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CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY, 28 MARCH 2022

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

On 1st June 2021, Mageza Ltd acquired 20,000 shares in Karakye Ltd. Mageza Ltd paid FRW 15,000,000 cash and gave Karakye Ltd, 1 for every 5 shares held in Karakye Ltd at a price of FRW 600 each. The share capital of Karakye Ltd was 30,000 shares of 500 FRW each.

In the books of accounts of Mageza Ltd, Karakye Ltd will be treated as:

- A Investment
- B Subsidiary
- C Associate
- D Joint Venture

(2 Marks)

QUESTION TWO

Which one of the following statements is true about revaluation of non-current assets as per IAS16?

- A 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 other comprehensive income as a surplus for the year.
- B 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 as income for the year. However, the decrease recognized in incomes reduces the amount accumulated in equity under the heading of revaluation surplus.
- 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.
- D None of the above is true

(2 Marks)

QUESTION THREE

At 31 October 2019, a business had machines with a cost of FRW120,000 and with accumulated depreciation of FRW25,000. On 1 January 2020 they sold a machine for FRW10,000. This machine had original cost of FRW30,000 as at 1 April 2018.

The business had a depreciation policy of charging straight-line depreciation at the rate of 20% per annum with proportionate depreciation in the year of acquisition and year of disposal

What is the depreciation expense for the year ended 31 October 2020?

- A FRW4,000
- B FRW15,000
- C FRW19,000
- D FRW18,000

(2 Marks)

QUESTION FOUR

The purpose of the statement of Financial Position is to indicate?

- A The assets of the business and the claims against those assets
- B A clear and definite estimate of what a business is really worth
- C The amount the business could be sold for as a going concern
- D The amount the business could be sold for in liquidation

(2 Marks)

QUESTION FIVE

How should a contingent liability be included in a company's financial statements, if the likelihood of a transfer of economic benefits to settle it, is remote?

- A Disclosed by note with no provision being made
- B No disclosure or provision is required.
- C Recognize the contingent liability in the face of financial statements
- D Recognize the provision as a liability

(2 Marks)

QUESTION SIX

At 31 December 2019, a company's capital structure was as follows:

Ordinary share capital (5000 shares of FRW25 each) FRW125,000

Share premium FRW100,000

During the year ended 31 December 2020, the company made a rights issue of 1 share for every 2 held at FRW100 per share and this was taken up in full. Later in the year the company made a bonus issue of 1 share for every 5 held, using the share premium account for the purpose.

What was the company's capital structure at 31 December 2020?

- A Share capital account: FRW187,500; Share premium account: FRW287,500
- B Share capital account: FRW625,000; Share premium account: FRW375,000
- C Share capital account: FRW225,000; Share premium account: FRW287,500
- D Share capital account: FRW225,000; Share premium account: FRW250,000

(2 Marks)

QUESTION SEVEN

Which of the following items could appear in a company's Statement of Cash Flows?

- i) Surplus on revaluation of non-current assets
- ii) Proceeds from issue of shares
- iii) Proposed dividend
- iv) Dividends received

A (iii) and (iv)

B (i) and (iii)

C (i) and (ii)

D (ii) and (iv)

(2 Marks)

QUESTION EIGHT

You have been provided with the following cash flow information of XYZ Ltd for the year ended 31st March 2021:

Details	FRW"000"
Profit before tax	5,000
Value of inventory at the start of the year	500
Value of inventory at the end of the year	300
Depreciation for the year	2,000
Decrease in accounts payable	300
Increase in accounts receivable	500
Interest expense for the year (60% not yet paid)	1,500

The cash flow from operating activities will be:

A FRW 7,900,000 (Cash Inflows)

B FRW 7,900,000 (Cash Outflows)

C FRW 7,300,000 (Cash Inflows)

D FRW 7,300,000 (Cash Outflows)

(2 Marks)

QUESTION NINE

A company had a gross profit of FRW 340,000 for the year ended 30 June 2020. At the start of the year, the opening inventory was valued at FRW 99,500 while closing stock as at 30 June 2020 was FRW 149,000. The Gross Profit Margin was 40%.

What was the value of Sales, purchases, and cost of sales for the year ended 30 June 2020?

- A Sales: FRW 510,000; Purchases: FRW 559,500 and Cost of goods sold: FRW 850,000
- B Sales: FRW 850,000; Purchases: FRW 559,500 and Cost of goods sold: FRW 510,000
- C Sales: FRW 559,50; Purchases: FRW 850,000 and Cost of goods sold: FRW 510,000
- D Sales: FRW 850,000; Purchases: FRW 510,000 and Cost of goods sold: FRW 559,500

(2 Marks)

QUESTION 10

MUGENZI Ltd acquired 70% of the voting share capital of KAGABO Ltd on 1 October 2019.

Below is the extracts statements of profit or loss of each company for the year ended 30 September 2020

Details	MUGENZI Ltd	KAGABO Ltd
	FRW	FRW
Revenue	79,300	29,900
Cost of sales	(54,990)	(17,940)
Gross profit	24,310	11,960

During the year MUGENZI Ltd sold goods worth FRW 5,000 to KAGABO Ltd at mark up of 25%. Half of these items remained in the inventory of KAGABO Ltd at the year-end.

What would be the consolidated revenue and unrealized profit for the year ended 30 September 2020?

- A Consolidated revenue: FRW 109,200; Unrealized Profit: FRW 1,000
- B Consolidated revenue: FRW 104,200; Unrealized Profit: FRW 625
- C Consolidated revenue: FRW 109,200; Unrealized Profit: FRW 625
- D Consolidated revenue: FRW 104,200; Unrealized Profit: FRW 500

(2 Marks)

SECTION B

QUESTION 11

Mr. KIGENZA operates a small business in the Eastern-Province Rwanda. The business uses local raw materials in its production process and finished products are sold in Kigali. They have different suppliers and some of them allow Mr. KIGENZA to have 14 days credit. The demand and popularity of Mr. KIGENZA's products increased. As a result, Mr. KIGENZA planned to expand the business by acquiring new factory coupled by hiring new production and sales staff. In order to do this, he needs to take out a bank loan.

Required:

Identify the key external stakeholders who would require information regularly from Mr. KIGENZA's business and explain briefly why these stakeholders would require that information (10 Marks)

(Total: 10 Marks)

QUESTION 12

Mr. James uses Quickbooks as his accounting information system software. One of his business routine tasks in book-keeping is to create sales order, prepare invoice and update sales ledger.

The management of his company had designed some controls in the computer system to ensure that the financial reports produced are free from any material error or misstatement.

Before entering a transaction batch, Mr. James counts the number of documents they are dealing with and calculates the total value of each transaction i.e 12 order at a total of FRW 20 million.

The number and value are input into a prompt screen. When they are done with recording all data, the computer calculate whether it has processed 12 orders at RWF 20 million and will produce an error report if any.

As they are recording data, the computer program automatically verifies if the information are reasonable and accurate. The system is programed to compute expected results and reject it for any deviation e.g in the customer account field, they should be entering three letter followed by six number e.g BCD123456. The computer will also reject the entire customer number it does not recognize as all authorized customers are entered into a master file. Once the information is processed, Mr. James prints the invoices and match them with sales orders. If found to be correct, he processes sale ledger.

In order to do this, he has to answer a prompt reminding him to agree the invoice back to the sales orders. Unless he confirms that he has done this, the computer will not update the ledger. It is not possible to exit the program until the ledger is updated.

However, despite all these effective controls, one of the directors stressed that things can still go wrong and that management need to monitor the internal controls put in place due to the inherent limitations of the accounting system.

Required:

Explain Five (5) inherent limitations in the context of the internal controls of an organization and explain the reasons why this would still occur in the business of Mr. James. (10 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

- (a) Differentiate impairment loss from depreciation of a non-current asset (4 Marks)
- (b) The following balances were extracted from the books of HIRWA Ltd as at 30 June 2021

Details	Debit	Credit
	FRW 000	FRW 000
Land (cost)	20,000	
Furniture and Fittings (at cost)	4,000	
Motor Vehicle (carrying amount)	5,120	
Computer (at cost)	500	
Buildings (at cost)	40,000	
Accumulated Depreciation		
Building		4,000
Motor vehicle		2,880
Furniture and Fittings		400

The following additional information is also relevant:

- The depreciation policy of the company is as follows:

Details	Rate (%)	Method
Buildings	5	Straight line
Motor vehicle	20	Reducing balance
Furniture and Fittings	5	Straight line
Computer	25	Reducing balance

- The land was revalued upwards during the year by FRW 7,000,000
- A piece of furniture that initially cost FRW 400,000 on 1 January 2019 was disposed off for FRW 120,000 on 30 June 2021.
- During the year, an extension to the building was completed and put to use on 1 January 2021 at a cost of FRW 1,000,000 and FRW 500,000 was incurred in respect of repairs on the other part of the old building
- A new motor vehicle which was acquired on 28 February 2021 for FRW 6,000,000 has not yet been recognized in the books
- Depreciation is time apportioned where necessary

Required:

In accordance with IAS 16, prepare an Non-Current Assets Schedule (Property, Plant and Equipment Movement Schedule) as at 30 June 2021 (16 Marks)

(Total: 20 Marks)

QUESTION 14

RUHASHYA PLC acquired 75% of the equity interest in NGENZI PLC on 1 June 2021 for FRW 50 million. The Statement of Financial Position as at 1 June 2021 of each company were as follows:

Details	RUHASHYA PLC FRW "000"	NGENZI PLC FRW "000"
Assets		
Non-current assets		
Property, plant and equipment	30,000	35,000
Investment in NGENZI PLC	50,000	-
Total Non-Current Assets	80,000	35,000
Current assets	45,000	35,000
Total assets	125,000	70,000
Equity and liabilities		
Equity		
Ordinary shares	80,000	40,000
Retained earnings	25,000	10,000
Total Shareholders' funds	105,000	50,000
Current liabilities	20,000	20,000
Total equity and liabilities	125,000	70,000

Additional information.

- At the date of acquisition all the assets and liabilities of NGENZI PLC were reflected at fair value except land which had a fair value of FRW 5,000,000 in excess of its carrying amount.
- RUHASHYA PLC Group measures the Non-Controlling Interest at its proportionate share of the acquiree's net identifiable assets.

Required:

- Calculate goodwill using Partial/proportionate goodwill method (6 Marks)
- With clear working, prepare the Consolidated Statement of Financial Position for the group as at 1 June 2021 (14 Marks)

(Total: 20 Marks)

QUESTION 15

You have been given the following summarized financial information for Gashyende Ltd:

Income statements for years ended 31 October 2020 and 2019

Details	2020	2019
	FRW 000	FRW 000
Sales Revenue (60% on credit)	590	400
Cost of sales	(300)	(160)
Gross profit	290	240
Distribution & administrative expenses	(64)	(30)
Profit before Interest and tax	226	210
Interest expense	(100)	(90)
Profit before tax	126	120
Income tax expense	(12)	(10)
Profit for the year	114	110

Statement of financial position as at 30 October 2020 and 2019

Details	30 Oct 2020 (FRW000)	30 Oct 2019 (FRW000)
Non-current assets		
Tangible assets	884	756
Current assets		
Inventory	100	40
Receivables	60	80
Cash and cash equivalents	10	150
Total current assets	170	270
Total assets	1,054	1,026
Equity & Liability		
FRW 1 ordinary shares	700	700
Retained earnings	40	30
Shareholders 'equity	740	730
Non-Current Liabilities		
Long-term borrowings	180	180
Loan notes	24	26
Total Non-Current Liabilities	204	206
Current liabilities		
Payables	90	50
Accruals	20	40
Total Current Liabilities	110	90
Total Liabilities	314	296
Total equity and liabilities	1,054	1,026

(a) Calculate the following ratios for the two years

- i. Return on capital employed (ROCE) (3 Marks)
- ii. Gross profit Margin (3 Marks)
- iii. Current ratio (3 Marks)
- iv. Receivable collection period (3 Marks)
- v. Debt ratio (3 Marks)

(b) Comment on the Profitability and liquidity position of Gashyende Ltd for the 2 successive years. (5 Marks)

(Total: 20 Marks)

End of question paper

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