CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.1: FINANCIAL ACCOUNTING
DATE: MONDAY, 21 AUGUST 2023
MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

Question	Correct answer	Marks
QUESTION 1	B	2
QUESTION 2	B	2
QUESTION 3	D	2
QUESTION 4	D	2
QUESTION 5	C	2
QUESTION 6	C	2
QUESTION 7	C	2
QUESTION 8	B	2
QUESTION 9	A	2
QUESTION 10	B	2
Sub-total (Section A)		**20**

2 Marks each. Total Marks:20

Model answers

QUESTION ONE

The correct answer is B. It is not a role of financial reporting to provide projected financial information to stakeholders. The projected financial information includes budgets and management assumptions to provide insights to stakeholders about the sustainability of the business. projected financial information form part of management accounting instead of financial reporting/accounting.

A, C & D are not correct because they are among the purposes of financial reporting in a business.

QUESTION TWO

The correct answer is B because IAS 2 covers inventories.

A is not correct because IFRS 2 covers share based payments
C is not correct because IAS 16 covers property, plant and equipment
D is not correct since they are correct options given.

QUESTION THREE

The correct answer is D because prepaid insurance premium constitutes a claim for the company to the insurance company and economic outcomes will flow to the company in the future.
A is not correct because unpaid invoices constitute liabilities
B is not correct because unearned revenues constitute liabilities
C is not correct because unpaid leave days constitute liabilities

QUESTION FOUR

The correct answer is D because the provision of bad debts has reduced by FRW1,000,000 from FRW10,000,000 (100,000,000 *10%) to FRW9,000,000 (90,000,000 *10%). This resulted in reduction of provision for bad debts (liability a/c) and hence should be debited and the provision expense should be credited since our expense is reduced.

A &B is not correct because provision for bad debts amounting to FRW9,000,000 is as of year-end and should be compared with provision already booked for the year ended 31 December 2021 and the accountant should be concerned with the change in provision (increase/decrease). Secondly, it does not involve the receivables/debtors accounts instead a separate provisions accounts (one for expense and another for liability) should be created.

C is not correct because it is recorded as if there was an increase in provision yet a decrease happened.

QUESTION FIVE

The correct answer is C because the company's cash has increased by FRW300 million and hence debited. The shares were issued at premium of FRW100 million each and share capital of FRW200 million each and hence none of the stated options is correct.

The correct entries are Dr. Cash with FRW300 million and Cr. share capital with FRW 200 million and Cr. share premium with FRW 100 million.

A is not correct because the company has not issued it shares at par, instead at premium. Not all of the 300 million should be posted under share capital.
B is not correct because the company's share capital has increased and hence cannot be debited.
D is not correct because there is a right answer C.

QUESTION SIX

The correct answer is C because the disclosure required is reconciliation between cost, accumulated amortization and carrying amount. Reconciliation of projected and actual intangible assets is not a required disclosure as per IAS 38.

A, B & D are not correct answers because they are part of disclosures required on intangible assets.

QUESTION SEVEN

The correct answer is C because resolution by Board of Directors to discontinue a loss-making business segment does not add evidence of conditions existed at period end and hence non-adjusting events.

A, B&D are not correct answers because they are adjusting events. They add evidence of conditions existed at the reporting date and hence should be adjusted in the accounts.

QUESTION EIGHT

The correct answer is B because external audit is not principle of value for money. Instead, external audit is one of the exercises that should be used to assess the value for money within an entity.

A, C & D are correct answers because they are the principle of VFM.

QUESTION NINE

The correct answer is A because a junior accountant can handle bank & cash reconciliations and cash counts as well.

B is not correct answer because matters involving taxes need finance staff with a considerable experience and again the junior accountant is still new in the organisation.

C is not correct answer because preparation of memos requires a considerable experience.

D is not correct because not all of the stated are correct answers.

QUESTION 10

The correct answer is B because lack of management setting-tone culture is a failure of management which is a weakness of internal control system.

A, C & D are not correct answers because they are example of inherent limitations of internal control system.

SECTION B

QUESTION 11

Marking guide

Details	**Marks allocation**
11.a.i)	
Purchase cost	0.5
Add	
Freight cost	0.5
Insurance cost	0.5
Import and excise duties	0.5
Industrial Development Levy (IDL)	0.5
Plate number registration fees	0.5
VAT	0.5
Initial recognition cost	0.5
Sub-Total	**4**
11.a.ii)	
1-Jan-23 Double entry	1
Sub-Total	**1**
11.b.i) Award 0.5 Marks for each correct disclosure stated. At least 4 disclosures should be stated.	**2**
11.b.ii) Award 1 Mark for each correct journal passed. 3 journals are required.	**3**
Total Marks	**10**

Model answers

11.a.i)	**FRW'000**
Purchase cost	30,000
Add	
Freight cost	7,000
Insurance cost	5,000
Import and excise duties	10,000
Industrial Development Levy (IDL)	1,000
Plate number registration fees	250
VAT	2,500
Initial recognition cost	**55,750**

11.a.ii)

Date	Particulars	Dr.	Cr.
1-Jan-23	Motor vehicles a/c	55,750	
	Payables a/c		12,000
	Cash at bank a/c		43,750
	To record motor vehicle bought	55,750	55,750

11.b.i) Disclosure requirements as per IAS 40

Choice of measurement model (fair value or cost)
Criteria for classification as investment property
Assumptions in determining fair value
Use of independent valuer
Rental income and expense

b.ii)

	31.12.2022	PPE 40%	Investment property 60%
Cost as of 1 January 2016	100,000,000	40,000,000	60,000,000
Accumulated depr'n as of 31 December 2022 (100m/10*7)	(70,000,000)	(28,000,000)	(42,000,000)
NBV as of 31 December 2022	**30,000,000**	**12,000,000**	**18,000,000**
Depreciation to 31 March 2023 (100m/10*3/12)	(2,500,000)	(1,000,000)	(1,500,000)
NBV as of 31 March 2023	**27,500,000**	**11,000,000**	**16,500,000**
Fair value as of 31 March 2023			30,000,000
Gain on Fair value			**13,500,000**

Date	Particulars	Dr.	Cr.
		FRW'000	**FRW'000**
1-Apr-23	Investment property a/c	60,000,000	
	Factory building a/c		60,000,000
	To record 60% transfer to investment property		
1-Apr-23	Accumulated depreciation a/c	43,500,000	
	Investment property a/c		43,500,000
	To transfer accumulated depr'n on the 60% transferred to investment property		
		FRW'000	**FRW'000**
1-Apr-23	Investment property a/c	13,500,000	
	Gain on Fair value –P&L a/c		13,500,000
	To record revaluation gain on the investment property		

QUESTION 12

Marking guide

Details	Marks allocation
12.a)	
Purchase cost	1
Add	
Legal fees	1
Sub-Total	**2**
Accumulated amortization	2
Carrying amount of intangible	1
Sub-Total	**3**
Total Marks	**5**

12.b)	
Award 0.5 Marks for journal recording advance receipt on tables and chairs	0.5
Award 1 Mark correct journals posted and 0.5 correct date of recognizing revenues	
21-Jan-22	1.5
5-Feb-22	1.5
10-Mar-22	1.5
Total Marks	**5**

Model answers

12.a	**Intangible assets cost on 1 January 2020**	**FRW'000**
	Purchase cost	250,000
	Legal fees (capitalized)	50,000
	Intangible assets cost	**300,000**

Note: Internally generated intangible assets can't be recognized unless it is purchased. Its cost is not measurable reliably.

	FRW'000	
Cost	300,000	
Accumulated amortization (01 January 2020 to 31 December 2022) =300m/10*3		(90,000)
Carrying amount		**210,000**

12. b)

Date	Particulars	Dr.	Cr.
		FRW'000	**FRW'000**
10-Jan-22	Cash/bank a/c [(177,000*400 + 500*354,000) *30%]	74,340,000	
	Creditor_University of Musanze a/c		74,340,000
	To record 30% advance payment on chairs and tables order		
21-Jan-22	Creditor_University of Musanze a/c	74,340,000	
	Receivables (University of Musanze)	14,160,000	
	Revenue (100*177000*100/118)+(200*354000*100/118)		75,000,000
	VAT Payable (100*177000*18/118)+(200*354000*18/118)		13,500,000
	To record revenues on 100 chairs and 200 tables sold	**88,500,000**	**88,500,000**
5-Feb-22	Receivables (University of Musanze)	106,200,000	
	Revenue (200*177000*100/118)+(200*354000*100/118)		90,000,000
	VAT Payable (200*177000*18/118)+(200*354000*18/118)		16,200,000
	To record revenues 200 chairs and 200 tables sold	**106,200,000**	**106,200,000**
10-Mar-22	Receivables (University of Musanze)	53,100,000	
	Revenue (100*177000*100/118)+(100*354000*100/118)		45,000,000
	VAT Payable (100*177000*18/118)+(100*354000*18/118)		8,100,000
	To record revenues on 100 chairs and 100 tables sold	**53,100,000**	**53,100,000**

SECTION C

QUESTION 13.a)

Marking guide

Components of financial statements	**Marks allocation**
Award 0.5 Mark for each correct financial statement stated	2.5
Award 0.5 Mark for each correct financial statement briefly explained correctly.	2.5
Sub-Total Marks	**5**

13.b)

Details	**Marks allocation**
Heading	1
Revenue	2
Cost of sales	2
Gross profit	0.5
Other income-Dividends from Hinga Ltd	2
Staff costs (30m+3m)	1
Selling and distribution costs (45m+4m)	1
Administration expenses (130m + 20m)	1
Profit before taxation	0.5
Income taxes (42m+27.9m)	1
Profit for the year	0.5
Profit attributable:	
Owners	1
NCI (65.1m *30% - 4m*30%)	1
Total profit	0.5
Sub-Total Marks	**15**

Total Marks	**20**

Model answers

a)

Below are components of financial statements as per IAS 1.

i) Statement of financial position
This financial statement provides information about assets, liabilities and equity at the end of a given period. The statement of financial position also referred to as "balance sheet".

ii) Statement of profit or loss and other comprehensive income
This financial statement provides information about income and expenses of an entity for a given period to report the profitability of that entity.

iii) Statement of changes in equity
This state shows the components of owners' equity. It is reports total comprehensive income for the period, showing amount attributable to owners of the parent company and to non-controlling interests and reserves accounts for a given period of time.

iv) Statement of cash flows
This component of financial statements shows the information about the company's sources and uses of funds for a given period of time. The company is divided into 3 activities (Operating, investing and financing activities).

v) Notes, including summary of significant accounting policies and other explanatory notes
This component of financial statements shows significant accounting policies adopted by the reporting entity and disclosures required by the financial reporting framework. The component also includes explanatory notes to users to better understand the financial statements.

b)

Orora Ltd
Consolidated statement of profit or loss for the year ended 31 December 2022

	FRW'000
Revenue (550M + 300M – 50M)	800,000
Cost of sales (210M + 180M – 50M + 4M)	(344,000)
Gross profit	**456,000**
Other income-Dividends from Hinga Ltd	-
Staff costs (30M+3M)	(33,000)
Selling and distribution costs (45M+4M)	(49,000)
Administration expenses (130M + 20M)	(150,000)
Profit before taxation	**224,000**
Income taxes (42M+27.9M)	(69,900)
Profit for the year	**154,100**
Profit attributable:	
Owners	135,770
NCI (65.1M *30% - 4M*30%)	18,330

	154,100

Workings

W1 Unrealized profit on closing inventory

		FRW'000
Sales	100%	50,000
Cost of sales	80%	40000
Gross profit (unrealized)	**20%**	**10,000**
UP on 40% on inventory (10M*40%)		4,000
UP portion to NCI (4M * 30%)		1,200

QUESTION 14

Marking guide

Details	Marks allocation
14.a) Award 1 Mark for each correct ratio well calculated and interpreted. At least 4 ratios should be calculated & interpreted	
Liquidity ratios and working capital management	4
Solvency and Gearing ratios	4
Profitability and return ratios	4
Efficiency ratios	4
14.b) Limitations of using financial ratios (Award 1 mark for each limitation identified)	4
Sub-Total Marks	**20**

Model answers

13.a ***Assessing the company's position and performance using financial ratios***

1. Liquidity and working capital management

i) Current ratio		**2020**	**2021**	**2022**
Current assets	A	1,446,020	1,579,168	1,652,974
Current liabilities	B	841,136	788,494	691,224
Current ratio	**C= A/B**	**1.7**	**2.0**	**2.4**

The company's current ratio was relatively healthy from 2020 to 2022. It was a bit lower of the benchmark of 2:1 since it was 1.7:1 in 2020 however it improved overtime during 2021 and 2022.

ii) Quick ratio

		2020	2021	2022
Current assets	A	1,446,020	1,579,168	1,652,974
Inventories	B	846,432	949,336	992,806
Quick assets	**C= A-B**	**599,588**	**629,832**	**660,168**
Current liabilities	D	841,136	788,494	691,224
Current ratio	**E = C/D**	**0.7**	**0.8**	**1.0**

The company's quick ration was relatively healthy from 2020 to 2022. It was a bit lower of the benchmark of 1:1 since it was 0.7:1 in 2020 and 0.8:1 in 2021 however it improved in 2022.

iii) Cash ratio

		2020	2021	2022
Cash and cash equivalents	A	54,522	45,252	34,990
Current liabilities	B	841,136	788,494	691,224
Current ratio	**C= A/B**	**0.1**	**0.1**	**0.1**

The cash ration is healthy since it is assumed that cash ratio of 10% is adequate for the company to meet its obligations.

iv) Working capital

		2020	2021	2022
Current assets	A	1,446,020	1,579,168	1,652,974
Current liabilities	B	841,136	788,494	691,224
Current ratio	**C= A-B**	**604,884**	**790,674**	**961,750**

The company's liquidity is healthy since current assets are greater than current liabilities.

v) Receivables collection period

		2020	2021	2022
Receivables	A	846,432	949,336	992,806
Sales	B	3,463,344	3,818,904	4,038,868
Receivables collection period	**C= A/B*365**	**89**	**91**	**90**

The receivables collection period of the company is not healthy since they are greater than 30 days. The company should consider negotiating better terms.

vi) Inventory conversion period

		2020	2021	2022
Inventories	A	545,066	584,580	625,178
Cost of sales	B	2,210,544	2,400,766	2,542,578

Inventory collection period	**C= A/B*365**	**90**	**89**	**90**

The inventory conversion period of the company is not healthy since they are greater than 30 days. The company should consider negotiating better terms.

vii) Payable payment period		**2020**	**2021**	**2022**
Payables	A	363,378	394,646	416,784
Purchases	B	2,258,838	2,440,280	2,583,176
Payables payment period	**C= A/B*365**	**59**	**59**	**59**

The payables payment period of the company is not healthy since there are fewer days to clear payables invoices which are less than receivables collection period and inventory period.

viii) Cash conversion cycle		**2020**	**2021**	**2022**
Receivables collection period	A	89	91	90
Inventory collection period	B	90	89	90
Payable payment period	C	(59)	(59)	(59)
Cash conversion period	**D = A+B-C**	**120**	**121**	**121**

The cash conversion cycle is not healthy since it takes around 120 days to convert inventory and receivables into cash after paying off payables.
The management may consider negotiating better terms with its customers.

2. Solvency and gearing ratios

i) Debt ratio		**2020**	**2021**	**2022**
Total liabilities	A	1,191,136	1,088,494	941,224
Total assets	B	1,835,656	1,919,696	1,987,876
Liabilities to assets ratio	**C= A/B*100**	**65%**	**57%**	**47%**

Debt ratio was improving overtime from 2020 to 2022. It was bad in 2020 since it was 65% (above best benchmark of 50%) to 47% in 2022. This means that the company has a room for borrowing from outsiders for expansion and threat of depending on creditors financing is reducing overtime.

ii) Capital structure/Equity ratio		**2020**	**2021**	**2022**
Total equity	A	644,520	831,202	1,046,652
Total assets	B	1,835,656	1,919,696	1,987,876

Liabilities to assets ratio	**C= A/B*100**	**35%**	**43%**	**53%**

The company's assets were financed by equity by 35% in 2020, then increased to 43% in 2021 and now it is at 53% in 2022.

This shows the company's increase in net worth and reduction of overdependence on debt financing and minimize threats to being taken over by creditors.

iii) Gearing ratio		**2020**	**2021**	**2022**
Total long term debts	A	350,000	300,000	250,000
Total equity	B	644,520	831,202	1,046,652
Gearing ratio	**C= A/(A+B)*100**	**35%**	**27%**	**19%**

The company is lowly geared since the ratio is less than 50% and hence the company is highly financed by owners' equity.

iv) Leverage ratio		**2020**	**2021**	**2022**
Total long-term debts	A	350,000	300,000	250,000
Total equity	B	644,520	831,202	1,046,652
Gearing ratio	**C= A/(A+B)*100**	**65%**	**73%**	**81%**

The company is highly financed by owners' equity and hence encouraged. The is not threat that the company may be taken over by Creditors.

v) Interest cover ratio		**2020**	**2021**	**2022**
Earnings before interest and tax	A	226,304	318,342	334,978
Interest charge	B	42,360	47,660	36,428
Interest cover ratio	**C= A/B**	**5**	**7**	**9**

The interest cover for the company is high since it is more than twice. The company has ability to meet its obligations and hence ability to borrow further.

3. Profitability and returns ratios

i) Return on equity		**2020**	**2021**	**2022**
Earnings before tax	A	183,944	270,682	298,550
Total equity	B	644,520	831,202	1,046,652
Return on equity	**C= A/B*100**	**29%**	**33%**	**29%**

The return on equity is 29% in 2020, increased to 33% in 2021 and then reduced to 29% in 2022. In summary, the ratio is adequate the company is profitable.

ii) **Return on assets**

		2020	2021	2022
Earnings before tax	A	183,944	270,682	298,550
Total assets	B	1,835,656	1,919,696	1,987,876
Return on assets	**C= A/B*100**	**10%**	**14%**	**15%**

The return on assets has increased overtime from 10% in 2020, increased to 14% in 2021 and then increased to 15% in 2022. In summary, the ratio is adequate the company is profitable

iii) **Return on capital employed**

		2020	2021	2022
Earnings before interest and tax	A	226,304	318,342	334,978
Total equity	B	644,520	831,202	1,046,652
Total long term debt	C	350,000	300,000	250,000
Total capital employed	D=B+C	994,520	1,131,202	1,296,652
Return on equity	**E= A/D*100**	**23%**	**28%**	**26%**

The return on capital employed was 23% in 2020, increased to 28% in 2021 and then reduced slightly to 26% in 2022. In summary, the ratio is adequate the company is profitable.

iv) **Gross profit margin**

		2020	2021	2022
Gross profit	A	1,252,800	1,418,138	1,496,290
Revenue	B	3,463,344	3,818,904	4,038,868
Return on equity	**C= A/B*100**	**36%**	**37%**	**37%**

The gross margin was maintained healthily around 36% -37% from 2020 to 2022 which is adequate for construction company. Management should keep up the move to maximize the profitability of the company.

v) **Net profit margin**

		2020	2021	2022
Net profit	A	183,944	270,682	298,550
Sales	B	3,463,344	3,818,904	4,038,868
Net profit margin	**C= A/B*100**	**5%**	**7%**	**7%**

The net profit margin was maintained healthily around 5% - 7% from 2020 to 2022 which is adequate for construction company. Management should keep up the move to maximize the profitability of the company.

4. Efficiency ratios

i) Fixed assets turnover ratio

		2020	2021	2022
Sales	A	3,463,344	3,818,904	4,038,868
Total fixed assets	B	389,636	340,528	334,902
Fixed assets turnover ratio	**C= A/B**	**9**	**11**	**12**

The fixed assets ratio has improved overtime from 2020 to 2022. It has increased from 9 in 2020, to 11 in 2021 and then increased to 12 in 2022 which demonstrate how the company has been efficient in utilizing its fixed assets to generating sales revenue.

ii) Total assets turnover ratio

		2020	2021	2022
Sales	A	3,463,344	3,818,904	4,038,868
Total assets	B	1,835,656	1,919,696	1,987,876
Fixed assets turnover ratio	**C= A/B**	**2**	**2**	**2**

The fixed assets ratio has remained constant from 2020 to 2022. The ration has been maintained at 2 times from 2020 to 2022 which demonstrate how the company has been efficient in utilizing its assets to generating sales revenue.

iii) Sales per employees

		2020	2021	2022
Sales	A	3,463,344	3,818,904	4,038,868
Number of employees	B	10	12	12
Sales per employee	**C= A/B**	**346,334**	**318,242**	**336,572**

The sales per employee measures how efficient a company is in utilizing its employees. The company's sales per employees has reduced from FRW 346 Million per head in 2020 to FRW 318 Million in 2021. However, it increased then from FRW 318 million per employee to FRW 337Million in 2022. This has demonstrated the management efforts to maintain the number of employees to generate the sales efficiently.

iv) Gross profit per employees

		2020	2021	2022
Gross profit	A	1,252,800	1,418,138	1,496,290
Number of employees	B	10	12	12
Gross profit per employee	**C= A/B**	**125,280**	**118,178**	**124,691**

The gross profit per employee has dropped from FRW 125 million in 2020 to FRW 118 million to 2021 due to additional 2 employees added as an expansion. Thereafter, the gross profit per head increase from FRW 118 million in 2021 to FRW 124 million in 2022.

v) Net profit (EBT) per employees

		2020	2021	2022
Earnings before tax	A	183,944	270,682	298,550
Number of employees	B	10	12	12
Net profit per employee	**C= A/B**	**18,394**	**22,557**	**24,879**

The net profit per employee has increase from FRW 18 million in 2020 to FRW 23 million to 2021 despite additional 2 employees added as an expansion. Thereafter, the gross profit per head increase from FRW 23 million in 2021 to FRW 25 million in 2022. This demonstrates the management strategy to minimize costs to maximize profitability.

vi) Cost to sales ratio

		2020	2021	2022
Total operating costs	A	917,970	988,492	1,047,788
Sales	B	3,463,344	3,818,904	4,038,868
Cost to sales ratio	**C= A/B*100**	**27%**	**26%**	**26%**

The cost to sales ratio has been maintained at 26%-27% from 2020 to 2022. The company's cost to sales ratio is adequate for a profitable company.

b) Limitation of using financial ratios

i) Financial ratios use historical information. Historical performance does not necessarily implicate the future performance and hence financial ratio may mislead.

ii) Sometimes the base information is out of date, and hence problems in interpretation.

iii) The financial analysis only identifies symptoms not cause and proposed remedial actions and hence limited use.

iv) Effect of price changes make comparisons difficult.

v) Impact of technology on the information and changes overtime.

vi) There is no universal benchmarks for each category of ratios for different industries/sectors.

vii) Different companies/sectors/industries use different accounting procedures and hence making comparison difficult.

QUESTION 15

Marking guide

Details	**Marks allocation**
Statement of profit or loss and other comprehensive income	
Heading	0.5
Sales	0.5
Cost of goods sold	1
Gross earning	
Other income	0.5
Total operating income	
Administrative expenses	1
Staff costs	1
Total operating expenses	
Earnings Before Interest and tax	
Interest expense	0.5
Earning Before tax	
Taxation	1
Earning after Tax	
Sub-Total Marks	**6**

Statement of financial position	
Heading	0.5
Non-current assets	
Investment property	1
IT Equipment	1
Motor vehicle	1
Office furniture, fixtures and equipment	1
Treasury -Bond 5 years	1
Total non-current assets	
Current assets	
Inventories	0.5
Trade receivables	0.5
Due from related parties	0.5
Other assets	0.5
Cash and cash equivalents	1
Total current assets	
Total assets	
Current liabilities	
Due to related parties	0.5
Trade payables	0.5

Other liabilities	1
Taxation current	1
Total current liabilities	
Loans (5 years)	0.5
Interest payable	0.5
Total long-term liabilities	
Total liabilities	
Share capital	0.5
Retained earnings	1
Total owners' equity	
Total equity and liabilities	
Sub-Total Marks	**14**
Total Marks	**20**

Model answers

a) UGC Ltd

Statement of profit or loss for the year ended 31 December 2022

	Notes	FRW 'Million
Sales		3,000
Cost of goods sold	1	1,690
Gross earning		**1,310**
Other income	2	32
Total operating income		**1,342**
Administrative expenses	3	601
Staff costs	4	266
Total operating expenses		**867**
Earnings Before Interest and tax		**475**
Interest expense		25
Earning Before tax		**450**
Taxation	5	135
Earning after Tax		**315**

b) UGC Ltd

Statement of financial position as at 31 December 2022

Assets	**Notes**	**FRW' Million**
Non-current assets		
Investment property	6	750
IT Equipment	7	480
Motor vehicle	7	210
Office furniture, fixtures and equipment	7	30
T-Bond 5 years		50
Total non-current assets		**1,520**
Current assets		
Inventories		10
Trade receivables		214
Due from related parties		80
Other assets	8	132
Cash and cash equivalents	9	1,201
Total current assets		**1,637**
Total assets		**3,157**
Current liabilities		
Due to related parties		100
Trade payables		160
Other liabilities	10	10
Taxation current	11	158
Total current liabilities		**428**
Loans (5 years)		840
Interest payable		29
Total long term liabilities		**869**
Total liabilities		**1,312**
Share capital		1,500
Retained earnings		310
Revaluation Reserve		50
Total owners' equity		**1,860**
Total equity and liabilities		**3,157**

Workings

1) Cost of sales

	FRW 'Million
Opening stock	200
Purchases	1,500
Closing stock	10
Cost of sales	**1,690**

2) Other income

Other income	32
Gain on fair value - IP	-
Total other income	**32**

3) Administrative expenses

Office rent	60
Other administrative expenses	230
International travels	51
Water and Electricity	30
Depreciation expense:	
IT Equipment	60
Motor vehicle	70
Office furniture, fixtures and equipment	30
Audit fees	10
Transport and conveyance expense	60
	601

Depreciation

	Cost FRW Million	Depreciation rate FRW Million	Depreciation amount FRW Million
IT Equipment	600	10%	60
Motor vehicle	350	20%	70
Office furniture, fixtures and equipment	120	25%	30

4) Staff costs

Salaries and wages	260
Mission allowance expenses	6
	266

5) Income tax

Profit before tax	450
CIT rate @30%	135

6) **Investment property**

Book value	700
Fair value	750
Revaluation gain	**50**

7) **Net book value**

	Cost FRW 'Million	Acc. Dep,n FRW 'Million	NBV FRW 'Million
IT Equipment	600	120	480
Motor vehicle	350	140	210
Office furniture, fixtures and equipment	120	90	30
	1,070	**350**	**720**

8) **Other assets**

Rental security deposit	12
Interest receivable from bank	100
Prepaid rent	20
Total other assets	**132**

Office rent

Monthly rent = 55/11=5 million	
Dr. Office rent expense	5
Cr. Prepaid office rent	5

9) **Cash and cash equivalents**

Cash in hand	1
Cash at bank	500
3-month deposits at GT-Bank	700
Total cash and cash equivalents	**1201**

10) **Other liabilities**

Accrued audit fees	10

Audit fees expense

Dr. Audit fees expense	10
Cr. Audit fees payable/accrued	10

11) **Tax payable**

Opening balance	23
Income tax expense	135
Tax payable	**158**

END OF MARKING GUIDE AND MODEL ANSWERS