



CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 2 EXAMINATION

S2.1: PREPARATION OF BASIC ACCOUNTS

DATE: WEDNESDAY, 30 NOVEMBER 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking guide

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2 marks for each correct answer

Total marks: 100

Model Answers

1. The correct answer is (A) due to:

A is correct because Accruals and matching concept and Materiality are among accounting principles.

B Straight line depreciation is the type of depreciation not accounting principle and

C Balance sheet and income statement are the components of financial statement not accounting principles

2. The correct answer is D due to

D is correct because none of the above answers are correct,

A is not correct because the item to be material does not require to have big amount only, a big amount of an item can be criteria of its materiality but is not only reason. why **A** is not correct? the word “only” is the one makes this answer incorrect because some time an item can be material while has a small value or small amount because the context, for instance Fraud

B is not correct because an item be material does not require quantitative measurement only because the fact that we may have qualitative factors such as the nature of information, the circumstance and possible cumulative effects of error or omission.

C is not correct because item is considered material when its omission or misstatement would influence the decision makers.

3. The correct answer is B

B is correct because what business owes means liabilities of business, therefore bank overdraft is a liability

A and **C** are not correct because they relate to asset and expenditure respectively

D is not correct because it includes **A** and **C** in correct answers while are not correct as per above explanation

4. The correct answer is C

C is correct because Business entity concept states that the transactions associated with a business must be separately recorded from those of its owners or other businesses.

A is not correct due to prudence concept states that an entity must not overestimate its revenues, assets and profits, besides this it must not underestimate its liabilities, losses and expenses

B is not correct because Double entry bookkeeping is an accounting concept which states that every financial transaction affects the entity in two ways and gives rise to two accounting entries, one a debit and other a credit of equal value on each side

D is not correct because going concern states that the business is expected to stay in business for the foreseeable future

5. The correct answer is B

Because by historical cost the value of an asset on the balance sheet is recorded at its original cost when acquired by the company

A is not correct because Business entity means about the separation between the business owner and the business or company

C is not correct because materiality concept states that all items that are reasonably likely to impact investors' decision-making must be recorded or reported in detail in a business's financial statements

D is not correct because by money measurement a business should only record an accounting transaction if it can be expressed in terms of money

6. The correct answer is B

B is correct answer because that the main reason why the finance providers look for company's financial information is to assess the financial situation of the company in order to provide the short or longtime finance to the company.

A is incorrect because it is related to the reason why the Tax Authority requires the company's financial information in order to assess the company's performance and determine how much tax they can charge.

C is not correct because employees and labor associations are the only ones interested to know the future career of business employees.

D is not correct because this is for owners 'needs in order to know how their company is directed

7. The correct answer is D

D Is correct because the personal accounts are in form of Receivable and payables ledger only, and also personal accounts include details of transactions which have been summarized in ledger accounts

A is not correct because it combines impersonal and personal ledgers

B and C are not correct because they are impersonal accounts

8. The correct answer is A

A is correct because it is so important to keep the financial records by the business and it is required by the law

B, C and D are not correct because all of them are made up of accounting records that help entity to produce financial statements

9. The correct answer is B

B is correct because going concern states that the business is expected to stay in business for the foreseeable future,

A is not correct because it explains double entry principle

C is not correct because it stands for consistence principle

D is not correct because it is related to purchase and procurement of goods and services not going concern

10. The correct answer is C

A FRW 90,000 (102,000+10,700-17,700-15,000+10,000)

B FRW 114,000 (102,000+15,000-10,700+17,700-10,000)

C FRW 135,000 (102,000+10,700-17,700+30,000+10,000)

D FRW 137,700 (102,000+15,000+10,700+10,000)

Hence Any other solution is wrong

11. The correct answer is D

D is correct because **capital** income is the proceeds from the sale of non-trading assets

A is not correct because it is equity, It is not capital income

B and C are not correct because they are revenue income

12. Correct answer is B,

B is correct because revenue expenditure is the expenditure incurred for the purposes of the trade of the business

A is not correct because it is capital expenditure

C is not correct because it states that the expenditure related to next year but paid in the current year should not be reported, while should be reported as current asset

D is not correct because revenue expenditures decrease in credit side and increases in debit side hence the answer is a reversal

13. The correct answer is B

A FRW 18,000,000 (Car cost + Driver salary + painting= FRW 15,500,000+FRW 1,500,000+FRW1,000,000), this is not correct because driver's cost and painting are revenue expenditure not capital expenditure

B FRW 17,500,000 (Car cost + Engineer cost= FRW 15,500,000+2,000,000), this answer is correct because these two are the only capital expenditure

C FRW 18,500,000 (Car cost + Engineer cost+ Painting cost= FRW 15,500,000+FRW 2,000,000+FRW 1,000,000), this is not correct because it includes painting expense while is revenue expenditure

D FRW 10,500,000 (Milk cost + Painting cost+ salary expense= FRW 8,000,000+FRW 1,000,000+FRW 1,500,000), this answer is not correct because all are revenue expenditure instead of capital expenditure

14. The correct answer is C

A is not correct because this means the value of building should not be considered and it reduces the value of building.

B It is not correct because this entry means that the value of wages expensed instead of being capitalized

C It is correct because it implies capitalization of the value of labour to the cost of building

D It is not correct because it is increasing cash while were paid out and those do not result to capitalization of the cost of labour to the value of building.

15. The correct answer is B

B is correct because is equal $(\text{Cost} - \text{Scrap Value}) * 3$
 Useful Life
 $= \frac{(\text{FRW } 80,000,000 - \text{FRW } 2,000,000)}{5} * 3 = \text{FRW } 46,800,000$

A is wrong because equal $= (\text{FRW } 80,000,000) * 3 = \text{FRW } 48,000,000$

Here means that the scrap value is ignored

C is not correct because it is equal $\text{Cost} - \text{Scrap value} = \text{FRW } 80,000,000 - \text{FRW } 2,000,000$. This means that this is the accumulated depreciation at the end of year 5

D is not correct because it is purchase price of the Machine to be depreciated in 5 years

16. The correct answer is B

The correct is B as below

Annual depreciation = $\frac{50,000,000}{4} = 12,500,000$

Accumulated depreciation as at the date of disposal 30/06/2021 two years later

Equal to $12,500,000 \times 2 = 25,000,000$

	FRW
Cost	50,000,000
Accumulated depreciation as at 30/06/2021	<u>25,000,000</u>
Net book value	25,000,000
Disposal price	<u>20,000,000</u>
Loss on disposal	5,000,000

A is not correct because it states that the company get a gain while is a loss

C is not correct because even if the assets were not for sale but brings loss of **FRW 5,000,000**

D is not correct because even if the NP Ltd does not have other option except to dispose the assets, this has resulted to loss

17. The correct answer is D

D is true because all errors highlighted do not affect the trial balance so any other solution is incorrect

18. The correct answer is C

C is correct because an error of principle occurs when a transaction is posted to the wrong class of account, A and B, the entries are posted correctly in accounts but the debit and credit are the wrong way round (error of reversal), D is the error of original entry

19. The correct answer is D

Closing capital balance = Total closing assets less total closing liabilities

A is wrong because $\text{FRW } 57,000,000$ is the total assets before considering the omission ($\text{FRW } 50,000,000 + \text{FRW } 5,000,000 + \text{FRW } 2,000,000$)

B is wrong because $\text{FRW } 52,000,000$ is the opening capital plus the omission ($\text{FRW } 50,000,000 + \text{FRW } 2,000,000$)

C is wrong because FRW 53,000,000 is the total assets less liabilities before considering omission (FRW 50,000,000 + FRW 5,000,000 + FRW 2,000,000 - FRW 3,000,000 - FRW 1000,000)

D is correct because FRW 55,000,000 is the closing balance of assets including the omission less the closing balance of liabilities (FRW 50,000,000 + FRW 5,000,000 + FRW 2,000,000 + FRW 2000,000 - FRW 3,000,000 - FRW1,000,000)

20. The correct answer is D

D is correct because it is among reasons why the business can have incomplete records

A is not correct because even if the accountant leaves the company at the end of the period this may not result to incomplete records, as records remain in the institution

B is not correct because lacking knowledge of accounting by the proprietor of the business is not related to accounting records. He/she can recruit a person who has knowledge of accounting.

C is not correct because double entry may not be done correctly because of errors, but this cannot result into incomplete records

21. The correct answer is C

A is not correct because it gives the net working capital not the profit

B is not correct because it gives the equity not the profit

C is correct because when other factors remain constant the profit is the one increasing the capital hence closing less opening capital gives profit

D is not correct because it gives working capital not profit

22. The correct answer is A

A is correct because the prepaid electricity bill of FRW 300,000 will be the opening balance as at 01/01/2022 of water and electricity receivable by the entity.

B is not correct because it is the sum of water and electricity expenditures balance and water and electricity liability (3,000,000 + 500,000)

C is not correct because it is the sum of water and electricity expenditures balance and water and electricity receivables (3,000,000 + 300,000)

D is not correct because it is the water and electricity expenditures to be transferred to income statements as at 31/12/2021 (3,000,000 + 500,000 = 300,000)

23. The correct answer is C

The answer is C because the loan will remain as a non-current liability as it will be due for repayment in two years' time. As all the interests have been paid up to date there is no current liability hence non-current liability of FRW 12,000,000.

24. The correct answer is A

- A Is correct because profit increases capital account in credit side
 - B is not correct because drawings reduce capital instead of increasing capital
 - C is not correct because partner salaries are appropriation profit instead of being charged against profit
 - D is not correct because when a partnership's net profit has been ascertained it is appropriated by them, which means a credit instead of a debit of their capital account
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25. The correct answer is D

The answer is D because the inventory should be reported at the lower of cost (FRW 1,000,000) and the net realizable value (FRW 1,500,000-FRW 200,000=FRW 1,300,000). The lower of these is FRW 1,000,000. Any other answer is incorrect

26. The correct answer is C

- C: It is correct because net assets are financed by partner's current and capital account in a partnership
 - A: It is not correct because it states that net assets are financed by current account and ignores the capital account
 - B: It is not correct because current account is a capital movement account which increased in credit and decrease in debit side
 - D: It is not correct because appropriation consists of how loss and profit is to be shared to partners not capital allocation
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27. The correct answer is B

- B is correct because 'when recording interest earned on partners' capital account must pass through current account from appropriation account, means any movement in partner's account is from current account.
 - A is not correct because it is the reversal transaction of the correct answer
 - C and D are not correct because these transactions cannot be passed in any case for recording a transaction that happened in a partnership.
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28. The correct answer is C

	FRW
Opening carrying amount	40,000,000
Carrying amount of disposals (5,000,000+200,000)	(5,200,000)
Depreciation	<u>(1,000,000)</u>
Net value after as at 31 December 2021	33,800,000

A is not correct because it is the sum of opening carrying amounts and selling amounts of the assets sold during the year ended 31/12/2021 (40,000,000 + 5,000,000)

B is not correct because the assets sold have been considered as it was acquired (40,000,000 + 5,000,000 – 200,000)

D is not correct because the selling value of sold assets was added to the carrying value of non-current assets (40,000,000 + 5000,000 – 1,000,000)

29. The correct answer is D

Details	FRW
Receivable balance before adjustment	125,000
Less omitted bad debt	<u>(20,000)</u>
Balance to be reported as at 30 June 2019	105,000

Any other attempted answer is wrong

30. The correct answer is B

B is correct because it is to write off the bad debt by debiting bad debt expense and crediting account receivable due from the customer balance.

Any other attempted answer is wrong means A, C and D

31. The correct answer is A as below

workings

Figure to be reported in FS **FRW**

Debtors	800,000
Bad debts	<u>(80,000)</u>
	720,000
Specific Provision	<u>(10,000)</u>
	710,000
General Provision (5%)	<u>(35,500)</u>
	<u>674,500</u>

B is not correct because $FRW\ 674,000,000 = FRW\ 720,000 - (FRW\ 720,000 * 5\%) - FRW\ 10,000$

C is not correct because $FRW\ 720,000 = FRW\ 800,000 - FRW\ 80,000$

D is not correct because $FRW 670,000 = FRW 800,000 - (FRW 800,000 * 5/100) - FRW 80,000 - FRW 10,000$

32. The correct answer is A

A is correct because accrued income increases the assets and must be reported in the year earned not the year cash will be received

B Accrued income does not decrease the cash receipt except prepaid income only

C It is not correct because it increases assets but do not decrease liabilities

D is not correct because accrued income neither decrease assets nor increase liabilities

33. The correct answer is C

When there is a decrease in provision of doubtful debt the correct double entry is to debit provision for doubtful debts and credit profit or loss account as an income reversing the prior year's expenses recorded

A: Debit profit or loss account and credit provision for doubtful debts, is not correct because it is an increase not a decrease in provision for doubtful debts

B: Debit receivables account credit provision for doubtful debts, is not correct because this double entry is not correct as far the provision of doubtful debt is concerned whether increase or decrease this cannot happen

D: Debit account receivable and credit profit or loss account, is not correct because this double entry is not correct as far the provision of doubtful debt is concerned whether increase or decrease

34. The correct answer is C

C is correct because deferred income consists of revenue received but the related services not yet delivered

A is not correct because it is accrued income not deferred income

B is not correct because it is income of the current year means matching income

D is not correct because it is assets and accrued revenue of prior year

35. The correct answer is A

A $FRW 41,000 (FRW 23,000 + FRW 7,000 + FRW 6,000 + FRW 3,000 + FRW 2000)$

The correct answer is A as it considers that cost should be capitalized and does not include the cost to be expensed

B $FRW 42,200(23,000+7,000+6,000+3,000+2000+1000+200)$

It is wrong because it combines the cost to be capitalized and those to be expensed like maintenance cost and reparation cost

C FRW 29,000 (FRW 23,000+ FRW 6,000) this one is wrong because it ignores 3 costs to be capitalized, transport cost, the cost of site preparation and testing costs

D FRW 36,000 (FRW 23,000 + FRW 7,000 + FRW 6000) this one is wrong because it ignores 2 costs to be capitalized, the cost of site preparation and testing costs

36. The correct answer is B

A: Debit non-current assets credit revenue this entry is not correct as far purchase of non-current assets is concerned

B: Debit non-current assets credit cash/bank or payable this is the correct answer whether acquired by cash or on credit

C: Debit non-current assets credit accumulated depreciation, this entry is not concerned with acquisition of assets

D: Debit non-current assets and Credit Disposal account this entry is related to disposal not acquisition of fixed asset

37. The correct answer is C

The correct answer is C because the non-current assets should be removed from assets register when they are sold or scrapped

A It is not correct because the non-current assets register is not the part of accounting double entry

(B) It is not correct because non-current assets register is part of internal control system

(D) It is not correct because after full depreciation of an asset, it may continue to work and stay in the company. Therefore, it must be included in the assets register

38. The correct answer is D

D is correct because all answers given in A, B and C are wrong

A is wrong because accumulated depreciation always has the credit balance instead of debit balance

B is not correct because some non-current assets such as freehold land does not wear out over time.

C is not correct because depreciation is not a tool used to reflect the falling realizable value of an asset.

39. The correct answer is D

D is correct as all answers are correct

40. The correct answer is C

Accumulated depreciation	$200,000 \times 3 = 75,000$
Cost	FRW 200,000
Less Accumulated dep	<u>(FRW 75,000)</u>
Net book value	FRW 125,000
Less Disposal amount	<u>(FRW 120,000)</u>
Loss	FRW 5,00,00

Since the net book value is greater than the disposal amount, it means that there is a loss of FRW 500,000. Therefore, the correct answer is C and Any Other attempted answer is wrong

41. The correct answer is B

A FRW 10,000 (50,000/5) is incorrect because the answer used a straight line

B FRW 9,375 (50000*25%*9/12), It is correct because asset was acquired after 3 months based on when the accounting period started. Hence depreciated for nine months

C FRW 12,500 (50000*25%), It is wrong because it did not consider that the assets were acquired on 01 April means 3 months after the start of the period

D FRW 7,500 (50,000/5*9/12) It is wrong because it is straight line not reducing method

42. The correct answer is C

A is not correct because zero rated goods and Services are not exempted from VAT.

B It is wrong because sales tab is not used by any taxpayer who has purchased domestic inputs during the tax period for use in the business but he/she uses purchases tab

C It is correct because VAT importation Tab is used by any taxpayer who has imported inputs during the tax period

D It is not correct because VAT is not a tax on income and is not calculated from the amount of net profit.

43. The correct answer is C

Because all answers are applicable to Purchase tab except there is no differentiation for Exempt, zero-rated and exports. All other points are applicable to purchase tab, A, B and D are wrong.

44. The correct answer is A

A is correct as per below calculations

	FRW
Sales (VAT) exclusive (10,000,000*18/100)	1,800,000
Less	
Expenses 50% related to home usage (2,360,000*50/100*18/118)	(180,000)
Purchases VAT inclusive (5,900,000-(5,900,000*20/100)) *18/118	<u>(720,000)</u>
VAT Payable	900,000

B It is wrong because 50% of expenses are for home not for the business usage hence non allowable expenses, here student considered all expenses as for the business purpose

	FRW
Sales (VAT) exclusive (10,000,000*18/100)	1,800,000
Less	
Expenses 50% related to home usage (2,360,000*18/118)	(360,000)
Purchases VAT inclusive (5,900,000-5,900,000*20/100) *18/118	<u>(720,000)</u>
VAT Payable	720,000

C It is wrong because where VAT is inclusive student took it as exclusive and vice versa

	FRW
Sales (VAT) inclusive (10,000,000*18/118)	1,525,424
Less	
Expenses 50% related to home usage (2,360,000*50/100*18/100)	(212,400)
Purchases VAT inclusive (5,900,000-5,900,000*20/100) *18/100	<u>(849,600)</u>
VAT Payable	463,424

D It is wrong because 50% of expenses is for home usage not for the business, hence non allowable expenses, here student considered all expenses as for the business purpose and take all purchases as standard while 20% is zero rated.

	FRW
Sales (VAT) exclusive (10,000,000*18/100)	1,800,000
Less	
Expenses 50% related to home usage (2,360,000*18/118)	(360,000)
Purchases VAT inclusive (5,900,000 *18/118)	<u>(900,000)</u>
VAT Payable	540,000

The correct answer is A

A is correct answer because the only irrecoverable VAT is Goods or services that are acquired or imported for entertainment purposes while B, C, D are recoverable VAT

45. The correct answer is C

A is not correct answer because it takes sales as VAT inclusive while they are VAT exclusive

FRW

Sales (VAT) exclusive (21,240,000*18/118)	3,240,000
Less	
Recoverable VAT (13,390,000-1,000,000) *18/118	<u>(1,890,000)</u>
VAT payable	1,350,000

B is wrong because it takes all sales as VAT inclusive while they are VAT exclusive and it also ignores irrecoverable VAT on purchase

FRW

Sales (VAT) exclusive (21,240,000*18/118)	3,240,000
Less	
Recoverable VAT (13,390,000*18/118)	<u>(2,042,542)</u>
VAT payable	1,197,458

C is correct because it takes sales as exclusive and recognizes irrecoverable VAT on purchase.

FRW

Sales (VAT) exclusive (21,240,000*18/100)	3,823,200
Less	
Recoverable VAT (13,390,000-1,000,000) *18/100	<u>(2,230,200)</u>
VAT payable	1,593,000

D is wrong because it takes all purchase as recoverable and consider inclusive as exclusive sale and purchase

FRW

Sales (VAT) exclusive (21,240,000*18/118)	3,823,200
Less	
Recoverable VAT (13,390,000*18/118)	<u>(2,410,200)</u>
VAT payable	1,413,000

46. The correct answer is D

D is correct because recoverable input VAT is debited to two accounts: the VAT account with amounts of VATA and the purchase account with net amount then credit payable account with total amount

- A It is wrong because this is the reversal of the input VAT transaction and it also takes the transaction as it is VAT exclusive
- B It is wrong because the VAT has not been recognized
- C is wrong Because it takes the transaction as it is VAT exclusive
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47. The correct answer is C

C is correct answer because when it is the second time of tax evasion, 20 times of the amount of the evaded VAT penalty is charged

A It is wrong because it is not 10 times but 20 times when it is for the second time of tax evasion.

B and D are wrong because they considered sales as VAT exclusive yet they are inclusive

A FRW 2,160,000 (1,416,000*18/118) *10

B FRW 2,548,000 (1,416,000*18/100) *10

C FRW 4,320,000 (1,416,000*18/118) *20

D FRW 5,097,600 (1,416,000*18/100) *20

48. The correct answer is D because all answers provided are wrong

A It is wrong because a taxpayer who is not registered under VAT yet he/she is qualified to be registered, is subject to an administrative fine FRW 500,000 instead of FRW 800,000.

B It is wrong because a taxpayer who does not have an EBM yet he/she is qualified to have it, is subject to a penalty of FRW200,000 **instead of FRW 300,000** for a first time offence and FRW 400,000 for any repeat offences.

C A taxpayer who has submitted VAT tax declaration on time, but has failed to pay any or all of tax due within the required deadline is subject to two additional penalties of FRW 60% of the unpaid tax due and 1.5% monthly interest instead of one additional penalty

49. The correct answer is D

A It is wrong because net realizable value is selling amount less sales expense which is not carrying value

B Its replacement value is wrong because replacement cost is differ to carrying amount, replacement value is the value of replacing that assets by acquiring the new one

C Its cost less annual depreciation is wrong, because we get carrying amount by taking cost less accumulated depreciation not annual depreciation

D is correct because carrying amount is an asset cost less accumulated depreciation

END OF MARKING GUIDE MODEL ANSWERS