



CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY 24, FEBRUARY 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

Which one of the following statements is true about internally generated goodwill by the business according to IAS 38?

- A It should be accounted for in the statement of financial statement if it can be measured reliably by the management
- B Internally generated goodwill should be treated as part of total comprehensive income in the year it generated
- C The Standard deliberately prevents recognition of internally generated goodwill because the initial amount recognised for the asset must be its cost rather than its fair value
- D Internally generated goodwill should be amortized over its useful life as provided by management policy

(2 Marks)

QUESTION TWO

MIAMI Ltd is company located in Kigali, during the month of December 2023, the accountant in preparing the financial statement noted the profit margin of the company was 20%. Sales for the month was recorded as FRW 124 billion, upon careful analysis, he realized that part of the purchases amounting to FRW 8.5 billion was erroneously entered in the record as FRW 5.8 billion. The company purchases for December 2023 was reliably estimated as FRW 104 billion.

Which of the following was the value of closing stock for the month of December assuming there was no closing stock in the month of November 2023?

- A FRW 7.5 billion
- B FRW 4.85 billion
- C FRW 13.35 billion
- D FRW 10.65 billion

(2 Marks)

QUESTION THREE

Which of the following statements best explains the principle of faithful representation of financial statements?

- A Transaction is presented in a manner that the management considers to be appropriate
- B Transactions are presented in a manner that allows the company maximising cost.
- C Financial statement is prepared on timely basis after one year with consistency in accounting policy
- D Financial statements are prepared in a way that they reflect commercial substance rather than management needs

(2 Marks)

QUESTION FOUR

Which one of the following fundamental statements is not TRUE about public limited company records and the records of a sole trader?

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

(2 Marks)

QUESTION FIVE

Companies are expected to make provisions for bad doubtful debts on receivables based of the probability of debtors' inability to pay, this shall be accounted for in every financial as an expense in the profit and loss account.

Among the following statements, which best describes the provision for bad and doubtful debts accounting?

- A Provisions for bad and doubtful debts should only be accounted when it is certain that the money will not be recovered
- B Only an increase in provision of doubtful should be accounted for in financial statement as an expense from the previous years
- C When provision decrease during the year the management should not account for it in financial statements.
- D Provisions should not be accounted for as it does not have any effect on cash and cash equivalents

(2 Marks)

QUESTION SIX

In the published accounts of Rubavu Ltd, the profit for the period is FRW 8,500,000. The balance of retained earnings at the beginning of the year is FRW 2,500,000. If dividends of FRW 7,600,000 were paid,

What is the closing balance of retained earnings?

- A FRW 900,000
- B FRW 3,400,000
- C FRW 16,100,000
- D FRW 18,600,00

(2 Marks)

QUESTION SEVEN

Use of computerised accounting has become basic needs for organizations that focus more on accuracy, efficiency and effectiveness of accounting functions, a number of controls may be installed as computer controls.

Which among the following is not Controls over input accuracy?

- A Character confirmations such letters and numeric
- B Digit verification
- C Screen warnings can prevent people logging out before processing is complete
- D Reasonableness test

(2 Marks)

QUESTION EIGHT

The various parties interested in the financial statements of a company are sometimes referred to as stakeholders. Although they will each judge the financial statements by different criteria, they will all gain assurance from learning that what they are reading has been subject to an independent review.

Which among the following stakeholders may require a more detailed financial record?

- A Government Authorities and shareholders
- B Employees and government authorities
- C Shareholders and creditors
- D Shareholders and management

(2 Marks)

QUESTION NINE

Which among the following is not a characteristic of not-for-profit entity in the private sector?

- A Their revenues generally arise from trading rather than charity contributions
- B 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.)
- C Their revenues generally arise from charity contributions rather than trading.
- D Their capital assets are typically acquired and held to deliver services without the intention of earning a return on them.

(2 Marks)

QUESTION 10

The information needs of management go far beyond those of other account users. Managers have the responsibility of planning and controlling the resources of the business. In an attempt to effectively manage resources of the business, a manager must be able to distinguish between financial accounting and management, some of the differences include:

- A Financial accounting involves the analysis of budgets through ratios
- B Management accounting records are for both internal and external users just like financial accounting
- C Management accounting is similar to financial accounting as they all relate to organization transactions
- D Management accounting is more concerned by futuristic data while financial accounting entails more of past transaction

(2 Marks)

SECTION B

QUESTION 11

a) Transactions and organization events are grouped together in broad classes and in this way their financial effects can either be elements to facilitate measurement of performance or elements to facilitate measurements of business financial position.

Required

In view of this, **state five items as per the two broad classes for the element of financial statements.** (5 Marks)

b) IFRS 15 Revenue from Contracts with Customers states that revenue is recognised to depict the transfer of promised goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This is achieved by applying five steps model for effective accounting.

Required

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

(Total 10 Marks)

QUESTION 12

a) According to IAS 10 events after the reporting period, an event which could be favourable or unfavourable, that occurs between the reporting period and the date that the financial statements are authorised for issue, this events can either be classified as adjusting events or non-adjusting events.

Required

i) Differentiate between adjusting and non-adjusting event as per IAS 10. (1 Mark)

ii) Outline two examples under each event that meet the criteria as per IAS 10. (4 Marks)

b) Kamonyi Ltd holds more than 50% of the ordinary shares of Muhanga Ltd. However, the management of Kamonyi Ltd believes that Muhanga Ltd should still be consolidated as a subsidiary of Kamonyi Ltd, as its status is determined by factors beyond just the percentage of shares held.

Required

i) Outline any other two factors that should be considered before such consolidation. (2 Marks)

ii) Discuss any three limitations to consolidation of financial statements of subsidiaries (3 Marks)

(Total 10 Marks)

SECTION C

QUESTION 13

a) Explain the reasons behind accounting of goodwill, intercompany sales, share of non-controlling interest profit, unrealised profit in stock and intercompany dividends in the consolidated income statements. (5 Marks)

b) Natasha Ltd acquired a 75% ownership interest in Omwalimu Ltd on 31 March 2023, when Omwalimu Ltd's retained earnings were FRW 100 million. The fair value of the non-controlling interest (NCI) at the acquisition date was FRW 150 million. During the year ending 31 December 2023, Natasha Ltd sold goods to Omwalimu Ltd for FRW 20 million, with a mark-up of 25%. At the year-end, 50% of these goods remained unsold by Omwalimu Ltd. The consideration for the acquisition, amounting to FRW 350.5 million, was paid in cash. At the time of acquisition, Omwalimu Ltd's equity consisted of FRW 180 million in ordinary shares and FRW 80.5 million in share premium.

The following income statement has been provided as at the end of the year 2023.

	Natasha Ltd	Omwalimu Ltd
	FRW “000”	FRW“000”
Revenue	1,800,000	750,000
Cost of sales	630,000	300,000
Gross profit	1,170,000	450,000
Other incomes	75,000	-
Selling and Distribution costs	200,000	120,000
Administration costs	150,000	112,00
Profits from operations	895,000	218,000
Fiancé costs	112,000	48,000
Profit before tax	783,000	170,000
Income tax	235,000	54,000
Profit after tax	548,000	116,000

Additional information:

1. The management is of the view that goodwill should be impaired at rate of 10% as at the end of the year.
2. Other incomes represent dividends received by Natasha Ltd from Omwalimu Ltd during the year.

Required

- i) Calculate the value of goodwill at the end of the year. (3 Marks)
- ii) Calculate the unrealised profit at the year-end. (1 Mark)

- iii) Prepare the consolidated income statement of Natasha Ltd and its subsidiary as the end of the year including the share of profit for non-controlling interest as at 31 December 2023. (11 Marks)

(Total 20 Marks)

QUESTION 14

a) On 1 January 2020, Rubavu Ltd purchased manufacturing plant at a cost of FRW 35,000,000 and a van costing FRW 22,500,000. Owing to an unforeseen decrease in market demand for its product, Rubavu Ltd decided to reduce its output and dispose the van on 30 June 2022 for FRW10,000,000 in cash and the plant was sold on 30 December 2023 for FRW 24,000,000 on credit. It is the policy of Rubavu Ltd to charge proportionate depreciation in the year of acquisition and the year of disposal at an annual rate of 12% on a reducing balance basis.

Required:

Showing clearly your workings, calculate the total Profit or Loss on disposal of machines for the year ending 30 December 2023. (8 Marks)

b) On 1 July 2022 Umutoni Ltd borrowed FRW 6.5 million to finance the renovation of two buildings, both of which were expected to take a year to renovate. Work started during 2022. The loan facility was drawn down and incurred on 1 July 2022 and was utilised as follows, with the remaining funds invested temporarily.

Details	BUILDING A	BUILDING B
	FRW “000”	“FRW 000”
Carrying value of the asset	180,000	234,000
1 st July	1,500	1,750
31 st December	1,500	1,750
Total	3,000	3,500

The loan rate was 9% and Umutoni Ltd can invest surplus funds at 7%

Required

- i) Calculate the borrowing costs, which may be capitalised for each asset, and consequently the cost of each asset as of 31 December 2022. Ignoring compound interest (6 Marks)
- ii) Briefly discuss the three major types of accounting software packages. (6 Marks)
- (Total 20 Marks)

QUESTION 15

You are provided with the following account balances extracted from the books of Nyabugogo Ltd for the year ending 31 December 2023.

NYABUGOGO LTD Income statement for the year ended 31st December 2023		
Details	FRW “000”	FRW “000”
Revenue		9,657,000
Cost of sales		(7,440,000)
Gross profit		2,217,000
Selling and distribution costs	627,000	
General operating costs	540,000	(1,167,000)
Operating profit		1,050,000
Interest paid		(225,000)
Profit before tax		825,000
Income tax for the year		420,000
Profit for year		405,000
Retained profit brought forward		860,000
Retained profit carried forward		1,265,000

NYABUGOGO LTD Statement of financial position as at 31st December 2023		
Details	2023 FRW “000”	2022 FRW “000”
ASSETS		
Non-current assets		
Property plant and equipment	1,140,000	915,000
Intangible assets	485,000	485,000
Acquisition of long-term investments	950,000	750,000
Total non-current assets	2,575,000	2,150,000
Current assets		
Inventories	640,000	496,000
Receivables	1,280,000	1,055,000
Short term investments	300,000	150,000
Cash in hand	12,000	6,000
Total current assets	2,232,000	1,707,000
TOTAL ASSETS	4,807,000	3,847,000
Financed by		
Ordinary share capital (FRW1 per share)	1,330,000	1,012,000
Share premium	817,000	632,000
Revaluation surplus	300,000	273,000
Retained earnings	1,265,000	375,000

Total equity	3,712,000	2,292,000
Non-current liabilities		
Long-term loan	810,000	450,000
Current liabilities		
Payables	480,000	456,000
Bank overdraft	255,000	294,000
Dividend	-	485,000
Tax payable	360,000	330,000
Total current liabilities	1,095,000	1,565,000
TOTAL EQUITY AND LIABILITIES	4,807,000	3,387,000

Additional Information:

1. One of the machines old with an original cost of FRW 255 million and carrying amount of FRW 135 million was disposed for FRW 96 million
2. Depreciation charged to profit and loss during the year amounted to FRW 270 million, revaluation surplus relates to property plant and equipment.
3. Not included in the statement of financial position is FRW 140 million disposal of an investment, which as paid in cash. this was as result of appreciation in value of investment during the year.
4. When computing the profit there was under the provision of doubtful debts by FRW 15 million this was accounted in the final balance of receivables.
5. The directors of the company did not propose dividend during the year as it was agreed that money be retained to facilitate expansion in the year 2024.
6. Short-term investments meet IAS 7 criteria to be classified as cash and cash equivalents.

Required

- a) Prepare cash flow statement using indirect method in accordance with IAS 7 cash flow statement. (16 Marks)
 - b) Explain any FOUR advantages of cash flow accounting. (4 Marks)
- (Total 20 Marks)**

End of Question Paper

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