



CERTIFIED ACCOUNTING TECHNICIAN (CAT)
STAGE 2 EXAMINATION
S2.1 PREPARATION OF BASIC ACCOUNTS
DATE: DECEMBER 2021
MODEL ANSWERS AND MARKING GUIDE

SECTION A

Marking guide

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Marks

Question 1 to 50

2 marks for each correct answer

2

Total marks for the Paper

100

Detailed answers

QUESTION ONE

The correct answer is A

Assets = capital + liabilities.

Option B is not correct because Capital = Assets-Liabilities instead.

Option C also is not correct because Liabilities= Assets- Capital instead

Option C is totally wrong because it is not in line with the accounting equation.

QUESTION TWO

The correct answer is B

Machinery	20,000
Cash in hand	2,000
Land and buildings	200,000
Bank overdraft	(50,000)
Creditors	(5,000)
Debtors	<u>10,000</u>
Capital	<u>177,000</u>

QUESTION THREE

The correct answer is C

The owners of a business and the business are treated as a Separate legal entities.

Option A is not correct because the entity has its own legal rights and obligations, separate to those running and/or owning the business.

Option C is not correct because no business relationship between the business and those running or owing the business.

Option D is not also correct because there isn't partnership deed between the business and those running/owning it.

QUESTION FOUR

The correct answer is D

Enhancing qualities of accounting information include but not limited to Comparability and verifiability.

Option A is not correct because relevance is among the fundamental (Primary) Qualitative Characteristic of accounting information that must be present for information to be useful in making decisions whereas consistency is among accounting concepts.

For option B, comparability is among the enhancing (Secondary) Qualitative Characteristics of accounting information but materiality is among accounting concepts.

For Option C, Relevance and faithful representation are the fundamental (Primary) Qualitative Characteristics but not part of enhancing (Secondary) Qualitative Characteristics of accounting information.

QUESTION FIVE

The correct answer is A

One of the major features of bookkeeping is that it provides permanent records for all financial transactions.

Option B is not correct because book-keeping consists of recording financial transactions any time the transaction happens.

Option C is not correct also due to that one of the aim of bookkeeping is to keep a complete and accurate record of all the financial transactions in a systematic orderly, logical manner. This ensures that the financial effects of these transactions are reflected in the books of accounts.

For option D, instead bookkeeping gives the room for double entry procedures.

QUESTION SIX

The correct answer is B

To record rent payment by cheque John needs to debit rent account, credit bank account.

For option A Debit rent account is ok because it is an expense account but crediting John's account is wrong because the payment was made by cheque.

Option C is completely wrong because debiting bank account and crediting rent account should result in complete reversal of entry error.

Option D, is not correct due to that John's Account was not necessary in such transaction, whereas crediting rent account is also wrong to that the rent was paid by the tenant but not landlord.

QUESTION SEVEN

The correct answer is C

Payables:	FRW
Balance b/f	60,000
Cash paid to suppliers	(302,800)

Discounts received	(2,960)
Contra	(2,000)
Balance c/f	<u>(84,000)</u>
Purchases	<u>(331,760)</u>

QUESTION EIGHT

The correct answer is D

	FRW		FRW
Opening balance	308,600	Cash	147,200
Credit sales	154,200	Discounts allowed	1,400
Interest charged on overdue accounts	2,400	Contras	4,600
		Irrecoverable debts	4,900
	<u>465,200</u>	Closing balance	307,100
			<u>465,200</u>

QUESTION NINE

The correct answer is A

$$1,000,000 - (20 \times 1,000,000) = 800,000$$

QUESTION 10

The correct answer is B

Closing net assets + drawings – capital introduced – opening net assets = Net profit.

Option A, C and D are completely wrong because they do not follow the normal accounting procedures of calculating Net profit of a sole Trader when Opening and Closing Net Assets, drawings, and introduced capital are provided.

QUESTION 11

The correct answer is C

A debit note is a document made out when goods are undercharged.

Option A should be correct only when the buyer returned purchased goods to the seller, in this case the buyer should notify the seller by issuing debit note.

Option B should also be correct if buyer received damaged goods, short quantity, overcharged or seller agrees to give discount. In this case also the buyer should issue debit note to notify the seller.

Option D is not correct at all because debit note is not always issued when goods are sold or purchased.

For this case, the correct answer is C because the seller noted that he/she have undercharged the buyer.

QUESTION 12

The correct answer is A

The books of original entry used to record credit sales is Sales journal.

For Option B, Sales returns journal records sales returns by customer not credit sales.

For Option C, Purchases journal records credit purchases not credit sales.

For option D, Purchases returns journal records purchases return to seller, not credit sales.

QUESTION 13

The correct answer is C

Credit notes issued for goods returned to a supplier will be entered firstly in the Returns outwards journal.

Option A is not correct because General journal is a book of original entries that records special transactions like asset sales, depreciation, interest income and interest expense, and stock sales.

Option B is also not correct because Returns inwards journal is a book of original entry that records goods returned to the selling entity by the customer.

Option D is also not correct because Petty cash journal records all petty cash related transactions.

QUESTION 14

The correct answer is D

	FRW
Balance per ledger	438,900
Less contra	(980)
Posting error	<u>(90)</u>
Corrected balance	<u>437,830</u>

QUESTION 15

The correct answer is A

The following items must be disclosed in the note to the financial statements for intangible assets: The useful lives of intangible assets capitalized in the financial statements and Impairment losses written off intangible assets during the period.

Option B is not correct because the description of the development projects that have been undertaken during the period and a list of all intangible assets purchased or developed in the period are not part of disclosure requirement as per IAS 38.

For Option C, Impairment losses written off intangible assets during the period should be disclosed as per IAS 38 but a list of all intangible assets purchased or developed in the period should be not disclosed as per requirement of the same standard.

QUESTION 16

The correct answer is B

Capitalized development costs are shown in the statement of financial position under the heading of non-current assets is correct.

Option A is not correct because IAS 38 is silent on the useful life of Capitalized development expenditure whereas Capitalized development costs are shown in the statement of financial position under the heading of non-current assets as per IAS 38.

Option C is not correct because it is not the requirement of IAS 38 to amortize Capitalized development costs over 5 years.

Option D is not also correct because it is not the requirement of IAS 38 to amortize Capitalized development costs over 5 years and if certain criteria are met, research expenditure must be recognized as an intangible asset only after technical and commercial feasibility of the asset for sale or use have been established. This means that the entity must intend and be able to complete the intangible asset and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits.

QUESTION 17

The correct answer is D

$$1,040 - 25 = \text{FRW } 1,015$$

QUESTION 18

The correct answer is C

	FRW 000
Profit	83,600
Purchase of van	18,000
Depreciation 18,000 x 25%	<u>(4,500)</u>
	<u>97,100</u>

QUESTION 19

The correct answer is D

	FRW
Depreciation:	
Jan–Mar 240,000 x 20% x 3/12	12,000
Apr–Jun (240,000 – 60,000) x 20% x 3/12	9,000
Jul–Dec (180,000 + 160,000) x 20% x 6/12	34,000
	<hr/>
	<u>55,000</u>

QUESTION 20

The correct answer is B

The Allowance for Doubtful Accounts is necessary because when recording Bad Debts Expense, it is not possible to predict specifically which accounts will not be collected.

Option A is not correct because uncollected debts that are written off must be accumulated in bad debt account not in allowance for doubtful debt account.

Option C is not correct because the major aim of allowance for Doubtful debt account is not to help the Management to know how much in credit losses have occurred over the years.

Option D is not relating to Allowance for Doubtful debt account.

QUESTION 21

The correct answer is C

The following errors would cause the total of the debit column and the total of the credit column of a trial balance not to agree: A cheque received from a customer was credited to cash and correctly recognized in receivables and a purchase of non-current assets was omitted from the accounting records.

Option A, transposition error is among the errors that do not affect Trial Balance whereas a cheque received from a customer was credited to cash and correctly recognized in receivables is an error that affects Trial Balance but the combination of them is not correct.

Option B, transposition error is among the errors that do not affect Trial Balance whereas A purchase of non-current assets was omitted from the accounting records is an error that affects Trial Balance but the combination of them is not correct.

Option D, both a cheque received from a customer was credited to cash and correctly recognized in receivables and rent received was included in the trial balance as a debit balance are among the errors that do not affect Trial Balance.

QUESTION 22

The correct answer is A

	FRW	FRW
Debts written off		37,000
Movement in allowance:		
$(517 - 37) \times 5\%$	24,000	
Less opening allowance	<u>39,000</u>	
		(15,000)
		<hr/>
Receivable's expense		<u>22,000</u>

QUESTION 23

The correct answer is B

A trial balance is usually prepared by an accountant from account balances in the ledger for the purpose of testing arithmetical accuracies of the ledger account balance.

Option A, C and D are not among the major causes of preparing a Trial balance by an Accountant.

QUESTION 24

The correct answer is D

The term posting in accounting refers to the transferring entries to the ledger from the journal.

Option A, B and C cannot be termed posting at all but instead transferring entries from Journal to the ledger should be termed posting. Recording is a basic phase of accounting that is also known as bookkeeping. Transferring the balances in the ledger to the trial balance is about extracting a Trial balance from accounts balances whereas tracing amounts from the journal to the ledger to find errors has nothing to do with posting.

QUESTION 25

The correct answer is C

	FRW
Opening assets	569,400
Opening liabilities	(412,840)
Capital introduced	65,000
Drawings (8,000 x 12)	<u>(96,000)</u>
	125,560
Profit (bal fig)	118,800
Closing net assets (614,130 – 369,770)	<u>244,360</u>

QUESTION 26

The correct answer is B

Salaries, an expenditure, has been stated in error as a credit balance.

QUESTION 27

The correct answer is A

The carrying amount of non-current asset as at 31st July 2020 is FRW 150 Million.

QUESTION 28

The correct answer is B

$$(6,700 + 84,000 - 5,400) \times 20\% = \text{FRW } 17,060$$

QUESTION 29

The correct answer is D

Jana's net profit for the year is FRW 18,498,000

$$(6,798,000 + 14,600,000 - 2,900,000).$$

QUESTION 30

The correct answer is B

The effect of payment of a liability is that it decreases both assets and liabilities.

Option A is not correct because repayment of a debt does not increase none among assets and liabilities.

Option C is not also correct because repayment of a debt does not increase Assets but decreases liabilities. Their combination is not true.

For Option D, repayment of debt decreases assets but does not increase liabilities, so this option is not correct.

QUESTION 31

The correct answer is A

Books of original entry are used for recording business transactions.

Books of original entries primarily are used to record business transactions but neither to adjust accounts, to remind the bookkeeper to post transactions in the ledger nor to inform the bookkeeper about the state of affairs. So option B, C and D are categorically wrong.

QUESTION 32

The correct answer is C

Discounts received of FRW 150 were extracted to the debit column of the trial balance explains the imbalance in Trial Balance.

Option A and B are among the errors that do not affect trial balances, whereas Option D, the disagreement between bank ledger account and bank statements always exist due to timing difference, unpresented cheques, uncredited cheque, standing orders, direct credits and debits to mention few, but cleared after adjustment of bank ledger Account with transaction on the bank statement that have not been reflected in bank ledger account.

QUESTION 33

The correct answer is A

	FRW
Balance b/f	550
Expense incurred (cash)	5,400
Accrual c/f	<u>650</u>
	6,600

QUESTION 34

The correct answer is D

Adjusting entries are made to ensure that: Expenses are recognized in the period in which they are incurred, revenues are recorded in the period in which the performance obligation is satisfied and balance sheet and income statement accounts have correct balances at the end of an accounting period. All the answers are correct.

QUESTION 35

The correct answer is C

The adjusting entry to be made by the Pax is to

Dr Rent Expense 4,000

Cr Prepaid Rent 4,000

If Pax paid 24,000 for six months as prepayment, Pax paid FRW 400 monthly.

If financial statements are prepared on July 31, Pax should adjust his/her financial statement with one month rent payment.

QUESTION 36

The correct answer is B

Harris should make the following adjusting entry:

Dr Depreciation Expense 5,000

Cr Accumulated Depreciation 5,000

Harris purchased the computer one month before the year end. This computer should not be charged full year depreciation. It should be depreciated on prorated basis.

So, Depreciation for one month: $60,000:12 = 5,000$ to be charged adjusted in financial statement.

QUESTION 37

The correct answer is C

If a business fails to adjust an Unearned Rent Revenue account for rent that has been recognized, this the effect on that month's financial statements is that the Liabilities will be overstated and revenues will be understated.

Option A is not correct because Unearned Rent Revenue a/c has nothing to do with assets account once recognized but revenue a/c will continue to be understated.

Option B once recognized Unearned Rent Revenue a/c should not be understated but revenue will be always understated once this adjustment is not affected.

Option D Unearned Rent Revenue a/c has nothing to do with assets account once recognized but revenue a/c will continue to be understated until the adjustment is done

QUESTION 38

The correct answer is D

	FRW
Balance b/f (advance)	28,700
Balance b/f (arrears)	(21,200)
Cash received	481,200
Balance c/f (advance)	(31,200)
Balance c/f (arrears)	<u>18,400</u>
	<u>475,900</u>

QUESTION 39

The correct answer is C

A debit balance on a partner's account indicates the partner owes the firm money.

Option A, B and C are not correct simply because any debit balance in current a/c does not mean that the firm owes the partner money, that the partner's account is overdrawn or that the firm has made a loss in the recent year but simply the partner has spent more than he/she earns from partnership.

QUESTION 40

The correct answer is B

The share of profit for the year to 31 May 2020 for Emma is FRW 9,548,000.

$(30,709 - 14,000) \times \frac{4}{7} = \text{FRW } 9,548,000$

QUESTION 41

The correct answer is C

The balance on Aron's current account as at 31st October 2020 is FRW 24,250,000.

$(24,800,000 + 6,500,000 + 12,750,000 - 1,800,000 - 18,000,000)$

QUESTION 42

The correct answer is A

The opening balance that should be included in the trial balance for Motor vehicles cost at 1 July 2020 is FRW 36,750 Dr.

QUESTION 43

The correct answer is B

The amount of Net profit share by A and B is FRW 240,000 and FRW 160,000 respectively.
 $(400,000 \times 3/5) = \text{FRW } 240,000$; $(400,000 \times 2/5) = \text{FRW } 160,000$

QUESTION 44

The correct answer is C

Services are regarded as provided in Rwanda for VAT purpose if the services provider has no headquarters in Rwanda but has it elsewhere and the recipients of the services need it or benefit from them in Rwanda.

Option A, B, and D are not correct answers according to tax laws in Rwanda especially VAT related laws for imported services.

QUESTION 45

The correct answer is D

If no similar service provider is available in Rwanda, Shamlan should not declare and pay no VAT. Once imported service is not available in the country, the service receiver should not declare or pay any VAT.

QUESTION 46

The correct answer is C

Goods and services provided to Tourist are zero-rated supply of VAT.

Option A is not correct since Goods and services related to Health are exempted

Option B is not also correct since Goods and services related to the provision of Education are also exempted.

Option D is also not correct since precious metals are VAT exempted.

QUESTION 47

The correct answer is A

Value added tax is charged on the following items except for Equipment designed for persons with disabilities.

Option B is not correct because transportation services of goods in transit in Rwanda to other countries including related services are zero rated.

Option C is not correct because Aircraft benzene is zero rated too.

Option D is not also correct because generally Goods and services are not VAT Exempted/ Zero rated.

QUESTION 48

The correct answer is B

FRW 400,000 is charged any register business for VAT that defaulted more than once.
This penalty is provided in EBM Regulations.

QUESTION 49

The correct answer is C

FRW 500000 is charged to any business that fulfill the condition to be registered for VAT and failed to do so.

This penalty also is clearly provided in VAT Laws in Rwanda.

QUESTION 50

The correct answer is D

Murokore is supposed to declare and pay output VAT charged and inputs VAT paid in the month of October 2020 by 15th December 2020.

If a business is registered to declare and pay VAT on Quarterly basis, the owner should declare and pay VAT in the following way:

Quarter one (December to February each year): By 15th March

Quarter Two (March to May each year): By 15th June

Quarter Three (June to August each year): By 15th September

Quarter Four (September to November each year): By 15th December

End of model answers and marking guide