CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.1 FINANCIAL ACCOUNTING

DATE: MONDAY 25, NOVEMBER 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

MARKING GUIDE

Question Number	CORRECT ANSWER	MARKS
1	B	2
2	D	2
3	C	2
4	A	2
5	C	2
6	A	2
7	C	2
8	A	2
9	B	2
10	A	2
TOTAL		(20 Marks)

MODEL ANSWER

QUESTION ONE

The correct answer is B

Primary Purpose of the International Financial Reporting Standards (IFRS)

The primary purpose of the International Financial Reporting Standards (IFRS) is to harmonize accounting practices globally.

. Why A, C, and D are Incorrect:

A. To provide guidelines for internal audits: The IFRS is not specifically designed to provide guidelines for internal audits. Internal audits are typically governed by separate standards and frameworks such as the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB).

C. To regulate tax reporting requirements: While financial reporting under IFRS may have implications for tax reporting, the primary focus of IFRS is on providing a common set of accounting standards to enhance comparability and transparency in financial reporting across borders. Tax reporting requirements are usually governed by national tax laws and regulations.

D. To oversee corporate governance: Corporate governance involves the system of rules, practices, and processes by which a company is directed and controlled. While accurate financial reporting is essential for good corporate governance, the primary objective of IFRS is to establish a common set of accounting standards to facilitate consistent and transparent financial reporting globally.

QUESTION TWO

The correct answer is D

The correct characteristic that ensures financial information can influence decisions by helping users confirm or correct their expectations is verifiability. Verifiability means that different knowledgeable and independent observers could reach a consensus that a particular depiction is faithfully represented. In other words, verifiability ensures that there is evidence to support the information presented in financial statements, allowing users to assess its reliability and accuracy.

Why A, B, and C are Incorrect:

Relevance (Option A): Relevance is actually a characteristic that ensures that financial information has the potential to impact decisions by being capable of making a difference in user decisions. It pertains to information that is timely and has predictive or feedback value. While relevance is crucial for decision-making, it does not specifically address the aspect of confirming or correcting expectations.

Faithful Representation (Option B): Faithful representation refers to the quality of information that is complete, neutral, and free from error. It aims to represent economic phenomena faithfully. While faithful representation is essential for ensuring reliability in financial reporting, it does not directly relate to helping users confirm or correct their expectations based on financial information.

Comparability (Option C): Comparability refers to the consistency in how similar items are reported across different periods and entities. It enables users to identify similarities and differences among items. While comparability enhances the usefulness of financial information by allowing users to make meaningful comparisons, it does not specifically focus on confirming or correcting user expectations.

QUESTION THREE

The correct answer is C

In the context of accounting, governance plays a crucial role in ensuring transparency, accountability, and ethical conduct within an organization.

Let's analyze why options A, B, and D are incorrect:

A. **Governance ensures compliance with tax regulations**: While tax compliance is an essential aspect of financial management, governance in accounting goes beyond just tax regulations. It encompasses a broader spectrum of responsibilities related to overseeing the financial reporting process, internal controls, and adherence to accounting standards.

B. **Governance focuses on managing financial risks**: While managing financial risks is indeed a part of governance practices within an organization, it is not the sole focus. Governance in accounting also involves setting strategic objectives, monitoring performance, and ensuring that financial information is accurate and reliable.

D. **Governance is primarily concerned with marketing strategies**: Marketing strategies fall under the domain of marketing and business development rather than governance in accounting. Governance primarily deals with establishing structures and processes to guide decision-making, safeguard assets, and ensure compliance with laws and regulations.

QUESTION FOUR

The correct answer is A

Capitalize such borrowing costs as part of the cost of the asset (Option A): Under IAS 23, an entity should capitalize borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. These borrowing costs should be added to the cost of the asset and depreciated or amortized over its useful life.

B, C, and D are Incorrect

Expense such borrowing costs in the period they are incurred (Option B): Expensing borrowing costs as they are incurred is not the correct treatment under IAS 23. The standard requires that borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset should be capitalized as part of the cost of that asset.

Record such borrowing costs as other comprehensive income (Option C): IAS 23 does not allow for the recording of borrowing costs as other comprehensive income. Borrowing costs that meet the criteria for capitalization should be included in the cost of the qualifying asset and not recognized in other comprehensive income.

Defer recognition of such borrowing costs until the asset is sold (Option D): Delaying the recognition of borrowing costs until the asset is sold is not in line with IAS 23 requirements. The standard mandates that borrowing costs meeting specific criteria should be capitalized during the period in which they are incurred.

QUESTION FIVE

The correct answer is C

Contingent assets are disclosed when it is probable that they will result in **Future Gains**, as they represent potential economic benefits that an entity will likely obtain in the future based on past events.

why options A, B, and D are incorrect, let’s break down each one:

A. Future Expenses: Contingent assets are not related to future expenses. They represent potential assets that may arise from past events but whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events.

B. Future Losses: Similarly, contingent assets do not relate to future losses. They are potential economic benefits that may result from past events if certain conditions are met in the future.

D. Future Liabilities: Contingent assets are not associated with future liabilities. Liabilities represent obligations that an entity owes to other parties, while contingent assets represent potential gains that will be realized upon the occurrence of certain future events.

QUESTION SIX

The correct answer is A

By purchasing inventory on credit:
Assets increase because of the added inventory.
Liabilities increase due to the creation of accounts payable for the amount owed for the purchased inventory.
This transaction impacts both sides of the balance sheet by increasing both assets and liabilities simultaneously.
Let’s break down why options B, C, and D are incorrect:

Option B (Increase assets and decrease liabilities):

This option is incorrect. When a company purchases inventory on credit, it increases its inventory asset (an increase in assets) while also creating an accounts payable liability (an increase in liabilities). Therefore, this option isn’t accurately because does not lead to decrease of liabilities

Option C (Decrease assets and decrease liabilities):

This option is incorrect because purchasing inventory on credit does not lead to a decrease in assets. Instead, it increases the inventory asset value.

Option D (Decrease assets and increase liabilities):

This option is incorrect as well. Purchasing inventory on credit does not result in a decrease in assets; rather, it increases the asset value due to the addition of inventory. Additionally, it increases liabilities due to the accounts payable created.

QUESTION SEVEN

The correct answer is C

Dividends received are eliminated in consolidation: When preparing consolidated financial statements, intercompany transactions such as dividends paid by a subsidiary to its parent company are eliminated to avoid double counting. This elimination ensures that only transactions with external parties are reflected in the consolidated financial statements, providing a true representation of the group's financial position and performance.

Let's analyze why options A, B, and D are incorrect:

A) **Dividends do not reduce net income on the consolidated income statement:** Dividends received from subsidiaries are typically classified as investment income rather than operating income. Therefore, they are not deducted from net income but rather reported separately in the consolidated financial statements.

B) **Dividends do not directly increase cash on the consolidated balance sheet:** While dividends received may increase the cash balance of the parent company, this increase is reflected in the investing activities section of the consolidated cash flow statement rather than directly impacting the cash balance on the consolidated balance sheet.

D) **Dividends do have an impact on consolidated financials:** Dividends received from subsidiaries affect various sections of the consolidated financial statements, such as the income statement, cash flow statement, and equity section of the balance sheet.

QUESTION EIGHT

The correct answer is A

The Matching Principle states that expenses should be recognized in the same period as the revenues they help to generate. This principle is fundamental in accrual accounting, where transactions are recorded when they occur, regardless of when cash exchanges hands.

Now, let's analyze why **B (Revenue Recognition Principle)**, **C (Conservatism Principle)**, and **D (Materiality Principle)** are incorrect in the context of the question:

B) Revenue Recognition Principle: This principle deals with when revenue should be recognized, not expenses. It states that revenue should be recorded when it is earned, regardless of when the cash is received. It does not address the timing of expense recognition.

C) Conservatism Principle: The conservatism principle suggests that when choosing between multiple options for valuing assets or recognizing income or expenses, accountants should choose the option that results in less net income or lower asset values. While this principal guide decision-making in uncertain situations, it does not specifically dictate the timing of expense recognition in relation to revenue.

D) Materiality Principle: The materiality principle states that financial statements should disclose all material items relevant to users' understanding of a company's financial position. It guides accountants on what information to include or exclude based on its significance. However, it does not determine the timing of expense recognition relative to revenue.

QUESTION NINE

The correct answer is B

Whistleblowers have the option to report suspicious activities internally within the organization through established channels or externally to regulatory bodies, law enforcement agencies, or the media. By reporting such activities, they help uncover fraud, corruption, or unethical behavior that could harm the organization and its stakeholders.

Let's address why options A, C, and D are incorrect:

A. They are responsible for committing fraud themselves: This statement is incorrect. Whistleblowers are individuals who expose misconduct, fraud, or illegal activities within an organization. They act as watchdogs to ensure transparency and accountability.

C. They have no impact on fraud prevention efforts: This statement is also incorrect. Whistleblowers can significantly impact fraud prevention efforts by bringing attention to fraudulent activities that may otherwise go unnoticed. Their actions can lead to investigations, uncovering fraudulent practices, and implementing measures to prevent future occurrences.

D. They are not protected by any laws: This statement is inaccurate. Many countries have laws that protect whistleblowers from retaliation for reporting misconduct. These laws provide safeguards to encourage individuals to come forward with information about fraudulent activities without fear of reprisal.

QUESTION 10

The correct answer is A

Let's break down each component of the formula:

Revenues: This represents the total income generated by the public sector entity through various sources such as taxes, fees, grants, and other forms of income.

Gains: Gains refer to any additional income that is not part of the regular operating activities of the entity. This can include proceeds from asset sales or investments.

Expenses: Expenses are the costs incurred by the public sector entity in carrying out its operations. This includes salaries, utilities, supplies, and other expenditures necessary for running the entity.
Losses: Losses represent negative financial outcomes such as write-offs, depreciation, or unexpected expenses that reduce the overall financial position of the entity.
By using the formula, **A) Revenues + Gains - Expenses - Losses**, you can determine whether the public sector entity has a surplus (if the result is positive) or a deficit (if the result is negative).
Option B, C, D, are not correct because they don't contain all the above/available and applicable controls to prevent fraud.

Why B, C, and D are Incorrect:
B) Revenues - Gains + Expenses - Losses: This formula would not accurately reflect the financial performance of a public sector entity as it does not account for gains contributing positively to the overall financial position.
C) Revenues - Gains - Expenses + Losses: Similarly, this formula does not appropriately consider gains in calculating the surplus or deficit and would provide an inaccurate representation of the entity's financial status.
D) Revenues + Gains + Expenses + Losses: Including both gains and losses without subtracting expenses would lead to an inflated figure that does not reflect the true surplus or deficit of a public sector entity.

SECTION B

QUESTION 11

MARKING GUIDE

Sub-question (a)	**Marks**
i)PPE Movement schedule	
Award 0.5 for opening balance of 2020 and 0.5 for opening balance of 2023	1
Award 0.5 for each correct figures of Addition plant	1
Award 0.5 each plant Disposed of	1
Award 1 mark for each correct of annual depreciation calculated except 2020	3
Award 0.5 for each correct Accumulated Depreciation on each asset disposed of	1
Award 0.5 for closing balance of Acc depreciation of 2023 and 0.5 for NBV of 2023	1
Maximum marks to be awarded:	**8**
Sub-question (ii)	
Disposal account showing the gain on disposal on plant A	1
Disposal account showing the gain on disposal on plant B	1
Maximum marks to be awarded:	**2**
Total	**(10: Marks)**

MODEL ANSWER

Q11a(i)

	2020	**2021**	**2022**	**2023**
Cost	**FRW"000"**	**FRW"000"**	**FRW"000"**	**FRW"000"**
Asset cost as of 1 January	80,000	80,000	80,000	90,000
Additional			25,000	50,000
Disposal			(15,000)	(30,000)
Cost as of 31 December	**80,000**	**80,000**	**90,000**	**110,000**
Accumulated Depreciation				
At start of the year		16,000	28,800	36,700
Annual charges	16,000	12,800	15,220	20,660
Disposal	-	-	(7,320)	(17,712)
Accumulated depreciation at the end of the year	**16,000**	**28,800**	**36,700**	**39,648**
NBV as at December	**64,000**	**51,200**	**53,300**	**70,352**

Working

1)

	PLANT ACCOUNT		
	2022		2022
Bal b/f	80,000	Disposal	15,000
purchase	25,000		
		Balance c/f	90,000
	105,000		**105,000**

2)

	Accumulated depreciation		
		Balance b/f	28,800
Disposal	7,320		
		Depreciation balance	15,220
bal c/f	36,700		
	44,020		**44,020**

Depreciation on disposal

2020	20%	15,000	3,000
2021	20%	12,000	2,400
2022	20%	9,600	1,920
			7,320

3)

	Plant		
	2023		2023
Balance b/f	90,000	Disposal	30,000
plant D	50,000		
		balance c/f	110,000
	140,000		**140,000**

4)

	Accumulated depreciation		
		Balance b/f	36,700
Disposal	17,712		
		Depreciation balance	20,660
bal c/f	39,648		
	57,360		**57,360**

5)Depreciation on disposal

2020	20%	30,000	6,000
2021	20%	24,000	4,800
2022	20%	19,200	3,840
2023	20%	15,360	3,072
			17,712

ii) Gain or loss on disposal plant A &B

	Plant A		
Plant	15,000	bank	8,000
		depreciation	7,320
gain	**320**		
	15,320		15,320

	Plant B		
Plant	30,000	bank	21,000
Gain	**8,712**	depreciation	17,712
	38,712		38,712

QUESTION 12

MARKING GUIDE

Sub-question (a)	Marks
Statement of Financial Position (Balance Sheet) briefly discussion	1
Statement of Comprehensive Income (Income Statement) briefly discussion	1
Statement of Changes in Equity briefly discussion	1
Statement of Cash Flows briefly discussion	1
Notes to Financial Statements briefly discussion	1
Maximum marks to be awarded:	**5**
Sub-question (b)	
Criteria of Associate	
Significance influence on control	1
Group structure based on percentage above 20% and less 50%	1
Sharing profit from associate	1
Sub-question (c)	
Treatment or accounted of profit from Associate	
Profit sharing by investor in financial performance	1
Increase of investment in financial position	1
Maximum marks to be awarded:	**5**
Total	**(10: Marks)**

MODEL ANSWER

Q12a

The International Accounting Standard 1 (IAS 1) on Presentation of Financial Statements sets out the overall requirements for the presentation of financial statements, guidelines for their structure, and minimum requirements for their content. The key components of financial statements as per IAS 1 include:

Statement of Financial Position (Balance Sheet): This statement presents an entity's assets, liabilities, and equity at a specific point in time. It provides information about the financial position of the entity, including its resources and obligations.

Statement of Comprehensive Income (Income Statement): This statement shows the entity's income and expenses during a specific period. It includes items such as revenue, expenses, gains, and losses. The statement of comprehensive income provides insights into the entity's financial performance.

Statement of Changes in Equity: This statement details the changes in equity during the reporting period. It includes transactions with owners and other changes in equity not directly related to transactions with owners (e.g., revaluation reserves).

Statement of Cash Flows: This statement reports on an entity's cash flows during a specific period categorized into operating, investing, and financing activities. It helps users understand how an entity generates and uses cash.

Notes to Financial Statements: These notes provide additional information essential for understanding the financial statements. They include explanations of accounting policies, details about specific items reported in the statements, and other relevant disclosures.

b) An entity is classified as an associate when the investor has significant influence over the investee but does not have control over its operations. An associate, as defined in accounting standards, is an entity over which the investor has significant influence but not control. Significant influence is usually presumed when an investor holds between 20% to 49% of the voting rights in the investee.

While Profits from associates are included in the consolidated financial statements using the equity method. Under this method, the investing company initially records its investment in the associate at cost and subsequently adjusts this amount to reflect its share of the associate's profits or losses. The investor's share of profits from associates is reported as a single line item on the income statement.

SECTION C

QUESTION 13

Marking Guide

Sub-question (a)	Marks
Statement of Profit or Loss:	
Gross Profit	0.5
Decrease in provision for bad debts	0.5
Depreciation	0.5
Discount allowed	0.5
Wage and salaries	0.5
Finance cost	0.5
Net before tax	0.5
Financial Position	
Assets	0.5
Property	0.5
Equipment	0.5
Stock	0.5
Debtor	0.5
Less provision bad debt	0.5
Prepayment	0.5
Cash	0.5
Equity and Liabilities	0.5
Capital	0.5
Add: net profit	0.5
Less Drawings	0.5
loan	0.5
Bank overdraft	0.5
Creditors	0.5
Accruals	0.5
Workings:	0.5
Depreciation	0.5
Provision Bad debt	0.5
Wage and Salaries	0.5
Other operating expense	0.5
Purchase	0.5
Drawings	0.5
Subtotal	**15**
Sub-question (b)	
Understandability brief description	1
Relevance brief description	1
Reliability brief description	1
Comparability brief description	1
Timeliness and others only consider 5 brief descriptions	1
Subtotal	**5**
Total	**(20 Marks)**

MODEL ANSWER:

Q13(a)

Herbert Howell ltd
Statement of profit and loss
For the period ending 31st May 2023

	FRW"000"	**FRW"000"**
Sales		405,000
Less cost of sales		
Opening stock	27,400	
Purchases **(W 5)**	258,560	
	285,960	
Less closing stock	(25,900)	(260,060)
Gross profit		144,940
Discounts received		4,420
Decrease in provision for bad debts **(W 2)**		49
		149,409
Less expenses		
Depreciation: Property, plant &equipment **(W 1)**	900	
Machine	8,625	
Discounts allowed	3,370	
Wages and salaries **(W 3)**	52,500	
Bad debts	1,720	
Loan interest **(W 6)**	1,560	
Carriage out	5,310	
Other operating expenses **(W 4)**	38,500	(112,485)
NET PROFIT		36,924

Herbert Howell ltd
Statement of financial position as at 31st May 2023

	FRW"000"	**FRW"000"**	**FRW"000"**
Non-current Assets			
Property, plant and equipment **(W 1)**	90,000	(12,500+900)	76,600
Machine **(W 1)**	57,500	(32,500+8,625)	16,375
	147,500	54,525	92,975
Current Assets			
Stock		25,900	
Debtor	46,200		
Less provision (W **2)**	(231)	45,969	
Prepayments **(W 4)**		500	
Cash in hand		151	72,520
TOTAL ASSETS			**165,495**
Capital			98,101
Add net profit			36,924
			135,025

	FRW"000"	FRW"000"	FRW"000"
Less drawings **(W 5)**			(29,970)
			105,055
Non-current liabilities			
Loan (13%)			12,000
Current liabilities			
Bank overdraft		14,500	
Creditors		33,600	
Accruals **(W 3), (W 4)**		340	48,440
			165,495

Workings:

1) Depreciation for:
   Property, plant &Equip 1% X 90,000 = **900**
   Machine 15% X 57,500 = **8,625**

2) Provision for bad debts
   0.5% X (46,200) = 231
   Decrease in provision for bad debts
   280 – 231= **49**

3) Wages and salaries

Paid	52,360
Accruals	140
	52,500

4) Other operating expenses

Paid	8,800
Pre-paid	(500)
	8,300
Accruals	200

8,500

5) Purchases: 259,600 – 1,040 = **258,560**
   Drawings: 28,930 + 1,040 = 29,970

6) Loan interest 13%* 12,000=1,560 this for P&L

Q13b) Qualitative characteristics of Financial Information

Understandability: an essential quality of the information provided in the financial statements is that it is readily understandable by users. For these reason users are assumed to have a reasonable knowledge of business and economic activities and accounting.

Relevance: information has the quality of being relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations. The relevance of information is affected by its nature and materiality.

Reliability: information is useful when it is free from material error and bias and can be depended upon by users to represent faithfully that which it purports to represent or could reasonably be expected to represent. To be reliable then the information should:
Be represented faithfully,
Be accounted for and presented in accordance with their substance and economic reality and not merely their legal form,
Be neutral i.e. free from bias,
Include some degree of caution especially where uncertainties surround some events and transactions (prudence),
Be complete i.e. must be within the bounds of materiality and cost. An omission can cause information to be false.

Comparability: users must be able to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different accounting policies, changes in the various policies and the effect of these changes in the accounts. Compliance with accounting standards also helps achieve this comparability.

Timeliness

Timeliness means that information is available to decision-makers in time to be capable of influencing their decisions.

Verifiability

Verifiability helps to assure users that information represents faithfully the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representati

QUESTION 14

MARKING GUIDE

Sub-question (a)	Marks
Computation of Goodwill	
Status of Group structure	1
Purchase consideration	0.5
fair Value NCI	0.5
Less: share capital	0.5
Less: share premium	0.5
Less: share pre-acquisition profit	0.5
Less: revaluation on land	0.5
Goodwill Ubwuzu Ltd	1
Goodwill Ubugeni Ltd	1
Maximum marks to be awarded:	**6**
Sub-question (b)	
Improving Financial Reporting	1
Enhancing Accountability and Transparency	1
Facilitating Informed Decision-Making	0.5
Promoting Global Consistency	0.5
Supporting Stakeholder Confidence	0.5
Adoption by Intergovernmental Organizations	0.5
Maximum marks to be awarded:	**4**
Sub-question (c)	
i.	
Step1. Expected cost for goods with minor defects: Expected cost	2
Step2. Expected cost for goods with major defects	2
Step3. Total expected cost	3
Maximum marks to be awarded:	**7**
ii.	
An entity has a present obligation as result of past event	1
It is probable that an outflow of resources embodying economic benefit	1
A reliable estimation can be made of the amount of the obligation	1
Maximum marks to be awarded:	**3**
Total	**20 Marks**

MODEL ANSWER

a) Goodwill

Holding s ABC Ltd	Ubwuzu Ltd	Ubugeni Ltd
Total shares (A)	100,000	50,000
share acquired (B)	80,000	20,000
% =B/A*100	80%	40%
Status	Subsidiary	Associate

	Ubwuzu Ltd		Ubugeni Ltd	
	FRW "000"	**FRW "000"**	**FRW "000"**	**FRW "000"**
Consideration		5,000		1,600
Fair value NCI		1,500		-
		6,500		**1,600**
Less: Net assets				
share capital	2000		1,000	
share premium	1000		200	
pre-acquisition profit	2400		1,600	
revaluation on land	400	**(5,800)**	-	**(1,120)**
Goodwill		**700**		**480**

Note: IAS 28 (***Investments in Associates and Joint Ventures***) States Any excess paid over the acquirer's share of the fair value of the net identifiable assets of the associate is **not separately recognized as goodwill**. Instead, it is embedded in the initial carrying amount of the investment in the associate. Therefore, the goodwill arising in the acquisition of ubugeni Ltd should not be calculated.

b) The International Public Sector Accounting Standards (IPSAS) serve several key functions in the realm of public sector financial reporting and governance:

Improving Financial Reporting: One of the primary functions of IPSAS is to enhance the quality of general-purpose financial reporting by public sector entities. By establishing standardized accounting principles and practices, IPSAS aims to ensure that financial statements are prepared in a consistent, transparent, and reliable manner.

Enhancing Accountability and Transparency: IPSAS plays a crucial role in promoting accountability and transparency in the public sector. By adhering to these standards, governments and related entities can provide stakeholders with accurate and comprehensive information about their financial performance, position, and cash flows. This transparency helps in fostering trust among citizens, investors, donors, and other interested parties.

Facilitating Informed Decision-Making: Another important function of IPSAS is to enable better-informed assessments of resource allocation decisions made by governments. By following standardized accounting practices, public sector entities can generate financial reports that offer insights into their fiscal health, efficiency in resource utilization, and overall performance. This information is vital for policymakers, regulators, and citizens to make well-informed decisions.

Promoting Global Consistency: IPSAS aligns with International Financial Reporting Standards (IFRS),

ensuring a degree of consistency in financial reporting practices across different countries and jurisdictions. This alignment facilitates comparability of financial information among public sector entities globally, making it easier to analyze trends, benchmark performance, and assess best practices.
Supporting Stakeholder Confidence: Compliance with IPSAS instills confidence in stakeholders regarding the financial management practices of public sector organizations. By following internationally recognized accounting standards, governments demonstrate their commitment to sound financial stewardship and good governance principles.
Adoption by Intergovernmental Organizations: The adoption of IPSAS by intergovernmental organizations further underscores its importance as a global standard for public sector financial reporting. Organizations like the Commonwealth Secretariat have embraced IPSAS as the basis for their financial reporting, signaling widespread recognition of its value in enhancing accountability and transparency

C) i.
Calculation of Provision Amount:
Given:
Probability of no defects = 88%
Probability of minor defects = 7%
Probability of major defects = 5%
Cost of repairs for minor defects = FRW 24,000
Cost of repairs for major defects = FRW 200,000
To calculate the provision amount, we need to consider the expected cost of repairs based on the probabilities provided.

Step1.Expected cost for goods with minor defects: Expected cost = Probability of minor defects * Cost of repairs for minor defects
= 7%*FRW 24,000
=**FRW 1,680**

Step2.Expected cost for goods with major defects: Expected cost = Probability of major defects * Cost of repairs for major defects
=5%*FRW 200,000
=**FRW 10,000**

Step3.Total expected cost: Total expected cost = Expected cost for minor defects + Expected cost for major defects
=FRW 1,680+FRW 10,000
=FRW 11,680

Therefore, the amount of provision that should be made is **FRW 11,680**

ii.Three Circumstances Under Which a Provision Should Be Recognized in the Financial Statements:

1. An entity has a present obligation as result of past event
2. It is probable that an outflow of resources embodying economic benefit will be required to settle the obligation
3. A reliable estimation can be made of the amount of the obligation

QUESTION 15

<u>MARKING GUIDE</u>

Sub-question	**Marks**
Working	
Computation of Goodwill	1
Purchase consideration	1
Less: share capital	1
Less: Pre-acquisition profit	1
Consolidated Retained earnings	1
Sharing profit from S Ltd	1
Account Receivable	1
Less: intercompany transaction into Receivables	1
Account Payable	1
Bank	1
Financial Position	
Assets	
Property, plant and equipment	1
Patent	1
Postin Good will into balance sheet	1
Inventory	1
Account Receivable	1
Bank	1
Equity and Liabilities	
Capital	1
Posting the Consolidated Retained earnings into balance sheet	1
Account Payable	1
Less: intercompany transaction into payables	1
Maximum marks to be awarded:	**20**
Total Marks	**20 Marks**

MODEL ANSWER

H Ltd and S Ltd

Consolidated statement of financial position as at 31st December 2023

	FRW "000"	**FRW "000"**
Assets		
Non-current assets		
Property, plant and equipment	14,000+8,000	22,000
Patents	5,000+2,000	7,000
Goodwill	W1	3,000
Total		**32,000**
Current Assets		
Inventory	5,000+4,000	9,000
Bank	W5	7,000
Account Receivables	W3	6,500
Total		**22,500**
Total assets		**54,500**
Liabilities and Equity		
Ordinary share capital		15,000
Retained earning	W2	27,000
Total		**42,000**
Account payables	W4	12,500
Total		**12,500**
Total Equity& Liabilities		**54,500**

1) Cost of control

Details	FRW "000	FRW "000"
Investment in S Ltd		17,000
Fair value NCI		-
Total		**17,000**
Less: net asset		
Ordinal share capital	10,000	
Pre-acquisition profit	4,000	(14,000)
Good will		**3,000**

2) Consolidated Retained Earnings

	H Ltd	S Ltd
Details	FRW "000"	FRW "000"
Post acquisition	25,000	6,000
less: pre-acquisition		(4,000)
Total	25,000	**2,000**
Add: sharing profit from S Ltd	2,000	
	27,000	

3)Account Receivables

Details	FRW "000"
H Ltd	4,000
S Ltd	4,000
less: Intra group	(1,500)
Total	**6,500**

4)Account Payable

Details	FRW "000"
H Ltd	6,000
S Ltd	8,000
less: Intra group	(1,500)
Total	**12,500**

5) Bank

	FRW "000"
H Ltd	18,000
S Ltd	6,000
Less: investment of S Ltd	(17,000)
	7,000

End of marking guide and model answers