



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.1 FINANCIAL ACCOUNTING

DATE: MONDAY, 23 AUGUST 2021

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.

SECTION A

1 Which of the following are differences between sole traders and limited liability companies?

- (1) A sole traders' financial statements are private; a company's financial statements are sent to shareholders and can be publicly filed
- (2) Only companies have capital invested into the business
- (3) A sole trader is fully and personally liable for any losses that the business might make; a company's shareholders are not personally liable for any losses that the company might make.

- A 2 and 3 only
- B 1, 2 and 3
- C 1 and 3 only
- D 1 and 2 only

(2 Marks)

2 K&N Ltd is a private Limited company operating in the Kigali Special Economic Zone. They have provided with you the following items for consideration in the preparation of financial statements for the year ended 30th June 2020.

- (1) K&N Ltd gives warranties on its products. The company's statistics show that about 10% of sales give rise to a warranty claim.
- (2) K&N Ltd has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.

What is the correct action to be taken in the financial statements for these items?

- A Item 1: disclose by note only; Item 2: no action
- B Item 1: create a provision; Item 2: create a provision
- C Item 1: disclose by note only; Item 2: disclose by note only
- D Item 1: create a provision; Item 2: disclose by note only

(2 Marks)

3 NIDAIM Solutions Ltd operates a computer store in Rusizi. This company has a year-end of 31 December. They purchased a car for Frw 12 million on 1 January 2015 and sold it for Frw 5 million on 31 March 2021. Their depreciation policy is to charge 20% reducing balance, with a full year's depreciation in the year of acquisition and proportional depreciation in the year of disposal. What was the profit or loss on the disposal of the car?

- A Frw 2,011,558.40 (Loss on Disposal)
- B Frw 2,483,417.60 (Loss on Disposal)
- C Frw 2,011,558.40 (Profit on Disposal)
- D Frw 2,483,417.60 (Profit on Disposal)

(2 Marks)

4 What is the purpose of amortization?

- A To reduce the value of the intangible asset
- B To spread the cost of the intangible non-current asset over its useful life
- C To ensure that funds are available to replace the asset in the future
- D To ensure that the value of an intangible asset is properly recognized

(2 Marks)

- 5** The building of KWESI Ltd has a carrying amount of Frw 399 million at 31 December 2020. At the same date, the fair value of the building was valued at Frw 360 million. The revaluation surplus for the previous period was Frw 34 million.

What journal entries are required in the books of accounts of KWESI Ltd?

- A Dr. Building Frw 39 million; Cr. Profit/loss account Frw 5 million; Cr. Other Comprehensive Income Frw 34 million.
- B Dr. Profit/loss account Frw 5 million; Dr. Other Comprehensive Income Frw 34 million; Cr. Building Frw 39 million.
- C Dr. Building Frw 39 million; Cr. Other Comprehensive Income Frw 39 million
- D Dr. Profit/loss account Frw 39 million; Cr. Building Frw 39 million.

(2 Marks)

- 6** KWETU LTD capital structure at 31 December 2019 was as follows:

| | |
|---|-----------------|
| Ordinary share capital (500,000 shares of Frw 250 each) | Frw 125 Million |
| Share premium account | Frw 100 Million |

During the year ended 31 December 2020 KWETU LTD made a rights issue of 1 share for every 2 shares held at Frw 300 per share and this was taken up in full. Later in the year KWETU LTD made a bonus issue of 1 share for every 5 shares held, using the share premium account for that purpose.

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

- A Share capital account: Frw 187.5 Million; Share premium account: Frw 112.5 Million
- B Share capital account: Frw 450 million; Share premium account: Frw 125 million
- C Share capital account: Frw 225 million; Share premium account: Frw 75 million
- D Share capital account: Frw 75 million; Share premium account: Frw 225 million

(2 Marks)

7 Which of the following material events after the reporting date and before the financial statements are approved by the Board of Directors ‘are adjusting events?’

1. A valuation of property providing evidence of impairment in value at the reporting date.
2. Sale of inventory held at the reporting date for less than cost.
3. Discovery of fraud or error affecting the financial statements.
4. The insolvency of a customer with a debt owing at the reporting date which is still outstanding.

- A 1, 2 and 4 only
B 1, 2, 3 and 4
C 1 and 4 only
D 2 and 3 only

(2 Marks)

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

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

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)

- 9 You are provided with the following extracts of financial statements for the year ended 31st March 2021

| | Frw |
|----------------------------------|---------------|
| Sales | 53,000 |
| Profit before interest and tax | 10,200 |
| Interest | (1,600) |
| Tax | (3,300) |
| Net Profit after tax | 5,300 |
| | |
| Share capital | 20,000 |
| Reserves | 15,600 |
| Total shareholders' capital | 35,600 |
| Total liabilities | 6,900 |
| Total Capital Liabilities | 42,500 |

What is the Net Profit Margin and Return on Capital Employed?

- A Net profit Margin:19.2% and Return on Capital Employed:15%
- B Net profit Margin:10% and Return on Capital Employed:24%
- C Net profit Margin:19.2% and Return on Capital Employed:12%
- D Net profit Margin:15% and Return on Capital Employed:29%

(2 Marks)

- 10 ZENTHEL Ltd acquired 100% of the share capital of GAMA Ltd on 1 January 2018 for Frw 90 million. On the same day, the retained earnings of GAMA Ltd were Frw 22 million. At 31 December 2020, the statements of financial position were as follows:

| | “Frw million” | “Frw million” |
|---------------------------------|----------------------|----------------------|
| | ZENTHEL Ltd | GAMA Ltd |
| Non-current assets | 123 | 40 |
| Investment in GAMA Ltd, at cost | 90 | - |
| Current assets | 30 | 18 |
| Total assets | 243 | 58 |
| Share capital | 75 | 15 |
| Retained earnings | 165 | 40 |
| Current Liabilities | 3 | 3 |
| Total Capital & Liabilities | 243 | 58 |

What amount should appear for goodwill in the consolidated statement of financial position?

- A Frw 90 million
- B Frw 67 million
- C Frw 53 million
- D Frw 75 million

(2 Marks)

SECTION B

- 11** The Chief Accountant of BRALIMA LTD has prepared its financial statements for the year ending 31st December 2020 and has submitted the financial report to the company's Chief Finance Officer. The financial statements are expected to be approved by the Board of Directors on 31st March 2021.

On 15th January 2021, Mr. James, the Director of Human Resources re-called the finance unit for the payment of 6 casual workers whose file was submitted for payment on 15th December 2020. Upon closer checking, the accountant realized that the payment file was received and kept in the office tray but it was neither paid nor recognized in the books of accounts of BRALIMA LTD as a liability to be carried forward.

The finance unit refused to pay these 6 casual workers on the basis that, the financial statements were already finalized and submitted to the Chief Finance Officer (CFO).

Required:

As an aspiring Certified Accounting Technician, quoting relevant International Accounting Standard (IAS), **advise the management of BRALIMA LTD on whether the payment should be recognized/adjusted or not.** (10 Marks)

(Total: 10 Marks)

- 12** Public sector entities use the services of outside contractors for a variety of functions. They then have to be able to show that they have obtained the best possible value for what they have spent against those outside services. This principle is usually referred to as value for money (VFM). They are always expected to attain greater results and outputs with fewer resources in order to further their missions.

Required:

Using relevant examples, **Explain the Three fundamental concepts of Effectiveness, Economy and Efficiency (3 Es model) to justify the value for money.** (10 Marks)

(Total: 10 Marks)

SECTION C

13 The following account balances were extracted from the books of XYZ LTD, a company owning a computer store in Nyarugenge, at the end of her financial year 30 June 2020:

| Account balances as at 30 June 2020 | | |
|--|------------------|------------------|
| | Frw | Frw |
| Accounts payable | | 45,500 |
| Accounts receivable | 2,300 | |
| Bank | 12,200 | |
| Carriage in | 600 | |
| Cash | 1,900 | |
| Commission income | | 60,000 |
| Equipment | 60,000 | |
| Insurance | 1,800 | |
| Light and heat | 5,200 | |
| Loss from the previous period | 70,000 | |
| Opening Inventory | 94,000 | |
| Purchases | 314,000 | |
| Rent expense | 85,000 | |
| Returns in | 8,000 | |
| Returns out | | 3,500 |
| Sales | | 608,000 |
| Share Capital (1000 shares of FRW290 each) | | 290,000 |
| Shop fittings | 260,000 | |
| Shop wages | 92,000 | |
| Total | 1,007,000 | 1,007,000 |

The inventory at the end of the year was valued at Frw 8,800

You are required to prepare (For Internal Purpose):

- a. XYZ's Statement of Profit or Loss** for the year ended 30 June 2020 (10 Marks)
 - b. XYZ's Statement of Financial Position** as at 30 June 2020 (10 Marks)
- (Total: 20 Marks)**

14 a. Discuss the Five (5) broad categories of ratios.**(5 Marks)**

- b. You are provided with the following ratios computed from the financial statements of KAZI NI KAZI Ltd for the year ending 31st March 2020:

| TYPE OF RATIO | RATIO | TYPE OF RATIO | RATIO |
|----------------------------|----------|----------------------|-------|
| Current Ratio | 1.923: 1 | Gross profit margin | 40% |
| Cash Ratio | 0.23: 1 | Net Profit Margin | 9% |
| Net Working Capital Ratio | 0.27: 1 | Return on investment | 13% |
| Return on Capital Employed | 17% | Return on equity | 21% |
| Debt ratio | 0.4 | | |
| Debt-Equity ratio | 0.66 | | |
| Long term debt ratio | 0.2 | | |

Required:

Basing on the ratios provided above, calculate, and fill in the missing figures in the following financial statements:

(15 Marks)

KAZI NI KAZI Ltd

Income statement for the year ended 31 March 2020

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

KAZI NI KAZI Ltd

Statement of financial position as at 31 March 2020

| | <u>Frw.</u> | | <u>Frw.</u> |
|-----------------------------|--------------------|---|--------------------|
| Non Current Assets | | Issued share capital (20,000 share of Frw10 each) | 200,000 |
| Land and Buildings | 250,000 | Reserve | 90,000 |
| Plant & Machinery | <u>80,000</u> | Retained profit | ? |
| | 330,000 | Total Equity | 350,000 |
| Current Assets | | Long term liabilities | 99,990 |
| Inventory | ? | Current liabilities. | 130,000 |
| Receivables | ? | | |
| Less: Provision | <u>(4,000)</u> | | |
| Cash | ? | | |
| Total Current Assets | ? | Total liabilities. | ? |
| Total Assets | ? | Total Capital & Liabilities | ? |

(Total: 20 Marks)

15 The following statements of financial position were extracted from the books of two companies-AKIWACU LTD and TITI LTD at 31 December 2020

| | AKIWACU LTD | TITI LTD |
|--------------------------------------|--------------------|-----------------|
| | Frw’’000’’ | Frw’’000’’ |
| Non-current assets | | |
| Property, plant and Equipment | 75,000 | 11,000 |
| Investment shares in TITI LTD | 27,000 | |
| Total Non-current Assets | 102,000 | 11,000 |
| Current Assets | 214,000 | 33,000 |
| Total Assets | 316,000 | 44,000 |
| Equity | | |
| Share capital | 80,000 | 4,000 |
| Share premium | 20,000 | 6,000 |
| Retained Earnings | 40,000 | 9,000 |
| Total share capital | 140,000 | 19,000 |
| Current Liabilities | 176,000 | 25,000 |
| Total capital and liabilities | 316,000 | 44,000 |

AKIWACU LTD acquired all of the share capital of TITI LTD one year ago. The retained earnings of TITI LTD stood at Frw 2,000,000 on the day of acquisition. Goodwill is calculated using the fair value method and there has been no impairment of goodwill since acquisition.

Required:

Prepare the consolidated statement of financial position of AKIWACU LTD as at 31 December 2020.

(20 Marks)

(Total: 20 Marks)

End of question paper