CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATION

S3.1 FINANCIAL ACCOUNTING

DATE: MONDAY, 26 APRIL 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 is not a statutory responsibility of a director of a Rwandan company under the Law Governing Companies 07/2018?

A To act in good faith in a manner that they believe is in the best interests of the company, and use reasonable diligence in the discharge of the duties of their office.

B To keep accounting records at all times that give a true and fair view of the company's financial position, explains its transactions and complies with accepted accounting standards.

C To enter any interest in a proposed transaction or arrangement on the register of interests as soon as they become aware of the situation.

D To disclose any offices (directorships) held with other companies on an annual basis.

E None of the above

(2 Marks)

2 Which of the following items must be disclosed in the notes to the financial statements under the International Financial Reporting Standards?

(i) The carrying amount of inventories measured at net realisable value

(ii) A brief description of a contingent asset, and where practicable and possible, an estimate of its financial effect

(iii) The nature of any adjusting event that took place after the reporting period, and as an estimate of its financial effect (if possible)

(iv) The effective date of any revaluation of property, plant and equipment

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

(2 Marks)

3 An extract of the credit balances within the trial balance of Small Ltd as at 31 July 2019 is as follows:

	Credit Frw million
Allowance for receivables	35
Bank loan (Note 1)	650
Bank overdraft	34
Debentures (Note 2)	50
Interest payable	60
Ordinary share capital	150
Provisions (Note 3)	120
Redeemable preference shares (Note 4)	80

Revaluation surplus	230
Tax payable	162
Trade payables	86

Notes

1 The bank loan is due for repayment on 31 December 2022.
2 Debentures are repayable on 30 June 2020.
3 The provisions balance consists of a Frw 50 million legal provision which is expected to settle by 31 December 2019 and an environmental provision which is expected to be settled in March 2023.

The redeemable preference shares are due for redemption in June 2021.

What is the total current liability balance that should be reported in the statement of financial position as at 31 July 2019?

A Frw 382 million
B Frw 392 million
C Frw 442 million
D Frw 477 million
E None of the above

(2 Marks)

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4 Uwase Ltd purchased 80% of the equity shares of Manzi Ltd in 2016, gaining a controlling interest from the date of purchase. In the year ended 31 March 2020, Manzi Ltd sold goods to Uwase Ltd for Frw 12.6 million. Manzi Ltd applies a mark-up of 20% on goods sold. At 31 March 2020, 40% of the goods remained in inventory.

What is the unrealised profit attributable to the non-controlling interest of Manzi Ltd?

A Frw 168,000
B Frw 202,000
C Frw 840,000
D Frw 1,008,000
E None of the above

(2 Marks)

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5 The International Public Sector Accounting Standards Board (IPSASB) works to improve public sector financial reporting worldwide.

Which of the following statements about the International Public Sector Accounting Standards published by the IPSASB is/are true?

(i) The standards closely mirror IFRSs and each one is based on the relevant IFRS.
(ii) The standards are based on the cash basis of accounting, but there are plans to issue new standards based on the accruals basis.
(iii) The standards include guidance on public-sector specific areas such as presentation of budget information in the financial statements.

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

(2 Marks)

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6 The directors of Mutabazi Ltd plan to make investments in both Blue Ltd and Green Ltd in 2020. Mutabazi Ltd already have two fully-owned subsidiary companies. You have obtained the following information about the planned investments:

	Blue Ltd	**Green Ltd**
Ordinary shares	Acquire 30,000 of the 100,000 ordinary shares	Acquire 9,000 of the 50,000 ordinary shares
Preference shares	Acquire 20,000 of the 30,000 non-voting preference shares	None
Management representation	None	Mutabazi Ltd will second a senior manager to work in the production department of Green Ltd
Trading relationship	None	Green Ltd is a significant supplier of Mutabazi Ltd, providing around 30% of all raw materials

Based on the information above, how would each of these investments be classified in the consolidated financial statements of Mutabazi Ltd for the year ended 31 December 2020?

A Blue Ltd would an associate, Green Ltd would be a trade investment.
B Blue Ltd would be a subsidiary, Green Ltd would be an associate.
C Blue Ltd would be an subsidiary, Green Ltd would be a trade investment.
D Both Blue Ltd and Green Ltd would be associates.
E None of the above

(2 Marks)

7 Olivier Ltd is implementing new accounting software and is considering whether to use classroom-based training or online module-based training for its staff.
Which of the following statements is false?

A With online module-based training, staff can repeat areas of the training if necessary, or ask for help on online forums.

B With classroom-based training, staff can be trained at different times to lessen the impact on the continuing business activities.

C One of the benefits of classroom-based training is the knowledge of the qualified trainer leading the class.

D Online module-based training is useful for new staff who may have missed the initial training sessions.

E None of the above

(2 Marks)

8 At 1 April 2019, Karera Ltd had 10,000 ordinary Frw 1,000 shares in issue. Karera Ltd made a three-for-one bonus issue on 1 July 2019.

Karera Ltd paid a dividend of Frw 2,000 per share on 1 June 2019 and another dividend of Frw 1,200 per share on 1 December 2019.

What is the debit entry to record the dividends paid during the year in the financial statements of Karera Ltd for the year ended 31 March 2020?

A Debit Dividend expense Frw 36 million
B Debit Retained earnings Frw 36 million
C Debit Dividend expense Frw 68 million
D Debit Retained earnings Frw 68 million
E None of the above

(2 Marks)

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9 Identify which of the following items would appear in the statement of comprehensive income of Maman Ltd for the year ended 30 September 2020?

(i) A Frw 260,000 gain on the disposal of machinery
(ii) A revaluation surplus of Frw 152,000 on an asset, which had previously been revalued upwards
(iii) A transfer of excess depreciation between the revaluation surplus and retained earnings

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

(2 Marks)

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10 Which of the following statements about International Financial Reporting Standards (IFRS) is true?

A IFRS are rules-based standards that set out in detail how companies should present their financial statements.

B Where there is a conflict between national law and IFRS, a company must always follow the requirement of the IFRS.

C One aim of IFRS is to try to achieve comparability between different companies.

D The use of IFRS removes the risk of an accountant using inappropriate judgement when preparing financial statements.

E None of the above

(2 Marks)

SECTION B

11 Gatsibo Ltd is constructing its own factory and has incurred the following costs in relation to the construction during the year ended 31 March 2020:

Date	*Description*	*Note*	Frw million
May 2019	Purchase of land		146.2
May 2019	Cost of site preparation		25.3
June 2019	Legal fees in relation to land purchase		2.6
July 2019	Purchase of building materials	1	56.3
July 2019	Delivery costs relating to building materials		3.5
August 2019 to February 2020	Labour cost – construction workers	2	168.0
August 2019 to February 2020	Labour cost – allocation of management salaries	2	120.0
February 2020	Cost to recruit and train new staff		45.7
		3	567.6

Notes

1 In November 2019, part of the factory building had to be rebuilt due to errors in the construction method. Building materials with a cost of RWF 4.2 million had to be scrapped. These materials were part of the purchase of materials in July 2019.

2 Construction started in early August 2019 and the building was completed at the end of February 2020. Due to delays in completing the architectural plans, construction was halted for the month of September 2020, but salaries were still paid to management and construction workers during that month. You should assume that labour costs were consistent month on month over the construction period.

3 All costs were debited to the 'construction suspense account' as incurred.

Gatsibo took out a loan for Frw 300 million on 1 May 2019 to fund the construction of the factory. Annual interest of 5% is due on the loan and the principal is due for repayment in ten years.

Gatsibo arranged a further ten-year loan of Frw 200 million on 1 December 2019 to cover additional construction costs. This annual interest rate on this loan is 6.6%.

All finance costs relating to these loans have been recorded in the statement of profit or loss.

The factory was opened on 1 March 2020.

Required

Calculate the amount that should be capitalised in respect of the factory for the year ended 31 March 2020 in the financial statements of Green Ltd, and prepare any necessary journal entries. **Total (10 Marks)**

12 You are preparing the statement of cash flows of Izuba Ltd for the year ended 30 April 2020. Relevant extracts from the financial statements are as follows:

	2020 Frw million	*2019* Frw million
Extracts from the statement of financial position as at 30 April 2020		
Non-current assets		
Property, plant and equipment	634	658
Non-current liabilities		
Bank loan	300	500
Equity		
Share capital	300	100
Share premium	250	100
Revaluation surplus	191	126
Retained earnings	352	154
	1,093	480
Extracts from the statement of profit or loss for the year ended 30 April 2020		
Profit for the year	435	358

You have also obtained the following information:

(1) During the year ended 30 April 2020, Izuba Ltd sold property, plant and equipment with a carrying amount of Frw 106 million at a profit of Frw 34 million.

(2) Depreciation charged on property, plant and equipment during the year ended 30 April 2020 was Frw 272 million.

(3) On 30 April 2020, assets with a carrying amount of Frw 134 million were revalued to Frw 199 million. None of these assets had previously suffered a revaluation loss.

(4) Izuba Ltd made a one-for-five bonus issue out of retained earnings on 1 July 2019 and then issued new shares in January 2020.

(5) Izuba Ltd presents dividends paid under the cash flows from financing activities.

Required:

Prepare the cash flows from investing activities and cash flows from financing activities sections of the Izuba Ltd statement of cash flows for the year ended 30 April 2020.

Total (10 Marks)

SECTION C

13 Four Hills Ltd owns 70% of the share capital and has a controlling interest in River Deep Ltd. The draft statements of financial position for both companies as at 31 March 2020 are as follows:

	Four Hills Frw million	*River Deep* Frw million
ASSETS		
Non-current assets		
Property, plant and equipment	2,745	960
Investment in subsidiary	365	–
	3,110	960
Current assets		
Inventories	560	246
Trade and other receivables	346	164
Cash and cash equivalents	120	65
	1,026	475
Total assets	4,136	1,435
EQUITY AND LIABILITIES		
Equity		
Ordinary share capital	500	100
Share premium	250	120
Revaluation surplus	436	68
Retained earnings	960	423
Total equity	2,146	711
Non-current liabilities		
Long-term borrowings	1,500	500
Current liabilities		
Trade and other payables	327	176
Current tax payable	163	48
Total current liabilities	490	224
Total liabilities	1,990	724
Total equity and liabilities	4,136	1,435

The following additional information is available:

(1) Four Hills Ltd purchased the 70% holding in River Deep Ltd for consideration with a fair value of Frw 365 million several years ago. At the date of acquisition, River Deep Ltd's retained earnings balance was Frw 209 million and there was no revaluation surplus. There have been no changes to share capital or share premium since the acquisition. Four Hills Ltd use the full consolidation method, and the fair value of the non-controlling interest at the date of the acquisition was Frw 110 million.

(2) Goodwill was impaired by 20% during the year ended 31 March 2019 and the directors believe that a further impairment of 30% of the original goodwill balance is required at 31 March 2020.

(3) River Deep Ltd sold Frw 850 million of goods to Four Hills Ltd during the year ended 31 March 2020 at a margin of 15%. One quarter of these goods are still in inventory as at 31 March 2020.

Required:

(a) Calculate the carrying amount of goodwill as at 31 March 2020 relating to the acquisition of Deep River Ltd. (5 Marks)

(b) Prepare the consolidated statement of position for the Four Hills Group for the year ended 31 March 2020. (15 Marks)

Total (20 Marks)

14 Akagera Ltd is a construction company. The financial statements for the year ended 30 April 2020 are as follows:

AKAGERA LTD
Statement of profit or loss for the year ended 30 April 2020

	2020	*2019*
	Frw million	Frw million
Revenue	6,631	6,894
Cost of sales	(3,250)	(3,562)
Gross profit	3,381	3,332
Other income	80	86
Other operating expenses	(2,658)	(2,256)
Operating profit	803	1,162
Finance costs	(59)	(73)
Profit before taxation	744	1,089
Taxation	(165)	(264)
Profit for the year	579	825

AKAGERA LTD
Statement of financial position as at 30 April 2020

	20X2	*20X1*
	Frw million	Frw million
ASSETS		
Non-current assets		
Property, plant and equipment	1,364	1,441
Current assets		
Inventories	1,665	1,436
Trade and other receivables	1,530	1,563
Cash and cash equivalents	260	497
	3,455	3,496

TOTAL ASSETS	4,819	4,937
EQUITY AND LIABILITIES		
Equity		
Share capital and premium	1,000	800
Retained earnings	890	511
	1,890	1,311
Non-current liabilities		
Bank loan	2,000	2,500
Current liabilities		
Trade and other payables	929	1,126
TOTAL EQUITY AND LIABILITIES	4,819	4,937

The following additional information is available:

(1) The following ratios were calculated in 2019:

Return on capital employed	30%
Gross profit margin	48%
Operating profit margin	17%
Inventory turnover period	147 days
Receivables collection period	83 days
Payables payment period	115 days
Gearing	66%

(2) The construction industry has gone through a challenging time recently and the result of Akagera Ltd for the year to 30 April 2020 have been disappointing. Several of the construction projects in the later part of the year were delayed due to poor weather and staff were required to work a lot of paid overtime to make up for this.

(3) The allocation of staff costs has changed during the year, with construction management costs now being included in 'other operating expenses' rather than in 'cost of sales'. These costs were approximately Frw 600 million for the year ended 30 April 2020.

(4) Inventories consists of raw materials, projects under construction and a small proportion of finished properties. During the year ended 30 April 2020, several customers have been unable to complete the purchase of their properties due to financial troubles, resulting in finished properties that are still being marketed at the year end. Akagera Ltd has incurred higher marketing costs than usual trying to sell these properties.

Required:

(a) **Explain the purpose of the calculation and interpretation of ratios.** (2 Marks)

(b) **Calculate the equivalent ratios for Akagera Ltd for the year ended 30 April 2020.** (8 Marks)

(c) **Write a report to the directors of Akagera Ltd, comparing the position and performance of Akagera Ltd for the year ended 30 April 2020 to the previous year, using the information provided.** (10 Marks)

Total (20 Marks)

15 KoolThread Ltd is a clothing manufacturer.

You have been engaged by the directors of KoolThread Ltd to analyse its purchasing system and to brief the directors of your findings.

You have prepared the following notes about the purchasing system:

(1) KoolThread Ltd makes regular purchases of cloth, thread, buttons and fasteners from a range of suppliers.

(2) Raw materials and finished goods are stored in the warehouse. The production department requests raw materials from the warehouse, and finished goods are returned to the warehouse once production is complete.

(3) A member of the production department sends an email to the finance department to instruct them to place a purchase order from a particular supplier once the production schedule is known. The finance department places the order and sets up a new supplier code if necessary.

(4) When delivery of the raw materials is received, the goods are checked for any damage by a member of the warehouse staff. Any damaged goods are rejected, otherwise the goods are accepted and stored in the warehouse.

(5) The invoice received is passed to the finance department where the invoice details are entered into the accounting system. Payment is generally made within 60 days by bank transfer.

(6) An inventory count is only performed at the end of the financial year. There are often many discrepancies in the quantities of inventory, with fewer items than expected, and it is sometimes in poor condition eg faded or torn.

(7) Discussions with staff in the warehouse suggest that there may be an issue with theft of both raw materials and finished goods. The warehouse staff often find that they do not have the quantity of cloth that they expected, therefore have to place an emergency order to meet the production demands. When finished goods are returned from production, they are placed on shelves until a customer places an order.

Required:

Prepare a note for the directors of KoolThread Ltd which includes the following:

(a) **An analysis of the purchasing system and controls of KoolThread Ltd, identifying four areas of control weakness. Your answer should include an explanation of the possible risk to KoolThread Ltd from the control weakness.** (8 Marks)

(b) An explanation of the importance of internal control, specifically in relation to the inventory discrepancies. (6 Marks)

(c) A suggestion for three possible controls that could be introduced to safeguard inventory and an explanation as to how that control would reduce future inventory discrepancies. (6 Marks)

Total (20 Marks)

Total (100 Marks)