CAT

Certified Accounting Technicians Examination

Stage: Level 1 L1.1

Subject Title: Introduction to Financial Accounting

Revision Guide

iCPAR
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

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STUDY TECHNIQUE

What is the best way to manage my time?

- Identify all available free time between now and the examinations.
- Prepare a revision timetable with a list of “*must do*” activities.
- Remember to take a break (approx 10 minutes) after periods of intense study.

What areas should I revise?

- Rank your competence from Low to Medium to High for each topic.
- Allocate the least amount of time to topics ranked as high.
- Allocate between 25% - 50% of time for medium competence.
- Allocate up to 50% of time for low competence.

How do I prevent myself veering off-track?

- Introduce variety to your revision schedule.
- Change from one subject to another during the course of the day.
- Stick to your revision timetable to avoid spending too much time on one topic.

Are study groups a good idea?

- Yes, great learning happens in groups.
- Organise a study group with 4 – 6 people.
- Invite classmates of different strengths so that you can learn from one another.
- Share your notes to identify any gaps.

EXAMINATION TECHNIQUES

INTRODUCTION

Solving and dealing with problems is an essential part of learning, thinking and intelligence. A career in accounting will require you to deal with many problems.

In order to prepare you for this important task, professional accounting bodies are placing greater emphasis on problem solving as part of their examination process.

In exams, some problems we face are relatively straightforward, and you will be able to deal with them directly and quickly. However, some issues are more complex and you will need to work around the problem before you can either solve it or deal with it in some other way.

The purpose of this article is to help students to deal with problems in an exam setting. To achieve this, the remaining parts of the article contain the following sections:

- Preliminary issues
- An approach to dealing with and solving problems
- Conclusion.

Preliminaries

The first problem that you must deal with is your reaction to exam questions.

When presented with an exam paper, most students will quickly read through the questions and then many will … **PANIC!**

Assuming that you have done a reasonable amount of work beforehand, you shouldn't be overly concerned about this reaction. It is both natural and essential. It is natural to panic in stressful situations because that is how the brain is programmed.

Archaeologists have estimated that humans have inhabited earth for over 200,000 years. For most of this time, we have been hunters, gatherers and protectors.

In order to survive on this planet we had to be good at spotting unusual items, because any strange occurrence in our immediate vicinity probably meant the presence of danger. The brain's natural reaction to sensing any extraordinary item is to prepare the body for 'fight or flight'. Unfortunately, neither reaction is appropriate in an exam setting.

The good news is that if you have spotted something unusual in the exam question, you have completed the first step in dealing with the problem: its identification. Students may wish to use various relaxation techniques in order to control the effects of the brain's extreme reaction to the unforeseen items that will occur in all examination questions.

However, you should also be reassured that once you have identified the unusual item, you can now prepare yourself for dealing with this, and other problems, contained in the exam paper.

A Suggested Approach for Solving and Dealing with Problems in Exams.

The main stages in the suggested approach are:

1. Identify the Problem
2. Define the Problem
3. Find and Implement a Solution
4. Review

1. Identify the Problem

As discussed in the previous section, there is a natural tendency to panic when faced with unusual items. We suggest the following approach for the preliminary stage of solving and dealing with problems in exams:

Scan through the exam question

You should expect to find problem areas and that your body will react to these items.

PANIC!!

Remember that this is both natural and essential.

Pause

Take deep breaths or whatever it takes to help your mind and body to calm down.

Try not to exhale too loudly – you will only distract other students!

Do something practical

Look at the question requirements.

Note the items that are essential and are worth the most marks.

Start your solution by neatly putting in the question number and labelling each part of your answer in accordance with the stated requirements.

Actively reread the question

Underline (or highlight) important items that refer to the question requirements. Tick or otherwise indicate the issues that you are familiar with. Put a circle around unusual items that will require further consideration.

2. Define the Problem

Having dealt with the preliminary issues outlined above, you have already made a good start by identifying the problem areas. Before you attempt to solve the problem, you should make sure that the problem is properly defined. This may take only a few seconds, but will be time well spent. In order to make sure that the problem is properly defined you should refer back to the question requirements. This is worth repeating: Every year, Examiner Reports note that students fail to pass exams because they do not answer the question asked. Examiners have a marking scheme and they can only award marks for solutions that deal with the issues as stipulated in the question requirements. Anything else is a waste of time. After you have re-read the question requirements ask yourself these questions in relation to the problem areas that you have identified:

Is this item essential in order to answer the question?

Remember that occasionally, examiners will put ‘red herrings’ (irrelevant issues) into the question in order to test your knowledge of a topic.

What’s it worth?

Figure out approximately how many marks the problem item is worth. This will help you to allocate the appropriate amount of time to this issue.

Can I break it down into smaller parts?

In many cases, significant problems can be broken down into its component parts. Some parts of the problem might be easy to solve.

Can I ignore this item (at least temporarily)?

Obviously, you don’t want to do this very often, but it can be a useful strategy for problems that cannot be solved immediately.

Note that if you leave something out, you should leave space in the solution to put in the answer at a later stage. There are a number of possible advantages to be gained from this approach:

1) It will allow you to make progress and complete other parts of the question that you are familiar with. This means that you will gain marks rather than fretting over something that your mind is not ready to deal with yet.

2) As you are working on the tasks that you are familiar with, your mind will relax and you may remember how to deal with the problem area.

3) When you complete parts of the answer, it may become apparent how to fill in the missing pieces of information. Many accounting questions are like jigsaw puzzles: when

you put in some of the parts that fit together, it is easier to see where the missing pieces should go and what they look like.

3. Find and Implement a Solution

In many cases, after identifying and defining the problem, it will be easy to deal with the issue and to move on to the next part of the question. However, for complex problems that are worth significant marks, you will have to spend more time working on the issue in order to deal with the problem. When this happens, you should follow these steps:

Map out the problem

Depending on your preferred learning style, you can do this in a variety of ways including diagrams, tables, pictures, sentences, bullet points or any combination of methods. It is best to do this in a working on a separate page (not on the exam paper) because some of this work will earn marks. Neat and clearly referenced workings will illustrate to the examiner that you have a systematic approach to answering the question.

Summarise what you know about the problem

Make sure that this is brief and that it relates to the question requirements. Put this information into the working where you have mapped out the problem. Be succinct and relevant. The information can be based on data contained in the question and your own knowledge and experience. Don’t spend too long at this stage, but complete your workings as neatly as possible because this will maximise the marks you will be awarded.

Consider alternative solutions

Review your workings and compare this information to the question requirements. Complete as much of the solution as you can. Make sure it is in the format as stipulated in the question requirements. Consider different ways of solving the problem and try to eliminate at least one alternative.

Implement a solution

Go with your instinct and write in your solution. Leave extra space on the page for a change of mind and/or supplementary information. Make sure the solution refers to your workings that have been numbered.

4. Review

After dealing with each problem and question, you should spend a short while reviewing your solution. The temptation is to rush onto the next question, but a few moments spent in reviewing your solution can help you to gain many marks. There are three questions to ask yourself here:

Have I met the question requirements?

Yes, we have mentioned this already. Examiner Reports over the years advise that failure to follow the instructions provided in the question requirements is a significant factor in causing students to lose marks. For instance, easy marks can be gained by putting your answer in the correct format. This could be in the form of a report or memo or whatever is asked in the question. Likewise, look carefully at the time period requested. The standard accounting period is 12 months, but occasionally examiners will specify a different accounting period.

Is my solution reasonable?

Look at the figures in your solution. How do they compare relative to the size of the figures provided in the question?

For example, if Revenue were 750,000 and your Net Profit figure was more than 1 million, then clearly this is worth checking.

If there were some extraordinary events it is possible for this to be correct, but more than likely, you have misread a figure from your calculator. Likewise, the depreciation expense should be a fraction of the value of the fixed assets.

What have I learned?

Very often in exams, different parts of the solution are interlinked. An answer from one of your workings can frequently be used in another part of the solution. The method used to figure out an answer may also be applicable to other parts of your solution.

Conclusion

In order to pass your exams you will have to solve many problems. The first problem to overcome is your reaction to unusual items. You must expect problems to arise in exams and be prepared to deal with them in a systematic manner. John Foster Dulles, a former US Secretary of State noted that: *The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.* We hope that, by applying the principles outlined in this article, you will be successful in your examinations and that you can move on to solve and deal with new problems.

Stage: Level 1
Subject Title: Introduction to Financial Accounting

Examination Duration: 3 Hours

<u>Assessment Strategy</u>

Examination Approach

The examination seeks to test the students' knowledge and understanding of the application of accounting concepts and principles. Questions 1, 2 and 3 are compulsory and usually involve the preparation and presentation of financial statements for sole traders, limited companies, and other organisations in accordance with current standards and guidelines. Other questions provide the opportunity for students to demonstrate their understanding of the role, function and basic principles, (including double entry bookkeeping), of financial accounting.

Emphasis in this examination is placed on proper layout and presentation as well as on numerical accuracy. Students must demonstrate sound technical knowledge and presentation skills and the ability to integrate learning from different parts of this and other syllabi, as appropriate.

Examination Format

The examination is unseen, closed book and 3 hours' in duration. Students are required to answer 5 questions out of 7. Questions 1, 2 and 3 are compulsory and carry 20 marks each. Students are required to answer 2 of the remaining 3 questions each carrying 20 marks.

Marks Allocation	Marks
Compulsory questions	60
Choice of 2 questions out of 3 (20 marks allocated to each question)	40
TOTAL	100

Learning Resources

Core Texts

Wood F and Sangster A / Business Accounting 1 and 2 11th ed / Pearson 2008 / ISBN 0273712128 / ISBN 0273712136

Connolly / International Financial Accounting and Reporting 3rd ed. / CAI 2011 / ISBN 9781907214646

Manuals

Institute of Certified Public Accountants of Rwanda – L1.1 Introduction to Financial Accounting

Useful Websites
(as at date of publication)

www.icparwanda.com

www.ifac.org/ - The International Federation of Accountants.

www.ifrs.org/ - The International Financial Reporting Standards Foundation.

www.iasplus.com - Deloitte Touche Tohmatsu. Summaries of International Financial Reporting Standards (IFRS).

www.frc.org.uk/ - The Financial Reporting Council.

ASB - Accounting Standards Board.

www.frc.org.uk/pob/ - The Professional Oversight Board.

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

www.ipsas.org

www.intosai.org

LEVEL 1 L1.1

INTRODUCTION TO FINANCIAL ACCOUNTING

QUESTION 1

a) Outline four activities that accountants normally undertake within business organisations.

(6 Marks)

b) Accounting provides useful information to a wide variety of user s. You are required to:

   i. List four users of accounting information.

   ii. State the type of information that each user is interested in.

   iii. State whether the user is internal or external to an organisation.

Note: one user must be internal.

(6 Marks)

c) Financial and management accounting are two different branches of accounting that have developed over time to meet the informational requirements of the users of financial information. You are required to:

i. Provide an appropriate definition of financial accounting and management accounting.

(4 Marks)

ii. Outline four differences between management accounting and financial accounting.

(4 Marks)
(Total 20 Marks)

QUESTION 2

a) The following information is available for sole trader Mr Jalloh for the year ended 31 December 2011:

	RWF
Opening receivables debit balances	487,900
Opening receivables credit balances	3,290
Credit sales	1,060,800
Credit sales returns	32,650
Cash received from customers (95% from credit customers)	987,420
Irrecoverable debts	21,700
Irrecoverable debts previously written off recovered	6,300
Opening allowance for receivables	25,000
Contra entry with balances on payables ledger	4,750
Refunds to receivables for over payment	2,780

You are required to:

i. With the aid of a receivables control account, calculate the closing receivables figure as at 31 December 2011.

(8 Marks)

ii. Calculate the closing allowance for receivables assuming that Mr Jalloh wishes to set the closing allowance for receivables at 5% of outstanding receivables as at 31 December 2011.

(2 Marks)

iii. Prepare appropriate income statement and statement of financial position extracts to illustrate how the information above would be presented in the financial statements of Mr Jalloh for the year ended 31 December 2011.

(6 Marks)

b) Explain your understanding of the accounting concept 'prudence' and illustrate how establishing an allowance for receivables can be considered as an application of the prudence concept.

(4 Marks)
(Total 20 Marks)

QUESTION 3

Mr Keita is a sole trader with a small business. The trial balance extracted as at 31December 2011 failed to agree. The debits exceeded the credits by RWF4,120.

A detailed examination of the books was undertaken and the following matters were uncovered:

1. The total in the sales day book was RWF42,100 - the figure used when posting sales to the T accounts was RWF41,200.

2. No entry had been made for expenses paid in cash from the petty cash tin, the expenses paid in this manner were as follows:

i.	Canteen supplies	RWF75
ii.	Postage stamps	RWF35
iii.	Present for retiring employee	RWF170

3. Discounts allowed of RWF65 were credited to the discount received account. The entry in the receivable's personal account was correct.

4. A credit note for RWF770 for purchases returns was treated correctly in the supplier's account and debited to the purchases returns account as RWF880.

5. A cheque payment to a payable for RWF1,300 was treated appropriately in the supplier's account and debited to drawings.

6. Cash drawings by Mr Keita of RWF1,110 were treated as cash sales in error.

7. An old motor vehicle was sold on December 15th for RWF3,700. The vehicle originally cost RWF16,750 and had a balance in the accumulated depreciation account of RWF14,100 at the time of sale. The only entry that has been made to record the transaction is to debit bank and credit sales with RWF3,700.

(Ignore the effects of VAT and depreciation)

You are required to:

a) Prepare the journal entries, with the appropriate narratives, necessary to correct the above errors.

(11 Marks)

b) Prepare a suspense account to clear the difference.

(5 Marks)

c) Prepare a working showing the effect on proprietor's profit (if any) of correcting each of the above errors.

(4 Marks)
(Total 20 Marks)

QUESTION 4

Write a briefing note on each of the following terms:

i) Objectives of financial statements
ii) Users of financial statements
iii) Ethical requirements of accountancy professionals
iv) Whistle blowing

(Total 20 Marks)

QUESTION 5

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

	RWF	RWF
Buildings at cost	550,000	
Buildings accumulated depreciation		77,000
Fixtures and fittings at cost	71,200	
Fixtures and fittings accumulated depreciation		24,920
Motor vehicles at cost	52,000	
Motor vehicles accumulated depreciation		20,500
Receivables	63,000	
Payables		49,700
Bank		9,600
Cash	800	
5% Loan		150,000
Inventories	29,400	
Sales and purchases	241,050	410,000
Sales return	11,000	
Light and heat	970	
Telephone and internet	1,980	
Discounts received and allowed	2,200	1,900
Carriage	15,400	
5% Loan interest	7,500	
Rental income		34,500
Wages and salaries	74,200	
Insurance	14,230	
Bank charges	410	
Capital 1/1/11		371,820
Drawings	14,600	
	1,149,940	**1,149,940**

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

1. The inventory take as at 31 December 2011 showed inventory items at cost of RWF31,110. Included in this figure were inventories items with a cost price of RWF6,100 and a net realisable value of RWF3,000.

2. During the year to 31 December 2011, Mr Ayim took RWF9,800 of inventory items for his personal use.

3. Depreciation is provided for at the following rates:

a)	Buildings	2% straight line
b)	Fixtures and fittings	10% straight line
c)	Motor vehicles	15% reducing balance

4. An irrecoverable debt of RWF5,400 is to be written off as irrecoverable. Mr Ayim is satisfied that the remaining receivables' balances are all recoverable and that no closing allowance for receivables is required.

5. 40% of carriage is carriage inwards and the remainder is carriage outwards.

6. An amount of RWF510 is prepaid in relation to insurance as at 31 December 2011.

You are required to prepare:

a) The income statement for the year ended 31 December 2011.

(11 Marks)

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

(7 Marks)

(Presentation and format. 2 Marks)

(Total 20 Marks)

QUESTION 6

The following information is available for Kigali Golf Club for the year to 31 December 2011.

Receipts and Payments Account

Details	**RWF**	**Details**	**RWF**
Balance c/d	??	Light and heat (50% relates to bar)	11,110
		Clubhouse fixtures & fittings	7,580
Subscriptions received	186,320	Clubhouse rent	90,000
Proceeds from raffle	19,750	Barperson salary	17,500
Bar sales	201,790	Insurance (60% relates to bar)	22,000
Interest received	540	Raffle prizes & associated costs	4,620
		Greenkeeper salary	31,500
		Bar purchases	102,005
		Club secretary & president expenses	9,000
		Green maintenance	9,940
		Bar cleaning	7,100
		Closing bank balance c/d	109,730
	422,085		**422,085**
Opening balance c/d	109,730		

Other assets and liabilities of the club are as follows:

	01/01/2011	**31/12/2011**
	RWF	**RWF**
Clubhouse fixtures and fittings (NBV)	30,150	???
Clubhouse rent prepayment	15,000	???
Bar inventory	19,060	17,005
Bar purchases payables	9,710	8,090
Subscriptions in advance	9,730	6,330
Subscriptions in arrears	2,670	10,440
Accruals green maintenance	115	80

Notes:

1. Depreciation on fixtures and fittings is to be provided for at a rate of 5% per annum reducing balance method
2. Rent is paid every two months in advance, for example rent for January and February 2011 is paid on the 31 December 2010. The annual rent charge is RWF 90,000

You are required to:

i. Calculate the accumulated fund as at 1 January 2011.

(4 Marks)

ii. Prepare a bar trading account (income statement) for the year ended 31December 2011.

(4 Marks)

iii. Calculate the proceeds from the raffle.

(2 Marks)

iv. Prepare the club's income and expenditure account for the year end 31 December 2011.

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

QUESTION 7

The following trial balance was extracted from the books of Mr Magoro on the 31 December 2011.

The trial balance of Mr Magoro as at 31 December 2011

	Dr RWF	Cr RWF
Bank	63,000	
Capital		1,308,000
Cash	6,000	
Creditors		75,000
Debtors	54,000	
Drawings	24,000	
Fixtures	48,000	
Motor Expenses	78,000	
Motor Vehicles	93,000	
Repairs to fixtures	12,000	
Premises	1,200,000	
Purchases	300,000	
Salaries	375,000	
Sales		900,000
Stock 1/1/11	30,000	
	2,283,000	**2,283,000**

You are provided with the following additional information:

Ignore depreciation

Stock at 31 December 2011 is RWF 45,000.

You are required to:

Prepare the Trading Profit & Loss account for the year ended 31 December 2011 and the Balance Sheet as at 31 December 2011.

(8 Marks)

After preparing the Trading Profit & Loss account and balance sheet for 31 December 2011 the following information came to light:

i. A motor vehicle purchases for RWF42,000 had been entered in the motor expenses account in error

ii. Included in Premises is RWF15,000 posted from Repairs to Premises in error
iii. Motor expenses included a charge of RWF5,000 incurred by Mr Magoro personally (annual holiday)

Requirement

You are now required to:

a) Prepare journals to correct these errors

(3 Marks)

b) Prepare the Trading Profit & Loss account for the year ended 31 December 2011 and the Balance Sheet as at 31 December 2011 after the journals

(8 Marks)

c) Explain what impact journalising these adjustments had on both the Trading Profit & Loss account and the Balance Sheet for Mr Magoro

(1 Mark)
(Total 20 Marks)

QUESTION 8

The Debtors Ledger control account of ABC as at 31st December 2011 showed the following balances RWF79,266 Dr. and RWF1,332 Cr.

These balances did not agree with the list of debtors balances extracted on that date RWF74,790.

An examination of the books of ABC revealed the following:

1. ABC had accepted returns of RWF1,200 from a customer and entered them correctly in the books. He subsequently decided that a restocking charge of 12% was to be charged to the customer. This restocking charge was posted to the credit of the customer’s personal account only.

2. A credit note was sent to a customer for RWF732. The only entry made in the books was RWF132 debited to the customer's account.

3. Cash sales RWF300 and credit sales RWF600 posted correctly in the Sales book but both had been entered by ABC on the credit of a debtors account.

4. ABC had charged a customer interest on an overdue account amounting to RWF279. The only entry made in the books was a credit of RWF117 to the debtors account.

   After a discussion with the debtor and payment in full of the original balance the interest charge was reduced to RWF150. No entry was made in respect of this reduction in the books.

5. A cheque for RWF1,200 received from a debtor in full settlement of a debt of RWF1,430 had been entered in the books, however the cheque was dishonoured. No record had been made in the books regarding the dishonoured cheque.

6. ABC had sent an invoice to a customer for RWF1,650. This had been entered in the appropriate day book as RWF1,515, when posting from this book to the ledger. No entry had been made in the personal account.

Requirement

You are required to show the following:

a) Adjusted debtors ledger control account

(10 Marks)

b) Adjusted schedule of debtors.

(10 Marks)
(Total 20 Marks)

QUESTION 9

KIGALI TRANSPORT prepares its financial accounts to 31 December each year. The company's policy is to depreciate its vehicles from the month of purchase to the month preceding the month of sale/disposal.

Depreciation rate used by KIGALI TRANSPORT is 20% straight line.

On the 1st January 2011 KIGALI TRANSPORT had the following vehicles.

Vehicle	Date of purchase	Residual value	Cost
		RWF	RWF
No. 1	1st January 2009	0	80,000
No. 2	1st July 2009	15,000	75,000
No. 3	1st December 2010	0	96,000

You have been provided with the following information by KIGALI TRANSPORT:

(i) On the 1st July 2011 Vehicle No. 1 was traded in for RWF32,000 against a new vehicle costing RWF93,000, (no residual value). Vehicle No. 1 had modifications done to it on 1st January 2010 costing RWF15,000, (no residual value). These modification had been depreciated at a rate of 40% in year one and thereafter at a rate of 20% Straight Line.

(ii) On the 1st September 2011 Vehicle No. 3 was crashed and traded in against a new vehicle costing RWF120,000 (no residual value). KIGALI TRANSPORT claimed against its insurance policy and recouped compensation to the value of RWF25,000. The amount paid by cheque for the new vehicle was RWF80,000.

Requirement

You are required to show with workings for each of the years 2009, 2010 and 2011:

a) Vehicle Account

(6 Marks)

b) The Provision for Depreciation account

(6 Marks)

c) The Vehicle Disposal Account.

(8 Marks)
(Total 20 Marks)

QUESTION 10

Write a short note to a client dealing with the following points:

1. The qualitative characteristics of Financial Statements
   (4 Marks)
2. The historical cost accounting convention/system
   (4 Marks)
3. Briefly outline the role of the International Accounting Standards Board
   (4 Marks)
4. Briefly explain what is meant by the business entity concept
   (4 Marks)
5. Explain what is meant by an Imprest System of Petty Cash
   (4 Marks)

SUGGESTED SOLUTIONS

SOLUTION 1

a)

The accountant's role in the organisation can be analysed as follows:

1. Preparation and presentation of timely accurate financial/management accounts to management to help management interpret the financial information.

2. Identification of areas of inefficiency and wastages of resources in the business.

3. Treasury functions: The accountant also plays the role of treasury functions in such a way that they raise finance, cash management, etc.

4. Setting up an effective system of internal and accounting controls.

5. Preparation of feasibility reports: These reports assist management in assessing the viability/profitability or otherwise proposed capital expenditure such as the opening of a new factory or branch.

6. Investigation of the performance/operations of competing business organisations to assist management in policy formulation.

7. Investigation of fraud within the organisation, this is a key role of the accountant in preparation of an audit at year-end.

Any other reasonable answers will be accepted.

b)

Any four of the following are acceptable – however one must be internal.

Investors/Owners
Investors are concerned about risk and return in relation to their investments. They require information to decide whether they should continue to invest in a business. They also need to be able to access whether a business will be able to pay dividends, and measure the performance of the business' management overall.

The key accounting information for an investor is therefore:

- Information about growth, sales, volumes
- Profitability (profit margins, overall level of profit)
- Investment (amounts invested, assets owned)
- Business value (share price)
- Comparative information of competitors.

They are usually considered external but in private limited companies with a small number of investors they can be considered internal.

Lenders

Banks and loan stockholders who lend money to a business require information that helps them determine whether loans and interest will be paid when due.

The key accounting information for lenders is therefore:

- Cash flow
- Security of assets against which the lending may be secured
- Investment requirements in the business.

Payables

Suppliers and trade payables require information that helps them understand and assess the short-term liquidity of a business. Is the business able to pay short-term debt when it falls due?

The key accounting information for payables is therefore:

- Cash flow
- Management of working capital
- Payment policy.

Receivables
Customers and trade receivables require information about the ability of the business to survive and prosper. As customers of the company's products, they have a long-term interest in the company's range of products and services. They may even be dependent on the business for certain products and services.

The key accounting information for receivables is therefore:

- Sales growth
- New product development
- Investment in the business (e.g. production capacity).

Employees
Employees (and organisations that represent them – e.g. trade unions) require information about the stability and continuing profitability of the business. They are crucially interested in information about employment prospects and the maintenance of pension funding and retirement benefits. They are also likely to be interested in the pay and benefits obtained by senior management.

The key accounting information for employees is therefore:

- Revenue and profit growth
- Levels of investment in the business
- Overall employment data (numbers employed, wages and salary costs)
- Status and valuation of the company pension schemes/levels of company contributions.

Government
There are many government agencies and departments that are interested in accounting information. For example, the revenue authority needs information on business profitability in order to levy and collect Corporation Tax. Customs and Excise need accounting information to verify Value Added Tax (VAT) returns; local government need similar information to levy local taxes and rates. Various regulatory agencies (i.e. the Environment Management Authority) need information to support decisions about grants, for example.

Analysts

Investment analysts are an important user group – specifically for companies quoted on the Stock Exchange. They require very detailed financial and other information in order to analyse the competitive performance of a business and its sector. However, additional accounting information is usually provided to analysts via informal company briefings and interviews.

Public at large

Interest groups, formed by various groups of individuals who have a specific interest in the activities and performance of businesses, will also require accounting information.

c)

i. **Financial Accounting**

This is the process of summarising financial information in order to prepare the company's financial statements. The financial statements of an organisation are the Income Statement, Statement of Financial Position, Statement of Cash Flow and Explanatory Notes. These statements are primarily of interest to external users of accounting information. Financial statements are historical in nature in that they are prepared on a semi-annual/annual basis and are concerned primarily with the financial performance of the company in the income statement and the financial position of the company reported in the statement of financial position. Therefore from the perspective of management the information contained therein is not timely being six months or a year out of date by the time it is reported. Financial accounting is thus the manner in which an organisation communicates financial information, namely performance, position and cash flow to the outside world. It represents a report on the directors' stewardship of the funds entrusted to them by the shareholders.

The financial statements are public documents they are easily accessible, normally under the investor relations section on the company's website. A copy of the financial statements must also be filed with the Office of Registrar General (OFG) where they can be publicly accessed. Therefore they would not reveal details about, for example, an individual products' profitability. That information would be contained in the management accounts of the business.

Management Accounting

This is the process of providing detailed information to management on current and planned events. This information assists managers in their roles of planning, controlling and making decisions. Usually management accounts are only available to internal users of accounting information. Management accounting will contain information such as department budgets, product profitability, information on production costs etc.

ii) The differences between management and financial accounting can be assessed under the following headings:

Legal Requirements

Limited companies are required by law to prepare on an annual basis the financial statements for the company. While most companies will have a management accounting function within the business there is no legal requirement to do so.

Users

The users of financial information are external to the business whereas the users of management accounts are internal to the business. Indeed within an organisation, management accounting information for example how profitable an individual product line is may only be available to senior management.

Audit Process

In some cases the financial statements of the company must be audited by an independent audit company before the information is released to shareholders. The function of the audit process is to give those who rely on the financial statements of the company assurance that the information contained therein represents a true and fair view of the company. The management accounts of a company do not have to be audited and indeed in many cases will contain information which may only be approximate (think for example of a budget which will contain estimates of future levels of income and expenditure). They are prepared internally and used internally within the company – thus there is no need for an audit as there does not exist the same conflict of interest which exists when financial accounts are being prepared.

Professional Regulations

The financial statements of a company must comply with all relevant professional standards (International Financial Reporting Standards or IFRS). Management accounts do not have any such regulation to be complied with. The formats of accounts is at the management's discretion as is the manner in which the figures are calculated and the assumptions which are made.

Timeliness

The main drawback of financial accounting is that the information contained in the financial statements is out of date by the time the financial statements are published to shareholders in the annual report. The emphasis in financial accounting is upon accuracy as opposed to timeliness. For example the financial statements for year ended 31 December 2011 may not be published to the public until March 2012, thus the information is largely out of date. In management accounting, while accuracy is important, receiving the information in a timely manner is essential if the information is to be of any use to managers in the decision making process. There is no point in receiving information about a decision after the decision has been made.

Time Line

Financial accounting deals with information that is historic, all the figures shown have already happened in the past. Management accounting can deal with figures in the past, present and future. In addition financial information is prepared quarterly, semi-annually or annually whereas management accounting is prepared whenever it is required by managers.

Scope

Financial statements deal with the organisation as a whole, in that the financial statements are reporting on the financial performance, position and cash flow of the whole company. Management accounts tend to examine segments of the business and individual products, for example a departmental budget or the costing of a particular product line.

Detail

The information contained in financial accounting tends to aggregate numbers and therefore some detail has been lost. This aggregation is essential as without it the financial statements would become very cluttered and difficult to understand. The notes to the financial statements attempt to add detail to the aggregated information in the financial statements. Managers involved in the day-to-day running of the organisation require much more detailed information than that contained in the financial accounts of the organisation. Thus management accounts tend to be more detailed.

SOLUTION 2

a)

i)

Receivables Control Account

Date	Details	RWF	Date	Details	RWF
01/01/2011	Balance b/d	487,900	01/01/2011	Balance b/d	3,290
	Sales	1,060,800		Sales returns	32,650
	Irrecoverable debt recovered	6,300		Cash receipts	938,049
				Irrecoverable debts	21,700
	Refunds	2,780		Irrecoverable debts recovered	6,300
				Contra	4,750
			31/12/2011	Balance c/d	551,041
		1,557,780			1,557,780
01/01/2012	Balance b/d	551,041			

ii) Closing Allowance for Receivables:

RWF 551,041 * 5% = RWF27,552

iii) Mr Jalloh

Statement of Financial Position as at 31 December 2011 (*Extract*)

Current Assets

Receivables	551,041
Closing allowance for receivables	(27,552)
	523,489

Mr Jalloh

Income Statement for the year ended 31 December 2011 (*Extract*)

Credit Sales	1,060,800
Credit Sales Returns	(32,650)
Net Sales	1,028,150

Less Expenses

Irrecoverable debt recovered	(6,300)
Irrecoverable debts	21,700
Increase in allowance for receivables	2,552

b)

Prudence

Prudence states that under conditions of uncertainty that assets are not overstated and that liabilities are not understated.

The establishing of a closing allowance for receivables is an example of the application of the prudence concept because as at the year-end a business will have a receivable's listing all of whom owe the business monies. However from past experience and general economic environment knowledge the business owner realises, in all probability, that all balances owed by receivables will not be received. However the business owner does not have specific knowledge of what balances will turn out to be unrecoverable in the future. Therefore a general allowance is established based on past experience and general market knowledge to account for the fact that in all probability all receivables' balances will not be recovered. Therefore the balance for receivables that is presented in the Statement of Financial Position is a realistic valuation of the year end receivables balance under conditions of uncertainty regarding future payment by receivables.

SOLUTION 3

i)

			Debit RWF	Credit RWF
1	**Dr**	Receivables	900	
	Cr	Sales		900
		Being sales book undercast		
2	**Dr**	Canteen	75	
	Dr	Postage	35	
	Dr	Entertainment	170	
	Cr	Petty Cash		280
		Being an error of omission		
3	**Dr**	Discount received	65	
	Dr	Discount allowed	65	
	Cr	Suspense		130
		Being discounts allowed inappropriately recorded		
4	**Dr**	Suspense	1,650	
	Cr	Purchases returns		1,650
		Being purchases returns inappropriately recorded		
5	**Dr**	Suspense	2,600	
	Cr	Bank		1,300
	Cr	Drawings		1,300
		Being cheque payments treated as drawings in error		
6	**Dr**	Cash sales	1,110	
	Cr	Bank		1,110
	Dr	Drawings	1,110	
	Cr	Bank		1,110
		Being drawing treated as sales in error		
7	**Dr**	Sales	3,700	

Cr	Disposals		3,700
Dr	Disposals	16,750	
Cr	Non current assets at cost		16,750
Dr	Accumulated depreciation	14,100	
Cr	Disposals		14,100
Dr	Disposals	1,050	
Cr	Income statement		1,050
	Being disposal of non-current asset unrecorded		

ii)

Suspense Account

Details	**RWF**	**Details**	**RWF**
Error 5	2,600	Balance	4,120
Error 4	1,650	Error 3	130
	4,250		**4,250**

iii)

Proprietor's Profit	**RWF**
Error 1	900
Error 2	(280)
Error 3	(130)
Error 4	1,650
Error 5	-
Error 6	(1,110)
Error 7	(2,650)
	(1,620)

SOLUTION 4

i) Objectives of Financial Statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

Financial position reveals information about the economic resources that an entity controls, its financial structure, its liquidity and solvency and its ability to change. This information is contained in the balance sheet. Changes in financial position are revealed in a Cash Flow Statement.

Financial Performance means the return obtained on the resources which the entity controls. This information can be extracted from the profit and loss account. In International Accounting the profit and loss account is referred to as the Income Statement.

The Reporting Entity

Financial Statements report on all of the activities and resources under the control of the entity that has prepared them whether it is a sole trader, a club or society or a limited company.

ii) Users of Financial Statements

Users of financial statements include the following:

a) Existing and potential shareholders

Information is required in relation to profit, dividends, trends and prospects in connection with share price.

b) Loan Creditors

Information is required in relation to <u>liquidity</u> and to highlight the risk of non-payment.

c) Business Contact Group

i.e. suppliers, customers, competitors and merger/acquisition situations. Information is required to ensure ability to pay debts, continuity of supply and trade information.

d) Analysts and investors

Information on performance, trends and prospects is required for clients

e) Government

Information is required as a base for taxation and to ensure compliance with company law

f) Employees

Information about employment security and to assist with collective pay bargaining

g) Public

Any member of the public may require details of the contribution to the local and national economy made by the company and the environmental impact.

iii) Ethical requirements of professional accountants

The conduct towards which an accountant should strive is embodied in six broad principles stated as affirmative *Ethical Principles*:-

1. **Independence, Integrity and Objectivity**

An accountant should maintain his/her integrity and objectivity and, when engaged in the practice of public accounting, be independent of those he/she serves

2. **Competence and Technical Standards**

An accountant should observe the profession's technical standards and strive continually to improve this competence and the quality of his/her services

3. **Responsibilities to Clients**

An accountant should be fair and candid with his/her clients and serve them to the best of his/her ability, with professional concern for their best interests, consistent with his/her responsibilities to the public

4. **Responsibilities to Colleagues**

An accountant should conduct himself/herself in a manner, which will promote co-operation and good relations among members of the profession

5. **Other Responsibilities and Practice**

An accountant should conduct himself/herself in a manner, which will enhance the stature of the profession and its ability to serve the public

6. **Responsibility of Members Not In Practice**

An accountant not in practice must uphold the standards and etiquette of the profession

iv) Whistle Blowing

A whistle blower is a person who alleges misconduct in the workplace and it covers all methods of reporting by employees of any criminal practices within their company. Whistle blowers make their allegations internally (e.g. to other people with the accused's organisation) or externally (to law enforcement agencies, to the media or to groups concerned with the issues). This practice may cause discontent in the work place as it involves a clash between loyalty and confidentiality.

SOLUTION 5

Mr Ayim Income Statement for the year ended 31 December 2011

	RWF	RWF
Sales		410,000
Sales returns		-11,000
Net sales		399,000
Cost of sales		
Opening inventory	29,400	
Purchases	231,250	
Carriage inwards	6,160	
	266,810	
Less closing inventory	-28,010	
Cost of sales		-238,800
Gross Profit		160,200
Discount Received		1,900
Rental Income		34,500
Less Expenses		
Carriage outwards	9,240	
Light and heat	970	
Bank charges	410	
Insurance	13,720	
Interest	7,500	
Wages and salaries	74,200	
Discount allowed	2,200	
Depreciation of buildings	11,000	
Depreciation of fixtures & fittings	7,120	
Depreciation of motor vehicles	4,725	
Irrecoverable debts	5,400	
Telephone and internet	1,980	
Total expenses		-138,465
Operating Profit		58,135

Mr Ayim Statement of Financial Position as at 31 December 2011

	2011	2011	2011
Non-current assets			
Buildings	550,000	-88,000	462,000
Fixtures and fittings	71,200	-32,040	39,160
Motor Vehicles	52,000	-25,225	26,775
			527,935
Current assets			
Closing inventory		28,010	
Receivables		57,600	
Prepayments		510	
Cash		800	
			86,920
Total Assets			**614,855**
Equity and Liabilities			
Equity			
Capital		371,820	
Profit for 2011		58,135	
Accumulated profits		429,955	
Drawings		-24,400	
			405,555
Non-current liabilities			
Term loan			150,000
Current liabilities			
Payables		49,700	
Bank overdraft		9,600	
			59,300
Total Equity and Liabilities			**614,855**

Workings 1

	RWF
Closing inventory as per question:	31,110
Less write down of inventory	-3,100
	28,010

Write down of inventory

Cost	6,100
NRV of inventory	-3,000
Difference between cost and NRV	3,100

Workings 2

	RWF
Purchases	241,010
Drawings	-9,800
Restated purchases	231,250
Drawings as per TB	14,600
Drawings	9,800
Restated drawings	24,400

Workings 3

	RWF
Cost of buildings	550,000
Depreciation	2%
Depreciation	11,000
Cost of fixtures and fittings	71,200
Depreciation	10%
Depreciation	7,120
Cost of MV	52,000
Depreciation	-20,500
	31,500
Depreciation 15% RBM	15%
	4,725

Workings 4

	RWF
Receivables as per TB	63,000
Irrecoverable debts	-5,400
	57,600

Workings 5

	RWF
Insurance as TB	14,230
Prepayments	510
	13,720

Workings 6

	RWF
Term loan as per TB	150,000
Interest	5%
	7,500

SOLUTION 6

i)

Receipts and Payments Account

Details	**RWF**	**Details**	**RWF**
Balance c/d	**13,685**	Light and heat (50% relates to bar)	11,110
		Clubhouse fixtures & fittings	7,580
Subscriptions received	186,320	Clubhouse rent	90,000
Proceeds from raffle	19,750	Barperson salary	17,500
Bar sales	201,790	Insurance (60% relates to bar)	22,000
Interest received	540	Raffle prizes & associated costs	4,620
		Greenkeeper salary	31,500
		Bar purchases	102,005
		Club secretary & president expenses	9,000
		Green maintenance	9,940
		Bar cleaning	7,100
		Closing bank balance c/d	109,730
	422,085		**422,085**
Opening balance c/d	109,730		

	2011 RWF	**2011 RWF**
Assets		
Fixtures and fittings	30,150	
Inventories	19,060	
Prepayments (rent)	15,000	
Subs in arrears	2,670	
Bank	13,685	
		80,565
Liabilities		
Payables	9,710	
Accruals telephone	115	
Subs in advance	9,730	
		-19,555
Proprietors capital		61,010

ii) Kigali Golf Club

Bar Trading Account (income statement) for the year ended 31 December 2011

	2011 RWF	**2011 RWF**
Sales		201,790
Cost of sales		
Opening inventory	19,060	
Purchases	100,385	
	119,445	
Less closing inventory	-17,005	
Cost of sales		-102,440
Gross profit		99,350
Less Expenses		
Light and heat	5,555	
Bar person salaries	17,500	
Bar insurance	13,200	
Bar cleaning	7,100	
Total expenses		-43,355
Operating Profit		55,995

Payables Control A/C

	RWF		**RWF**
Bank payments	102,005	Balance c/d	9,710
Balance c/d	8,090	Purchases	**100,385**
	110,095		110,095
		Balance b/d	8,090

iii)

	RWF
Proceeds of the raffle	19,750
Costs of the raffle	(4,620
	15,130

iv)

Subscriptions A/C

Details	RWF	Details	RWF
Opening subs in arrears	2,670	Opening subs in advance	9,730
I/S value for subs	**197,490**	Cash received for subs	186,320
Closing subs in advance	6,330	Closing subs in arrears	10,440
	206,490		206,490
Opening subs in arrears	10,440	Opening subs in advance	6,330

Kigali Golf Club Income and Expenditure Account for the year 31 December 2011

	RWF	RWF
Income		
Subscriptions		197,490
Proceeds from raffle		15,130
Bar profits		55,995
Interest received		540
		269,155
Expenditure		
Rent	90,000	
Light and heat	5,555	
Green keeper salary	31,500	
Depreciation	1,887	
Insurance	8,800	
Club secretary expenses	9,000	
Green maintenance (9,940-115+80)	9,905	
		(156,647)
Excess of income over expenses		112,508

Depreciation of F&F	
NBV of FF	30,150
Additions	7,580
	37,730

Depreciation 5% of RBM	5% 1,887

Rent Charge for PL	
Rent prepaid as at 1/1/11	15,000
Rent paid	90,000
	105,000
Rent prepaid as at 31/12/11	15,000
	90,000

(Note: Closing Accumulated Fund not asked in the question – it is presented as a learning aid only)

Kigali Golf Club Accumulated Fund as at 31 December 2011

	RWF	RWF	2011 RWF
Non-current assets			
Fixtures & fittings			35,843
Current assets			
Closing inventories		17,005	
Subs in arrears		10,440	
Prepayments		15,000	
Cash		109,730	
			152,175
Total assets			**188,018**
Equity and Liabilities			
Accumulated fund			
Accumulated fund 1/1/11		61,010	
Excess of income over expenditure		112,508	
			173,518
Current liabilities			
Payables		8,090	
Subs in advance		6,330	
Accruals		80	
			14,500
Total Equity and Liabilities			**188,018**

SOLUTION 7

A)

Journals		**Dr**	**Cr**
Motor Vehicles	B/S	42,000	
Motor Expenses	P&L		42,000
Repairs	P&L	15,000	
Premises	B/S		15,000
Drawings	B/S	5,000	
Motor Expenses	P&L		5,000

B)

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

			Journals		**Adjusted**	
	RWF	**RWF**	**Dr**	**Cr**	**RWF**	**RWF**
Sales		900,000				900,000
Cost of Sales						
Opening Stock	30,000				30,000	
Purchases	300,000				300,000	
	330,000				330,000	
Less Closing Stock	-45,000	285,000			-45,000	285,000
Gross Profit		615,000				615,000
Expenses						
Motor expenses	78,000			47,000	31,000	
Repairs	12,000		15,000		27,000	
Salaries	375,000	465,000			375,000	433,000
		150,000				182,000

Balance Sheet as at 31 December 2011

	RWF	RWF	RWF	Journals Dr	Journals Cr	Adjusted RWF	RWF	RWF
Fixed assets								
Premises			1,200,000		15,000			1,185,000
Fixtures			48,000					48,000
Motor Vehicles			93,000	42,000				135,000
			1,341,000					1,368,000
Current Assets								
Stock	45,000					45,000		
Cash	63,000					63,000		
Bank	6,000					6,000		
Debtors	54,000	168,000				54,000	168,000	
Current Liabilities								
Creditors	75,000	75,000				75,000	75,000	
Net Current Assets			93,000					93,000
Net Assets			**1,434,000**					**1,461,000**
Financed by:								
Capital			1,308,000					1,308,000
Profit & Loss			150,000					182,000
Less Drawings			-24,000	5,000				-29,000
			1,434,000	62,000	62,000			**1,461,000**

C)

1. Period profit rises by RWF32,000

2. Net assets increased by RWF27,000- (RWF42,000-RWF15,000)

3. This is balances by increased profit (Credit) of RWF32,000 & increased drawings (Debit) of RWF5,000

SOLUTION 8

A)

Debtors Control Account

Balance		79,266	Balance	1,332
Restocking Charge	**W1**	144	Credit Note	732
Interest Charge	**W2**	150		
Dishonoured Cheque	**W3**	1,430	Adjusted balance	**79,061**
Understated Invoice	**W4**	135		
		81,125		**81,125**

W1	1200*12%	144
W2	Reduced int charge	279
	(per note 4 in Q)	-129
		150
W3	Dishonoured Cheque	1,200
	Discount on settling	230
		1,430
W4	See note 6 in Q	1,650
		-1,515
		135

B)

Balance per debtors listing	74,790	
	288	Restocking Charge 144 posted as Credit should have been Debit
	-132	Cancellation of Credit note posted as debit
	-732	Correct credit note entered
	300	Add back cash which does not relate to debtors
	1,200	Sale RWF600 entered as Credit should have been debit (600+600)
	279	Add original interest charge to customer account per Note 4 in Q
	117	Debit (add back) original entry of RWF117 which was entered as credit
	-129	Reduce interest charge from RWF279 to RWF150 as agreed with debtor
	1,430	See W3
	1,650	Invoice not posted to individual debtor's account per Note 6 in Q
Adjusted balance		**79,061**

SOLUTION 9

A)

Vehicle Account

01/01/2009	Veh 1	80,000	31/12/2009	Balance c/d	155,000
01/07/2009	Veh 2	75,000			
		155,000			155,000
01/01/2010	Balance b/d	155,000	31/12/2010	Balance c/d	266,000
01/01/2010	Modification Veh1	15,000			
01/12/2010	Additions Veh 3	96,000			
		266,000			266,000
01/01/2011	Balance b/d	266,000	01/07/2011	Disposal Veh 1	95,000
01/07/2011	Additions Veh 4	93,000	01/09/2011	Disposal Veh 3	96,000
01/09/2011	Additions Veh 5	120,000	31/12/2011	Balance c/d	288,000
		479,000			479,000
01/01/2012	Balance b/d	288,000			

B)

	Vehicle 1	**Vehicle 2**	**Vehicle 3**	**Vehicle 4**	**Vehicle 5**	**Totals**
Purchase Date	01/01/2009	01/07/2009	01/12/2010	01/07/2011	01/09/2011	
Cost	80,000	75,000	96,000	93,000	120,000	464,000
Additions 1/01/10	15,000					15,000
Disposals	-95,000		-96,000			191,000
	0	**75,000**	**0**	**93,000**	**120,000**	**288,000**
Accumulated dep'n						
2009	16,000	6,000				22,000
2010	22,000	12,000	1,600			35,600
2011	9,500	12,000	12,800	9,300	8,000	51,600
Disposals						
2009						0
2010						0
2011	-47,500		-14,400			-61,900
	0	**30,000**	**0**	**9,300**	**8,000**	**47,300**
Net book value	**0**	**45,000**	**0**	**83,700**	**112,000**	**240,700**

Disposals

		Trade in	
01/07/2011	95,000	Veh 1	32,000
		Veh 1	
		acc dep'n	47,500
		Loss	15,500
		Insurance	25,000
01/09/2011	96,000	Claim	
		Trade In	40,000
		Veh 3	
		Acc dep'n	14,400
		Loss	16,600
	191,000		**191,000**

Bank

Veh 1	32,000	
Veh 3	25,000	

P&L Account

Veh 1		
Loss	15,500	
Veh 3		
Loss	16,600	

C)

Provision (Accumulated) Depreciation Account

31/12/2009	Balance c/d	22,000	31/12/2009	Annual Charge	22,000
		22,000			22,000
			01/01/2010	Balance b/d	22,000
31/12/2010	Balance c/d	57,600	31/12/2010	Annual Charge	35,600
					57,600
01/07/2011	Disp Veh 1	47,500			
01/09/2011	Disp Veh 3	14,400	01/01/2011	Balance b/d	57,600
31/12/2011	Balance c/d	47,300	31/12/2011	Annual Charge	51,600
		109,200			109,200
			01/01/2012		47,300

SOLUTION 10

1) The qualitative characteristics of Financial Statements

In deciding what information should be included in financial statements, when it should be included and how it should be presented, the aim is to ensure that financial statements yield useful information. Financial information is useful if it is:

Relevant - If it has the ability to influence the economic decisions of users and is provided in time to influence those decisions

Reliable - Reliability is characterised by:

- Faithful representation
- Substance over form recognition of the economic substance of a transaction over its legal form
- Neutrality - free from bias
- Prudence - a degree of caution in making estimates in conditions of uncertainty
- Completeness - an omission can cause information to be false or misleading

Comparable - It enables users to discern and evaluate similarities in, and differences between, the nature and effects of transactions and other events over time and across different reporting entities.

Understandable - Its significance can be perceived by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study with reasonable diligence the information provided.

If a conflict arises between these characteristics, a trade-off needs to be found that still enables the objective of financial statements to be met. For example, if the information that is the most relevant is not the most reliable and vice versa, it will usually be appropriate to use the item of information that is the most relevant of those that are reliable.

Financial information with the above characteristics will be most useful to the users of financial statements. In deciding whether to present financial information separately in the financial statements the accountant must assess the information's ability to influence economic decisions it is considered to be material and should be presented separately in the financial statements.

2) Historical Cost Accounting Convention/System

Conventionally, financial accounts are based on historical cost – which is assets/liabilities recorded in the balance sheet at their cost of acquisition. Expenses are charged against revenues in determining profit based upon historic cost of assets used in generation of the revenues.

Advantages of Historical Cost Accounting:

(a) Consistent with fundamental accounting concepts

(b) Objective and the information it produces is easily verified.

(c) Simple and inexpensive to record the information.

(d) Easily understood by the users of financial statements.

Disadvantages of Historical Cost Accounting:

(a) Assets values unrealistic, in particular land and buildings.

(b) Comparisons over time meaningless.

(c) Maintenance of the physical substance of business ignored.

3) Role of the International Accounting Standards Board (IASB)

International Accounting Standards Board (IASB): In April 2001 the International Accounting Standards Board was formed to take over the work of the International Accounting Standards Committee (IASC).

The International Accounting Standards Committee was set up in 1973. The role of this body was to formulate and publish accounting standards to be observed in the presentation of financial statements and to promote their world-wide acceptance and observance and to work for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial reporting.

Objectives of the IASB

The objectives of the IASB are set out in its mission statement:

- "To develop, in the public interest a single set of high quality, understandable and enforceable global accounting standards that require high quality transparent and comparable information in financial statements."
- To promote the use of rigorous application of these standards.
- To work actively with actual standard-setters to achieve conveyance of accounting standards around the world.

4) The Business Entity Concept

An organisation or part of an organisation that for accounting purposes stands apart as a separate economic unit.

Usually a business entity is regarded as separate from its owners and accounting information should be restricted to the transactions that affect the entity itself.

A business entity treats transactions with its owners in an arms length way as monies and assets introduced into a business by the owners is recorded as a liability of the business and recorded as capital while goods, cash or assets taken from the business are recorded as drawings and reduce the capital introduced and thereby the liability of the business to the owners.

5) Imprest system of petty cash

An imprest system of petty cash means that the Petty Cash general ledger account will remain at a set amount from period to period. For example, if the petty cashier is entrusted with RWF100, then the Petty Cash account will always report a debit balance of RWF100.

The RWF100 is the imprest balance. When the money in the petty cash box is low the petty cashier will request a fund replenishment. Since the funds are drawn on the organisation's bank account, the bank account (not the petty cash account) is credited. The debits will go to the expense accounts indicated by the petty cash receipts i.e. postage, supplies, etc.

Under the imprest system, the petty cashier should have a combination of coins, currency and petty cash receipts equal to the imprest amount of RWF100.

Control over petty cash involves review of the petty cash receipts attached to each cheque request for replenishment. Occasional spot checks on the petty cash box also ensures that the items in the petty cash add up to the imprest amount.