

**CPA FOUNDATION LEVEL 1  
PILOT EXAMINATION  
FINANCIAL ACCOUNTING**

**TUESDAY: 25<sup>th</sup> September 2012**

**Time Allowed: 3 Hours**

**INSTRUCTIONS:**

1. There are **TWO** sections, **A & B**
  2. Section **A** has **ONE** question which is **COMPULSORY.**
  3. Section **B** has **FOUR** Questions, **THREE** questions to be attempted
  4. Marks allocated to each question are shown at the end of the question.
  5. Show all your workings.
  6. Any assumptions made must be clearly and concisely stated.
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## **SECTION A (COMPULSORY)**

### **QUESTION ONE**

- a) Briefly explain the meaning of each of the following terms: **(10 marks)**
- (i) Contra entry in control accounts
  - (ii) Relevance of financial information
  - (iii) Substance over form
  - (iv) Going concern concept
  - (v) Accounting standard
- b) The following information has been taken from the accounts of Labirwa, a limited liability company, as at 31 August 2012.

	Debit Frw000	Credit Frw000
Discounts received		780
Share premium account		1,000
Maintenance of building	1,560	
Trade payables		4,500
Loan interest paid to BRD	516	
Ordinary shares of Frw50		28,000
Retained earnings at 1 September 2011		4,308
Allowance for receivables at 1 September 2011		600
Sales revenue		90,180
Cash	240	
Inventory at 1 September 2011	5,460	
Other operating expenses	4,392	
Marketing expenses	780	
Wages and salaries	10,536	
Bank		4,300
Returns inward	1,488	
Trade receivables	14,160	
Purchases	55,692	
Loan from BRD		7,368
Irrecoverable debts	2,340	
Land at cost	11,544	
Buildings at cost	23,280	
Motor vehicles at cost	3,744	
Furniture and equipment at cost	18,720	
Accumulated depreciation at 1 September 2011		
Buildings		5,616
Motor vehicles		1,248
Furniture and equipment		6,552
	154,452	154,452

**You have also been provided with the following information:**

1. Inventory at 31<sup>st</sup> August 2012 was valued at Frw 6,357,000 based on its original cost. However, Frw 235,000 of this inventory was found to be obsolete and the directors have agreed to sell it in September 2012 for a cash price of Frw 125,000.
2. The marketing expenses include Frw 245,000 which relates to September 2012.
3. The allowance for receivables is to be adjusted to Frw 770,000.
4. There are wages and salaries outstanding of Frw 1,230,000 as at 31<sup>st</sup> August 2012.
5. Buildings are depreciated at 5% of cost. At 31<sup>st</sup> August 2012 the buildings were professionally valued at Frw 18,500,000 and the directors wish this valuation to be incorporated into the accounts.
6. Other depreciation is to be charged for as follows:
  - Motor vehicles at 25% of written down value.
  - Furniture and equipment at 20% of cost.
7. Tax of FRw 2,300,000 is to be provided for the year.
8. Dividends proposed Frw 5 per share.
9. Interest on loan from BRD of Frw 214,000 for the year ended 31<sup>st</sup> August 2012 had not been paid

**Required:**

Prepare the following statements, for internal use:

- (i) Statement of comprehensive income for the year ended 31 August 2012; **(18 marks)**
  - (ii) Statement of financial position as at 31<sup>st</sup> August 2012 **(12 marks)**
- (Total: 40 marks)**

**SECTION B:**

**Answer any THREE questions out of the following 4 questions (each question is 20 marks: Section marks 60marks)**

**QUESTION TWO**

- a) The definition of a liability forms an important element of the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements which, in turn, forms the basis for IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

**Required:**

- (i) Define and give examples of Liability, provision and contingent liability (6 marks)
  - (ii) Describe the circumstances under which provisions should be recognized. (3 marks)
- b) On 1 September 2011, KivuWat constructed a methane platform at a cost of Frw 900 million together with the right to extract methane from Lake Kivu under a government license. The terms of the license are that KivuWat will have to remove the platform (which will then have no value) and restore the lake bed to an environmentally satisfactory condition in 20 years' time when the methane reserves have been exhausted. The estimated cost of this on 31<sup>st</sup> September 2031 will be Frw 150 million. The present value of Frw 1 receivable in 20 years at the appropriate discount rate for KivuWat of 15% is FRw 0.0611.

**Required:**

- (i) Explain and quantify how the methane platform should be treated in the financial statements of KivuWat for the year ended 30<sup>th</sup> August 2012; **(8 marks)**
  - (ii) Describe how your answer to (b)(i) would change if the government license did not require an environmental cleanup of the platform. **(3 marks)**
- (Total: 20 marks)**

### QUESTION THREE

- a) List any six responsibilities of the Institute of Certified Public Accountants of Rwanda (iCPAR) **(3 marks)**
- b) Lambert is a grocer in Gashongi market who had not kept a complete set of accounts. The following was a summary of his bank statements for the year ended 31<sup>st</sup> August 2012:

	Frw		Frw
Amounts credited in bank	7,034,000	Balance 1 <sup>st</sup> September 2011	178,400
		Payments to trade payables	6,100,000
		Rent and rates	95,000
		Furniture	20,000
		Lighting and heating expense	42,000
		General expenses	160,000
		Loan interest paid	24,000
		Drawings	180,000
		Customer cheque dishonoured	36,000
		Balance 31 <sup>st</sup> August 2012	198,600
	7,034,000		7,034,000

The following information is also available

- Trading receipts consists of cash and cheques. During the year Lambert had paid out of his cash box (with cash and cheques), wages amounting to Frw 900,000 and sundry expenditure of Frw 140,000. He took Frw 6,000 a week (assume 52 weeks a year) pocket money and maintained a balance of Frw 10,000 at the end of the year. The balance of his takings of cash and cheques was paid into the bank.
- The loan interest was paid to the lender who had lent Lambert Frw 800,000 some years ago at a rate of 3% p.a. The interest was duly paid half-yearly on 29 February and 31<sup>st</sup> August and the loan was still outstanding at the close of the year.
- Discounts allowed by trade payables amounted to Frw 96,000 and those allowed to receivables were Frw 104,000.
- The trade receivables at 31<sup>st</sup> August 2012 includes a bad debt Frw 40,000

	As at 1 <sup>st</sup> September 2011	31 <sup>st</sup> August 2012
	Frw	Frw
Inventory	900,000	1,100,000
Trade receivables	560,000	640,000
Accrued general expenses	48,000	38,000
Rates paid in advance	8,000	10,000
Fixtures valued at	560,000	510,000
Trade payables	360,000	440,000
Owing for lighting and heating	16,000	14,000
Cash box balance	4,000	10,000

#### Required:

- Income statement for the year ended 31<sup>st</sup> August 2012 and **(12 marks)**
  - Statement of financial position as at that date **(5 marks)**
- (Total: 20 marks)**

#### QUESTION FOUR

- a) Differentiate between the direct method and indirect method of preparing the statement of cash flows (2 marks)

**The following information is to be used for parts b) and c) of this question**

You were asked as an accountant of Pororwa Company to analyze financial information for management to make appropriate decisions. You obtained the following information about the statements of financial position of Pororwa Company at 31<sup>st</sup> August 2012 and 2011 is shown below:

	2012 Frw000	2011 Frw000
<b>ASSETS</b>		
Non-current assets	22,589	21,683
Current assets		
Inventories	1,326	1,215
Trade receivables	863	940
Other current assets	98	129
Cash and bank balances	287	118
Total current assets	<u>2,574</u>	<u>2,402</u>
Total assets	<u>25,163</u>	<u>24,085</u>
<b>EQUITY AND LIABILITIES</b>		
Share capital	13,800	13,500
Share premium	1,130	1,100
Retained earnings	6,484	5,278
Total equity	<u>21,414</u>	<u>19,878</u>
Non-current liabilities		
Long-term borrowings	<u>2,111</u>	<u>2,580</u>
Current liabilities		
Trade and other payables	842	836
Current tax	796	791
Total current liabilities	<u>1,638</u>	<u>1,627</u>
Total equity and liabilities	<u>25,163</u>	<u>24,085</u>

Other information:

- Profit for the year to 31<sup>st</sup> August 2012 was Frw 1,956,000 which was after:
  - Depreciation for the year Frw 800,000
  - Loss on disposal of non-current assets Frw 90,000
  - Taxation Frw 1,600,000 and
  - Interest expense of Frw 100,000
- Dividend was paid from profit for the year before transfer to retained earnings.
- During the year to 31<sup>st</sup> August 2012, non-current assets which had cost Frw 1,600,000 were sold. At the date of sale, the assets had been depreciated by Frw 900,000.

**Required:**

- Statement of cash flows in accordance with IAS 7 'Statement of Cash flows' for the year ended 31<sup>st</sup> August 2012 for Pororwa Company (16 marks)
- Calculate the following ratios for the year ended 31<sup>st</sup> August 2012 (2 marks)
  - Return on capital employed and
  - Debt to equity ratio

**(Total: 20 marks)**

### QUESTION FIVE

- a) Describe any two methods of determining depreciation. **(2 marks)**  
b) Abe Biscuits Industries had the following balances for the year ended 31<sup>st</sup> August 2012

	<b>Frw</b>
Purchase of raw materials	8,400,000
Inventory cost on 01 September 2011:	
Work-In-Progress (cost)	350,000
Raw materials (cost)	130,000
Finished goods (transfer price)	600,000
Factory wages and salaries	1,400,000
Factory direct expenses	800,000
Inventory cost on 31 <sup>st</sup> August 2012:	
Work-In-Progress (cost)	200,000
Raw materials (cost)	190,000
Finished goods (transfer price)	900,000
Rent of factory	1,200,000
Rent of offices and showroom	400,000
Allowance for unrealized profit	100,000
Factory machinery cost	12,000,000
Office equipment cost	4,300,000
Furniture cost	850,000
Factory managers salary	1,300,000
Accumulated depreciation	
Factory machinery	4,500,000
Office equipment	1,200,000
Furniture	350,000
Marketing expenses	250,000
Factory fuel, electricity and water	1,600,000
Other administration expenses	460,000
Sales revenue	45,000,000

#### **Additional information:**

- Accruals and prepayment
  - Electricity prepaid Frw250,000
  - Office Rent accrued Frw140,000
  - Factory wages unpaid Frw60,000
- Depreciation is provided on straight line basis as follows:
  - Factory machinery 25%
  - Office equipment 20%
  - Furniture 10%. Half of the furniture is used in the factory while the rest is used in the offices
- Goods are transferred from the factory at 20% above cost

#### **Required: Prepare:**

- (i) Manufacturing account for the year ended 31<sup>st</sup> August 2012 **(11 marks)**  
(ii) Income statement for the year ended 31<sup>st</sup> August 2012 **(7 marks)**

**(Total: 20 marks)**

**End of question paper.**