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## **CERTIFIED ACCOUNTING TECHNICIAN**

### **STAGE 3 EXAMINATIONS**

#### **S3.1: FINANCIAL ACCOUNTING**

**DATE: MONDAY 27, NOVEMBER 2023**

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#### **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. The question paper should not be taken out of the Examination room.



## **SECTION A**

### **QUESTION ONE**

As a financial accountant of Terimbere Ltd, you clearly understand that financial accounting focuses on external financial processes of an organization whereas management accounting focuses on internal process.

**Which of the following is not true regarding financial accounting?**

- A Financial accounting information detail the performance of an organization over a certain period and the position of the entity at the end of that period.
- B Financial accounting complies with reporting formats established by the Financial Accounting Standard Board (FASB).
- C Financial accounting information present a future picture of the company's long-term operations.
- D There is a mandatory requirement for financial accountants of limited liability company to produce external reports.

**(2 Marks)**

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### **QUESTION TWO**

The IFRS foundation is a non-profit, private sector organization that oversees the activities of the International Accounting Standard Board (IASB).

**Which of the following is not an objective of the IFRS Foundation?**

- A Enforcement of International Financial Reporting Standards in most countries.
- B Development of International Financial Reporting Standards through the IASB.
- C Convergence of International Financial Reporting Standards and national accounting standards.
- D Promoting the use and application of International Financial Reporting Standards.

**(2 Marks)**

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### **QUESTION THREE**

As per the conceptual framework, companies normally prepare their financial statements on the going concern basis which is the main assumption of financial statement. This assumption assumes that the entity will continue operations in the foreseeable future and the entity has neither intention to enter liquidation nor cease trading. However, when the company that its going concern is in doubt, it prepares its financial statements using break up basis.

**Which of the following is a sign that the entity may consider preparing the financial statement on break up basis instead of going concern basis?**

- A A significant increase in demand for the company's products in the past 12 months.
- B A significant increase in advance payments made to suppliers with some suppliers increasing the credit of the entity.

- C A significant increase in the cash flow forecast of the entity and showing a significantly improving position within the next 12 months.
- D A significant increase in the level of competition faced by the company.

**(2 Marks)**

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#### **QUESTION FOUR**

In accordance with IAS 37 (provisions, contingent liabilities, and contingent assets), a contingent asset should not be recognized in the financial statements but disclosed if it is probable that the economic benefits associated with the asset will flow to the entity. However, there are condition(s) that must be met for a contingent asset to be recognized as an asset in the financial statements as it is no longer a contingent asset

**Which of the following is a condition that must be met before a contingent asset is recognised as an asset in the financial statements?**

- A When the flow of economic benefit associated with the asset becomes remote.
- B When the flow of economic benefit associated with the asset becomes virtually certain.
- C When the flow of economic benefit associated with the asset becomes probable.
- D When the flow of economic benefit associated with the asset becomes possible.

**(2 Marks)**

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#### **QUESTION FIVE**

**Which of the following is an advantage of issuing rights issue when a company wishes to increase its share capital?**

- (i) Keeps reserves available for future dividends.
  - (ii) Raises cash for the company.
  - (iii) No cash is raised for the company.
  - (iv) No dilution of current shareholders' holdings even when they don't take up the right issue.
- A (i) and (iii)
  - B (i), (ii) and (iv)
  - C (ii), and (iv)
  - D (i) and (ii)

**(2 Marks)**

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#### **QUESTION SIX**

**Which of the following represents the external users of the financial statements?**

- (i) Customers
- (ii) Managers
- (iii) Suppliers
- (iv) Lenders



- A (i) and (iii)
- B (ii), (iii) and (iv)
- C (i), (iii) and (iv)
- D (i), (ii), (iii) and (iv)

(2 Marks)

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### QUESTION SEVEN

**Which of the following is an example of profitability ratios?**

- A Quick ratio.
- B Debt ratio.
- C Interest cover.
- D Asset turnover ratio.

(2 Marks)

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### QUESTION EIGHT

**Which of the following is not a characteristic of not-for-profit entities in the private sector?**

- A The primary objective is to sell goods and services to many individuals rather than making profit for the owners of the entity.
- B There is an absence of shares that can be sold, redeemed or transferred (i.e., many NGOs are limited liability by guarantee not by shares).
- C Here the revenues generally come from taxes or through the exercise of coercive power.
- D There is a wide group of stakeholders to consider which may include the public at large.

(2 Marks)

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### QUESTION NINE

**An effective accounting system has which of the following objectives?**

- (i) Cost effectiveness
- (ii) Reliability
- (iii) Relevance
- (iv) Timeliness

- A (i), (ii), and (iii)
- B (i), (ii) and (iv)
- C (i), (iii) and (iv)
- D (i), (ii), (iii) and (iv)

(2 Marks)

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## QUESTION 10

**Under control environment, which of the following are controls that an entity should put in place to prevent Fraud?**

- (i) Segregation of duties.
- (ii) Review of controls and regular checks on control activities.
- (iii) Locking away confidential files and ensuring office security.
- (iv) Password protection, access limitations and integration of systems.

- A (i), (ii), (iii), and (iv)
- B (i), (ii) and (iv)
- C (i), (ii) and (iii)
- D (i), and (ii)

**(2 Marks)**



## **SECTION B**

### **QUESTION 11**

- (a) IAS 16 (Property, Plant, and Equipment) provides guidance on how an asset should be measured subsequent to its initial recognition. The standard provides two possible methods which are either to use the cost model or revaluation model for subsequent measurement of an asset.
- (i) **Briefly explain the difference between the cost model and revaluation model in accordance with IAS 16 (Property, Plant, and Equipment).** (3 Marks)
- (ii) **Briefly explain the meaning of the word fair value used in measuring either an asset or a liability which is used in any of the models above (cost model or revaluation model).** (2 Marks)
- (b) Muhabura Ltd bought land in 2010 at a cost FRW 45,000,000 with a plan to benefit from capital appreciation and then sell the asset after 20 years. In the year ended 31 December 2015, the asset was revalued to FRW 100,000,000 and the resulting revaluation surplus was recognised in the books of Muhabura Ltd. In the year ended 31 December 2022, the Government of Rwanda decided to fix prices on all lands in the area where the Muhabura Ltd.'s land is located, the asset of Muhabura Ltd was fixed at FRW 30,000,000.

#### **Required:**

With clear workings, **demonstrate which entries should Muhabura Ltd post in their books of account and the carrying value of the asset for the year ended 31 December 2022.**

(5 Marks)

**(Total: 10 Marks)**

## QUESTION 12

- (a) Kinyinya Yacu Ltd is a construction company that deals in construction of roads and manufacturing of commercial buildings in Rwanda. During the year ended 31<sup>st</sup> December 2022, the company had the following loans in place:

	01-Jan-22	31-Dec-22
	FRW "000"	FRW "000"
18% bank loan repayable up to 2040	20,000,000	20,000,000
12% Bank loan repayable up to 2030	30,000,000	30,000,000
10% Bank loan repayable up to 2025	10,000,000	10,000,000
<b>Total</b>	<b>60,000,000</b>	<b>60,000,000</b>

On 1<sup>st</sup> January 2022, Kinyinya Yacu Ltd started construction of Kigali-Bugesera Road and used FRW 1,500 million. On 1<sup>st</sup> November 2022, the company started construction of a commercial building dubbed “new Nyarugenge supermarket” and used FRW 900 million. As of 31<sup>st</sup> December 2022, the company had a profit before interest and tax (PBIT) of FRW 20,000 million.

### Required:

In accordance with IAS 23 (Borrowing Cost), **demonstrate the amount of borrowing cost that should be capitalised, the amount of borrowing cost that should be expensed as finance cost and profit before tax.** (5 Marks)

- (b) Muhima Ltd is a company that provides marketing services but has been experiencing losses for so long. Recently the company incurred research and development costs amounting to FRW 30 million with an additional cost amounting to FRW 47 million remaining for the sake of replacing their current software. Management is sure that once the current software is replaced the quality of work done for customers will increase and the company will start making a profit of FRW 15 million per year. Management is sure that their market share will increase, and they will now be able to satisfy a much bigger market. Muhima Ltd has demonstrated the intention to finish the development, however, they have exhausted all their source of funds, and for that reason they don't know when the project can be completed.

### Required:

**Advise management of Muhima Ltd on how the research and development cost amounting should be treated as per IAS 38 (intangible assets), putting into consideration all the capitalisation criteria described by the standard.** (5 Marks)

**(Total: 10 Marks)**



## SECTION C

### QUESTION 13

- (a) In accordance with IAS 37, **briefly explain conditions that should be met before a provision is recognized in the financial statement, and conditions for a contingent liability and a contingent asset to be disclosed in the notes.** (5 Marks)

(b)

Below is a trial balance of Muyange Ltd, that has been prepared by the junior accountant for the period ended 31 December 2022.

<b>Trial Balances</b>	<b>FRW "000"</b>
Sales	70,000,000
Cost of sales	45,900,000
Operating expenses	16,000,000
Administrative expenses	9,000,000
Finance cost	2,000,000
Tax expense	1,000,000
Plot of land	3,000,000
Nyabugogo Commercial Building	10,000,000
Nyarugenge Commercial Building	25,000,000
Gisiment Commercial building	20,000,000
Accumulated depreciation	19,000,000
Office Equipment	2,000,000
Inventories	30,000,000
Cash and bank	4,100,000
Trade Receivable	26,800,000
Share capital	20,000,000
Share premium	11,000,000
Revaluation surplus	20,000,000
Retained earnings (1 Jan 2022)	19,500,000
Long-term Loan	25,000,000
Trade Payables	7,000,000
Tax payable	3,300,000

#### **Additional Information:**

1. During the month of July 2022, the company was sued by a consulting firm whose contract was breached without payment. Muyange Ltd lost the case and was ordered by the court to pay FRW 2 billion to the consulting firm as soon as possible. The junior accountant is wondering whether this should be recorded or not.
2. On the other hand, Muyange Ltd, also sued a supplier who did not deliver the required inventories as required by the contract. Lawyers of Muyange Ltd confirmed that it is probable to win the case and the estimated if the company wins this case, it will receive FRW 2.5 billion as damages from the sued supplier.



3. The company wanted to increase its cash position and decided to sell Nyabugogo building on 1<sup>st</sup> July 2022. The building was supposed to last for 20 years and at the beginning of this year the remaining useful life was 12 years. The asset was sold for FRW 8 billion, and the junior accountant continued to post depreciation as if the asset was still in the company books. It is company's policy to depreciate all assets using straight line method evenly over the useful life of the asset including in the year of disposal.
4. Muyange Ltd decided to cease its operations in Gisiment building effective 1 July 2022 and leased it out under an operating lease which will generate a monthly rental income of FRW 20 million. The asset was supposed to last for 20 years and at the beginning of this year the remaining useful life was 14 years. The junior accountant continued to post depreciation over the useful life of the asset throughout the year. The company has adopted cost model for all investment property.
5. The financial statement audit of Muyange Ltd started 15<sup>th</sup> January 2023, and as part of auditing receivables, they requested confirmations from all customers with material closing balances. A customer that owed Muyange Ltd FRW 1.7 billion was confirmed to be bankrupt.
6. At the beginning of the 2022, Muyange Ltd issued a 12% bond of FRW 20 billion and the principal amount was correctly recorded in books of accounts, however the resulting interest expense is yet to be recorded.

**Required:**

**Consider the above additional information and prepare the statement of profit or loss and other comprehensive income for the year ended 31 December 2022.** (15 Marks)

**(Total: 20 Marks)**

## QUESTION 14

(a) PTZ Ltd is a brewery company that has been facing revenue difficulties for about 2 years. The newly appointed Managing Director has been hired to specifically find a strategy that will transition the company from this situation to a better position. In order to do that, the Managing Director wishes to understand the entity and its environment before establishing a new strategy. He has requested you to prepare a report explaining key external stakeholders.

**Required:**

**Provide a report showing the key external stakeholders for PTZ Ltd (a brewery company).** (10 Marks)

(b) 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 to detect whether fraud or errors have occurred.

**Required:**

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

(4 Marks)

(ii) **Provide explanation for the three impacts of fraud on an organization.**

(6 Marks)

**(Total: 20 Marks)**

## QUESTION 15

Below are the statements of financial position of Rwamagara Ltd, and Duhaze Ltd as at 31<sup>st</sup> December 2022.

	<b>Rwamagara Ltd</b>	<b>Duhaze Ltd</b>
	<b>FRW "000"</b>	<b>FRW "000"</b>
<b>Assets</b>		
Non-current assets		
Land	9,000,000	4,200,000
Property, Plant, and Equipment	15,000,000	12,200,000
Investment in subsidiaries	12,000,000	0
Other assets	15,000,000	11,000,000
	<b><u>51,000,000</u></b>	<b><u>27,400,000</u></b>
<b>Current assets</b>		
Inventories	19,000,000	700,000
Trade receivables and other receivables	4,000,000	2,100,000
Cash at bank	3,400,000	7,000,000
	<b><u>26,400,000</u></b>	<b><u>9,800,000</u></b>
<b>TOTAL ASSETS</b>	<b><u>77,400,000</u></b>	<b><u>37,200,000</u></b>
Equity and liabilities		
Share capital (FRW 1000 ordinary shares)	26,000,000	6,000,000
Retained earnings	2,300,000	1,900,000
	<b><u>28,300,000</u></b>	<b><u>7,900,000</u></b>



Non-current liabilities		
Long term loans	28,900,000	15,300,000
<b>Current liability</b>		
Short-term loans	3,200,000	1,000,000
Trade payable and other payables	17,000,000	13,000,000
<b>Total Current liability</b>	<b><u>20,200,000</u></b>	<b><u>14,000,000</u></b>
<b>Total Equity and liabilities</b>	<b><u>77,400,000</u></b>	<b><u>37,200,000</u></b>

**Additional information:**

1. Rwamagara Ltd acquired Duhaze Ltd as the biggest agriculture company in Rwanda at the beginning of last year in order to have a well-balanced portfolio. The company was acquired at its fair value for FRW 12 billion representing 4,800,000 shares and retained earnings at that date amounted to FRW 500 million.
2. From 8<sup>th</sup> August 2022 to 20 December 2022, Duhaze Ltd sold goods costing FRW 230 million to Rwamagara Ltd of which 50% of these goods are still in stock. Duhaze Ltd has a costing method of adding a mark-up of 25% on each material sold.
3. It is the company's policy to measure Non-Controlling Interest (NCI) at fair value.

**Required:**

**Prepare a consolidated statement of financial position for the year ended 31st December 2022.**

(20 Marks)

**(Total: 20 Marks)**

**End of question paper**

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