CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.6: PUBLIC FINANCIAL MANAGEMENT

DATE: WEDNESDAY 29, NOVEMBER 2023

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide:

QUESTION	CORRECT ANSWER	Marks
QUESTION 1	B	2
QUESTION 2	C	2
QUESTION 3	C	2
QUESTION 4	D	2
QUESTION 5	A	2
QUESTION 6	C	2
QUESTION 7	C	2
QUESTION 8	B	2
QUESTION 9	B	2
QUESTION 10	D	2

Section A-Marks allocation	**Marks**
2 marks for each correct answer	2
Total marks for this section	**20**

Model answers:

QUESTION ONE

The correct answer is B.

The allocation of budget to the economic pillar to scale up the agriculture productivity, create jobs, support private sector development and strengthen climate change mitigation measures represent the areas of economic affairs for the government which provides the general economic, commercial and labor affairs, strengthening agricultural activities and climate change.

A Is not correct because General public services areas include the public expenditure for executive and legislative organizations, financial and fiscal affairs, external affairs as well as general services

C is not correct because Social protection area of public expenditure focuses on social affairs such as assisting people with sickness and disability, Genocide survivors, family and children among others

D is not correct because there is correct answer among the options. B is correct

QUESTION TWO

The correct answer is C.

A Medium-Term Expenditure Framework (MTEF) is an expenditure plan that links the long-term policies and the short term annual budgets. It therefore, helps to overcome the challenges of short-sighted annual budget plans yet most of the government projects are long term in nature and cover more than 1 year

A is not the correct answer because budget is a plan of action and performance measurement tool which helps the public entity to plan revenue and expenditure for a specific financial/fiscal year (not more than 1 year)

B is not a correct answer because In Rwanda the Government budget is approved by the Parliament (Not the cabinet)

D is not a correct answer because MTEF and Budget do not cover same period of budgeting cycle. MTEF covers a period of 3 to 4 years whereas a budget covers a period of 1 year

QUESTION THREE

The correct answer is C.

The chamber of deputies has mandate of summoning members of Cabinet, chief budget managers or members of the Executive Committee of a decentralized entity and hold them accountable on the use of public resources.

A is not correct because this is the role of cabinet
B is not correct because this is the role of MINECOFIN
D is not correct because this is the role of the Office of Auditor General

QUESTION FOUR

The correct answer is D

Incremental budgeting is a budgeting approach that base the next year's budget on current actual results and adjust them for extra amount of expected growth, inflation and other known changes

A is not correct because zero-based budgeting approach prepares budget from scratch/from zero. It requires that each cost element be specifically justified as if the activities to which the budget relates are going to be undertaken for the first time.

B is not correct because performance-based budgeting approach groups activities/programs of common objectives and orient them towards ultimate output of the entity.

C is not correct because the adjusted-budget approach does not exist. Here the examiner was pretending to say incremental budgeting, but it is not termed that way.

QUESTION FIVE

The correct answer is A

Service charges equity is referred to as the payment of services charges is directly related to the benefit received. non-user or infrequent users of a public services do not substitute regular users

B is not correct because equality means giving people the same service

C is not correct. Value of the service charges is that individuals will only pay a charge that fits (or does not exceed) the benefit of the service they are expecting to receive

D is not a correct answer since only A is correct.

QUESTION SIX

The correct answer is C

FRW 45 Million is in band 2
For the taxpayer registered for VAT, the trading license tax is based to their respective turnovers of the previous year, as follows:

Turnover	**Tax due in FRW**
From FRW 1 to FRW 40,000,000	60,000
From FRW 40,000,001 to FRW 60,000,000	90,000
From FRW 60,000,001 to FRW 150,000,000	150,000
Above FRW 150,000,000	250,000

A is not correct because the FRW 2,250,000 is the 5% of FRW 45 Million, which is not correct because licenses are paid not basing on the turnover value, but on turnover bands

B is not correct because the FRW 60,000 is paid by VAT registered tax payers with a turnover of From FRW 1 to FRW 40,000,000.
C is not correct because trading license is not exempted, rather it is paid based to their respective turnovers of the previous year.

QUESTION SEVEN

The correct answer is C.

E-procurement drives efficiency, opens up the market to competition, and improves the ability to manage suppliers
A is not correct because E-procurement does not increase long-term costs.
B is not correct because E-procurement does not reduce competition in the market place.
C is not correct because E-procurement does not limit the ability to manage suppliers, rather it increases the ability.

QUESTION EIGHT

The correct answer is B

This is segregation of duties to ensure that no-one person sees through an entire transaction, but rather several people are involved in the process. In this case, the payment proof is received and verified by one person, recorded by another person, and enforced by a different person.

A is not correct because effective flow management is not cash control measure.

C is not correct because accounting controls are methods, mechanisms, and procedures that the school would use to ensure the validity and accuracy of their financial statement, not just responsibilizing people.

D is not correct because there is a correct answer B

QUESTION NINE

The correct answer is B

Confirmatory value of relevant information refers to whether the information changes existing expectations of the decision makers.

A is not correct because the understandability means that good financial information must be understandable by the intended users who have accounting knowledge.

C is not correct because faithful representation refers that the information must be complete, neutral and as free from error as possible.
D is not correct because the materiality of accounting information is affected by the size and nature of the business. Some items may be material in one company, but may be immaterial in another company.

QUESTION 10

The correct answer is **D**

All the above are unique characteristics of the public sector that the International Public Sector Accounting Standard Board (IPSASB) has specifically considered while developing the Conceptual Framework.

Non-exchange transactions where there is no quid pro quo are common in public sector and different from the private sector. This is linked to the objective of public sector which is to provide services to the public rather than making profit.

Public sector entities have roles of **regulating private entities** which is different from private entities and therefore need specific accounting and reporting.

Regarding the **longevity of the public sector**, many public sector programs are long term and reliant on future taxation and contributions.
A, B, C are not correct because they excluded one another.

SECTION B

QUESTION 11

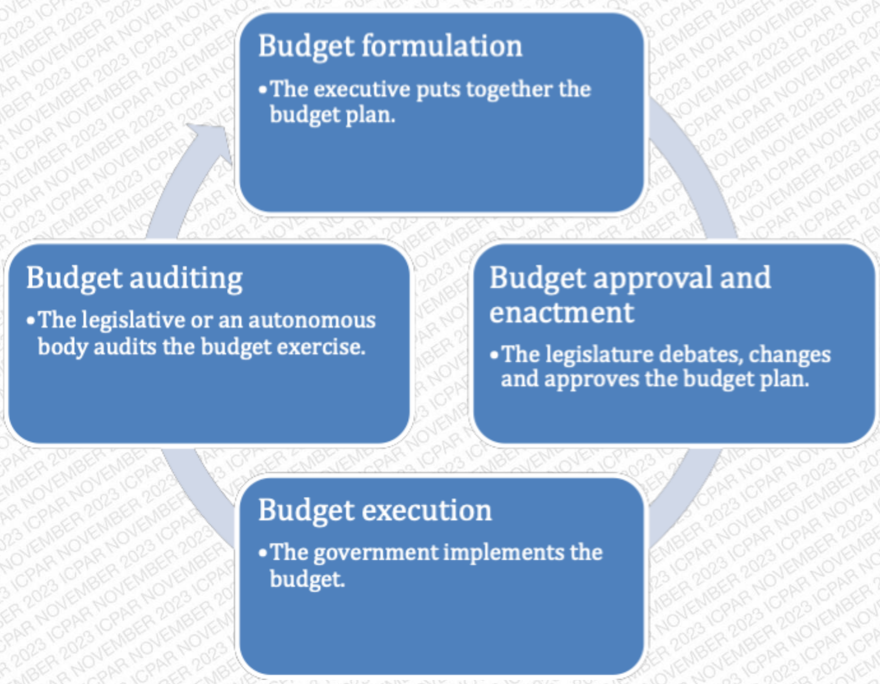
Marking guide:

Explaining ring-facing (award 1 mark for the correct explanation)	1 Mark
Explaining ring-facing (award 1 mark for the correct example)	1 Mark
Listing four stages of the budgeting cycle (award 1 mark each)	4 Marks
Explaining four stages of the budgeting cycle (award 1 mark each)	4 Marks
Total	**10 Marks**

Model answers:

Ring-facing in budgeting process means that during the budget appropriation funds are put aside and can only be used for specific activities.
For example: a grant received for a specific project would have specific conditions attached to it and the money could not be used for other purposes.

The budget cycle describes the processes connected with the formulation, approval, execution and then evaluation of the budget.



Budget formulation:

During the **formulation stage**, the executive (composed of the President and cabinet), through the Ministry of Finance and Economic Planning (MINECOFIN), coordinates the elaboration of the budget plan by requesting information from other line ministries. The ministry elaborates a draft budget after an analysis of the macroeconomic context, which includes government revenue, proposed budget ceilings and the priorities of all line ministries. This process may take several months, depending on the involvement of each ministry.

In Rwanda, the government's national annual budget runs from 1 July to 30 June and leads down from the Governments planning tools of vision 2050 and National Strategy for Transformation (NST 1). Once the budget is formulated, and before presentation to the parliament for approval, the executive (cabinet) will discuss the budget and agree on key priorities.

Budget approval:

Afterwards, the cabinet through MINECOFIN will present the budget to parliament for approval. During this stage, the legislature reviews, debates and amends the draft budget plan and enacts the final budget into law. can approve, modify or make substantial changes to the budget. This stage is known as **approval or enactment.**

Budget execution:

Budget **execution** starts when the government spends financial resources according to the approved budget. During the fiscal year, the executive may modify the budget to meet unexpected situations. The chief budget managers will ensure the efficient use of the allocated budget and provide the budget report at the end of the year.

Budget evaluation/auditing:

In the last stage, **auditing**, as an independent agency, the Office of Auditor General reviews execution of the budget to determine whether the resources were used effectively and efficiently. Auditing also addresses the performance of line ministries in executing the budget. The results of auditing represent a valuable input for designing the budget for the next year.

QUESTION 12

Marking guide:

Defining the concept of sustainable procurement (Award 2 Marks)	2 Marks
Explaining the 3 aspects of sustainable procurement (Award 1 Mark each- for Social, economic and environmental)	3 Marks
Discussing the advantages of sustainable procurement (Award 1 Mark each to any valid point provided by the candidate to the maximum of 5 advantages)	5 Marks
Total Marks	**10 Marks**

Model answers:

The concept of sustainable procurement involves considering social and environmental factor, as well as financial, when making Procurement decision.
Sustainable Procurement can contribute to organizations achieving wide-ranging objectives and this is for instance aligned with cross-cutting objectives, including social and economic transformation, such as gender equality that are incorporated in government policies.

Thus, according to the International Organization for Standardization (ISO) sustainable procurement was defined as: the process of making purchasing decision that meet an organization need for goods and services in a way that benefits not only the organization but society as a whole, while minimizing its impact on the environment.

It covers the 3 key aspects:

- Economic: Procurement of needed goods and services
- Social: most positive social results. for example, ensuring the working conditions of the supplier's employees are decent, Products or services purchased are sustainable, Socio-economic issues (e.g., inequality and poverty) are addressed.
- Environmental perspectives: this is to ensure the lowest environmental impact possible. for instance, green sourcing" and green procurement, this movement seeks to substitute one material for a more ecologically friendly alternative. For example: The abolition of single use plastic bottles.

Potential benefits of sustainable procurement:

Sustainable procurement has several benefits including:

- Long-term efficiency savings
- More efficient and effective use of natural resources
- Reducing the harmful impact of pollution and waste
- Reducing the impact of hazardous substances on human health and the environment
- Encouraging innovation
- Providing strong signals to the sustainable products market
- Practical expression of organizations commitment to sustainable development

Economic benefits of sustainable procurement

- Complying with regulations and applicable laws
- Ensuring continuity and security of supply
- Minimizing business risks
- Creating competitive advantage
- Managing reputation and customer perceptions
- Facilitating access to capital

Environmental benefits of sustainable procurement

- Reducing waste and improving resource efficiency
- Reducing carbon emissions and energy consumption
- Limiting the negative impact of purchasing from non-certified sources
- Ensuring compliance with environmental guidelines

Social benefits of sustainable procurement

- Positively contributing to the communities in which they operate
- Eliminating child labor and paying a living wage: not entering into contacts with firms that employ children.
- Involving employees in community projects
- Investing in projects that improve the quality of life for citizens

SECTION C

QUESTION 13

Marking guide:

Sub-question (a)	**Allocated marks**
Listing the 3 key instruments/tools (Award 1 mark each)	3 Marks
Explaining the 3 key instruments/tools (Award 1 mark each)	3 Marks
Sub-question (b)	
Listing the seven (7) stages of the PFM cycle (Award 1 mark each)	7 Marks
Explaining the seven (7) stages of the PFM cycle (Award 1 mark each)	7 Marks
Total	**20 Marks**

Model answers

a)

The key instruments/tools that guide the PFM planning process include:

1. **VISION 2020/Vision 2050:** This sets the longer-term perspective and objectives for Rwanda and therefore represents the overarching frame- work for all Government activities.

2. **National Strategy for transformation, (NST-1)/ Government 7-year programme** - This translates the vision into medium term strategic interventions. This is based on in-depth participatory poverty assessments and growth trajectories crafted from broad consultation of a wide range of stakeholders including citizens, civil society, and private sector and development partners among others. The NST-1 coincides with the Government 7-year programme and provides key highlights and priorities to be implemented.

3. **Sector Strategic Plans (SSPs)** - A key planning document, the Sector Strategic Plan, spells out the broad orientations for the sector based on national documents such as Vision 2020/2050 and NST-1. Both the NST- 1 and the Sector Strategic Plans define the medium term objectives and priorities of the Government at national and sector level respectively. They also define performance indicators to measure the results achieved.

4. **District Development Strategies (DDS):** these are the districts' medium term plans/strategies. They make the link between local priorities and national priorities as outlined in the NST-1 and sector strategies.

DDSs provide the context in which the MTEF is updated every year and the Annual Budget prepared. Based on these, Annual Action Plans, performance con- tracts (Imihigo), unit level work plans and individual actions plans should be produced.

5. The Medium Term Expenditure Framework (MTEF): This is the key instrument linking planning and budgeting. Its objective is to ensure the National Budget is an efficient and relevant tool to implement the plans and reach the objectives as defined in the NST-1, sector strategies, and district development strategies. The MTEF process has the effect of enhancing quality of macroeconomic planning and budget ceiling formulation, the improved budget preparation process and negotiations between Ministry of Finance and Economic Planning and public entities based on enhanced budget submissions, and efforts to enhance the quality of medium term revenue forecasting (both domestic and external).

(The student can also elaborate other documents including: **Strategic Issues Papers (SIPs), Annual Action Plans/Single Action Plans, Performance contracts (Imihigo), Budget outlook paper, The Budget Framework Paper (BFP) and Annual budget.**

b) The key elements of the PFM cycle should be discussed as follows:

1. **Identification of National priorities**: the public sector organization should have strategic objectives in place setting out the key priorities. At the national level, the first step in budget planning and preparation is the forecasting of Government revenues and expenditures in the country's macroeconomic framework, together with the determination of the national priorities of Government as expressed in its NST1/ 7YGP and other national plan- ning tools.

2. Preparation of the National MTEF: The second step is the allocation of forecasted expenditures in the broad expenditure categories based on national priorities and consistent with the macroeconomic frame- work.

3. Preparation of Agency budget and MTEF: At this step, public entities in line with the priorities agreed upon during the planning consultations and within the indicative budget ceilings received in the second budget call circular, plan their expenditure allocations to programmes and sub-programmes in the MTEF for submission to MINECOFIN.

4. Preparation and submission of Finance Law to Parliament: the draft estimates of Public entities should reach MINECOFIN for consolidation and submission along with the Budget Framework Paper (BFP).

The BFP is first discussed by the Cabinet and recommendations are incorporated before submission to Parliament
The Parliamentary Committee on Budget and State Property in collaboration with other sectoral committees scrutinizes the BFP and the draft budget estimates and submits a report to plenary containing recommendations to the Executive for improvement of the BFP and draft budget estimates.

After the approval of the draft finance law by Cabinet around the first week of June, the draft finance law is submitted to Parliament and is officially laid before the Parliament by the Minister during the second week of June in line with the EAC budget reading calendar. The budget is ordinarily voted and approved by Parliament before commencement of the next fiscal year.

5. Budget execution: this covers the day-to-day processes for the budget year, with expenditure being authorized and surplus can be invested, for example. Ideally, the budget holders should be ensuring that authorized expenditure is consistent with the budget.

6. Accounting and monitoring: this cover procurement, revenue collection and recording transactions on the financial accounting systems. There should also be monthly budget monitoring reports produced to compare actual and budgeted expenditure, with significant variances investigated.

7. Reporting and audit: this includes the production of the annual financial statements are also reviewed by the external auditor.

QUESTION 14

Marking guide:

Sub-question (a)	**Allocated marks**
Award 2 marks for the correct definition of cashflow plan	2 Marks
Award 1 march for each correct advantage of cash flow plan for a maximum of 3 advantages	3 Marks
Sub-question (b)	
Award 3 marks for cash sales figures—i.e. 1 Mark for each figure Award 2 marks for credit sales figures i.e. 1 Mark for each figure Award 3 marks for raw materials (cash) i.e. 1 Mark for each figure Award 1 mark for raw materials (credit) i.e. 1 Mark for each figure Award 1.5 marks for labor charges i.e. 0.5 Marks for each figure Award 1.5 marks for other costs i.e. 0.5 Marks for each figure Award 1.5 marks for net cash flows i.e. 0.5 Marks for each figure Award 1.5 marks for closing balance i.e. 0.5 Marks for each figure	15 Marks
Total Marks	**20 Marks**

Model answers

a) **A cash budget or cash flow forecast** is a plan that shows the estimated cash inflows and outflows of the business for a specific period.

Advantages of cash flow plan

1. A cash flow plan provides decision makers with an effective tool for cash management
2. Cash forecasting is vital to ensure that sufficient funds will be available when they are needed at an acceptable cost. Cash flow forecasts therefore estimate?

- How much cash is required?
- When the cash is required?
- How long the cash is required?
- Whether the cash will available from anticipated sources?

3. It helps the management of Mugera TSS to look into the future of the canteen and helps them in decision making about the its performance.
4. It helps to control the spending to manage the cash flow position stable.
5. It helps manage the funds of the canteen effectively, acts as a check, and makes the spending more accountable.
6. It is important because if the canteen has a shortfall in the cash flow and liquidity issues, then chances are there that it may go insolvent. This exercise helps the management of Mugera TSS establish proper control over the small business to take all precautionary steps.

b) In a columnar format, prepare a cash forecast for each of the three months ending 30 March 2023

Forecasted Cash Flows for Mugera TSS			
Particulars	**January (FRW)**	**February (FRW)**	**March (FRW)**
Cash inflows			
Cash sales	1,875,000	2,250,000	3,000,000
Credit sales	-	625,000	750,000
Total inflows	**1,875,000**	**2,875,000**	**3,750,000**
Cash outflows			
Raw materials(cash)	1,440,000	1,840,000	2,480,000
Raw materials(credit)	-	-	360,000
Labor charges	300,000	400,000	500,000
Other costs	100,000	100,000	200,000
total cash outflows	**1,840,000**	**2,340,000**	**3,540,000**
Net cash cashflows	35,000	535,000	210,000
Opening balance	450,000	485,000	1,020,000
Closing balance	**485,000**	**1,020,000**	**1,230,000**

QUESTION 15

Marking guide:

Sub-question (a)	
Listing the correct 5 main elements of a complete set of financial statements under IPSA1 (Award 1 mark for each up to a maximum of five (5) elements	5 Marks
Correct explanation of 5 main elements of a complete set of financial statements under IPSA1 (Award 1 mark for each up to a maximum of five (5) elements.	5 Marks
Sub-question (b)	
Listing (5) items that can be presented on the face of the statement of financial position (Award 1 mark for each up to a maximum of five (5) items	5 marks
Sub-question (c)	
Explaining the difference between cash basis from accrual basis of accounting (award 1.5 Marks for cash basis and 1.5 Marks for accrual basis	3 Marks
Providing example of cash basis from accrual basis of accounting (award 1 Mark for cash basis and 1 Mark for accrual basis	2 Marks
Total Marks	**20 Marks**

Model answers

a)

A complete set of financial statements in accordance with IPSAS 1 on an accrual's basis should comprise by:

1. Statement of financial position: Statement that shows the financial situation of the entity as at a given date. It reflects assets, liabilities and surpluses of the entity.
2. Statement of financial performance: it shows the revenues and expenditure for a given financial period. It helps also to calculate the surplus or deficit for a given period of time
3. Statement of change in net assets/equity: This statement shows the movement in equity components. Increase in surpluses or deficits
4. cash flow statement: statement that shows changes in cash and cash equivalents. It indicates cash inflows and cash outflows.
5. Note, including a summary of significant accounting policies and other explanatory notes: These are explanations of different items of other financial statements
6. Comparative information for the prior accounting period: Comparison of current and prior period information

b) Minimum information to be presented on the face of the statement of financial position as per IPSAS1 (Any 5 items of the following):

1. Property, Plant, and Equipment
2. Investment Property
3. Intangible Assets
4. Financial Assets
5. Investments accounted for using the equity method
6. Inventories
7. Recoverable from non-exchange Transaction (taxes and transfers
8. Receivables from exchange Transaction
9. Cash and Cash Equivalents
10. Taxes and Transfer Payable
11. Payable under Exchange Transaction
12. Provisions
13. Financial Liabilities

c)

The main difference between accrual and cash basis accounting lies in the timing of when revenue and expenses are recognized. The cash method provides an immediate recognition of revenue and expenses, while the accrual method focuses on anticipated revenue and expenses.

Accrual Accounting

Under this method, revenue is accounted for when it is earned. Unlike the cash method, the accrual method records revenue when a product or service is delivered to a customer with the expectation that money will be paid in the future. In other words, money is accounted for before it's received. Likewise, expenses for goods and services are recorded before any cash is paid out for them.

Cash Basis Accounting

Under this method, revenue is reported on the income statement only when cash is received. Expenses are recorded only when cash is paid out.

Example;

If a company sells goods of FRW10,000 to a customer in March, which pays the invoice in April. Under the cash basis, the seller recognizes the sale in April, when the cash is received. Under the accrual basis, the seller recognizes the sale in March, when it issues the invoice.

END OF MARKING GUIDE AND MODEL ANSWERS