CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: DATE: MONDAY 27, MAY 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

MARKING GUIDE

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

MODEL ANSWERS

QUESTION ONE

The Correct Answer is D

The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions, Therefore the statements A, B and C are correct.

QUESTION TWO

The correct answer is C

A, B and D are not correct. Goodwill called in statement of financial position Intangible assets not tangible liabilities, not Intangible liabilities and tangible Assets.

QUESTION THREE

The Correct Answer is C
The Purchase of motor-vehicle and Purchase of patent rights are assets. In all cases, there is a past event, control and future economic benefit. The purchase of motor vehicle is a non-current asset and will result into an increase in assets and increase in liability. Purchase of patent rights is an intangible asset and will have an effect on intangible non-current asset and asset of cash The issue of bonus shares have no effect on the financial position as it is the issue to the existing shareholders and no effect on cash position.

QUESTION FOUR

The Correct Answer is A
According to the conceptual framework, there are two fundamental qualitative characteristics which are **relevance** and **faithful representation**

A and B are not correct because they are Enhancing qualitative characteristics including comparability, verifiability, timeliness and understandability

D is not correct because A is the correct option

QUESTION FIVE

The Correct Answer is C
20,000 shares of FRW 100 shares issued at FRW 125 each. The share premium is the difference between the issue price and the par value (=20,000*(125-100)=20,000*25=FRW 500,000

A is not correct. =20,000 shares*100=FRW 2,000,000. This will be recorded in the share capital account as the par value

B is not correct because FRW 2,500,000 (20,000 shares*125) is the total proceeds from issue of shares which will be recorded in cash or bank

D is not correct because it reflects the total of both par value and issue price (20,000 shares*(100+125) = FRW 4,500,000

QUESTION SIX

The correct answer is C

A, B and D are not correct. Mugabe has estimated the tax charge on its profits for the year just ended as FRW 165,000 classified as liability in `deferred tax while Ngoga License is an expense will be posted in profit and loss, others are investment will be classified as an asset.

QUESTION SEVEN

The Correct Answer is C
Interest Cover=Profit Before Interest and Tax (PBIT)/Interest payable: FRW 7,000,000/FRW 1,000,000=7 times

A is not correct because it uses the Profit After Tax (PAT)= FRW 4,000,000/FRW 1,000,000=4 times

B is not correct because it uses the Profit before Tax (PBT)= FRW 6,000,000/FRW 1,000,000=6 times

D is not correct because the given information are enough to calculate the Interest cover ratio

QUESTION EIGHT

The correct answer is A

A FRW 200,000 + FRW 300,000 + FRW 50,000 – FRW 20,000= FRW 530,000

Accounting equation: Assets= Liabilities + Equity

Equity= Assets-Liabilities

QUESTION NINE
The correct answer is D

The parent company consider a subsidiary as an associate when it controls 20% or more shares but not 50% or more of shares in the Subsidiary.

QUESTION 10

The Correct Answer is C

In an attempt to deal with some of the subjectivity, and to achieve comparability between different organizations, accounting standards were developed by International Accounting Standards Board (IASB).

A is not correct because IFAC is a global organization representing the accounting profession, established and promoting international standards.

B is not correct because The IFRS Interpretations Committee (formerly called the International Financial Reporting Interpretations Committee or IFRIC) was set up in March 2002 and provides guidance on specific practical issues in the interpretation of IFRS Standards.
D is not correct because the International Financial Reporting committee (IFRC) does not exist in the structure of IFRS Foundation

SECTION B

QUESTION 11

MARKING GUIDE

QN	Description	Marks
a	**Impact of fraud**	
	Explanation of three impacts of fraud (2 marks for each * 3)	6.0
	Maximum marks awarded for part a	6.0
b	**Adequate controls for accounting systems**	
	Explanation of four controls (1 mark per control * 4)	4.0
	Maximum marks awarded for part b	4.0
	Total	**10 Marks**

MODEL ANSWERS

a) Impact of fraud to Manila Ltd

If not detected and mitigated, fraud will have the following impacts on Manila Ltd company:

1. **Financial Impact** – this includes 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.
2. **Reputation of Manila will be affected** – exposure to fraud will affect the company's reputation in the eyes of internal and external stakeholders. This in turn could lead to a loss of business.
3. **Employee morale** – the trust of existing employees could be damaged. Future recruitment and retention of staff might also be affected.
4. **Large-scale frauds may result in bankruptcy**, delisting from the stock exchange, assets disposals, and change of senior management

b) Adequate controls for the accounting system that they can put in place to safeguard the company and its assets may include:

1. **Staff controls –** segregation of duties
2. **Management controls** – review of controls and regular checks on control activities
3. **Physical controls** – locking away confidential files and ensuring office security
4. **Application and general computer controls** – password protection, access limitations and integration of systems
5. **Fraud controls** are internal controls specifically against fraud in the areas of staff controls, management controls, physical controls and IT controls

QUESTION 12
MARKING GUIDE

QN	Description	Marks
a	**Conditions for recognition of PPE**	
	Future economic benefits probability	1
	Costs can be measured reliably	1
	Maximum marks awarded for part a	2
b	**Profit or loss on disposal**	
	Machine 1	
	Depreciation for each year (0.5 marks * 3)	1.5
	Net book value for each period (0.5 marks * 3)	1.5
	Loss	1
	Machine 2	
	Depreciation for each year (0.5 marks * 3)	1.5
	Net book value for each period (0.5 marks * 3)	1.5
	Loss	1
	Maximum marks awarded for part a	8
	Total	**10 Marks**

MODEL ANSWERS

a) Two conditions for recognition of PPE

1. It is probable that future economic benefits associated with the asset will flow to the entity.

The degree of certainty attached to the flow of future economic benefits must be assessed. This should be based on the evidence available at the date of initial recognition (usually the date of purchase). The entity should be assured that it will receive the rewards attached to the asset and it will incur the associated risks, which will only generally be the case when the rewards and risks have actually passed to the entity. Until then, the asset should not be recognized.

2. The cost of the asset to the entity can be measured reliably

The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
It is generally easy to measure the cost of an asset as the transfer amount on purchase, ie what was paid for it. Self-constructed assets can also be measured easily by adding together the purchase price of all the constituent parts (labour, materials etc) paid to external parties.

b) **Calculation of Profit or loss on disposal**

Machine 1		
Date of acquisition:	1 January, 2020	
Date of Disposal:	30th June, 2022 (After two and a half years)	
Cost =	15,000,000	
Depreciation rate =	20%	Reducing balance
Depreciation:		
1st Year =	20% * 15,000,000 =	3,000,000
Net Book Value =	15,000,000 - 3,000,000 =	12,000,000
2nd Year =	20% * 12,000,000 =	2,400,000
Net Book Value =	12,000,000 - 2,400,000 =	9,600,000
Total Loss =	**640,000 + 2,680,000 =**	**3,320,000**
3rd Year (half year) =	20% * 9,600,000 * 6/12 =	960,000
Net Book Value =	9,600,000 - 960,000 =	8,640,000
Proceeds from sales		8,000,000
Loss =	**8,640,000 - 8,000,000 =**	**640,000**

Machine 2		
Date of acquisition:	1 January, 2020	
Date of Disposal:	30th December, 2022 (After three years)	
Cost =	15,000,000	
Depreciation rate =	20%	Reducing balance
Depreciation:		
1st Year =	20% * 15,000,000 =	3,000,000
Net Book Value =	15,000,000 - 3,000,000 =	12,000,000
2nd Year =	20% * 12,000,000 =	2,400,000
Net Book Value =	12,000,000 - 2,400,000 =	9,600,000
3rd Year=	20% * 9,600,000=	1,920,000
Net Book Value =	9,600,000 - 1,920,000 =	7,680,000
Proceeds from sales		5,000,000
Loss =	**7,680,000 - 5,000,000 =**	**2,680,000**

SECTION C

QUESTION 13

MARKING GUIDE

QN	Description	Marks
a	**Components of financial statements**	
	Statement of financial position	1
	Statement of profit or loss & other comprehensive income	1
	Statement of changes in equity	1
	Statement of cashflow	1
	Notes	1
	Maximum marks awarded for part a	5
b) i	**Statement of profit or loss and other comprehensive income**	
	Cost of sales	0.5
	Gross profit	0.5
	Administration	0.5
	Distribution	0.5
	Other Expenses	0.5
	Operating Profit	0.5
	Finance Cost	0.5
	Profit before Tax	0.5
	Profit before Tax	0.5
	Gains on revaluation	0.5
	Profit for the year & Other Comprehensive Incoem	0.5
	Revenue	0.5
	Correct format of statement of P &L	1
	Maximum marks awarded for part b) i	7
b) ii	**Statement of profit or loss and other comprehensive income**	
	Revaluation surplus	0.5
	Inventory	0.5
	Carrying Amount / Net Book Value Land & Building	0.5
	Carrying Amount / Net Book Value Plant & Equiptment	0.5
	Total non current assets	0.5
	Trade receivables	0.5
	Prepaid bills	0.5
	Total current assets	0.5
	Total assets	0.5
	Total equity	1
	Non current liabilities	0.5
	Current liabilities	1
	Total equity & liabilities	0.5
	Format of statement of financial position	0.5
	Maximum marks awarded for part b) ii	8
	Total	**20**

MODEL ANSWERS

a) According to IAS1: A complete set of financial statements includes:

1) **Statement of financial position** (balance sheet) at the end of the period:
This is a statement which shows the financial position of the business as at a given date. It shows assets, equity and liabilities of the business.

2) **Statement of profit or loss and other comprehensive income** for the period
Presented as a single statement, or by presenting the profit or loss section in a separate statement of profit or loss, immediately followed by a statement presenting comprehensive income beginning with profit or loss:

This is a statement that shows the financial performance of the business for a given period of time. It shows incomes and expenses for the specific period.

3) **Statement of changes in equity** for the period:
This statement shows the changes in equity components like retained earnings, reserves, share premium.

4) **Statement of cash flows** for the period:
This statement shows the changes in financial position. It reflects cash inflows and cash outflows for the period.

5) **Notes:**
Comprising a summary of significant accounting policies and other explanatory notes.

b)

i) Dankeh Ltd Statement of Profit or Loss and other comprehensive income Ltd for the year ending 31 December 2022

		FRW "000"
Revenue		3,820
Less: Cost of Sales	(W7)	1,050
Gross Profit		**2,770**
Less: Administration Costs	(W8)	1,250
Less: Distribution Costs	(W4)	900
Less: Other Expenses	(W5)	100
Operating Profit		**520**
Less: Finance Cost	(W6)	420
Add: Other Income		1,100
Profit Before Tax		**1,200**
Less: Income Tax		400
Profit for the Year		**800**
Other Comprehensive Income:		
Gains on Revaluation	(W2)	250
Total Profit for the Year and Other Comprehensive Income		**1,050**

ii)

Dankeh Ltd Statement of Financial Position as at 31 December 2022

NON CURRENT ASSETS		FRW "000"	FRW "000"
Land and Building	(W2)		1,100
Plant & Equiptment	(W3)		1,120
Total Non Current Assets			**2,220**
CURRENT ASSETS			
Inventories	(W1)	750	
Trade Receivables		550	
Prepaid Bills	(W5)	300	
Cash at Bank		1,500	3,100
Total Assets			**5,320**
EQUITY & LIABILITIES			
EQUITY			
Share Capital			2,000
Share Premium			1,000
Revaluation Reserve	(W2)		250
Retained Earnings			800
Total Equity			**4,050**
NON CURRENT LIABILITIES			
Loan			650
CURRENT LIABILITIES			
Trade Payables		300	
Accrued Marketing Expenses	(W4)	200	
Accrued Interest	(W6)	120	620
Total Equity & Liabilities			**5,320**

Workings

W1) Inventories		
Cost	800	
Net Realizable Value	750	Lower
Deduct 750 from cost of sales		
W2) Land and Building		
Revalued Amount		1,100
Net Book Value Before Revaluation	(1,200 - 350)	850
Revaluation surplus	**1,100 - 850**	**250**
Depreciation of 350 charged to administration costs		350

W3) Plant & Equiptment		
Cost		1,400
Depreciation (straight line)	20% *1,400 =	280
Net Book Value		1,120
W4) Marketing Costs / Distribution		
Distribution Cost in Trial Balance	700	
Add: Marketing Costs	200	Accrued
Total Distribution Costs	900	
W5) Other Expenses		
Other Expenses in Trial Balance	400	
Less:Prepaid Water & Electricity	300	Prepaid
Total Other Expenses	100	
W6) Finance Cost		
Finance Cost in Trial Balance	300	
Add: Accrued Finance Cost	120	Accrued
Total	420	
W7) Cost of Sales		
Cost of Sales in Trial Balance	1,800	
Less: Inventories (W1)	750	
Total Cost of Sales	1,050	
W8) Administration		
Administration	620	
Add: Depreciation Building (W2)	350	
Add: Depreciation Plant & Equipt (W3)	280	
Total Administration	1,250	

QUESTION 14

MARKING GUIDE

QN	Description	Marks
a	**Steps followed in application of IFRS 15**	
	1 mark awarded for each correct step (1 mark * 5)	5
	Maximum marks awarded for part a	5
b	**Preparation of statement of cashflow**	
	W1 Interest paid	1
	W2 Income tax paid	1
	W3 Cash received from sale of NCA	2
	Contents of statement of cashflow:	
	Profit before tax	0.5
	Depreciation'	0.5
	Loss on sale	0.5
	Interest payable	0.5
	Increase in inventories	0.5
	Decrease in trade receivables	0.5
	Increase in trade payables	0.5
	Cash generated from operations	0.5
	Interest paid posting	0.5
	Dividends paid posting	0.5
	Income tax paid posting	0.5
	Total of income tax, dividends and interest paid	0.5
	Net cashflow from operating activities	0.5
	Purchase of tangible	0.5
	Receipt from sale of non current assets	0.5
	Net cash used in investing activities	0.5
	Issue of shares	0.5
	Repayment of loan	0.5
	Net cash used in financing activities	0.5
	Decrease in cash and cash equivalent	0.5
	Cash at the beginning of the period	0.5
	Cash at the end of the period	0.5
	Maximum marks awarded for part b	15
	Total	**20 Marks**

MODEL ANSWERS

a) The Five steps of applying IFRS15

Step 1: Identify the contract with customer
Step 2: Identify the performance obligations in contract
Step 3: Determine the transaction price
Step 4: Allocate the transactions price to the performance obligations in contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

b)

Kuga Company Ltd			
Statement of cashflow for the year ended 31st December, 2021			
		FRW "Million"	FRW "Million"
OPERATING ACTIVITIES			
Profit before tax		392	
Add: Depreciation for the year		118	
Add: Loss on sale of intangible assets		18	
Add: Interest payable		28	
Less: Increase in inventories	(182 - 20)	162	
Add: Decrease in trade receivables	(52 - 58)	6	
Add: Increase in trade and other payables	(50 -6)	44	
Cash generated from operations			444
Less: Interest paid	(W1)	28	
Less: Dividend paid	Additional Inform 1	90	
Less: Income Tax paid	(W2)	108	
			226
Net cash flows from operations activities			**218**
INVESTING ACTIVITIES			
Less: Purchase of tangible non-current assets	Additional Inform 2	180	
Add: Receipts from sales of tangible non-current assets	(W3)	12	
Net cash used in investing activities			**(168)**
FINANCING ACTIVITIES			
Issue of share capital	(570+36) - (340+24)	242	
Less: Repayment of long term loans	(200 - 500)	300	
Net cash used in financing activities			**(58)**
Decrease in cash and cash equivalents			(8)
Add: Cash and cash equivalents at the beginning 2020			56
Cash and cash equivalents at 31 December 2021			**48**

Note: Dividends paid of FRW 90,000,000 can be put in any of the three areas (operating activities, investing activities or even financing activities).

Workings

W1) Interest Paid			
Dr	Interest Expense a/c		Cr
		Balance b/d	-
Cash Paid (Bal fig)	**28**	Income Statement	28
Balance c/d	-		-
	28		28
W2) Income Tax			
Dr	Income Tax a/c		Cr
		Balance b/d	86
Cash Paid (Bal fig)	**108**	Income Statement	124
Balance c/d	102		-
	210		210

W3) Receipts from Sale of NCA		
Disposal Proceeds:		
Opening Carrying Amount of NCA		1,336
Add: Purchase of NCA		180
Less: Depreciation for the year		118
Less: Loss on disposal of NCA		18
Less: Closing carrying amount of NCA		1,368
Receipts from sale of NCA		12

QUESTION 15
MARKING GUIDE

	Item	Marks
a	Highlighting 4 conditions *(Award 2 Marks per each correct* situation up to 4 maximum*)*	8
	Total awarded for part a	8
b	**Consolidated statement of financial position**	
	Land and Buildings	0.5
	Furniture and fittings	0.5
	Investment Property	0.5
	Good will	2
	Inventories	0.5
	Prepaid expenses	0.5
	Cash	0.5
	Total assets	0.5
	Equity and liabilities Equity	
	Share capital	0.5
	Retained earnings	2
	Non-controlling interest	2
	Non-current liabilities	
	Long-term Loan	0.5
	Total equity & liabilities	0.5
	Correct format of the consolidated statement of financial position	1
	Total awarded for part b	12
	Total	20 Marks

MODEL ANSWERS

a) Advise to management

Normally, Kamo Ltd has acquired 49% which is less than 50%. This is an indication that Kamo Ltd is a non-controlling entity (not the parent). However, there are 4 situations where control exists, even when the parent owns only 50% or less of the voting power of an entity.

1. The parent has power over more than 50% of the voting rights by virtue of agreement with other investors.
2. The parent has power to govern the financial and operating policies of the entity by statute or under an agreement.
3. The parent has the power to appoint or remove a majority of members of the board of directors (or equivalent governing body).
4. The parent has power to cast a majority of votes at meetings of the board of directors.

b) Consolidated statement of financial position

Rolea Group			
Consolidated Statement of Financial Position for the year ended 31st December, 2022			
NON CURRENT ASSETS		FRW	FRW
Land and Building	(4,400,000 + 2,000,000)		6,400,000
Furniture and Fittings	(1,000,000 + 200,000)		1,200,000
Investment Property	(616,000 + 600,000)		1,216,000
Goodwill	W3		1,830,000
Total Non Current Assets			10,646,000
CURRENT ASSETS			
Inventories	(444,000 + 2,000,000 - 40,000 (W2))	2,404,000	
Prepaid Expenses	(520,000 + 3,200,000)	3,720,000	
Cash	(1,680,000 + 200,000)	1,880,000	8,004,000
Total Assets			**18,650,000**
EQUITY & LIABILITIES			
EQUITY			
Share Capital			6,000,000
Retained Earnings	W4		5,326,000
Non Controlling Interest	W5		2,164,000
Total Equity and Non Controlling Interest			13,490,000
NON CURRENT LIABILITIES			
Long Term Loan	(4,060,000 + 1,100,000)		5,160,000
Total Equity and Liabilities			**18,650,000**

Workings

W1) % of ownership	
Number of shares acquired	1,500,000
Total number of shares	2,500,000
% acquired = 1,500,000 / 2,500,000 * 100 =	60%
Non Controlling Interest % = 100% - 60% =	40%

W2) Inter Company Sale of Inventory (Subsidiary to Parent)	
Sales	1,000,000
Mark up	25%
Margin = 25/(100+25) =	20%
Profit = 1,000,000 * 20% =	200,000
Unrealized Profit = 200,000 * 20% =	40,000

W3) Goodwill		
	FRW	FRW
Purchase consideration		4,400,000
Add: Fair value of NCI at acquisition date		580,000
		4,980,000
Net Assets		
Share capital	2,500,000	
Retained earning (Pre acquisition)	600,000	3,100,000
Goodwill		1,880,000
Less: Impairment Loss		50,000
Net goodwill		1,830,000

W4) Consolidated Retained Earnings		
	Parent	Subsidiary
	FRW	FRW
Retained earning in statement of financial position	3,000,000	4,600,000
Less: Unrealized profit (W2)		40,000
Adjusted retained earnings		4,560,000
Less: Pre acquisition retained earnings		600,000
Post acquisition retained earnings		3,960,000
% of post acquisition (60% * 3,960,000)	2,376,000	
Less: Impairment of Goodwill	50,000	
Consolidated retained earnings	5,326,000	

W5) Non Controlling Interest	
	FRW
Fair value of non controlling interest at acquisition	580,000
Add: Post acquisition profit (W4) (3,960,000 * 40%)	1,584,000
Total Non Controlling Interest	2,164,000

END OF MARKING GUIDE AND MODEL ANSWERS