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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 3 EXAMINATIONS**

**S3.1 FINANCIAL ACCOUNTING**

**DATE: MONDAY 25, NOVEMBER 2024**

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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**

**What is the primary purpose of the International Financial Reporting Standards (IFRS)?**

- A To provide guidelines for internal audits
- B To harmonize accounting practices globally
- C To regulate tax reporting requirements
- D To oversee corporate governance

**(2 Marks)**

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### **QUESTION TWO**

**In the IASB's Conceptual Framework, which characteristic ensures that financial information can influence decisions by helping users confirm or correct their expectations?**

- A Relevance
- B Faithful presentation
- C Comparability
- D Verifiability

**(2 Marks)**

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### **QUESTION THREE**

**Which of the following best describes the role of governance in accounting?**

- A Governance ensures compliance with tax regulations
- B Governance focuses on managing financial risks
- C Governance oversees the ethical conduct of individuals in finance department
- D Governance is primarily concerned with marketing strategies

**(2 Marks)**

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### **QUESTION FOUR**

**How should an entity account for borrowing costs incurred on funds borrowed specifically to finance the construction of a qualifying asset under IAS 23?**

- A Capitalize such borrowing costs as part of the cost of the asset
- B Expense such borrowing costs in the period they are incurred
- C Record such borrowing costs as other comprehensive income
- D Defer recognition of such borrowing costs until the asset is sold

**(2 Marks)**

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### QUESTION FIVE

**Contingent assets are disclosed in the financial statements when it is probable that they will result in which of the following?**

- A Future Expenses
- B Future Losses
- C Future Gains
- D Future Liabilities

**(2 Marks)**

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### QUESTION SIX

**If a company purchases inventory on credit, how does this transaction impact the balance sheet?**

- A Increase assets and increase liabilities
- B Increase assets and decrease liabilities
- C Decrease assets and decrease liabilities
- D Decrease assets and increase liabilities

**(2 Marks)**

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### QUESTION SEVEN

**Which of the following statements correctly describes how dividends from subsidiaries are treated in the consolidated financial statements?**

- A Dividends reduce net income on the consolidated income statement.
- B Dividends increase cash on the consolidated balance sheet.
- C Dividends received are eliminated in consolidation.
- D Dividends have no impact on consolidated financials.

**(2 Marks)**

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### QUESTION EIGHT

**.....of accounting principle states that expenses should be recognized in the same period and should correspond with the revenues generate in that period?**

- A Matching Principle
- B Revenue Recognition Principle
- C Conservatism Principle
- D Materiality Principle

**(2 Marks)**

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### QUESTION NINE

**What is the role of whistle-blowers in detecting and preventing fraud within organizations?**

- A They are responsible for committing fraud themselves
- B They report suspicious activities internally or externally
- C They have no impact on fraud prevention efforts
- D They are not protected by any laws

**(2 Marks)**

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### QUESTION 10

**How do we calculate the surplus or deficit for a public sector entity?**

- A Revenues + Gains – Expenses – Losses
- B Revenues – Gains + Expenses – Losses
- C Revenues – Gains – Expenses + Losses
- D Revenues + Gains + Expenses + Losses

**(2 Marks)**

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## **SECTION B**

### **QUESTION 11**

ICYIZERE Ltd began its operations on 1<sup>st</sup> January 2020. The company acquired several items of plant for its use, the amount for plant acquisitions, Disposal and depreciation for the year 2020, 2021 and 2022 are shown below:

The amounts for the year 2023 have not yet been computed, the plant movement extract for the year ended:

	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Particulars</b>	<b>FRW''000''</b>	<b>FRW''000''</b>	<b>FRW''000''</b>
Plant at cost	80,000	80,000	90,000
Accumulated Depreciation	(16,000)	(28,800)	(36,700)
Net book value	<b>64,000</b>	<b>51,200</b>	<b>53,300</b>

#### **Additional information:**

- 1) For the year ending 31 December 2022, Plant A, originally costing FRW 15,000, was disposed of for FRW 8,000. Similarly, for the year ending 31 December 2023, Plant B, which had a cost of FRW 30,000, was disposed of for FRW 21,000.
- 2) Plant A and Plant B were sold and replaced on the same date that Plant C and Plant D were acquired. Plant D was purchased for FRW 50 million, while the value of Plant C is yet to be determined.
- 3) Depreciation is charged at 20% on a reducing balance basis
- 4) All Disposals were carried out on the last day of the year

#### **Required:**

- i) **Prepare plant movement schedule for the years ended 2020, 2021, 2022 and 2023** (8 Marks)
- ii) **Determine gain or loss arising on disposal of Plant A and Plant B?** (2 Marks)

**(Total: 10 Marks)**

### **QUESTION 12**

a) ABC Ltd is preparing its financial statements for the year ended December 31, 2023. The company is evaluating the classification of certain items under the financial statement in accordance with IAS 1 Presentation of financial statements

#### **Required:**

As a Certified Accounting Technician trainee, **advise ABC Ltd by explaining the key components of financial statements in accordance with IAS 1, "Presentation of Financial Statements."**

**(5 Marks)**

b) **Identify the criteria that is used to determine whether an entity should be classified as an associate** (3 Marks)

c) **Explain how profit from an associate is accounted for in the consolidated financial statements** (2 Marks)

**(Total: 10 Marks)**

## SECTION C

### QUESTION 13

- a) The following trial balance has been extracted from the ledger of Herbert Howell Ltd, as of 31 May 2023, the end of its most recent financial year.

#### Herbert Howell Ltd Trial Balance As At 31 May 2023

	Dr	Cr
	FRW'000'	FRW'000'
Freehold Property at cost	90,000	
Machine at cost	57,500	
Provision for depreciation (as at 1 June 2022)		
Freehold Property		12,500
Machine		32,500
Stock as at 1 June 2022	27,400	
Purchases	259,600	
Sales		405,000
Discounts allowed	3,370	
Discounts received		4,420
Wages and salaries	52,360	
Bad debts	1,720	
Loan interest	1,560	
Carriage out	5,310	
Other operating expenses	38,800	
Trade debtors	46,200	
Trade creditors		33,600
Provision for bad debts		280
Cash on hand	151	
Bank overdraft		14,500
Drawings	28,930	
13% loan		12,000
Issued and paid-up ordinary share capital, as at 1 June 2022		98,101
	<b><u>612,901</u></b>	<b><u>612,901</u></b>

The following additional information as at 31 May 2023 is available:

1. Stock as at the close of business was valued at FRW 25,900,000
2. Depreciation for the year ended 31 May 2023 has yet to be provided as follows:  
Freehold Property 1% using the straight-line method  
Machine 15% using the straight-line method
3. Wages and salaries are accrued by FRW 140,000
4. Other operating expenses include an amount prepaid of FRW 500,000 and an accrued amount of FRW 200,000.

5. The provision for bad debts and doubtful debts is to be adjusted to 0.5% of trade debtors as at 31 May 2023.
6. Purchases include goods valued at FRW 1,040,000 which were withdrawn by Mr Howell for his own personal use.

**Required:**

- i) **Prepare Statement of profit and loss for the period ending 31<sup>st</sup> May 2023** (6 Marks)
- ii) **Prepare Statement of financial position as at 31<sup>st</sup> May 2023** (9 Marks)

c) The objective of accounting is to provide sufficient information to meet the needs of the various users at the lowest possible cost. In deciding what information should be included in financial statements, when it should be included and how it should be presented, the aim is to ensure that financial statements yield useful information. Financial information is essential attributes that make financial reports useful for decision-making purposes.

**Required:**

- Briefly discuss FIVE (5) qualitative characteristics of financial information?** (5 Marks)  
**(Total: 20 Marks)**

**QUESTION 14**

a) ABC Ltd acquired its investments as shown below:

<b>Company</b>	<b>Number of shares acquired</b>	<b>Cost of investment</b>	<b>Retained earnings</b>	<b>Date of acquisition</b>
		<b>FRW '000'</b>	<b>FRW '000'</b>	
Ubwuzu Ltd	80,000	5,000	2,400	1 October 2021
Ubugeni Ltd	20,000	1,600	1,600	1 October 2022

At the acquisition date, the fair value of Ubwuzu Ltd's net assets matched their book value, except for land, which had a fair value exceeding the book value by FRW 400,000. The non-controlling interest (NCI) in Ubwuzu Ltd was valued at FRW 1,500,000. Ubwuzu Ltd issued 100,000 ordinary shares at FRW 20 each, with a share premium of FRW 1,000,000, while Ubugeni Ltd issued 50,000 ordinary shares at FRW 20 each, with a share premium of FRW 200,000.

**Required**

- Compute the amount of goodwill to be recognized on acquisition of Ubwuzu Ltd and Ubugeni Ltd.** (6 Marks)

a) One notable example showcasing the impact of IPSAs on governance is the case of Country X. In Country X, a series of corruption scandals had eroded public trust in the government's ability to manage public finances effectively. To address this issue, the government engaged an independent auditing firm to conduct comprehensive audits across various ministries and departments. The firm conducted thorough examinations of financial records, procurement processes, and expenditure patterns within the government entities. Through their audits, they identified instances of embezzlement, kickbacks, and financial mismanagement that had been plaguing the system for years.

**Required:**

**Briefly discuss on the functions of International Public Sector Accounting Standards (IPSAs)?**  
(4 Marks)

b) An entity sells goods with a warranty covering customers for the cost of repairs of any defects that are discovered within the first two months after purchase. Past experience suggests that 88% of goods sold will have no defects, 7% will have minor defects and 5% will have major defects. If minor defects were detected in all products sold, the cost of repairs would be FRW 24,000, if major defects were detected in all products sold, the cost would be FRW 200,000.

**Required:**

**i) Calculate the amount of provision to be accounted for** (7 Marks)

**ii) Identify the three circumstances under which a provision should be recognized in the financial statements** (3 Marks)  
(Total: 20 Marks)

**QUESTION 15**

The following is statement of financial position as at 31st December 2023

	H Ltd	S Ltd
<b>Assets</b>	<b>FRW "000"</b>	<b>FRW "000"</b>
Property, plant & equipment	14,000	8,000
Patents	5,000	2,000
	19,000	10,000
<b>Current Assets</b>		
Inventory	5,000	4,000
Bank	18,000	6,000
Account Receivables	4,000	4,000
	27,000	14,000
Total assets	<b>46,000</b>	<b>24,000</b>
<b>Liabilities and Equity</b>		
Ordinary share capital	15,000	10,000
Retained earning	25,000	6,000
	40,000	16,000
Account payables	6,000	8,000
Total Equity and Liabilities	<b>46,000</b>	<b>24,000</b>



**Additional information**

H Ltd purchased 100% shareholding of S Ltd on 1<sup>st</sup> January 2023 at FRW 17,000,000 paid by cash and not recognised in financial statement, when the retained earnings of S Ltd stood at FRW 4,000,000. During the post-acquisition period, include in accounts payable of S Ltd is an amount of FRW 1,500,000 due to H Ltd. as at 31<sup>st</sup> December 2023, this amount included in the accounts payable of S Ltd and the same amount is included in accounts receivable of H Ltd

**Required:**

**Prepare a consolidated statement of financial position of H Ltd and its subsidiary as of 31<sup>st</sup>**

**December 2023**

**(20 Marks)**

**(Total: 20 Marks)**

**End of the question paper**

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