CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.6: PUBLIC FINANCIAL MANAGEMENT

DATE: WEDNESDAY 27, NOVEMBER 2024

MARKING GUIDE AND MODEL ANSWER

SECTION A

Marking guide

Questions	Answers
1	C
2	D
3	D
4	A
5	C
6	B
7	A
8	C
9	B
10	A

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

Model Answers.

QUESTION ONE

Answer: C
Hold resources, such as property, plant and equipment, for service provision rather than to generate future cash flows as would be the case in the private sector. Others are characteristics of the Public Sector.

QUESTION TWO

Answer: D
The correct answer is D, because none of the above statement is the true about the economic policies. The rest of the other options: A, B and C are not the correct answers since:

Option A; combines incorrect statement on monetary policy and fiscal policy;

Monetary policy is the action that a country's central bank or government take to influence how much money is in the economy and how much it costs to borrow, whereas

Fiscal policy is the use of government expenditure and revenue collection to influence the economy;

Option B combines incorrect statement on demand and supply since:

Demand refers to the quantity of a product or service that buyers desire or require, assuming a specific price for the product. Now, the demand level will change depending on the price. As you might expect, demand decreases as price increases; whereas

Supply is the amount that the market can provide, again at a certain price. Similar to demand, there is also a relationship between supply and price. This relationship between price and the amount supplied to the market; and the option C, which is all of the above is not correct since the correct answer which is option D, none of the above is available.

QUESTION THREE

Answer: D

The District Councils is the only body with the power to adopt the annual budget to decentralized entities while the Chamber of Deputies is for centralized entities only. The other is correct.

QUESTION FOUR

Answer: A

Rwandan Government adopted the Program based budgeting. The Government of Rwanda sets a budget in terms of programmes or groups of activities with common objectives by focusing on objectives and its budget is therefore orientated towards the ultimate output of the Government.

It is in this regard, other budgeting approach are not adopted since: (B) Zero-based budgeting consists budgeting that requires each cost element to be specifically justified, as though the activities to which the budget relates were being undertaken for the first time.

(C) Performance-based budgeting consists of budgeting that links the funds allocated to measurable results and (D) Incremental budgeting consists budgeting in which next year's budget is prepared by using the current year's actual results as a starting point, and making adjustments for expected.

QUESTION FIVE

Answer: C
Equity – some argue that all public services should be available to everyone, irrespective of the ability to pay this is a disadvantage of service charges. Others are advantage of service charges.

QUESTION SIX

Answer: B
Excise duties is a tax applied to specific products and it is levied at the point of manufacturing rather than sale, excise duties may be charged on the manufacturer of imported commodities and the rates varies charged on imported goods.

Value added is a tax levied in the supply chain where value is added to the goods or service,

License fee is a fee charged for carrying out certain activities whereas the Customs duties is is a levy or tax charged on imported goods.

QUESTION SEVEN

Answer: A
Accountability is not part of key principles of procurement; others are key principles of procurement.

QUESTION EIGHT

Answer: C

Segregation of duties. The chief cashier is the only person involved, segregation of duties is a crucial control to ensure that no-one person sees through an entire transaction, but rather several people are involved in the process. For example, receiving cash from customers, recording it and banking it should not all be done by a single person as they would be able to make an error or commit fraud.

Authorization control refers to the measures and processes put in place to prevent, detect or correct possible errors or fraudulent activities. These controls are crucial in ensuring the integrity and accuracy of financial transactions, in our case we don’t have transaction requiring the authorization.

Physical control refers to the measures and procedures put in place to physically safeguard cash assets within a business. This includes securing cash in physical locations such as safes, cash drawers, or lockboxes to prevent theft, loss, or unauthorized access. Physical control is an essential component of overall cash controls in business finance and accounting, in our case received cash were secured and locked in safe.

QUESTION NINE

Answer: B

Confirmatory and predictive value are elements of relevance characteristic of good information, neutral and free from error are elements of Faithful representation characteristic of good information.

QUESTION 10

Answer: A

Water supply is a housing and community amenities related expenditure; others are Environmental protection related expenditure.

SECTION B

QUESTION 11

Marking guide:

	Maximum marks
Budgeting cycle process (2 mark each item well discussed and 0.5 mark for at least Organ(s) that participate(s) to each stage)	10 Marks
Total	**10 Marks**

Model Answer:

The following indicates how the budgeting cycle process may be applied to the Public Sector Organization to achieve its objectives:

- **Budget Formulation:**

At this stage budgets are formulated based on a clear overall strategy and to support the implementation of policies to achieve public service goals. Annual budgets are aligned with medium-term plans, and there is effective participation by stakeholders in the process.
Organs that participate to this stage: Policy planners, finance professionals

- **Budget Approval:**

At this stage budget is subject to approval by the legislature, which is able to effectively scrutinize government plans.
Organs that participate to this stage: Parliament chamber of deputies for centralized entities, District Council for Decentralized entities.

- **Budget Execution:**

At this stage there is predictability and control in budget execution. Standard procedures and processes are followed, and there is ongoing monitoring in place to enable the effective application of controls.
Organs that participate to this stage: Service managers**,** finance professionals

- **Budget Evaluation**

At this stage the annual financial reports are produced, and these are subject to independent external audit and scrutiny. They are used to assist in the formulation of future budgets.
Organ(s) that participate(s) to this stage: The Office of the Auditor General,

QUESTION 12

Marking guide:

(a) Key stages of the procurement process proposed (Award 0.5 mark for each stage stated). Note; A candidate should lose 1 mark in case the order is not respected	5 Marks
(b) Potential benefits of sustainable procurement (Award 1 mark for each benefit up to five benefits)	5 Marks
Total	**10 Marks**

(a) Following the flowchart that sets out stage of procurement process, below are the key stages of the procurement process proposed by the United Nations (2012):

- Operational procurement planning
- Requirement definition
- Sourcing
- Selection of procurement strategy
- Preparation & issuance of solicitation documents
- Receipt and opening of offers
- Evaluation
- Contract review and award
- Contract finalization & issuance
- Contract management

(b) Potential benefits of sustainable procurement include (UN, 2012):

- 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,

SECTION C

QUESTION 13

Marking guide:

(a) Identified factors that the exit governments failed to consider (2 mark each function)	6 Marks
(b) The factors that the new Government should consider from its taxation regime ➢ Equity: Vertical equity & Vertical equity (1 mark each sub - factor well discussed – Max of 2 marks) Benefit equity & Intergenerational equity (1.5 mark each sub - factor well discussed – Max of 3 marks) ➢ Ease of administration, Efficiency, Predictability (3 mark each factor well discussed – Max of 9 marks)	14 Marks
Total	**20 Marks**

Model Answer

(a) Identified factors that the exit governments failed to consider to make its tax regime suitable to its tax payers.

- **Ease of administration:** Currently the cost incurred in collecting the tax exceed the revenue generated.
  In addition, the tax authority fails to explain the basis for the current taxation practices, the root cause of inconsistence on tax rates and mismatch in their calculation which means that it should not easier or simple to understand/explain or have calculation errors issues.

- **Efficiency:** Citizens were not happy and more complaints were raised by tax payers, however people's behavior highlight the inefficiency of the taxation regime.

- **Predictability:** Tax payers cannot forecast for tax cash flow as change made over time where by the government or individuals cannot effectively budget the tax to be paid or received.

(b) Below are factors that the new Government should consider from its taxation regime:

- **Equity**

There are two key dimensions of tax equity that governments should consider:

• **Horizontal equity** where people with a similar ability to pay have to pay a similar amount

• **Vertical equity** where people with a greater ability to pay have to pay more.

Governments should also consider the breadth of taxes, so that a large proportion of tax income is not relying on a small sub-section of the population and below are other two equity concepts:

• **Benefit equity** in terms of the amount of tax paid being related to the amount of benefit they receive. In terms of benefit equity, the amount of tax paid is often not related to the benefit received from a public service. So, an individual may not use an individual public service but still pay the same amount of tax as somebody who does use the service.

• **Intergenerational equity** where the government borrows money to provide services for the current generation, with future generations of taxpayers ending up paying for it.

- **Ease of administration**

Ease of administration in relation to taxation may refer to the cost of collecting the tax in comparison to the revenue received from the tax. There is little point having a tax that costs most to implement than the income tax received.

Additionally, it is useful for both the government and public to have taxes which are simple. The tax-payers are often more likely to pay the tax if it is simple to understand and tax chargeable is less likely to include errors.

- **Efficiency**

Efficiency can cover a variety of issues.

Firstly, in terms of administration efficiency which we have just considered above.

Secondly, is the issue around whether the tax will change people's behavior.

Ideally an efficient or neutral tax is one that does not distort the economy by individuals or companies making decisions due to the tax being in place. There is the possibility that taxes may result in behavior changes, which could be intended or unintended.

- **Predictability**

Predictability in a tax system relates to the certainty with which the government or individuals can effectively budget the tax to be paid or received. For governments, taxation comprises a significant proportion of their income and any budgets will be based on the predicted levels of tax to be collected. It is, therefore, essential that the government can reliably predict the amount of tax revenue. For individuals, too, it is useful to know how much tax they are likely to have to pay as it may impact on decision-making.

QUESTION 14

Marking guide:

(a) Functions of the Cash Plan Management Section (1 mark each function)	5 Marks
(b) Preparation of the cash flow plan for each of the three months ending 30 December 2024 Award 6 marks for cash sales (0.5 Marks for each figure of the sales policy 60%, 30%, 10% and the discount) Award 1.5 marks for payment to suppliers (0.5 Marks for each figure) Award 1.5 marks for wages expenses (0.5 Mark for each figure) Award 1.5 marks for production expenses (0.5 Mark for each figure) Award 1.5 marks for selling costs (0.5 Marks for each figure) Award 1.5 marks for Net Cash Flow (0.5 Mark for each figure) Award 1.5 marks for closing balance (0.5 Mark for each figure)	15 Marks
Total	**20 Marks**

(a) Below are functions of the Cash Plan Management Section to ensure efficient management of government's resources:

- Prepare an annual consolidated cash flow plan, based on the annual budget and inputs provided by public entities containing projected cash inflows and outflows on a monthly or quarterly basis, including contingency measures.
- Prepare a consolidated monthly cash flow plan based on inputs from spending entities, on a quarterly basis.
- Maintain liaison with the National Bank of Rwanda and advise the Secretary to the Treasury on adequacy of balance in the Consolidated Fund bank account, sub accounts and special accounts.
- Produce regular reports to the Treasury Management Committee showing actual outturn compared to the planned cash flows, showing variances and remedial measures in case of negative variances.
- Monitor receipts, payments and the daily cash position.
- Ensure cash flow plans submitted from budget agencies are authentic and realistic.

(b) The cash flow plan for each of the three months ending 30 December 2024.

REVENUES	**Sep-24**	**Oct-24**	**Nov-24**	**Dec-24**	**Jan-24**
Unites sold (A)	12,000	13,000	14,000	14,000	
SP (B)	80	80	80	80	
Salles (C=A*B)	960,000	1,040,000	1,120,000	1,120,000	
D= 60%*C	576,000	624,000	672,000	672,000	
E=30%*C		288,000	312,000	336,000	336,000

REVENUES	Sep-24	Oct-24	Nov-24	Dec-24	Jan-24
F=10%*C			96,000	104,000	
G= Salles net of discount 95%*D	547,200	592,800	638,400	638,400	
Total cash in (E+F+G)	**547,200**	**880,800**	**1,046,400**	**1,078,400**	
Payment to suppliers	118,000	126,000	137,000	150,000	
production exp	41,000	44,000	46,000	48,000	
depreciation	(18,000)	(18,000)	(18,000)	(18,000)	
Net production	23,000	26,000	28,000	30,000	
monthly wages		15,000	17,000	17,000	
Selling costs 10% of revenues -A	96,000	104,000	112,000	112,000	
Selling costs paid 75% B=75%*A	72,000	78,000	84,000	84,000	
Remaining selling costs 25% - C=25%*A		18,000	19,500	21,000	
rent	15,000	15,000	15,000	15,000	
Total cash out	**228,000**	**278,000**	**300,500**	**317,000**	
Net cash flows	319,200	602,800	745,900	761,400	
Opening balance	45,000	364,200	967,000	1,712,900	
Closing balance	**364,200**	**967,000**	**1,712,900**	**2,474,300**	

QUESTION 15

Marking guide:

(a) Discuss aspects of the accrual accounting (1 mark each aspect)	5 Marks
(b) Listed and explained element of financial statement (2 marks each: 0.5 marks for listing and 1.5 marks for explanation)	12 Marks
(c) Information to be presented on the face of the Statement of Financial Performance (1 mark each information)	3 Marks
Total	**20 Marks**

(a) Below are aspects of the accrual accounting that a government should use to ensure adequate move from cash accounting to accrual accounting:

- Recognition of assets, including receivables and non-current assets
- Recognition of liabilities, such as payables, debts and loans
- Revenues are reported to reflect the amounts due or earned during the year, whether these amounts have been actually collected or not. For example, income from taxes.

- Expenses incurred during the period are reported, whether or not payment has been made, such as relating to the acquisition of goods and services.
- Financial statements comprise the statement of financial position, statement of financial performance and the statement of cash flows, etc.

(b) A complete set of financial statements in accordance with IPSAS 1 on an accruals basis should comprise:

- Statement of financial position,
- Statement of financial performance,
- Statement of changes in net assets/equity,
- Cash flow statement,
- Notes, including a summary of significant accounting policies and other explanatory notes,
- Comparative information for the prior accounting period,
- Compliance with the Conceptual Framework.

Explanation:

- Statement of financial position: is a financial statement that provides a snapshot of an entity's financial position at a specific point in time. It is similar to the balance sheet used in the private sector and includes information about assets, liabilities, and equity or net assets.
  The Statement of Financial Position for the public sector is crucial for transparency and accountability, allowing stakeholders to assess the financial health and sustainability of government entities, agencies, or organizations,

- Statement of financial performance: is a financial report that outlines the revenues, expenses, and net income of a government entity over a specific period. This statement provides transparency regarding how public funds are being utilized and managed. It helps stakeholders, such as taxpayers, government officials, and regulatory bodies, assess the financial health and efficiency of the public sector organization.
  This statement is crucial for accountability and decision-making within the public sector. It allows for monitoring financial performance, identifying areas for improvement or cost-saving measures, and ensuring responsible financial management to meet the needs of citizens effectively.

- Statement of changes in net assets/equity:
  The Statement of Changes in Net Assets is a financial statement that details the change between the current and prior period for net asset balances. It is presented to show several items that affect net asset or fund balances, which may not be apparent from a review of the statement of operations,

The Statement of Changes in Equity explains the changes in a company's share capital, accumulated reserves, and retained earnings over the reporting period. The statement breaks down changes in the owners' interest in the organization and shows the application of retained profit or surplus from one accounting period to the next.

- Cash flow statement: is a financial statement that tracks the inflow and outflow of cash for government entities, such as federal, state, or local governments. It provides a summary of how cash is generated and used by the public sector in its operations, investments, and financing activities over a specific period,

- Notes, including a summary of significant accounting policies and other explanatory notes: refer to additional information included in the financial statements to provide further details and explanations about the figures presented. These notes are an integral part of the financial reporting process as they help users of the financial statements understand the underlying transactions, policies, and assumptions that have influenced the reported numbers,

- Comparative information for the prior accounting period: refers to the presentation of financial data from the previous period alongside the current period's financial statements. This allows users of financial information to assess and analyze the performance and financial position of a public sector entity over time,

- Compliance with the Conceptual Framework: refers to adhering to the principles and guidelines outlined in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. This framework provides a set of concepts that serve as the foundation for developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs).

(c) Below is minimum information to be presented on the face of the Statement of Financial Performance per IPSAS 1.

- Revenue,
- Finance costs,
- Share of the surplus or deficit of associates and joint ventures accounted for using the equity method,
- Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations,
- Surplus or deficit

End of marking guide and model answers