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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 3 EXAMINATION**  
**S3.1 FINANCIAL ACCOUNTING**  
**MONDAY: 30 NOVEMBER 2020**

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**Instructions**

- 1 Time allowed: **3 hours and 15 minutes reading.**
- 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. Some countries, such as Rwanda, permit the use of International Financial Reporting Standards (IFRS) by some, or all, companies registered in that country.

Which of the following is **not** a valid reason why a country might permit the use of IFRS?

- A The use of IFRS allows the financial statements of companies from different countries to be more easily compared by investors, lenders and other creditors.
  - B IFRS are high-quality standards produced by the International Accounting Standards Board (IASB) after a rigorous development process.
  - C The use of IFRS results in more consistent levels of profit giving rise to more consistent levels of tax payable which is beneficial for national governments.
  - D IFRS are comprehensive, principles-based standards which provide guidance on a range of financial transactions to aid the consistent preparation of financial statements.
  - E None of the above
- (2 marks)**

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2. The return on capital employed of Ahantu Ltd was 24% in 2018 but fell to 13% in 2019.

Which of the following statements relating to this decrease is/are correct?

- (i) The decrease is due to the issue of new equity shares at the end of 2019.
  - (ii) The decrease suggests that the company made a loss in 2019.
  - (iii) Assuming the profit margin has remained constant, the decrease in ROCE suggests an increase in asset turnover.
- A (i) only
  - B (ii) and (iii)
  - C (i) and (iii)
  - D (ii) only
  - E None of the above
- (2 marks)**

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3. It is important that the users of accounting systems receive adequate training. One method of training is to provide printed manuals with detailed instructions.

Which of the following is/are **disadvantages** of these printed training manuals?

- (i) The material may become out-of-date relatively quickly due to changes or updates to the system.
  - (ii) The manuals can be lost or destroyed by staff.
  - (iii) It can be expensive to produce many copies of the manual if the system is used by a lot of staff.
- A (i) only
  - B (i) and (ii) only
  - C (ii) and (iii) only
  - D (i), (ii) and (iii)
  - E None of the above
- (2 marks)**

4. Nshuti Ltd is a limited company which has a large number of equity shareholders. The company is also funded by a bank loan. The board of directors of Nshuti Ltd do not hold any shares in the company.

Which of the following statements regarding Nshuti Ltd is true?

- A The shareholders are the owners of the company and therefore have responsibility to act as stewards and manage their investment.
- B Agency theory refers to the situation where the personal motivations of the directors might not be the same as the goals of the shareholders.
- C The bank will expect a return on its investment from both capital growth and dividends.
- D The bank is an agent of the business, as it does not own part of the company, unlike the equity shareholders.
- E None of the above

**(2 marks)**

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5. Disi Ltd owns 90% of the shares of Sehene Ltd and has a controlling interest. There are no other companies in the group.

At 30 June 2020, Sehene Ltd owed RWF 45 million to Disi Ltd for goods that were transferred between the companies. The trade receivables balances for both companies at that date, including any intragroup amounts were:

	<i>Disi Ltd</i>	<i>Sehene Ltd</i>
	RWF million	RWF million
Trade receivables	230	112

What is the trade receivables balance in the Disi group statement of financial position at 30 June 2020?

- A RWF 286 million
- B RWF 297 million
- C RWF 376 million
- D RWF 387 million
- E None of the above

**(2 marks)**

6. Companies often outsource some, or all, of the tasks carried out by the accounting function to a third party.

Which of the following statements about outsourcing are true?

- (i) Routine tasks of the accounting function such as payroll and debt collection are frequently outsourced.
- (ii) Outsourcing is worth the additional cost as it is guaranteed to reduce the risk that the financial statements are misstated.
- (iii) A company might outsource areas of the finance function if it does not have sufficiently experienced staff.
- (iv) An outsourcing arrangement will be governed by a detailed contractual agreement, setting out the roles and responsibilities of each party.

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

**(2 marks)**

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7. Extracts from the financial statements for Gahigi Ltd as at 31 May 2020 and the comparatives for 20X6 are as follows:

	2020 RWF million	2019 RWF million
<i>Current assets</i>		
Inventories	800	200
Trade and other receivables	100	600
Cash and cash equivalents	100	200
	<u>1,000</u>	<u>1,000</u>
<i>Current liabilities</i>		
Trade and other payables	250	250

Which of the following statements is correct?

- A The current ratio has increased in 2020 due to the increase in inventories.
- B Cost of sales for the year ended 31 May 2020 is higher than the purchase cost for the year.
- C The quick ratio in 2020 is less than 1.0 as a result of the decrease in current assets.
- D The quick ratio in 2019 is higher than the current ratio for 2020.
- E None of the above

**(2 marks)**

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8. Zwaka Ltd has a RWF 120 million bank loan and a RWF 30 million overdraft which are secured against its assets. At 31 December 2019, property, plant and equipment has a carrying amount of RWF 190 million and total equity is RWF 75 million in Zwaka Ltd's financial statements.

Which of the following statements regarding Zwaka Ltd's relationship with the bank is incorrect?

- A Zwaka Ltd should provide the bank with annual financial statements, forecasts and any other information set out in the financing agreement between the parties.
  - B Zwaka Ltd should consider the bank to be a key external stakeholder of Zwaka Ltd due to the significant proportion of debt funding.
  - C If Zwaka Ltd is unable to pay interest on the loan or overdraft, or repay the capital on the due dates, there is a risk that the bank could take legal ownership of the assets used as security.
  - D The bank will use the information provided by Zwaka Ltd to monitor the solvency/liquidity to ensure that Zwaka Ltd is able to pay off its debts.
  - E None of the above
- (2 marks)**

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9. Niyonsenga Ltd had a tax payable liability of RWF 230 million at 30 September 2018 and a tax payable liability of RWF 165 million at 30 September 2019.

During the year to 30 September 2019, cash payments in relation to tax were recorded in a tax suspense account. The total cash tax payments made during the year were RWF 310 million and a tax rebate of RWF 26 million was received in relation to an overpayment of tax for the year ended 30 September 2018.

What is the tax expense in the statement of profit or loss of Niyonsenga Ltd for the year ended 30 September 2019?

- A RWF 219 million
- B RWF 111 million
- C RWF 349 million
- D RWF 271 million
- E None of the above

**(2 marks)**

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10. As part of a system of internal control, it is important that management use financial information to review the performance of the business.

Which of the following statements is/are true?

- (i) Regular review of management accounts will prevent and detect fraud within an organisation.
  - (ii) Management accounts should be structured to provide clear and useful information for managers throughout the company to use.
  - (iii) Management accounts should follow the structure of the annual financial statements to facilitate comparison with full year figures.
  - (iv) Managers should compare the management accounts to the budget to identify variances which should be investigated.
- A (i) only
  - B (ii) only
  - C (i) and (iii)
  - D (ii) and (iv)

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**Section B – All TWO questions are compulsory and MUST be attempted**

11. You work in the accounting department of Ruhondo Ltd. Your superior has received an email from one of Ruhondo Ltd's directors and would like you to prepare a response. Relevant extracts from the email are as follows:

I have reviewed the annual financial statements and I have some questions about the statement of cash flows.

- What is the purpose of the statement of cash flows?
- Why is the statement of cash flows broken down into three sections? What does each section represent and what does the net cash flow from each section tell me?
- Why does the cash flow start with 'profit before tax'? I thought that profit and cash were not the same.
- What is 'cash and cash equivalents'?

Kind regards,

Olive Umalisa

*Required*

Draft a response for the director answering her questions about the cash flow statement.

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**Total (10 marks)**

12. TourSmart Ltd is a tour company. It was established in 2018 and has expanded quite rapidly, offering guided tours in Kigali, Huye, Musanze and taking groups to the National Parks. The head office is also based in Kigali.

Tour guides are employed by TourSmart Ltd. One of the main objectives of TourSmart Ltd is growth of the business. Tour guides are responsible for booking people onto tours and taking payment from the customers. To incentivise tour guides to organise more tours, they receive a small basic salary but get paid commission for every tour booked. Each tour must have a minimum of four customers.

Tour guides plan their own tours, manage customer bookings and payment. At the end of each week, they must email head office with details of the tours that took place during that week and deposit the cash received into the company bank account. Commission, based on the number of tours, is calculated each month and paid to the tour guides in addition to their basic salary.

One of the directors has raised a concern that there is a risk that tour guides might not declare all of the revenue received on a tour, keeping some of the payment for themselves.

*Required*

Prepare a note to the directors of TourSmart Ltd that outlines the potential impact of fraud and ways in which the company is susceptible to fraud. As part of the note, you should suggest three controls, relating to the information above, that the directors could put in place and explain how each control would minimise the risk of fraud.

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

13. The draft trial balance for Storm Ltd as at 30 April 2020 is as follows:

	<i>DEBIT</i>	<i>CREDIT</i>
	RWF	RWF
	million	million
Land	1,650	
Buildings – cost	1,200	
Buildings – accumulated depreciation		326
Plant and equipment – cost	952	
Plant and equipment – accumulated depreciation		596
Patent – cost	500	
Patent – accumulated amortisation		100
Capitalised development costs	152	
Inventories – raw materials	162	
Inventories – work in progress	320	
Inventories – finished goods	630	
Trade receivables	540	
Other receivables	35	
Cash and cash equivalents		230
Share capital (RWF 1,000 shares)		500
Share premium		580
Share suspense		70
Revaluation surplus		34
Retained earnings		358
Profit for the year		679
Dividends paid	200	
Bank loan		2,000
Trade payables		425
Current payables		97
Other tax payable		346
	6,341	6,341

You have obtained the following additional information:

- (1) The buildings of Storm Ltd are held at fair value. The valuations at 30 April 2020 have not been incorporated into the draft figures.

		<i>Carrying amount in draft trial balance</i>	<i>Valuation at 30 April 2020</i>	<i>Revaluation surplus at 30 April 2020</i>
		RWF million	RWF million	RWF million
Head office building		475	520	–
Factory		399	360	34
		874	880	34

The head office was purchased in early 2019 and this is its first revaluation.

- (2) The capitalised development costs of RWF 152 million relate to a new product that was launched in January 2020. The costs have been correctly capitalised but amortisation for the year has not been charged. Development costs are amortised over five years.
- (3) Storm Ltd made a one-for-ten rights issue on 1 March 2020 at RWF 1,400 per share. All shareholders exercised their rights. The only entry made was to record the proceeds of the issue in a 'share suspense' account.
- (4) A customer started legal proceedings against Storm Ltd in March 2020 relating to an injury suffered due to a defective product. Legal advice received in April 2020 indicated that Storm Ltd is likely to lose the case. The best estimate of the damages which are likely to be paid is RWF 12 million. No accounting has taken place in respect of these proceedings. Provisions are included in 'other payables'.

*Required*

- (a) Prepare, showing all workings, the journal entries for the adjustments required to the draft trial balance. **(12 marks)**
- (b) Prepare the statement of financial position for Storm Ltd as at 30 April 2020.

**(8 marks)**

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**Total (20 marks)**

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14. Delta Ltd has a number of 100% owned subsidiaries. Delta Ltd sold one of these subsidiaries, Ipsilon Ltd, on 1 May 2019. The consolidated financial statements of the Delta Group at 31 March 2020 are as follows:

**DELTA GROUP**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 20X5**

	2020	2019
	RWF million	RWF million
Revenue	3,540	4,860
Cost of sales	<u>(1,630)</u>	<u>(2,680)</u>
Gross profit	1,910	2,180
Administrative expenses	(650)	(750)
Distribution costs	(310)	(490)
Loss on disposal	<u>(70)</u>	<u>—</u>
Operating profit	880	940
Finance costs	<u>(110)</u>	<u>(200)</u>
Profit before taxation	680	740
Taxation	<u>(150)</u>	<u>(170)</u>
Profit for the year	<u>620</u>	<u>570</u>

DELTA GROUP  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	2020 RWF million	2019 RWF million
<b>ASSETS</b>		
<i>Non-current assets</i>		
Property, plant and equipment	12,980	18,382
Goodwill	<u>2,000</u>	<u>2,400</u>
	14,980	20,782
<i>Current assets</i>		
Inventories	260	780
Trade and other receivables	350	390
Cash and cash equivalents	<u>630</u>	<u>260</u>
	1,240	1,430
<b>TOTAL ASSETS</b>	<u>16,220</u>	<u>22,212</u>
<b>EQUITY AND LIABILITIES</b>		
<i>Equity</i>		
Share capital and premium	5,000	5,000
Retained earnings	<u>6,952</u>	<u>6,532</u>
	11,952	11,532
<i>Non-current liabilities</i>		
Bank loan	4,000	10,000
<i>Current liabilities</i>		
Trade and other payables	268	680
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>16,220</u>	<u>22,212</u>

You have obtained the following additional information:

- (1) Apart from the sale of the Ipsilon Ltd, the performance of the remaining companies of the Delta Group has remained consistent with the year ended 31 March 2019.
- (2) The following ratios were calculated for the year ended 31 March 2019:
  - Gross profit margin – 44.9%
  - Operating profit margin – 19.3%
  - Return on capital employed – 4.4%
  - Inventories turnover period – 106 days
  - Gearing – 46.4%
  - Interest cover – 4.7 times
- (3) The subsidiary that was sold, Ipsilon Ltd, operated in a different market to the rest of the group, selling low-value, high volume products in a competitive market place.

*Required*

Prepare a report for the directors of Delta Ltd in which you:

- (a) Describe the impact that the disposal will have on the consolidated financial statements for the year ended 31 March 2020. **(4 marks)**
- (b) Calculate the equivalent ratios for the Delta group for the year ended 31 March 2020. **(6 marks)**
- (c) Comment on the financial performance of the Delta group for the year ended 31 March 2020 compared to the prior year, using the information provided, and conclude on whether the disposal has been positive for the Delta group. **(10 marks)**

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**Total (20 marks)**

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15. Focus Ltd acquired a subsidiary, Bear Ltd, during the year ended 31 March 20X9. The statements of profit or loss for the year ended 31 March 20X9 for both companies are as follows:

	<i>Focus</i>	<i>Bear</i>
	RWF million	RWF million
Revenue	3,520	1,600
Cost of sales	<u>(1,260)</u>	<u>(584)</u>
Gross profit	2,260	1,016
Other income	38	–
Administrative expenses	(964)	(268)
Distribution costs	<u>(387)</u>	<u>(186)</u>
Operating profit	947	562
Finance costs	<u>(200)</u>	<u>(48)</u>
Profit before tax	747	514
Taxation	<u>(160)</u>	<u>(96)</u>
Profit for the year	587	418

You have obtained the following additional information:

- (1) Focus Ltd acquired 70% of Bear Ltd on 1 October 2019 for a cash consideration of RWF 1,870 million, which gave it a controlling interest from that date. The carrying amount of the share capital and reserves of Bear Ltd at the date of acquisition was RWF 1,560 million.
- (2) Focus Ltd's policy is to value the non-controlling interest in subsidiaries at its share of net assets at the date of acquisition.
- (3) At 31 March 2020, the directors of Focus Ltd considered the goodwill in Bear Ltd to be impaired by 10%. Goodwill impairment should be charged to administrative expenses.
- (4) Since the date of acquisition, Bear Ltd has made monthly sales of RWF 56 million to Focus Ltd, at a mark-up of 40%. At 31 March 2020, Focus Ltd still had two months' worth of goods left in inventory.
- (5) All items in the above statements of profit or loss are deemed to accrue evenly over the year unless otherwise indicated.

*Required*

- (a) Explain the concept of non-controlling interest and how non-controlling interest is reflected in the consolidated financial statements. **(4 marks)**
- (b) Calculate the goodwill arising on the acquisition of Bear Ltd and the carrying amount of goodwill as at 31 March 2020X9. **(4 marks)**
- (c) Prepare the consolidated statement of profit or loss for the Focus Group for the year ended 31 March 2020. **(12 marks)**

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**Total (20 marks)**

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**Total (100 marks)**

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**End of question paper**