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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 1 EXAMINATION**  
**S2.1 PREPARATION OF BASIC ACCOUNTS**  
**DATE: WEDNESDAY 26, APRIL 2023**  
**MARKING GUIDE AND MODEL ANSWERS**

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## Marking guide

1	A
2	C
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4	A
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8	B
9	C
10	A
11	B
12	C
13	B
14	D
15	B
16	B
17	A
18	A
19	A
20	C
21	D
22	B
23	A
24	B
25	B

26	A
27	C
28	C
29	A
30	A
31	D
32	B
33	B
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36	D
37	A
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40	C
41	B
42	A
43	B
44	C
45	D
46	B
47	A
48	D
49	C
50	B

**2 marks for each correct answer**

**Total marks for this section 100**

## **Model answers**

### **QUESTION ONE**

#### **The correct answer is A**

The main purpose of a business is to make profit for the owner

Option B is a definition of not for profit making organizations as their main purpose is for public or social benefit

Option C is a definition of a business entity

Option D is a definition of a Non-Government Organization

### **QUESTION TWO**

#### **The correct answer is C**

A profit is a result of incomes and expenses and not an element of financial statement

The rest are elements of financial statements (statement of financial position)

### **QUESTION THREE**

#### **The correct answer is D**

The transaction was made by cash and therefore bank is not affected

The rest will be affected as explained below

Option A asset(cash) is increasing by transaction amount (cost plus profit)

Option B asset(Inventory) is decreasing by cost of sold goods

Option C capital (retained earnings) is increasing by the amount of profit

### **QUESTION FOUR**

#### **The correct answer is A**

Sales on credit results into creation of Accounts receivable and therefore Dr. Accounts receivable and Cr Sales as they are incomes by the same amount of transaction

Option B is not correct – inventory is affected internally but not a financial statement

transition and again inventory is affected by inventory cost and not selling price

Option C is not correct – the customer did not pay any cost as the transaction was made on credit

Option D is not correct – the transaction was a sales and not purchases and therefore no purchases and payables involved

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## **QUESTION FIVE**

### **The correct answer is C**

Implies that the business will continue in operation for the foreseeable future, and that there is no intention to put the company into liquidation or to cease trading.

Option A is not correct – changing accounting policies is not a going concern as long as they are allowed by IAS 8

Option B is not correct – making losses doesn't imply going concern issues unless if it is a continuous thing

Option D is not correct – Listing or not listing on stock exchanges doesn't have any effect on the going concern

## **QUESTION SIX**

### **The correct answer is A**

Business entity principle states that the owner of the business and the business are 2 distinct entities

Option B is not correct –implies that the policies applied by the business should be consistent over time and across similar items

Option C is not correct – Implies that the business will continue in operation for the foreseeable future, and that there is no intention to put the company into liquidation or to cease trading.

Option D is not correct – means that accounts only deal with items to which a monetary value can be attributed

## **QUESTION SEVEN**

### **The correct answer is B**

Relevance is a fundamental qualitative characteristics of financial information

A, C &D are all enhancing qualitative characteristics of financial information

## QUESTION EIGHT

### The correct answer is B

Under materiality, only material items should appear in the financial statements. Items are material if their omission or misstatement would influence the decisions of the primary users of the financial statements.

Option A which is prudence is the exercise of caution when making judgements

Option C is a principle where like items should be treated in a like way and over time.

Option D is a concept where revenues and costs should be matched in the same time period.

## QUESTION NINE

### The correct answer is C

<b>Total current assets</b>	
Accounts Receivable	680,000
Cash at bank	800,000
Accrued rental incomes	340,000
<b>Total</b>	<b>1,820,000</b>

Option A is not correct – because it included Non-current assets (Motor vehicle) in current assets

Total current assets	
Accounts Receivable	680,000
Motor vehicle	5,800,000
Accrued rental incomes	800,000
Cash at bank	340,000
<b>Total</b>	<b>7,620,000</b>

Option B is not correct- because it did not consider accrued rental income as a current asset and therefore only considered accounts receivable and cash at bank

Total current assets	
Accounts Receivable	680,000
Cash at bank	800,000
<b>Total</b>	<b>1,480,000</b>

Option D is not correct- Option A is not correct – because it included Non-current assets (Motor vehicle) in current assets and excluded Accrued rental income

Total current assets	
Accounts Receivable	680,000
Motor vehicle	5,800,000
Cash at bank	800,000
<b>Total</b>	<b>7,280,000</b>

## QUESTION 10

The correct answer is A

<b>Total Liabilities</b>	
Particulars	Amount (FRW)
Interest payable	
Accounts Payable	502,000
10 Years loan	6,000,000
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Total	6,952,000
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Option B is not correct –because it included accrued rental income as a liability yet it is a current asset

Option C is not correct – because it only considered current liabilities and excluded long term loans.

Option D is not correct – because it excluded long term loans and also included a current asset of accrued rental income

## QUESTION 11

The correct answer is B

Statement of financial position shows financial position of a business at the end of the reporting period

Option A is not correct –Statement of financial position does not necessarily show how much was paid but how much was spent regardless of their payment status

Option C is not correct – statement that shows inflows and outflows is cash flow

Option D is not correct – the statement that shows explicitly how much was injected by owners in a particular period is statement of changes in equity though SFP shows position as at a particular period

## QUESTION 12

**The correct answer is C**

Purchases returns day book is the book that records all purchases returns for the day

Option A is not correct –Because it shows the cash movement for the period

Option B is not correct – Purchase day book records purchases for the day

Option D is not correct – Petty cashbook records cash movement through petty cash

## QUESTION 13

**The correct answer is B**

The purchases day book uses purchases invoice as source documents

Option A is not correct –Sales invoices are source documents for sales day book

Option C is not correct – Credit notes received are source document for purchase returns day book

Option D is not correct – stock cards are cards that records inflows and outflows of inventory for the business

## QUESTION 14

**The correct answer is D**

Price list	458,000
Trade discount (5%)	22,900
<b>Payment after 15 days</b>	<b>435,100</b>

Option A is not correct. It considers only settlement discount which is also wrongly calculated since it was applied to price list instead of after deducting trade discount first

Option B is not correct. Considers only trade discount yet that is what KARANGWA will not pay

Option C is not correct. It considers that is not eligible for any discount since he will pay the whole price list of FRW 458,000

## QUESTION 15

**The correct answer is B**

Price list	458,000
Trade discount (5%)	22,900
Amount after deducting trade discount	435,100
Settlement discount(15% of FRW 435,100)	65,265
<b>Payment before 15 days</b>	<b>369,835</b>

Option A is not correct. Considers only trade discount and settlement discount though also settlement discount is being wrongly calculated

Option C is not correct. Considers that KARANGWA is only eligible for settlement discount omitting trade discount of 5%

Option D is not correct. Considers that is not eligible for any discount since he will pay the whole price list of FRW 458,000

### QUESTION 16

The correct answer is B

All sales day book transactions are posted in the accounts receivable ledger account

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### QUESTION 17

The correct answer is A

Dr. Receivables FRW 600,000 Cr. Sales FRW 600,000

Option B is not correct since it debits sales and credit cash

Option C debits cash account yet the sale was on credit

Option D credits receivables as if it is a payment received

### QUESTION 18

The correct answer is A

Accounts receivable			
Bal b/d	2,580,000	received payment from client	1,200,000
sales on credit	600,000	Bad debts written off	150,000
		Bal c/d	1,830,000
	<b>3,180,000</b>		<b>3,180,000</b>

Option B did not consider other accounts receivable related transactions

Option C did not consider payments received and bad debts

Option D considered sales on credit as a reduction on the accounts receivable

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### QUESTION 19

The correct answer is A

The total of sales invoices in the day book is debited to the control account. If the total is understated by FRW 860,000, the debits in the control account will also be understated by FRW 860,000.

Options B and D would have the opposite effect: credit entries in the control account would be understated. Option C would lead to a discrepancy of  $2 * \text{FRW } 860,000 = \text{FRW } 1,720,000$ .

### QUESTION 20

The correct answer is C

Controls account does not facilitate bank reconciliation since bank reconciliation only involves cashbook and bank statement.

Option A, B&C are all reasons for maintaining control accounts



### **QUESTION 21**

**The correct answer is D**

When she was posting in ledgers, she transposed 8 and 6 which resulted into error of transposition

Option A is not correct – error or commission is where the bookkeeper makes a mistake in carrying out their task of recording transactions in the accounts.

Option C is not correct – error or omission is means failing to record a transaction at all (complete omission), or making a debit or credit entry, but not the corresponding double entry (error of partial omission)

Option D is not correct- error of principle involves making a double entry in the belief that the transaction is being entered in the correct accounts, but subsequently finding out that the accounting entry breaks the 'rules' of an accounting principle or concept.

### **QUESTION 22**

**The correct answer is B**

Dr. Cash FRW 18,000 Cr Accounts Receivable FRW 18,000

Cash is debited with understatement (FRW 586,400-568,400=18,000) and the corresponding entry is credited to accounts receivable

Option A is not correct – does the vice-versa and increases the error

Option C is not correct – reposts the transaction from scratch. This does not correct the original entered transaction and therefore the error remains in the books

Option D is not correct – recommitts the same mistake committed by the cashier

### **QUESTION 23**

**The correct answer is A**

Purchases made are recorded on the credit side of purchase ledger control

Option A is not correct –cash paid to suppliers are posted in debit side of purchases ledger control account

Option B is not correct – discounts received to suppliers are posted in debit side of purchases ledger control account

Option C is not correct- returns outwards are posted in debit side of purchases ledger control account

## QUESTION 24

### The correct answer is B

Rent per month= $6,000,000/3=FRW 2,000,000$

Rent for 12 months= $12*2,000,000=24,000,000$

Option A is not correct –considers quarterly rentals as an annual rental

Option C is not correct – Did not consider November and December and therefore counts only 3 quarters ( $FRW 6,000,000*3=18,000,000$ )

Option D is not correct- considering annual rent of  $FRW 24,000,000$  plus the one month paid in advance of  $FRW 2,000,000$

## QUESTION 25

### The correct answer is B

Rent per month= $4,800,000/3=FRW 1,600,000$

Rent for November and December not paid= $2*1,600,000=3,200,000$

Option A is not correct –considers all quarter to be due for 2022 yet only 2 months are for 2022

Option C is not correct – considers only one month as due yet instead of 2 months. one month is actually not concerned with the reporting period

Option D is not correct- takes the rent as expense instead of income and therefore recognizes an expense and a liability in form of accrued rent expense

## QUESTION 26

### The correct answer is A

Customer not paying on time is not a reason for writing off the debt unless if not cooperating

Options B, C&D are all reasons for writing of a debt as irrecoverable debt

## QUESTION 27

### The correct answer is C

Its debited into bank and credited into sundry incomes as a miscellaneous income

Option A is not correct – it's not correct to credit cash account because money is not picked from cash account rather deposited into the bank account

Option B is not correct – there is no need of creating suspense account since it's clear that it is from a receivable who was written off previously

Option D is not correct – accounts receivable is not involved since it was removed from receivables during write off

### QUESTION 28

The correct answer is C

Allowance for receivables			
New allowance 5% of 1250000	62,500	Bal b/f	40,000
		Increase in allowance	22,500
	<u>62,500</u>		<u>62,500</u>

Option A is not correct- considering as if it's the first time to recognize allowance for receivables

Option B is not Correct-Considers as if there were no new allowance provisions and therefore maintained the previous

Option D is not correct- considers opening plus the new provisions

### QUESTION 29

The correct answer is A

Receivables	
Particulars	Amount (FRW)
Gross receivables	54,864,000
Less allowance for receivables	(3,775,000)
<b>Total</b>	<b>51,089,000</b>

Option B is not correct- The net was taken as a liability which is not true

Option C is not correct –considers gross receivables as assets and allowance as liabilities which is not the correct accounting treatment

Option D is not correct – considers gross receivables as liabilities and allowance as assets which is not correct

### QUESTION 30

The correct answer is A

Cost of sales	
Particulars	Amount (FRW)
Opening inventory	1,456,200
Purchases	5,850,000
Less closing inventory	(1,800,000)
<b>Cost of goods sold</b>	<b>5,506,200</b>

Option B is not correct – considers purchases as cost of goods sold

Option B is not correct – did not deduct closing inventory from goods available for sale

Option D adds closing inventory with purchases and deducts opening inventory which is vice versa

### QUESTION 31

The correct answer is D

<b>Inventory</b>			
Particular		Amount (FRW)	Amount (FRW)
Expected selling price			150,000
Less costs to sale			
Transport to selling point		15,000	
Commission to sales team		10,000	(25,000)
<b>Net Realizable Value</b>			<b>125,000</b>

IAS 2 requires that inventory be valued at lower of cost and Net Realizable value. The cost of the inventory was FRW 130,000

Option B is not correct since cost is much higher than NRV

Option C is not correct since we are not considering selling value but the inventory cost

Option D is not correct since it only considers cost to sale as Transport to selling point yet also commission is supposed to be part of cost to sale

### QUESTION 32

The correct answer is B

Lower-valued inventory has been used in production and higher-valued inventory remains on hand.

### QUESTION 33

The correct answer is B

First in First out is the method of inventory valuation which is used when issues are assumed to be taken from inventory in the order in which they were received

Option A is not correct – does the vice versa. Items that came last are released first

Option C&D are not correct because they all take averages and therefore does not consider order of when inventoried were received

Option D is not correct- expenses are debit entries and therefore credit entry will decrease them not increase them

### QUESTION 34

The correct answer is B

Accounts receivables are current assets

Option A, C&D are all non-current assets as per IAS 16

### QUESTION 35

The correct answer is B

Depreciation expense	
Particular	Amount (FRW)
Motor vehicle at cost	35,000,000
Useful life(years)	5
<b>Depreciation (35,000,000/5)</b>	<b>7,000,000</b>

Option A is not correct- because it considers the whole value of Motor vehicle as depreciation expense

Option C is not correct – accounts for accumulated depreciation for 3 years (FRW 7,000,000\*3=21,000,000) yet the question required depreciation expense

Option D is not correct – accounts for accumulated depreciation for 2 years (FRW 7,000,000\*2=14,000,000) yet the question required depreciation expense

### QUESTION 36

The correct answer is D

Depreciation expense (reducing balance)	
Particular	Amount (FRW)
Motor vehicle at cost	35,000,000
Depreciation rate	20%
Depreciation in first year	7,000,000
NBV after first year(35,000,000-7,000,000)	28,000,000
Depreciation in second year (28,000,000*20%)	5,600,000
NBV after second year (28,000,000-5,600,000)	22,400,000
<b>Depreciation in this year (22,400,000*20%)</b>	<b>4,480,000</b>

Option A is not correct- it uses straight line method instead of reducing balance

Option B is not correct – considers only 2 years yet this asset is in third year

Option C is not correct – Considers accumulated depreciation of 2 years using straight line method and then applies 20% on the carrying value

### QUESTION 37

The correct answer is A

Gain/Loss on disposal	
Particular	Amount (FRW)
Furniture at cost	14,000,000
Less Accumulated depreciation	(6,800,000)
Carrying value	7,200,000
Sales proceeds	5,000,000
<b>Loss on disposal</b>	<b>2,200,000</b>

Option A is not correct because the sales proceeds are taken as gain on disposal without considering the carrying value of the furniture

Option C is not correct because it takes the carrying value as the gain without considering the sales proceeds

Option D is not correct since the resulting figure is a loss due to the fact that the carrying value is greater than sales proceeds

### QUESTION 38

**The correct answer is A**

Dr. Disposal of Furniture A/C FRW 14,000,000, Cr Furniture A/c FRW 14,000,000, Dr. Bank FRW 5,000,000, Cr. Disposal of Furniture A/C FRW 5,000,000

### QUESTION 39

**The correct answer is D**

VAT is charged on them at zero rate

Options A, B&C are all applicable to exempt supplies

### QUESTION 40

**The correct answer is C**

	<b>Input VAT</b>	
Particular	Amount (FRW)	VAT (FRW)
60% Standard purchases	480,000	73,220
Expenses	158,400	28,512
<b>Total</b>	<b>638,400</b>	<b>101,732</b>

Option A is not correct since it considered standard VAT on all purchases yet standard was only applicable to 60%

Option B is not correct since it considered VAT on purchases to be VAT exclusive, yet they were VAT inclusive

Option D is not correct since it considered VAT on expenses to be VAT inclusive, yet it was VAT exclusive

### QUESTION 41

**The correct answer is B**

Deadline for declaration and payment of VAT is 15<sup>th</sup> of the next month and in this case 15<sup>th</sup> April 2023

A, C & D all are all not deadlines for any tax with exception of 31<sup>st</sup> March for income tax

## QUESTION 42

The correct answer is A

Accounts receivable			
Bal b/f	6,800,000	received payment from client	12,800,000
<b>sales on credit</b>	<b>13,980,000</b>	Bad debts written off	380,000
		Bal c/d	7,600,000
	<b>20,780,000</b>		<b>20,780,000</b>

Option B is not correct. Only considers the opening receivables plus closing receivables which are added together

Option C is not correct because they didn't consider bad debts in the calculation of sales value

Option D is not correct because it only considers sales as the payments received from clients

## QUESTION 43

The correct answer is B

Accounts payable			
Payments made to suppliers	8,900,000	Bal b/f	3,860,000
Bal c/d	2,800,000	<b>Purchases on credit</b>	7,840,000
	<b>11,700,000</b>		<b>11,700,000</b>

Option A is not correct since it only considers the payments made to suppliers as purchases

Option C is not correct since it only adds the opening payables and closing payables as the only purchases of the year.

Option D is not correct since it only adds the opening payables with payments made to suppliers

## QUESTION 44

The correct answer is C

Cost of sales	
Particular	Amount (FRW)
Sales	13,980,000
Less Gross profit	(4,686,000)
<b>Cost of sales</b>	<b>9,294,000</b>

Option A is not correct since it considers wrong figure for sales less gross profit

Option B is not correct since it considers wrong figure for sales less gross profit

Option D is not correct since it considers wrong figure for sales less gross profit

### QUESTION 45

The correct answer is D

<b>Closing inventory</b>		
Particular		Amount (FRW)
Purchases		7,840,000
Add opening inventory		4,600,000
Cost of sales		(9,294,000)
<b>Closing inventory</b>		<b>3,146,000</b>

Option A, B&D is not correct since it considers wrong figure for purchases less opening inventory and purchases

### QUESTION 46

The correct answer is B

Sales		40,000,000
Less Cost of sales		
Opening inventory	4,600,000	
Purchases	24,000,000	
Less closing inventory	(6,900,000)	
Cost of sales		21,700,000
Gross Profit		18,300,000
Less expenses		
Rent	4,686,000	
Depreciation for plant	1,200,000	
Depreciation for motor vehicle	2,660,000	
Bad debts written off	410,000	
Total expenses		8,956,000
<b>operating profit</b>		<b>9,344,000</b>

Option A is not correct since it considered only gross profit without deducting operating expenses

Option C is not correct since it did not consider depreciations as expenses

Option D is not correct since it considered accumulated depreciations as expenses

### QUESTION 47

The correct answer is A

Ordinary share capital	62,056,000	
retained earnings	36,800,000	
Profit for the period	9,344,000	
<b>Total Equity</b>		<b>108,200,000</b>

Option B is not correct since it didn't consider profit for the year as part of equity



Option C is not correct since it only considered ordinary share capital as total equity

Option D is not correct since it only considered retained earnings at the beginning of the year as total equity

#### **QUESTION 48**

**The correct answer is D**

Option A is not correct since it considered non-current assets at their cost not at their carrying value

Option B is not correct since it only considered current assets

Option C is not correct since it only considered carrying value of non-current assets without considering current assets

#### **QUESTION 49**

**The correct answer is C**

Profit to be made cannot be in partnership agreement because it is not

Option A, B&D are all elements of partnership agreement

#### **QUESTION 50**

**The correct answer is B**

Where a partner's current account has a debit balance, this means that the partner has taken more than their agreed share out of the partnership, i.e. the partner owes the firm money.

**END OF MARKING GUIDE AND MODEL ANSWERS**