ICPAR
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CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY, 28 MARCH 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

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

2 Marks for each correct answer
Total marks for this section 20

Model answers

QUESTION ONE

The Correct answer is B.

This is because Mageza Acquired more than 50% as calculated below

Group-Structure

Mageza=20,000/30,000=66.67% NCI=(10,000/30,000)*100=33.33%

A is not correct because Karakye Ltd will be considered as an investment if Mageza Ltd had acquired less than 20%

C is not correct because Karakye Ltd will be considered as an associate if Mageza Ltd had acquired between 50%- 20% (above 20% but below 50%)

D is not correct because Karakye Ltd will be considered as an associate if Mageza Ltd had acquired only 50%(exactly 50%)

QUESTION TWO

The correct Answer is C

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

A is not correct because, If an asset is being revalued for the first time, and its carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss

B is not correct, If an asset is being revalued for the first time, and its carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus

D is not correct becasue C is true

QUESTION THREE

The correct Answer is C

Depreciation of assets from 1 November 2019 to 31 December 2019 (2 months) is:

20% x 120,000*2/12= FRW4,000

Depreciation from 1 January 2020 to 31 October 2020 (10 months- After disposal) is:

20% x (120,000 - 30,000)*10/12 = FRW15,000

Total depreciation = 4,000 + 15,000 = FRW19,000

A is not correct because it only considers the depreciation of assets from 1 November 2019 to 31 December 2019 (2 months) which is before the disposal (**20% x 120,000***2/12= FRW4,000**)**

B is not correct because it only considers the depreciation of assets 1 January 2020 to 31 October 2020 (10 months- After disposal)- 20% x (120,000 - 30,000)*10/12 = FRW15,000

D is not correct since it ignores the accumulated depreciaion to date of diposal and does not consider proportionate depreciation policy(120,000-30,000)*20%=18,000

QUESTION FOUR

The correct Answer is A

The purpose of a SOFP is to show the assets of the business and the claims against those assets which means to present true information about the company's assets, liabilities, and equity. It helps to reveal the financial position of the company as at a particular date

B,C,D are not correct because they describe the Net assets of the business.

QUESTION FIVE

The correct answer is B

No disclosure or provision is required. This is because An entity shall not recognise a contingent liability. A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote

A and C are not correct because a **contingent liability must not be recognized** as a liability in the financial statement. Instead it should be **disclosed** in notes to the accounts, unless the possibility of an outflow of economic benefits is **remote**

D is not correct because a provision shall be recognized when:

a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised

QUESTION SIX

The correct Answer is D

Workngs for D

The rights issue is of 1/2 x 5,000 = 2500 shares.

The rights issue was made at premium (FRW 25 is the par value and FRW 75 is the share premium) Thus, Share capital increases by 2,500 x 25 = FRW62,500;

Share premium increases by 2,500 x FRW75 = FRW187,500

The new structure after right issue

Ordinary share capital (7500 shares of FRW25 each)	FRW187,500
Share premium	FRW287,500

The bonus issue is of 1/5 x (5000 + 2500) = 1500 shares.

Share capital increases by 1500 x FRW25 = FRW37,500;

Share premium decreases by FRW37,500

Total share capital after bonus issue= 187,500 + 37,500 = FRW225,000

Total share premium = 287,500 - 37,500 = FRW250,000

Thus, the new capital structure will be:

Share capital account: FRW225,000; Share premium account: FRW250,000

A is not correct because it only considers the rights issue

Workings for wrong answer A

The rights issue is of 1/2 x 5,000 = 2500 shares.

The rights issue was made at premium (FRW 25 is the par value and FRW 75 is the share premium) Thus, Share capital increases by 2,500 x 25 = FRW62,500;

Share premium increases by 2,500 x FRW75 = FRW187,500

The new structure after right issue

Ordinary share capital (7500 shares of FRW25 each)	FRW187,500
Share premium	FRW287,500

B is not correct becasue it was mistakenely calculated as a 2 shares for every 1 held

Workings for wrong answer B

The rights issue is of 2/1 * 5,000 = 10,000 shares.

Thus, the Share capital increases by 10,000 x 25= FRW250,000;

Share premium is FRW10,000*75=FRW 750,000

The new structure after right issue

Ordinary share capital 250,000	
Share premium	FRW 850,000

The bonus issue is of 5/1 x (5000 + 10,000) = 15,000 shares.

Share capital increases by 15,000 x FRW25 = FRW375,000;

Share premium decreases by FRW375,000

Total share capital after bonus issue= 250,000 + 375,000 = FRW625,000

Total share premium = 750,000 – 375,000 = FRW375,000

Thus, the new capital structure will be:

Share capital account: FRW625,000; Share premium account: FRW375,000

C is not correct because it does not consider the decrease in share premium resulting from the bonus issue of shares

Workings for wrong answer C

The rights issue is of 1/2 x 5,000 = 2500 shares.

The rights issue was made at premium (FRW 25 is the par value and FRW 75 is the share premium) Thus, Share capital increases by 2,500 x 25 = FRW62,500;

Share premium increases by 2,500 x FRW75 = FRW187,500

The new structure after right issue

Ordinary share capital (7500 shares of FRW25 each)	FRW187,500
Share premium	FRW287,500

The bonus issue is of 1/5 x (5000 + 2500) = 1500 shares.

Share capital increases by 1500 x FRW25 = FRW37,500;

Total share capital after bonus issue= 187,500 + 37,500 = FRW225,000

Thus, the new capital structure will be:

Share capital account: FRW225,000; Share premium account: FRW287,500

QUESTION SEVEN

The correct Answer is D

This is because the proceeds of issue of shares, and dividends received, are the only items involving a cash flow movement.

A is not correct because it includes proposed dividends which do not involve cash

B is not correct because both surplus on revaluation of non-current assets and proposed dividends are not cash items

C is not correct because surplus on revaluation of non-current assets is not a cash item

QUESTION EIGHT

The correct Answer is C

Other options are not correct as shown below:

Cash flow from operating activities	**Wrong Answer A**	**Wrong Answer B**	**Correct Answer C**	**Wrong Answer D**
	FRW"000"	**FRW"000"**	**FRW"000"**	**FRW"000"**
Net profit before tax	5,000	5,000	**5,000**	5,000
Adjustment for				
Depreciation	2,000	2,000	**2,000**	2,000
Interest expenses	1,500	1,500	**1,500**	1,500
Operating profit before working capital change	8,500	8,500	**8,500**	8,500
Increase accounts receivable	(500)	(500)	**(500)**	(500)
Decrease in inventory	200	200	**200**	200
Decrease in accounts payable	(300)	(300)	**(300)**	(300)
Cash generated from operations	7,900 (Cash Inflows)	7,900 (Cash Outflows)	**7,900**	7,900
Interest paid			**(600)**	(600)
Net cash from operating activities	7,900 (Cash Inflows)	7,900 (Cash Outflows)	**7,300 (Cash Inflows)**	**7,300** (Cash outflows)

QUESTION NINE

Correct Answer is B

Sales: FRW850,000, Purchases: FRW559,500 and Cost of goods sold: FRW510,000

Other answers are not correct because the figures are transposed

Sales
Gross profit margin=40%=Gross profit/Sales
0.4= 340,000/sales
0.4 sales=340,000
Sales=340,000/0.4=850,000
Cost of goods sold=Sales-gross profit=850,000-340,000=510,000
Purchases
Opening stock + Purchases-Closing stock = Cost of sales
Purchases=Cost of sales - Opening stock + Closing stock
Purchases=510,000+149,000-99,500=559,500

QUESTION 10

The Correct Answer is D

Consolidated Revenue= 79,300+29,900-5,000=FRW104,200
Unrealized profit= (5,000*25/125)*1/2=FRW 500

A is not the correct answer because the consolidated does not deduct the inter-sales of Frw 5,000 and the unrealized profit is calculated on all unsold goods

Workings

Consolidated Revenue= 79,300+29,900=FRW109,200
Unrealized profit= (5,000*25/125=FRW 1000

B is not the correct answer because the unrealized profit is calculated by considering 25% as margin yet it is a markup provided in the exam

Workings

Consolidated Revenue= 79,300+29,900-5,000=FRW104,200
Unrealized profit= (5,000*25/100) *1/2=FRW 625

C is not the correct answer because the consolidated does not deduct the inter-sales of Frw 5,000 the unrealized profit is calculated by considering 25% as margin yet it is a markup provided in the exam

Workings

Consolidated Revenue= 79,300+29,900=FRW109,200
Unrealized profit= (5,000*25/100) *1/2=FRW 625

SECTION B

QUESTION 11

Marking guide

S/N	Key external stakeholders	Marks
1	Customers	2
2	Suppliers	2
3	The government	2
4	Lenders	2
5	Competitors	2
6	Regulatory bodies	2
7	Any other stakeholder not listed above	2
Maximum		**10**

Award two (2) Marks for every correct key stakholder. 5 Correct examples of stakeholders are sufficient to award a total of 10 marks). if the student states more than 5, only 10 maximum marks should be awarded

Model answers

Key external stakeholders for Mr KIGENZA are likely to include some or all of the following:

1) Customers: To ensure that the company is solvent, and they have some comfort that Mr. KIGENZA will be able to give them ordered product

2) Suppliers: Especially any significant or new suppliers who will be assessing Mr. KIGENZA for credit worthiness product and ability to pay.

3) The government: Rwanda Revenue Authority and the office of the registrar general to ensure that the financial statements are filed on time

4) Lenders: Such as bank because of the need for a loan, the lender will monitor Mr. KIGENZA company ‘s solvency to ensure it is able to pay off its debt

5) Competitors: Can access information about Mr. KIGENZA as they can view the statutory financial statement from the office of the registrar general. Although for small company Mr. KIGENZA the information may be limited to a statement of financial position and small company like Mr. KIGENZA would want to minimize the amount of information a competitors would be able to view provided, they adhere to financial reporting regulations.

6) Regulatory bodies: Would also be interested in the performance of the organization, and if a complaint is made against the companies there may be further inquiry by consumer groups.

QUESTION 12

Marking guide

S/N	**Inherent limitations**	**Marks**
1	The potential for human error	2
2	The possibility of controls being by-passed or over-ridden	2
3	The cost of control outweighing their benefits	2
4	Controls tendering to be designed to cope with routine and not non-routine transactions	2
5	Unforeseen Circumstances	2
Total		**10**

(Award two (2) Marks for every proper limitation for a total of 10 Marks. 5 Correct limitations are sufficient to award a total of 10 marks). if the student states more than 5, only 10 maximum marks should be awarded

Model answers

As it is descibed in the scenario provided, Mr. James has put in place internal controls that would help him to assess the following:

- ✓ The transactions are executed in accordance with proper authorization
- ✓ The transactions are recorded with the correct amount in the appropriate accounts
- ✓ The access to the system is permitted to only authorized people

However, his internal control systems can only provide the reasonable assurance(not conclusive) that their objectives are reached, because there are inherent limitations of any system including cost-benefit requirements and the possibility for being by-passed or over-ridden. These inherent limitations include the following:

1. The potential for human error

These includes the fact that human judgment in decision-making can be faulty or produce simple errors and mistake. This is particularly important where any element of judgment or estimate is required

On the other hand, there may be controls in place, but the personnel do not fully understand their implication, and fail to review any system-highlighted problems or investigate unusual items sufficiently. Thus, for the case of Mr. James, it is still possible that there may be human errors while creating sales order or processing invoices, which will result into incorrect sales ledger account.

2. The possibility of controls being by-passed or over-ridden

Control can be circumvented by collusion of two or more people or management may inappropriately override controls. For example, management could enter into a side agreement with a customer that alters the terms and condition of sale contract, which could result in improper revenue recognition.

3. The cost of control outweighing their benefits

This is a particular problem faced by smaller entities. For example, smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. It would not make commercial sense to employ additional staff purely for the purpose of achieving greater segregation of duties. However, this lack of formal control might be compensated for by a responsible and ethical owner-manager, who closely monitors his company's business and accounting processes. It is obvious that the business may fail to have segregation of duties given its size and the management would need to closely supervise what the workers are doing.

3. Controls tending to be designed to cope with routine and not non-routine transactions

Non-routine transactions are by their unusual nature. As result it will be difficult to predict what these might be and therefore it is less likely that a system will have been devised to deal with these effectively. For example, a sale system may be used to pricing items by kilogram weight, but a sales order has asked for a specific quantity, errors may occur in the calculation.

4. Unforeseen Circumstances

The process of internal controls depends on the management of a company forecasting all the risks that may occur and introducing systems to prevent or control them. However, the management cannot foresee all possible problems or circumstances. There will always be random variables or events that can render internal controls futile.

These circumstances may come from different sources, either internal or external. However, when these events take place, internal controls cannot prevent them. Similarly, making controls for these circumstances can also be costly if they rarely occur. Therefore, in unforeseen circumstances, internal controls may have limited use.

SECTION C

QUESTION 13
Marking guide **Marks**
a) Difference between impairment loss and Depreciation 4

b) Non-Current Assets Schedule (Property, Plant and Equipment Movement Schedule) at 30 June 2021:

	Total	**Land**	**Building**	**Motor vehicle**	**Computer**	**Furniture and fitting**
1. Cost or revalued amount						
Cost or revalued amount as at start of the year	72,500 ***(0.4 Marks)***	20,000 ***(0.4 Marks)***	40,000 ***(0.4 Marks)***	8,000 ***(0.4 Marks)***	500 ***(0.4 Marks)***	4,000 ***(0.4 Marks)***
Add: Revaluation surplus Or **Less** Revaluation Loss	7000 ***(0.4 Marks)***	7,000 ***(0.4 Marks)***	-	-	-	-
Add: Additions in year (Acquisition)	7,000 ***(0.4 Marks)***	-	1,000 ***(0.4 Marks)***	6,000 ***(0.4 Marks)***	-	-
Less: Disposal during the year	(400)	-	-	-	-	(400) ***(0.4 Marks)***
Cost or	86,10	27,00	41,000	14,00	500	3,600

revalued amount At the end f the year	0 ***(0.4 Marks)***	0 ***(0.4 Marks)***	***(0.4 Marks)***	0 ***(0.4 Marks)***	***(0.4 Marks)***	***(0.4 Marks)***
2. Depreciation						
Accum. Dpn At the start of the year	7,280 ***(0.4 Marks)***	-	4,000 ***(0.4 Marks)***	2,880	-	400 ***(0.4 Marks)***
Add: Charge/Dpn for the year	3,779 ***(0.4 Marks)***	-	2,050 ***(0.4 Marks)***	1,424 ***(0.4 Marks)***	125 ***(0.4 Marks)***	180 ***(0.4 Marks)***
Less: Eliminated on disposed assets	(50) ***(0.4 Marks)***	-	-	-	-	(50) ***(0.4 Marks)***
Accum. Dpn At the end of the year	11,009 ***(0.4 Marks)***		6,050 ***(0.4 Marks)***	4,304 ***(0.4 Marks)***	125 ***(0.4 Marks)***	530 ***(0.4 Marks)***
Balance (Carrying Amount) c/f At the end of the year=Cost-Acc Dpn)	75,091 ***(0.4 Marks)***	27,000 ***(0.4 Marks)***	34,950 ***(0.4 Marks)***	9,696 ***(0.4 Marks)***	375 ***(0.4 Marks)***	3,070 ***(0.4 Marks)***

There are 40 points to be awarded marks. 0.4 marks each for 40 items=16 Marks

Model answers

a) Impairment loss: the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The carrying amount: the amount at which an asset is recognized in the balance sheet after deducting accumulated depreciation and accumulated impairment losses

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life
b) Non-Current Assets Schedule (Property, Plant and Equipment Movement Schedule) at 30 June 2021:

	Total	**Land**	**Building**	**Motor vehicle**	**Computer**	**Furniture and fitting**
	FRW''000''	**FRW''000''**	**FRW''000''**	**FRW''000''**	**FRW''000''**	**FRW''000''**
1. Cost or revalued amount						
Cost or revalued amount as at start of the year	72,500	20,000	40,000	8,000	500	4,000
Add: Revaluation surplus Or **Less** Revaluation Loss	7000	7,000	-	-	-	-
Add: Additions in year (Acquisition)	7,000	-	1,000	6,000	-	-
Less:	(400)	-	-	-	-	(400)

Disposal during the year						
Cost or revalued amount At the end f the year	**86,100**	**27,000**	**41,000**	**14,000**	**500**	**3,600**
2. Depreciation						
Accum. Dpn At the start of the year	7,280	-	4,000	2,880	-	400
Add: Charge/Dpn for the year	3,779	-	2,050	1,424	125	180
Less: Eliminated on disposed assets	(50)	-	-	-	-	(50)
Accum. Dpn At the end of the year	**11,009**		**6,050**	**4,304**	**125**	**530**
Balance (Carrying Amount) c/f At the	**75,091**	**27,000**	**34,950**	**9,696**	**375**	**3,070**

end of the year=Cost -Acc Dpn)						

QUESTION 14
Marking guide

(a)Calculation of Goodwill

Items	**Marks**
Fair value of consideration transferred	**1**
Add: Fair value of non-controlling interest for net assets, (55,000* 25%)	**1**
Total	**1**
Less: Fair value of net assets	
Share capital	0.5
Retained earnings (Pre-acquisition profit)	0.5
Fair value adjustment	0.5
Total net assets	0.5
Good will at acquisition	**1**

(b)

RUHASHYA PLC Group's
Consolidated Statement of Financial Position as at 1 June 2021.

items	**Marks**
Non-Current Assets	
PPE	**2**
Investment	
Goodwill	**2**
Current Assets	**2**
Total Assets	
Equity	
Ordinary Share Capital	**2**
Retained Earnings	**2**
Fair value adjustment	
NCI	**2**
Current Liabilities	**2**
Total Equity and Liabilities	

Model answers

(a)

1. Parent's investment in the subsidiary and the parent's portion of net assets of the subsidiary are eliminated against each other.

This requires the elimination of FRW 50 million investment against the net assets of the subsidiary (share capital 40M x 75%, retained earnings FRW10M x 75%, fair value adjustment FRW 5 x 75%)

2. Non-Controlling Interest (NCI) in the net assets of consolidated subsidiaries should be presented separately under the equity in the consolidated statement of financial position

3. The amount of net assets attributable to non-controlling interests is calculated as follows:

NCI share of share capital (25% x FRW 40,000)	10,000
NCI share of retained earnings (25% x FRW 10,000)	2,500
NCI share of fair value adjustment (25% x FRW5,000)	1,250
	13,750

(a)Goodwill can be calculated as follows: FRW "000"

Fair value of consideration transferred		50,000
Add: Fair value of non-controlling interest for net assets, (55,000* 25%)		13,750
Total	(A)	63,750
Less: Fair value of net assets		
Share capital	40,000	
Retained earnings (Pre-acquisition profit)	10,000	
Fair value adjustment	5,000	
Total net assets	55,000	(55,000)
Good will at acquisition	**(63,750-55,000)**	**8,750**

(b)

RUHASHYA PLC Group's

Consolidated Statement of Financial Position as at 1 June 2021.

	RUHASHYA PLC	**NGENZI PLC**	**Adjustments**	**Group**
Non-Current Assets	**FWR'000'**	**FWR'000'**	**FWR'000'**	**FWR'000'**
PPE	**30,000**	**35,000**	**5,000**	**70,000**
Investment	50,000	-	(50,000)	-
Goodwill			8,750	8,750
Current Assets	45,000	35,000		80,000
Total Assets	**125,000**	**70,000**		**158,750**
Equity				
Ordinary Share Capital	80,000	40,000	(-30,000 -10,000)	80,000
Retained Earnings	25,000	10,000	(-7,500 -2,500)	25,000
Fair value adjustment			(5,000 -3,750 -1,250)	-
NCI			13,250	13,250
Current Liabilities	20,000	20,000		40,000
Equity and Liabilities	**125,000**	**70,000**		**158,750**

QUESTION 15

Marking guide

a)

	Formula	**Workings and answer**	**Workings and answer**
		2020	**2019**
1. ROCE	1 Mark	1 Mark	1 Mark
2. Gross Profit Margin	1 Mark	1 Mark	1 Mark
3. Current ratio	1 Mark	1 Mark	1 Mark
4.Receivables Collection Period	1 Mark	1 Mark	1 Mark
5. Debt ratio	1 Mark	1 Mark	1 Mark

Award 1 mark for the formula if it is correct, even if the final answer may not be correct. Award full marks for every ratio if the formula and the answer is correct.

b) Comments on the profitability of Gashyende Ltd for the successive years (**2.5 Marks)**

Comments on the liquidity of Gashyende Ltd for the successive years **(2.5 Marks)**

Model answers

a)

Formula	**2020**	**2019**
1. ROCE= (PBIT/Capital Employed) X100	=226/944= 23.9%	=210/936=22.4%
2. Gross Profit Margin= Gross profit/Sales Revenue	=290/590= 49.1%	=240/400=60%
3. Current ratio=Current Assets/Current Liabilities	=170/110=1.5:1	=270/90=3.0:1
4.Receivables Collection Period=(Trade Receivables/Credit Sales) x365 days	=(60/354)365=61 .86 days	=(80/240)365 =121.67 days
Credit Sales (60% of sales)	354	240
5. Debt ratio=Total Debts/Total Assets	=314/1054=29.8 %	=296/1026=28.8%

Note: Figures used are in Frw000)

b) **i)** Comments on the profitability of Gashyende Ltd for the successive years

The profitability of Gashyende Ltd has decreased between 2019 and 2020. Basing on the Gross Profit Margin, it is obvios that the gross profit margin which is a Gross profit expressed as a percentage of sales has decreased from 60% to 49%. This was due to significant increase in cost of sales from 400 (in 2019) to 590 (in 2020) even though the sales have increased, the increase in cost of sales was not followed by increase in selling price, which reduced overall profitability.
The return on capital employed which reflects the profit as percentage of the amount of capital employed and measures the overall efficiency of a company in employing the resources available to

it, shows that the efficiency has increased by only 1% . There is a need to compare this ROCE with the market borrowing rates and determine if this investment is worth undertaking

ii) Comments on the liquidity of Gashyende Ltd for the successive years

On the liquidity side, it has significantly decreased as measured by the current ratio that decreased from 3 in 2019 to 1 in 2020. This was due to that current liabilities have increased from 90(in 2019) to 110(in 2020) yet current assets have decreased from 270(in 2019) to 170 (in 2020). The high current ratio in 2019 shows the ability of the business to meet its current obligations(Curent assets being 3 times of current liabilities) . However, it is also not a good situation as it shows the idle cash not put to use to generate profit. The decrease in 2020 shows that the business is using the idle cash now to generate profit.

END OF MARKING GUIDE AND MODEL ANSWERS