



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY 27, MAY 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 is/are the objective(s) of financial statements?

- A To provide information about the financial position
- B To provide information about the financial performance and cash flows of an entity
- C To provide useful information to a wide range of users in making economic decisions.
- D All the above

(2 Marks)

QUESTION TWO

Goodwill acquired in a business combination is recognized in the statement of financial position and is initially measured at cost. Goodwill can either be positive or negative

How is Positive Goodwill recognised in the statement of financial position?

- A Tangible Liabilities
- B Intangible Liabilities
- C Intangible Assets
- D Tangible Assets

(2 Marks)

QUESTION THREE

Transactions and other events are grouped together in broad classes and in this way their financial effects are shown in the financial statements.

Which of the following transactions will affect the financial position?

- (i) Purchase of motor vehicle for FRW 20,000,000 on credit
 - (ii) Issue of bonus shares for 1 for 5 shares at FRW 100 each
 - (iii) Purchase of patent rights for FRW 12,000,000 for cash
- A (i) only
 - B (i) and (ii)
 - C (i) and (iii)
 - D (i), (ii) and (iii)

(2 Marks)

QUESTION FOUR

Which of the following are fundamental qualitative characteristics of financial statements?

- A Relevance and Faithful representation
- B Comparability and Verifiability
- C Timeliness and Understandability
- D Relevance and Verifiability

(2 Marks)

QUESTION FIVE

MIAMI Ltd has issued 20,000 shares of FRW 100 shares each at a price of FRW125 per share. Following double entry concept, **what is the figure to be reported in the share premium account?**

- A FRW 2,000,000
- B FRW 2,500,000
- C FRW 500,000
- D FRW 4,500,000

(2 Marks)

QUESTION SIX

Which of the following would be classified as Liability?

- A Ngoga Business manufactures a product under license. In 12 months' time, the license will expire and Ngoga will have to pay FRW 50,000 for it to be renewed.
- B Mugabo purchased an investment 9 months ago for FRW 120,000. the market for this investment has now fallen and Mugabo's investment is valued FRW 90,000
- C Mugabe has estimated the tax charge on its profits for the year just ended as FRW 165,000
- D Expansion is planning to invest in new machinery and has been quoted a price of FRW 570,000

(2 Marks)

QUESTION SEVEN

Below, you are provided with the statement of financial performance of KELLEN Ltd for the year ending 30th June 2023.

	FRW
Profit Before Interest and Tax (PBIT)	7,000,000
Interest Payable	(1,000,000)
Profit Before Tax (PBT)	6,000,000
Taxation	(2,000,000)
Profit After Tax (PAT)	4,000,000

The interest cover for KELLEN Ltd is?

- A 4 times
- B 6 times
- C 7 times
- D You cannot calculate it without interest rate

(2 Marks)

QUESTION EIGHT

On the first year of operations of KAZUNGU Ltd, the following information appeared on their financial statements.

At the beginning inventory was FRW 200,000

Cash FRW 300,000

Bank FRW 50,000

Creditors FRW 20,000

How much the Capital invested?

- A FRW 530,000
- B FRW 350,000
- C FRW 550,000
- D FRW 570,000

(2 Marks)

QUESTION NINE

The parent company usually controls the subsidiary by owning most of the shares in that company, but the share ownership is not always the same as control, which can arise in other ways. For a company also to be recognised as an associate, there is a certain percentage range of shares to be owned by the parent.

What percentage of shares should the parent own for a company to be considered as an associate?

- A 50% or more of shares
- B 50% or less of shares
- C 20% or less of shares
- D Above 20% but below 50%

(2 Marks)

QUESTION 10

In an attempt to deal with some of the subjectivity, and to achieve comparability between different organizations, accounting standards were developed by:

- A International Federation of Accountants (IFAC)
- B IFRS Interpretations Committee (IFRSIC)
- C International Accounting Standards Board (IASB)
- D International Financial Reporting committee (IFRC)

(2 Marks)

SECTION B

QUESTION 11

As a CAT student, you have been hired by MANILA Ltd, a company that has had a long overdue issue of misappropriation of assets and other malpractices for which the current management has qualified as fraud, but some members are unaware of the likely impact of these malpractices and how they can be mitigated.

Required:

- (a) Discuss 3 impacts of fraud to MANILA Ltd (6 Marks)
- (b) Advise the management of MANILA Ltd on 4 adequate controls for the accounting system that they can put in place to safeguard the company and its assets (4 Marks)
- (Total: 10 Marks)**

QUESTION 12

(a) International Accounting Standard 16 (IAS 16): Property, Plant and Equipment outlines the accounting treatment for most types of property, plant and equipment. The Standard addresses the recognition, measurement and disclosure of all property, plant and equipment pertaining to an entity.

Required:

Discuss the two main conditions for recognition of property, plant and equipment in the company's financial statements (2 Marks)

(b) On 1 January 2020, MORGAN Ltd purchased two machines at a cost of FRW 15,000,000 each. Owing to an unforeseen decrease in market demand for its product, MORGAN Ltd decided to reduce its output and sold Machine 1 on 30 June 2022 for FRW 8,000,000 cash and Machine 2 was also sold on 30 December 2022 for FRW 5,000,000 on credit. It is the policy of MORGAN Ltd to charge proportionate depreciation in the year of acquisition and the year of disposal at an annual rate of 20% on a reducing balance basis.

Required:

Showing clearly your workings, calculate the total Profit or Loss on disposal of machines for the year ending 30 December 2022 (8 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

- (a) In accordance with IAS 1 Presentation of Financial Statements, **explain the five components of a complete set of financial statements** (5 Marks)
- (b) You are provided with the following account balances extracted from the books of DANKEH Ltd for year ending 31 December 2022

Items	Debit FRW "000"	Credit FRW "000"
Revenue		3,820
Land and Buildings	1,200	
Plant and Equipment	1,400	
Cost of Sales	1,800	
Other Income		1,100
Distribution Costs	700	
Administrative Expenses	620	
Other Expenses	400	
Finance Cost	300	
Cash at Bank	1,500	
Share Capital		2,000
Share Premium		1,000
Loan		650
Income Tax	400	
Trade Receivables	550	
Trade Payables	-	300
Total	8,870	8,870

Additional Information

Upon analysis, the following were identified as additional information that need adjustments before producing the financial statements:

1. Not included in the cost of sales, is the cost of the inventory at the end of the year which had a cost of FRW 800,000 and net realizable value of FRW 750,000.
2. The land and building were valued at FRW 1,100,000. This was after calculating the annual depreciation for the building amounting to FRW 350,000. It is the company's policy to recognize depreciation charges as administrative expenses.
3. Plant and equipment are depreciated at an annual rate of 20%, straight line basis.
4. Additional marketing costs amounting to FRW 200,000 were incurred but not recorded.

5. Included in other expenses, was water and electricity bill of FRW 300,000 which was paid but related to next financial year.
6. Annual Interest on bank loan of FRW 120,000 were not yet recorded.

Required:

- (i) **Statement of Profit or Loss and other comprehensive income of DANKEH Ltd for the year ending 31 December 2022** (7 Marks)
 - (ii) **Statement of Financial Position of Dankeh Ltd as at 31 December 2022** (8 Marks)
- (Total: 20 Marks)**

QUESTION 14

- (a) IFRS 15 Revenue from contract with customers replaced IAS 18 revenue and IAS 11 construction contracts effective for annual reporting periods beginning on 1 January 2018.

Required:

What are the five steps to be followed in application of IFRS 15? (5 Marks)

- (b) KUGA COMPANY Ltd statement of profit or loss for the year ended 31 December 2021 and statement of financial position at 31 December 2020 and 31 December 2021 were:

KUGA COMPANY Ltd

Statement of profit or loss for the year ended 31 December 2021

	FRW “Million”	FRW “Million”
Revenue		<u>720</u>
Raw materials consumed	70	
Staff costs	94	
Depreciation	118	
Loss on disposal of non-current asset	18	
		<u>300</u>
Operating profit		420
Interest payable		28
Profit before tax		392
Taxation		124
Profit for the year		268

KUGA COMPANY Ltd**Statement of financial position for the year ended 31 December 2021**

	2021	2020
	FRW “Million”	FRW “Million”
<u>Non-current assets</u>		
Cost	1,686	1,560
Depreciation	<u>(318)</u>	<u>(224)</u>
	1,368	1,336
<u>Current assets</u>		
Inventories	182	20
Trade receivables	52	58
Cash and cash equivalents	48	56
	<u>282</u>	<u>134</u>
Total assets	<u>1,650</u>	<u>1,470</u>
<u>Equity and liabilities</u>		
<u>Equity</u>		
Share capital	570	340
Share premium	36	24
Retained earnings	692	514
	1,298	878
<u>Non-current liabilities</u>		
Long term loans	200	500
<u>Current liabilities</u>		
Trade and other payables	50	6
Taxation	<u>102</u>	<u>86</u>
Total equity and liabilities	<u>1,650</u>	<u>1,470</u>

Additional Information:

- Dividends paid were FRW 90,000,000.
- During the year, the company paid FRW 180,000,000 for new piece of machinery.

Required:

Prepare a statement of cash flow for KUGA COMPANY Ltd for the year ended 31 December 2021 in accordance with the requirements of IAS 7, using the indirect method (15 Marks)

(Total: 20 Marks)

QUESTION 15

(a) KAMO Ltd acquired 49% of the equity interest in MIMAI Ltd on 1 June 2023 for FRW 20 million. The management of KAMO Ltd is not sure on whether they can have control over MIMAI Ltd.

Required:

As a CAT student, **advise the management of KAMO Ltd on conditions that would accord them control over MIMAI Ltd despite owning less than 50% of the shareholding (4 conditions)**

(8 Marks)

(b) ROLEA Ltd is a company that sells cosmetics in the city center. With its expansion, it had invested in MKONI Ltd on 1 January, 2020 and purchased 1,500,000 ordinary shares of FRW 1 each. At the date of acquisition, the retained earnings of MKONI Ltd were FRW 600,000.

Below is the statement of financial position of ROLEA Ltd and MKONI Ltd as of 31st December 2022.

	ROLEA Ltd	MKONI Ltd
	FRW	FRW
Assets		
<u>Non-current assets</u>		
Land and Buildings	4,400,000	2,000,000
Furniture and fittings	1,000,000	200,000
Investment in MKONI Ltd (Fair value transferred)	4,400,000	-
Investment Property	616,000	600,000
Total Non Current Assets	10,416,000	2,800,000
<u>Current assets</u>		
Inventories	444,000	2,000,000
Prepaid expenses	520,000	3,200,000
Cash	1,680,000	200,000
Total Current Assets	2,644,000	5,400,000
Total Assets	13,060,000	8,200,000
<u>Equity and liabilities Equity</u>		
Share capital (FRW1 ordinary shares)	6,000,000	2,500,000
Retained earnings	3,000,000	4,600,000
Total Equity	9,000,000	7,100,000
<u>Non-current liabilities</u>		
Long-term Loan	4,060,000	1,100,000
Total Equity and Liabilities	13,060,000	8,200,000

Additional information:

1. It is ROLEA Ltd's policy to measure non-controlling interest (NCI) at fair value which was FRW 580,000 at the acquisition date.
2. During the year ending 31st December 2022, MKONI Ltd sold goods costing FRW 1,000,000 to ROLEA Ltd of which 20% of these goods are still in stock. MKONI Ltd has a costing method of adding a markup of 25% on each material sold.

3. The goodwill calculated has been assessed and found to have an impairment loss of 50,000 in MKONI Ltd. There was no other impairment loss before this year.

Required:

- (i) Calculate the Goodwill using fair value method** (2 Marks)
 - (ii) Calculate consolidated retained earnings** (2 Marks)
 - (iii) Calculate the amount that goes to non-controlling interest using fair value method** (2 Marks)
 - (iv) Prepare a consolidated statement of financial position for the year ending 31st December 2022** (6 Marks)
(Show clearly your workings)
- (Total: 20 Marks)**

End of Question Paper

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