



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.1 FINANCIAL ACCOUNTING

DATE: MONDAY, 29 NOVEMBER 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.
7. The question paper should not be taken out of the Examination room.

SECTION A

QUESTION ONE

There is an unqualified accountant working with XYZ company Ltd. While they were having a discussion with CAT colleague who was encouraging them to enroll for CAT so that they can advance their career in accounting and finance domain; the unqualified accountant replied to the CAT colleague's encouragements and said: "I have been working as an accountant for over 10 years and what I have realized is that everyone does what they want and what matters is knowing how much is left on your disposal for spending." However, the CAT Colleague is aware that accounting is not about monitoring bank balance because there should be compliance with some legislations, regulations, and standards to provide useful information to users of financial information.

Required:

Which of the following legislations/regulations/standards are businesses required to consider or comply with while performing their accounting duties?

- A National Legislation
- B International Financial Reporting Standards (IFRS)
- C Judgment in the application of accounting assumptions and conventions
- D All of the above

(2Marks)

QUESTION TWO

The key feature of associate-investor relationship is significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which is not control or joint control of those policies. **Which of the following is/are true feature(s) of significant influence?**

- i. Representation on the board of directors (or equivalent) of the investee
 - ii. Holding not less than 10% of the voting power of the entity
 - iii. Participation in the policy making process
 - iv. Material transaction between investor and investee
 - v. Interchange of management personnel
- A i, ii and v only
 - B All of them
 - C i, iii, iv and v only
 - D None of the above

(2Marks)

The following information is relevant for question 3&4

Smart enterprise Ltd is a company operating in retail business in Kigali. It is in the process of drafting its financial statements and below is an extract of its profit or loss account and statement of financial position.

Extract of Profit or Loss Account for the year ended 31st December 2020

Sales	FRW 3,458,000
Cost of goods sold	<u>FRW 1,950,000</u>
Gross profit	FRW 1,508,000
Add: Other incomes	FRW 450,000
Gross income	FRW 1,958,000

Below is an extract of its Statement of financial position as at 31st December 2020

Current Assets

Inventory	FRW 450,000
Receivables	FRW 950,000
Ordinary share capital	FRW 4,000,000

QUESTION THREE

What is the Gross profit margin of the company?

- A 56.4%
- B 13%
- C 56.6%
- D 43.6%

(2Marks)

QUESTION FOUR

What is the inventory turnover period in days for the Smart enterprise Ltd for the year ended (365 days a year)?

- A 100.3 days
- B 84.23 days
- C 47.5 days
- D 83.1 days

(2Marks)

QUESTION FIVE

According to IAS 16: Property, Plant and Equipment, an entity is required to make different disclosures to enable users of the financial statements to clearly understand the investments in Non-Current Assets. **Which of the following is not a disclosure requirement as per IAS 16?**

- A Measurement bases
 - B Asset financing method
 - C Depreciation Methods
 - D Reconciliation of the carrying amount at the beginning and of the end of the period
- (2Marks)**
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QUESTION SIX

Which of the following is an entity not required to disclose if it decides to use fair value model according to IAS 40 Investment property?

- A Reconciliation of the carrying amount of the investment property at the beginning and at the end of the period
 - B Significant adjustments to an outside valuation (if any)
 - C Rental income from investment property
 - D The depreciation method used
- (2Marks)**
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QUESTION SEVEN

What are the three main aims of accounting function?

- A Reliability, suitability, and timeliness
 - B Reliability, suitability, and cost effectiveness
 - C Suitability, timeliness, and cost effectiveness
 - D Reliability, timeliness, and cost effectiveness
- (2Marks)**
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QUESTION EIGHT

Why is analysis of the financial statements carried out?

- A So that the significance of the financial statements can be better understood through comparisons with historical performance and with other companies.
 - B To produce a report that can replace the financial statements, so that the financial statements no longer need to be prepared.
 - C To get back to the real underlying figures, without the numbers being skewed by the requirements of reporting frameworks.
 - D So that the analyst can determine a company's accounting policies.
- (2Marks)**
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QUESTION NINE

Which of the following best describes the purpose of disclosure notes in the financial statements?

- A To provide more detail for the users of financial statements about the information in the statement of financial position and statement of profit or loss and other comprehensive incomes.
 - B To allow companies to present their financial results in a more favorable way by only disclosing some issues in the notes and not on the main financial statements.
 - C To give all the details of all the transactions that occurred during the period because the main financial statements only present a summary.
 - D To explain the accounting treatment adopted where management have chosen not to apply accounting standards.
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- (2Marks)**

QUESTION 10

Which of the following is a disclosure on non-adjusting events required by IAS 10 events after reporting date?

- A An estimate of the financial effect of the event, unless a reasonable estimate cannot be made
 - B The date that the non-adjusting event occurred
 - C Dividends declared before the end of the reporting period and paid after the end of the reporting period
 - D The nature of both material and non-material non-adjusting events
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- (2Marks)**

SECTION B

QUESTION 11

IAS 7 Statement of cash flows under paragraph 10, requires entities to present cash flows in a manner that enables users of financial statements to see the impact on each cash and cash equivalents of each one, and their relationships with each other.

Required:

Explain the key components of statement of cash flows giving at least 2 examples on each component.

(10 Marks)

(Total: 10 Marks)

QUESTION 12

The following is an extract from books of Kigali Business Group (KBG) the year ended 31st December 2020

Gross profit	FRW 285,456,350
Less: operating expenses	FRW 56,256,856
Profit for the year	FRW 229,199,494

The above books were initially prepared by an accountant trainee in finance department. While doing deep analysis of the financials post reporting date, the financial accountant realized the following:

- i. The inventory in the store had been damaged because of poor conditions in the stock and this was not observed at the reporting date. This inventory needed to be repaired and the cost of repair was estimated to be FRW 1,856,400 and the expected selling price after repair was FRW 14,758,350. The inventory had an original cost of FRW 22,586,450 and this is the same value that was used to calculate the profit for the year.
- ii. Kigali Business Group (KBG) obtained FRW 4,500,000,000 loan from Bank A plc on 1st January 2020 towards construction of office building at a rate of 15% per year to be repayable within a period of 10 years. The construction started immediately after the loan was granted. Despite Covid 19, construction activities were not stopped. Additionally, on 1st January KBG has received another loan of FRW 3,850,000,000 from Bank B plc for the same purpose at a rate of 16.5% per year to be paid within 10 years. During the lockdown (March to May 2020), KBG Ltd decided to temporally invest an amount of FRW 2,865,000,000 from the first loan into short term investment with a return of 6.5% per year for a period of 3 months.

Required:

- a) **Determine the value of inventory that should be used to calculate the initial profit for the year in the extract above and determine the correct profit for the year (5 Marks)**
- b) **Calculate the borrowing costs to be capitalized by Kigali Business Group (KBG) at 31 December 2020 (5 Marks)**

(Total: 10 Marks)

SECTION C

QUESTION 13

(a) The Chief Executive Officer of Gahanga Ltd after returning from an organized training themed “Internal controls and Risk Management” hired a consultant to review their internal controls and recommend some improvements. They however, noted that despite strong investment in internal controls, things can still go wrong if not monitored well due to inherent limitations of the accounting systems.

Required:

Explain the term “inherent limitations” in the context of the internal controls of an organization, and briefly explain why these may exist. (10 Marks)

(b) In 2018, an audit firm published a report which highlighted that about 50% of economic crime in the country was perpetrated by employees of organisations.

Required:

i) **State the main difference between fraud and error.** (2 Marks)

ii) **Explain the two common types of fraud which may affect an organization with examples for each.** (2 Marks)

iii) **Explain the three main impacts of fraud on an organization.** (6 Marks)

(Total:20 Marks)

QUESTION 14

Kamonyi Ltd is a company operating in southern province of Rwanda. Kamonyi Ltd acquired some shares in Gakenke Ltd a year ago. The following are the statements of financial position for both companies as at 31st December 2020

	Kamonyi Ltd		Gakenke Ltd	
Particulars	FRW''000''	FRW''000''	FRW''000''	FRW''000''
Assets				
Non-Current Assets				
Property, Plant and Equipment	1,050,000		825,000	
Investments in Gakenke at cost	836,250		-	
Total Non-Current Assets		1,886,250		825,000
Current Assets				
Inventory	375,000		200,000	
Receivables	450,000		187,500	
Bank	150,000		87,500	
Total Current Assets		975,000		475,000
Total Assets		2,861,250		1,300,000
Equity and Liabilities				

Equity and reserve				
FRW 1,000 ordinary shares	2,250,000		1,000,000	
Retained Earnings	131,250		50,000	
Total Equity		2,381,250		1,050,000
Current Liabilities				
Payables	305,000		50,000	
Tax payable	175,000		200,000	
Total Current Liabilities		480,000		250,000
Total Equity and Liabilities		2,861,250		1,300,000

The following information is available:

- Kamonyi Ltd acquired 700,000 shares in Gakenke Ltd a year ago when Gakenke had retained earnings of FRW 15,000,000. The fair value of the non-controlling interest at the date of acquisition was FRW 353,750,000.
- During the year Kamonyi Ltd sold goods with an invoice value of FRW 240,000,000 to Gakenke Ltd. These goods were invoiced at cost plus 25%. Two thirds (2/3) of these goods were still in Gakenke's inventory at the reporting date.
- Gakenke Ltd owed to Kamonyi Ltd FRW 50,000,000 at 31st December 2020 for the goods purchased during the year
- At the date of acquisition, the fair value of Gakenke's Property, Plant and Equipment was FRW 20,000,000 greater than their carrying value. Ignore Depreciation impact.
- The group use full goodwill method and there was no impairment of goodwill since acquisition.

Required:

Prepare the consolidated statement of financial position for Kamonyi Ltd as at 31st December 2020. Show the workings for Goodwill, Group Retained Earnings, Unrealized profits, and Non-Controlling Interests

(20 Marks)

(Total :20 Marks)

QUESTION 15

The accountant of ATRIKA, a limited company, has prepared the following trial balance as at 31 December 2020

	FRW'000	FRW'000
Land and buildings at cost	2,700,000	
Plant and machinery at cost	1,560,000	
Investment properties at valuation	900,000	
Purchases	782,000	
Operating expenses	395,000	
Dividends paid	150,000	
Inventory at 1 January 2020	378,000	
Receivables	532,000	
Revenue		2,784,000
Income from investment property		45,000
Share capital FRW 1 ordinary shares		1,500,000
Retained earnings at 1 January 2020		1,195,000
Long-term loan (9%)		500,000
Accumulated depreciation at 1 January 2020		
Buildings		600,000
Plant and machinery		260,000
Trade and other payables		334,000
Deferred taxation		125,000
Bank		54,000
	7,397,000	7,397,000

Notes:

- 1 The land and buildings were purchased on 1 January 2012. The cost of land was FRW 700 million. No land and/or buildings have been purchased since that date. On 1 January 2020, the company had its land and buildings professionally valued. Land was valued at FRW 800 million, and buildings valued at FRW 1.75 billion. The estimated remaining life of the buildings at the date of valuation is 15 years.
- 2 Plants and machinery are depreciated at 15% per annum using the reducing balance method. Depreciation on buildings and plant is charged to the cost of sales.
- 3 The long-term loan was raised on 1 January 2020. At the year-end, interest had not yet been paid.
- 4 The provision for taxation for the year to 31 December 2020 has been estimated at FRW 283 million.
- 5 Inventory at 31 December 2020 was valued at FRW 432 million.

Required:

Prepare the following financial statements for the year ended 31 December 2020 in accordance with IAS 1 Presentation of Financial Statements.

- a) Statement of profit or loss and other comprehensive income (15 Marks)
- b) Statement of changes in equity (5 Marks)

(Total: 20 Marks)

End of question paper

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