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**CERTIFIED ACCOUNTING TECHNICIAN  
STAGE 3 EXAMINATIONS**

**S3.1: FINANCIAL ACCOUNTING**

**DATE: MONDAY 23, FEBRUARY 2026**

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**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 of the following statements is true?**

- A Expenses increase equity
- B Liabilities decrease assets
- C Revenue increases equity
- D Assets decrease liabilities

**(2 Marks)**

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### **QUESTION TWO**

**Which of the following statements about the IFRS Foundation are correct?**

- i) The IFRS Foundation oversees the IASB.
- ii) The IFRS Foundation enforces accounting standards in all countries.
- iii) The IFRS Foundation is responsible for the governance and funding of the IASB.
- iv) The IFRS Foundation issues legally binding accounting rules for national governments

- A i and ii only
- B i and iii only
- C ii and iv only
- D iii and iv only

**(2 Marks)**

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### **QUESTION THREE**

**Identify which of the following statements are true:**

- i) An asset is a resource controlled by an entity that is expected to generate future economic benefits.
- ii) Liabilities are obligations arising from past and future events.
- iii) Equity represents the residual interest in assets after deducting liabilities.

- A i and iii only
- B ii only
- C i only
- D i, ii and iii

**(2 Marks)**

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### **QUESTION FOUR**

Mulinda Tea Factory Ltd incurred the following costs: FRW 95,000 in developing new techniques that will soon be implemented to reduce production costs; FRW 67,500 in researching a new process to enhance the quality of its standard product; and FRW 20,000 in conducting market research to assess the commercial viability of a new type of product. The company's policy is to capitalize costs whenever permitted under IAS 38 Intangible Assets.

**How much should be charged as research and development expenditure in profit or loss?**

- A FRW 182,500
- B FRW 87,500
- C FRW 67,500
- D FRW 95,000

**(2 Marks)**

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**QUESTION FIVE**

M Ltd is currently facing a lawsuit involving a claim of FRW 200,000. The company's lawyer has assessed that it is more likely than not that M Ltd will lose the case; however, the exact amount of the resulting obligation cannot be reliably measured at this stage

**How should M Ltd report this obligation in its financial statements?**

- A Recognize FRW 200,000 as a liability in the statement of financial position
- B Do not recognize a liability, but disclose it as a contingent liability in the notes
- C Recognize FRW 200,000 as expenses in the statement of Profit or Loss
- D Do nothing

**(2 Marks)**

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**QUESTION SIX**

A company has 40,000 shares of FRW 100 each. It offers 1 new share for every 2 held by existing shareholders at FRW 90.

**What will be the total share capital after the issue?**

- A FRW 4,000,000
- B FRW 5,400,000
- C FRW 5,800,000
- D FRW 6,000,000

**(2 Marks)**

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**QUESTION SEVEN**

When finalizing a company's financial statements for the year ended 30 June 2025, **which of the following material events require adjustment in the accounts?**

- i) A customer who owed FRW 180,000 at the end of the reporting period went bankrupt in July 2025.
- ii) The company issued 1,000,000 ordinary shares in August 2025.
- iii) A factory with a value of FRW 3,000,000 was seriously damaged by a fire in July 2025. The factory resumed production by August 2025, but its value was reduced to FRW 2,000,000.
- iv) The sale in August 2025 of some inventory items for FRW 400,000, which were valued in the statement of financial position at FRW 500,000.

- A i and ii only
- B i and iv only
- C ii and iii only
- D All the above four events

(2 Marks)

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### QUESTION EIGHT

**What are the three main aims of an accounting function?**

- A Reliability, suitability, timeliness
- B Reliability, suitability, cost effectiveness
- C Suitability, timeliness, cost effectiveness
- D Reliability, timeliness, cost effectiveness

(2 Marks)

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### QUESTION NINE

JDH Ltd requires guidance on measures that would help minimize the risk to its computerized system in the event of another fire.

**Which of the following general controls would not minimize the damage if another fire occurred?**

- A Computer room should be constructed of fireproof materials.
- B The computers should be protected with passwords so that only authorized personnel can use them
- C The computer room should have an adequate alarm system, which not only warns of fire but also of high-risk conditions, for example the room becoming too hot.
- D The computer room should be fitted with fire extinguishers and sprinklers to minimize the effect of fire.

(2 Marks)

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### QUESTION 10

A public sector entity receives funds from taxpayers and is accountable to citizens.

**Which of the following best describes its reporting focus?**

- A Profitability and attract investors.
- B Cash flow management and generate internal profit.
- C Accountability, stewardship, and service delivery efficiency.
- D Market share and competitive positioning.

(2 Marks)

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## **SECTION B**

### **QUESTION 11**

Financial ratio analysis is widely used by investors, lenders, and management to evaluate the performance and financial position of an entity. However, ratio analysis has several limitations, which may reduce its usefulness for decision-making.

**Required:**

**Describe FIVE (5) limitations of financial ratio analysis and explain how each limitation affects the interpretation of financial statements. (10 Marks)**

### **QUESTION 12**

a) Murenzi Construction Company Ltd (MCC Ltd) constructed two investment properties, Property A and Property B. Both properties were completed during the year ended 31 December 2022 and are held to earn rental income and for capital appreciation.

The construction costs incurred were as follows:

- Property A: FRW 11 million
- Property B: FRW 11 million

At 31 December 2022, an independent valuation determined the fair values to be:

- Property A: FRW 16 million
- Property B: FRW 10 million

MCC Ltd measures investment properties using the fair value model in accordance with IAS 40.

**Required:**

**Explain how MCC Ltd should account for Properties A and B in the financial statements for the year ended 31 December 2022, including any amounts recognised in profit or loss.? (6 Marks)**

b) IAS 23 Borrowing Costs permits the capitalization of borrowing costs only in relation to qualifying assets.

**Required:**

**Explain the four characteristics of a qualifying asset (4 Marks)**  
**(Total: 10 Marks)**

## SECTION C

### QUESTION 13

The summarized statements of Profit or loss and other comprehensive income of PKF Ltd and Sifa Ltd for the year ended 31<sup>st</sup> December 2025 are shown below

Particulars	PKF Ltd	Sifa Ltd
	FRW 000	FRW 000
Revenue	3,000	2,500
Cost of sales	(1,625)	(1,650)
Gross profit	1,375	850
Distribution costs	(125)	(95)
Administrative expenses	(175)	(125)
Finance cost	0	(30)
Profit before tax	1,090	600
Income tax expense	(250)	(100)
Profit After tax	825	500
Dividends –Interim paid	(100)	0
Dividends _ Final proposed	(100)	0
<b>Profit for the year to the Retained Earning</b>	<b>625</b>	<b>500</b>

#### **Additional information:**

1. On 1 July 2025, PKF Ltd acquired 80% of the ordinary share capital of Sifa Ltd. Sifa Ltd has an issued share capital of 37,500 ordinary shares with a par value of FRW 25 each. PKF Ltd paid cash consideration of FRW 5,625,000 for the acquisition. The acquisition has not yet been recorded in the books of PKF Ltd
2. The fair value of the assets of Sifa Ltd at the date of acquisition were the same as their book value except for the land which had a value of FRW 3,125,000 in excess of the book value.
3. The retained earnings of Sifa Ltd in the SOFP as at 31<sup>st</sup> December 2025 amount to FRW 1,750,000 while the retained profit of PKF Ltd at the same date was FRW 1,025,000
4. During the post-acquisition period, PKF Ltd sold goods to Sifa Ltd for FRW 250,000. The mark –up on those goods was 25%. Half of the goods were estimated in the inventory of Sifa Ltd as at 31<sup>st</sup> December 2025.
5. Goodwill arising on acquisition is estimated to be impaired by 10%
6. It is the group's policy to measure goodwill using the partial goodwill method

#### **Required:**

- i) **Compute the Goodwill and its impairment** (5 Marks)
- ii) **Explain, with reference to IFRS 3, the accounting treatment when goodwill on acquisition is negative, including the required reassessment and how any resulting bargain purchase gain is recognized in the consolidated financial statements.** (4 Marks)

iii) Prepare the PKF Ltd consolidated statement of profit or loss and other comprehensive income for the year ended 31st December 2025

(11 Marks)

(Total: 20 Marks)

#### QUESTION 14

a) Explain the difference between the direct and indirect methods of presenting cash flows from operating activities. Which method is recommended by IAS 7 Statement of Cash Flows, and why? Provide two reasons to support your answer. (5 Marks)

b) The summarized Statements of Financial Position of KIGALI TRADERS LTD as at 31 December 2023 and 31 December 2022 are presented below:

Details	2023	2022
<b>ASSET</b>	<b>FRW"000"</b>	<b>FRW"000"</b>
Cash	41,460	57,000
Account Receivable	77,000	64,000
Inventory	170,000	140,000
Prepaid expenses	12,140	16,540
Land	140,000	150,000
Building	250,000	250,000
Accumulated Depreciation- Building	(70,000)	(50,000)
Equipment	215,000	175,000
Accumulated Depreciation- Equipment	(70,000)	(42,000)
<b>TOTAL ASSET</b>	<b>765,600</b>	<b>760,540</b>
<b>Equity &amp; Liabilities</b>		
Account Payable	58,000	45,000
Bond Payable	265,000	265,000
Common stock@FRW 1Par	275,000	250,000
Retained Earning	167,600	200,540
<b>TOTAL EQUITY and LIABILITIES</b>	<b>765,600</b>	<b>760,540</b>

#### Additional Information:

1. Land was sold for Cash at cost of FRW 35,000,000
2. Cash Dividend of FRW 82,940,000 were paid
3. Net Income for 2023 was FRW 50,000,000
4. Equipment was Purchased for FRW 80,000,000 in cash during the year. In addition, equipment with a net book value of FRW 31,000,000 was sold for FRW 37,000,000 Cash
5. The company issued 25,000,000 ordinary shares with a par value of FRW 1 each in exchange for land valued at FRW 25,000,000

**Required:**

**Prepare KIGALI TRADERS LTD statement of cash flow for the year ended 2023 using indirect method**

(15 Marks)

**(Total: 20 Marks)**

**QUESTION 15**

HP Ltd Has the following summarized trial balance for the year ended 30 June 2025

	<b>Debit</b>	<b>Credit</b>
<b>Details</b>	<b>FRW''000''</b>	<b>FRW''000''</b>
Purchases	150,000	-
Inventory at 1 July 2024	25,000	-
Sales	-	300,000
Distribution costs	33,000	-
Administrative and selling expenses	14,000	-
Trade receivables	30,500	-
Irrecoverable debts	3,875	-
Bank balance	-	10,375
Share Capital	-	195,250
Discount received	-	6,250
6% Bank loan	-	25,000
Non-current assets at carrying amount 1 July 2024	256,250	-
Loan interest	750	-
Drawings	20,000	-
Trade payables	-	14,000
Wages	37,500	-
Suspense	-	20,000
<b>TOTAL</b>	<b>570,875</b>	<b>570,875</b>

**Additional information:**

1. The wages cost should be split equally between cost of sales and administrative and selling expenses.
2. The balance on the suspense account represents the proceeds from the disposal of an item of property, plant and equipment. At the date of disposal, that item had a net carrying amount of FRW 25,000,000. The gain or loss on disposal should be accounted for as a cost of sales.
3. HP Ltd decided to write off an irrecoverable debt of FRW 2,500,000. This should be accounted for as an administrative and selling expense.
4. The bank loan was taken out on 1 July 2024
5. The depreciation charge for the year of FRW 12,500,000 on property, plant and equipment has not yet been accounted for. It should be classified as a cost of sale.



6. Inventory valuation at 30 June 2025 was FRW 30,000,000 and Net realizable value FRW 34,000,000

**Required:**

**Prepare HP Ltd the statement of Profit or loss for the year ended 30 June 2025 and statement of financial position as at 30 June 2025 (*Show All workings*)**

**(Total: 20 Marks)**

**End of question paper**