# CERTIFIED ACCOUNTING TECHNICIAN (CAT)

# STAGE 3 EXAMINATION

# S3.1: FINANCIAL ACCOUNTING

# DATE: MONDAY, 24 APRIL 2023

# MARKING GUIDE AND MODEL ANSWERS

# SECTION A

**Marking Guide**

| Question Number | Correct Answer | Marks |
|---|---|---|
| Question One | D | 2 |
| Question Two | A | 2 |
| Question Three | D | 2 |
| Question Four | A | 2 |
| Question Five | C | 2 |
| Question Six | A | 2 |
| Question Seven | C | 2 |
| Question Eight | C | 2 |
| Question Nine | C | 2 |
| Question 10 | D | 2 |
| **Total Marks** | | **20** |

**QUESTION ONE**

**The correct answer is D**

Only prepaid expenses meet the definition of an asset (future economic benefits as a result of past of events), the rest are liabilities as per the conceptual framework.

**QUESTION TWO**

**The correct answer is A**

| | | |
|---|---|---|
| Consideration transferred | - | 1,700,000 |
| Fair value of Non-Controlling Interest (NCI) | - | 375,000 |
| Net assets acquired: | | - |
| Share capital | 1,200,000 | |
| Retained earnings at acquisition | 600,000 | - |
| Fair value adjustment | 200,000 | |
| | | (2,000,000) |
| Goodwill at acquisition | | **75,000** |

B is not correct because it is obtained by one who did not consider the fair value adjustment of 200,000 (1,700,000 + 375,000 – 1,800,000 = 275,000).

C is not correct because it is obtained by one who forgot to add the Non-controlling Interest (NCI) to the proceed, hence goodwill will be (1,700,000 – 2,000,000 = -300,000).

D is not correct because it is obtained by one who subtracted the NCI instead off adding it (1,700,000 – 375,000 – 2,000,000 = 675,000).

**QUESTION THREE**

**The correct answer is D**

The correct answer is D because R and S are the subsidiary of the G since G owns 60% in R and owns 20% in S but with the right to appoint or remove all of the directors and control over relevant activities, which gives control as well.

A, B, and C are not correct because they include T Co which is not a subsidiary of G as the Company's shareholdings in T do not give it the power to control the company.

**QUESTION FOUR**

**The correct answer is A**

Capital employed can be obtained by adding equity to non-current Liabilities. In our options, the only increase in capital employed is the increase in equity through the increase in profit (retained earnings).

B is not correct because writing off a bad debt will result into increase in expenses, which will reduce profit and therefore a decrease in CE through decrease in retained earnings (Equity Component).

C is not correct because paying a payable in cash will have no impact because the reduction in current asset will be the same in current liabilities (debit payable and credit cash).

D is not correct because the increases in the bank overdraft will also have no impact because the increase in the liability is the same as the increase in the assets to purchase the non-current asset.

**QUESTION FIVE**

**The correct answer is C**

Public discussions are not among trainings for new staff.

Option A, B and D are not correct since Classroom based, Online learning materials, and Written manuals are all types of trainings to help the new staff.

**QUESTION SIX**

**The correct answer is A**

Because Tax authorities are external stakeholders requiring a formal and standardized reporting.

B, C and D are not correct because Managers, Employees and Shareholders are Internal stakeholders with a high interest in the operations of the company

**QUESTION SEVEN**

**The correct answer is C**

Objectives of a good accounting system are timeliness, reliability, and cost effectiveness. Relevance is not.

**QUESTION EIGHT**

**The correct answer is C**

| | | |
|---|---|---|
| Original cost | | 720,000 |
| Depreciation Charge for 3 years | (720,000-0)/12)*3 | 180,000 |
| NBV after 3 years | =(720,000-180,000) | 540,000 |
| Remaining years | 9years-3 years | 6years |
| Depreciation at year 4 | **(540,000-30,000)/6** | **85,000** |

A is not correct because it is obtained by someone who deducted residual value at the initial acquisition of the asset, yet residual value came in after the value was revised.

Depreciation charge for year 4: (720,000-30,000)/9=76,667

B is not correct because it is obtained by calculating the revised depreciation without considering the residual value of 30,000 (i.e. 540,000/6 = 90,000).

The option D is obtained by using only the cost of the asset and the new useful life (720,000/9 = 80,000).

**QUESTION NINE**

**The correct answer is C**

The recoverable amount which is the higher of asset's fair value and its value in use is NOT a disclosure requirement for IAS 36 (Impairment of Assets). The remaining options are disclosures as per IAS 16.

**QUESTION 10**

**The correct answer is D**

The main purpose of managing information include planning, performance measurement, and control. Investigation is not included.

# SECTION B

**QUESTION 11**

Marking Guide

| | **Marks** |
|---|---|
| **Sub-question (a)** | |
| Explanation of misappropriation of assets | 1.5 |
| Explanation for misstatement of the financial statements | 1.5 |
| Sub-total Marks | **3** |
| **Sub-question (b)** | |
| Financial impact | 1 |
| Reputation impact | 1 |
| Employee morale impact | 1 |
| Sub-total Marks | **3** |
| **Sub-question (c)** | |
| Explanation for Spot checks | 1 |
| Explanation for Performance reviews | 1 |
| Explanation for Reconciliation of information | 1 |
| Explanation for Control account reconciliations | 1 |
| Sub-total Marks | **4** |
| **Total Marks** | **10** |

**Model Answers**

**a)** With respect to the accounting system the types of fraud which are important are the following:

- **Misappropriation of assets:** which is theft, teeming and lading, payment of false employees or suppliers.
- **Misstatement of the financial statements:** which is the overstatement of assets or profit, or the understatement of profit, losses or liabilities.

**b)** Fraud has the following types of impact on a company:

i) **Financial** - loss of funds or other assets. This in turn affects the company's profitability and the owner's investment in it. It can also affect the company's share price.

ii) **Reputation** - exposure to fraud can affect the company's reputation in the eyes of internal and external stakeholders. This in turn could lead to a loss of business.

iii) **Employee morale** - the trust of existing employees could be damaged. Future recruitment and retention of staff might also be affected.

**c)** Internal controls within the accounting system should be designed not only to address weaknesses and prevent fraud and errors, but also to help detect when they have occurred.

The key controls that detect whether fraud or errors have occurred are:

**i.** Spot checks on whether control activities have taken place
**ii.** Performance reviews and comparisons, using:
- The budgetary control report: compare actual results to budgeted results.
- Ratio analysis: compare this period to the previous period, and evaluate the relationships between figures in the financial statements (e.g. level of receivables compared with level of sales)

**iii.** Reconciliation of information produced by the accounting system with external evidence, such as bank statements and supplier statements.
**iv.** Control account reconciliations where transactions are recorded in individual accounts and in total (e.g. receivables and payables)

**QUESTION 12**

**Marking Guide**

| | **Marks** |
|---|---|
| Identification of 5 stakeholders : Award 1 mark for each stakeholder | 5 |
| Explanation of stakeholders' needs : Award 1 mark for each correct explanation of stakeholder's needs | 5 |
| **Total Marks** | **10** |

**Model Answers**

Key external stakeholders for Company Y are likely to include some or all of the following:

**Customers:** To ensure that the company is solvent, and they have some comfort that Company Y will be able to supply their product.
**Suppliers:** Especially any significant or new suppliers who will be assessing Company Y for creditworthiness.
**The Government:** For example, Rwandan Revenue Authority (RRA) and the Office of the Registrar General) will need to ensure that the financial statements are filed on time.
**Lenders:** Such as the bank due to the need for a loan, the lender will monitor Company Y's solvency to ensure it is able to pay off its debts.
**Competitors:** They can access information about Company Y as they can view the statutory financial statements from the Office of the Registrar General. Although for a small company like Company Y the information be limited to a statement of financial position, and small companies like Kivu Ltd would want to minimise the amount of information a competitor would be able to view, provided they adhere to financial reporting regulations.

**Regulatory Bodies:** These bodies may be interested in the performance of the organisation, and if a complaint is made against the company, there may need to make further investigation and inquiry.

## SECTION C

**QUESTION 13**

**Marking Guide**

| | Marks |
|---|---|
| Investment Property (308+300) | 1 |
| Total Non-current Asset | 1 |
| Total Current Asset | 1 |
| Total equity | 1 |
| Total liabilities | 1 |
| **Subtotal** | **5** |
| ***Workings:*** | |
| Calculation of Acquired percentage | 1 |
| Calculation of Goodwill at acquisition | 2 |
| Calculation of Goodwill today | 2 |
| Calculation of Retained earnings for S Co | 2 |
| Calculation of Retained earnings for P Co (1 mark for each step). | 3 |
| Calculation of Non-controlling interests (1 mark for each step). | 4 |
| Calculation of Unrealised Profit | 1 |
| **Subtotal** | **15** |
| **Total Marks** | **20** |

**Model Answers**

Statements of Financial Position as at 31 December 2021

| | |
|---|---|
| ***Assets*** | |
| Non-current assets | |
| Land and Property (2,200 + 1,000) | 3,200,000 |
| Equipment (500 + 100) | 600,000 |
| Investment Property (308+300) | 608,000 |
| Goodwill | 532,500 |
| **Total Non- Current Assets** | **4,940,500** |
| Current assets | |
| Inventories (222+1000 – 40 (W6)) | 1,182,000 |
| Prepaid Expenses (50 + 1,600) | 1,860,000 |
| Cash (50 + 100) | 940,000 |
| **Total Current Assets** | **3,982,000** |

| | |
|---|---|
| | **8,922,500** |
| ***Equity and liabilities*** | |
| Equity | 3,000,000 |
| Retained earnings (W5) | 2,644,000 |
| Non-controlling interests (W3) | 698,500 |
| **Total equity** | **6,342,500** |
| Non-current liabilities | |
| Long-term Loan (800 + 100) | **1,000,000** |
| Current liabilities | |
| Short-term Loan | 720,000 |
| Trade payables (680 + 350) | 860,000 |
| | 1,580,000 |
| **Total liabilities** | **2,580,000** |
| **Total Equity and Liabilities** | **8,922,500** |

***Workings:***

| | |
|---|---|
| ***1. Group Structure*** | |
| Acquired Shares in S | 1,000,000 |
| Share Capital of S | 1,250,000 |
| Acquired percentage (1,000,000/1,250,000) | 80% |
| Non-Controlling Interest (100-80) | 20% |
| Retained Earnings at Acquisition | 800,000 |

| | | |
|---|---|---|
| ***2. Goodwill calculation*** | | |
| Consideration transferred | | 2,200,000 |
| NCI | | 412,500 |
| **Net assets acquired:** | | |
| Share capital | 1,250,000 | |
| Retained earnings at acquisition | 800,000 | |
| | | (2,050,000) |
| Goodwill at acquisition | | **562,500** |
| Impairments to date Year-end value | | (30,000) |
| **Goodwill at the end** | | **532,500** |
| | | |

| | | |
|---|---|---|
| **3.** ***Retained earnings*** | | |
| | ***P Co*** | ***S Co*** |
| Retained earnings: | 1,500,000 | 2,300,000 |
| Retained earnings at acquisition | - | (800,000) |
| Unrealised profit (W5) | - | (40,000) |

| | | |
|---|---|---|
| | - | **1,460,000** |
| P Co: share of post-acquisition retained earnings 80% x 1,460,000 | 1,168,000 | |
| Goodwill impairments to date P Co: (W2) 30,000 x 80% | (24,000) | |
| | **2,644,000** | |

| *4. Non-controlling interests* | |
|---|---|
| NCI at acquisition (W2) | 412,500 |
| NCI share of post-acquisition retained earnings (W3) 1,460,000 X 20% | 292,000 |
| NCI share of impairment losses ((W2) 30,000 x 20%) | (6,000) |
| | **698,500** |

| *5. Unrealised Profit* | |
|---|---|
| Sales from P Co to S Co. | 1,000,000 |
| Unsold inventory (1,000,000*20%) | 200,000 |
| Unrealized profit 200,000 x 25/125 | **40,000** |

## QUESTION 14

**Marking Guide**

**a) (i)**

| | **Marks** |
|---|---|
| Step 2: Allocation of Transaction price to performance obligation | 2 |

**(ii)**

| | **Marks** |
|---|---|
| **Calculation of Percentage share of Normal price** | |
| Router | 0.5 |
| Internet Bundle | 0.5 |
| Installation Service | 0.5 |
| **Calculation of new prices** | |
| Router | 0.5 |
| Internet Bundle | 0.5 |
| Installation Service | 0.5 |
| **Subtotal** | **3** |

b)

| **Scenario one** | **Marks** |
|---|---|
| Inventory destroyed | 1 |
| Claims received for the previous period | 1.5 |
| **Scenario two** | |
| Asset purchased | 1 |
| Machines that were to be written off held before the year end | 1.5 |
| **Subtotal** | **5** |

c) (i)

| | **Marks** |
|---|---|
| Clean up cost | 1 |
| Claims by customer | 0.5 |
| Damages | 0.5 |
| Claims to be received | 1 |
| **Subtotal** | **3** |

ii)

| | Marks |
|---|---:|
| **Assets** | 0.5 |
| Liability | 0.5 |
| Capital | 1 |
| **Subtotal** | **2** |

**d) (i)**

| | Marks |
|---|---:|
| Value of Stock before Adjustment | 0.5 |
| NRV will remain FRW 127 because selling expenses were deducted | 0.5 |
| Total | 0.5 |
| Adjustment | 0.5 |
| **Subtotal** | **2** |

**ii)**

| **Method 1:** | **Marks** |
|---|---:|
| Old cost of sales | 0.5 |
| new cost of sales | 0.5 |
| new gross profit | 0.5 |
| new gross profit margin | 0.5 |
| **Method 2** | |
| New gross profit | 0.5 |
| new gross profit margin | 0.5 |
| **Subtotal** | **3** |

| | |
|---|---:|
| **Total Marks** | **20** |

**Model Answers**

**a)**

i) The step in Five-step model of IFRS 15 which is relevant to the scenario is Step 2: Allocation of Transaction price to performance obligation

ii) Calculation of new prices to be apportioned to each service/product

| Percentage share of Normal price | | |
|---|---:|---:|
| | | % |
| Router | 28,000 | 43% |
| Internet Bundle | 25,500 | 39% |
| Installation Service | 12,000 | 18% |

| | | |
|---|---|---|
| **Total** | **65,500** | **100%** |
| | | |
| Apply percentage on new price | | |
| **40,000** | **100%** | **New Prices** |
| Router | 43% | **17,099** |
| Internet Bundle | 39% | **15,573** |
| Installation Service | 18% | **7,328** |
| Total | | **40,000** |

**b)**

| | | |
|---|---|---|
| **Scenario one** | | |
| Inventory destroyed | Non-Adjusting | |
| Claims received for the previous period | Adjusting | 3,200,000 |
| **Scenario two** | | |
| Asset purchased | Non-Adjusting | |
| Machines that were to be written off held before the year end | Adjusting | 12,000,000 |

**c)** i)

| **Item/issue** | **Category** |
|---|---|
| Clean up cost | Provision |
| Claims by customer | Provision |
| Damages | Contingent Liability |
| Claims to be received | Not contingent Asset/ No category/No action to take |

ii)

| | | |
|---|---|---|
| **Assets** | **No change** | 20,000,000 |
| Liability | 15,000,000 + 2,000,000 +1,000,000 = | 18,000,000 |
| Capital | 5,000,000 - 2,000,000 -,1,000,000 = | 2,000,000 |

The new accounting equation will be as follows: ASSET (20,000,000) = Capital (2,000,000) + Liabilities (18,000,000)

**d) i)**

| | | | |
|---|---|---|---|
| Value of Stock before Adjustment | | | |
| Seal Blue | 130 | 1000 units | 130,000 |
| Avidad | 125 | 1200 units | 150,000 |
| Mushbam | 140 | 1300 units | 182,000 |
| Total | | | **462,000** |

| **Value of Stock as per IAS 2** | | | |
|---|---|---|---|
| We use the lower of cost and NRV (Net Realisable Value) | | | |
| NRV will remain FRW 127 because selling expenses were deducted | | | |
| According to IAS2, the new value of the products will be the lower of its cost and Net Realizable Value | | | |
| Seal Blue | 130 | 127 | 127 |
| Avidad | 125 | 127 | 125 |
| Mushbam | 140 | 127 | 127 |

| Products | Original Cost | New value |
|---|---|---|
| Seal Blue | 130*1000=130,000 | 127*1000=127,000 |
| Avidad | 125*1200=150,000 | 125*1200=150,000 |
| Mushbam | 140*1300=180,000 | 127*1300=165,100 |
| Total | 462,000 | 442,100 |
| Adjustment | | |

| | | | | | |
|---|---|---|---|---|---|
| 462,000 | - | 442,100 | = | 19,900 | |

**ii)**

| **Method 1:** | | |
|---|---|---|
| Old cost of sales | 2000000-760000 | =1,240,000 |
| New cost of sales | 2000000-760000+19900 | =1,259,900 |
| New gross profit | 2,000,000-1,259,900 | =740,100 |
| New gross profit margin | | =37% |
| **Method 2** | | |
| New gross profit | 760000-19900 | =740,100 |
| new gross profit margin (740,100/2,000,000 | | =37% |

**QUESTION 15**

**Marking Guide**

| ITEMS | MARKS |
|---|---|
| Calculation of accumulated depreciation for Building | 2 |
| Calculation of carrying amount of building | 2 |
| Calculation of accumulated depreciation for Office Equipment | 2 |
| Calculation of carrying amount for Office Equipment | 2 |
| TOTAL NON-CURRENT ASSETS- Award 1 Mark for the correct total | 1 |
| Calculation of Trade Receivable | 1 |
| TOTAL ASSETS- Award 1 Mark for the correct total | 1 |
| Calculation of Share capital | 2 |
| Calculation of Share premium | 2 |
| Calculation of Retained earnings | 1 |
| TOTAL EQUITY- Award 1 Mark for the correct total | 1 |
| Calculation of accrued Expenses | 1 |
| TOTAL LIABILITIES-Award 1 Mark for the correct total | 1 |
| TOTAL EQUITY AND LIABILITIES-Award 1 Mark for the correct total | 1 |
| **Total Marks** | **20** |

**Model Answers**

**PLM LTD**

**Statement of financial position as at 31/12/2021**

| | **FRW** | **FRW** |
|---|---:|---:|
| Assets | | |
| Non-current assets | | |
| Land | 31,896,000 | |
| Building (**W1**) | 73,208,000 | |
| Office Equipment(**W2**) | 14,000,000 | |
| Total Non-Current Assets | | **119,104,000** |
| Current assets | | |
| Inventories | 11,000,000 | |
| Trade Receivable(**W4**) | 16,250,000 | |
| Cash (**W3**) | 12,000,000 | |
| Total Current Assets | | 39,250,000 |
| **Total Assets** | | **158,354,000** |
| **Equity and liabilities Equity** | | |
| Share capital (FRW 0.75 ordinary shares) (**W3**) | 55,000,000 | |

| | | |
|---|---|---|
| Share premium(**W3**) | 25,000,000 | |
| Retained earnings (**W6**) | 1,500,000 | |
| Total Equity | | **81,500,000** |
| Non-current liabilities | | |
| Long-term Loan | 50,000,000 | |
| Current liability | | |
| Short-term loan | 15,000,000 | |
| Accrued Expenses(**W5**) | 3,000,000 | |
| Tax payable | 8,854,000 | |
| Total Liabilities | | **26,854,000** |
| Total Equity and Liabilities | | **158,354,000** |

**Workings:**

**Working 1**

| **1. Assets** | | |
|---|---|---|
| Building-Cost | | 150,000,000 |
| ------Accumulated depreciation at the start | 48,792,000 | |
| -----Depreciation of the year (150,000,000-70,0000)*35% | 28,000,000 | |
| -----Accumulated depreciation at end | | (76,792,000) |
| Carrying amount | | 73,208,000 |

**Working 2**

| **2. Equipment** | |
|---|---|
| Office equipment-COST | 33,185,185 |
| Depreciation year 1 (33,185,185*25%) | 8,296,296 |
| Depreciation year 2 (33,185,185-8,296,29) *25%) | 6,222,222 |
| Depreciation year 3-current year (24,888,889-6,222,222) *25%) | 4,666,667 |
| Carrying amount | 14,000,000 |

**Working 3**

| **3. Share capital issued** | | |
|---|---|---|
| Cash received | 12,000,000 | |
| New share capital (12,000,000shares*0.75) | 9,000,000 | |
| Total share capital (46,000,000+9,000,000) | | 55,000,000 |
| New share premium (12,000,000shares*0.25) | 3,000,000 | |

| | | |
|---|---|---|
| Total Share Premium (22,000,000+3,000,000) | | 25,000,000 |

**Working 4**

| **4. Trade receivables** | |
|---|---|
| Trade receivables | 16,800,000 |
| Bad debts written off | (550,000) |
| Trade receivables-Net | 16,250,000 |

**Working 5**

| **5. Loan amortization** | |
|---|---|
| Loan acquired was already recorded | 50,000,000 |
| Accrued Interest (50,000,000*6%) | 3,000,000 |

**Working 6**

| **6. Retained earnings** | |
|---|---|
| Net loss for the year | (49,235,185) |
| Opening retained earnings | 50,735,185 |
| **Closing retained earnings** | **1,500,000** |

**END OF MARKING GUIDE AND MODEL ANSWERS**