CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY, 25 AUGUST 2025

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

Mendeli has purchased the business of Mukono for FRW 3,000,000 on 1st January 2025. The business's assets of Mukono included a canteen valued at FRW 1,800,000, stock of goods valued at FRW 500,000 and amounts owed to his business of FRW 300,000. At the same date, Mukono owed the neigboring restaurant FRW 120,000.

How much is goodwill valued at on the date of purchase?

A FRW 280,000
B FRW 520,000
C FRW 880,000
D FRW (520,000)

(2 Marks)

QUESTION TWO

Which of the following is (are) the advantages of preparing the statement of cash flow?

i) 'Cash flow' is more comprehensive than 'profit' which is dependent on accounting conventions and concepts.
ii) Cash flow reporting provides a better means of comparing the results of different companies than traditional profit reporting
iii) The inclusion of cash equivalents in the calculation of cashflows does not reflect the way in which businesses are managed
iv) The accruals concept is confusing, and cash flows are more easily understood

A (i) only
B (i) and (ii)
C (i), (ii),(iii) and (iv)
D (i), (ii), and (iv)

(2 Marks)

QUESTION THREE

A company was advised by its legal counsel in December 2024 that it is probable it will be required to pay damages of FRW 10,000,000 for a product failure. Based on this legal advice, the company recognized a provision of FRW 10,000,000 in its financial statements for the year ended 31 December 2024.

In the subsequent year, on the basis of new legal assessment, the estimated amount of damages was revised upward to FRW 50,000,000, which is now considered the best estimate of the likely outflow.

In accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, **How should the provision be accounted for in the company's financial statements for the year ending 31 December 2025.**

A The provision should remain at FRW 10,000,000 until the court case is resolved.
B The provision should be reversed and disclosed as a contingent liability.
C An additional expense of FRW 40,000,000 should be recognized for the year ending December 2025 to increase the provision to FRW 50,000,000.
D No adjustment is required since the original provision was based on legal advice.

(2 Marks)

QUESTION FOUR

The financial year of Inyenyeri Ltd ends on 31 December 2024. Before the financial statements are approved for issue, the following material events occured:

1. Imena Ltd, a major customer of Inyenyeri Ltd, goes into liquidation. Inyenyeri Ltd is advised that it is highly unlikely to recover the outstanding trade receivable of FRW 150 million as at 31 December 2024.
2. A fire breaks out in Inyenyeri Ltd's warehouse, destroying inventory valued at FRW 75 million.

In accordance with IAS 10 – Events After the Reporting Period, the required adjustments are made in the financial statements for the year ended 31 December 2024
.

What is the total impact on profit for the year ended 31 December 2024 after making the appropriate adjustments?

A Reduction of FRW 150 million
B Reduction of FRW 75 million
C Reduction of FRW 225 million
D No effect on profit

(2 Marks)

QUESTION FIVE

Which of the following statements best describes the difference between an asset and a liability in the context of financial reporting, as defined by the IASB Conceptual Framework for Financial Reporting?

A An asset is a past obligation to transfer resources, whereas a liability is a future benefit expected from resources controlled by the entity.
B An asset is a resource controlled by the entity as a result of past events with potential to produce economic benefits, while a liability is a present obligation to transfer economic resources due to past events.
C An asset refers to profits earned in the past, while a liability refers to expenses that will be incurred in the future.

D An asset increases the owner's capital, whereas a liability decreases inventory held for sale.

(2 Marks)

QUESTION SIX

On 1 January 2024, MAMIZO Ltd commenced operations and purchased 30 refrigerators at a cost of FRW 650,000 each. By 31 December 2024, it had sold 26 refrigerators at FRW 850,000 each, leaving 4 refrigerators in inventory.
At year-end, management estimates that the net realizable value (NRV) per each remaining refrigerator is FRW 600,000.

What is the correct value of closing inventory at 31 December 2024 if MAMIZO Ltd intends to continue operating in the next financial year?

A FRW 2,600,000
B FRW 2,400,000
C FRW 2,500,000
D FRW 3,400,000

(2 Marks)

QUESTION SEVEN

Which of the following statements best describes the role of national legislation and accounting judgement in shaping financial accounting for limited liability companies?

A National legislation provides detailed guidance on the valuation of all assets, while accounting judgement is rarely used in financial reporting.
B Accounting judgement replaces the need for compliance with national legislation since financial reporting is based on professional interpretation.
C National legislation, such as Rwanda's Law Governing Companies, requires limited liability companies to prepare annual accounts, while accounting judgement is necessary for applying concepts and conventions in financial statements.
D Accounting standards eliminate all subjectivity in financial reporting, making individual judgement unnecessary.

(2 Marks)

QUESTION EIGHT

Umucyo Ltd is a small company with a limited accounting team. One of its staff members, Sandrine, is responsible for several accounting tasks including receiving and opening all incoming mail, recording customer payments, preparing and sending out sales invoices, and following up on outstanding balances from customers. This arrangement has been in place to manage staffing limitations, but it raises concerns from an internal control perspective.
Which of the following best describes the primary internal control weakness in this situation?

A Sandrine may not have time to follow up with every customer.
B Sandrine has no support in preparing monthly reports.
C The company does not use accounting software to automate tasks.
D Sandrine performs multiple incompatible duties, increasing the risk of undetected fraud or errors.

(2 Marks)

QUESTION NINE

Which of the following best explains why internal controls can provide only reasonable assurance, not absolute assurance, that a company will achieve its financial reporting and operational objectives?

A Controls are designed mainly to detect fraud, not to prevent errors.
B Internal control systems are costly and require external auditors to implement.
C Controls can be affected by human error, management override, collusion, and cost-benefit limitations.
D Non-routine transactions are automatically handled by control systems just like routine ones.

(2 Marks)

QUESTION 10

IKIREZI Ltd has the following equity balances as at 1 January 2025:

Component	**Amount (FRW Million)**
Share capital (400,000 ordinary shares at FRW 500)	200
Share premium	80
Retained earnings	220
Total equity	**500**

The company decides to issue a bonus issue of 1 for 2, basing on the existing capital structure and using available reserves.

What is the value of a bonus issue?

A FRW 400,000,000
B FRW 100,000,000
C 200,000 Shares
D FRW 200,000,000

(2 Marks)

SECTION B

QUESTION 11

a) The International Public Sector Accounting Standards (IPSASs) are all prepared and implemented based on the accrual method of accounting. One of the major shift of the International Public Sector Accounting Standards Board (IPSASB) is to move public sector organisations from the cash to the accruals basis of accounting.

Required:

With the use of examples, **discuss the major difference between cash basis and accrual basis of accounting** (4 Marks)

b) In the public sector, not-for-profit entities play a critical role in delivering essential services and implementing government policies. Unlike profit-oriented organizations, these entities are primarily concerned with serving the public interest rather than generating financial returns. Their structure, funding sources, and operational objectives reflect their unique role within society.

Required:

Discuss six key characteristics of not-for-profit entities in the public sector (6 Marks)

(Total: 10 Marks)

QUESTION 12

Mlima Ltd maintains detailed records of its non-current assets in accordance with IAS 16 *Property, Plant and Equipment*. The following transactions occurred during the year ended 31 December 2024:

1) At 1 January 2024, the cost or valuation of Land and Buildings was FRW 40,000,000, and for Plant and Equipment FRW 10,000,000.
2) On 1 July 2024, the company recorded a revaluation surplus of FRW 12,000,000 on Land and Buildings.
3) During the year, the company made additions/acquisitions of FRW 4,000,000 to Plant and Equipment.
4) Disposals during the year amounted to FRW 1,000,000 (cost) from Plant and Equipment.
5) The accumulated depreciation at 1 January 2024 was FRW 10,000,000 on Land and Buildings and FRW 6,000,000 on Plant and Equipment.
6) Depreciation charges for the year ended 31 December 2024 were FRW 1,000,000 for Land and Buildings and FRW 3,000,000 for Plant and Equipment.
7) The disposal of Plant and Equipment related to an asset with accumulated depreciation of FRW 500,000.

Required:

Using the information above, **prepare a non-current asset movement schedule for the year ended 31 December 2024** **(Total: 10 Marks)**

SECTION C

QUESTION 13

You are provided with the following information for the a parent company (Kenpoli Ltd) and its subsidiary (Tatuni Ltd) as at 31st December 2024

Statement of Financial Position as at 31st December 2024

Item	**Amount (FRW "000")**	
	Kenpoli Ltd	**Tatuni Ltd**
Non-Current Assets		
Investment in Tatuni Ltd	80,000	-
Property, plant and equipment	150,000	40,000
Total non current assets	**230,000**	**40,000**
Current Assets		
Inventory	50,000	10,000
Receivables	40,000	20,000
Cash	30,000	5,000
Total current assets	**120,000**	**35,000**
Total Assets	**350,000**	**75,000**
Equity		
Shareholders Funds	320,000	60,000
Total Equity	**320,000**	**60,000**
Liabilities		
Bak loan	12,000	2,500
Payables	10,000	6,500
Bank overdraft	8,000	6,000
Total Liabilities	**30,000**	**15,000**
Total Equity and Liabilities	**350,000**	**75,000**

Additional information:

1. Kenpoli Ltd acquired 80% of the equity shares of Tatuni Ltd on 1st Janury 2024 for 80,000,000 FRW.
2. The Fair value of net assets of Tatuni Ltd at the date of acquisition was 60,000,000 FRW.
3. During the year, Kenpoli had a receivable of FRW 5,000,000 from Tatuni LTD
4. At 31st December 2024, Kenpoli has determined that the goodwill has been impaired by 10%.
5. It is the policy of Kenpoli to value the non-controlling interest at its fair value of net assets which was determined to be 12,000,000 FRW

Required:

a) **Calculate the value of goodwill to be reported in the statement of financial position as at 31st December 2024.** (6 Marks)

b) Explain how the impairment loss would be allocated between the group and the non-controlling interest (2 Marks)

c) Prepare a consolidated statement of financial position as at 31st December 2024 (12 Marks)

(Total: 20 Marks)

QUESTION 14

a) You are provided with the following trial balance for Mugenzi LTD as at 31 st December 2024

Description	**Amount(FRW"000")**
Ordinary shares (Fully paid	200,000
Preference shares(Fully paid)	40,000
General Reserves (1st January 2024)	10,000
Retained earnings (1st January 2024)	6,000
Share premium	500
Buildings cost (1st January 2024)	200,000
Plant and machinery cost (1st January 2024)	200,000
- Accumulated depreciation: Buildings(1st January 2024)	24,500
- Accumulated depreciation: Plant and machinery(1st January 2024)	21,300
Purchases	224,800
Sales	270,000
Inventory(1st January 2024)	45,000
Bank Loan	120,000
Interest on loan	2,000
Wages and salaries	3,200
Light and heat	1,200
Sundry expenses	1,400
Trade payables	2,500
Trade recievables	5,300
Cash and bank	11,900

Additional information:

1. The cost of the inventory at 31st December 2024 was valued at FRW 100,000,000 and its net realizable value was determined to be FRW 80,000,000.
2. Sundry expenses include FRW 1,000,000 in respect of insurance for the year ending 31st December 2025.
3. An invoice of FRW 700,000 related to electricity(light and heat) for the year ended 31st December 2024 was due but not yet paid.
4. For the year ending 31st December 2024, the depreciation expense for the buildings was correctely calculated to be FRW 350,000. As at 31st December 2024, the building was revalued to FRW 180,000,000.
5. Plant and machinery with a carrying amount of FRW 2,000,000 was sold during the year ending 31st December 2024 for FRW 3,200,000. A depreciation of FRW 200,000 is to be charged to plant and machinery for the year ending 31st December 2024.

6. The management of Mugenzi LTD has provided for a transfer to general reserves amounting to FRW 1,600,000 and paid dividends in cash of FRW 15,000,000.
7. Ignore the effect of taxation

Required:

a) Prepare the statement of profit or loss and other comprehensive income of Mugenzi Ltd for the year ended 31st December 2024 (8 Marks)

b) Prepare the the statement changes in equity of Mugenzi Ltd for the year ended 31st December 2024 (5 Marks)

c) Prepare the statement of financial position of Mugenzi Ltd as at 31st December 2024 (7 Marks)

(Total: 20 Marks)

QUESTION 15

a) In line with IFRS 15 *Revenue from Contracts with Customers,* **define the following concepts:**

i) Performance obligation (2 Marks)

ii) Transaction price (2 Marks)

iii) A contract (2 Marks)

b) The following information were extracted from the financial statements of MUGINA LTD for the year ending 31st December 2024

Item	**FRW"000"**	**FRW"000"**
Sales		270,000
Cost of goods sold		189,800
Gross profit		**80,200**
Operating Expenses		10,000
Profit before interest and tax(PBIT)		70,200
Interest on loan		2,000
Profit before tax (PBT)		**68,200**

Additional Information:

1) 40% of sales were are made on cash.
2) Purchases represent 60% of ost of sales
3) The year has 365days

Item	**FRW"000"**	**FRW"000"**
Total non current assets		200,100
Inventory	80,000	
Trade receivables	53,000	
Cash and bank	100,000	

Total current assets		**233,000**
Total assets		433,100
Equity and Liabilities		
Ordinary share capital	200,000	
Retained earnings	62,000	
Total equity		**262,000**
Liabilities		
Long term Bank loan	90,000	
Trade payables	81,100	
Total Liabilities		171,100
Total Equity and Liabilities		433,100

Required:

Calculate and interpret the following:

i) Current ratio (2 Marks)
ii) Inventory turnover period (2 Marks)
iii) Receivables collection period (2 Marks)
iv) Payables payment period (2 Marks)
v) Interest cover ratio (2 Marks)
vi) The length of operating cycle (4 Marks)

(Total: 20 Marks)

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