CPA

Certified Public Accountant Examination

Stage: Foundation 1.3

Subject Title: 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.

ASSESSMENT STRATEGY

Examination Approach

The examination seeks to test the students' knowledge and understanding of the application of accounting concepts and principles. Question 1 is compulsory and usually involves 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

Examination Duration: 3.5 Hours

The examination is unseen, closed book.

Students are required to answer 4 questions out of 5 Question 1 is compulsory and carries 40 marks. Students are required to answer 3 of the remaining 4 questions.

Marks Allocation

Question	**Marks**
Question 1 – Compulsory question	40
Choice of 3 questions out of 4 (3 x 20)	60
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 – F1.3 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

F1.3 FINANCIAL ACCOUNTING
REVISION QUESTIONS AND SOLUTIONS

QUESTION 1

(a) Financial statements allow users of them to satisfy some of their different needs for information. Explain these needs for the following five users:

1) Investors
2) Employees
3) Suppliers
4) Government and their agencies
5) Public

(10 Marks)

(b) The following trial balance was extracted from the books of CRA Limited as at 31 December 2010:

	Debit	Credit
	Rwf **'000**	Rwf '000
Bank	113,650	
Buildings	400,000	
Carriage Inwards	2,000	
Proceeds from Sales of Motor Vehicles		9,000
Retained Earnings at 31.12.09		110,610
Debentures 3%		200,000
Repairs & Maintenance	4,560	
Plant & Machinery	45,000	
Insurance	11,500	
Trade Receivables/Trade Payables	40,000	38,500
Land	200,000	
Advertising	12,300	
Plant & Machinery Accumulated Depreciation at 31.12.2009		15,000
Travel Expenses	3,600	
Motor Vehicles	35,000	
Buildings Accumulated Depreciation at 31.12.2009		150,000
Opening Inventory	35,000	
Purchases	312,000	
Carriage Outwards	1,350	
Telephone	8,400	
Rent	10,000	
Provision for Bad Debts		7,000
Revaluation Surplus		10,000
Motor Vehicles Accumulated Depreciation at 31.12.2009		12,000
Revenue		415,000
Bank Loan – Long-Term		205,000
Revenue Returns/Purchases Returns	2,000	1,000
Other Reserves		15,000
Share Capital – 100,000 shares at Rwf l each		100,000
Wages & Salaries	51,750	
	1,288,110	1,288,110

The following information, based on your investigations, has also come to your attention;

i) An inventory count at year-end showed that the Closing Inventories at cost amounted to Rwf42,650,000. There are slow moving goods at cost included in this figure amounting to Rwf5,000,000. It is estimated that these will need to be sold at a 50% discount on selling price in order to sell them. CRA Limited sells at a mark-up of 20% for these goods.

ii) During January 2010, the company realised that the Closing Inventory at 31 December 2009 was overstated by Rwf3,100,000.

iii) Depreciation is to be charged as

follows:

Buildings	4% on Cost
Plant & Machinery	10% on Cost
Motor Vehicles	15% Reducing Balance

Depreciation is charged in full in year of purchase and none in year of sale. Round all depreciation amounts to the nearest thousand francs.

iv) The Land and Buildings were revalued at 31 December 2010 to Rwf180,000,000 and Rwf200,000,000 respectively.
The residual value on buildings is expected to be Rwf50,000,000.

v) The proceeds on the sale of Motor Vehicles, in the trial balance, relates to the disposal on 30 June 2010 of a motor vehicle which was purchased for Rwf20,000,000 on 1 June 2008.

vi) The Corporation tax bill for the year 2010 is estimated at Rwf14,000,000 which has not been provided for in the trial balance on Page 1.

vii) A customer has gone into liquidation and you are advised to write off the full balance owing of Rwfl,950,000.

viii) Included in wages is an amount of Rwf16,000,000 paid to CRA Limited's own staff who built a canteen onto the building during the year.

ix) There are closing accruals for Repairs and Maintenance and Telephone amounting to Rwf640,000 and Rwf1,350,000 respectively.

x) The Bad Debt Provision should be changed to 4% of Trade Receivables.

xi) Purchases include an amount of Rwf10,000,000 which actually relates to Plant and Machinery. This Plant & Machinery was purchased on 1 July 2010.

xii) Provide for the Debenture Interest outstanding at the year-end.

REQUIRED:
Prepare, for internal use, a Statement of Comprehensive Income and Statement of Financial Position for CRA Limited for the financial year-ending 31 December 2010.

(30 Marks)
[Total: 40 Marks]

QUESTION 2

(a) State the objective of financial statements as per the IASB's *Framework for the Preparation and Presentation of Financial Statements.*
(3 Marks)

(b) Discuss three issues that may arise in relation to the provision of relevant and reliable information in financial statements.
(3 Marks)

(c) Describe and discuss the qualitative characteristics of financial statements as identified in the Framework.
(14 Marks)

[Total: 20 Marks]

QUESTION 3
A cousin of yours, who runs a business, DLLA Limited, is looking for some advice in relation to the recognition of revenue in financial statements. They have heard of IAS 18 *Revenue* but are unsure how to apply it to their business. They have asked for your advice as they know that you are currently studying to be an accountant. Your cousin has asked you to provide a report to him on the following queries:

(a) Describe the conditions that should be satisfied before Revenue from the rendering of services should be recognised in the financial statements.
(6 Marks)

(b) State how Revenue should be measured in the financial statements.
(2 Marks)

(c) Discuss, under the following examples, what the accounting treatment should be and whether Revenue should be recognised or not in the financial statements for the year-end 31 December 2010:

(i) On 18 December 2010, DLLA had received Rwf10,000,000 in relation to goods which are due to be shipped on 6 January 2011 to Burundi. At the year-end, the goods are still in the warehouse of DLLA Limited.

(ii) On 15 December 2010, DLLA sold goods to a customer amounting to Rwf3,000,000. The customer will pay for these goods on 20 January 2011. The cost of the goods sold was Rwf2,000,000.

(iii) On 1 December 2010, DLLA sold goods to a new customer in Zambia. DLLA are trying to break into this market and have done a deal with the new customer whereby the customer has the right to return any unsold goods before 31 March 2011 for a full refund. The amount of the goods sold was Rwf25,000,000.

(iv) On 20 December 2010, DLLA sold goods, amounting to Rwf8,000,000 to a customer who normally gets 30 days credit. The goods were ready for delivery to the customer on that date but the customer did not want delivery of the goods until 4 January 2011 as he was going on holidays over the Christmas period. The customer has accepted an invoice for the goods dated 20 December 2010. The customer paid for the goods on 5 January 2011.

(12 Marks)
[Total: 20 Marks]

QUESTION 4

The treasurer of a Golf Club near Lake Kivu has produced the following receipts and payments for the year- ended 31 December 2010.

Receipts	Rwf '000	Payments	Rwf '000
Balance at 1 January 2010	20,000	Bar Payments	27,000
Subscriptions	83,000	Wages & Salaries – Clubhouse	36,000
Bar Receipts	42,000	Wages & Salaries – Bar	10,000
Green Fees	36,000	Course Repairs	19,000
Event Receipts	11,000	Insurance	9,000
Competition Fees	5,900	Utilities (Electricity & Water)	6,000
		Telephone	2,500
		Event Expenses	6,000
		Sundry Expenses	1,900
		Competition Expenses	1,600
		Balance at 31 December 2010	78,900
	197,900		197,900

1. The following information is available:

	01/01/2010	31/12/2010
	Rwf '000	Rwf '000
Bar Trade Payables	9,000	7,000
Bar Inventory	7,000	5,000
Subscriptions in Arrears	2,000	3,500
Subscriptions in Advance	7,000	4,500
Telephone Due	500	750
Competition Expenses Due	400	500

2. At 1 January 2010, the following assets were identified at cost:

Rwf

Clubhouse & Course	400,000
Fixtures & Fittings	70,000
Course Equipment	160,000

3. The depreciation rates are as follows:

Fixtures & Fittings	10% of Cost
Course Equipment	20% of Cost

4. Course equipment was disposed of during the year for a scrap value of **Rwf**2,500,000. The equipment originally cost **Rwf**7,000,000 on 1 January 2006.

5. There is no depreciation in the year of sale.

6. The insurance paid for the year covers the period to 30 September 2011. The insurance for the previous year to 30 September 2010 amounted to **Rwf**6,000,000.

REQUIRED:

(a) Prepare a Bar Trading Account for the year-ended 31 December 2010. **(6 Marks)**

(b) Prepare an Income & Expenditure Account for the year-ended 31 December 2010. **(14 Marks)**

[Total: 20 Marks]

QUESTION 5

R.A.H. Limited is a company which is involved in the retail trade with a number of shops in prime city centre locations. The following are their results for the last two years.

	2010	2010	2009	2009
	Rwf m	Rwf m	Rwf m	Rwf m
Sales		23,200		15,960
Cost of Sales		16,492		11,452
Gross Profit		6,708		4,508
Distribution Costs		356		298
Administration Costs		872		504
Profit before Interest & Tax		5,480		3,706
Taxation	432		484	
Interest	752	1,184	772	1,256
Net Profit for the Year		4,296		2,450
Dividends		200		200
Profit Retained		4,096		2,250

R.A.H. Limited Statement of Financial Position for the Year-ended 31 December 2010

	2010	2010	2009	2009
	Rwf m	Rwf m	Rwf m	Rwf m
Non-Current Assets		14,040		13,304
Current Assets				
Inventory	2,784		1,860	
Trade Receivables	2,084		1,000	
Cash & Cash Equivalents	800		600	
Total Current Assets		5,668		3,460
Total Assets		19,708		16,764
Equity & Liabilities				
Equity				
Share Capital	4,000		4,000	
Retained Earnings	6,308		2,212	
Total Equity		10,308		6,212
Non-Current Liabilities				
Long-term Debt	5,750		8,000	
Total Non-Current Liabilities		5,750		8,000
Current Liabilities				
Trade Payables	1,600		1,368	
Bank Overdraft	1,196		48	
Taxation	432		484	
Dividends	200		200	
Accruals	222		452	
Total Current Liabilities		3,650		2,552
Total Equity & Liabilities		19,708		16,764

Notes:

(i) The opening inventory for 2009 was Rwf2,000,000,000

(ii) The number of shares in issue is 40,000,000 for both years

(iii) Current share price per share

	2010	2009
Current share price per share	Rwf2,500	Rwf800

REQUIRED:

(a) Calculate, for both years, the following ratios in relation to R.A.H. Limited:

1) Gross Profit Percentage
2) Net Profit Percentage
3) Quick Ratio
4) Trade Receivable Days
5) Trade Payable Days
6) Interest Cover
7) Earnings Per Share
8) Price Earnings Ratio **(8 Marks)**

(b) Draft a report to the Board of Directors of R.A.H. Limited in which you provide a commentary on the company's position and performance. Use the ratios calculated at (a) above as the basis for your commentary.

(10 Marks)

(Format and Presentation: 2 marks)

[Total: 20 Marks]

QUESTION 6

(a) Identify and explain both the main advantages and obstacles to the harmonisation of international accounting.

(10 marks)

(b) The following trial balance was extracted from the books of GTM Limited as at 31st December 2010:

	Debit Rwf '000	Credit Rwf '000
Accruals		2,000
Bank		65,000
Bank Loan – Long-Term		455,000
Buildings	800,000	
Buildings Accumulated Depreciation at 31.12.2009		200,000
Carriage Inwards	20,000	
Corporation Tax		5,000
Debentures 4%		200,000
Debenture Interest	1,500	
Fixtures & Fittings	75,000	
Fixtures & Fittings Accumulated Depreciation at 31.12.2009		15,000
Insurance	23,000	
Intangible Assets	80,000	
Land	450,000	
Utilities (Electricity & Water)	1,000	
Marketing	24,000	
Motor Expenses	5,600	
Office Equipment	150,000	
Office Equipment Accumulated Depreciation at 31.12.2009		45,000
Opening Inventory	50,000	
Other Reserves		43,000
Proceeds from Sales of Office Equipment		4,000
Provision for Bad Debts		4,000
Purchases	450,000	
Rates	14,000	
Rent	12,000	
Repairs & Maintenance	7,900	
Retained Earnings		150,000
Revaluation Surplus		20,000
Revenue		950,000
Revenue Return/Purchases Returns	19,000	10,000
Share Capital – 100,000 shares at Rwf1,000 each		100,000
Share Premium		5,000
Suspense		15,000
Trade Receivable/Trade Payable	80,000	48,500
Wages & Salaries	73,500	
	2,336,500	2,336,500

The following information, based on your investigations, has also come to your attention:

(i) Inventory was actually counted on the 31st December 2010 and amounted to Rwf55,000,000. Included in inventory were goods damaged pre year-end which had cost Rwf15,000,000 when originally purchased. To be in a position to sell these goods for an amount greater than scrap value, the inventory will require correctional work costing Rwf2,500,000 and consequently, the damaged goods would then be in a position to be sold for Rwf12,000,000.

(ii) Depreciation is to be charged as follows:

Buildings	2% on Cost
Office Equipment	10% on Cost
Fixtures & Fittings	20% Reducing Balance

Depreciation for the year is charged in full in the year of purchases and none in the year of sale.

(iii) The proceeds on the sale of Office Equipment, in the trial balance, relates to the disposal on the 1st October 2010 of some office equipment which was purchased for Rwf20,000,000 on 1st January 2006.

(iv) The Corporation tax bill for the 2010 year is estimated at Rwf25,000,000 which has not been provided for in the above trial balance

(v) A payment of Rwf13,000,000 for Corporation Tax was made on the 31st December 2010 by cheque. This transaction has not been included in the above trial balance.

(vi) It has been established that the accrual in the trial balance relates to Motor Expenses and that the figure relates to the opening accrual at the 1st January 2010. The figure for Motor Expenses in the trial balance relates to the Motor Expenses paid by cheque throughout the year.

(vii) There are closing accruals for Motor Expenses and Utilities amounting to Rwf1,500,000 and Rwf750,000 respectively.

(viii) There were Bad Debts recovered of Rwf2,000,000 lodged to the bank account which have yet to be included in the closing financial statements.

(ix) Due to the current uncertain trading environment, the Bad Debt Provision should be increased to 6% of Trade Receivables.

(x) Purchases include an amount of Rwf10,000,000 which actually relate to Office Equipment. This Office Equipment was purchased on the 1st July 2010.

(xi) 5,000 new shares were issued during the year. The shares were sold at a price of Rwf3,000 each. The book keeper of GTM Limited, unsure as to how to account for this transaction, debited the Bank with Rwf15,000,000 and credited Suspense with Rwf15,000,000.

(xii) Provide for the Debenture Interest outstanding at the year-end.

REQUIREMENT:

Prepare, for internal use, a Statement of Comprehensive Income and Statement of Financial Position for GTM Limited for the financial year-ending 31st December 2010. All workings should be shown.

(30 marks)

[Total: 40 Marks]

QUESTION 7

The Managing Director of the company you work for has recently been approached by a client, Zacnet Limited with some specific issues in relation to IAS 38 *Intangible Assets*. She has asked you to prepare a report based on the following aspects that the client company has requested advice on.

(a) State the required accounting treatment per IAS 38 in relation to the measurement of *Intangible Assets* at recognition for the following scenarios:

(8 Marks)

(i) Zacnet is considering making a separate acquisition of an intangible asset for Rwf80 million. The fair value of the intangible asset has been independently valued at Rwf100 m.

(ii) Zacnet has generated internal goodwill of Rwf50 m.

(iii) The government has granted to Zacnet a broadband licence for ten years for Rwf1 million due to the fact that the government wishes to promote broadband usage in Rwanda. Zacnet will incur Rwf99 m in expenditure directly attributable to preparing the asset for its intended use. Zacnet has received an independent valuation from an expert in valuing broadband licences who has valued the licence as being worth Rwf350 m.

(iv) Zacnet is currently researching the possibility of developing a new product which enhances a broadband signal in remote areas. In the last year, Zacnet has spent Rwf72m on researching this product.

(b) Zacnet believes that they will shortly begin the development phase in relation to the enhanced broadband signal. They are unsure of how to account for any expenditure incurred during this phase and have asked for guidance.

Describe the conditions which must be satisfied to allow expenditure to be capitalised in relation to the development phase of internally generated intangibles.

(7 Marks)

(c) Zacnet has a publishing department as part of its business where they publish magazines aimed at the 'mother and baby' market. In the draft financial statements for the period ended 31st December 2011, Rwf35m was spent on a brand new company logo for their flagship magazine in this segment. The accountant in Zacnet has proposed to include this expenditure as an Intangible Asset in the accounts of the company and to amortise it by 10% this year. The projected net profit before this adjustment is Rwf1,452 m.

(i) Outline whether the accounting treatment of the expenditure on the company logo is correct in accordance with IAS 38 and

(ii) Show the Actual Profit for the year based on your answer to (c) (i) above.

(5 Marks)

[Total: 20 Marks]

QUESTION 8

(a) In relation to the measurement at recognition of IAS16 *Property, Plant and Equipment*, outline the elements of cost which are allowed to be recognised.

(4 Marks)

(b) Explain, in the context of IAS 16, what is meant by any three (3) of the following terms;

(i) Depreciation;
(ii) Carrying value;
(iii) Fair value of an asset;
(iv) Impairment loss;
(v) Residual value.

(4 Marks)

(c) Explain the accounting treatment allowed for the measurement after recognition of *Property, Plant & Equipment* as per IAS 16.

(2 Marks)

(d) In relation to IAS 16, describe the accounting treatment necessary for the financial year-ending 31st December 2009 and 31st December 2010, based on the following information;

(i) A building costing Rwf300m which is not being depreciated was revalued at the 31st December 2009 to Rwf400 m.

(ii) The same building was revalued on the 31st December 2010 at Rwf250 m.

(5 Marks)

(e) Calculate the depreciation for MNL Limited for the year-ended 31st December 2010 based on the following information:

MNL Limited purchased a building on the 1st January 2005 costing Rwf500m. The asset was depreciated at the rate of 5% per annum straight line. On the 1st January 2010, the asset was revalued to Rwf800m and the valuer estimated that the residual value would be Rwf200 m. The useful life has not changed as a result of the revaluation.

(5 Marks)

[Total: 20 Marks]

QUESTION 9

Mr Michael Nolan operates a furniture shop in Kigali with the majority of his business being to trade but he also has some cash sales to the general public. Michael does not keep a full and proper set of accounts and has recently transferred his business to you, his personal friend, knowing that you are currently studying accounting. After careful investigation, the following information has been obtained covering the year-ended 31st December 2010:

(i)	Assets & Liabilities at 31st December 2009 were as follows:		Rwf '000
	Premises	Cost	100,000
		Accumulated Depreciation	40,000
	Office Equipment	Cost	16,000
		Accumulated Depreciation	4,000
	Inventory		40,000
	Cash		1,200
	Bank		11,200
	Trade Receivables		4,800
	Prepayment (Insurance)		800
	Trade Payables		11,200
	Bank Loan (repayable over 5 years)		12,000
	Accruals (Rent)		1,200

(ii) During the year, Michael has maintained that the bulk of the receipts from sales were lodged to the bank account. The bank statement reveals that Rwf31,600,000 was lodged to the account in relation to credit sales for the full year. The closing balance at the year-end in relation to cash amounted to Rwf1,600,000. Michael has said that he took Rwf1,600,000 and Rwf800,000 in drawings from the cash till during the year. The closing trade receivables balance amounted to Rwf4,000,000.

(iii) Michael makes a gross profit of 25% on the sales value of everything he sells and his sales occur evenly throughout the year.

(iv) On the night of the 31st July, there was a burglary at the shop and inventory was stolen. In trying to establish how much inventory was stolen, Michael was able to say that:

- (a) He knew from his bank statements that he has paid Rwf8,800,000 to trade payables in the seven month period to 31st July 2010.
- (b) He had trade payables due at the 31st July 2010 amounting to Rwf10,400,000.
- (c) He performed an inventory count on the following day after the burglary and calculated inventory at Rwf36,000,000.

(v) On the 31st October, Michael had to scrap Rwf1,200,000 worth of inventory owing to water damage. His insurance company has confirmed to him that he will be covered in full for the furniture scrapped.

(vi) Purchases for the full year amounted to Rwf25,700,000.

REQUIREMENTS:
For the year ended 31st December 2010:

(a) Calculate the opening capital position at the 1st January 2010 for Mr. Michael Nolan by preparing an opening statement of financial position.

(5 Marks)

(b) Calculate the amount of inventory stolen, the cost of the closing inventory and the gross profit for the year-ended 31st December 2010.

(15 Marks)

[Total: 20 Marks]

QUESTION 10

BLM Limited is a manufacturer of concrete products for the roads industry and its accounts are as follows

BLM Limited Statement of Financial Position as at 31st December 2010

	2010	**2009**
	Rwf m	**Rwf m**
Non-Current Assets		
Property, Plant & Equipment	66,300	55,600
Development Expenditure	4,360	200
Investment Properties	20,200	20,000
Total Non-Current Assets	90,860	75,800
Current Assets		
Inventories	8,900	9,200
Trade Receivables	14,320	12,300
Cash	2,130	-
Total Current Assets	25,350	21,500
Total Assets	116,210	97,300
Equity & Liabilities		
Equity		
Share Capital	72,000	60,000
Share Premium	9,600	8,000
Retained Earnings	2,620	590
Revaluation Surplus	2,800	800
Total Equity	87,020	69,390
Non-Current Liabilities		
Bank Loans	18,500	12,100
Total Non-Current Liabilities	18,500	12,100
Current Liabilities		
Trade Payables	9,340	10,050
Bank Overdraft	-	4,560
Corporation Tax	1,350	1,200
Total Current Liabilities	10,690	15,810
Total Equity & Liabilities	116,210	97,300

BLM Limited Statement of Comprehensive Income for the year-ended 31st December 2010

	Rwf m
Revenue	23,400
Cost of sales	18,910
Gross Profit	4,490
Distribution Costs	(1,129)
Administration expenses	(891)
Interests costs	(450)
Investment income	357
Profit before tax	2,377
Corporate tax – expense	(297)
Profit for year	2,080
Other comprehensive Income	
Gains on property revaluation	2,000
Total Comprehensive Income	4,080

i. Property, Plant & Equipment with a book value of Rwf2,050 m was sold for Rwf1,800 million
ii. Depreciation of Property, Plant & Equipment during the year amounted to Rwf2,150,000,000.
iii. Dividends paid during the year amounted to Rwf50,000,000.

REQUIREMENT

Prepare a cash Flow Statement for the year ended 31st December 2010 for BLM Limited

SUGGESTED SOLUTIONS

SOLUTION 1

(a)

Investors: These are concerned with the risk inherent in and return provided by their investments. They need information to help them determine whether they should buy, hold or sell as well as assessing the ability of the entity to pay dividends.

(2 Marks)

Employees: They are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the entity to provide remuneration, retirement benefits and employment opportunities.

(2 Marks)

Suppliers: These are interested in information that enables them to determine whether amounts owing to them will be paid when due.

(2 Marks)

Government and Agencies: These are interested in the allocation of their country's resources and, therefore, the activities of entities. They also require information in order to regulate the activities of entities, determine taxation policies and as the basis for national income and similar statistics.

(2 Marks)

Public: Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the entity and the range of its activities.

(2 Marks)

[Total: 10 Marks]

b)

CRA Limited Statement of Comprehensive Income for the year-ended 31st December 2010

	Notes	Rwf '000	Rwf '000	Rwf '000	Rwf' '000	*Marks*
Revenue				415,000		
- Revenue Returns				-2,000	413,000	*0.25*
Cost of Sales						
Opening Inventory	W1.ii	35,000	-3,100	31,900		
+ Purchases			312,000			*Cost of Sales*
- Plant & Machinery	W1.xi		-10,000			*1.5*
- Purchases Returns			-1,000	301,000		
+ Carriage Inwards				2,000		
- Closing Inventory	W1.ii			-40,650		
Cost of Sales Total					294,250	
Gross Profit					118,750	*0.25*
Other Income	W4				-5,478	
Repairs & Maintenance	W1.ix		4,560	640	5,200	
Insurance					11,500	
Advertising					12,300	
Travel Expenses					3,600	*Expenses*
Carriage Outwards					1,350	*2.5*
Telephone			8,400	1,350	9,750	
Rent					10,000	
Wages & Salaries	W1.viii		51,750	-16,000	35,750	
Loss on Sale of Motor Vehicle	W2				5,450	
Bad Debt Write Off	W1.viii				1,950	
Depreciation - Buildings	W2				16,640	
Depreciation - Plant & Machinery	W2				5,500	
Depreciation - Fixtures & Fittings	W2				1,283	
Debenture Interest	W1.xii				6,000	
Revaluation Loss on Land & Buildings	W3				59,360	
Profit/(Loss) before Tax					-61,405	
Income Tax Expense	W1.viii				14,000	*0.25*
PROFIT/(LOSS) FOR THE YEAR					-75,405	*0.25*
Other Comprehensive Income					-10,000	
Revaluation Loss on Land & Buildings	W3				-10,000	
Other Comprehensive Income for the year, net of tax						*0.25*

TOTAL COMPREHENSIVE INCOME FOR THE YEAR					-85,405	*0.25*

CRA Limited Statement of Financial Position as at 31st December 2010

	Notes	Rwf '000	Rwf '000	Rwf '000	Rwf '000	
Non-Current Assets						
Property, Plant & Equipment	W2				421,767	
Total Non-Current Assets					421,767	*0.25*
Current Assets						
Inventories	W1.i				40,650	*0.25*
Trade Receivables	W1.x				36,528	*0.25*
Cash & Cash Equivalents					113,650	*0.25*
Total Current Assets					190,828	*0.25*
TOTAL ASSETS					612,595	*0.25*
<u>Equity & Liabilities</u>						
Equity						
Share Capital			100,000		100,000	*0.25*
Other Reserves					15,000	*0.25*
Retained Earnings	W1.ii	110,610	-3,100	-75,405	32,105	*0.25*
Revaluation Surplus	W3		10,000	-10,000	-	*0.25*
Total Equity					147,105	*0.25*
Non-Current Liabilities						
Debentures					200,000	*0.25*
Bank Loan					205,000	*0.25*
Total Non-Current Liabilities					405,000	*0.25*
Current Liabilities						
Trade Payables					38,500	*0.25*
Corporation Tax	W1.vi				14,000	*0.25*
Accruals	W5				7,990	*0.25*
Total Current Liabilities					60,490	*0.25*
TOTAL EQUITY & LIABILITIES					612,595	
					TOTAL MARKS	**10**

Working - Journal Entries

Working - Closing Inventory	Rwf '000	Rwf '000
Total Inventories at Cost per Inventory Count		42,650
Slow Moving goods – Cost	5,000	

		NRV - 50% of Selling Price Note 1				-3,000		
		Inventory Write Down					2,000	
		Value of Closing Inventories					40,650	

Note 1

Cost		5,000	
Markup - 20% of Cost i.e. 20% *E5,000	20%	1,000	
Selling Price		6,000	
50% of Selling Price - 6,000 * 50%	50%	3,000	

					Rwf '000	Rwf '000	
1.i	Dr	Inventory	+Current Assets	SOFP	40,650		3.0
	Cr	Closing Inventory	- cost of sales	IS		4,650	
1.ii	Dr	Retained Earnings	- Enquiry	SOFP	3,100		1.5
	Cr	Opening Inventory	Cost of Sales	IS		3,100	
1.vi	Dr	Corporation Tax	+Expenses	IS	14,000		1.0
	Cr	Corporation Tax Due	+ Current Liabilities	SOFP		14,000	
1.vii	Dr	Bad Debt Write Off	+ Expenses	IS	1,950		1.0
	Cr	Trade Receivables	- Current Assets	SOFP		1,950	
1.viii	Cr	Building	+ Non-current Assets	SOFP	16,000		1.0
	Cr	Wages	- Expenses	IS		16,000	
1.ix	Dr	Repairs & Maintenance	+ Expenses	IS	640		1.0
	Dr	Telephone	+ Expenses	IS	1,350		
	Cr	Accruals	+ Current Liabilities	SOFP		1,990	
1.x	Dr	Trade Receivables	+ Other Income	IS	5,478		2.0
	Cr	Decrease in Bad Debt Provision	+ Other Income	SOFP		5,478	

Note 2

Trade Receivables Balance per TB	40,000
- Bad Debt Write Off W1.vii	-1,950
	38,050
- Bad Debt Provision	1,522
Revised Trade Receivables	36,528

		Current Bad Debt Provision TB			7,000		
		New Bad Debt Provision See Above			1,522		
		Decrease in Bad Debt Provision			-5,478		
1.xi	Dr	Plant & Machinery	+ Non-curerent Assets	SOFP	10,000		
	Cr	Purchases	- Cost of Sales	IS		10,000	1.0
1.xiii	Dr	Debenture Interest	+ Expenses	IS	6,000		
	Cr	Debenture Interest Due	+Current Liabilities	SOFP		6,000	1.0
		Debentures			200,000		
		Interest for the year at 3%			6,000		
						Current Marks	**12.5**

Working 2 - Property, Plant & Equipment Plant & Motor

		Land	Buildings	Plant & machinery	Motor Vehicles	Total	
		Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	
Cost		200,000	400,000	45,000	35,000	680,000	
Accumulated Depreciation b/d			-150,000	-15,000	-12,000	-177,000	
Net Book Value b/d at 1st January 2010		200,000	250,000	30,000	23,000	503,000	.25
Disposal - Cost	Note 1	-	-		-20,000	-20,000	.25
Disposal - Accumulated Depreciation at 1.1.10	Note 1				-5,550	-5,550	.25
Additions W1.viii/(W1.xi)	W1.viii		16,000	10,000		26,000	.50
Carrying Value		200,000	266,000	40,000	8,550	514,550	
Depreciation - Buildings - 4% of Cost			16,640			16,640	.25
Depreciation - Plant & Machinery - 10% of Cost				5,500		5,500	.25
Depreciation - Motor Vehicles - 15% of R. Bal	Note 2				1,283	1,283	.25
		200,000	249,360	34,500	7,267	491,127	
Revaluation Loss		-20,000	-49,360			-69,360	1.0
Net Book Value c/d at 31st December 2010		180,000	200,000	34,500	7,267	421,767	

Note 1 - Disposal of

Motor Vehicles			
Cost		20,000	
Accumulated Depreciation - 15% on Reducing Balance per annum			
Depreciation 2008	3,000		
Depreciation 2009	2,550		
	5,550	-5,550	
Net Book Value of Office Equipment disposed		14,450	

Disposal Account

Cost	20,000	Accumulated Depreciation	5,550
		Disposal proceeds	9,000
		Loss on disposal	5,450
	20,000		20,000

Note 2 - Depreciation of Motor Vehicles	Cost	Acc. Dep'n	NBV	
	Rwf '000	Rwf '000	Rwf '000	
Balance b/d	35,000	-12,000	23,000	
Disposal	-20,000	5,550	-14,450	
Carrying Value	15000	-6450	8550	1.00
Depreciation at 15% Reducing Balance			1,283	

Working 3 - Revaluation Loss			1.50
Total Revaluation Loss		69,360	
Revaluation Surplus b/forward		10,000	
Excess Revaluation Loss		59,360	

Working 4 - Other Income			
Decrease in Bad Debt Provision	W1.x	5,478	
Closing balance		5,478	1.00

Working 5 - Accruals		
Repairs & Maintenance W1.ix 640	W1.ix	640
Telephone W1.ix 1,350	W1.ix	1,350
Debenture Interest W1.xii 6,000	W1.xii	6,000
		7,990

Current marks **7.5**

			Adjustment		**Income Statement**		**SOFP**	
	Debit Rwf '000	Credit Rwf '000	Debit Rwf '000	Credit Rwf '000	Debit Rwf '000	Credit Rwf '000	Debit Rwf '000	Credit Rwf '000
Bank	113,650						113,650	
Buildings	400,000		16,000	49,360			366,640	
Carriage inwards	2,000				2,000			
Process form sale of motor vehicles		9,000	20,000	5,550	5,450			
Retained earnings		110,610	62,460			16,045		32,105
Debentures 3%		200,000						200,000
Repairs & maintenance	4,560		640		5,200			
Plant & machinery	45,000		10,000				55,000	
Insurance	11,500				11,500			
Trade Receivables/Trade Payables	40,000	38,500		1,950			38,050	38,500
Land	200,000			20,000			180,000	
Advertising	12,300				12,300			
Plant & machinery Acc dep'n at 31-12-2009		15,000			5,500			20,500
Travel expenses	3,600				3,600			
Motor vehicles	35,000			20,000			15,000	
Buildings Acc dep'n at 31-12-2009		150,000			16,640			166,640
Opening inventory	35,000			3,100	31,900	40,650	40,650	
Purchases	312,000			10,000	302,000			
Carriage outwards	1,350				1,350			
Telephone	8,400		1,350		9,750			
Rent	10,000				10,000			
Provision for Bad debts		7,000	5,478	5,478		5,478		1,522
Revaluation surplus		10,000	10,000					

Motor vehicles Acc Dep'n at 31-12-2009		12,000	5,550		1,283			7,733
Revenue		415,000				415,000		
Bank loan - long term		205,000						205,000
Revenue returns/purchase returns	2,000	1,000			2,000	1,000		
Other reserves		15,000						15,000
Share capital 100,000 shares at Rwf 1 each		100,000						100,000
Wages & salaries	51,750			16,000	35,750			
Debenture interest			6,000		6,000			
Corporation tax			14,000	14,000	14,000			14,000
Bad debt write-off			1,950		1,950			
Accruals				7,990				7,990
	1,288,110	1,288,110	153,428	153,428	478,173	478,173	808,990	808,990

[Total marks 20.0]

SOLUTION 2

a) 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

(3 Marks)

b)

Timeliness

If there is undue delay in the reporting of information, it may become superseded by events after the reporting period. Management need to balance the relative merits of timely reporting and the provision of reliable information. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to those who have had to make decisions in the interim.

Balance between Benefit and Cost

The balance between benefit and cost is an important constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgemental process. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. There is also the case that benefits may also be enjoyed by users other than those for whom the information is prepared. For these reasons, it is difficult to apply a cost-benefit test in any particular case but preparers and users of financial statements should be aware of this constraint.

Balance between Qualitative Characteristics

In practice, a trade-off between qualitative characteristics is often necessary. Generally, the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgement.

(3 Marks)

c) The four principal qualitative characteristics as per the Framework are: Understandability, Relevance, Reliability and Comparability

Understandability

Users must be able to understand financial statements. They are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information properly. Complex matters, if relevant for decision-making, should not be left out of financial statements because they are difficult to understand.

Relevance

To be useful information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations. The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. In other cases, both the nature and materiality are important. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Reliability

To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. Key elements of reliability include:

(i) Faithful Representation
(ii) Substance over Form
(iii) Neutrality
(iv) Prudence
(v) Completeness

Comparability

Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities. The need for comparability should not be confused with mere uniformity. It is inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist. It is important that the financial statements should corresponding information for the preceding periods.

(14 Marks)

[Total: 20 Marks]

SOLUTION 3

REPORT

To: Managing Director DLLA Ltd.

From: Financial Accountant

Re: IAS 18

Date: September 2011

a) Per paragraph 20 of IAS 18, when the outcome of a transaction involving the rendering of services and supply of goods can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

i) The amount of revenue can be measured reliably;

ii) It is probable that the economic benefits associated with the transaction will flow to the entity;

iii) The stage of completion of the transaction at the end of the reporting period can be measured reliably;

and

iv) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

(6 Marks)

b) Per paragraph 9 of IAS 18, revenue shall be measured at the fair value of consideration received or receivable

(2 Marks)

c) i) This should not be recognised as revenue from a sale in the 2010 financial statements as per paragraph 14 (a) of IAS 18, the significant risks and rewards of ownership of the goods has not been transferred to the customer in Burundi as the goods are still in DLLA's warehouse at the year-end. Therefore, the Rwf10,000,000 received should be included as a Prepayment in Current Assets at the year-end and the goods should be included in Closing Inventory at the year-end.

(3 Marks)

ii) This is a normal sale as it fulfils all the requirements of a sale of goods as per paragraph 14 of IAS 18; i.e. risks and rewards transferred, amount of revenue can be reliably measured, costs incurred can be reliably measured, DLLA has no longer any managerial involvement over the goods or does not control the goods sold and DLLA received the economic benefits of the transaction i.e. received payment on the 20th January 2011. The accounting treatment is to:

Dr.	Trade Receivables – Current Assets - SOFP	Rwf3,000,000	
Cr.	Revenue – Income Statement -		Rwf3,000,000
Dr.	Inventory - Cost of Sales – Income Statement	Rwf2,000,000	
Cr.	Inventory – Current Assets – SOFP		Rwf2,000,000

(3 Marks)

iii) This transaction, like c i) above, should not be recorded as revenue in the 2010 financial statements as the significant risks and rewards of ownership of the goods have not been transferred to the customer in Zambia in that they can return the goods before the 31st March 2011 if they are not sold. Consequently, the goods remain in DLLA's inventories until confirmation has been received from the customer in Zambia that they have been sold on and any money received pre year-end is treated as a Prepayment in Current Assets at the year-end.

(3 Marks)

iv) As per Section 1 of Appendix to IAS 18, this is treated as a 'Bill and Hold' Sale in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing. Revenue is recognised when the buyer takes title, provided:

1) It is probable the delivery will be made
2) The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised
3) The buyer specifically acknowledges the deferred delivery instructions and
4) The usual payment terms apply

Seeing as the above conditions have been satisfied in this case, the goods will be treated as revenue in the financial statements for the 2010 year i.e.

Dr.	Trade Receivables – Current Assets - SOFP	Rwf8,000,000	
Cr.	Revenue –	Income Statement -	Rwf8,000,000

(3 Marks)

I hope that the above responses clarify and answer your queries. If you have any further queries, please do not hesitate to contact me.

Yours sincerely,

Financial Accountant

[Total: 20 Marks]

SOLUTION 4

The Golf Club - Bar trading account for the year ended 31st December 2012

	Rwf '000	Rwf '000	Rwf '000
Sales		42,000	1.00
Less Cost of Sales			
Opening inventory	7,000		
+ Purchases	25,000		1.00
- Closing inventory	-5,000		
		27,000	1.00
Gross Profit		15,000	1.00
Expenses			
Bar staff wages	10,000		
Total expenses		10,000	1.00
		5,000	1.00

The Golf Club - Income & Expenditure Account for the year ended 31st December 2012

Income			
Subscriptions	87,000		1.00
Green fees	36,000		0.50
Profit on bar	5,000		1.00
Profit on sale of course equipment	1,100		1.00
Profit on Competition	4,200		1.00
Profit on events	5,000		1.00
Total Income		138,300	0.50
Expenditure			
Wages & Salaries - Clubhouse	36,000		1.00
Course repairs	19,000		1.00
Insurance	6,750		1.00
Light & heat	6,000		1.00
Telephone	2,750		1.00
Sundry expenses	1,900		0.50
Depreciation	37,600		1.00
		110,000	0.50
Excess if Income over Expenditure		28,300	1.00
		Total marks	20.00

<u>Purchases calculations</u>

T Payables Bar Account

	Rwf '000		Rwf '000
Bank bar payments	27,000	Balance B/D	9,000
		Purchases - Balancing figure	25,000
Balance C/D	7,000		
	34,000		34,000
		Balance B/D	7,000

Subscriptions calculation

Subscriptions account

Balance B/D	2,000	Balance B/D	7,000
I&E a/c - Balancing figure	87,000	Bank receipt	83,000
Balance prepaid C/D	4,500	Balancing C/D owing	3,500
	93,500		93,500

Competition calculations

Competition account

Bank payments	1,600	Balance B/D	400
		I&E a/c Balancing figure	1,700
Balance C/D	500		
	2,100		2,100

Profit on competitions

Competition receipts	5,900
Competition expenses	-1,700
Profit on competitions	4,200

Insurance calculations

Insurance account

Balance B/D	4,500		
Bank payment re insurance	9,000	I&E balancing figure	6,750
		Balance C/D	6,750
	13,500		13,500

Telephone calculation

Telephone account

Bank payments	2,500	Balance B/D	500
		I&E A/c balancing figure	2,750
Balance C/D	750		
	3,250		3,250
		Balance B/D	750

Disposals calculation

Equip't Disposal Account

Cost	7,000	Accumulated dep'n	5,600
		Sale proceeds	2,500
Profit on Sale	1,100		
	8,100		8,100

Depreciation Calculation

Fixtures & fittings - 10% cost	70,000	x 10%	7,000
Course Equip't - 20% of cost	160,000		
- Disposal	7,000		
	153,000	x 20%	30,600
Total Dep'n for year			37,600

SOLUTION 5

a) *(Values in Rwf millions except for P/E ratio)*

	2010	2009
Gross Profit percentage	6,708/23,200=28.91%	4,508/15,960=28.25%
Net profit percentage	4,296/23,200=18.52	2,450/15,960=15.35%
Quick ratio	(5,668-2,784)/3,650=0.79:1	(3,460-1,860)/2,552=0.63:1
Trade Receivable – days	2,084/23,200*365=33 days	1,000/15,960*365=23 Days
Trade Payable – days	1,600/16,492*365=35 days	1,368/11452*365=44 days
Interest cover	5,480/752=7.29 times	3,706/772=4.80 times
Earnings per share	Rwf4,296m/40m=107.4	Rwf2,450m/40m=61.25
Price earnings ratio	Rwf2,500/107.4=23.28	Rwf800/61.25=13.06

Re: Commentary on Company's Position and Performance

Date: September 2011

Gross Profit Percentage

The Gross Profit percentage has increased from 28.25% to 28.91%, an increase of over 2.34% on the percentages year on year which is a positive trend for the company. This is also positive for the fact that the company revenue increased by over 45%. An increase of this magnitude presents a challenge for a company and this company has in the main responded positively to this challenge. The increase resulted from the fact that revenue increased faster than Cost of Sales (44%). However, this increase in Cost of Sales (Noye 1) is masked to a degree by the increase in Closing Inventory. If we look at Purchases, these have increased from Rwf11.312 million to Rwf17.416 million which is an increase of 53.96%. This increase is greater than the increase in Revenue and from the Company's point of view, we must hope that this increase is due to ordering Inventory close to year-end to meet further demand for its products rather than poor ordering or purchasing at a poor price. If it is the latter, then this could easily affect the 2011 results unless price increases can be passed on.

Note 1

Rwf m	2010	2009	% Increase
Opening Inventory	1,860	2,000	-7.00%
Purchases (Balancing Figure)	17,416	11,312	53.96%
Closing Inventory	2,784	1,860	49.68%
Cost of Sales	16,492	11,452	

Net Profit Percentage

The Net Profit % has increased from 15.35% to 18.52% which is an increase of nearly 21% year on year on the percentages. This is an extremely good performance. The main reason for the increase is due to the increase in Revenue which has meant that the Gross Profit has increased from Rwf4.508 million to Rwf6.708 million an increase of Rwf2.2 million. This increase has been enhanced by the decrease in taxation and interest for the year. However, the increase has been offset to a degree by the increase in Admin Expenses of

Rwf368m which is an increase of just over 73%. This increase is high so the company will need to watch this cost going forward.

Quick Ratio

This ratio has increased from 0.63:1 to 0.79:1 this year which is an improvement of over 25% year on year percentage wise. The main reason for the increase is the fact that Current Assets minus Inventory increased by over 80% driven by mainly by the increase in Trade Receivables over 108% year on year. Current Liabilities increased by only just over 43% driven mainly by the huge increase in the Bank Overdraft. This was a good result overall as the company have increased their revenue significantly which can put some strain on working capital. Yet the quick ratio has increased this year and the company have also purchased some extra Non-Current Assets and paid off a significant amount of Non-Current Debt (decreased by over 28%). Some of this decrease in debt may have been funded through the Bank Overdraft so R.A.H. Limited should ensure that their source of funding is appropriate from a time point of view. R.A.H. Limited should reduce some of their cash and cash equivalents in Current Assets in order to reduce the Bank Overdraft and ultimately save on bank interest costs.

Trade Receivable Days

This has increased from 23 to 33 days, an increase of over 43% year on year which is not a great result. Revenue has increased by over 45% but R.A.H. Limited should have tried to ensure that there was no deterioration in Trade Receivables Days. The company need to try and ensure that the increase in Revenue is not being fuelled by having customers who are demanding longer credit before they would purchase goods from R.A.H.. Another possible reason could be that the credit department were not efficient in collecting debts. However, given the increase in Administrative Expenses, one would expect that this is a department which was adequately staffed to cope with the increased workload in collecting debts from having more revenue and therefore, there has to be more focus on managing their Trade Receivables in the coming year.

Trade Payable Days

This decreased from 44 days to 35 days which is a deterioration of over 20%. This is not a good result given the fact that the company should be aiming for closer to 45-60 days. The increase in purchases probably ensured that some of the supplier company's set limits on the amount of Inventory they would sell before getting paid and therefore, this meant that the trade payable days decreased. If we compare to 2009, the difference between when money was received in from Trade Receivables and paid out to Trade Payables has decreased from 21 days to 2 days which has obviously put pressure on the cash flow of the company and probably has contributed to the increase in the Bank Overdraft.

Earnings per Share

This has increased from Rwf 61.25 per share to Rwf107.4 per share, which is an increase of 75.3%. This is a positive trend and is driven by the increase in profit which the company has gained in 2010. Given that the dividend has stayed the same, the company appears to be keeping as much of the profit within the company to fuel current and future growth.

Price Earnings Ratio

This ratio has increased from 13.06 to 23.28, an increase of over 78% year on year. This increase is primarily due to the increase in the share price which has increased by nearly 212.5% year on year. As we saw in previous section, the earnings per share increased by a sizeable percentage this year but the share price really changed during the course of the year.

A P/E ratio of over 23 is on the upper scale when compared to the average P/E ratio for companies and obviously investors are seeing this company as a ‘buy’ which primarily must be due to the sales and profit growth from 2009 to 2010.

Conclusion

Overall, the results and trends for R.A.H. Limited are positive when comparing 2010 to 2009 particularly in relation to the increase in sales and profit. The share price has increased markedly in the year as investors took note of the increased performance of the company. This significant increase in sales has obviously put increased pressure on the working capital of the company and this is an area where management must focus so as to ensure that the company continues to grow in a planned and managed way and that the company has the necessary finance in place to ensure this growth occurs.

I hope that the above responses are of benefit to your company and the management of same. If you have any further queries, please do not hesitate to contact me.

Yours sincerely,

Financial Accountant

(10 Marks)

Format and Presentation (2 Marks)

[Total: 20 Marks]

SOLUTION 6

a)
Advantages of International Harmonisation

(5 Marks)

i) Investors have greater comparability of financial statements which enables easier investment decisions.
This is important in the context of global investing which has become more significant in the last 10 years or so;

ii) Governments will have reduced funding requirements as they will not have to develop accounting standards for their own country;

iii) Accounting firms with international practices will find it easier to deal with staff resourcing in countries experiencing boom or recessionary times due to common accounting standards allowing staff transferability between countries with no major impact on services delivered;

iv) Companies

- Management control of foreign subsidiaries will be easier;
- Consolidation of financial statements will be easier as the as the different subsidiaries operate under the same standards;
- Easier to comply with stock exchange reporting requirements;
- Investment more likely as investors will have greater knowledge and reliance on the financial statements.

<u>Obstacles to International Harmonisation</u> **(5 Marks)**

i) Different purposes of financial statements i.e. IFRS's aimed at investment decision making whereas many countries use financial statements for tax purposes;
ii) Nationalism – possible unwillingness to accept another country's standards;
iii) Different legal systems whereby some countries require certain accounting practices and policies and other countries do not;
iv) Different users of financial statements. Countries vary in the importance they place on users groups
v) Lack of strong accountancy bodies. Many accountancy bodies in various countries are not independent or strong enough to press for harmonisation of accounting standards in their jurisdiction;
vi) Language and cultural differences. Both of these can cause difficulties in the adoption of standards accounting standards.

[Total: 10 Marks]

b) GTM Limited statement of Comprehensive Income for the year-ended 31st December 2010

		Rwf '000	Rwf '000	Rwf '000	
Revenue			950,000		*0.25*
- Revenue Returns			-19,000	931,000	*0.25*
Less Cost of Sales					
Opening Inventory			50,000		
+ Purchases		450,000			*Cost of Sales*
- Office Equipment	W2	-10,000			
- Purchases Returns		-10,000	430,000		*1.50*
+ Carriage Inwards			20,000		
- Closing Inventory	W1.1		-49,500		
Cost of Sales Total				450,500	
Gross Profit				480,500	*0.25*
Bad Debt Recovered	W1.viii			-2,000	
Insurance				23,000	
Light & Heat	W1.viii	1,000	750	1,750	
Marketing				24,000	
Motor Expenses	W1.viii			5,100	
Rates				14,000	
Rent				12,000	*Expenses*
Repairs & Maintenance				7,900	*2.50*
Wages & Salaries				73,500	
Loss on Sale of Office Equipment	W2			8,000	
Increase in Provision for Bad Debts	W1.ix			800	
Depreciation - Buildings	W2			16,000	
Depreciation - Office Equipment	W2			14,000	
Depreciation - Fixtures & Fittings	W2			12,000	
Debenture Interest	W1.xii	1,500	6,500	8,000	
Profit/(Loss) before Tax				262,450	
Income Tax Expense	W1.iv			-25,000	
PROFIT/(LOSS) FORTHEYEAR				237,450	*0.25*
Other Comprehensive Income					
Gains on property revaluation				0	
Total comprehensive Income				237,450	

Gortamwe Limited Statement of Financial Position as at 31st December 2010

Non-Current Assets		Rwf '000	Rwf '000	Rwf '000	
Property, Plant & Equipment	W2			1,171,000	0.25
Intangible Assets				80,000	0.25
Total Non-Current Assets				1,251,000	
Current Assets					
Inventories	W1.i			49,500	0.25
Trade Receivables	W1.ix			75,200	0.25
Cash & Cash Equivalents				0	0.25
Total Current Assets				124,700	
TOTAL ASSETS				1,375,700	0.25
Equity & Liabilities					
Equity					
Share Capital	W1.xi	100,000	5,000	105,000	0.25
Share Premium	W1.xi	5,000	10,000	15,000	0.25
Other Reserves				43,000	0.25
Retained Earnings		150,000	237,450	387,450	0.75
Revaluation Surplus				20,000	0.25
Total Equity				570,450	
Non-Current Liabilities					
Debentures - 4%				200,000	0.25
Bank Loan				455,000	0.25
Total Non-Current Liabilities				655,000	
Current Liabilities					
Trade Payables				48,500	0.25
Corporation Tax	W4			17,000	0.25
Accruals	W5			8,750	0.25
Bank Overdraft	W3			76,000	0.25
Total Current Liabilities				150,250	
TOTAL EQUITY & LIABILITIES				1,375,700	0.25

Total Marks 10

Note: All currency values are Rwf '000

Working - Journal Entries

Working - Closing Inventory

Total Inventories at Cost per inventory Count		55,000
Damaged inventories at cost	15,000	
NRV Selling price less costs to sell (12m-2.5m)	-9,500	
		5,500
Inventory write-down		49,500

1.i	Dr. Inventory	+ Current Assets	SOFP	49,500		*3.00*
	Cr. Closing Inventory	- cost of sales	IS		49,500	
1.iv	Dr. Corporation Tax	+ Expenses	IS	25,000		*1.00*
	Cr. Corporation trax due	= Current liabilities	SOFP		25,000	
1.v	Dr. Corporation tax due	- current liabilities	SOFP	13,000		*1.00*
	Cr. Bank Overdraft	+ Current liabilities	SOFP		13,000	

1.vi Motor Expense Account

Bank Payment	5,600	Balance B/d	2,000	
Balance C/d	1,500	Expense I/S Balancing figure	5,100	
	7,100		7,100	*2.00*

1.vii	Dr. Motor Expenses	+expenses	IS	1,500		*1.00*
	Cr. Light & heat	+ expenses	IS	750		
	Cr. Accruals	+ Current liabilities	SOFP		2,250	
1.viii	Dr. Bank	- current liabilities	SOFP	2,000		*1.00*
	Cr. Bad debt recovered	= Income	IS		2,000	
1.ix	Dr. Bad debt provision	+ Expenses	IS	800		*2.00*
	Cr. Trade receivables	- Current assets	SOFP		800	

Trade receivables	Balance per TTB			80,000
- Bad debt provision = 6%		W1.4		-4,800
Revised Trade Receivable				75,200

Current bad debt provision	TB		4,000
New Bad debt provision		see above	4,800
Increase in Bad debt provision			800

1.xi	Dr. Suspense			15,000		
	Cr. Share capital	+ share capital	SOFP		5,000	*1.00*
	Cr. Share premium	+ share premium	SOFP		10,000	
1.xii	Dr. Debenture interest	+ expenses	IS	6,500		*1.00*
	Cr. Debenture interest due	= Current liabilities	SOFP		6,500	

Debentures	200,000
Interest for year @ 4%	8,000
Debenture interest paid and included in TB	1,500
Balance due	6,500

Working 2

		Land	Buildings	Office Equipment	Fixtures & Fittings	Total	
Property Plant & Equipment		Rwf '000	Rwf '000	Rwf '000	Rwf '000	Rwf '000	
Cost		450,000	800,000	150,000	75,000	1,475,000	
Accumulated Depreciation b/d			-200,000	-45,000	-15,000	-260,000	
Net book value b/d at 1st Jan 2010		450,000	600,000	105,000	60,000	1,215,000	*0.5*
Disposal							
- cost	Note 1			-20,000		-20,000	*0.5*
- Accumulated depreciation at 1.10.10	Note 1			8,000		8,000	*0.5*
Additions				10,000		10,000	*1*
Carrying value		450,000	600,000	103,000	60,000	1,213,000	
Depreciation							
- Buildings - 2% of cost			-16,000			-16,000	*0.5*
- Office equipment - 10% of cost	Note 2			-14,000		-14,000	*0.5*
- Fixtures & fittings - 20% reducing balance					-12,000	-12,000	*0.5*
Net book value b/d at 31st Dec 2010		450,000	584,000	89,000	48,000	1,171,000	*1.0*

Note 1

Cost		20,000
Accumulated dep'n - 10% on cost		
Dep'n 01.01.06 - 31.12.06	2,000	
Dep'n 01.01.07 - 31.12.07	2,000	
Dep'n 01.01.07 - 31.12.08	2,000	
Dep'n 01.01.07 - 31.12.09	2,000	
	8,000	-8,000
NBV of office equipment disposed		12,000

Disposal Account

Cost	20000	Accumulated Dep'n	8000	
		Disposal proceeds	4000	
		Loss on disposal	8000	*1.0*
	20000		20000	

Note 2 Depreciation Office Equipment		Amount	Dep'n rate	Depreciation
Cost (150,000 - Disposal 20,000)		130,000	10%	13,000
Addition		10,000	10%	1,000
Depreciation for year				14,000

W3 Bank overdraft		
Per TB		65,000
Corporation Tax Payment	W1.v	13,000
Bad debt recovered	W1.vii	-2,000
Closing Balance		76,000

W4 - Corporation Tax Liability		
Balance TB		5,000
Corporation Tax Bill 2010	W1.iv	25,000
Corporation Tax Payment	W1.v	-13,000
Closing Balance		17,000

W5 - Accruals		
Motor Expenses	W1.vii	1,500
Light & heat	W1.vii	750
Debenture interest	W1.xii	6,500
		8,750

(7 Marks)

			Adjustments		Income Statement		SOFP	
	Debit Rwf ‘000	Credit Rwf ‘000	Debit Rwf ‘000	Credit Rwf ‘000	Debit Rwf ‘000	Credit Rwf ‘000	Debit Rwf ‘000	Credit Rwf ‘000
Accruals		2,000	2,000	8,750				8,750
Bank		65,000	2,000	13,000				76,000
Bank Loan – Long-Term		455,000						455,000
Buildings	800,000						800,000	
Buildings Accumulated Depreciation at 31.12.2009		200,000			16,000			216,000
Carriage Inwards	20,000				20,000			
Corporation Tax		5,000	13,000		25,000			17,000
Debentures 4%		200,000						200,000
Debenture Interest	1,500		6,500		8,000			
Fixtures & Fittings	75,000						75,000	
Fixtures & Fittings Accumulated Depreciation at 31.12.2009		15,000			12,000			27,000
Insurance	23,000				23,000			
Intangible Assets	80,000						80,000	
Land	450,000						450,000	
Light & Heat	1,000		750		1,750			
Marketing	24,000				24,000			
Motor Expenses	5,600		1,500	2,000	5,100			
Office Equipment	150,000		10,000	20,000			140,000	
Office Equipment Accumulated Depreciation at 31.12.2009		45,000	8,000		14,000			51,000
Opening Inventory	50,000				50,000	49,500	49,500	
Other Reserves		43,000						43,000
Proceeds from Sales of Office Equipment		4,000	20,000	8,000	8,000			

Provision for Bad Debts		4,000			800			4,800
Purchases	450,000			10,000	440,000			
Rates	14,000				14,000			
Rent	12,000				12,000			
Repairs & Maintenance	7,900				7,900			
Retained Earnings		150,000			237,450			387,450
Revaluation Surplus		20,000						20,000
Revenue		950,000				950,000		
Revenue Return/Purchases Returns	19,000	10,000			19,000	10,000		
Share Capital – 100,000 shares at € 1 each		100,000		5,000				105,000
Share Premium		5,000		10,000				15,000
Suspense		15,000	15,000					
Trade Receivable/Trade Payable	80,000	48,500					80,000	48,500
Wages & Salaries	73,500				73,500			
Bad Debts Recovered				2,000		2,000		
	2,336,500	2,336,500	78,750	78,750	1,011,500	1,011,500	1,674,500	1,674,500

SOLUTION 7

REPORT

To: Managing Director

From: Financial Accountant

Re: IAS 38

Date: April 2011

(a)

1) The measurement of a separately acquired intangible assets shall at Cost i.e. at Rwf80 million as per paragraph 25 of IAS 38.

(2 Marks)

2) Internally generated goodwill of Rwf50 million shall not be recognised as an asset as per paragraph 48 of IAS 38 and shall be expensed instead to the Income Statement.

(2 Marks)

3) Per paragraph 44 of IAS 38, Zacnet Limited has a choice of two methods in dealing with the accounting treatment of the broadband licence i.e.

a) Recognise the intangible asset at the fair value of Rwf350 m and the government "grant" is shown as Rwf250m in deferred income or;

b) Recognise the asset initially at the nominal amount (Rwf1 m) plus any expenditure that is directly

(4) attributable to preparing the asset for its intended use (Rwf99 m).

(2 Marks)

(5) The Rwf72 m spent on researching the enhanced broadband signal product shall be expensed to the Income Statement as per paragraph 54 of IAS 38

(2 Marks)

b) As per paragraph 57 of IAS 38, an intangible asset arising from the development phase of an internal project shall be recognised if, and only if, Zacnet can demonstrate ALL of the following:

1. The technical feasibility of completing the intangible asset so that it will be available for use or sale
2. Its intention to complete the intangible asset and use or sell it
3. Its ability to use or sell the intangible asset
4. How the intangible asset will generate probable future economic benefits
5. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
6. Its ability to measure reliably the expenditure attributable to the intangible asset during its development

If one or more of the above conditions are not satisfied, then any amount spent should be expensed to the Income Statement
(7 Marks)

(c)

(i) Per paragraph 64 of IAS 38, expenditure on company logo cannot be distinguished from the cost of developing the business as a whole and therefore, is not recognised as an intangible asset. Therefore, the Rwf35m should not be included in intangible assets and should not be amortised and instead should be expensed in full to the Income Statement.

(2 Marks)

(ii) The Actual Profit for the year is as follows:

	Rwf m
Proposed Net Profit	1,452
Company Logo Expenditure	(35)
Actual Net Profit	1,417

(3 Marks)

Yours sincerely,

Financial Accountant.

[Total: 20 Marks]

SOLUTION 8

(a) The cost of an item of Property, Plant & Equipment (PPE) comprises:

(i) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(ii) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;

(iii) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

(4 Marks)

(b) Any three (3) of the following

(i) Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life;

(ii) Carrying Value is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses;

(iii) Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction;

iv) An Impairment Loss is the amount by which the carrying amount of an asset exceeds its recoverable amount;

(v) The Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(4 Marks)

(c) An organisation can choose either the cost model or the revaluation model for measurement of PPE after initial recognition and this model is then applied to an entire class of PPE

The cost model means that an item of PPE shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(1 Mark)

The revaluation model means that an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the end of the reporting period.

(1 Mark)

(d) 2009 Financial Year	Rwf m	Rwf m	
Dr. PPE – SOFP	100		
Cr. Revaluation Surplus – Other Comprehensive Income [400-300]		100	**(2 marks)**

2010 Financial Year

	Rwf	Rwf	
Dr. Revaluation Surplus – Other Comprehensive Income [250-400]	100		
Dr. Profit or Loss – Statement of Comprehensive Income	50		
Cr. PPE – SOFP		150	
			(3 marks)

e) The asset before revaluation was being depreciated at the rate of 5% per annum which therefore indicates that the useful life of the building is 20 years i.e. 100%/5% = 20. The asset was purchased on the 1st January 2005 so there is 5 years of the useful life completed up to the 1st January 2010. Therefore, the remaining useful life is 15 years. The formula to use to calculate the depreciation for the year-ended 31st December 2010 is as follows:

Revalued Amount – Residual Value / Remaining Useful Life

(Rwf800 m – Rwf200 m)/15 = Rwf600 m/15 = Rwf40 m = Annual Depreciation going Forward

(5 Marks)

[Total: 20 Marks]

SOLUTION 9

a) Mr Michael Nolan – Opening Statement of Financial Position as at 1st January 2010

		Rwf '000	Rwf '000	Rwf '000	
Non-Current Assets					
PPE	(100m - 40m + 816m - 4m)	72,000			
Total Non-Current Assets			72,000		0.50
Current Assets					
Inventory		40,000			0.50
Trade Receivables		4,800			0.25
Cash & Cash Equivalents		12,400			0.50
Prepayment		800			0.25
Total Current Assets			58,000		0.50
Total Assets	A			130,000	0.50
Equity & Liabilities					
Capital & Reserves					
Capital - Balancing Figure		105,600			1.00
Total Capital & Reserves	C		105,600		
Non-Current Liabilities					
Bank Loan		12,000			0.50
Total Non-Current Liabilities	Li		12,000		
Current Liabilities					
Trade Payable		11,200			0.25
Accrued Wages		1,200			0.25
Total Current Liabilities	Lii		12,400		
Total Equity & Liabilities				130,000	

A = C + Li+Lii

130,000,000 = C + 24,400,000

130,000,000 - 24,400,000= C

C = 105,600,000

(5 Marks)

Bank Receipts from Credit Sales Calculation

T. Receivables

	Rwf '000		Rwf '000	
Balance B/D	4,800	Bank Receipt	31,600	
Credit Sales - Balancing Figure	30,800	Balance C/D	4,000	1.00
	35,600		35,600	
Balance B/D	4,000			

Bank Receipts from Cash Sales Calculation

Cash Account

	Rwf '000		Rwf '000	
Balance B/D	1,200	Drawings	2,400	
Cash Sales - Balancing Figure	2,800	Balance C/D	1,600	1.00
	4,000		4,000	
Balance B/D	1,600			

Sales	Rwf '000	Rwf '000	
Credit Sales	30,800		
Cash Sales	2,800		
Total Sales	33,600		1.00
Cost of Sales Calculation			
Gross Profit is 25% of Sales			
<u>Therefore,</u>			
Sales	100%	33,600	
- Cost of Sales	75%		
Gross Profit	25%		
Cost of Sales are 75% of Sales i.e. 75% x Rwf33,600,000		25,200	1.00
Goods Stolen Calculation			
Sales occur evenly throughout the year			
Total Sales		33,600	
Sales for 7 Months i.e. Rwf33,600,000 x 7 / 12		19,600	1.00
Cost of Sales is 75% of Sales i.e. €19,600,000 * 75%		14,700	1.00
Opening Inventory		40,000	
+ Purchases - See Trade Payable T-Account Below		8,000	
- Closing Inventory		-36,000	
= Cost of Sales		12,000	1.00
Therefore,		0	
Theoretical Cost of Sales		14,700	1.00
Actual Cost of Sales after burglary		12,000	
Cost of Goods Stolen		2,700	1.00

Purchases Calculation in relation to Goods Stolen

T. Payables Account

	Rwf '000		Rwf '000	
Bank Payments	8,800	Balance B/D	11,200	
		Purchases - Balancing Figure	8,000	*1*
Balance C/D	10,400			
	19,200		19,200	
		Balance B/D	10,400	

Double Entries for Stolen and Damaged Inventory

	Rwf '000		Rwf '000	
Goods Stolen				
Expenses	2,700			
Cost of Sales		2,700		*1*
Being costs of stolen inventory				
Insurance	1,200			
Cost of Sales		1,200		*1*
Being cost of damaged inventory scrapped				

Calculation of Closing Inventory

Cost of Sales is 75% of Sales i.e. €168,000 x 75%	25,200	
Opening Inventory	40,000	
+ Purchases	25,700	
- Inventory Stolen in Burglary	-2,700	
- Inventory Damaged and Scrapped	-1,200	
- Closing Inventory(Balancing Figure)	x	*2*
= Cost of Sales	25,200	

Closing Invenotry + €309,000 = €126,000

Closing Inventory = €126,000 - €309,000

Closing Inventory = €183,000

Double Check

Opening Inventory	40,000
+ Purchases	25,700
- Inventory Stolen in Burglary	-2,700
- Inventory Damaged and Scrapped	-1,200
- Closing Inventory	-36,600
= Cost of Sales	25,200

Mr. Michael Nolan Statement of Comprehensive Income for the year-ended 31st December 2010

	Rwf '000	Rwf '000	Rwf '000	
Revenue			33,600	
Cost of Sales				
Opening Inventory	40,000			
+ Purchases	25,700	65,700		
- Inventory Stolen in Burglary	-2,700			
- Inventory Damaged and Scrapped	-1,200	-3,900		
		61,800		
- Closing Inventory		-36,600		
Cost of Sales Total			25,200	
Gross Profit			8,400	*1*

(15 Marks)

[Total: 20 Marks]

SOLUTION 10

BLM Limited Statement of Cash flows for the year ended 31st December 2010

Cash flows from Operating Activities		Rwf m	Rwf m	
Profit before Taxation		2,377		1.00
Adjustments for				
Depreciation		2,150		1.00
Loss on Sale of PPE		250		1.00
Interest Expense		450		0.50
Investment Income		-357		0.50
		4,870		
Increase in Trade Receivables		-2,020		1.00
Decrease in Inventory		300		1.00
Decrease in Trade Payables		-710		1.00
Cash Generated from Operations		2,440		
Interest Paid		-450		1.00
Income Taxes Paid		-147		1.00
Net Cash from Operating Activities			1,843	1.00
Cash flows from Investing Activities				
Purchase of Property, Plant & Equipment		-12,900		2.00
Sale of Property, Plant & Equipment		1,800		1.00
Development Expenditure		-4,160		1.00
Investment Income Received		157		1.00
Net Cash used in Investing Activities			15,103	0.50
Cash flows from Financing Activities				
Proceeds from Issue of Shares		13,600		1.00
Proceeds from Increase of Bank Loans		6,400		1.00
Dividends Paid		-50		1.00
			19,950	0.50
Net Increase in Cash & Cash Equivalents			6,690	
Cash & Cash Equivalents at beginning of Year	Note 1		-4,560	
Cash & Cash Equivalents at end of Year	Note 1		2,130	1.00

Note 1	2010	2009
	Rwf'000	Rwf'000
Cash on hand and balances with bank	2,130	-
Bank Overdraft	-	-4,560
Cash and Cash Equivalents	2,130	-4,560

[Total: 20 Marks]