CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: FEBRUARY 2025

MARKING GUIDE & MODEL ANSWERS

SECTION A

MARKING GUIDE

QUESTION NUMBER	CORRECT ANSWER	MARKS
1	**C**	**2**
2	**A**	**2**
3	**D**	**2**
4	**C**	**2**
5	**B**	**2**
6	**B**	**2**
7	**C**	**2**
8	**D**	**2**
9	**A**	**2**
10	**D**	**2**
TOTAL MARKS		**20**

QUESTION ONE

The correct answer is C

C. The Standard deliberately prevents recognition of internally generated goodwill because the initial amount recognized for the asset must be its cost rather than its fair value.

Option A, B, D are not correct because:

- The standard prohibits recognition of internally generated goodwill even if it can be measured reliably by the management
- Internally generated goodwill cannot be treated as part total comprehensive income in the year it generated
- Internally generated goodwill should not be recognized in books of accounts.

QUESTION TWO

The correct answer is A

Correct working for purchases and cost of sales

Gross profit= margin *sales	20%*124	24.8
Cost of sales =sales –gross profit	124-24.8	99.2
Purchases correction of error	104+8.5-5.8	106.7
Closing stock=purchases-cost of sales	106.7-99.2	7.5

B is wrong

There is no correction of error on purchases but correct cost of sales

Cost of sales =sales –gross profit	124-24.8	99.2
Purchases correction of error	104	104
Closing stock=purchases-cost of sales	106.7-99.2	4.85

C is wrong correction of purchases undervalued purchases but correct cost of sales

Gross profit= margin *sales	20%*124	24.8
Cost of sales =sales –gross profit	124-24.8	99.2
Purchases correction of error	104+8.5	112.5
Closing stock=purchases-cost of sales	106.7-99.2	13.35

D is wrong correction of undervalued purchases but with correct and cost of sales

Gross profit= margin *sales	20%*124	24.8
Cost of sales =sales –gross profit	124-24.8	99.2
Purchases correction of error	104+5.8	109.8
Closing stock=purchases-cost of sales	106.7-99.2	10.65

QUESTION THREE

The correct answer is D

Financial statements are prepared in a way that they reflect commercial substance rather management needs

Option A, B, C are not correct because:

- Transaction should not be presented in manner that the management considers to be appropriate but reflect true and view of commercial substance.
- Transactions are presented in manner that allows true and view of commercial substance irrespective of cost.
- Financial statements should be presented in manner that reflect true and view of commercial substance irrespective of time.

QUESTION FOUR

The correct answer is C

The accounting rules and conventions for recording the business transactions of limited liability companies and those for preparing their final accounts are not same as those sole traders; this is false because accounting conventions for recording the business transactions is the same for all types of business.

Option A, B, D are not correct because:

- The national legislation governing the activities of limited liability companies tends to be very extensive than for the sole trader. This is true
- The owners of a company (its members or shareholders) may be very numerous which this is true.
- Public companies are by law required to prepare annual financial statements as a matter of law therefore, failure is an offence unlike sole trader. This is true.

QUESTION FIVE

The correct answer is B

Only an increase in provision of doubtful   should be accounted for in financial statement as an expense from the previous years

Option A, C and D are not correct because:

- Provisions for bad and doubtful debts should be accounted as bad debt when it is certain that the money will not be recovered.
- When provision decrease during the year the management should account for it in financial statements as an income.
- Provisions should be accounted for even if it does not have any effect on cash and cash equivalents

QUESTION SIX

The correct answer is B: because of proper accounting for both opening balance, profit for year and dividend paid

Details	**FRW**	**FRW**
Retained earnings Opening balance	2,500,000	
Profit for the period	8,500,000	11,000,000
Dividends paid		(7,600,000)
Closing balance		**3,400,000**

Option A, C and D are not correct because

A in not correct because no accounting for opening balances

Details	**FRW**	**FRW**
Profit for the period	8,500,000	8,500,000
Dividends paid		(7,600,000)
Closing balance		900,000

C in not correct because no accounting for opening balances

Details	**FRW**	**FRW**
Profit for year	8,500,000	
Dividends paid	7,600,000	16,100,000
Closing balance		16,100,000

D in not correct because no accounting for opening balances and dividend paid

Details	**FRW**	**FRW**
Retained earnings Opening balance		2,500,000
Profit for the period		8,500,000
Dividends paid		7,600,000
Closing balance		18,600,000

QUESTION SEVEN

The correct answer is C:

Screen warnings can prevent people logging out before processing is complete, this because it is a processing control rather than input control.

Option A, B, C are not correct because

- Character confirmations such letters and numeric, this is an input control.
- Digit verification is an input control
- Reasonableness test is this is an input control

QUESTION EIGHT

The correct answer is D:

Shareholders and management needs comprehensive information for management purposes and accountability from shareholders. Shareholders need more information for evaluating the return on their investment.

Option A, B, C are not correct because:

- Government Authorities may not need more comprehensive information unless for investigation purposes.
- Employees and government authorities do not need a comprehensive information since they are not directly involved in management of the business.
- Creditors may not need comprehensive information as long their dues are paid.

QUESTION NINE

The correct answer is A:

Their revenues generally arise from trading rather than charity contributions; this is not true since their revenue depends more on donation rather trading.

Option, B, C and D are not correct because:

- They are generally characterized by the absence of defined ownership interests (shares) that can be sold, transferred or redeemed (many charities are limited liability by guarantee as opposed to shares. This is true.
- Their revenues generally arise from charity rather than trading which is true.
- Their capital assets are typically acquired and held to deliver services without the intention of earning a return on them. This is true.

QUESTION TEN

A. **The correct answer is D:**

Management accounting is more concerned by futuristic data while financial accounting entails more of past transaction. This because management accounting information is more relevant in planning through budgeting rather recording of past transactions unlike financial accounting which is done after transactions have occurred.

Option A, B, C are not correct because

- Financial accounting involves analysis of budgets through ratios, this not true budgeting falls under management accounting.
- Management accounting records are for internal purpose rather external purpose
- Management accounting is different from financial accounting in respect of users, standards and timing.

SECTION B

QUESTION 11

Marking Guide:

Sub-question

For each point identified award 1 mark for stating to a maximum of 5 points:

(a)	Assets	1
(b)	Liabilities	1
(c)	Equity	1
(d)	Expenses	1
(e)	Incomes	1

Subtotal 5

Sub-question b

For each point identified award 0.5 mark for stating and 0.5 for explaining to a maximum of 5 points:

(a)	Step 1: Identify the contract with a customer	1
(b)	Step 2: Identify the performance obligations in the contract	1
(c)	Step 3: Determine the transaction price	1
(d)	Step 4: Allocate the transaction price	1
(e)	Step 5: Recognize the revenue	1

Subtotal 5

a)

Model answer

- **Measurement of financial position in Statement of financial position**

a) Assets
b) Liabilities
c) Equity

- **Measurement of performance in Statement of profit or loss and other comprehensive income**

a) Income
b) Expenses

b)

Explain the five steps in recognition of revenue as per IFRS 15 5 Marks

Step 1: Identify the contract with a customer

This is where the contract agreed by both parties that sets out the terms of the contract is identified. It must be commercially viable and it must be probable that payment will take place upon delivery of the goods or service.

Step 2: Identify the performance obligations in the contract

Each performance obligation must be distinct.

Step 3: Determine the transaction price

This is the agreed value per the contract. This will be net of any trade discounts and volume rebates and is simply the amount at which the goods/services are sold to the customer. There is one exception: where a sale involves a cash (or settlement) discount. IFRS 15 refers to 'variable consideration'. This means the variable element of the payment a business expects to receive for a sale.

Step 4: Allocate the transaction price to the performance obligations

This is the transaction price, allocated to each performance obligation. For a simple contract with one performance obligation, this step is very easy.

Step 5: Recognize the revenue

For most simple transactions with a single performance obligation, the full transaction price will be recognized when control of goods or services has transferred to the customer. For long-term contracts, revenue will be recognized over time, as the performance obligation is fulfilled.

QUESTION 12

Marking Guide:

Sub-question a

i) Award 0.5mark for a correct explanation of adjusting event and 0.5 mark for a correct explanation of non-adjusting maximum of 1 mark

(a) Adjusting	0.5
(b) Non-adjusting	0.5
Subtotal	1

ii) For each example correctly identified, award 1 mark, a maximum of 4 points:

(a) Adjusting examples	2
(b) Non-adjusting example	2
Subtotal	4

Sub-question b

i)For each correctly identified factor before consolidation, award 1 mark, maximum of 2 marks

i. Any correct	1
ii. Any correct	1
Subtotal	2

ii)For each correctly identified limitation, award1 mark, maximum of 3 points:

Subtotal/maximum	3

Model answer

Subsection

i)

Adjusting events are events that provide further evidence of conditions that existed at the reporting date, and should be adjusted for in the financial statements.

Non-adjusting events are indicative of a condition that arose after the end of reporting period and do not result in adjustment in financial statements but should be disclosed.

ii) Examples of adjusting events are:

- Evidence of a permanent diminution in property value prior to the year end
- Sale of inventory after the end of the reporting period for less than its carrying value at the year end
- Insolvency of a customer with a balance owing at the year end

- Amounts received or paid in respect of legal or insurance claims which were in negotiation at the year end
- Determination after the year end of the sale or purchase price of assets sold or purchased before the year end
- Evidence of a permanent diminution in the value of a long-term investment prior to the year end
- Discovery of fraud or errors that show that the financial statements are incorrect

Examples of non-adjusting events include the following.

- Acquisition, or disposal, of a subsidiary after the year end
- Announcement of a plan to discontinue an operation
- Major purchases and disposals of assets
- Destruction of a production plant by fire after the end of the reporting period
- Announcement or commencing implementation of a major restructuring
- Share transactions after the end of the reporting period
- Litigation commenced after the end of the reporting period.

Section b

i) Outline any other two factors that should be considered before such consolidation

It holds more than half the voting power.

- It has power over more than half the voting rights by virtue of an agreement with other investors.
- It has power to govern the financial and operating policies of the entity under a statute or agreement.
- It has power to appoint or remove the majority of the members of the board of directors.
- It has power to cast the majority of votes at meetings of the board of directors

ii) Discuss any three limitations to consolidation of financial statements of subsidiaries

- Consolidated financial statements may be misleading.
  - The solvency (liquidity) of one company may hide the insolvency of another
  - The profit of one company may conceal the losses of another
  - They imply that group companies will meet each other's' debts (this is certainly not true: a parent company may watch creditors of an insolvent subsidiary go unpaid without having to step in)
- There may be some difficulties in defining the group or 'entity' of companies, although IFRS 10 has removed many of the grey areas here.
- Where a group consists of widely diverse companies in different lines of business, a set of consolidated financial statements may obscure much important detail unless supplementary information about each part of the group's business is provided.
- Difficulty in evaluating of significance influence where there is less than 50% ownership.

SECTION C

QUESTION 13

Marking guide

1 mark for any correctly explained point max 5

For each point identified award 1 mark for stating to a maximum of 5 points:

(a) Goodwill	1
(b) Intercompany sales	1
(c) Share of non-controlling interest	1
(d) Unrealized profit in stock	1
(e) Intercompany dividends	1
Subtotal	5

Reasons behind accounting of:

a) Goodwill: Goodwill arising on consolidation is recognized as an intangible asset in the consolidated statement of financial position. Purchased goodwill arising on consolidation is retained in the statement of financial position as an intangible asset under IFRS 3. It must then be reviewed annually for impairment.
b) Intercompany sales: Strip out intra-group activity from both sales revenue and cost of sale
c) Share of non-controlling interest profit: To show the extent to which profits generated controlled by parent company.
d) Unrealized profit in stock: to account for over valuation of profit in stock which is not yet disposed.
e) Intercompany dividends: A parent Company cannot receive dividend from its own subsidiary since consolidation considers parent and subsidiary to be the same for accounting purposes.

b)

Marking guide

Details	**Marks**
Revenue	1
Cost of sales	1.5
Gross profit	0.5
Goodwill impairment	1
Selling and Distribution costs	1
Administration costs	1
Profits from operations	0.5
Fiancé costs	1
Profit before tax	0.5
Income tax	1

Profit after tax	0.5
Share of non-controlling interest	1
Attributable to parent	0.5
Total marks	11

Model answer

Consolidated income statement of Natasha Ltd and its subsidiary as 31st December 2023

Details	**FRW "000"**	**FRW "000"**
Revenue (1,800,000+(9/12*750,000)-20,000)		2,342,500
Cost of sales (630,000+(9/12*300,000)-20,000 +2,000)		837,000
Gross profit		1,505,500
Goodwill impairment	14,000	
Selling and Distribution costs (200,000+(9/12*120,000)	290,000	
Administration costs ((150,000+(9/12*112,000)	234,000	538,000
Profits from operations		967,500
Fiancé costs (112,000+(9/12*48,000)		(148,000)
Profit before tax		819,500
Income tax (235,000+(9/12*56,000)		(277,000)
Profit after tax		542,500
Share of non-controlling interest 116,000*9/12*25%		**(21,750)**
Attributable to parent		**520,750**

Marking guide

Goodwill		**Marks**
Cash Consideration and Value of NCI		0.5
Value of net assets		1
goodwill		0.5
Impairment		0.5
Value goodwill at the end of year		**0.5**
Unrealized profit in stock		**1**
Total marks		**4**

Model answer

W	Details	FRW "000"	FRW "000"
W 1	**Goodwill**		
	Cash consideration	350,500	
	Value of NCI	150,000	500,500
	Value of net assets Retained profit 100,000 Ordinary shares 180,000 Share premium 80,500		**360,500**
	Goodwill		140,000
	Impairment (10%*140)		14,000
	Value goodwill at the end of year		**126,000**
W2	**Unrealized Profit in stock**		
	Mark up 25%=1/4		
	Margin 25% = Mark up/ (100%+Mark up) Margin: 25/ (100+25)		**1/5**
	Unrealized profit in stock (1/5*20,000*50%)		**2,000**

QUESTION 14

Marking guide

a

Details	**Plant: marks**	**Van: marks**
2020 depreciation and NBV	1	1
2021 depreciation and NBV	1	1
2022 depreciation and NBV	1	1
2023 depreciation and NBV/ total on disposal	1	1
Total marks	**4**	**4**

b)i

Details building A	**Marks**	**building B**	**Marks**
Interest expense for year	0	Interest expense for year	0
Interest income	0.5	Interest income	0.5
Interest to be capitalized	0.5	Interest to be capitalized	0.5
Cost of renovation	1	Cost of renovation	1
Total value of asset	1	Total value of asset	1
Total marks	**3**		**3**

ii) 2marks for any correctly stated and explained point max 6marks

- **i)** Simple accounting systems 2
- **ii)** Integrated accounting systems 2
- **iii)** Cloud-based systems increasingly 2

Subtotal 6

Model answer

a)

Manufacturing Plant			
Details	Cost/Carrying amount FRW000	Depreciation FRW 000	NBV December
2020	35,000	(12%*35,000) 4,200	(35,000-4,200) 30,800
2021	30,800	(12%* 30,800) 3,696	(30,800-3,696) 27,104
2022	27,104	(12%*27,104) 3,252.48	(27,104-3,252.48) 23,851.52
2023	23,851.52	(12%*23,851.52)	(23,851.52-2,862.18)

			2,862.18	20,989.3
Gain on disposal	(24,0000-20,989.3)=3,011			

VAN			
Details	**Cost/Carrying amount FRW000**	**Depreciation FRW 000**	**NBV December**
2020	22,500	(12%*22,500) 2,700	(22,500-2,700) 19,800
2021	19,800	(12%* 19,800) 2,376	(19,800-2,376) 17,424
2022	17,424	(12%*17,424)*6/12 1,045.44	(17,424-1,045.44) 16,378.56
Loss on disposal	(10,000 -16,378.56)= **(6,378.56)**		
Total loss/gain on disposal	3,011+(6,378.56) = **(3,367.56)**		

b)i

Building A		Building B	
Details	FRW 000	Details	FRW 000
Interest expense for year (9%*3,000,000)	270	Interest expense for year (9%*3,500,000)	315
Interest income (7%*1,500,000)*6/12	(52.5)	Interest income (7%*1,750,000)*6/12	(61.25)
Interest to be capitalized	217.5		253.75
Value of asset renovation			
Amount borrowed	3,000	Amount borrowed	3,500
Capitalized interest	217.5	Capitalized interest	253.75
Cost of renovation	**3,217.5**	Cost of renovation	**3,753.75**
Total value of asset (180,000+3,217.5)	**183,217.5**	Total value of asset (234,000+3,753.75)	**237,753.75**

ii) Types of accounting software packages

Simple accounting systems

Smaller organizations may have a very small finance department consisting of one or two people, and so they may use a basic bookkeeping software such as QuickBooks or Sage, doing much of their analysis using a spreadsheet tool like Microsoft Excel. These simple bookkeeping services are relatively easy to use, and help to prevent common errors, which can occur in spreadsheet tools. They are particularly useful for small businesses where staff may not have knowledge of double entry or bookkeeping.

Integrated accounting systems

These are software, which combine the bookkeeping elements with inventory control and sales tracking systems. These systems can produce a variety of reports, from aged analysis of trade receivables, sales orders outstanding information through to when inventory items were received. Some of these more complex systems such as Enterprise Resource Planning systems (ERP).

Cloud-based systems increasingly,

Cloud-based systems are being implemented as they can ensure the latest versions of the software are being used giving growing companies' flexibility of the service (if the company needs more data space, it can be done very quickly rather than purchasing a new server to be brought into the building). As the data is held away from the premises, if a fire occurs, then the data can be restored on new machines relatively quickly, omitting the need for a 'full restore' from system back-ups. These cloud systems, originally dominated by software companies who focused on larger enterprises, such as Oracle and SAP, have also started to filter to smaller systems, such as Sage One and BUSY.

QUESTION 15

Marking guide

a)

Details	**Marks**
Profit before tax	0.5
Depreciation charge	
Interest expense	0.5
Loss on disposal of equipment	1
Profit on sale of non-current assets	1
Increase in stock	0.5
Increase in receivable's	0.5
Increase in payables	0.5
Cash flow from operating activities	
Interest paid	0.5
Tax paid	1
Net cash flows from operating	0.5
Cash flow from investing	
Acquisition of property plant and equipment	1
Acquisition of long-term investments	0.5
Disposal of non-current assets	0.5
Disposal of machine	0.5
Net cash flow from investing	0.5
Cash flows from financing	
Issue of shares	1
Issues of share premium	1
Long-term borrowing	1
Dividend paid	0.5
Increase /decrease in cash and cash equivalents	1
Opening cash and cash equivalents	1
Closing cash and equivalents	1
TOTAL	**16 Marks**

b)
For each correctly identified advantage, award 1 mark, maximum of 4marks
Total 4

Model answer

a)

	NYABUGOGO LTD **STATEMENT OF CASHFLOW AS 31ST DEC 2023**		
Details	**W**	**FRW "000"**	**FRW "000"**
Profit before tax		825,000	
Depreciation charge		270,000	
Interest expense		225,000	
Loss on disposal of equipment	1	39,000	
Under provision of doubtful debts	2	(15,000)	
Increase in inventories (496,000 – 640,000)		(144,000)	
Increase in receivable's (1,055,000 –1,280,000)		(225,000)	
Increase in payables (480,000 – 456,000)		24,000	
Cash flow from operating activities		999,000	
Interest paid		225,000	
Tax paid	3	390,000	
Net cash flows from operating			384,000
Cash flow from investing			
Acquisition of property plant and equipment	4	(603,000)	
Acquisition of long-term investments	5	(200,000)	
Disposal of non-current assets/investment		140,000	
Disposal of machine		96,000	
Net cash flow from investing			(567,000)
Cash flows from financing			
Issue of shares	6	318,000	
Issues of share premium	6	185,000	
Long-term borrowing	7	360,000	
Dividend paid		(485,000)	
Increase /decrease in cash and cash equivalents			**378,000**
Opening cash and cash equivalents	**8**		**(138,00)**
Closing cash and equivalents	**9**		**57,000**

Working

	Details	**FRW "000"**	**FRW "000"**
WK1	Loss on sale of non-current assets		
	Carrying amount	135,000	
	Cash received	96,000	39,000
WK 2	Under provision of doubtful debts overstate profits and therefore should be corrected		

WK3	Tax paid		
	Opening balance	330,000	
	Income statement	420,000	
	Closing Balance	(360,000)	390,000
WK 4	Loss on disposal of equipment		
	Opening balance	915,000	
	Depreciation charge	(270,000)	
	Disposal	(135,000)	
	Revaluation increase (300,000– 273,000)	27,000	537,000
	Closing balance	1,140,000	
	Purchase of equipment (1,140,000-537,000)		603,000
WK5	Acquisition of long-term investments		
	Opening balance	750,000	
	closing balance	950,000	150,000
WK6	Issue of shares (1,330,000-1,012,000)		318,000
WK6	Issue of shares premium (817,000-632,000)		185,000
WK 7	Long-term borrowing (810,000-450,000)		360,000
WK8	Opening cash and cash equivalents (150,000+6.000-294,000)		(138,000)
WK 9	Opening cash and cash equivalents (300,000+12,000-255,000		57,000

b) Four advantages of cash flow accounting

- Survival in business depends on the ability to generate cash. Cash flow accounting directs attention towards this critical issue.
- Cash flow is more comprehensive than 'profit', which is dependent on accounting conventions and concepts.
- Creditors of the business (both long and short term) are more interested in an enterprise's ability to repay them than in its profitability. While 'profits' might indicate that cash is likely to be available, cash flow accounting gives clearer information.
- Cash flow reporting provides a better means of comparing the results of different companies than
- Cash flow forecasts are easier to prepare, as well as more useful, than profit forecasts.
- They can be in some respects be audited more easily than accounts based on the accruals concept.
- The accruals concept is confusing, and cash flows are more easily understood.
- Cash flow information can be retrospective and can include a forecast for the future. This is of great information value to all users of accounting information.
- Forecasts can subsequently be monitored by the publication of variance statements which compare actual cash flows against the forecast.

THE END