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CERTIFIED ACCOUNTING TECHNICIAN STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY 24, APRIL 2023

INSTRUCTIONS:

1. Time allowed: **3 hours.**
2. This examination has **three** sections: **A, B and C.**
3. Section A has **10** multiple choice questions equal to **2** marks each.
4. Section B has **2** questions equal to **10** marks each.
5. Section C has **3** questions equal to **20** marks each.
6. All questions are compulsory.
7. Show all your workings where applicable.
8. The question paper should not be taken out of the Examination room.

SECTION A

QUESTION ONE

Which of the following is an asset by the definition in the conceptual framework?

- A Amount due to related party
- B Accrued expenses
- C Bank overdraft
- D Prepaid expense

(2 Marks)

QUESTION TWO

Company A acquired 960,000 ordinary shares of the 1,200,000 ordinary share capital in Company B for FRW 1,700,000. At the date of acquisition, the retained earnings of Company B were FRW 600,000 and the fair value of non-controlling interest was FRW 375,000. At that date, the fair value of assets in Company B was FRW 200,000 higher than the carrying amount. The share price at the date of acquisition was FRW1.

What was the goodwill at acquisition?

- A FRW 75,000
- B FRW 275,000
- C FRW (300,000)
- D FRW (675,000)

(2 Marks)

QUESTION THREE

Company G is a group company that owns shares in other companies as follows:

- R – Company G has 60% of the voting rights in Company R giving control.
- S – Company G has 20% of the voting rights in S Co, Company G also has the right to appoint or remove all the directors of S Co and it controls all relevant activities of S Co.
- T - Company G has 10% of the voting rights in T Co, plus 90% of the preference shares.

Which of these companies are subsidiaries of Company G?

- A R Co, S Co and T Co
- B R Co and T Co only
- C S Co and T Co only
- D R Co and S Co only

(2 Marks)

QUESTION FOUR

Which of the following transactions would result in an increase in capital employed?

- A Selling inventory at a profit.
- B Writing off a bad debt.
- C Paying a payable in cash.
- D Increasing the bank overdraft to purchase a non-current asset.

(2 Marks)

QUESTION FIVE

When a new accounting system is installed at an organization, or a new member of staff joins the team, it is essential that there will be training to allow the staff to understand their role and the software they will be using in order to carry-out their duties promptly.

Which of the following is not a type of training to help the new staff?

- A Classroom based
- B Online learning materials
- C Public discussions
- D Written manuals

(2 Marks)

QUESTION SIX

Stakeholders of a company can either be internal or external. Which of the following is not an internal stakeholder of an entity?

- A Tax Authorities
- B Managers
- C Employees
- D Shareholders

(2 Marks)

QUESTION SEVEN

For an accounting system to be effective it needs to meet certain objectives. Which of the following is not an objective of an accounting system?

- A Cost effectiveness
- B Reliability
- C Relevance
- D Timeliness

(2 Marks)

QUESTION EIGHT

Company Z purchased a non-current asset which had a useful life of 12 years with no residual value. Three years later the remaining useful life was revised to 9 years and the residual value revised to FRW 30,000. If the asset costed FRW 720,000, **what will be the depreciation charge in the fourth year using straight-line?**

- A FRW 76,667
- B FRW 90,000
- C FRW 85,000
- D FRW 80,000

(2 Marks)

QUESTION NINE

Which of the following is not a disclosure requirement under IAS 16 property plant and equipment?

- A Measurement base for determining the gross carrying amount.
- B Gross carrying amount and accumulated depreciation both at the beginning and end of the period.
- C The recoverable amount which is the higher of asset's fair value and its value in use.
- D Depreciation method used, depreciation rates, and useful lives of assets.

(2 Marks)

QUESTION 10

Which of the following is not part of the main purpose of management information?

- A Planning.
- B Performance measurement.
- C Control.
- D Investigation.

(2 Marks)

SECTION B

QUESTION 11

Fraud is a criminal act which intentionally deprives gains to an entity or causes losses. Organizations need to have good internal controls to prevent fraud from taking place but also be able to detect whether frauds or errors have occurred.

Required:

a) With respect to the accounting system, explain the two (2) main types of fraud.

(3 Marks)

b) Provide explanation for the three (3) impacts of fraud on an organization.

(3 Marks)

c) Explain the four (4) key controls that detect whether fraud or errors have occurred.

(4 Marks)

(Total: 10 Marks)

QUESTION 12

Company Y, a brewery company, has been facing difficulties in revenue generation for about 2 years. The newly appointed director has been hired to specifically find a strategy that will remove the company from this situation. In order to do that, the director must know the entity and its environment before establishing a new strategy. He has requested you to prepare a report explaining key external stakeholders, and another colleague on the same level as you will prepare a report on the key internal stakeholders.

Required:

Provide a report showing the key external stakeholders for company Y and their respective needs (a brewery company).

(10 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

Below is the statement of financial position of Company P and Company S as of 31st December 2021.

Statements of financial position as at 31st December 2021.

	Company P	Company S
Assets	FRW	FRW
Non-current assets		
Land and Property	2,200,000	1,000,000
Equipment	500,000	100,000
Investment in S	2,200,000	0
Investment Property	308,000	300,000
	<u>5,208,000</u>	<u>1,400,000</u>
Current assets		
Inventories	222,000	1,000,000
Prepaid expenses	260,000	1,600,000
Cash	840,000	100,000
Total Current Assets	<u>1,322,000</u>	<u>2,700,000</u>
Total Assets	<u>6,530,000</u>	<u>4,100,000</u>
Equity and liabilities Equity		
Share capital (FRW 1 ordinary shares)	3,000,000	1,250,000
Retained earnings	1,500,000	2,300,000
Total Equity	<u>4,500,000</u>	<u>3,550,000</u>
Non-current liabilities		
Long-term Loan	800,000	200,000
Current liability		
Short-term loan	470,000	250,000
Accrued Expenses	760,000	100,000
Total Liabilities	<u>1,230,000</u>	<u>350,000</u>
Total Equity and Liabilities	<u>6,530,000</u>	<u>4,100,000</u>

Additional information:

- 3 years ago, Company P invested in Company S FRW 2,200,000 and purchased 1,000,000 ordinary shares on 1 January 2019. The retained earnings at acquisition were FRW 800,000.
- On that date (1st January 2019), the market value of one share in Company S was FRW 1.65, and Company P's policy is to measure non-controlling interest (NCI) at fair value. This gives an NCI at acquisition of FRW 412,500.
- During the year ending 31st December 2021, Company P sold production materials costing FRW 1,000,000 to Company S of which 20% of these materials are still in stock. Company P has a costing method of adding a mark of 25% on each material sold.

4. Company P reviews impairment of goodwill each year. The assessment of this year revealed an impairment loss of FRW 30,000 in Company S. There was no other impairment loss before this year.

Required:

Prepare a consolidated statement of financial position for the year ending 31st December 2021.

(20 Marks)

(Total: 20 Marks)

QUESTION 14

- a) Speed-Box is a new tech start up that specialize in providing internet services in urban neighbourhood of Kigali. It offers the following services and products with their respective stand-alone prices:

Particulars	FRW
Router	28,000
Internet Bundle	25,500
Installation service	12,000

All those products and services are given at once, and Speed-Box recognizes a revenue of FRW 65,500. As a marketing strategy to attract more customers, it has been wished-for by finance manager to offer some services for free and reduce the price from FRW 65,500 to FRW 40,000. However, he is unsure of the guidance provided by IFRS 15, regarding the five-step model, which step is applicable and how to properly account the new proposed revenue recognition.

Required:

- i. **Name which steps in Five-step model of IFRS 15 is relevant to the above scenario?**

(2 Marks)

- ii. **Indicate the price that will be apportioned to each service/product provided by Speed-Box, if the transaction price is FRW 40,000.**

(3 Marks)

b) On 3rd January 2022, Rubirizi Enterprise had different items in inventory that were being counted by warehouse clerks when an accident occurred, and half of the goods caught fire and were damaged beyond repair. The insurance company promised to compensate the company with FRW 10,000,000 of which FRW 3,200,000 were received on that date and they were for unrelated claim that was submitted in the previous year. The total inventory value as at 31/12/2021 was FRW 8,400,200.

During the year ended 31/12/2021, the company was undergoing restructuring and evaluated that it needed additional machinery to increase production. New machines were bought on 5th January 2022, the machines had value of RWF 6,000,000. At the same day some plants that were held at the year-end valued at FRW 12,000,000 were deemed unusable and had to be replaced. The total value of PPE in Balance sheet was FRW 156,000,000 as at 31/12/2021.

Rubirizi Enterprise issues its financial statement on 15th January 2022.

Required:

Indicate on the above scenario, which events should be adjusted or not adjusted in accordance with IAS 10 (Events After Reporting Period) and for adjusting event, show the appropriate amount to be recognized for the year ended 31/12/2021. (5 Marks)

c) The Finance manager of ABD Co was having concerns on how to address the following issues:

- Clean-up costs of FRW 2,000,000 which are not associated with any legal obligations.
- Expecting to settle FRW 1,000,000 for a claim raised by one customer. The amount was advised by the company's lawyer.
- Expecting to settle FRW 1,500,000 for damages caused by recent robbery at the warehouse, but the amount cannot be estimated reliably.
- Certain that the insurance company will pay in two weeks, FRW 3,000,000 from claims submitted by ABD Co last month.

Given that, the accounting equation was as follows: ASSET (20,000,000) = Capital (5,000,000) + Liabilities (15,000,000)

Required:

i **Using the knowledge from IAS 37 "Provision, Contingent Liability and Contingent Asset," address each issue above and classify them in their respective category. (3 Marks)**

ii **Provide the new accounting equation after considering the above issue. (2 Marks)**

d) On 1st August 2021, Mr Kayigire, an accountant at a local store have recorded the three new products in inventory with their cost per unit: Seal-blue (FRW 130), Avidad (FRW 125), and Mushbam (FRW 140). At the year end, 31st October 2021, in stock there were 1000 units, 1200 units and 1300 units left for the three products respectively. It was later discovered that an economic distress in the year has rendered the products to be unpopular and the local store has found that it would sell any of the product at a price of FRW 127 per unit after considering selling expenses involved of FRW 10 per unit.

Required:

i) In accordance with IAS 2 inventory, what amount should Mr Kayigire account for as adjustment to Inventory of the year ended 31/10/2021. (2 Marks)

ii) What will be the new Gross profit margin after adjustment, if Sales were FRW 2,000,000 and the gross profit was FRW 760,000 before Mr Kayigire make any change on inventory. (3 Marks)

(Total: 20 Marks)

QUESTION 15

PLM Ltd is undertaking the final adjustments of its draft statement of financial position as of 31st December 2021.

Trial Balances	FRW	FRW
Land	31,896,000	
Building	150,000,000	
Accumulated depreciation		48,792,000
Office Equipment	33,185,185	
Inventories	11,000,000	
Trade Receivable	16,800,000	
Share capital (FRW 0.75 ordinary shares)		46,000,000
Share premium		22,000,000
Retained earnings at the start of the year		50,735,185
Long-term Loan		50,000,000
Short-term loan		15,000,000
Tax payable		8,854,000
Revenue		20,000,000
Cost of sales	15,000,000	
Expenses	1,600,000	
Finance cost	1,900,000	
	261,381,185	261,381,185

Additional Information:

1. The building was purchased few years ago and the residual value of the asset was FRW 70,000,000. The company depreciate the building at 35% straight line method.
2. Office Equipment was purchased two years ago on 1st January 2019, and ever since the depreciation have not been accounted for. The full cost has been recognized in the Balance sheet as FRW 33,185,185. The finance director proposed to recompute the depreciation for the past two years and the one for the current year and charge all of it to the statement of profit or loss. PLM Ltd opted to use 25% reducing balance method as a method of depreciation.
3. During the year the company issued 12,000,000 ordinary shares of FRW 0.75 each at FRW 1 in exchange of cash. The finance clerk has not accounted for the issue as of 31/12/2021.
4. PLM Ltd has issued a 6% bond of FRW 50,000,000 and although liability has been entered in books, their appropriate interest is due to be accounted for.
5. A customer that owed PLM Ltd an amount of FRW 550,000 have been declared bankrupt.
6. The net loss for the year ended 31st December 2021 was calculated as FRW 49,235,185.

Required:

Addressing the additional notes and prepare the statement of financial position as at 31st December 2021.

(20 Marks)

(Total: 20 Marks)

End of Question Paper

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