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**CERTIFIED ACCOUNTING TECHNICIAN  
STAGE 3 EXAMINATIONS**

**S3.1: FINANCIAL ACCOUNTING**

**DATE: MONDAY, 28 NOVEMBER 2022**

**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. Show all your workings where applicable.**
- 8. The question paper should not be taken out of the Examination room.**

## **SECTION A**

### **QUESTION ONE**

Accounting standards provides a universal practice on how companies prepare its financial statements and this process is monitored by IFRS foundation. The aim is to ensure consistency and comparability of financial information for decision-making.

**Which of the following is an objective of International Financial Reporting Standard (IFRS) Foundation?**

- A Establish national legislation regulating private companies
- B Regulate financial system and controls of companies through accounting principles
- C Promote the use and rigorous application of accounting standards
- D Regulate the national accounting bodies through the International Federation of Accountants (IFAC)

**(2 Marks)**

### **QUESTION TWO**

The financial statement prepared by Chief Accountant of Gorilla Ltd indicates that profit for the period was FRW 10 million. Chief Finance Officer reviewed the items included in the profit or loss account and noted that closing stock of FRW 4 million was not recorded. In addition, prepaid rental cost of FRW 600,000 was included in the profit or loss account as an expense.

Taxation is not applicable as the company is based in tourism sector

**The adjusted profit for the period is:**

- A FRW 13,400,000
- B FRW 14,400,000
- C FRW 14,000,000
- D FRW 5,400,000

**(2 Marks)**

### **QUESTION THREE**

On 01 January 2021, Gasabo Investment Company (GIC) Ltd acquired 1.2 million out of 1.6 million shares in Muhima Group (MG) Ltd. GIC Ltd paid FRW 1,600 million in cash. On that date, the fair value of Muhima Ltd's net assets was FRW 1,250 million. MG Ltd was listed on Rwanda Stock Exchange (RSE), and its shares were traded at FRW 660 per share. The group policy is to value non-controlling interests at fair value.

**How much of goodwill in the consolidated statement of financial position**

- A FRW 614 million
- B FRW 86 million
- C FRW 350 million
- D FRW 662.5 million

**(2 Marks)**

#### QUESTION FOUR

The extract financial statements of BMK Ltd for the year ended 31 December 2021 are provided below:

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

Description	FRW 000
Profit before interest and tax	340,000
Net profit after tax	260,000

Statement of financial position as at 31 December 2021

Description	FRW 000
Total shareholders' equity funds	820,000
10% loan notes payable after 6 years	150,000
Current liabilities	100,000

What is the return on capital employed for BMK Ltd?

- A 31.77%
- B 35.05%
- C 26.8%
- D 41.46%

(2 Marks)

#### QUESTION FIVE

Georgia hotel is a hotel located in Musanze district that provides accommodation to tourists.

In order to finance working capital during Covid-19, Georgia Hotel obtained a loan from Bisoke bank. The interest cover ratio of Georgia for the year ended 31 December 2021 was 5 times.

Below is the extract statement of profit or loss for the year ended 31 December 2021

Description	FRW 000
Revenue	75,000
Profit before interest and tax (PBIT)	50,000
Profit after tax (PAT)	35,000

How much interest paid by Georgia hotel during the year ended 31 December 2021?

- A FRW 7,000,000
- B FRW 15,000,000
- C FRW 10,000,000
- D None of the above

(2 Marks)

**QUESTION SIX**

Which of the following techniques could be used to reduce operating cycle?

- (i) Reducing the average raw materials turnover
- (ii) Reducing the period of credit taken from suppliers
- (iii) Reducing the average receivable collection period
- (iv) Increasing the average finished goods turnover

- A (i) and (iii)
- B (i), (ii) and (iii)
- C (i), (iii) and (iv)
- D All of the above

**(2 Marks)**

**QUESTION SEVEN**

IAS 16 state that an item of property plant and equipment should be recognized initially at costs.

Which of the following item should be treated as cost of asset?

- (i) Purchase price less trade discounts
- (ii) Withholding tax on import
- (iii) Recoverable Value added tax
- (iv) Installation and assembly costs
- (v) Cost incurred on stolen materials at site

- A (i), (ii), and (iv)
- B (i), (ii), (iv), and (v)
- C (i) and iv
- D All of the above

**(2 Marks)**

**QUESTION EIGHT**

Kigali mountain ltd prepares financial statements on 31 December each year.

On 31 December 2021, the cost of remaining inventory items was FRW 25,000,000 but net realizable value of these stock was FRW 18,000,000. The printers worth FRW 5,000,000 was not recorded.

The inventory value in the financial statements for the year ended 31 December 2021 would be;

- A FRW 25,000,000
- B FRW 18,000,000
- C FRW 43,000,000
- D FRW 7,000,000

**(2 Marks)**

### QUESTION NINE

Akagera hotel Ltd has developed a new integrated accounting system to facilitate bookings and payments through online system and all financial reports are generated using this system.

The system developed by Akagera hotel would be effective if:

- i. It achieves desired goals at lower cost
- ii. It processes all transactions accurately and complies with applicable laws and regulations
- iii. It uses the Microsoft Excel
- iv. It processes the information within the required timeline

A (i), (ii) and (iii)

B (i), (ii) and (iv)

C (ii), (iii) and (iv)

D All of the above

(2 Marks)

### QUESTION 10

Management of Volcano eco-tourism Ltd requested chief accountant to design controls in finance department that will help to detect fraud occurrence.

Which of the following is the controls that can help detect fraud?

- i. Reconcile information produced in the cashbook with bank statement on weekly basis
- ii. Compare sales reported in the financial statement with sales reported by EBM
- iii. Compare totals per payable ledger accounts with payable control account
- iv. Conduct performance review on regular basis to identify variances

A (i), (ii), (iii)

B (i), (iii) and (iv)

C (i), (ii), and (iv)

D All of the above

(2 Marks)

## SECTION B

### QUESTION 11

a) Kinigi Agri Ltd is a company that produces Irish potatoes in northern province. Recently the company has grown and the management proposed to invest money in shares. They have obtained financial statements of Burera Maize (BM) Ltd and Gisakura Rice (GR) Ltd. You have been consulted to advise Kinigi Agri Ltd by comparing the set of financial statements of Burera Maize (BM) Ltd and Gisakura Rice (GR) Ltd.

**Required:**

**Explain two (2) qualitative characteristics to compare financial information presented in the financial statements of Burera Maize Ltd and Gisakura Rice Ltd. (5 Marks)**

b) The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential stakeholders. The entity communicates with its stakeholders through publication of financial statements and other reports. To meet this objective the company provides financial information using elements/components of financial statements

**Required:**

**As per IAS 1, explain the elements presented in the statement of profit or loss account and elements presented in the statement of financial position. (5 Marks)**

**(Total: 10 Marks)**

### QUESTION 12

Rwanda Food Agency (RFA) Ltd is a dairy and food corporation company founded by Bahimo family in 1995 with twenty branches in Rwanda.

In 2020, many of their branches were making losses, and the company financing shifted largely to the use of forward contracts. Apparently at least in part with intention of hiding their losses and debts.

In November 2021, the Chief Finance Officer unexpectedly announced a new FRW 500 million bond issue. This came as strange decision to both the public and employees. The press clipping suspected that company's total debt was more than double that on the balance sheet.

Below are the summarized financial statements published on 31 December 2021:

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

Description	2021	2020
	FRW'000"	FRW'000"
Revenue	400,000	405,000
Cost of sales	(450,000)	(380,000)
Gross profit/loss	(50,000)	25,000
Total operating expenses	(152,000)	(143,000)
Loss before Interest	(202,000)	(118,000)

Description	2021	2020
	FRW"000"	FRW"000"
Finance costs	(250,000)	(160,000)
loss before tax	(452,000)	(278,000)
Taxation	0	0
loss after tax	(452,000)	(278,000)

**Statement of financial position as at 31 December 2021**

Description	2021	2020
	FRW"000"	FRW"000"
Total non-current asset	460,000	740,000
<b>Current assets</b>		
Inventory	15,000	28,000
Receivable	800,000	730,000
Cash	40,000	25,000
<b>Total current assets</b>	<b>255,000</b>	<b>283,000</b>
<b>Total assets</b>	<b>1,315,000</b>	<b>1,523,000</b>
<b>Equity &amp; Liabilities</b>		
Share capital	500,000	500,000
Retained earning	(615,000)	(525,000)
<b>Total equity</b>	<b>(115,000)</b>	<b>(25,000)</b>
<b>Non-current liability</b>		
Long term borrowing	750,000	515,000
<b>Current liability</b>		
Tax payable	208,000	208,000
Trade payable	538,000	310,000
<b>Total equity Liabilities</b>	<b>1,315,000</b>	<b>1,523,000</b>

**Addition information:**

Chief finance officer explained that the company plans to hire a factoring company to collect all debts for financing working capital. Hence, RFA Ltd's management approved that the company will continue its operation for the next 12 months.

**Required:**

**Basing on the information reflected in the financial statements; explain Five (5) external users of RFA Ltd's financial information and specify which information they would need most in the company? (10 Marks)**

**(Total: 10 Marks)**

## SECTION C

### QUESTION 13

Quality Wood (QW) Ltd is a listed company in Rwanda, producing furniture. During the year ended 31 December 2021, the company acquired Forest Ltd as part of its expansion plan.

Below is the profit or loss account of QW Ltd and Forest Ltd for the year ended 31 December 2021:

Description	QW Ltd FRW'000'	Forest Ltd FRW'000'
Revenue	1,190,000	590,000
Cost of sales	(660,000)	(260,000)
Gross profit	530,000	330,000
<b>Expenses</b>		
Distribution costs	(90,000)	(30,000)
Administrative costs	(110,000)	(80,000)
Finance cost	(30,000)	(10,000)
<b>Profit before tax</b>	<b>300,000</b>	<b>210,000</b>
Income tax	(50,000)	(40,000)
<b>Profit after tax</b>	<b>250,000</b>	<b>170,000</b>

#### Additional information:

- On 31 December 2020, QW Ltd acquired 75% of 20 million shares of FRW 10 each in Forest Ltd at a consideration of FRW 900 Million. On that date, share premium account of Forest Ltd had a balance of FRW 50 Million while the retained profit was FRW 400 Million.
- On the date of acquisition of Forest Ltd, the property, plant and equipment of the company had a fair value which was in excess of the book value by FRW 390 Million, the remaining useful life of these was 5 years. Depreciation are charged to cost of sales
- During the year ended 31 December 2021, Forest Ltd sold goods worth FRW 600 million to QW Ltd. Those goods were marked up by 25% above the cost. One quarter of the goods were included in the closing inventory of QW Ltd.
- Just after acquisition of Forest Ltd, QW Ltd offered a long-term 20% FRW 500 million loan to Forest Ltd. By 31 December 2021 the loan and the related interest had not yet been paid. The related interest was recorded in the finance cost
- On 31 December 2021, the goodwill arising on the acquisition of the investee company had suffered impairment losses to the extent of 25%. The group's policy is to apply the partial goodwill method.

#### Required

- Compute goodwill arising on the acquisition of Forest Ltd (5 Marks)
- Prepare QW Ltd's consolidated statement of profit or loss for the year ended 31 December 2021 (15 Marks)

**(Total: 20 Marks)**



## QUESTION 14

Sonata Co is proposing to acquire an interest in their competitor called Mazizi Co. The financial statements of Mazizi Co company are shown below

Description	2020	2021
	FRW'000"	FRW'000"
Sales Revenue	25,000	32,000
Cost of sales	(14,000)	(23,000)
Gross profit	11,000	9,000
Expense		
Distribution costs	(5,000)	(4,500)
Administrative costs	(2,500)	(2,600)
Interest	(650)	(680)
Profit before tax	2,850	1,220
Income tax	(800)	(600)
Profit after tax	2,050	620

## Statement of financial position of Mazizi Co as at 31 December 2021.

Description	2021	2020
	FRW'000"	FRW'000"
<b>Asset</b>		
Non-current assets	24,000	19,000
Current assets		
Inventory	3,600	4,600
Trade receivables	2,750	5,600
Cash	1,300	1,500
<b>Total assets</b>	<b>31,650</b>	<b>30,700</b>
<b>Equity and Liability</b>		
<b>Equity</b>		
Share capital	7,000	7,000
Retained earnings	4,650	6,600
	<b>11,650</b>	<b>13,600</b>
<b>Non-current liability</b>		
10% Debenture	12,300	12,300
<b>Current liability</b>		
Trade payable	420	550
Bank	1,200	1,450
Taxation	4,440	900
Dividend payable	1,640	1,900
<b>Equity and liability</b>	<b>31,650</b>	<b>30,700</b>

**Required:**

a) Prepare a report to the board of Sanata Co commenting on financial performance of Mazizi Ltd using the following ratios

- i. **Gross profit margin** (3 Marks)
- ii. **Debt ratio** (3 Marks)
- iii. **Receivable ratio** (3 Marks)
- iv. **Inventory turnover** (3 Marks)
- v. **Return on capital employed ratio** (3 Marks)

b) Explain five (5) limitation that Sanata would face if they took decision based on ratios analysis (5 Marks)

**(Total: 20 Marks)**

**QUESTION 15**

Kabeza business shop is an enterprise located in Kivumu City. Its trial balance as at 30 June 2021 is shown below:

Description	FRW'000"	FRW "000"
Administrative expenses	303,000	
Investments at fair value through other comprehensive income	564,000	
Cash and cash equivalents	21,000	
Government grant		160,000
Cost of goods sold	908,000	
Distribution costs	176,000	
Interim dividend paid	50,000	
Income tax	12,000	
Inventory cost at 30 June 2021	76,000	
Land at cost	782,000	
Long term loan		73,000
Interest paid	21,900	
Ordinary Shares FRW1 each, fully paid		735,900
Machineries at cost	630,000	
Accumulated depreciation - machineries at 30 June 2020		378,000
Retained earnings at 30 June 2020		321,000
Revenue		1,770,000
Share premium		200,000
Trade payables		68,000
Motor vehicles at cost-30 June 2020	210,000	
Accumulated depreciation-motor vehicle as at 30 June 2020		48,000
	<b>3,753,900</b>	<b>3,753,900</b>

**Additional information provided:**

- 1) The market value of the investments at fair value through other comprehensive income as at 31 June 2021 was FRW 608,000,000.
- 2) The income tax balance in the trial balance is a result of the under provision of tax for the year ended 30 June 2021. The taxation due for the year ended 30 June 2021 was estimated at FRW 123,000,000.
- 3) The fair value of land at 30 June 2021 was FRW 829,000,000. The land is an investment property.
- 4) The Company depreciates machines at 10% per annum using reducing balance method. Depreciation is charged to cost of sales.
- 5) The inventory's net realizable value as at 30 June 2021 was determined to be FRW 73,000,000.
- 6) Long-term loan was taken on 01 April 2021 at effective interest of 5% per month. The interest paid cover the period from 01 April 2021 to 30 September 2021.
- 7) The company depreciates motor vehicles at 20% on cost. During the year ended 30 June 2021, a motor vehicle acquired on 01 July 2019 at cost of FRW 40 million was disposed of at FRW 20 million. The company does charge full year depreciation in the year of acquisition and no depreciation charge in the year of disposal. Motor vehicle depreciation is charged to distribution costs.

**Required:**

**Prepare Statement of profit/loss and other comprehensive income for year ended 30 June 2021.** (20 Marks)

**(Total: 20 Marks)**

**End of question paper**

