CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

<u>S3.1: FINANCIAL ACCOUTING</u>

DATE: AUGUST 2025

MARKING GUIDE AND MODEL ANSWERS

Marking Guide

QN	Correct Answer
1	B
2	D
3	C
4	A
5	B
6	B
7	C
8	C
9	C
10	B

Award 2 Marks for each question

Model answers

QUESTION ONE

The correct answer is B

Goodwill valuation	**Option A**	**Option B**	**Option C**	**Option D**
purchase consideration	3,000,000	3,000,000	3,000,000	3,000,000
canteen	1,800,000	1,800,000	1,800,000	1,800,000
inventory	500,000	500,000	500,000	500,000
recievables	300,000	300,000	(300,000)	300,000
Payables	120,000	(120,000)	120,000	(120,000)
Net assets	**2,720,000**	**2,480,000**	**2,120,000**	**2,480,000**
Goodwill	**280,000**	**520,000**	**880,000**	**(520,000)**
	A is not correct because it has included payables in the net assets as an asset yet it is liability to be deducted.	**Correct**	C is not correct because it mixed up receivables and payables as liabilities and assets respectively, in the calculation of net assets	D is not correct because the goodwill was calculated as the difference between net assets and consideration paid

QUESTION TWO

The correct answer is D. (i), (ii) an (iv) only

A is not correct because it excludes other correct options of ii and iv
B is not correct because it excludes other correct option of iv

C is not correct because it includes the wrong option of iii. That is not an advantage of cash flow accounting, rather it is a criticism.

QUESTION THREE

The correct answer is C

A. The provision should remain at FRW10,000,000 until the court case is resolved. **Incorrect.**
   IAS 37 requires provisions to be reviewed at each reporting date and adjusted to reflect the current best estimate. Waiting for court resolution delays recognition of known changes.

B. The provision should be reversed and disclosed as a contingent liability. **Incorrect.**
   A reversal is only appropriate if the obligation is no longer probable or cannot be reliably estimated. In this case, the obligation remains probable, and the new estimate is even more certain, so the provision must be adjusted upward—not reversed.

C. An additional expense of FRW40,000,000 should be recognized in 2025 to increase the provision to FRW50,000,000.
   Correct Answer.
   This is the correct treatment under IAS 37. The existing provision of FRW10,000,000 must be adjusted upward to FRW50,000,000, reflecting the updated best estimate. The FRW40,000,000 increase is charged to profit or loss in 2025.

D. No adjustment is required since the original provision was based on legal advice. **Incorrect.**
   IAS 37 requires entities to update provisions when new, more reliable information becomes available. The original legal advice does not override the responsibility to reflect current best estimates.

QUESTION FOUR

The correct answer is A

A. Reduction of FRW 150 million
The liquidation of Imena Ltd provides additional evidence of impairment for a receivable that existed at the reporting date (31 December 2024). This is an adjusting event under IAS 10, so the FRW 150 million receivable is written off, reducing profit.
B. Reduction of FRW 75 million is not correct because the fire occurred after the reporting date and does not relate to conditions existing as of 31 December 2024. Therefore, it is a non-adjusting event. No impact on profit is recognized, although a disclosure in the notes may be required if the event is material. This event should simply be disclosed in the financial statements.

C. Reduction of FRW 225 million. This option incorrectly combines both the adjusting event (FRW150 million) and the non-adjusting event (FRW 75 million). Only the FRW 150 million bad debt affects profit; the fire does not affect profit under IAS 10.
D. No effect on profit. This not correct because there is an effect on profit. The bad debt from Imena Ltd is an adjusting event, and the FRW 150 million must be recognized as an expense in the income statement, reducing profit. So, this option fails to apply IAS 10 correctly.

QUESTION FIVE

The correct answer is B

This option correctly reflects the IASB's 2018 Conceptual Framework definitions:

- Asset: A present economic resource controlled by the entity as a result of past events.
- Liability: A present obligation to transfer economic resources as a result of past events.

- A. is not correct because it reverses the definitions. It describes liabilities using asset characteristics and vice versa.
- C. is not correct because Assets and liabilities are not defined based on profits and expenses. This option confuses financial performance with financial position elements.
- D. is not correct because This it mixes unrelated concepts (owner's equity, liabilities, and inventory) and does not define the core nature of assets or liabilities.

QUESTION SIX

The correct answer is B

A	4 × FRW650,000 = **FRW2,600,000**	This is not correct because it uses the **cost of FRW 650,000**, yet **NRV (FRW600,000)** is lower. Under IAS 2, inventory must be valued at the **lower of cost and NRV**.
B	4 × FRW600,000 = **FRW2,400,000**	This is correct. NRV of FRW 600,000 is lower than cost of FRW 650,000. Since the business is a **going concern**, closing inventory is valued at **NRV** under the "lower of cost and NRV" rule (IAS 2)
C	4 × FRW625,000 = **FRW2,500,000**	The is not correct because it considers the average of cost and NRV=(650,000+600,000)/2
D	4 × FRW850,000 = **FRW3,400,000**	This is not correct because it uses the selling price of FRW 850,000. IAS 2 prohibits valuing inventory at **selling price**. Instead you should use **cost or NRV**, whichever is lower.

QUESTION SEVEN
The correct answer is C.

In Rwanda and most countries, **legislation mandates annual reporting**, while **judgement** is essential in applying accounting assumptions and conventions.

A is not correct because the national legislation governs form and disclosure, but not all asset valuations. Judgement is common, especially in estimates.
B is not correct because judgement supports but does not replace legal requirements. Legislation remains the foundation.
D is not correct because accounting standards **reduce** but do **not eliminate** subjectivity. Judgement is still required in areas like impairment, provisions, and estimates

QUESTION EIGHT

The correct answer is D

Sandrine is responsible for receiving funds, recording transactions, and following up. This violates the principle of segregation of duties, allowing for fraud or error to go undetected. This is the key internal control concern

A is not correct because even if the workload may be an issue, but the core control weakness lies in Sandrine handling duties that should be separated, not in time management.

B is not correct because while support for reporting may help efficiency, the major risk here relates to Sandrine managing both cash and receivables—this exposes the company to potential fraud

C is not correct because lack of automation may reduce efficiency, but it does not directly create a risk of fraud. The bigger concern is that one person handles too many related tasks.

QUESTION NINE

The correct answer is C

Internal control systems have inherent limitations such as human error, collusion, management override, and the reality that sometimes costs of control exceed the benefits, especially in smaller entities

A is not correct because internal controls are designed to both prevent and detect fraud and errors—not fraud alone.
B is not correct because this misrepresents the role of external auditors, who evaluate internal controls but do not implement them. Also, internal controls are set by management, not auditors.
D is not correct because internal controls are often designed for routine transactions. Non-routine transactions are harder to predict and may bypass standard controls

QUESTION 10

The correct answer is B

400,000 shares × 1/2 = 200,000 new shares × FRW500 = FRW100,000,000.

Value of bonus issue= FRW100,000,000.

A is not correct because the calculation is if it was a 2 for 1 issue: 400,000 shares × 2 = 800,000 new shares × FRW500 = FRW400,000,000.

C is not correct because 200,000 is the number of bonus shares and this needs to be multiplied with the par value to get the value of bonus issue.

D is not correct because FRW200,000,000 is the existing share capital, not the value of the bonus issue.

SECTION B

QUESTION 11

Marking Guide

Q N	Description	Marks allocation
a	Award 1 mark for the correct definition of cash basis	1
	Award 1 mark for the example of cash basis	1
	Award 1 mark for the correct definition of accrual basis	1
	Award 1 mark for the example of accrual basis	1
	Sub-Total	**4 Marks**
	Award 1 mark for each correct characterisitcs up to the maximum of 6 marks	**6 Marks**
	Total	**10 Marks**

Model Answers

(a)

The major difference between the cash basis and the accrual basis of accounting lies in the timing of when transactions are recorded.

Under the cash basis, revenues and expenses are recognized only when cash is received or paid. For example, if a public school receives tuition fees from students in January 2026, the income is recorded at that time—even if the students attended classes starting from October 2025. Similarly, the school would record the purchase of textbooks only when payment is made, even if the books were delivered and used months earlier.

In contrast, the accrual basis, which is the foundation of the International Public Sector Accounting Standards (IPSAS), records income and expenses when they are earned or incurred, regardless of when the money is received or paid.

Using the same school example, tuition fees would be recorded in October 2025 when the academic term begins and services are provided, even if payment is made later. Also, the cost of textbooks would be recognized when they are delivered to the school, not when payment is processed. This approach provides a more accurate picture of the school's financial position by recognizing assets like buildings and liabilities like unpaid bills, which improves transparency, planning, and accountability in the public sector.

b)

Not-for-profit entities in the public sector exhibit several defining characteristics that distinguish them from profit-driven organizations. The following are six key features:

1. **Legally Established to Serve Public Interest**:
   Public sector not-for-profit entities are usually created by legislation or governmental

mandate to fulfill specific public service objectives such as education, health, or infrastructure development.

2. **Non-Profit Objective**:
   Their primary aim is **not to make a profit**, but to provide goods or services to the public or to implement policies on behalf of the government. Any surplus generated is reinvested into service delivery rather than distributed.
3. **Absence of Ownership Interests**:
   Unlike private companies, these entities do not have shareholders or owners with transferrable or redeemable interests. Their accountability is to the public and the government rather than to private investors.
4. **Broad Stakeholder Base**:
   They serve a wide range of stakeholders, including government bodies, citizens, service beneficiaries, and donors. Their decisions must balance competing public interests and social priorities.
5. **Funding Through Coercive Revenue Mechanisms**:
   Public sector not-for-profit entities are primarily funded through **taxes or mandatory contributions** collected by the state, rather than through voluntary sales or investments.
6. **Service-Oriented Use of Capital Assets**:
   The assets they control—such as schools, hospitals, and roads—are not intended to generate financial returns.

QUESTION 12

Marking guide

QN 10	Description	Marks allocation
	Award marks as follows:	
	Cost or Valuation At 1 January 2024	0.5
	Revaluation surplus	0.5
	Additions in year	1
	Disposals in year	1
	At 31 December 2024	1
	Accumulated depreciation at At 1 January 2024	1
	Depreciation for the year	1
	Disposals	1
	At 31 December 2024	1
	Carrying Amount	
	At 1 January 2024	1
	At 31 December 2024	1
	Total	**10 Marks**

Model answers

	Total (RWF '000)	Land and Buildings (RWF '000)	Plant and Equipment (RWF '000)
Cost or Valuation At 1 January 2024	50,000	40,000	10,000
Revaluation surplus	12,000	12,000	-
Additions in year	4,000	-	4,000
Disposals in year	(1,000)	-	(1,000)
At 31 December 2024	**65,000**	**52,000**	**13,000**
Depreciation			
Accumulated depreciation at At 1 January 2024	16,000	10,000	6,000
Depreciation for the year	4,000	1,000	3,000
Disposals	(500)	-	(500)
At 31 December 2024	**19,500**	**11,000**	**8,500**
Carrying Amount			
At 1 January 2024	34,000	30,000	4,000
At 31 December 2024	45,500	41,000	4,500

SECTION C

QUESTION 13

MARKING GUIDE

QN	Description	Marks allocation
	Award marks as follows:	
Q13a	Consideration paid	1
	Fair value of NCI	1
	FV of net assets at acquisition	1
	Goodwill at acquisition	1
	Goodwill impairment	1
	Carrying amount of goodwill	1
Q13b	Impairment loss allocated to the parent	1
	Impairment loss allocated to the NCI	1
Sub-total		**8 Marks**
Q13 c	Property, plant and equipment	1
	Goodwill	1
	Inventory	1
	Receivables (1 mark for the totals and 0.5 for the adjustment of intragroup receivable)	1.5
	Cash	1
	Shareholders' Funds (1 mark for the parent shareholders funds and 0.5 for the adjustment of impairment loss allocated to group)	1.5
	Non-controlling interest (1 mark for the totals and 0.5 for the adjustment of impairment loss allocated to NCI)	1.5
	Bak loan	1
	Payables (1 mark for the totals and 0.5 for the adjustment of intragroup receivable)	1.5
	Bank overdraft	1
Sub-total		**12 Marks**
Total		**20 Marks**

MODEL ANSWER

a) Calculation of goodwill

13(a) (i)	**FRW "000"**	**FRW "000"**
Consideration paid	80,000	
Fair value of NCI (20%*60,000)	12,000	

Total consideration		92,000
FV of net assets at acquisition		(60,000)
Goodwill at acquisition		32,000
Goodwill impairment		3,200
Carrying amount of goodwill at 31st December 2024		28,800
13(b)		
Impairment allocation	Attributed to Kenpoli	2,560
	Attributed to non-controlling interest	640

Under Fair Value method, the goodwill is attributed to both parent and NCI and therefore the impairment loss will be attributed to both parent and NCI according to the percentage of shareholding.

13(c)

Consolidated statement of financial position as at 31st December 2024

Item	Amount (FRW"000")		Consolidated
	Kenpoli Ltd	Tatuni Ltd	
Non-Current Assets			
Investment in Tatuni Ltd	80,000	0	0
Property, plant and equipment	150,000	40,000	190,000
Goodwill			28,800
Total non-current assets	**230,000**	**40,000**	**218,800**
Current Assets			
Inventory	50,000	10,000	60,000
Receivables	40,000	20,000	55,000
Cash	30,000	5,000	35,000
Total current assets	**120,000**	**35,000**	**150,000**
Total Assets	**350,000**	**75,000**	**368,800**
Equity			
Shareholders' Funds	320,000	60,000	317,440
Non-controlling interest			11,360
Total Equity	**320,000**	**60,000**	**328,800**
Liabilities			
Bak loan	12,000	2,500	14,500
Payables	10,000	6,500	11,500
Bank overdraft	8,000	6,000	14,000
Total Liabilities	**30,000**	**15,000**	**40,000**
Total Equity and Liabilities	**350,000**	**75,000**	**368,800**

QUESTION 14

Marking Guide

QN	Award marks as follows	Marks allocation
	Statement of profit or loss and OCI	
Q14 a)	Sales	0.5
	Inventory (1st January 2024)	0.5
	Add: Purchases	0.5
	Less: Closing inventory	0.5
	Cost of goods sold	0.5
	Gross profit	0.5
	Gain on disposal of plant and machinery (3,200,000-2,000,000)	0.5
	interest on loan	0.5
	Wages and salaries	0.5
	Light and heat	0.5
	Depreciation- Buildings	0.5
	Depreciation- Plant and Machinery	0.5
	Sundry expenses	0.5
	Total expenses	0.5
	Net profit	0.5
	Revaluation surplus	0.5
	Sub-total	**8 Marks**
Q14b)	**Statement of changes in equity**	
	Award 0.5 marks for putting each of the opening balances up to a maximum of 2.5 marks	**2.5**
	Award 1 mark for posting the comprehensive income (0.5 for the column of revaluation surplus and 0.5 marks for the column of retained earnings)	**1**
	Award 1 mark for the dividends paid	**1**
	Award 1 mark for the transfer to general reserves	**1**
	Sub-total	**5 Marks**
Q14c)		
	Buildings	0.5
	Plant and Machinery	0.5
	Inventory	0.5
	Trade Receivables	0.5
	Prepaid Insurance	0.5
	Cash and Bank	0.5
	Ordinary Share Capital	0.5
	Preference Share Capital	0.5

	Share Premium	0.5
	Revaluation Surplus	0.5
	General Reserve	0.5
	Retained Earnings	0.5
	Bank Loan	0.5
	Trade Payables	0.5
	Accrued Electricity	0.5
	Sub-total	**7 Marks**

Model answers

a) Statement of profit or loss and other comprehensive income of Mugenzi Ltd for the year ended 31st December 2024

Item	FRW"000"	FRW"000"
Sales		270,000
Inventory (1st January 2024)	45,000	
Add: Purchases	224,800	
Less: Closing inventory	80,000	
Cost of goods sold		(189,800)
Gross profit		**80,200**
Other incomes		
Gain on disposal of plant and machinery (3200,000-2,000,000)		1,200
Total incomes		**81,400**
Expenses		
Interest on loan	2,000	
Wages and salaries	3,200	
Light and heat (1,200+700)	1,900	
Depreciation- Buildings	350	
Depreciation- Plant and Machinery	200	
Sundry expenses (1,400-1,000)	400	
Total expenses		**(8,050)**
Net profit		73,350
Other comprehensive incomes		
Revaluation surplus (180,000-(200,000-24,500-350)		4,850
Total comprehensive incomes		**78,200**

b) **Statement changes in equity of Mugenzi Ltd for the year ended 31st December 2024**

	ordinary share capital	preference share capital	share premium	revaluation surplus	general reserves	retained earnings	total
	FRW“000”	**FRW“000”**	**FRW“000”**	**FRW“000”**	**FRW“000”**	**FRW“000”**	**FRW“000”**
Opening balance (1st January 2024	200,000	40,000	500	0	10,000	6,000	256,500
Total comprehensive income				4,850		73,350	78,200
Dividends paid						(15,000)	(15,000)
Transfer to general reserves					1600	-1600	-
Balance at 31st December 2024	**200,000**	**40,000**	**500**	**4,850**	**11,600**	**62,750**	**319,700**

c) **Statement of financial position of Mugenzi Ltd as at 31st December 2024**

Item	**FRW“000”**	**FRW“000”**
Buildings		180,000
Plant and machinery		176,500
Total non current assets		**356,500**
current assets		
Inventory	80,000	
Trade receivables	5,300	
Prepaid insurance	1,000	
Cash and bank	100	
Total current assets		86,400
Total assets		**442,900**
Equity and Liabilities		
Equity		
Ordinary share capital	200,000	
Preference share capital	40,000	
Share premium	500	
Revaluation surplus	4,850	
General reserve	11,600	

Retained earnings	62,750	
Total equity		**319,700**
Liabilities		
Bank loan	120,000	
Trade payables	2,500	
Accrued electricity	700	
Total Liabilities		123,200
Total Equity and Liabilities		**442,900**

QUESTION 15

Marking Guide

QN 15	**Description**	**Marks allocation**
	Award 2 marks for the correct definiton of performance obligation	**2**
	Award 2 marks for the correct definiton of t**ransaction price**	**2**
	Award 2 marks for the correct definiton of **contract**	**2**
a)	**Sub-total**	**6 Marks**
	For all ratios (current ratio, Inventory turnover period, Receivables collection period, Payables payment period and Interest cover ratio) award 0.5 Marks for the formula, 0.5 Marks for the calculation, 0.5 marks for the correct answer and 0.5 marks for the interpretation for a toal of 5 ratios	**10**
	Award 1 mark for the formula of operating cycle, 1 for the correct figure and 2 marks for the interpretation	**4**
b)	**Sub-total**	**14 Marks**
	Total	**20 Marks**

Model Answers

a) (i**) A performance obligation** is a promise in a contract with a customer to transfer to the customer either: a good or service (or a bundle of goods or services) that is distinct; or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

(ii)Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties**.**

iii) A contract is an agreement between two or more parties that creates enforceable rights and obligations

b)

RATIO	**FORMULA**	**CALCULATION**	**ANSWER**	**INTERPRETATION**
Current ratio	current assets/current Liabilites	233,000/81,100	2.87:1	The company has RWF 2.87 in current assets for every RWF 1 of current liabilities, indicating strong short-term liquidity.
Inventory turnover period	closing inventory/cost of goods sold*365 days	(80,000/189,800)*365	154 days	It takes 154 days to sell inventory, indicating slow-moving stock and potentially higher holding costs.
Receivables collection period	Trade receivables/credit sales*365 days	(53,000/(60%*27,0000)*365	119 days	It takes 119 days to collect receivables, suggesting possible cash flow issues or lenient credit terms.
Payables payment period	Trade payables/purchases*365 days	(81,100/*(60%*18,9800)*365	260 days	It takes 260 days to pay suppliers, indicating use of supplier credit but may affect the working relationships.
Interest cover ratio	PBIT/Interest expenses on loan	70,200/2,000	35 days	The company earns 35 times its interest expenses, showing strong debt-servicing capacity.

Length of Operating cycle	Inventory turnover period + Accounts receivable collection period	154 days + 119 days	273 days	This is the average time it takes the company to convert inventory into cash. It is relativery long cycle, which means that a significant amount of working capital is tied up in the business

End of marking guide and model answers.