



CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 3 EXAMINATION

S3.1 FINANCIAL ACCOUNTING

PILOT PAPER

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 – All TEN questions are compulsory and MUST be attempted

1. Segregation of duties is an important control to help a company prevent and detect fraud.

Which of the following controls is/are an example of segregation of duties?

- (i) Petty cash is counted and locked away at the end of each day by the cashier.
- (ii) A manager authorises the supplier payment listing prepared by a clerk prior to the payment being made.
- (iii) The cashier completing the bank reconciliation at the end of the week.

- A (i) only
- B (i) and (iii)
- C (ii) only
- D (ii) and (iii)
- E None of the above

(2 marks)

2. Blue Co purchased 48% of the equity shares of Green Co on 1 July 2019. The other 52% of Green Co equity shares are held by Mr Yellow, the founder of Green Co. Mr Yellow retired in December 2019, but retained his shareholding. Blue Co seconded two of its senior managers to be the managing director and finance director of Green Co from that date. Blue Co is preparing financial statements for the year ended 31 December 2019.

Which of the following statements is TRUE?

- A At 31 December 2019, Green Co is an associate of Blue Co as Blue Co owns 48% of Green Co equity shares.
- B Blue Co has had power over Green Co since 1 July 2019.
- C Mr Yellow controls Green Co as he founded the company and is the majority shareholder at 31 December 2019.
- D Blue Co gained control over Green Co in December 2019 and should consolidate Green Co in its financial statements.
- E None of the above

(2 marks)

3. The financial accountant of Ocean Co is preparing the statement of cashflows for the year ended 30 September 2019. She has obtained the following information relating to property, plant and equipment:

	<i>2019</i>	<i>2018</i>
	RWF million	RWF million
Cost	650	580
Accumulated depreciation	<u>(340)</u>	<u>(320)</u>
	<u>310</u>	<u>260</u>

- The depreciation charge for the year ended 30 September 2019 is RWF 95 million.

- During the year ended 30 September 2019, land was revalued from RWF 75 million to RWF 80 million.
- Assets with carrying amount of RWF 42 million were sold during the year for RWF 35 million.
- In September 2019, Ocean Co leased a machine, which has been correctly recognised as a right-of-use asset at a value of RWF 20 million. Ocean Co has not made any lease payments at 30 September 2019.

What is the 'payments to acquire property, plant and equipment' figure?

- A RWF 155 million
- B RWF 162 million
- C RWF 167 million
- D RWF 182 million
- E None of the above

(2 marks)

4. Father Co purchased 80% of the equity share capital of Son Co on 1 January 2020, gaining a controlling interest over Son Co from that date. The retained earnings of both companies at 1 April 2019 and 31 March 2020 are:

	<i>Father Co</i> RWF million	<i>Son Co</i> RWF million
Retained earnings at 1 April 2019	1,257	202
Retained earnings at 31 March 2020	1,540	286

Son Co did not pay any dividends or make any reserves transfers in the year.

What is the consolidated retained earnings figure in the Father Group statement of financial position at 31 March 2020?

- A RWF 1,557 million
- B RWF 1,523 million
- C RWF 1,607 million
- D RWF 1,473 million
- E None of the above

(2 marks)

5. Which of the following is NOT an objective of the International Financial Reporting Standards (IFRS) Foundation?

- A To develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards
- B To promote the use and rigorous application of IFRS
- C To review newly identified financial reporting issues not specifically addressed in the IFRS
- D To take account of the financial reporting needs of a range of sizes and types of entities in diverse economic settings
- E None of the above

(2 marks)

6. Which of the following statements about the statement of profit or loss is/are TRUE?

- (i) The statement of profit or loss shows the total return to the equity shareholder for an accounting period.
- (ii) The statement of profit or loss shows the net cash inflow or outflow for the period which allows debt funders to determine whether the company should be able to continue to meet its financial commitments.
- (iii) The statement of profit or loss includes all gains and losses incurred by the company during the accounting period.

- A (iii) only
- B (i) and (iii)
- C (i) and (ii)
- D (i), (ii) and (iii)
- E None of the above

(2 marks)

7. Company Law in Rwanda is contained in the Law Governing Companies 07/2018.

Which of the following is a requirement of this legislation?

- A A limited liability company must have a minimum of two directors.
- B All companies must submit annual audited accounts to the Office of the Registrar General.
- C A limited liability company must distribute financial accounts to all shareholders.
- D All directors of a limited liability company must also hold equity shares in that company.
- E None of the above

(2 marks)

8. Which of the following statements about accounting standards is TRUE?

- A Accounting standards ensure that all companies account for transactions in exactly the same way.
- B Accounting standards were developed to ensure consistency and comparability of financial statements.
- C Accounting standards should be used as a guide when preparing financial statements, but they are not mandatory.
- D Countries either follow national accounting standards or international financial reporting standards.
- E None of the above

(2 marks)

9. Four Ltd made a profit of RWF 560 million for the year ended 31 December 2019. Extracts from the financial statements of Four Ltd are as follows:

	2019 RWF million	2018 RWF million
EQUITY		
Share capital (RWF 1,000 per share)	130	100
Share premium	50	25
Retained earnings	264	248

A one-for-five bonus issue of shares was made on 1 November 2019 out of retained earnings.

What is the dividend paid for the year?

- A RWF 524 million
- B RWF 518 million
- C RWF 556 million
- D RWF 564 million
- E None of the above

(2 marks)

10. Coffee Ltd sells coffee beans. You have obtained the following information in relation to inventories:

	2019	2018
Inventories carrying amount	RWF 1,780,000	RWF 1,750,000
Quantity of inventory held	1,700 kg	1,460 kg
Inventory turnover period	65 days	50 days

Based on the information above, which of the following statements is TRUE?

- A The increase in inventory turnover period is due to cost of sales being lower in 2018 than in 2019.
- B The increase in inventory turnover period will have a positive impact on the cashflow of Coffee Ltd.
- C Coffee bean prices per kg have fallen during the year by around 5%.
- D Coffee Ltd has increased inventory at the end of 2019 to fulfil a large order in the following year.
- E None of the above

(2 marks)

Section B – BOTH questions are compulsory and MUST be attempted

11. You are preparing the financial statements of Butare Ltd for the year ended 31 March 2020. Several events have occurred since 31 March 2020 that may require adjustment in the financial statements, in accordance with IAS 10 *Events After the Reporting Period*. The financial statements have not yet been approved.
- (a) One of Butare Ltd's warehouses, including the inventory it contained, was destroyed by a flood in April 2020. The carrying amount of the warehouse at 31 March 2020 was RWF 180 million and the cost of the inventory in the warehouse has been estimated as RWF 67 million. It is still unclear whether the company buildings' insurance will cover the loss.
 - (b) Butare Ltd has been considering closing its branch in Uganda since early 2020. Consultations with staff were held in March 2020 and the board made the decision to close the branch in May 2020. Costs of closing the branch are expected to be RWF 8 million.
 - (c) In April 2020, Butare Ltd entered into an agreement with a customer to sell the following items of inventory at a specially agreed price:

<i>Inventory item</i>	<i>Agreed sales price</i>	<i>Cost at 31 March 2020</i>
	RWF million	RWF million
Product P	4	3.8
Product Q	5	4.5
Product R	2	2.15

Butare Ltd has average selling costs of 8% of the sales price.

- (d) A dividend of RWF 4 million was declared on 15 May 2020.
- (e) In May 2020, one of the customers of Butare Ltd, Mutura Ltd, went into liquidation.
At 31 March 2020, the trade receivables balance related to Mutura Ltd was RWF 0.77 million and further sales of RWF 0.125 million had been made since the year end.

Required

Explain whether the FIVE events are adjusting or non-adjusting events for the year ended 31 March 2020. Where an adjustment is required, include the journal entry.

Total (10 marks)

12. Vista Group has a financial year end of 30 June. The parent company, Vista Ltd plans to invest in the equity shares of Umutima Ltd in May 2020, and the directors would like to understand how the investment will impact on the consolidated financial statements for the year ended 30 June 2020. Details of the proposed investment are as follows:

- Vista Ltd intends to purchase 100,000 of the 400,000 ordinary equity shares of Umutima Ltd on 15 May 2020 at a cost of RWF 120 million. Vista Ltd will have a representative on the board of directors of Umutima Ltd from the date of purchase.
- The actual and forecast equity balances of Umutima Ltd are as follows:

	<i>Actual balances</i>	<i>Forecast at</i>	<i>Forecast at</i>
	<i>30 June 2019</i>	<i>15 May 2020</i>	<i>30 June 2020</i>
	RWF million	RWF million	RWF million
Share capital	50	50	50
Share premium	40	40	40
Retained earnings	230	450	540

- Umutima Ltd did not pay a dividend during the year to 30 June 2020.

Required

Produce a note for the directors of the Vista Group, explaining the impact of the acquisition of Umutima Ltd on the consolidated financial statements. Your answer should include calculations where relevant.

Total (10 marks)

Section C – All THREE questions are compulsory and MUST be attempted

13. The financial statements of Season Ltd are being prepared under International Financial Reporting Standards. Today, you are required to prepare the statement of financial position as at 31 March 2020 and the disclosure note relating to provisions.

You have obtained the draft trial balance as at 31 March 2020 and details of some matters relating to research and development (R&D) costs and provisions that require adjustment.

	<i>Dr</i>	<i>Cr</i>
	RWF'000	RWF'000
Land – cost	120,000	
Buildings – cost	230,000	
Buildings – accumulated depreciation at 31 March 2020		65,000
Plant and equipment – cost	156,400	
Plant and equipment – accumulated depreciation at 31 March 2020		95,840
Intangible assets – patent	50,000	
Trade and other receivables	24,680	
Inventories at 31 March 2020	35,600	
Cash and cash equivalents	1,050	
Equity share capital		50,000
Share premium		125,000
Retained earnings at 1 April 2019		45,950
Bank loan		150,000
Deferred tax at 31 March 2020		8,660
Trade and other payables		23,050
Provisions at 1 April 2019		9,000
Profit for the year		85,230
Dividends paid	<u>40,000</u>	<u> </u>
	657,730	657,730

Matters relating to R&D and provisions:

- Season Ltd has been developing a new product since early 2019. Feasibility studies were completed on 15 June 2019 when the product was deemed to be feasible and market research indicated that the product should sell when it is launched. Season Ltd has plans to complete the development and launch the product later in 2020. The following costs were incurred in relation to the development:

<i>Date</i>	<i>Description</i>	<i>RWF'000</i>
Jan to March 2019	Various development costs	15,000
April to May 2019	Staff costs relating to development	25,000
July 2019 to February 2020	Design and construction costs	65,000
February 2020	Testing of pre-production model	10,000
March 2020	Advertising and marketing costs for the new	14,000

product

All R&D costs have been recorded as administrative expenses in the statement of profit or loss.

- The provision at 1 April 2019 included in the trial balance of RWF 9,000,000 includes RWF 5,000,000 relating to a legal claim made against the company during the year ended 31 March 2019. The claim was settled for RWF 4,500,000 in October 2019. The payment was recorded as an expense in the statement of profit or loss. No other accounting in respect of the provision has taken place.
- The remaining provision at 1 April 2019 balance relates to the warranty provision. Based on previous experience, Season Ltd expects to have the following warranty claims based on sales made during the year ended 31 March 2020:

<i>Revenue</i> RWF'000	<i>Warranty terms</i>	<i>Warranty</i> RWF'000	<i>Likelihood</i>
450,000	nil	nil	85%
200,000	10% of revenue	20,000	8%
75,000	80% of revenue	60,000	7%
<u>725,000</u>			

- Warranty claims of RWF 4,000,000 were made during the year ended 31 March 2020 and recorded as an expense in the statement of profit or loss. No other accounting in respect of the provision has taken place.

Required

- Evaluate, giving explanations, the matters relating to research & development and for Season Ltd for the year ended 31 March 2020 and prepare any journal entries required. **(10 marks)**
- Prepare the statement of financial position for Season Ltd as at 31 March 2020 in accordance with International Accounting Standard 1. Comparative figures are not required. **(6 marks)**
- Prepare the disclosure note in relation to provisions for the year ended 31 March 2020. **(4 marks)**

Total (20 marks)

- The financial statements for BrewPug Ltd for the year ended 31 December 2019 are as follows:

BrewPug Ltd

Statement of profit or loss for the year ended 31 December 2019

	<i>2019</i> RWF'000	<i>2018</i> RWF'000
Revenue	654,000	598,400
Cost of sales	<u>(332,540)</u>	<u>(301,640)</u>
Gross profit	321,460	296,760

Other income	–	20,000
Administrative expenses	(158,640)	(140,680)
Distribution costs	<u>(96,854)</u>	<u>(76,850)</u>
Profit before interest and taxation	65,966	99,230
Finance costs	<u>(6,000)</u>	<u>(4,000)</u>
Profit before taxation	59,966	95,230
Taxation	<u>(8,500)</u>	<u>(11,430)</u>
Profit for the year	<u>51,466</u>	<u>83,800</u>

BrewPug Ltd

Statement of financial position as at 31 Dec 2019

	2019 RWF'000	2018 RWF'000
ASSETS		
<i>Non-current assets</i>		
Property, plant and equipment	256,000	286,570
Intangible assets	100,000	<u>–</u>
	356,000	286,570
<i>Current assets</i>		
Inventories	56,800	52,600
Trade and other receivables	23,500	22,500
Cash and cash equivalents	<u>16,786</u>	<u>5,090</u>
	97,086	80,190
TOTAL ASSETS	453,086	366,760
EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital and premium	100,000	100,000
Retained earnings	83,586	52,120
	183,586	152,120
<i>Non-current liabilities</i>		
Bank loan	250,000	200,000
<i>Current liabilities</i>		
Trade and other payables	19,500	14,640
TOTAL EQUITY AND LIABILITIES	453,086	366,760

BrewPug is a brewing company. You have obtained the following information about the performance of BrewPug Ltd for the year as well some brewing industry average ratios for 2019.

- The sales price of BrewPug Ltd's products is mainly at the lower end of the market range.
- During 2019, the company took out additional loan funding to finance the development of a premium craft beer product. The product is expected to be launched in 2020, but will require the purchase of additional machinery and

storage facilities. BrewPug Ltd is planning to ask for further loan funding of RWF 200,000,000.

- BrewPug gave its staff a pay increase of 3% during 2019. Most other companies in the industry did not give a pay increase.
- Fuel duty costs have increased by 15% during 2019. Fuel duty costs are included in distribution costs in the statement of profit or loss.
- Brewing sector average ratios:
 - Gross profit margin – 55%
 - Operating profit margin – 12%
 - Return on capital employed – 20%
 - Quick ratio – 1.5: 1
 - Inventory turnover period – 90 days
 - Gearing – 55%

Required

- (a) Calculate each of the brewing sector ratios for BrewPug Ltd for the year ended 31 December 2019. **(6 marks)**
- (b) Evaluate the performance and position of BrewPug Ltd compared to the rest of the industry, using the information provided. **(10 marks)**
- (c) Assuming a similar performance and position in 2020, explain the impact that the investment in machinery is likely to have on the gearing and profitability ratios of BrewPug Ltd **(4 marks)**

Total (20 marks)

15. The directors of Wildlife Ltd are considering replacing the current accounting system. Details of the current system and the proposed new system are as follows:

	Current system	Proposed new system
Type of system	<p>A system of linked spreadsheets. Data needs to be manually entered into the 'sales', 'purchases' and 'administrative expenses' spreadsheets.</p> <p>The spreadsheets are linked by formulae, but errors are often found and adjustments need to be made.</p>	<p>An integrated, cloud-based system which includes:</p> <p>A sales ledger</p> <p>A purchases ledger</p> <p>A general ledger</p> <p>Budgeting tools</p> <p>Draft financial statements</p> <p>Reconciliations such as bank reconciliation and sales ledger reconciliations</p>
Period-end	The finance manager prepares	Journal entries can be entered

adjustments	the period-end adjustments and enters these into a spreadsheet to prepare the management accounts.	directly into the system with a full audit trail of entries made.
Timeliness of reporting information	It takes an average of four days to process the month-end adjustments and produce monthly management accounts.	Monthly management accounts (financial statements) produced within one working day.
Cost	The basic software, including spreadsheets costs RWF 50,000 per user per year. Preparation of the annual financial statements by an iCPAR qualified accountant costs RWF 950,000.	Initial set up: RWF 4 million Annual costs (up to 8 users): RWF 2.5 million which includes regular upgrades and online technical support. A payroll module can be added for an initial fee of RWF 1 million and would increase the annual costs to RWF 3 million.
Security	The spreadsheets are stored on a network drive on the company server which is backed up on a regular basis.	Data would be encrypted and stored on the cloud.

There are five members of staff in the finance function – a finance manager and four finance clerks. One of the clerks deals with payments in and out of the business, including payroll and debt management.

The role of the other three clerks is data entry into the system – one clerk deals with sales, one deals with purchases and another deals with administrative expenses. Once the data has been entered, the clerk must check that the total number of entries entered agrees with their batch entry sheet and that the total value is correctly reflected in each of the linked spreadsheets. Each member of the finance team has a computer at their desk, connected to the company network.

Most of the clerks' time is spent entering data and checking that data. There are few internal controls currently being operated.

Required

Prepare a note for the directors of Wildfire Ltd which:

- Explains whether the current accounting system is effective. **(4 marks)**
- Compares the current and proposed new accounting systems and makes a recommendation to the directors'. **(8 marks)**
- Explains the purpose of internal controls in an accounting system and suggests FOUR internal controls that could be implemented if the new system was purchased. **(8 marks)**

Total (20 marks)

Total (100 marks)

End of question paper