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CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY 26, AUGUST 2024

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

Which of the following accounting concepts states that omitting or misstating information could influence users of financial statements?

- A The consistency Concept
- B The accruals concept
- C The materiality concept
- D The going concern concept

(2 Marks)

QUESTION TWO

Which one of the following is the correct definition of income in accordance with the conceptual framework, elements of financial statements?

- A Present obligation as a result of a past event, the settlement of which results to economic benefits flowing out of the business
- B Resource controlled by the business entity as a result of a past event from which future economic benefits will flow to the entity
- C Increase in economic benefits in the form of inflow, increase in assets or decrease in liabilities resulting to increase in equity apart from contribution of owners
- D Decrease in economic benefits in the form of outflow, decrease in assets or increase in liabilities resulting to decrease in equity apart from distribution to owners

(2 Marks)

QUESTION THREE

Ingabire values her inventory using first in, first out method. At 1st May, 2022 Ingabire had 1,400 units in inventory valued at FRW 3,800 each.

During the year ended 30 April, 2023 the following transactions took place

1st July, 2022: Purchased 1,000 units at FRW 4,400 each

1st November, 2022: Sold 1,800 units at a selling price of FRW 5,000

1st February, 2023: Purchased 700 units at FRW 4,600 each

15th April, 2023: Sold 1,100 units at a selling price of 5200

What is the value of Ingabire's closing inventory at 30th April, 2023

- A FRW 760,000
- B FRW 920,000
- C FRW 9,000,000
- D FRW 5,720,000

(2 Marks)

QUESTION FOUR

Who issues international financial reporting standards?

- A International Financial Reporting Standards Advisory Council
- B International Accounting Standards Board
- C International Accounting Standards Committee Foundation
- D International Financial Reporting Standards Interpretation Committee

(2 Marks)

QUESTION FIVE

Which of the following statements about the requirement of IAS 37 provisions, contingent liabilities and contingent assets are correct?

- i) A contingent asset should be disclosed by note if an inflow of economic benefits is probable.
- ii) No disclosure of a contingent liability is required if the possibility of a transfer of economic benefits arising is remote.
- iii) Contingent assets must not be recognized in financial statements unless an inflow of economic benefits is virtually certain to arise.

- A All the three statements are correct
- B (i) and (ii) only
- C (i) and (iii) only
- D (ii) and (iii) only

(2 Marks)

QUESTION SIX

Which one of the following best describes an integrated accounting system?

- A An accounting system that runs on MS Excel.
- B An accounting system that uses a software package, with analysis taking place in another computer tool, such as MS excel.
- C An accounting system which has an offsite data storage facility and automatic software updates.
- D An accounting system which incorporates the finance function, as well as other areas of the business, including sales, human resources and purchases.

(2 Marks)

QUESTION SEVEN

In ascertaining the value for money concept, Economy, Efficiency and Effectiveness are normally used to measure performance.

Which one of the following statements correctly defines efficiency?

- A Maximization of output results
- B Minimization of input costs
- C Maximization of output for a given input cost
- D Maximization of input costs for a given output

(2 Marks)

QUESTION EIGHT

The parent acquired 80% of shares of a subsidiary company at the beginning of the year ended 31st December, 2023.

Which one of the following regarding non-controlling interest is correct?

- A Non-controlling interest describes shares in the consolidated entity not held by the parent.
- B Non-controlling interest describes shares in the subsidiary not held by the parent.
- C 20% of the retained earnings of the parent will be allocated to the non-controlling interest.
- D 20% of consolidated retained earnings will be allocated to non-controlling interest.

(2 Marks)

QUESTION NINE

Virunga has extracted the following list of balances from his ledger at 31st October, 2023

	FRW
Trade payables	415,920
Trade receivables	952,380
Sales	7,756,260
Cash at bank	53,490
Capital	375,750
Opening inventory	289,470
Non-current assets (carrying amount)	1,918,800
Expenses	1,045,050
Purchases	4,288,740

What is the total of the debit balances in Virunga's trial balance at 31st October, 2023?

- A FRW 4,259,190
- B FRW 12,015,450
- C FRW 8,172,180
- D FRW 8,547,930

(2 Marks)

QUESTION 10

During the year 2023, Karambizi paid a total of FRW 60,000,000 for rent, covering the period from 1st October 2022 to 31st March 2024.

What figure should appear in Karambizi's financial statements for the year ended 31st December, 2023 applying accruals basis concept?

	Statement of profit or loss FRW 000	Statement of financial position FRW 000
A	Expense 40,000	10,000 prepayments
B	Expense 40,000	20,000 prepayments
C	Expense 40,000	10,000 accruals
D	Expense 50,000	10,000 accruals

(2 Marks)

SECTION B

QUESTION 11

- a) **Explain two clear differences between public limited and private limited companies** (2 Marks)
- b) Victoria Ltd has issued 2,000,000 ordinary shares valued at FRW 800 each and also had in issue 500,000 preference shares (10%) valued at FRW 250 per share. Profit after tax was FRW 220,000,000. The directors of the company decided to pay dividends on ordinary shares at 40% of the profit after tax and preference dividends.

Required:

Calculate the following:

- i) **Total preference dividends** (1 Mark)
- ii) **Ordinary dividends per share** (1 Mark)
- iii) **Retained earnings** (1 Mark)
- c) **Giving one example on each case, explain the difference between statutory and non-statutory reserves** 2 Marks)
- d) On the 1st January, 2023 Jali Ltd had 50,000 ordinary shares with a nominal value of FRW 300 per share and share premium of FRW 10,000,000.

On the 1st April, 2023 the company issued 2 bonuses shares for every 5 existing shares in the company. The bonus was issued from the share premium account.

On the 1st July, 2023 the company issued a further rights share of 1 new share for every 4 shares held at that date. The rights price was FRW 450 per share.

Required:

Calculate the total value of share capital and share premium at the end of the year 31st December, 2023. (3 Marks)

(Total: 10 Marks)

QUESTION 12

a) Muhabura Ltd purchased a new item of plant which had a list price of FRW, 34,000,000 and subject to 5% trade discount and 10% early settlement discount. Additionally, Muhabura paid FRW 2,400,000 delivery cost and a further cost of FRW 1,800,000 as installation costs. Testing costs was FRW 4,200,000. The company was also to incur FRW 800,000 dismantling cost and FRW 2,200,000 as restoration costs. The borrowing cost of the loan to be capitalized was FRW 2,500,000.

Required:

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. (6 Marks)

b) According to IAS 40, investment property is defined as property (land or building or part of a building or both) held by the owner to earn rentals or for capital appreciation rather than use in the production or supply of goods and services or for administrative purposes.

Required:

i) Explain TWO conditions that must be met for investment property to be recognised as an asset (2 Marks)

ii) Explain the TWO models that an entity can use in subsequent recognition of investment property (2 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

Paramount Ltd acquired 80% of Supreme Ltd's equity shares for FRW 60,000,000 on 1st April, 2023. The retained earnings of Supreme Ltd at the date of acquisition was FRW 19,000,000.

Statement of profit or loss for the year ended 31st December, 2023

	Paramount Ltd	Supreme Ltd
Revenue	50,000,000	10,000,000
Cost of sales	29,000,000	6,000,000
Gross profit	21,000,000	4,000,000
Distribution costs	9,000,000	2,000,000
Administrative costs	8,000,000	1,200,000
Profit before interest and tax	4,000,000	800,000
Finance cost	400,000	100,000
Profit before tax	3,600,000	700,000
Income tax	900,000	200,000
Profit for the year	2,700,000	500,000

Extract of statement of financial position as at 31st December, 2023

	Paramount Ltd	Supreme Ltd
Equity:	FRW	FRW
Share capital	200,000,000	40,000,000
Retained earnings	50,500,000	20,400,000
Revaluation reserve	20,000,000	9,000,000

Additional information

1. The fair value of non-controlling interest of Supreme Ltd was FRW 18,000,000 at the date of acquisition.
2. Paramount Ltd sold goods to Supreme Ltd during the year for FRW 1,000,000. These goods had cost Paramount Ltd FRW 800,000. Supreme Ltd sold 40% of the goods to third party and the rest of the goods were still in inventory by the year end.
3. Profits are assumed to accrue evenly throughout the year.

Required:

Calculate the following:

- i) **Goodwill on acquisition of Supreme** (4 Marks)
- ii) **Non-controlling interest at the end of the period 31st December, 2023** (2 Marks)
- iii) **Unrealized profit as a result of intra group trading between Paramount Ltd and Supreme Ltd.** (2 Marks)
- iv) **Prepare the consolidated statement of profit or loss for the year ended 31st December, 2023.** (12 Marks)

(Total: 20 Marks)

QUESTION 14

The following trial balance has been extracted from the books of Amahoro Publishers Ltd as at 31st March, 2024:

	FRW 000	FRW 000
Share capital (at FRW 100 per share)		540,000
Share premium		160,000
Revenue		4,330,000
Purchases	2,520,000	
Trade payables		54,000
Trade receivables	466,000	
Administration costs	500,000	
Distribution costs	590,000	
Revaluation reserve		40,000
Cash	6,000	
Dividends paid	54,000	
Interest paid	50,000	
Bank loan (Long term)		200,000
Dividends received		30,000
Interest received		2,000
Inventory (1st April, 2023)	280,000	
Retained earnings (1st April, 2023)		470,000
Land and Building at cost (Land 760,000, Building 200,000)	960,000	
Accumulated depreciations land & building (1st April, 2023)		60,000
Plant and machinery at cost	800,000	
Accumulated depreciations plant & machinery (1st April, 2023)		340,000
	6,226,000	6,226,000

Additional information

1. Inventory at 31st March 2024 was valued at FRW 170,000,000.
2. Depreciation is to be charged to cost of sales as follows: Building straight line at 5% on cost and Plant and Machinery at 30% reducing balance.
3. Land is to be revalued upwards by FRW 200,000,000.
4. Income tax of FRW 330,000,000 is to be provided for the year to 31st March, 2024.

Required:

- a) Prepare statement of profit or loss for the year ended 31st March, 2024 (8 Marks)
- b) Prepare statement of changes in equity for the year ended 31st March, 2024 (4 Marks)
- c) Prepare statement of financial position as at 31st March, 2024 (8 Marks)

(Total: 20 Marks)

QUESTION 15

Nyungwe Ltd has the following financial statements provided for the year ended 31st December, 2022 and 2023.

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

	2022	2023
	FRW 000	FRW 000
Revenue	275,000	320,000
Cost of sales	122,600	172,000
Gross profit	152,400	148,000
Distribution costs	34,500	38,900
Administrative costs	16,320	20,300
Profit before interest and tax	101,580	88,800
Finance cost	28,000	22,810
Profit before tax	73,580	65,990
Income tax	22,074	21,897
Profit for the year	51,506	44,093

Statement of financial position as at 31st December,

	2022		2023	
		FRW 000		FRW 000
<u>Non-current assets</u>				
Land		280,000		280,000
Building		400,000		360,000
Motor vehicles		23,000		118,000
Total non-current assets		703,000		758,000
<u>Current assets</u>				
Inventory	132,000		120,000	
Trade receivables	46,000		40,707	
Cash	21,000	199,000	31,800	192,507
Total assets		902,000		950,507
<u>Equity and liabilities</u>				
<u>Equity</u>				
Ordinary share capital		301,000		301,000
Share premium		50,000		50,000
Revaluation reserve		25,000		20,000
Retained earnings		136,000		180,093
Total equity		512,000	-	551,093
<u>Non-current liabilities</u>				
Loan note	200,000		230,000	
Debentures	130,000	330,000	102,000	332,000
<u>Current liabilities</u>				

Trade payables	42,000		56,000	
Dividends	18,000	<u>60,000</u>	11,414	<u>67,414</u>
Total equity and liabilities		<u>902,000</u>		<u>950,507</u>

Required:

You have recently been appointed by the directors of the company and they have asked you to assist them with the following:

- a) Calculate for the year 2023 and 2022 the following ratios:
- i) Return on capital employed (2 Marks)
 - ii) Operating profit margin (2 Marks)
 - iii) Receivables period (2 Marks)
 - iv) Payables period (2 Marks)
 - v) Interest cover (2 Marks)
- b) Interpret the financial performance of the company using the results calculated in requirement a above (5 Marks)
- c) Explain any FIVE users of financial statements (5 Marks)
- (Total 20 Marks)**

End of Question Paper