CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY 26, AUGUST 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

MARKING GUIDE

Qn	Answer	Marks
1	C	2
2	C	2
3	B	2
4	B	2
5	A	2
6	D	2
7	C	2
8	B	2
9	D	2
10	A	2
	Total Marks	**20**

MODEL ANSWERS

QUESTION ONE

The Correct Answer is C

Option A consistency explains adoption of the same accounting policy over a period of time. Option B explains recognition of income when earned and expenses when incurred instead of when cash is received or cash is paid respectively. Option D explains the concept of business being in operation in the foreseeable future.

QUESTION TWO

The correct answer is C

Option A explains a liability. Option B explains an asset. Option D explains an expense.

QUESTION THREE

The Correct Answer is B

Option A is wrong because it is closing stock using LIFO method, Option C is sales value on the 1st of November, 2022 while option D is sales value on the 15th April, 2023.

QUESTION FOUR

The Correct Answer is B

Option A offers advisory services. Option C is the supervisory board at the apex level where IASB reports. Option D offers interpretation services.

QUESTION FIVE

The Correct Answer is A

All the other three options leave out one statement. All the statements are correct.

QUESTION SIX

The correct answer is D

A is a basic system using a spreadsheet tool, B is using a software system, but relying on spreadsheets to perform any analysis, C may apply to integrated accounting systems (but is not the definition of one, as some may be supported and information held only on local servers).

QUESTION SEVEN

The Correct Answer is C

Option A explains effectiveness. Option B explains economy. Option D does not explain any of the 3 Es.

QUESTION EIGHT

The correct answer is B

Option A is wrong because NCI does not represent the shares in the parent company, it only represents a percentage in subsidiary. Option C is wrong because it refers to 20% of the parents retained earnings, it should be 20% of subsidiary retained earnings. Option D is wrong because it refers to consolidated retained earnings instead of subsidiary retained earnings.

QUESTION NINE

The correct answer is D

Option A is wrong because it does not include purchases in debit totals. Option B is wrong because it adds sales as a debit entry instead of purchases. Option C is wrong because it adds sales and payables as debit entries.

QUESTION 10

The Correct Answer is A

Option B is wrong because it gives a total prepayment of 20,000. Option C is wrong because it takes 10,000 as accrual instead of prepayment. Option D is wrong because it takes expense as 50,000 instead of 40,000 and 10,000 as accrual instead of prepayment.

SECTION B

QUESTION 11

MARKING GUIDE

Qn	Description	Marks
a	**Differences between public and private limited companies**	
	1 mark awarded for every clear difference well explained (*1 mark * 2*)	2
	Maximum marks awarded for part a	2
b		
i	**Total preference dividends**	
	1 mark awarded for the correct calculation and answer	1
ii	**Ordinary dividend per share**	
	1 mark awarded for the correct calculation and answer	1
iii	**Retained earning**	
	1 mark awarded for the correct calculation and answer	1
	Maximum marks awarded for part b	3
c	**Differences between statutory and non-statutory reserves**	
	Explanation of differences (*0.5 marks * 2*)	1
	Examples of each case (*0.5 marks * 2*)	1
	Maximum marks awarded for part c	2
d	**Share capital and share premium**	
	Calculation of number of bonus shares	0.50
	Reduction of share premium and increase of share capital with bonus	0.50
	Calculation of number of rights shares	0.50
	Increase of share capital and share premium with rights	0.50
	Correct total share capital at the end	0.50
	Correct total share premium at the end	0.50
	Maximum marks awarded for part d	3
	Total	**10 Marks**

MODEL ANSWERS

a) Difference between public limited and private limited companies

Public limited company's shares are traded in the stock exchange market while private limited company's shares are not traded in the stock exchange market.

Shares of a public company are accessible to the general public while the shares of a private company are not accessible to the general public.
Public companies are abbreviated at the end of the name with 'PLC' and for private are abbreviated with 'LTD'.

b) Calculate the following:

		FRW
Ordinary Share capital	2,000,000 * 800 =	1,600,000,000
Preference shares (10%)	500,000 * 250 =	125,000,000
Profit after tax =		220,000,000

i) Total preference dividend

Preference dividend =	10% * 125,000,000 =	12,500,000

ii) Ordinary dividends per share

Profit after tax		220,000,000
Less: Preference dividends		12,500,000
Profit attributable to ordinary shareholders		207,500,000
Ordinary dividends =	40% * 207,500,000 =	83,000,000
Ordinary dividends per share =	83,000,000 / 2,000,000=	41.50

iii) Retained earnings

Profit attributable to ordinary shareholders	207,500,000
Less: Ordinary dividends	83,000,000
Retained earnings	124,500,000

c) Reserves

Statutory reserves, are reserves which a company is required to set up by law, and which are not available for the distribution of dividends.
Non-statutory reserves, which are reserves consisting of profits which are distributable as dividends, if the company so wishes.

Examples: Statutory reserves are capital reserves (share premium, revaluation) and non-statutory reserves are revenue reserves (**Retained earnings**)

d) Value of share capital and share premium at the end of 31st December, 2023

1st January, 2023: Beginning of the period

Share capital =	50,000 * 300 =	15,000,000
Share premium =		10,000,000

1st April, 2023: Bonus issue of shares

Number of bonus shares =	50,000 * 2/5 =	20,000
Value of the bonus shares =	20,000 * 300 =	6,000,000
Dr. Share premium (6,000,000) and Cr. Share capital (6,000,000)		
No of shares after bonus =	50,000 + 20,000 =	70,000
Share capital after bonus =	15,000,000 + 6,000,000 =	21,000,000
Share premium =	10,000,000 - 6,000,000 =	4,000,000
1st July, 2023: Rights issue of shares		
Number of rights shares =	70,000 * 1/4 =	17,500
New share capital (FRW) =	17,500 shares * 300 =	5,250,000
New share premium (FRW) =	17,500 shares * (450 - 300) =	2,550,000

Total Value of share capital = 21,000,000 + 5,250,000 = 26,250,000
Total value of the share premium = 4,000,000 + 2,550,000 = 6,550,000

QUESTION 12

MARKING GUIDE

QN	Description	Marks
a	**Initial cost of plant to be capitalized**	
	Calculation of trade discount	1
	Calculation of purchase price	1
	Delivery cost	0.5
	Installation cost	0.5
	Testing cost	0.5
	Total of directly attributable	0.5
	Dismantling costs	0.5
	Restoration costs	0.5
	Capitalized borrowing costs	0.5
	Total initial cost of the asset	0.5
	Maximum marks for part a	6
b	**IAS 40 Investment property**	
i	Two conditions for recognition	
	Probable that future economic benefits flow to business	1
	Cost can be measured reliably	1
ii	Explanation of two models	
	Cost model explanation	1
	Fair value model explanation	1
	Maximum marks for part b	4
	Total	**10 Marks**

MODEL ANSWERS

a) Calculate the amount to be capitalized by Muhabura Ltd as the initial cost of the item of plant in accordance with IAS 16 property, plant and equipment.

			FRW
i)	List price		34,000,000
	Less: Trade discount	5% * 34,000,000	1,700,000
	Purchase price		32,300,000
ii)	Directly attributable price of bringing asset to present location and condition		
	Delivery cost	2,400,000	
	Installation cost	1,800,000	
	Testing cost	4,200,000	8,400,000
iii)	Dismantling, removing and restoration costs		
	Dismantling costs	800,000	
	Restoration costs	2,200,000	3,000,000
iv)	Capitalized borrowing costs		2,500,000
	Total initial cost of the asset		46,200,000

b) IAS 40 Investment property

i) Two conditions for recognition of asset

1) Probable that future economic benefits will flow to the business entity
2) The cost of the asset can be measured reliably

ii) Models that can be used in subsequent recognition

1) **Cost model:** Carry the asset at its cost less depreciation and any accumulated impairment loss.

2) **Fair value model:** The price at which an asset can be exchanged for between two knowledgeable and willing parties in an arm's length transactions. Fair value should be measured at the end of each accounting period.

SECTION C

QUESTION 13

MARKING GUIDE

QN	Description	Marks
a		
i	**Goodwill**	
	Purchase consideration	0.5
	Fair value of non-controlling interest at acquisition	0.5
	Total value (purchase consideration and fair value)	0.5
	Share capital	0.5
	Retained earnings (Pre)	0.5
	Revaluation reserve	0.5
	Total net assets of subsidiary	0.5
	Goodwill	0.5
	Maximum marks awarded for part a i	4
ii	**Non-controlling interest**	
	Fair value of non-controlling interest at acquisition	0.5
	Post-acquisition profit calculation	1.0
	Total fair value of non-controlling interest	0.5
	Maximum marks awarded for part a ii	2
iii	**Unrealized profit**	
	Intercompany sales	0.5
	Intercompany cost	0.5
	Intercompany profit	0.5
	Unrealized profit on unsold goods	0.5
	Maximum marks awarded for part a iii	2
b	**Consolidated statement of profit and loss**	
	Revenue (0.5 mark for apportionment of S and 0.5 deducting inter sales)	1
	Cost of sales (0.5 mark for apportionment of S and 0.5 deducting inter COS)	1
	Gross profit	1
	Distribution costs (0.5 mark for apportionment of S and 0.5 for answer)	1
	Administration costs (0.5 mark for apportionment of S and 0.5 for answer)	1
	Profit before interest and tax	1
	Finance cost (0.5 mark for apportionment of S and 0.5 for answer)	1
	Profit before tax	1
	Income tax (0.5 mark for apportionment of S and 0.5 for answer)	1
	Profit for the year	1
	Profit attributable to:	
	Parent (balancing figure)	1
	Non-controlling interest	1
	Maximum marks awarded for part b	12
	Total	**20 Marks**

MODEL ANSWERS

a) Calculate the following:

i) Goodwill on acquisition of Supreme

Goodwill	FRW	FRW
Purchase consideration		60,000,000
Add: Fair value of non-controlling interest at acquisition		18,000,000
		78,000,000
Net assets of Subsidiary:		
Share capital	40,000,000	
Retained earnings (Pre)	19,000,000	
Revaluation reserve	9,000,000	
Total net assets of subsidiary		68,000,000
Goodwill		10,000,000

ii) Non-controlling interest at the end of the period 31st December, 2023

	FRW
Fair value of non-controlling interest at acquisition	18,000,000
Add: Post acquisition profit (500,000 * 9/12) * 20% =	75,000
Fair value of non-controlling interest at the end of the year	18,075,000

iii) Unrealized profit as a result of intra group trading between Paramount and Supreme.

Intercompany sale of goods (P to S)	FRW
Sales	1,000,000
Cost	800,000
Profit	200,000
Unrealized profit = 60% * 2,00,000 =	**120,000**
Intercompany cost of sales = 1,000,000 - 120,000 =	880,000

b) Prepare the consolidated statement of profit or loss for the year ended 31st December, 2023.

Paramount Group
Consolidated statement of profit or loss and other comprehensive income
for the year ended 31st December, 2023

	FRW
Revenue (50,000,000 + {9/12 * 10,000,000} -1,000,000)	56,500,000
Cost of sales (29,000,000 + {9/12 * 6,000,000 - 880,000)	32,620,000
Gross profit	23,880,000

Distribution costs (9,000,000 + {9/12 * 2,000,000})	10,500,000
Administration costs (8,000,000 + {9/12 *1,200,000})	8,900,000
Profit before interest and tax	4,480,000
Finance cost (400,000 + {9/12 * 100,000})	475,000
Profit before tax	4,005,000
Income tax (900,000 + {9/12 * 200,000})	1,050,000
Profit for the year	2,955,000
Profit attributable to:	
Parent (balancing figure) (2,955,000 -100,000)	2,855,000
Non-controlling interest (500,000 *20%)	100,000
Total profit for the year	2,955,000

QUESTION 14

MARKING GUIDE

QN	Description	Marks
a	**Statement of profit or loss**	
	Revenue	0.5
	Cost of sales	0.5
	Gross profit	0.5
	Administration costs	0.5
	Distribution costs	0.5
	Profit before interest and tax	0.5
	Interest + dividends received) (0.5 mark * 2)	1
	Finance cost	0.5
	Profit before tax	0.5
	Income tax	0.5
	Profit for the year	0.5
	Workings related to profit or loss:	
	Depreciation of building	0.5
	Depreciation of plant	0.5
	Cost of sales	1
	Maximum marks awarded for part a	8
b	**Statement of changes in equity**	
	Posting of correct opening balances	1
	Adding of revaluation surplus in correct column	0.5
	Deduction of dividends in correct column	0.5
	Adding of profit for the year in correct column	0.5
	Closing balances	1
	Total column	0.5
	Maximum marks awarded for part b	4

c	**Statement of financial position**	
	Land and building	0.5
	Plant and machinery	0.5
	Inventory	0.5
	Trade receivables	0.5
	Cash	0.5
	Share capital	0.5
	Share premium	0.5
	Revaluation reserve	0.5
	Retained earnings	0.5
	Total equity	0.5
	Bank loan	0.5
	Trade payables	0.5
	Income tax payable	0.5
	Total equity and liabilities	0.5
	Workings related to statement of financial position	
	Revalued amount of land and building	0.5
	Net book value of plant and machinery	0.5
	Maximum marks awarded for part c	8
	Total	**20 Marks**

MODEL ANSWERS

a) Prepare statement of profit or loss for the year ended 31st March, 2024

Amahoro Publishers Ltd

Statement of profit or loss for the year ended 31st March, 2024

		FRW 000
Revenue		4,330,000
Less: Cost of sales		2,778,000
Gross profit		1,552,000
Less: Administration costs		500,000
Less: Distribution costs		590,000
Profit before interest and tax		462,000
Add: Investment income (interest + dividends received)	30,000 + 2,000	32,000
Less: Finance cost		50,000
Profit before tax		444,000
Less: Income tax		330,000
Profit for the year		114,000

b) Prepare statement of changes in equity for the year ended 31st March, 2024

Amahoro Publishers Ltd

Statement of changes in equity for the year ended 31st March, 2024

	Share capital FRW 000	**Share premium FRW 000**	**Revaluation reserve FRW 000**	**Retained earnings FRW 000**	**Total FRW 000**
Opening balance (1st April, 2023)	540,000	160,000	40,000	470,000	1,210,000
Add: Revaluation surplus			200,000		200,000
Less: Dividend paid				54,000	54,000
Add: Profit for the year	-	-	-	114,000	114,000
Closing balance (31st March, 2024)	540,000	160,000	240,000	530,000	1,470,000

c) Prepare statement of financial position as at 31st March, 2024

Amahoro Publishers Ltd

Statement of financial position as at 31st March, 2024

	FRW 000	**FRW 000**
Non-current assets		
Land and building		1,090,000
Plant and machinery		322,000
Total non-current assets		1,412,000
Current assets		
Inventory	170,000	
Trade receivables	466,000	
Cash	6,000	642,000
Total assets		**2,054,000**
Equity and liabilities		
Equity		
Share capital		540,000
Share premium		160,000
Revaluation reserve		240,000
Retained earnings		530,000
Total equity		1,470,000
Non-current liabilities		
Bank loan		200,000
Current liabilities		
Trade payables	54,000	
Income tax payable	330,000	384,000
Total equity and liabilities		**2,054,000**

Workings

W1	**Depreciation and net book value of land and building**	**FRW 000**
a	Depreciation of building = 5% * 200,000 =	10,000
b	Net Book value of land and building	
	Cost	960,000
	Less: Accumulated depreciation of building b/f	60,000
	Less: Depreciation for the year	10,000
	Net Book value of land and building	890,000
	Add: Revaluation of land	200,000
	Revalued amount	1,090,000
W2	**Depreciation and net book value of plant and machinery**	**FRW 000**
a	Depreciation of plant and machinery	
	(800,000 - 340,000) * 30% =	138,000
b	Net book value of plant and machinery	
	Cost	800,000
	Less: Accumulated depreciation b/f	340,000
	Less: Depreciation for the year	138,000
	Net book value of plant and machinery	322,000
W3	**Cost of sales**	
	Opening stock	280,000
	Add: Purchases	2,520,000
	Less: Closing stock	170,000
	Add: Depreciation of building	10,000
	Add: Depreciation of plant and machinery	138,000
	Total cost of sales	2,778,000

QUESTION 15

MARKING GUIDE

Qn	Description	Marks
a	**Calculation of ratios** Correct calculation for each ratio in 2022 (*1 mark * 5*) Correct calculation for each ratio in 2023 (*1 mark * 5*) Maximum marks awarded for part a	 5 <u>5</u> 10
b	**Interpretation** Each point well explained (*1 mark * 5*) Maximum marks awarded for part b	 <u>5</u> 5
c	**Users of financial statements** 0.5 marks awarded for each listing (*0.5 marks * 5*) 0.5 marks awarded for explanation of each listing (*0.5 marks * 5*) Maximum marks awarded for part c	 2.5 <u>2.5</u> 5
	Total	**20 Marks**

MODEL ANSWERS

a) **Calculate for the year 2022 and 2023 the following ratios:**

The year 2022 Calculations

	Ratio	Formula		2022
i	Return on Capital Employed =	<u>Profit Before Interest & Tax * 100</u> Capital Employed	<u>101,580 * 100</u> 842,000	12.1%
	Capital Employed =	Total assets - Current liabilities or <u>Equity + non-current liabilities</u>	902,000 - 60,000 = 512,000 + 330,000 =	842,000 842,000
ii	Operating Profit Margin =	<u>Profit Before Interest & Tax * 100</u> Sales	<u>101,580 * 100</u> 275,000	36.9%
iii	Receivables Period =	Receivables<u> * 365</u> Sales	<u>46,000 * 365</u> 275,000	61 61 days
iv	Payables Period =	<u>Payables * 365</u> Cost of sales	42,000 * 365 122,600	125

				125 days
v	Interest Cover =	Profit Before Interest & Tax / Interest Payable	101,580 / 28,000	3.6 3.6 Times

The year 2023 calculations

	Ratio	Formula		2023
i	Return on Capital Employed =	Profit Before Interest & Tax * 100 / Capital Employed	88,800 * 100 / 883,093	10.1%
	Capital Employed =	Total assets - Current liabilities or Equity + non-current liabilities	950,507 - 67,414 = 551,093 + 332,000 =	883,093 883,093
ii	Operating Profit Margin =	Profit Before Interest & Tax * 100 / Sales	88,800 * 100 / 320,000	27.8%
iii	Receivables Period =	Receivables * 365 / Sales	40,707 * 365 / 320,000	46 46 days
iv	Payables Period =	Payables * 365 / Cost of sales	56,000 * 365 / 172,000	119 119 days
v	Interest Cover =	Profit Before Interest & Tax / Interest Payable	88,800 / 22,810	3.9 3.9 Times

b) Interpret the financial performance of the company using the results calculated in requirement a above

1) Profitability analysis

Return on capital employed in 2022 was 2% (12.1% - 10.1%) higher than 2023. There was also 8.6% (36.9% - 27.8%) decrease in operating profit margin between the year 2022 and 2023. There is therefore a decline in profitability between the two years.

2) Liquidity analysis

Receivables period in 2022 is 61 days while in 2023 is 46 days. There is therefore an improvement in performance between the two years because the business takes fewer days to collect cash from credit sales. This has improved the liquidity position of the business.

In terms of payables, there has been a reduction in payables period by 6 days. This is totally acceptable since the payables period is longer than the receivables period in each year. This means that the business will have enough cash to pay suppliers. The business will collect cash from receivables and use it to pay suppliers.

3) Risk analysis

In terms of interest cover which measures the ability to pay interest as it falls due. There has been a slight increase in the number of times from 3.6 to 3.9. This means that the ability of the business to repay interest has improved.

Conclusion: In general, the performance of the business in terms of profitability reduced while liquidity and risk has improved between the two years.

c) Explain any five users of financial statements

1) **Investors and potential investors** are interested in their potential profits and the security of their investments. Future profits may be estimated from the target entity's past performance.
2) **Employees and trade union representatives** need to know if an employer can offer secure employment and possible pay rise. They will also have a keen interest in the salaries and benefits enjoyed by senior management.
3) **Lenders** need to know if they will be repaid, this will depend on the solvency of the business entity which should be revealed by the financial statements.
4) **Government agencies** need to know how the economy is performing in order to plan financial and industrial policies. The tax authorities also use financial statements as a basis of assessing the amount of taxes payable.
5) **Suppliers** need to know if they will be paid. New suppliers may also require reassurance about the financial health of a business before agreeing to supply goods.
6) **Customers** need to know that an entity can continue to supply them into the future. This is especially true if the customer is dependent on an entity for specialized supplies.

7) **The public** may wish to assess the effect of the entity on the economy, local environment and local community. Companies may contribute to their local economy and community through providing employment and patronizing local suppliers.

End of Marking Guide and Model Answers