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**CERTIFIED ACCOUNTANTING TECHNICIAN**

**STAGE 2 EXAMINATIONS**

**S 2.1 PREPARATION OF BASIC ACCOUNTS**

**DATE: WEDNESDAY 29, MAY 2024**

**MARKING GUIDE AND MODEL ANSWERS**

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**MARKING GUIDE**

<b>QUESTION NUMBER</b>	<b>CORRECT CHOICE</b>	<b>MARKS AWARDED</b>	<b>QUESTION NUMBER</b>	<b>CORRECT CHOICE</b>	<b>MARKS AWARDED</b>
01	A	2	26	D	2
02	A	2	27	C	2
03	B	2	28	A	2
04	B	2	29	A	2
05	C	2	30	A	2
06	A	2	31	D	2
07	B	2	32	D	2
08	D	2	33	B	2
09	A	2	34	D	2
10	B	2	35	A	2
11	A	2	36	D	2
12	D	2	37	D	2
13	B	2	38	C	2
14	A	2	39	B	2
15	B	2	40	A	2
16	B	2	41	C	2
17	C	2	42	B	2
18	C	2	43	C	2
19	B	2	44	A	2
20	C	2	45	A	2
21	A	2	46	C	2
22	A	2	47	D	2
23	B	2	48	A	2
24	A	2	49	D	2
25	B	2	50	D	2

## **MODEL ANSWERS**

### **QUESTION ONE**

**The correct answer is A**

Carriage outwards is a distribution expense. General administrative overheads should not be included per IAS 2.

Option B, C and D not correct only Carriage outwards is a distribution expense. General administrative overheads should not be included per IAS 2.

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### **QUESTION TWO**

**The correct answer is A**

FRW 29,000 - The petty cash expenses for TIBO Ltd include stationery, payment for office cleaner and payment for taxi fare.

Option B is not correct as it considered payment made to supplier and to amount paid to acquire machine, yet these could not be recorded in the petty cash

Option C: Is not correct because it includes amount paid to supplier, yet this payment should not be part of petty cash

Option D is not correct as it includes payment made to acquire machinery yet it does not qualify to be part of petty cash payment.

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### **QUESTION THREE**

**The correct answer is B**

Sales	FRW 182,000,000
Mark up	30%
	= (182,000,00 * 100/130)
Cost of sales	= FRW 140,000,000
Opening inventory	FRW (11,800,000)
Closing inventory	FRW 9,700,000
<b>Purchase</b>	<b>FRW 137,900,000</b>

Option A is not correct  $FRW 182,000,000 * 30/100 = FRW 54,600,000$

Option C is not correct =  $FRW 140,000,000 + 11,800,000 - FRW 9,700,000 = FRW 142,100,000$

Option D is not correct =  $FRW 140,000,000 + FRW 11,800,000 + FRW 9,700,000 = FRW 161,500,000$

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## QUESTION FOUR

### The correct answer is B

The capital expenditure equals to the summation of all costs incurred to bring the asset to its initial use. From the information provided in this question capital expenditure = FRW 186,000 + FRW 74,000 + FRW 50,000 + FRW 20,000 = FRW 330,000.

Option A is not correct because it only considers the purchase price i.e. FRW 186,000

Option C is not also correct because it excludes the installation and testing costs which are components of capital expenditure i.e. FRW186,000 + FRW 74,000 + FRW 50,000 = FRW 310,000.

Option D is not correct because it includes fuel to run the engine which is a revenue expenditure i.e. FRW 186,000 + FRW 74,000 + FRW 50,000 + FRW 20,000 + FRW 68,000= FRW 398,000.

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## QUESTION FIVE

### The correct answer is C

The revenue expenditure equals to the summation of all expenses necessary to run the machine on annual basis. From the information provided in this question revenue expenditure = FRW 68,000+ FRW 15,000 + FRW 64,000 = FRW 147,000

Option A is not correct because it includes all the costs i.e. both capital and revenue.

Option B is not correct because it only counts maintenance as a single revenue expenditure.

Option D is also not correct because it excludes fuel which is also a revenue expenditure.

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## QUESTION SIX

### The correct answer is A

When a non-current asset is acquired the relevant non-current asset (i.e. in this case machinery) is debited and the credit entry depends on how payment is made. If the payment is via bank we will credit the bank account, if it is by use of cash (most rarely), we will credit cash, if the asset is acquired on credit, we will credit the concerned creditor's account. Other asset (s) will be credited in case the acquisition involves trade-in/part-exchange transactions.

Given the above explanations, options B, C & D are incorrect options.

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## QUESTION SEVEN

### The correct answer is B

The allowance is included in statement of financial position credit column, with the irrecoverable debts expense included in the statement of profit or loss debit column.

Option A, C and D is not correct

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### QUESTION EIGHT

**The correct answer is D**

Sales	FRW 4,720,000
Output VAT	FRW 4,720,00*18/118 = FRW 720,000
Purchase	FRW 2,500,000
Input VAT	FRW 2,500,000*18/100 = FRW 450,000
Net amount of VAT due to Tax Authority	FRW 270,000

Option A is not correct because VAT due is computed by  $FRW 4,720,000 * 17/100 = FRW 849,600$ .

B is not correct because VAT due is computed by taking  $FRW 2,500,000 * 18/100 = FRW 450,000$ .

Option C is not correct VAT due is equal to Sales – Purchase =  $FRW 4,720,000 - FRW 2,500,000 = FRW 2,20,000$ .

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### QUESTION NINE

**The correct answer is A**

The correct balance for Receivable ledger control account is  $(FRW 500,000 + FRW 475,000 - FRW 105,000) = FRW 870,000$  (Debit);

Option B is not correct because it shows reverse balance sides.

Option C is not correct because it assumes the credit note increases the receivable ledger control account balance instead of reducing it.

Option D, is not correct because this would be a correct balance in the payables control account if it was asked based on the available information.

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### QUESTION 10

**The correct answer is B**

<b>Income statement of Dan Ltd for year ended 31/12/2019</b>		
<b>Details</b>	FRW	FRW
Sales		320,000
Cash Purchase	160,000	
Import duty	6,000	
Opening stock 1/1/2019	14,000	
Closing stock 31/12/2019	(17,000 )	
Cost of Goods Sold	163,000	163,000
<b>Gross Profit</b>		<b>157,000</b>
Less: Administrative expenses		
Wages	16,800	
Less: selling and distribution expenses		
Advertising	12,000	
Loan interest	7,000	
Depreciation for:		
Motor vehicles	20,000	
Equipment	18,400	74,200
<b>Net Profit</b>		<b>82,800</b>
less Dividend		20,000
		62,800
Add Opening Balance		18,000
Reserve for 31/12/2019		80,800

Option A is not correct, only consider cost of goods sold (FRW 163,000).

Option C is not correct the sales amount was added up with cost of goods sold (FRW 360,000 +FRW 163,000) instead of subtracting cost of goods sold from sales.

Option D is not correct sales amount added up closing stock = FRW 337,000 = (FRW 320,000 + FRW17,000).

## QUESTION 11

**The correct answer is A**

Net profit is 82,800

Option B is not correct Dan is only total expenses is considered.

Option C is not correct while the gross profit is added up with total expenses (FRW 157,000 + FRW 74,200 = FRW 231,200

Option D is not correct while the cost of goods sold is added up with gross profit FRW 320,000 = FRW 163,000 + FRW 157,000

## QUESTION 12

**The correct answer is D**

FRW 9,456,000 (Credit entry) +706,000 (Credit opening balance) = 10, 162,000 (Credit balance).

Option A is not correct since it provides the wrong side of the balance – This is an income and should have a credit balance in the trial balance.

Option B is not correct since it subtracts prepayments from the amount received during the period instead of adding these prepayments.

Option C is not correct since it provides both wrong amount as option B and wrong side of the balance.

### QUESTION 13

**The correct answer is B**

<b>Receivables and prepayments:</b>	<b>FRW 000</b>
Insurance 9,000 × 8/12 prepayment	6,000
Loan (receivable)	12,000
Interest due 12,000 × 2% (receivable)	240
Rent due (receivable)	4,000
	<b>22,240</b>

Option A is not correct since it assumes interest (FRW 240,000) to be an accrued expense (liability) instead of accrued income(asset)

Option C is not correct because it only recognizes the following:

<b>Receivables and prepayments:</b>	<b>FRW 000</b>
Insurance 9,000 × 8/12 prepayment	6,000
Interest due 12,000 × 2% (receivable)	240
Rent due (receivable)	4,000
	<b>10,240</b>

This option thus excludes the loan receivable.

Option D is not correct because it wrongly classifies a prepaid expenses into liabilities instead of classifying it into assets.

### QUESTION 14

**The correct answer is A**

The depreciation for the year ended 31 December 2021 is =  $12,500,000/5 * 6/12 = 1,250,0000$ .

The correct entry for a depreciation expense is:

Dr Depreciation expense A/c FRW 1,250,000

Cr Accumulated Depreciation A/C FRW 1,250,000

Option B is not correct because the amount of depreciation used is for the whole year. The asset has only been used of six months since 1 July 2021 and should be prorated as done in A.

Option C is not correct because it reverses the entries and uses wrong amount.

Option D is not correct because it forms an error of complete reversal of entries.

## QUESTION 15

The correct answer is B

Details	Fred FRW 000	Ziad FRW 000	Total FRW 000
Salary		40,000	40,000
Interest on Capital	6,000	3,000	9,000
Residual	86,000	64,500	150,500
Profit appropriation	92,000	107,500	199,500
Opening Balance	12,000	14,000	
Drawings	(90,000)		
Balance of current account at the end of year	14,000	121,500	

### Working 1: Interest on capital

Fred	= (100,00 * 6/100) FRW 6,000
Ziad	= (50,000 * 6/100) FRW 3,000
Working 2:Residual	
Partnership profit	199,500
Less: Salary (Ziad)	(40,000)
Less: Interest on capital (6,000 + 3,000)	(9,000 )
Residual	150,500

### Profit appropriation

Fred	= (150,500 * 4/7) FRW 86,000
Ziad	= (150,500 * 3/7) FRW 64,500
Working 3:Drawings	
Fred	= (7500 * 12) FRW 90,000
Ziad	Nil

Option A is not correct fred balance of current account is FRW 104,000 = (FRW 92,000 + FRW 12,000) and for Ziad (FRW 121,500 = FRW 107,500 + FRW 14000).

Option B is not correct Fred balance of current account is FRW 4,000 = (FRW 90,000 - FRW 86,000) and for Ziad (FRW 121,500 = FRW 107,500 + FRW 14,000)



Option C is not correct is not correct fred balance of current account is FRW 920,00 = (FRW 6,000 + FRW 86,000) and for Ziad (FRW 67,500 = FRW 3,000 + FRW 64,500)

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### QUESTION 16

**The correct answer is B**

Migambi must include a prepayment for the machinery rental as they pay monthly in advance, so they must recognise a prepayment of FRW 300,000. They must also include an accrual for two months' worth of telephone charges as they have a telephone bill for three months not paid of which two are for the year ended 31 December 2021, so they must include an accrual for FRW 360,000 (FRW 540,000 \* 2/3).

Option A is not correct because it assumes the accrual is for one month i.e. FRW 180,000 (540,000 \* 1/3).

Option C is not correct because accrual is used in the place of prepayment and vice versa.

Option D is not correct because in addition to adjusting FRW 180,000 for one month instead of FRW 360,00 for two months, this option also uses accrual in the place of prepayment and vice versa.

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### QUESTION 17

**The correct answer is C**

The omission of a sales invoice is an understatement of receivables. Equally posting a debit balance of a receivable in payables control account is an understatement of receivables. Consequently, the payables are also understated since normally payables increase on credit and thus the debit balance of a receivable posted on the debit side of payables control account decreases the payables.

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### QUESTION 18

**The correct answer is C**

Details	Amount FRW
<b>Working 1: Interest on Capital</b>	
Muhire	7,000,000
Mugire	4,560,000
Total interest on capital	11,560,000
<b>Working 2: Interest on Drawings</b>	
Muhire	1,200,000
Mugire	2,300,000
Total interest on drawings	3,500,000
Net profit	47,300,000

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Salary	(24,000,000)
Interest on drawings	(3,500,000)
Interest on Capital	11,560,000
<b>Net profit</b>	<b>31,360,000</b>

Option A is not correct residual profit is computed by taking net profit minus salary (FRW 47,300,000 - FRW 24,000,000 = FRW 23,300,000 and is ignoring interest on drawings and interest on capital.

Option B is not correct residual profit is computed by taking net Profit-Salary +Interest on drawings (FRW 47,300,000 - FRW 24,000,000 + FRW 3,500,000 = FRW 26,800,000).

Option D is not correct residual profit is computed by taking net Profit-Salary +Interest on drawings + Interest on capital (FRW 47,300,000 - FRW 24,000,000 + FRW 3,500,000 + FRW 11,560,000 = FRW 38,360,000).

### QUESTION 19

**The correct answer is B**

A is not correct because accrued expense is an expense due but not yet paid. Thus, it is a current liability. Accrued income is an income earned but not yet received. Thus, it is a current asset.

C is not correct because accrued expense is an expense due but not yet paid. Thus, it is a current liability. Accrued income is an income earned but not yet received. Thus, it is a current asset.

D is not correct because accruals are recognized in the statement of financial position as explained in the above options.

### QUESTION 20

**The correct answer is C**

A business can make a profit and yet have a lower bank balance when lengthening of the period of credit given to customers.

Option A is not correct you can't make a profit while non-current assets are sold at loss.

Option B is not correct on the income statement, depreciation appears as a business expense and is considered a "non-cash" charge because it does not involve a transfer of money.

Option D is not correct a longer credit period is likely to lead potential cash buyers to buy on credit and push off the payment until a later date. In the meantime, they can reap the benefit of utilizing their cash.

### QUESTION 21

**The correct answer is A**

A Sales = Cost of sales + Markup = 150,000,000+ (150,000,000 \* 20/80) = FRW 187,500,000.

B is not correct because it represents margin only i.e FRW 15,000,000 \* 20/80 = FRW 37,500,000.

C is not correct because margin figure added to cost of sales is computed by taking FRW 150,000,000 \* 20%. Hence, FRW 150,000,000 + (150,000,000 \* 20/100) = FRW 180,000,000.

D is not correct because it considers only margin and even that margin is wrong FRW 150,000,000 \* 20/100 = FRW30,000,000

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## QUESTION 22

The correct answer is A

Details	Amount FRW
Plant cost	9,000,000
Less: Accumulated depreciation	<u>(8,000,000)</u>
Net Book Value	1,000,000
Loss on Disposal	<u>(200,000)</u>
Net Sales	800,000

Option B and C is not correct because only took net assets equivalent to 800,000 and consider as gain or loss on disposal.

Option B is not correct because net sales are less that to net book value this is loss on disposal.

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## QUESTION 23

The correct answer is B

Cash received and book value, If the cash received is greater than the asset's book value, the difference is recorded as a gain. If the cash received is less than the asset's book value, the difference is recorded as a loss.

Option A is not correct book value, also called carrying value or net book value, is an asset's original cost minus its depreciation. An asset's original cost goes beyond the ticket price of the item.

Option C is not correct If the cash received is greater than the asset's book value, the difference is recorded as a gain. If the cash received is less than the asset's book value, the difference is recorded as a loss.

Option D is not correct because the answer is available for B.

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## QUESTION 24

**The correct answer is A**

The output VAT is calculated on sales and since the value given is VAT inclusive we will use 18/118 i.e. Output VAT = FRW 116,000,000 x 18/118 = FRW17,694,915.

Option B is not correct because it uses 18% as if the sales are VAT exclusive.

Option C is not correct because it uses 18% as exclusive and assumes that 80% provided in the question on the purchases is also applicable to sales.

Option D is also not correct because it applies 80% on the sales while all sales are standard rated.

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**QUESTION 25**

**The correct answer is B**

The input VAT is calculated as follows:

	<b>FRW</b>
VAT on Purchases (40,000,000 * 80/100 * 18/100)	5,760,000
VAT on Expenses (22,000,000 * 18/100)	3,960,000
Total	<u>9,720,000</u>

Option A is not correct since it only considers VAT on purchases.

Option C is not correct because it assumes the values are VAT inclusive.

Option D is also not correct since it only considers VAT on expenses.

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**QUESTION 26**

**The correct answer is D**

VAT payable = Output VAT – Input VAT = FRW 17,694,915 – FRW 9,720,000 = FRW 7,974,915.

Option A is not correct because this is the output VAT and not VAT payable.

Option B is not correct because is assumes the purchases and expenses amounts were VAT inclusive i.e. input VAT being FRW 8,237,288 while output VAT is FRW 17,694,915.

Option C is not also correct because this is the input VAT and not the VAT payable.

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**QUESTION 27**

**The correct answer is C**

Now, as per the straight line method of depreciation:

Cost of the asset = FRW 10,000

Salvage Value = FRW 2,000

Total Depreciation Cost = Cost of asset – Salvage Value = 10,000 – 2,000 = FRW 8,000

The useful life of the asset = 8 years

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Thus, annual depreciation cost = (Cost of asset – Salvage Cost)/Useful Life = 8000 / 8 = FRW 1,000.

Option A is not correct because the annual depreciation cost is calculated without put under consideration of salvage value (cost of an assets /Useful fife = FRW 10,000/8 = FRW 1,250)

Option B is not correct the annual depreciation cost is calculated by (Cost of the assets+ Salvage Value) / Useful life of the asset = (FRW 10,000 + FRW 2,000)/8 = FRW 1,500

Option D is not correct annual depreciation cost is calculated by (cost of the asset+ Salvage Value=FRW 10,000+FRW 2000=FRW 12,000

### QUESTION 28

**The correct answer is A**

When the machine is bought for FRW 10,000, the cash and cash equivalents are reduced by FRW 10,000 and moved to the Property, plant, and equipment line of the balance sheet.

Option B,C,D is not correct because When the machine is bought for FRW 10,000, the cash and cash equivalents are reduced by FRW 10,000 and moved to the Property, plant, and equipment line of the balance sheet.

### QUESTION 29

**The correct answer is A**

Trade discount is a reduction in the cost of goods, often for bulk purchases or special offers and it is given on the supplier’s invoice.

B is not correct because Cash discount is a reduction given as result of prompt payment and it CAN be withdrawn if payment is not received within pre-agreed time.

C is not correct because trade discount does not appear in the accounting records. The sales value will be net and recorded as it is.

D is not correct because some options are not correct.

### QUESTION 30

**The correct answer is A**

	A (Correct)	B (Not Correct)	C (Not Correct)	D (Not Correct)
Item	FRW	FRW	FRW	FRW
Price list	300,000	300,000	300,000	300,000
Trade discount (300,000 * 2%)	6,000	6,000	6,000	
Settlement discount (300,000 * 5%)	-	15,000	-	15,000
Settlement discount (300,000- 6,000) * 5%)	-	-	14,700	
<b>Amount Payable on 05 October</b>	<b>294,000</b>	<b>279,000</b>	<b>279,300</b>	<b>285,000</b>

**Note:** Since he has paid after 15 days, he will only get the trade discount. 5% of cash discount would be given if he pays on or before 30 September 2022

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### QUESTION 31

**The correct answer is D.**

All options are correct

A, B, C

A business is defined as:

A commercial or industrial concern which exists to deal in manufacture, resale or supply of goods and services.

Organization which uses economic resources to create goods or services which customers will buy

An entity that invests money to make more money for its owners.

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### QUESTION 32

**The correct answer is D**

Sales FRW 970,000

Output VAT (970,000 \* 18/118) = FRW 147,966

Purchased goods totaling FRW 2,050,000

The VAT on FRW 1,750,000 of the purchases is irrecoverable

Recoverable input VAT on purchases is (2,050,000 - 1,750,000) = FRW 300,000

The net amount /Input VAT = (147,966 - 300,000) = FRW 152,034

Option A is not correct Input VAT equivalent to FRW 147,966, NDUNGUTSE considers only Out Put VAT and ignore input VAT amounting to FRW 152,034.

Option B is not correct because NDUNGUSTE took recoverable input VAT equivalent to FRW 300,000 and ignore Output VAT and input VAT.

Option C is not correct, NDUNGUTSE made wrong computation of net input VAT (Output VAT + Recoverable input VAT on purchase (FRW 147,966 + FRW 300,000 = FRW447,966)

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### QUESTION 33

**The correct answer is B**

This matches with double entry rule. A credit is either an increase in income, increase in liability or decrease in asset.

A is not correct because a debit could not increase income.

C is not correct because debit will increase asset whereas credit will decrease asset.

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D is not correct because debit does not decrease expense instead it increases them.

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#### QUESTION 34

**The correct answer is D**

The necessary accounting entries required to record Goodwill value in the books of partnership business on admission of a new partner is to debit Goodwill account and credit revaluation account.

Option A B, C is incorrect because under accounting entries required to record Goodwill value in the books of partnership business on admission of a new partner is to Debit good will account and credit revaluation account.

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#### QUESTION 35

**The correct answer is A,**

Option A is correct

Payment on account to a supplier of inventory from the business bank account have on assets, liabilities and equity, the account payable will be debited while company cash bank account will be credited. No effect on the equity.

Option B C and D is not correct refer to the transactions given only Payment on account to a supplier of inventory from the business bank account have on assets, liabilities and equity, the account payable will be debited while company cash bank account will be credited. No effect on the equity.

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#### QUESTION 36

**The correct answer is D**

Assets = Equity – Liabilities, this accounting equations is **NOT** correct

Option A. is correct Assets = Equity this, is an accounting equation

Option B is correct Assets = Liabilities + Equity, this is an accounting equation

Option C is correct Equity = Assets – Liabilities, this is an accounting equation

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#### QUESTION 37

**The correct answer is D.**

The value of goodwill credited to the capital account of Mabiye is FRW 4,000,000 i.e  $10,000,000 * \frac{2}{5} = \text{FRW } 4,000,00$  using old profit sharing ratios.

A is not correct because it includes amount paid in by new partner to compute goodwill shared to existing partner i.e  $\text{FRW } 13,000,000 * \frac{2}{5} = \text{FRW } 5,200,000$ .

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B is not correct because it uses the new profit sharing ratios instead of old ratios i.e  $\text{FRW } 10,000,000 * 2/7 = \text{FRW } 2,857,143$ .

C is not correct because it considers Cyuma in the calculation of goodwill and used the new profit-sharing ratios as well as including cash received as goodwill ( $\text{FRW } 10,000,000 + \text{FRW } 3,000,000$ )  $* 2/7 = \text{FRW } 3,714,286$ .

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### **QUESTION 38**

**The correct answer is C**

The value of good will to be debited to the capital account of Cyuma is:  $\text{FRW } 10,000,000 * 2/7 = \text{FRW } 2,857,143$  using new profit-sharing ratios.

A is not correct because it includes amount paid in by new partner to compute goodwill shared to existing partner i.e  $\text{FRW } 13,000,000 * 2/5 = \text{FRW } 5,200,000$ .

B is not correct because it uses the old profit sharing ratio instead of new ones to write off goodwill arising on admitting new partner i.e  $\text{FRW } 10,000,000 * 2/5 = \text{FRW } 4,000,000$ .

D is not correct because it includes cash paid in by new partner ( $\text{FRW } 10,000,000 + \text{FRW } 3,000,000$ )  $* 2/7 = \text{FRW } 3,714,286$ .

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### **QUESTION 39**

**The correct answer is B**

Separate current accounts are kept for every partner to record all benefits and dues in the partner including interest on capital, salaries-if any, share of profits.

A is not correct because constant Partners Capital accounts do not record partners benefits.

C is not correct as it includes the wrong option.

D is not correct because there is a correct answer.

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### **QUESTION 40**

**The correct answer is A**

Accrual means of recording an expense that was incurred in one accounting period but not paid until a future accounting period.

Option B is not correct prudence is the practice of ensuring that the company is not overvalued by preventing the income and assets from being overstated in the company's reporting.

Option C. Sales is not correct refers to a company's revenue earned from the sales of products or services.

Option D is not correct Entity economic unit that isolates the accounting of certain transactions from other subdivisions or accounting entities.

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Option E is not correct Going Concern –A company that has the resources needed to continue operating indefinitely until it provides evidence to the contrary.

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#### QUESTION 41

**The correct answer is C**

Allowance for the year ended 31 December 2021 recognized as an expense, represent an increase in the allowance for receivable compared to previous year's allowance. Therefore, calculation are as follows:  $(40,000,000 * 5\%) - (28,000,000 * 1\%) = \text{FRW } 1,720,000$ .

A is not correct because FRW 280,000 is the allowance for the year ending 31 December 2020 which is equal:  $\text{FRW } 28,000,000 * 1\% = \text{FRW } 280,000$ .

B is not correct because it does not take into consideration the allowance for receivables brought forward from the previous period i.e.  $\text{FRW } 40,000,000 * 5\% = \text{FRW } 2,000,000$ .

D is not correct because it adds the allowance for the subsequent years with that of previous year  $(40,000,000 * 5\%) - (28,000,000 * 1\%) = \text{FRW } 2,000,000 + \text{FRW } 280,000 = \text{FRW } 2,280,000$ .

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#### QUESTION 42

**The correct answer is B**, Understatement of profit and loss account we charge FRW 122,000.

	FRW
Closing allowance required	140,000
Opening allowance	<u>(203,000)</u>
Decrease in allowance	63,000
Irrecoverable debts written off	185,000
Statement of profit or loss charge	122,000

Option A Marengo is only considering the irrecoverable debts of **FRW185,000** and ignore other items like opening and closing allowances.

Option C Marengo is only considering the decrease in allowances of **FRW63,000** only as items to be reported in the statement of profit and loss account and ignore to be added on Irrecoverable debts written off. This is not correct.

Option D Marengo is only considering the decrease in allowances of **FRW63,000** and irrecoverable debts of FRW 185,000 ( $\text{FRW } 63,000 + \text{FRW } 185,000 = \text{FRW } 248,000$ ). This is not correct.

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#### QUESTION 43

**The correct answer is C**

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Normally, a prepaid rent reduces expenses and thus increases profit. Thus, the increase in prepaid rent will be FRW900,000 (FRW 3,200,000 - FRW 2,300,000) which will reduce expenses and increases profit.

A is not correct because it has only considered the correct prepaid but ignores the one that was already recorded, though the treatment is correct, but there is FRW 2,300,000 already accounted for, they will adjust only remaining balance of FRW 900,000.

B is not correct because adjustments of prepaid expense do not reduce profit.

D is not correct because, the FRW 900,000 is an increase not a decrease.

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#### QUESTION 44

**The correct answer is A**

For option A: The value of closing inventory is accounted for in the general ledger by debiting the inventory account and crediting the statement of profit or loss.

For option B: The value of closing inventory is accounted for in the cash book by debiting the statement of profit or loss account and crediting the sales account. This is wrong recording in the cash book we Debit Inventory account and credit profit and loss account.

For option C: The value of closing inventory will therefore always have a credit balance at the end of a period, and this balance will be shown in the statement of comprehensive income as and expenses. This is wrong recording in the cash book we Debit Inventory account and credit profit and loss account.

Option D: The value of closing inventory for in the general ledger by debiting the sales account and credit returns inwards account This is wrong recording in the cash book we Debit Inventory account and credit profit and loss account.

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#### QUESTION 45

**The correct answer is A**

Kirimanjaro Co Ltd the Gross Profit is FRW 15,290

	FRW
Sales	56,000
Less Returns Inwards	(900 )
Net sales	55,100
Purchase	40,000

Add :Carriage inwards	1,300
Less :Returns outwards	(1,490)
Net Purchase	39,810
Add: Opening stock	-
Less Closing stock	-
Cost of Goods Sold	(39,810)
Gross Profit (55,100 - 39,810)	15,290

Option B Kirimanjaro Company Ltd has omitted to subtract returns inwards from Sales (Sales - Cost of Goods Sold = 56,000 - 39,810= FRW 16,190.

Option C Kirimanjaro Company Ltd during the computation of cost of goods sold he took purchases –carriage inwards Returns outwards = 40,000 -1,300+1,490 = FRW 37,210, then the Gross profit =Sales-Cost of Goods Sold =55,100 – 37210 = FRW 17,890.

Option D Kirimanjaro Company Ltd instead of subtract the returns inwards on sales the company has added back then the net sales is increased by 56,000 + 900=FRW 56,900.

Then the Gross profit will be = 56,900 - 39,810 = FRW 17,090.

#### QUESTION 46

**The correct answer is C**

Partner’s drawing reduces capital When an owner or partner makes a drawing from the business, it reduces their equity or capital account. This reduction is reflected in the balance sheet as a decrease in the owner's or partner's equity or capital.

Option A, B, D are not correct because the entity concept to partnership business when partner made a withdrawal this reduce capital contributions.

#### QUESTION 47

**The correct answer is D**

Private ledger consists of Accounts that are confidential such as capital, drawings, salaries, etc. These Accounts are only accessible by selected individuals.

**Option A.** Bought ledger /Purchase leger shows which purchases have been paid for and which purchases remain outstanding.

**Option B.** Sales ledger is a record of a company's sales, showing the amounts paid and owed by customers.

**Option C.** Equity ledger s the amount funded by the owners or shareholders of a company for the initial start-up and continuous operation of a business. Total equity also represents the residual value left in assets after all liabilities have been paid off, and is recorded on the company's balance sheet.

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#### QUESTION 48

**The correct answer is A**

The total amount (FRW 12,000,000+ FRW 5,000,000+ FRW 2,500,000) will be recorded on both sides (Debit and Credit side) of the TB. Every transaction will have effect on both debit and credit of the same amount.

B is not correct because FRW 12,000,000 is the accrued income that will have also a two-fold effect by Debiting rent and crediting accrued rent.

C is not correct because it considers only irrecoverable debts of FRW5,000,000 and depreciation charge of FRW2,500,000.

D is not correct because it considers only accrued rent.

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#### QUESTION 49

**The correct answer is D a prepayment of FRW 675,000**

Prepayment month 01/02/2023 -31/03/2023 = 2 Months.

KAZUNGU paid rent for 4 months.

Prepaid rent amount = 1,350,000 \* 2/4 (months = FRW 675,000).

**Option A:** This payment rent made by KAZUNGU before the date of rent consumption in the accounting we can't treat as an accrual of FRW 675,000. It will be recognized as an accrual rent when KAZUNGU has been recognized in the books of account but not yet paid.

**Option B:** a prepayment of FRW 337,500. Mr KAZUNGU has been recognized only one month of march 2023 and forget that the renting period was starting from 1st January 2023  
Prepayment rent =1,350,000 \* 1/4(Months) = FRW 337,500.

This payment rent made by KAZUNGU before the date of rent consumption in the accounting we can't treat as an accrual of FRW 337,500. It will be recognized as an accrual rent when KAZUNGU has been recognized in the books of account but not yet paid.

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#### QUESTION 50

**The correct answer is D**

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Purchase of new equipment for use as non-current asset, this means it's not going to be sold within the next accounting year and cannot be liquidized easily.

Option A. Cost incurred in acquiring trading inventories for sale, it will be categorized under capital expenditure as short-term business expenses usually used immediately or within one year.

Option B. Discount allowed on Credit sales, it will be categorized under capital expenditure as short-term business expenses usually used immediately or within one year.

Option C Cost of Repairing Plant and Equipment, it will be categorized under capital expenditure as short-term business expenses usually used immediately or within one year

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**End of Model Answer and Making Guide**