CERTIFIED ACCOUNTING TECHNICIAN

STAGE 3 EXAMINATIONS

S3.1: FINANCIAL ACCOUNTING

DATE: MONDAY 23, FEBRUARY 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A:

Marking guide

Question	Answer
1	**C**
2	**B**
3	**A**
4	**B**
5	**B**
6	**D**
7	**B**
8	**D**
9	**B**
10	**C**

Section A-Marks allocation	**Marks**
2 marks for each collect answer	2
Total marks for this section	**20**

Model Answer

QUESTION ONE

The Correct Answer is C

Revenue increases profit, which in turn increases owner's equity. Expenses decrease profit and therefore decrease equity. Liabilities are obligations, not directly decreasing assets unless paid.

QUESTION TWO

The Correct Answer is B

The IFRS Foundation oversees IASB, but enforcement depends on individual countries' regulators.

QUESTION THREE

The Correct Answer is. A

Assets and equity definitions are correct. Liabilities arise from **past events only**, not future events.

QUESTION FOUR

The Correct Answer is B

Options	Development	Research expenses	Total
A	95,000	(67,500+20,000)	182,500
B	**0**	(67,500+20,000)	**87,500**

C	0	67,500	67,500
D	95,000	0	95,000

Under **IAS 38 Intangible Assets**:

- **Research costs** must always be **expensed** in profit or loss.
- **Development costs** may be **capitalised** only if the recognition criteria are met.
- **Market research** is not development and must be **expensed**

Therefore,

A is incorrect because it includes the development cost of FRW 95,000. Under IAS 38, development expenditure may be capitalised when the project is expected to be implemented soon and the recognition criteria are met. Since the question indicates that the new techniques will be put in place shortly, this cost should be capitalised rather than expensed in profit or loss

B is correct because both the research cost and the market research cost must be recognised as expenses in profit or loss under IAS 38. Research expenditure is always expensed, and market research does not qualify for capitalization

C is not correct because it does not include market research cost

D is not correct because it is development cost that met criteria to be capitalized

QUESTION FIVE

Correct answer: B

do not recognize a liability, but disclose it as a contingent liability in the notes

Under IAS 37, contingent liabilities that are possible but not probable, or cannot be reliably measured, are not recorded in the financial statements but must be disclosed in the notes for transparency

QUESTION SIX

The Correct Answer is D

New shares = 40,000 × 1/2 = 20,000 shares

Options	**A**	**B**	**C**	**D**
Number of shares	40,000	(40,000+20,000)	(40,000+20,000)	**(40,000+20,000)**
Shares prices	100	90	90 &100	**100**
Calculation	(40,000*100)	(60,000*90)	(40,000*100) + (90 * 20,000)	**60,000*100**
Total	4,000,000	5,400,000	5,800,000	**6,000,000**

A is not correct because it doesn’t include the additional shares capital through right issues
B is not correct because it is calculated based on wrong share price of FRW 90
C is not correct because the additional shares capital is calculated based on wrong shares price of FRW 90

D is correct because share capital is based on par value, not issue price, therefore total number of shares are 60,000 times FRW 100 as par value

QUESTION SEVEN
The Correct Answer is B

(i): Customer bankruptcy – Adjusting event
A customer owing FRW 180,000 at year-end went bankrupt shortly after the reporting period.

- This provides evidence that the receivable was already impaired at 30 June 2025.
- Therefore, the bad debt should be recognised in the accounts.

(ii): Issue of shares – Non-adjusting event
The company issued 1,000,000 ordinary shares in August 2025.

- The share issue occurred after the reporting date.
- It does not relate to a condition existing at 30 June 2025

(iii): Fire damage to factory – Non-adjusting event
A factory was damaged by fire in July 2025.

- The fire occurred after the reporting period.
- The damage did not exist at the reporting date, so no adjustment is made.

(iv): Inventory sold below carrying value – Adjusting event
Inventory valued at FRW 500,000 was sold after year-end for FRW 400,000.

- The sale provides evidence that the inventory's net realisable value (NRV) at year-end was below cost.
- Inventory should be written down to NRV

Therefore, the correct option is B (i and iv only), since these are adjusting events under IAS 10. The other options include events that are non-adjusting and should not be reflected in the financial statements, although disclosure may be required if material

QUESTION EIGHT

The Correct Answer is D
Reliability**:** Information is accurate and trustworthy.
Timeliness**:** Information is available when needed.
Cost-effectiveness: Benefits of information outweigh its production costs.

Other options are not correct because they include suitability

QUESTION NINE

The Correct Answer is B
Although this is an important general control in computerized systems, it does not address the specified risk of fire damage.

Other options can minimize the damage if another fire occurred

QUESTION 10

The Correct Answer is C.

Public sector reporting emphasizes accountability and proper use of public resources.

Other options are for the private sector.

SECTION B:

QUESTION 11
Marking guide

	Maximum marks
Award 2 marks for each well Explained Limitation	10 Marks
Total	**10 Marks**

Model Answers

Historical Information

Financial ratios are based on past financial statements and therefore reflect historical performance. As a result, ratios may not be reliable indicators of future performance, especially in periods of economic change.

Differences in Accounting Policies

Different companies may use different accounting policies such as depreciation methods or inventory valuation. This reduces comparability of ratios between companies and may lead to misleading conclusions.

Inflation Effects

Financial statements are prepared using historical cost, which ignores the effects of inflation. This can distort asset values and profitability ratios, particularly in inflationary economies.

Window Dressing and Manipulation

Management may manipulate figures near the reporting date to improve ratios, such as delaying payments or accelerating revenue recognition. This reduces the reliability of ratios

Ignoring Non-Financial Factors

Ratio analysis focuses only on quantitative financial data and ignores qualitative factors such as management competence, employee morale, and customer satisfaction, which are crucial for long-term success.

QUESTION 12

Model Answer

a) Award 1 mark for correct show the addition cost of investment	1
Identification and Classification	1
Initial Recognition	1
Subsequent Measurement	1
Treatment of Fair Value Changes	1
Calculation: Property A Gain	1
Calculation: Property B Loss	1
b) Award 1 mark for each Explained characteristic	4

	10

Model Answer

a)

Properties A and B are classified as investment properties because they are held to earn rental income and for capital appreciation, rather than for use in production or for sale (IAS 40).

Under IAS 40, investment properties are initially recognised at cost. Therefore, on completion, MCC Ltd will recognise:

- Property A at a cost of FRW 11 million
- Property B at a cost of FRW 11 million

MCC Ltd applies the fair value model, meaning that investment properties must be measured at fair value at each reporting date.

Any changes in fair value are recognised in profit or loss for the year.

For Property A:

- Fair value at 31 December 2022 = FRW 16 million
- Carrying amount (cost) = FRW 11 million
- Fair value gain = 16 − 11 = FRW 5 million, recognised in profit or loss.

For Property B:

- Fair value at 31 December 2022 = FRW 10 million
- Carrying amount (cost) = FRW 11 million
- Fair value loss = 10 − 11 = FRW 1 million, recognised in profit or loss.

Therefore, MCC Ltd will report the investment properties in the statement of financial position at fair value (A: FRW 16m, B: FRW 10m), and recognise a net fair value gain of FRW 4 million in profit or loss for the year ended 31 December 2022.

b) **1. Substantial period:** The asset must take significant time to be ready for use or sale.

2. **Directly attributable:** Borrowing costs must be directly linked to financing the asset.

3. Future economic benefits: The asset should generate revenue or cost savings in the future.

4. For use or sale: The asset is intended for company operations or for sale once completed.

SECTION C:

QUESTION 13

Item	**Maximum marks**
Sub-section i)-Calculation of good will	**5**
Number of subsidiary shares acquired	0.5
Cost of investment	0.5
Share Capital	0.5
Retained E. at date of acquisition	1
Fair Value adjustment	0.5
% of net assets acquired by PKF Ltd	0.5
Goodwill	1
Impairment	0.5
Sub-section ii)-Explanation	**3**
Sub-section iii)-Consolidated SOPL	**12**
Revenue	1.5
Cost of sales	2
Distribution costs	1
Administrative expenses	1
Finance cost	1
Impairment loss	0.5
Income tax expense	1
Profit Attributable to -Parents	1.5
Profit Attributable to NCI	1.5
Total	**20**

Note: Full marks will be awarded for correctly calculating the profit attributable to the Parent and to the Non-Controlling Interest (NCI). However, a student will be awarded 0.5 marks for each item if the profit is properly presented as attributable to the Parent and NCI, even if the figures are not completely correct

Model Answers

i) Calculation of value of Goodwill

Details	Computation	
		FRW
Purchase consideration		5,625,000
Less Net Asset at date of acquisition		
share capital (37,500*25)	937,500	
Rerained Profi at Pre-acquisition 1750,000-(500000*6/12)	1,500,000	

FV adjustment	3,125,000	
Value of Net assets acquired		5,562,500
Shares of parent in sifa (net assets *80%)	5,562,500 *80%	(4,450,000)
Goodwill (Cost of investment-shares of parent in sifa)		1,175,000
Impairment of 10%		117,500

ii) Under **IFRS 3** Business Combinations, negative goodwill arises when the **fair value of net identifiable assets acquired exceeds the consideration transferred plus NCI**. The acquirer must first **reassess** the identification and measurement of the assets, liabilities, consideration, and NCI. If the excess remains after reassessment, it is treated as a **bargain purchase** and **recognized immediately in profit or loss** at the acquisition date. No goodwill is recorded in the consolidated statement of financial position.

iii)Consolidated Statements of Profit or Loss and Other Comprehensive Income as at 31 December 2025

Details	**Amounts "000"**
Revenue (3000+2500*6/12)-250	4,000
Cost of sales (1,625+1650*6/12)-250+25	2,225
Gross profit	**1,775**
Distribution costs (125+95*6/12)	(172.5)
Administrative expenses (175+125*6/12)	(237.5)
Finance cost (0+30*6/12)	(15)
Impairment loss	(117.5)
Profit before tax	**1,233**
Income tax expense (250+100*6/12)	(300)
Profit After tax	933
Profit Attributable to -Parents	883
Profit Attributable to –NCI (500*6/12) *20%	**50**

QUESTION 14

Marking guide

	Maximum marks
Sub-section a)	
Difference between indirect and direct method	3
Recommended method	1
Explained reason	2
Sub-section b)	
Starting from Net income	0.5
Gain on sale of Equipment	1
Depreciation (**1 mark for each bolded figure on working 1**)	4
Increase in account receivable	1
Increase in Inventory	1

Decrease in Prepaid Expense	1
Increase in account payable	1
Cash received from Sales of Equipment	0.5
cash paid to purchase new equipment	0.5
Cash received from Sales of Land	0.5
Dividend paid	0.5
Cash balance at the Start	0.5
Net cash Decrease for the year	0.5
cash balance at the Start	0.5
Presentation (terms using by the student for titles)	2
Total	**20 Marks**

Model Answers
a) Difference between Direct method and indirect method,

Direct Method**:** Shows **actual cash inflows and outflows** from operating activities.

Examples:

- **Cash received from customers** (sales receipts)
- **Cash paid to suppliers and employees**
- **Cash paid for operating expenses** like rent, utilities, or taxes

Indirect Method**:**

Starts with **profit before tax (or net profit)**.

Adjusts for: **Non-cash items:** depreciation, amortization, provisions, gains/losses on asset disposal and **Changes in working capital:** increases/decreases in inventory, receivables, payable

IAS 7 Recommendation

IAS 7 **recommends the direct method** for presenting cash flows from operating activities.
Reason: It is **more informative and understandable** for users.

Reasons for Recommendation

1. Relevance & Understandability**:** Shows **actual cash movements**, so stakeholders can see where cash comes from and where it goes and Useful for assessing **operating efficiency**.
2. Assessing Future Cash Flows**:** Provides information for **predicting future cash-generating ability** of the business and Helps investors, lenders, and management in **decision-making** about financing, investing, and operations

b)

Answer	**Frw"000"**	**Frw"000"**

Cash flow Operating activities		
Net income		50,000
Adjustment		
Depreciation W1	57,000	
Gain on sale of Equipment (37000-31000)	(6,000)	
change in current Operating activities		
Increase in account receivable (77,000-64,000)	(13,000)	
Increase in Inventory (170,000-140,000)	(30,000)	
Decrease in Prepaid Expense	4,400	
Increase in account payable (58,000-45,000)	13,000	
Total Adjustment		25,400
Net cash flow from operating Activities		75,400
Cash Flow frow Investing activities		
Cash received from Sales of Equipment	37,000	
Cash received from Sales of Land	35,000	
cash paid to purchase new equipment	(80,000)	
Net cash outflow used in investing Activities		**(8,000)**
Cash Flow frow Financing activities		
Dividend paid	(82,940)	
Net cash outflow used financing Activities		**(82,940)**
Net cash Decrease for the year		(15,540)
cash balance at the Start		57,000
cash balance at the End		41,460

Working One: Depreciation

Cost			
Description	Building	Equipment	Total
Opening balance at cost	250,000	175,000	425,000
Purchase during the year at cost	0	80,000	80,000
Disposal at Cost [balancing figure]	0	**40,000**	40,000
Closing	250,000	215,000	465,000
Accumulated Depreciation			
Opening balance	50,000	42,000	92,000
Disposal [40,000-31,000]		**(9,000)**	9,000
Deprecation for the year [balancing figure]	**20,000**	**37,000**	57,000
Closing Balance	70,000	70,000	140,000

QUESTION 15
Marking guide

	Maximum marks
Allocation Revenue	0.5

Cost of sales W1	4
Administrative and selling expense W2	2.5
Discount received	0.5
Distribution cost	0.5
Finance cost W3	2
Noncurrent asset W4	1
Inventory	1
Trade Receivable	1
Share capital	1.5
Retained earning	0.5
Drawing	1
6%loan	1
Bank overdraft	1
Trade payable	1
Accrued Interest	1
Total	**20 Marks**

Model Answers
HP Ltd Statement of profit or loss for the year ended 30m June 2025

Details	**Frw"000"**
Revenue	300,000
Cost of Sales W1	(181,250)
Gross Profit	**118,750**
Add other income	
Discount received	6,250
Total Income	125,000
Distribution cost	(33,000)
Administration and selling expense W2	(39,125)
Operating Profit	52,875
Finance cost W3	(1,500)
Profit for the year	**51,375**

Working
W1. Cost of sales

Opening inventory	25,000
Purchase	150,000
closing inventory	(30,000)
cost of sales	145,000
Adjustment	
Add wages 50%*37500	18,750
Add Loss on disposal (25,000-20,000)	5,000
Add depreciation	12,500
Total	**181,250**

W2. Administrative and Selling Expenses

Admin and selling Expense	14,000
Wage (50%*37,500)	18,750
Irrecoverable Debts (2,500+3,875)	6,375
Total	**39,125**

W3. Finance Cost

Finance cost (6%*25,000)	1500
Interest paid	(750)
Balance/Accrued	750

HP Ltd Statement of financial position as at 30 June 2025

NCA	
Non-Current Asset W4	218,750
Current asset	
Inventory	30,000
Trade Receivable (30,500-2,500)	28,000
Total Asset	**276,750**
Equity and Labilities	
Share capital	195,250
Retained Earning	51,375
Drawing	(20,000)
	226,625
Non-Current Liabilities	
6% Loan	25,000
Current Liabilities	
Bank overdraft	10,375
Trade Payable	14,000
Interest accrual	750
Total Equity and Liabilities	**276,750**

W4 Non current asset

Non-current assets at carrying amount	
Opening Balance	256,250
Disposal of asset	(25,000)
Depreciation	(12,500)
Net Book Value	**218,750**

END OF MARKING GUIDE AND MODEL ANSWERS