
Prepayments	-650
	7,250

Workings 7

	RWF
Bank charges as per TB	2,275
Accruals	120
	2,395

SOLUTION 2

a) Capital Expenditure: this is expenditure on goods that will last for more than one year and are not bought for resale but to be used by the business to help generate sales. Examples include premises, equipment, delivery vans etc. That is capital expenditure is expenditure on non-current assets or the repayment of loans.

Revenue (Current) Expenditure: this is expenditure on goods that will be used up within one year and are not bought for resale. They relate to the day-to-day running of the business and are incurred in the for the purpose of the trade of the business. Examples include wages, rent, rates, telephone etc.

b) i)

Motor Vehicles at Cost Account

Date	**Details**	**RWF**	**Date**	**Details**	**RWF**
01/01/2011	Balance c/d	75,400	01/02/2011	Disposal	40,000
01/02/2011	Cheque additions	20,000			
01/02/2011	Trade-in additions	15,700			
			31/12/2011	Balance	71,100
		111,100			111,100
01/01/2012		71,100			

ii)

Motor Vehicles Accumulated Depreciation Account

Date	**Details**	**RWF**	**Date**	**Details**	**RWF**
01/02/2011	Disposal	27,334	01/01/2011	Balance c/d	47,850
31/12/2011	Balance b/d	34,808	31/12/2011	Statement of Comprehensive Income	14,292
		62,142			62,142
			01/01/2012	Balance c/d	34,808

Motor Vehicle C Depreciation Calculation:

							RWF
2007	40,000	*	20%	*	4/12	=	2,667
2008	40,000	*	20%	*	1	=	8,000
2009	40,000	*	20%	*	1	=	8,000
2010	40,000	*	20%	*	1	=	8,000
2011	40,000	*	20%	*	1/12	=	667
							27,334

Motor Vehicle C Depreciation Calculation:

	RWF						RWF
Continuing	35,400	*	20%	*	1	=	7,080
Disposed of MV	40,000	*	20%	*	1/12	=	667
Addition	35,700	*	20%	*	11/12	=	6,545
							14,292

iii)

Motor Vehicles C Disposal Account

Date	**Details**	**RWF**	**Date**	**Details**	**RWF**
01/02/2011	Cost	40,000	01/02/2011	Accumulated dep'n	27,334
	Statement of Comprehensive Income	3,034	01/02/2011	Trade in	15,700
		43,034			43,034

c)

1		**Debit RWF**	**Credit RWF**
Dr	Wages and salaries - Statement of Comprehensive Income	40,000	
Dr	Employers PAYE	5,000	
Cr	PAYE/social insurance		16,000
Cr	Net Wages		29,000

Being the posting of wages and salaries

2

Dr	Net wages	29,000	
Cr	Bank		29,000

Being the payment of wages and salaries

3

Dr	PAYE/social insurance	16,000	
Cr	Bank		16,000

Being the payment of PAYE/social insurance to the revenue authority

SOLUTION 3

a)

Bank Account / Cash Book

	RWF		**RWF**
		Balance	41,540
		Error 1	3,080
Error 5	12,100	Error 2 - bank charges	65
Write back of 1425	925	Error 3 - bank penalties	200
Credit transfer	4,350	Error 4	100
		Error 7	770
		Reissue of cheque 1425	925
Balance	29,305		
	46,680		46,680
		Balance	29,305

b)

Bank Reconciliation as at 31 December 2010

			RWF
Balance per bank			-23,575
Correction of bank error			-610
Add outstanding lodgement			4,190
Less O/S Cheques			
	2651	1,025	
	3001	5,240	
	3010	2,120	
Reissued Cheque		925	-9,310
Balance			-29,305

Note: No marks were awarded for the reissue of the stale cheque (1425) as this was not specifically required by the question. If the stale cheque (1425) was not reissued the corrected balance on the Bank Account/Cash Book and corrected balance as per the bank reconciliation would have been RWF28,380 (overdrawn). Both solutions were awarded equal marks.

c)

To: Whom it May Concern
From: An Accounting Technician
Subject: Importance of Preparing Control Accounts
Date: 18/8/2011

I have been asked to prepare a report outlining the importance of regular preparation of bank reconciliations:

- Identification of errors, such errors may have been made either by the bank, the company or both. For example a business may have omitted to post receipts from receivables.
- Items such as bank interest, charges, standing orders, direct debits and dishonoured cheques. These will be known by the bank but not identified by a business until it receives the bank statement and prepares the bank reconciliation.

Should you have any further queries please feel free to contact me.

An Accountant Technician

SOLUTION 4

b)

Purchases Day Book

Date	**Analysis**	**Total RWF**	**Net RWF**	**VAT RWF**
02-Nov	Goods for resale	8,280	7,200	1,080
				0
		8,280	**7,200**	**1,080**

Sales Book

Date	**Analysis**	**Total RWF**	**Net RWF**	**VAT RWF**
05-Dec	Sale of goods	6,900	6,000	900
		6,900	**6,000**	**900**

Date	**Analysis**	**Total**	**Expenses**	**Non current assets**	**Purchases**	**Payables**	**Wages**	**VAT**	**Memo discount received**
		RWF	**RWF**	**RWF**	**RWF**	**RWF**	**RWF**	**RWF**	**RWF**
30-Nov	NC assets	4,000		4,000					
14-Nov	Goods for resale	5,750			5,000			750	
21-Nov	Electricity	940	940						
19-Nov	Payables	6,000				6,000			300
27-Nov	Wages	700					700		
10-Nov	VAT	2,000						2,000	
		19,390	**940**	**4,000**	**5,000**	**6,000**	**700**	**2,750**	**300**

Cash Receipts & Lodgements Book

Date	Analysis	Total	Receivables	Sales	VAT	Discount Received (Memo)
		RWF	**RWF**	**RWF**	**RWF**	**RWF**
07-Nov	Receivables	4,500	4,500			500
24-Nov	Sales	2,530		2,200	330	
		7,030	**4,500**	**2,200**	**330**	**500**

a) & c)

Non-Current Assets A/C

	RWF		RWF
Balance b/d	98,550		
Cheque payments book	4,000	Balance c/d	102,550
	102,550		102,550
Balance b/d	102,550		

Bank A/C

	RWF		RWF
		Balance b/d	7,250
Cash receipts book	7,030	Cheque payments book	19,390
Balance c/d	19,610		
	26,640		26,640
		Balance b/d	19,610

Payables A/C

	RWF		RWF
Cheque payments book	6,000	Balance b/d	5,400
Discount Received	300	Purchases book	8,280
Balance c/d	7,380		
	13,680		13,680
		Balance b/d	7,380

Receivables A/C

	RWF		RWF
Balance b/d	11,200	Cash receipts book	4,500
Sales book	6,900	Discount allowed	500
		Balance c/d	13,100
	18,100		18,100
Balance b/d	13,100		

Capital A/C

	RWF		RWF
		Balance	94,430

VAT

	RWF		RWF
Purchases book	1,080	Balance b/d	1,730
Cheque payments book	2,750	Sales book	900
		Cash receipts	330
		Balance c/d	870
	3,830		3,830
Balance	870		

Electricity Due

	RWF		RWF
Cheque payments book	940	Balance b/d	940
	940		940

Discount Allowed

	RWF		RWF
Receivables	500		

Discount Received

	RWF		RWF
		Payables	300

Wages

	RWF		RWF
Cheque payments book	700		

Sales Account

	RWF		RWF
Balance c/d	8,200	Sales book	6,000
		Sales for cash	2,200
	8,200		8,200
		Balance b/d	8,200

Purchases Account

	RWF		RWF
Purchases book	7,200	Balance c/d	12,200
Cheque payments book	5,000		
	12,200		12,200
Balance b/d	12,200		

d)

Mr Eze

Trial Balance at 30 November 2011

	Debit RWF	Credit RWF
Bank		19,610
Payables		7,380
Receivables	13,100	
Non-current assets	102,550	
Capital		94,430
VAT	870	
Sales		8,200
Purchases	12,200	
Discount allowed	500	
Discount received		300
Wages	700	
	129,920	129,920

SOLUTION 5

a)

A business can be carried out through one of the business types: sole trader, partnership and limited company

Sole Trader

The term sole trader relates to ownership, in that one person owns the business entity. This type of business entity is often quite small. There are no formal procedures required to set up a sole trader business. In addition the sole trader can decide how the business is going to be run and is free to dissolve or sell the business at any time.

The sole trader and the business are not recognised as separate legal entities. Because of this sole traders have unlimited liability. Unlimited liability means that there is no distinction between the sole trader's personal wealth and that of the business.

Partnerships

Partnerships are entities where ownership is divided between at least two people. Usually partnerships have no more than twenty individual partners. Like sole traders partnerships tend to be small in size, exceptions to this include accounting and solicitor partnerships, these often have more than twenty partners.

A partnership is normally set up using a Deed of Partnership. This usually contains:

- Amount of capital each partnership should provide (i.e. starting capital).
- How profits and losses should be divided.
- How many votes each partner has (usually based on the proportion of capital invested).
- Rules on how to take on new partners.
- How the partnership is brought to an end, or how a partner leaves.

Like sole traders, the partners of a partnerships also have unlimited liability.

Limited Company

The name limited company is derived from the fact that the owners (shareholders) of a limited company enjoy limited liability. The number of owners (shareholders) in a limited company however, is potentially unlimited. Because of this they tend to be quite large.

A limited company has a separate legal existence to that of its owners. A direct consequence of this is that the owners of limited companies have limited liability. This means that the owners (shareholders) are only required to finance the business up to a certain point. This point is the shareholder’s share capital i.e. the quantity of money each shareholder has invested in the business through purchasing shares.

The distinguishing factor that differentiates a limited company from a sole trader and a partnership is that a limited company has to prepare annual “statutory accounts”; this is the price to be paid for the benefit of limited liability. Limited companies must produce such accounts annually and may have to appoint an independent person to audit and report on them depending on certain size criteria. Once prepared, a copy of the accounts must be sent to the Office of Registrar General which maintains a separate file for every company. This is why the statutory accounts are often referred to as the published accounts. Limited companies are governed very tightly by company’s legislation.

Advantages of a Sole Trader Business (Any Two)

- With one owner the sole trader does not have to worry about setting up in business with an unsuitable partner;
- A sole trader is free to make decisions and run the business as he/she sees fit without having to take the opinions of others on board;
- A sole trader does not have to split the rewards of the business with others;
- The comparative ease with which the business is set up and run – there are few administrative burdens imposed on sole traders by law, there is no requirement to produce final accounts, have them audited or present them at an annual meeting;
- Did not bear any of the cost associated with the transition to international accounting standards;
- Because a sole trader is usually directly involved in the running of the business he/she will not have to spend resources finding a suitable management team to delegate the running of the day-to-day activities of the business to;
- As owner/manager of the business a sole trader is completely aware of how the resources of the business are being managed. There is no division between management and ownership. Not so with a limited company where the financial statements are the shareholders prime source of information as to how the assets of the company are being managed and how the company is performing.

Advantages of a Partnership Business (Any Two)

- The burden and risks of ownership are shared;
- Instead of having to offer a comprehensive range of services as a sole trader would, partners can specialise. For example in firms of solicitors some solicitors specialise in family law and others in corporate take-overs etc.;
- Partnerships can usually raise more capital than a sole trader, thereby facilitating expansion;
- A silent partner who does not take an active part in the running of the business can enjoy limited liability;

- Like sole traders partnerships are set up with comparative ease – with few administrative burdens imposed on a partnership by law, accounting standards or stock exchange regulations;
- Did not bear any of the cost associated with the transition to international accounting standards;
- Similar to a sole trader business, the partners of a partnership are usually directly involved in the running of the business and will therefore not have to spend resources finding a suitable management team to delegate the running of the day-to-day activities of the business to;
- As owner/manager of the business partners in a partnership should be completely aware of how the resources of the business are being managed. There is no division between management and ownership.

Advantages of a Limited Company (Any Two)

- All owners (shareholders) enjoy limited liability;
- Limited companies because of their size can usually raise large quantities of capital. Such capital requirements are required for expansion abroad for example. Thus limited companies tend to be better positioned to take advantage of business opportunities which may arise;
- The burden of the day-to-day running of the company is delegated;
- A shareholder in a public limited company can easily sell his/her holding in one company and reinvest in another public limited company if he/she so chooses. This flexibility allows shareholders to manage their portfolio efficiently;
- In recent times restriction on capital flows between countries has largely been removed, allowing individuals to purchase the shares of foreign public limited companies. Such international diversification can insulate shareholders against the effects of the domestic business cycle;

Disadvantages of Being a Sole Trader (Any One)

- Unlimited Liability – A sole trader is liable for any debts that the business incurs. This means that any money that the owner has put into the business could be lost, but most importantly, if the business continues to incur further costs then the owner has to pay these as well. In some cases they may have to sell some of their own possessions to pay suppliers, etc. Such a risk often puts potential sole traders off setting up businesses, and also makes them consider the other forms of business structure.
- As a result of the sole trader and the business being the same legal form, the sole trader is taxed based on income tax not corporation tax. Corporation rate tax rates are more favourable than income tax rates.
- Can be difficult to raise finance. Because they are small, bank may not lend large sums of money to sole traders who may be unable to avail of other forms of long-term finance unless they change their ownership status.

- Can be difficult to enjoy economies of scale, i.e. lower cost per unit due to higher levels of production. A sole trader, for instance, may not be able to buy in bulk and enjoy the same discounts as larger businesses.
- There is a problem of continuity if the sole trader retires or dies – what happens to the business?

Disadvantages of a Partnership (Any One)

- Have to share the profits.
- Less control of the business for the individual.
- Disputes over workload.
- Problems if partners disagree over the direction of the business.

Disadvantages of Limited Company (Any One)

- Costly and complicated to set up as a company
- Lack of privacy of information due to filing requirement with Office of Registrar General
- The day-to-day running of the business is delegated to directors and managers. Therefore the shareholders of a company tend to have less information about the company they own than the directors and managers of the business who run the business for them.

b)

Accounting can be defined as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information.

c)

The Statement of Comprehensive Income

The Statement of Comprehensive Income is fundamentally a listing of all income and all expenses for the year. Taking expenses from income gives the profit that the business earned for the year. Therefore the Statement of Comprehensive Income is year specific – just looking at the accounting year or period in question.

By examining Statement of Comprehensive Incomes year on year a business can gain information about whether sales and expenses are increasing or decreasing and how they are moving in relation to each other. For example in any year if sales were to fall while at the same time expenses increase – the information would be captured in the Statement of Comprehensive Income and action could be taken.

Also the Statement of Comprehensive Income divides the cost of producing/purchasing a good/service from the cost of administration and selling expenses within the business. The information can be useful when businesses are examining costs.

The Statement of Financial Position

The statement of financial position is fundamentally a listing of all the assets of a business and all the liabilities of a business. By subtracting these assets from liabilities we arrive at the net worth of the business. The statement of financial position is a snap shot pictures of a business at a point in time – usually the end of the financial year. It is different to the Statement of Comprehensive Income in this regard – the Statement of Comprehensive Income spans the full financial year.

Assets and liabilities are both categories into long term and short term assets and liabilities in the statement of financial position. Short term is considered to be less than one year. By examining the assets of a business in relation to the associated liabilities the statement of financial positions helps to show how financially strong (or otherwise) a business is.

SOLUTION 6

a) i) Total sales = credit sales + cash sales – RWF293,741

Cash sales can be calculated using the movement through the cash in till account

Credit sales can be calculated using a receivables account

Cash in Tills

	RWF		RWF
Balance b/d	250	Sundry expenses	2,050
Cash sales	**78,410**	Cash lodged to bank	74,640
		Drawings	1,670
		Balance	300
	78,660		78,660
Balance	300		

Receivables Control A/C

	RWF		RWF
Balance b/d	77,210	Irrecoverable debts	4,210
Sales	**215,331**	Sales returns	36,000
Interest charges on overdue accounts	4,230	Discounts allowed	730
		Contra	110
		Cash receipts credit customers	174,620
		Balance c/d	81,101
	296,771		296,771
Balance	81,101		

i) The incomplete records technique used above relies upon T Accounts balancing. T Accounts will always balance because the debit entries will always equal the credit entries. This is the case due to the dual aspect concept. The dual aspect concept states that every transaction should have a two sided effect, one debit, one credit and these must have the same value. In the question above all entries on one side were known and therefore the total of the T account was known. The total of one side of the T Account must equal the total on the other side of the T Account and therefore the missing figure can be derived.

b)

	RWF	RWF
Sales (115%)		240,741

Cost of sales		
Opening inventory	64,250	
Purchases	204,200	
	268,450	
Less closing inventory	-59,110	
		-
Cost of sales (100%)		209,340
Gross Profit (15%)		31,401

END OF SOLUTIONS

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STATEMENT OF FINANCIAL POSITION INTRODUCTION TO FINANCIAL ACCOUNTING

LEVEL 1

L1. 1 EXAMINATION FORMAT REVISION QUESTIONS & SOLUTIONS

NOTES

You are required to answer ALL THREE questions in Section A and TWO of the three questions in Section B (If you provide answers to all questions in Section B, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first two answers to hand will be marked.)

TIME ALLOWED:
3 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.

Editor's note: Your answer should show that you understand the subject matter displayed in the question. The longer the answer (the more verbose it is) the harder it will be for the examiner to mark. So be succinct and leave out the padding unless you deem it really necessary!

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

L1.1- INTRODUCTION TO FINANCIAL ACCOUNTING

EXAMINATION FORMAT-REVISION QUESTIONS AND SOLUTIONS

SECTION A – Questions 1, 2 and 3 are compulsory.

QUESTION 1

You are asked by your employer to complete a short note for a client on each of the following:

(a) Explain what is meant by "Books of Original (Prime) Entry."

(b) The following figures were extracted from the books of Mrs Osei:

	RWF
Stock 1st January 2011	108,000
Sales	360,000
Stock 31st December 2011	120,000

Margin 25%

You are required to prepare the trading account for the year ended 31st December 2011.

(c) Explain what is meant by mark-up?

(d) Explain how and why a petty cash system operates within a business.

QUESTION 2

The following Trial Balance was extracted from the books of Mr Diop on 31 December 2011:

	Dr RWF	Cr RWF
Buildings	1,470,000	
Motor Vehicles	165,000	
Fixtures & Fittings	450,000	
Purchases & Sales	1,515,000	2,352,000
Stock 1/1/11	157,800	
Commission Received		45,000
Provision for Bad Debts		7,200
Salaries	300,000	
General Expenses	18,300	
Discount Received		5,100
Rent Received		20,400
Mortgage Interest Paid	13,500	
Insurance	18,600	
Debtors & Creditors	135,000	198,600
VAT Payable		23,100
PAYE Payable		5,400
Bank		47,700
Drawings	48,600	
Capital		1,587,300
	4,291,800	4,291,800

The following information and instructions are to be taken into account when completing the question.

(i) Provide for depreciation on assets as follows:

	Cost RWF	Method of depreciation
Buildings	1,968,000	2% Reducing Balance
Motor Vehicles	270,000	15% Straight Line
Fixtures & Fittings	600,000	20% Straight Line

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

(ii) On the 30th June 2011 a motor vehicle which had been purchased on 1st January 2007 for RWF48,000 was crashed and not replaced. An insurance claim resulted in RWF21,000 being received but not posted to Mr Diop's bank account. (Ignore VAT)

(iii) Stocks at 31st December 2011 cost RWF155,700. This figure includes damaged stocks which cost RWF5,000 and which are now only worth RWF2,000. (Ignore VAT)

(iv) No record had been made in the books for goods in transit on 31st December 2011. An invoice had been received for these goods showing the recommended retail selling price (pre VAT 20%) of RWF37,500 which is cost plus 25%. These goods were being delivered directly to Mr Diop's customer (VAT 20%).

(v) Provision for bad debts to be adjusted to 5% of debtors.

(vi) The mortgage interest paid is all personal.

Requirement

You are required to prepare:

(a) The Trading Profit & Loss account for the year ended 31st December 2011.

(10 Marks)

(b) The Statement of Financial Position as at 31st December 2011.

(10 Marks)
(Total 20 Marks)

Please account for VAT in respect of instruction No (iv).

QUESTION 3

Mr Ayim's Trial Balance failed to agree on 31st December 2011 and the difference was entered into a suspense account. On examination of the books and records of Mr Ayim the following errors were revealed:

(1) The total of the sales daybook RWF978,000 had been posted to the sales account as RWF879,000.

(2) Goods to the value RWF36,000 (including VAT @ 20%) had been returned by a debtor and no entries had been made in the books.

(3) Goods taken by Mr Ayim to the value of RWF7,800 (excluding VAT @ 20%) had been credited to the Sale account and debited to the drawings account as RWF8,700.

(4) Fixtures and Fittings purchased from XYZ for RWF72,500 had been entered in the purchase book and debited to XYZ's account (Ignore VAT).

(5) A debt of RWF6,000 owed privately to Mr Ayim by a business creditor had been offset in full settlement against a business debt of RWF6,300 owed by the business. No entry had been made in the books in respect of this offset.

(6) During the year products purchased from ABC Ltd had to be recalled. The arrangement was that all expenses incurred by Mr Ayim in recalling goods sold were to be recharged to ABC Ltd. The total expense of the recall was RWF3,250. It was recorded in the general ledger expense account and has not yet been recharged to ABC Ltd. (Ignore VAT)

(7) Mr Ayim presented his private car valued at RWF4,900 to the business. No entry had been made in the books for this transaction. Later this car was sold on credit to a debtor of the business for RWF5,200. The sale had been treated in error as a credit sale. (Ignore VAT) (Ignore Depreciation)

Requirement

You are required to:

(a) Journalise the necessary corrections. **(8 Marks)**

(b) Show the suspense account. (Calculate the opening balance) **(4 Marks)**

(c) Prepare a statement of adjusted / corrected net profit if the original profit was RWF67,980.

(8 Marks)
(Total 20 Marks)

Please account for VAT as appropriate in this question.

SECTION B – Answer any TWO of the three questions in this Section

QUESTION 4

The assets and liabilities of Kigali Tennis Club on 1 January 2011 were:

	RWF
Bank & Cash	83,375
Bar Stock	8,000
Premises	1,400,000
Fittings	598,000
Subscriptions Due from Previous year	9,800
Subscriptions paid in advance	15,000
Tennis coach bonus due	14,000

During the year, receipts and payments were as follows:

Receipts	**RWF**
Subscriptions	540,900
Bar receipts	198,000
Sundry receipts	5,890
Locker rental	4,000

Payments	**RWF**
Bar Supplies	108,000
Barman's Wages	45,000
Tennis Coach Salary and Bonus	98,000
Rates	15,000
New Fittings to Locker Rooms	76,000
Repair to Nets	1,500
Cleaner's Wages	21,000

You are given the following information as at 31 December 2011

	RWF
(i) Rates prepaid	2,000
(ii) Subscriptions due	19,000
(iii) Subscriptions paid in advance	2,500
(iv) Amounts due for Bar Supplies	26,300
(v) Depreciation of Premises	28,000
(vi) Depreciation of Fixtures & Fittings	89,700
(vii) Bar Stock valued at 31 December 2011	9,500

Requirement

You are required to show/prepare:

(a) The Accumulated Fund as at 1st January 2011

(4 Marks)

(b) The Bank A/C for the year ended 31st December 2011

(3 Marks)

(c) The Bar Trading Account for the year ended 31st December 2011

(3 Marks)

(d) The Income and Expenditure account for the year ended 31st December 2011 and the Statement of Financial Position at that date.

(10 Marks)
(Total 20 Marks)

QUESTION 5

Mrs Igwe, a landlord and business woman, did not keep a full set of books for the year ended 31 December 2011. She has asked you to prepare accounts for her and has supplied you with the following information:

Cash Receipts	**RWF**
Cash balance on hand at 1 Jan 2011	64,460
Cash Sales	723,800
Trade Debtors	358,400
Rent Received	16,500
	1,163,160

Cash Payments	**RWF**
Drawings	93,500
Cash Purchases	383,900
Wages	61,600
Expenses	10,780
Equipment	16,720
Creditors	528,000
	1,094,500

The following information is also available:

	1-Jan-11	1-Dec-11
	RWF	**RWF**
Premises	1,210,000	1,210,000
Stock	129,800	136,400
Motor Vehicles	57,000	57,000
Trade Creditors	907,500	1,090,500
Trade Debtors	875,000	975,000
Rent Prepaid by tenant	12,000	
Wages Due	25,000	35,000
Rent Due by tenant		6,000

Requirement

N. B. *Please ignore depreciation.*

You are required to:

(a) Prepare the appropriate ledger accounts to reflect the above transactions.

(12 Marks)

(b) Extract the Trading and Profit & Loss account for the year ended 31st December 2011

(4 Marks)

(c) Extract the Statement of Financial Position as at 31st December 2011

(4 Marks)

(Total 20 Marks)

QUESTION 6

On the 30 November 2011 the bank column on Mr Keita's cash book showed a debit balance of RWF12,750. His bank statement on the same date showed a balance in the bank of RWF13,710. On examination of the cash book and bank statement you find:

(1) Mr Keita's wife when lodging business takings of RWF5,250 inadvertently lodged it to her private account.

(2) Cheques issued by Mr Keita for RWF9,450 had not been presented for payment.

(3) One cheque No 356 for RWF2,220 was entered on the incorrect side of the cash book.

(4) Lodgements made in September 2011 and October 2011 amounting to RWF1,200 had not been credited by the bank.

(5) One lodgement made by Mr Keita for RWF1,350 was entered by the bank to the credit of Mrs Keita's account.

(6) A cheque received and lodged by Mr Keita for RWF6,150 was dishonoured by the bank. Mr Keita had not made any adjustments in his books for this.

(7) Credits to the bank statement not recorded by Mr Keita were Dividends, RWF5,700 credit transfer received RWF4,800.

(8) A Debit to the bank statement not recorded by Mr Keita was bank charges RWF600.

Requirement

You are required to:

(a) Adjust Mr Keita's cash book in the ledger.

(7 Marks)

(b) Prepare a statement on 30th November 2011 reconciling the adjusted cash book balance with the bank statement balance.

(7 Marks)

(c) Draft a short note advising Mr Keita on actions that need to be taken in the future in order to eliminate some of the above issues.

(**6 Marks)**
(Total 20 Marks)

END OF PAPER

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SUGGESTED SOLUTIONS

SOLUTION 1

a) Books of Original entry (Prime Books) are where similar financial transactions are listed for the first time normally in chronological order and pre-numbered. Each entry will be made from details provided to the business in the form of a purchase invoice, a sales invoice, details from cheque stubs or a remittance advice attached to business receipts.

The principle books of original entry are:

- Purchases Day book
- Sales Day Book
- Cheque Payment Book
- Cash receipts book
- Petty Cash Expense Book

Each book will set out details of every transaction entered. For example the purchase book will analyse each purchase listing the date, the supplier name, the internal purchase number allocated to the purchase invoice, the total amount, the VAT amount, the net amount, with this net amount analysed under the appropriate headings, i.e. materials/stock, telephone, rent, stationery, etc.

Sales Day Book is also set out in columnar from. Each sale invoice will be entered setting out the date, the invoice number, the customer name, the total value of the sale, the vat element and the sale excluding VAT amount.

Cheque payments book will record in a columnar format the date and cheque number, the payee the total amount paid analysed to the column for that payment. Most payments would be posted to creditor’s column but other columns may be, wages, VAT, PAYE, petty cash, etc.

At the end of a designated period all the books of original entry are totalled and posted to the various ledger accounts. This posting forms part of the double entry system.

b) **Mrs Osei – Trading Account for the year ended 31 December 2011**

	RWF	**RWF**	
Sales		360,000	
Less Cost of Sales			
Opening Stock	108,000		
Purchases	282,000		(Balancing figure)
	390,000		(Balancing figure)
Less Closing Stock	120,000		
Cost of Sales		-270,000	(Balancing figure)
Gross Profit 25% margin		90,000	

c) Mark-up is the percentage of the cost of goods sold added on to costs to achieve a selling price.

Example:

A chicken costs the butcher RWF2.00. He sells the chicken with a mark-up of 75% = RWF1.50. His selling price will be RWF3.50 and his gross profit on each chicken he sells will be RWF1.50, thus gross margin = 150/350 = 52.5%

(d) **How a Petty Cash System operates within a business**

A set small amount of cash, called a float, is withdrawn from the company bank account normally by cashing a petty cash signed cheque in the bank. A responsible member of staff, who keeps it in a safe locked box, controls cash.

When a small amount of cash is required within the business a petty cash docket is completed setting out details of the cash requirement and authorised. This docket is placed into the cash box and the cash handed over. Where a receipt is received in respect of the purchase for which the cash was issued, this is then attached to the original withdrawal docket. At any one time the total of the remaining cash in the box and the total of all dockets in the box should equal the exact amount of the original float. At the end of a specific period all dockets are totalled and a cheque is cashed for this exact amount bringing the total petty cash back to the original starting amount. This is known as the imprest system.

Why a Petty Cash system is operated within a business

In most businesses there is a requirement for small amounts of cash. For example to purchase supplies for the canteen where there is no credit facility in the local shop, for the purchase of stamps, newspapers, cleaning and other supplies and the reimbursement of staff incidental expenses. The system must control the flow of cash and regular spot checks should be done by an independent member of management to ensure the system is working correctly.

Solution 2

Trading Profit & Loss Account for the year ended 31 December 2011

	RWF	RWF	RWF
Sales		2,389,500	
Opening stock	157,800		
Add Purchases	1,545,000		
Less Closing stock	-152,700		
Cost of Sales		1,550,100	
Gross Profit			839,400
Commission			45,000
Discount Received			5,100
Rent			20,400
Profit on disposal of vehicle			1,800
			911,700
Expenses			
Provision for bad debts		1,800	
Salaries		300,000	
General Expenses		18,300	
Depreciation		182,700	
Insurance		18,600	
			521,400
Net profit			**390,300**

Statement of Financial Position as at 31 December 2011

Fixed Assets	**Cost**	**Acc Dep**	**NBV**
	RWF	**RWF**	**RWF**
Buildings	1,968,000	527,400	1,440,600
Motor Vehicles	222,000	109,500	112,500
Fixtures & Fittings	600,000	270,000	330,000
	2,790,000	906,900	1,883,100
Current Assets			
Stock		152,700	
Debtors	180,000		
Less Provision	-9,000	171,000	
		323,700	
Current Liabilities			
Creditors	234,600		
VAT	24,600		
PAYE	5,400		
Bank	26,700		
		291,300	
Net Current Assets			32,400
Net Assets			1,915,500
Financed by			
Net Profit		390,300	
Capital		1,587,300	
Less Drawings		-62,100	
			1,915,500

Notes

	Buildings	**Motor Vehicles**	**Fixtures & Fittings**	**Total**
	RWF	**RWF**	**RWF**	**RWF**
Cost	1,968,000	270,000	600,000	2,838,000
Add	-	-	-	-
Less disposal		-48,000		-48,000
	1,968,000	222,000	600,000	2,790,000
Accumulated dep'n	498,000	105,000	150,000	753,000
Note*		-28,800		-28,800
Depreciation	29,400	33,300	120,000	182,700

	527,400	109,500	270,000	906,900
NBV 2011	1,440,000	112,500	330,000	1,883,100
NBV 2010	1,470,000	165,000	450,000	2,085,000

Note * 4 years Dep @ 15% PA - 4*(48,000 X 15%) = 28,800

Profit/Loss on disposal of vehicle

	RWF
Cost	48,000
Acc dep	28,800
NBV 30/06/11	19,200
Insurance proceeds	21,000
Profit on disposal	1,800

Stock 31 /12/11	
Cost	155,700
Damaged stock	-5,000
Net realisable value	2,000
	152,700

Purchases	1,515,000
GIT	30,000
	1,545,000

Creditors	198,600
Goods in Transit	36,000
	234,600

VAT	23,100
Purchases GIT	-6,000
Sales GIT	7,500
	24,600

Sales	2,352,000
Goods in Transit	37,500
	2,389,500

Debtors	135,000
Goods in Transit	45,000
	180,000

Provision for bad debts	7,200
Revised provision 5%	9,000
Increase required	1,800
Drawings	48,600
Mortgage interest	13,500
	62,100
Bank O/D	-47,700
Insurance proceeds	21,000
	-26,700

SOLUTION 3

a)

			RWF	RWF
1	Dr	Suspense A/C	99,000	
	Cr	Sales		99,000
		Being incorrect posting from sales day book		
2	Dr	Sales Returns	30,000	
	Dr	VAT	6,000	
	Cr	Debtors		36,000
		Being goods returned from a debtor not entered in the books		
3	Dr	Sales	8,700	
	Cr	Drawings		8,700
		To correct the posting completed in books		
	Dr	Drawings	9,360	
	Cr	Stock		7,800
	Cr	VAT A/C		1,560
		Being posting required to record the drawing from stock of goods to the value of RWF 7,800 plus VAT @ 20% by Mr Ayim		
4	Dr	Suspense A/C	145,000	
	Cr	Purchase Book		72,500
	Cr	XYZ A/C		72,500
	Dr	Fixtures & Fittings	72,500	
	Cr	XYZ A/C		72,500
		Being purchases of fixtures and fittings posted incorrectly		
5	Cr	Discount received		300
	Dr	Creditor	300	
	Dr	Creditor	6,000	
	Cr	Drawings		6,000
		Being a debt owed to Mr Ayim offset against a debt owed by the business		
6	Dr	ABC Ltd	3,250	

	Cr	Expenses		3,250
		Being costs not recharged to ABC Ltd		
7	Dr	Motor vehicles	4,900	
	Cr	Capital		4,900
		Being introduction of capital by Mr Ayim		
	Dr	Sales	5,200	
	Cr	Motor vehicles		4,900
	Cr	Profit on sale of Motor Vehicle		300
		Being correction needed to rectify missposting of sale of motor vehicle from cash sales a/c		

b)

Suspense A/C

	RWF		RWF
Sales (1)	99,000	Balance (diff on T.B)	244,000
Fixtures & Fittings (4)	145,000		
	244,000		244,000

c)

Statement of Adjusted Net Profit for year ended 31/12/11

		RWF	RWF
	Opening Profit		67,980
Jnl 1	Sales	99,000	
Jnl 2	Sales Returns	-30,000	
Jnl 3	Drawings	-9,360	
Jnl 4	Purchases	72,500	
Jnl 6	Expenses	3,250	
Jnl 7	Motor Vehicle- sale missposted	-5,200	
	Profit on sale	300	
	Adjusted Net Profit	**198,470**	

SOLUTION 4

a)

Accumulated Fund as at 1/1/11

	RWF	RWF
Assets		
Cash / Bank	83,375	
Stock	8,000	
Premises	1,400,000	
Fittings	598,000	
Subs Due	9,800	
		2,099,175
Less Liabilities		
Subs	15,000	
Tennis Coach Bonus Due	14,000	29,000
Acc Fund at 1/1/11		2,070,175

Notes	RWF
1 Subscriptions	
Receipts	540,900
Subscriptions prepaid 1/1/11	15,000
Subscriptions due 1/1/11	-9,800
Subscriptions prepaid 31/12/11	-2,500
Subscriptions due 31/12/11	19,000
Income and Expenditure account	562,600
2 Rates	
Expenditure	15,000
Less Rates prepaid	-2,000
	13,000
3 Tennis Coach	
Salaries	98,000
Tennis coach bonus due	-14,000
	84,000

b)

Bank Account

	RWF		RWF
Opening Balance	83,375	Expenditure	364,500
Receipts (54,900+19,800+5,890+4,000)	748,790	Balance	467,665
	832,165		832,165
Balance b/d	467,665		

c)

Bar Trading Account for the year ending 31 December 2011

	RWF	RWF
Sales		198,000
Opening Stock	8,000	
Purchases (108,000+26,300)		134,300
Less Closing Stock	-9,500	
Cost of Stock sold		-132,800
Barman's Wages		45,000
Bar Profit		20,200

d)

Income and Expenditure Account for the year ended 31 December 2011

	RWF	RWF
Income		
Subscriptions (Note 1)		562,600
Bar profit	20,200	
Sundry Receipts	5,890	
Locker rental	4,000	
		592,690
***Less* Expenditure**		
Rates (Note 2)	13,000	
Tennis Coach (Note 3)		84,000
Repair to Nets	1,500	
Depreciation Premises	28,000	
Depreciation Fixtures	89,700	
Cleaners wages	21,000	
		-237,200
Excess of Income over Expenditure		355,490

Balance as at 31/12/11

	Cost RWF	Depreciation RWF	NBV RWF
Premises	1,400,000	-28,000	1,372,000
Fixtures	674,000	-89,700	584,300
			1,956,300
Current Assets			
Bar Stock	9,500		
Subscriptions Due	19,000		
Rates Prepaid	2,000		
Bank	467,665		
		498,165	
Current Liabilities			
Bar Creditors	26,300		
Subscriptions prepaid	2,500		
		-28,800	
Working Capital			**469,365**
Total Net Assets			**2,425,665**
Financed by			
Accumulated fund 1/1/11		2,070,175	
Add excess of income over expenditure		355,490	
			2,435,665

SOLUTION 5

a)

1 Rent

	RWF		**RWF**
P&L	34,500	Rent receipts (balancing figure)	16,500
		Rent Due	6,000
		Rent Prepaid 1/1/11	12,000
	34,500		34,500

2 Debtors

	RWF		**RWF**
Balance 1/1/11	875,000	Cash Receipts	358,400
Credit Sales (Balancing figure)	458,400		
		Balance c/d	975,000
	1,333,400		1,333,400

3 Creditors

	RWF		**RWF**
Payments	528,000	Balance 1/1/11	907,500
		Purchases (Balancing fig)	711,000
Balance c/d	1,090,500		
	1,618,500		1,618,500

4 Sales

	RWF		**RWF**
		Cash Sales	723,800
		Credit Sales (from Drs)	458,400
			1,182,200

5 Purchases

	RWF		RWF
Cash Purchases	383,900		
Credit Purchases (From Crs)	711,000		
	1,094,900		

6 Cash / Bank

	RWF		RWF
Balance 1/1/11	64,460	Drawings	93,500
Sales	723,800	Purchases	383,900
Debtors	358,400	Wages	61,600
Rent	16,500	Expenses	10,780
		Equipment	16,720
		Creditors	528,000
		Balance c/d	68,660
	1,163,160		1,163,160
Balance b/d	68,660		

7 Wages

	RWF		RWF
Paid	61,600	Wages Due 1/1/11	25,000
Wages Due c/d	35,000	P&L (Balancing figure)	71,600
	96,600		96,600

8 Opening Capital Account

	RWF		RWF
Premises	1,210,000	Trade Creditors	907,500
Stock	129,800	Wages Due	25,000
Bank / Cash	64,460	Rent Prepaid	12,000
Motor Vehicles	57,000	Capital c/d (Balancing fig)	1,391,760
Trade Debtors	875,000		
	2,336,260		2,336,260

b)

Trading Profit & Loss Account for the year ended 31/12/11

	RWF	RWF
Sales (See 4)		1,182,200
Opening Stock	129,800	
Add Purchases (See 5)	1,094,900	
Less Closing Stock	-136,400	
Cost of Goods sold		1,088,300
Gross Profit		93,900
Rent (See 1)		34,500
Wages (See 7)	71,600	
Expenses	10,780	
		-82,380
Net Profit		46,020

Statement of Financial Position as at 31/12/11

	RWF	RWF	RWF
Fixed Assets			
Premises		1,210,000	
Equipment		16,720	
Motor Vehicles		57,000	1,283,720
Current Assets			
Debtors	975,000		
Stock	136,400		
Bank (See 6)	68,660		
Rent Due	6,000	1,186,060	
Current Liabilities			
Creditors (W3)	1,090,500		
		-	
Accruals	35,000	1,125,500	
Net Current Assets			60,560
Net Assets			1,344,280

Financed By

Opening Capital (See 8)	1,391,760	
Less Drawings	-93,500	
Net Profit	46,020	
		1,344,280

SOLUTION 6

a)

Bank Account

	RWF		RWF
Opening Balance	12,750	Miss entry (2,200 x 2)	4,440
Dividends received	5,700	Dishonoured cheque	61,150
Credit transfer	4,800	Bank charges	600
		Balance c/d	12,060
	23,250		23,250
Balance b/d	12,060		

b)

Bank Statement	
Balance	13,710
Add mislodged	5,250
Ass misdirected	1,350
Revised bank balance	20,310

Bank Reconciliation statement as at 30/11/11	
Revised Bank Balance	20,310
Less cheques not presented	-9,450
Add lodgements not credited	1,200
Reconciled Balance	12,060

c)

It is very unusual to have lodgements made to the bank for the previous two months not credited by the bank. Mr Keita should go to the bank and seek explanations as to why lodgements were not recorded in his account.

In addition we would suggest that pre-printed lodgement forms be sourced from the bank which will eliminate the chances of mislodging to Mrs Keita account in the future.

END OF SOLUTIONS