CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 3 EXAMINATION

S3.1 FINANCIAL ACCOUNTING

DATE: MONDAY, 23 AUGUST 2021

MODEL ANSWERS AND MARKING GUIDE

SECTION A

Marking guide

Question Number	Answer
1	**C**
2	**D**
3	**C**
4	**B**
5	**B**
6	**C**
7	**B**
8	**C**
9	**B**
10	**C**

		Marks
Question 1 to 10	2 marks for each correct answer	2
Total marks for the section		**20**

SECTION A -Detailed Answers

QUESTION ONE

The Correct answer is C

Only 1 and 3 are correct.
2 is not correct because Sole traders and companies both have capital invested in the business.
Option C is correct because it excludes 2
Options A, B and D are not correct include 2 which is not correct

QUESTION TWO

The correct Answer is D

The correct action is to create a provision for Item 1, and for item 2 to disclose by note only.
(For item 1, it is certain that the company will have warranty claims against them this year and the amount can be estimated accurately while for item 2 the amount cannot be estimated accurately and so only disclosure should be made.)
Option D is correct because it suggests creating a provision for item 1, and for Item 2 to disclose by note only
Option A is not correct because it suggests to only disclose item 1and do nothing to item 2 while the correct action is to create a provision for Item 1, and for Item 2 to disclose by note only

Option B is not correct because it suggests creating provision for item 2 while the correct action is to disclose it by note only

Option C is not correct because it suggests disclosing item 1by note only while the correct action is to create a provision for item 1

QUESTION THREE

The correct Answer is C

Depreciation	**Year**	**Depreciation Amount on 20% reducing balance**
	2015	2,400,000.0
	2016	1,920,000.0
	2017	1,536,000.0
	2018	1,228,800.0
	2019	983,040.0
	2020	786,432.0
	2021	157,286.4
Total acc. Deprec.		**9,011,558.4**
NBV at sale date		2,988,441.6
Proceeds on disposal		5,000,000
Profit on disposal		**2,011,558.40**

Option C is correct as it indicates a profit on disposal as calculated above

Option A is not correct since there was a profit on disposal and not a loss though the figure is correct

Option B&D are not correct since they both provide a wrong figure and thus it does not matter whether it is a profit or a loss.

QUESTION FOUR

The correct Answer is B

Option B is correct since the purpose of amortizing an intangible asset is to spread the cost of the intangible non-current asset over its useful life.

Option A is not correct because the reduction is the result but not the purpose

Option C is not correct since amortization is not necessarily associated with cash flows

Option D is not correct since amortization is associated with measurement than recognition of an intangible asset

QUESTION FIVE

4. The correct Answer is B

Dr. Profit/loss account Frw 5 Million; Dr. Other Comprehensive Income Frw 34 Million; Cr. Building Frw 39 Million.

Option B is correct because IAS 16 requires that when an asset is measured under revaluation model and its value has reduced, the revaluation loss is recognized in the profit and loss account unless there is a

previous related revaluation gain in which case the loss equivalent to the previous revaluation gain is recognized through other comprehensive income. In this case the current loss is Frw 39 million and the previous revaluation gain was Frw 34 million. A loss equivalent to Frw 34 million is thus recognized through other comprehensive income while the extra loss i.e., Frw 5 million should be recognized though the profit and loss account.
Option A is not correct because it assumes there is a revaluation gain with a previous loss of Frw 5 million on the same building.
Option C is not correct it assumes there is a revaluation gain with no previous loss on the same building.
Option D is not correct because it assumes there is a loss with no previous gain on the same building

QUESTION SIX

The correct Answer is C

Right issue

Existing old shares=500,000shares
2 old shares=1 right issue
1 old shares=1/2 rights
500,000 old shares=1/2*500,000=250,000 rights

Dr. BANK (250,000*300)	75m	
Cr. Share capital (250,000*250)	62.5m	
Cr:Share premium (250,000*50)		12.5m

Share capital=125+62.5=187.5
Share premium=100+12.5=112.5

Bonus issue

Existing old shares =(500,000+250,000)750,000shares
5 old shares=1 bonus share
1 old shares=1/5 bonus share
750,000 old shares=1/5*750,000=150,000 bonus share
Dr. share premium=150,000 shares of Frw 250=37.5 Million
Cr. Share capital 37.5 Million

Share capital=125+62.5+37.5=225 Million
Share Premium=100+12.5-37.5=75 Million

Option C is correct as per the above calculation of the share capital and share premium after bonus issue
Option A is incorrect since it does not consider the bonus issue.
Option B is not correct since it does not provide any of the correct value for share capital and share premium.
Option D is not correct since the correct values are wrongly interchanged for share capital and share premium.

QUESTION SEVEN

The correct Answer is B

Option B is correct because all events from 1 to 4 are adjusting events as per IAS 10
Option A is incorrect because it excludes 3 which is an adjusting event
Option C is incorrect because it excludes 2 and 3 which are adjusting events
Option D is incorrect because it excludes 1 and 4 which are adjusting events

QUESTION EIGHT

The correct Answer is C

Cash flow from operating activities	**FRW"000"**
Net profit before tax	5,000
Adjustment for	
Depreciation	2,000
Interest expenses	1,500
Operating profit before working capital change	8,500
Increase accounts receivable	(500)
Decrease in inventory	200
Decrease in accounts payable	(300)
Cash generated from operations	7,900
Interest paid	(600)
Net cash-inflow from operating activities	**7,300**

Option C is correct as calculated above
Option A does not deduct the interest paid
Option B is not correct since it provides negative cash flow
Option D is not correct since it provides a negative cash flow

QUESTION NINE

The Correct Answer is B

Net Profit Margin= Net Profit After Tax/Sales=5,300/53,000=10%
Return on Capital employed=PBIT/Total CE=10,200/42,500=24%

Option B is the correct answer since it provides the right ratios for Net Profit After Tax and Return on Capital Employed as calculated above.
Option A is incorrect since it uses the profit before interest and tax to calculate the net profit margin and it wrongly calculates the return on capital employed
Option C is incorrect since it uses the profit before interest and tax to calculate the net profit margin and it calculates the return on capital employed using the net profit margin

Option D is incorrect because both the Net Profit Margin and the Return on Capital Employed are wrongly calculated.

QUESTION 10

The Correct Answer is C

Cost of investment		90 million
Share capital of GAMA LTD	15 Million	
Pre-acquisition earnings	22 Million	
		37 Million

Goodwill = FRW 90 Million – FRW 37 Million = FRW 53 Million

Option C is correct because it rightly calculates the goodwill as shown above
Option A is not correct since the cost of investment is not equivalent to the goodwill
Option B is a wrong calculation of the goodwill
Option D is incorrect since it only considers only share capital as part of the net asset

SECTION B

QUESTION 11

Marking Guide

The correct indication of reporting date and the date of authorization for issue	2
Properly quoting IAS 10 and mentioning that it is an event after the reporting period	2
Properly quoting IAS 10 and mentioning that this is an adjusting event	2
Properly quoting IAS 8 and mentioning that the corrections can be made	2
Mentioning the recommendation to pay the casual workers	2
Total marks	**10**

Detailed answer

The financial statements have been prepared as per 31st December 2021 (Reporting Date) and submitted to the Chief Finance Officer. The Board of Directors will authorize them for issue on 30th March 2021 (Date of authorization for issue). The payment was submitted on 15th December 2020 and the claim was re-called On 15th January 2021

Thus, according to IAS 10: Events After the Reporting Date, this is an **event after the reporting date** because it occurred between the reporting date (31st December 2020) and the date of authorization for issue (30th March 2021).

It is also **an adjusting event** because it provides evidence of conditions that existed at the reporting date — adjust the financial statements to reflect those events that provide evidence of conditions that existed at the reporting date.

Again the Finance Unit can base their decision on IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors which allows retrospective adjustment of the financial statements. It reads "All material prior-period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery, by restating comparative prior-period amounts or, if the error occurred before the earliest period presented, by restating the opening statement of financial position."

I would advise the management of BRALIMA LTD to make adjustment in the books of accounts and authorize the payment of these casual workers since the financial statements are not approved/authorized for issue.

QUESTION 12

Marking Guide

The explanation of Effectiveness	3
The explanation of Economy	3
The explanation of Efficiency	2
Linking the 3 Es to value for money	2
Total marks	**10**

Detailed Answer

Public sector organizations are always expected to attain greater results and outputs with fewer resources in order to further their missions. The concept of 3 Es (EFFECTIVENESS, ECONOMY and EFFICIENCY) shows how government entities must exercise due care in disbursing government funds. Authorities are supposed to ensure high value for money and avoid wasteful expenditures.

- **EFFECTIVENESS:** Refers to the success or otherwise in achieving objectives and it is concerned only with outputs. A public entity will be regarded as effective, if it has achieved the objective as stipulated. e.g: if organisation objective is building a 250-bed hospital & it subsequently builds such a hospital, then it has achieved its objective and it has been effective. If fire regulations limit the number of beds to 150, then the organisation will of course have been less effective…..the degree of effectiveness says nothing about how much was spent to achieve it the hospital may have cost, it concentrates only on output.

- **ECONOMY:** Whereas effectiveness concerns only outputs, economy concerns only inputs. It aims at minimizing costs**.** Extending the above example, the question would be, did the organisation exercise due economy in building the hospital? This means, did the hospital cost more than it needed to? Economy is also a relative measure and, in practice, questions of economy will become:
  Did the hospital cost more than the organisation said it would cost?
  Did the hospital cost more than comparable hospitals?

- **EFFICIENCY:** This is a combination of effectiveness and economy. It is the most important and all-embracing of the three. It is measured by the ratio:

  $$\frac{\text{OUTPUT}}{\text{INPUT}}$$

  The greater the ratio, the more output for input, the more efficient the organisation
  Because efficiency is measured by a ratio, it can be improved in four ways:
  By increasing output for the same input;
  By increasing output by a greater proportion than the proportionate increase in input;
  By decreasing input for the same output;

By decreasing input for a greater proportion than the proportionate decrease in output.

In short

- Economy is about inputs;
- Effectiveness is about outputs.;
- Efficiency is about inputs and outputs.

Therefore, in the policy statement on disbursements, the persons entrusted with disbursing the State finances must underscore the principles of operational efficiency, economy, and value for money. This means that disbursements should be made without waste, funds should be utilized in the best possible way, and the expenditure should match the achieved performance objectives.

SECTION C

QUESTION 13

Marking Guide

a) XYZ's Statement of Profit or Loss for the year ended 30 June 2020

The correct presentation of the statement including company name and name of the statement	0.5
The correct presentation of the period	0.5
There are 18 figures for a complete statement of profit or loss - Each correct figure is awarded	0.5
marks, Maximum 9 marks	9
Maximum Marks	**10**

b) XYZ's Statement of financial position as at 30 June 2020

The correct presentation of the statement including company name and name of the statement	2
The correct presentation of the period	0.5
There are 15 figures for a complete statement of financial position - Each correct figure is awarded 0.5 marks, Maximum 7 Marks	7.5
Maximum Marks	**10**
Total marks	**20**

Detailed Answer

XYZ LTD statement of profit or loss /10 Marks
For the year ended 30 June 2020

	FRW	**FRW**
Sales	608,000	
Returns in wards	8,000	
Net sales		**600,000**
Opening Stock	94,000	
Add: Purchases	314,000	
Add: Carriage In	600	
Less: Returns out	3,500	
Less: Closing Stock	8,800	
Cost of Sales		**396,300**

Gross Profit		**203,700**
Other Incomes		
Commission income		60,000
Total Incomes		**263,700**
Other Expenses		
Shop wages		92,000
Light and Heat		5,200
Rent		85,000
Insurance		1,800
Total Expenses		**184,000**
Net Profit for the year		**79,700**

XYZ Statement of Financial Position		
As at 30 June 2020		
Assets	**FRW**	**FRW**
Non current Assets		
Shop fittings		260,000
Equipment		60,000
Total Non Current Assets		**320,000**
Current Assets		
Inventory	8,800	
Accounts Receivables	2,300	
Bank	12,200	
Cash	1,900	
Total Current Assets		**25,200**
Total Assets		**345,200**
Capital and Liabilities		
Share Capital at start	290,000	
Profit for the year	**79,700**	
Less: Loss from previous period	70,000	
Share Capital at the end		**299,700**
Liabilities		
Current Liabilities		
Accounts payable		45,500
Total Liabilities		
Total Capital &Liabilities		**345,200**

QUESTION 14

Marking Guide

a) Categories of ratios

Profitability and return ratios explained	1
Long-term solvency and gearing ratios explained	1
Liquidity ratios explained	1
Efficiency (turnover ratios) explained	1
Shareholders' investment ratios	1
Maximum marks	**5**

b) Filling in missing figures in the income statement

7 Income statement figures: each correct figure is awarded 1 mark	7
8 Income statement figures: each correct figure is awarded 1 mark	8
Maximum marks	**15**
Total marks	**20**

Detailed Answer

A. Basic ratios can be grouped into five categories.

1. **Profitability and return**: Profitability ratios measures the ability of the firm to make profit out of its operations. The profitability ratios include return on capital employed, net profit as a percentage of sales, gross profit as a percentage of sales.
2. **Long-term solvency and gearing:** long term solvency ratios are concerned with how much the company owes in relation to its size, whether it is getting into heavier debt or improving its situation, and whether its debt burden seems heavy or light. Gearing or leverage is concerned with a company's long-term capital structure.
3. **Liquidity ratios**: Liquidity is the amount of cash a company can put its hands on quickly to settle its debts (and possibly to meet other unforeseen demands for cash payments too).
4. **Efficiency (turnover ratios):** efficiency ratios measure the efficiency with which a company uses its assets. For example, the average collection period measures the average length of time it takes for a company's customers to pay what they owe.
5. **Shareholders' investment ratios**: these are measures used to assess the level of return received by the shareholders of a company.

B. Financial statements of KAZI NIKAZI Ltd

Income statement for the year ended 31.03.2020

	FRW	FRW
Sales		**850,000**
Less: **Cost of sales**		
Opening Inventory	99,500	
Purchases	**559,500**	
Less: Closing Inventory	(149,000)	
Cost of goods sold		**(510,000)**
Gross profit		340,000
Less expenses: Selling and distribution	30,000	
Depreciation	**10,000**	
Administration expenses	135,000	
Total Expenses		**175,000**
Earnings before interest & taxes		165,000
Less: Interest		**(15,000)**
Profit before tax		150,000
Tax on income		(75,000)
Net Profit for the year		**75,000**
Less: ordinary dividend (0.75 per share)		(15,000)
Retained profit for the year		60,000

KAZI NI KAZI
Statement of financial position as at 31 March 2020

	FRW		FRW
Non- Current Assets		Issued share capital (20000 share of Frw10 each)	200,000
Land and Buildings	250,000	Reserve	90,000
Plant & Machinery	80,000	Retained profit	**60,000**
	330,000	**Total Equity**	350,000
Current Assets		Long term liabilities	99,990
Inventory	**149,000**	Current liabilities.	130,000
Receivables	**75,090**		
Less: Provision	(4,000)		
Cash	**29,900**		
Total Current Assets	**249,990**	**Total liabilities.**	**229,990**
Total Assets	**579,990**	**Total Capital & Liabilities**	**579,990**

<table>
<tr><th colspan="2">WORKINGS</th></tr>
<tr><td>
INCOME STATEMENT
1. Gross profit Margin:

<u>Gross profit = 340,000 =0.4</u>
sales sales
salesx0.4 = 340,000
sales = 340,000/0.4 = 850,000
Sales = 850,000
2. Gross profit= sales - cost of sales
cost of sales= sales - gross profit
= 850000-340000 = 510,000
cost of sales= 510,000
3. Purchases =
cost of sales + closing inventory-opening inventory
= 510,000+149,000-99,500 =559,500
Purchases = 549,500
4. Total expenses= Gross Profit- EBIT
=340000-165000= 175,000
Total expenses= 175,000
5. Depreciation = 175,000-135,000-30,000 = 10,000
6. interest = EBIT-EBT
= 165,000-150,000 = 15,000
Interest = 150,000
7. net profit for the year = PBT-TAX
=150,000-75,000 = 75,000
Net profit for the year = 75,000
</td><td>
STATEMENT OF FINANCIAL POSITION
1. Current ratio

<u>Current Assets = current assets</u> =1.923:1
Current liabilities 130,000
Current assets = 130,000*1.923 = 249,990
Total current assets = 249,990

2. cash ratio :

<u>Cash = cash</u> = <u>0.23:1</u>
Current liabilities 130,000
3. Inventory = 149,000
4. Receivales= 249,990-29,900+4000-149,000=75,090

5. Total aseets = Non current + current assets
= 330,000+ 249,990= 579,990

6. Retained Profit = 350,000-90,000-200,000
Retained profit = 60,000
7. Total Capital& Liabilities= 579,990
8. Total Liabilities = 579,990-350,000 = 229,990
</td></tr>
</table>

QUESTION 15

Marking Guide

Non-current assets	
Goodwill (2 Marks for each correct posting except final figure)	4
Property, plant and Equipment (75,000+11,000)	2
Total Non-current Assets	1
Current Assets (214,000+33,000)	2
Total Assets	1
Equity	
Share capital (AKIWACU LTD only)	1
Share premium (AKIWACU LTD only)	1
Retained Earnings (W3)	4
Total share capital	1
Current Liabilities (176,000+25,000)	2
Total capital and liabilities	1
Total marks	**20**

Detailed Answer

AKIWACU consolidated statement of financial position at 31 December 2020

	FRW "000"
Non-current assets	
Goodwill (W2)	15,000
Property, plant and Equipment (75,000+11,000)	86,000
Total Non-current Assets	**101,000**
Current Assets (214,000+33,000)	247,000
Total Assets	**348,000**
Equity	
Share capital (AKIWACU LTD only)	80,000
Share premium (AKIWACU LTD only)	20,000
Retained Earnings (W3)	47,000
Total share capital	147,000
Current Liabilities (176,000+25,000)	201,000
Total capital and liabilities	**348,000**
Total	

(W1) **Net assets of AKIWACU LTD**

	At the acquisition date	At the reporting date
	FRW”000”	FRW “000”
Share capital	4,000	4,000
Share premium	6,000	6,000
Retained earnings	2,000	9,000
Fair value of net assets	**12,000**	**19,000**

(W2) **Goodwill**

	FRW “000”
Parent Investment at fair value	27,000
Less: Fair value of net assets	(12,000)
Goodwill at acquisition	**15,000**

There is no non-controlling Entity

(W3) **Group retained earnings**

	FRW “000”
AKIWACU LTS Retained earnings	40,000
Add: TITI LTD Retained earnings 100%*(9,000-2,000)	7000
Group retained earnings (SOFP)	**47,000**

End of model answers and marking guide