CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 27, AUGUST 2024

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **three Compulsory Question**
4. Section **B** has **two optional questions, one question** to be attempted**.**
5. In summary attempt **four questions, three** in Section A and **one** in Section B.
6. Marks allocated to each question are shown at the end of the question.
7. Show all workings where necessary.
8. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

a) **Rwanda Agriculture Research Agency**

Rwanda Agriculture Research Agency (RARA) is a Government Business Entity under the supervision of the Rwanda Agriculture and Animal Resources Development Board (RAB). RARA is responsible for conducting research on agricultural products which are then sold to the public (e.g., seedlings) to boost the agriculture sector in Rwanda.

RARA applies IPSAS standards to prepare its financial statements. Below is the trial balance of RARA for the year ended 30 June 2024 (after all the necessary adjustments have been made):

	FRW millions	**FRW millions**
Cash and cash equivalents	3,543	
Short-term Receivables	746	
Inventories	8,104	
Other current assets	750	
Infrastructure, property and equipment	47,925	
Accumulated depreciation of fixed assets (30 June 2024)		5,620
Intangible assets	1,200	
Accumulated amortisation of intangible assets (30 June 2024)		720
Short-term Payables		2,397
Short-term borrowings		6,588
Short-term provisions		455
Long-term Payables		5,765
Long-term borrowings		12,000
Long-term provisions		893
Capital contributed by Central Government (through MINAGRI)		15,000
Accumulated surpluses/(deficits) - 30 June 2023		11,927
Surpluses for the period ended 30 June 2024		903
	62,268	**62,268**

Required:

Prepare RARA's statement of financial position as at 30 June 2024 in accordance with the IPSAS 1 *Presentation of financial statements* (6 Marks)

Note:

- *All figures used MUST be rounded to the full FRW millions (no decimal places)*

b) **Grants made to Burera Mixed Farm**

Burera Mixed Farm (BMF) is a privately owned farm and operates from Burera district as one of the largest demonstration farm in Rwanda. The farm is supported by Rwanda Agriculture and Animal Resources Development Board (RAB) under the Government of Rwanda (GoR) policy to support demonstration farms to provide research and practical trainings of Agriculture students in vocational institutes in Rwanda.

BMF has been having financial difficulties recently due to the economic climate in its industry sector. On this basis, BMF, has received the following financial assistance from the GoR in the year ended 30 June 2024:

1. BMF has received two grants of FRW 1,000 million each in the current year relating to on-going research and development projects.

Grant one: Cabbage project

This grant is funding the “Cabbage project” which involves research into the effect of various chemicals applied as pesticides on the quality of the produced cabbages. No constructive conclusions on this research have been reached at the reporting date (30 June 2024).

Grant two: Fruits project

This grant is funding the “Fruits project” which relates to the development of new types of fruits targeting the good health of the young children below the age of 10 years. This project is expected to be extremely popular. Commercial production of the new fruits will commence on 1 July 2025 and large profits are foreseen.

2. Grant for Vocational experience tours

On 1 July 2023, BMF received a government grant from RAB of FRW 6,000 million. The grant agreement requires BMF to provide **“vocational experience tours” to 100 agriculture students per month over a five-year period starting on 1 July 2023**. On the same date (1 July 2023), BMF purchased a bus (with a useful life of three years) to transport the students to and from the farm. The bus had an economic useful life of three years on its purchase date but the grant agreement did not directly associate the grant to the purchase of the bus by BMF.

BMF is required to refund RAB for any month the student tours are not made on a pro rata basis. During the year ended 30 June 2024, BMF failed to conduct a total of five (5) student tours due to the work pressure and this pattern is expected to be repeated over the next four years.

No repayments have yet been made.

Required:

Explain how each of the grants should be accounted for in the financial statements of BMF for the year ended 30 June 2024. (14 Marks)

(Total: 20 Marks)

QUESTION TWO

Rwanda Trust Bank (RTB) is a public listed commercial bank operating with ten (10) branches across Rwanda. The following trial balance relates to RTB's financial year ended 30 June 2024.

	Debit	**Credit**
	FRW millions	**FRW millions**
Bank fees income (Note 1)		4,043
Bank fee expenses (Note 1)	1,182	
Interest income (Note 2)		11,656
Interest expense (Note 2)	110	
Foreign exchange income (Note 2)		1,887
Other incomes		64
Personnel costs	5,970	
Loan assets (Note 2)	82,500	
Long-term borrowings (Note 2)		1,138
Other investment assets - 1 July 2023 (Note 3)	36,216	
Property, plant and equipment - cost (Note 4)	34,000	
Accumulated Depreciation (Property, plant and equipment) on 1 July 2023(Note 4)		9,000
Other operating expenses (Note 5)	3,271	
Cash and balances held with National Bank of Rwanda	38,089	
Cash balances held in other banks	19,212	
Intangible assets (Note 6)	750	
Accumulated amortisation (Intangible assets) on 1 July 2023(Note 6)		300
Ordinary share capital		13,743
Share premium		36,947
Other equity reserves (1 July 2023) (Note 3)		655
Retained earnings (1 July 2023)		12,995
Customer deposits liability		128,317
Current tax paid (Note 7)	300	
Deferred tax liability (Note 7)		855
	221,600	**221,600**

Additional information

The following information is important in the preparation of RTB's financial statements for the year ended 30 June 2024.

1. **Bank fees**

The bank fees comprise of bank fees income that RTB charges for maintenance of customers' bank accounts and fees charged for the public using RTB's bank services. On the other hand, RTB incurs fees charges on other accounts it holds in other banks including in other banks including the "statutory fees" paid to the National Bank of Rwanda (BNR). In the year ended 30 June 2024:

- Bank fees income: RTB incorrectly overcharged customers bank accounts a total amount of FRW 180 million (included in the amount reported in the trial balance). RTB will refund the overcharged amount to the customers' bank accounts in July 2024.
- Bank fees expense: The amount reported in the trial balance includes a prepayment of FRW 258 million to the National Bank of Rwanda (BNR) as statutory fees for the following year ended 30 June 2025.

2. **Financial Instruments**

RTB operates with the following primary financial instruments:

- **Loan assets:** These are long-term in nature and these qualify as financial instruments carried at amortized cost in accordance with IFRS 9 *Financial Instruments*. The balance for the loan assets in the trial balance represents the figure brought forward from the prior year. The interest income in the trial balance is only based on the actual amount received. The effective interest rate on average for RTB's loan assets is 20% per annum.

Due to the uncertainty in the recovery of the full amount of the loan assets, RTB estimates a credit loss of FRW 910 million representing an amount that may not be recovered from the loan assets (after the amortised value at the reporting date on 30 June 2024). The expected credit loss on the loan assets has not been recognised in RTB's financial statements.

- **Long-term borrowings from a foreign-based bank**: RTB has a long-term borrowing from a foreign-based commercial bank which are held in a foreign currency. The related interest expense in the trial balance is based on a fixed interest rate which was paid rather than the effective interest rate. An accrual for an additional interest expense of FRW 58 million payable at the redemption of the loan needs to be incorporated in the financial statements for the year ended 30 June 2024.
- **Foreign currency transactions managed in RTB's Forex department**: These relate to the Forex transactions by RTB with the customers holding foreign currency bank accounts and the general public. RTB has reported the foreign exchange income on a cash basis as below:

Year-ended 30 June 2023: RTB did not recognize a foreign exchange receivable of FRW 52 million until 30 September 2023 when it received (and it is included in the foreign exchange income reported in the trial balance.

A foreign exchange income of FRW 25 million for the year ended 30 June 2024 will be received on 30 September 2024 (and it is NOT included in the foreign exchange income reported in the trial balance).

3. **Other investment assets**

The other investment assets comprise of RTB's shareholdings in another company whose shares are listed on the Rwanda stock market. These investments were acquired a couple of years ago and RTB elected to irrevocably classify these investments at fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments*. A fair value gain of FRW 109 million related to these investments in the current year ended 30 June 2024 has not yet been recognised in the financial instruments.

4. **Property, plant and equipment (PPE)**

None of the PPE has been depreciated in the current year and therefore no depreciation charge has been recognised in RTB's financial statements in the year ended 30 June 2024. The information relating to depreciation in the year ended 30 June 2024 is based on the following additional information:

- **Owned Land and Buildings**: The cost of Land and buildings included in total cost of PPE in the trial balance is FRW 18,000 million (Land component: FRW 8,000 million). The owned buildings are depreciated using the straight-line method over their economic useful life of twenty (20) years with a full year's depreciation required in any financial year.
- **The other items of owned PPE** in the trial balance are all depreciated using a rate of 25% per annum (i.e., a straight-line depreciation method based on an estimated useful life of 4 years) on assumption for a full year's depreciation.

5. **Leased assets**

In addition, to the property, plant and equipment (in note 4), RTB leased assets in the current year which are used by RTB as properties to accommodate the new ATMs locations opened at the start of the accounting period. The right-of-use assets are all in one lease contract that commenced on 1 July 2023 with the following details:

- The present value of the future lease payments (1 July 2023) is FRW 5,759 million
- The interest rate in the lease contract is 10% per annum
- The lease period is ten (10) years
- The annual lease rental is FRW 1,000 million paid in advance (every 1 July).

RTB made the first advance lease rental payment for the year to 30 June 2024 at the start of the lease (on 1 July 2023) and charged this payment in the "other operating expense". No other entries regarding the lease contract have been recognised in the financial statements for the year ended 30 June 2024. RTB's policy is to present any finance charge on the lease arrangement separately from all other interest expenses.

6. **Intangible assets**

RTB operates with a 10-year license which is renewable on its expiry. The intangible asset reported in the trial balance represents the cost of this license that was acquired a couple of years ago from the Government of Rwanda (GoR) and this is amortised using a straight-line method over the estimated useful life of 10 years with a nil residual value. The annual amortization of the license for the current year has not yet been recognised in the financial statements.

7. **Income taxes**

RTB has engaged a tax consultant to help with the self-assessment of the current year's income tax liabilities. The tax consultant's report indicates that:

- The provision for the current income taxes for the year ended 30 June 2024 is FRW 725 million (of which RTB made an advance / instalment income tax payment to Rwanda Revenue Authority of FRW 300 million within the year);
- The deferred tax liability balance at 30 June 2024 should be carried at FRW 1,120 million. All the deferred tax balance arose from taxable temporary differences for items correctly reported in the profit or loss.

Required:

Prepare RTB's statement of profit or loss and other comprehensive income for RTB for the year ended 30 June 2024 and statement of financial position as at 30 June 2024

(Total: 30 Marks)

Notes:

- Show all the necessary workings
- All figures used MUST be rounded to the full FRW millions (no decimal places)

QUESTION THREE

a) The objective of IAS 7 *Statement of cash flows* is to provide financial information regarding the historical changes in the entity's cash and cash equivalents through a statement of cash flows which is presented in categories of activities that include operating activities, investing activities and financing activities.

Required:

As a consultant in Financial Reporting, in the context of IAS 7**, briefly explain:**

i) **The meaning of cash equivalents** (1 Mark)

ii) **The meaning of operating activities, investing activities and financing activities (giving at least two examples of cash flows per activity category)** (9 Marks)

b) Rwanda Tiles Group (RTG) is a group of companies in the retailing sector that sells wall and floor tiles to the general public in Rwanda. RTG is listed on the Rwanda stock market. The consolidated financial statements for RTG for the year ended 30 June 2024 are provided below:

RTG's consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2024

	FRW' million
Sales Revenue	15,655
Cost of sales *(Note 2 & 4)*	(8,763)
Gross profit	**6,892**
Administration and distribution costs *(Note 1)*	(982)
Gain on disposal of property *(Note 2)*	120
Interest cost	(650)
Profit before tax	**5,380**
Income tax	(1,376)
Profit for the year	**4,004**
Other comprehensive income items:	
Revaluation gain for property *(Note 2)*	245
Total comprehensive income	**4,249**
Profit for the year attributed to:	
Parent shareholders	3,203
Non-controlling interests *(Note 3)*	801
Total	**4,004**
Total comprehensive income attributed to:	
Parent shareholders	3,448
Non-controlling interests *(Note 3)*	801
Total	**4,249**

RTG's consolidated statement of financial position as at 30 June 2024

	30 June 2024	**30 June 2023**
	FRW' million	**FRW' million**
Assets		
Non-current assets		
Property, plant and equipment *(Note 2)*	98,000	74,150
Goodwill *(Note 1)*	8,550	3,800
Other intangible assets *(Note 4)*	18,000	19,500
Sub-total non-current assets	**124,550**	**97,450**
Current assets		
Inventories	1,600	900

Trade receivables	3,220	2,540
Cash and Bank	610	4,230
Sub-total current assets	**5,430**	**7,670**
Total assets	**129,980**	**105,120**
Equity and Liabilities		
Equity		
Ordinary share capital *(Note 1)*	55,000	40,000
Revaluation reserve	1,745	1,500
Retained earnings *(Note 5)*	28,413	25,610
Non-controlling interests *(Note 3)*	10,961	4,560
Total equity	**96,119**	**71,670**
Non-current liabilities		
10% Loan notes *(Note 1)*	20,000	10,000
Current liabilities		
Trade payables	12,000	11,810
Current tax payable	881	10,140
Interest payable	980	1,500
Sub total Current liabilities	**13,861**	**23,450**
Total equity and liabilities	**129,980**	**105,120**

Additional information

The following information has been included in the preparation of the consolidated financial statements of RTG:

1. **Acquisition of a new subsidiary (Kigali Tiles Centre) and Goodwill**

In order to expand its operations in Rwanda, on 1 July 2023, RTG acquired 80% of the voting ordinary share capital of Kigali Tiles Centre (KTC) for a cash consideration of FRW 25,000 million. On the date of acquisition, the fair value of the net assets (all were items of PPE) in KTC was FRW 25,380 million (no fair value adjustments). The fair value of the non-controlling interests in KTC on acquisition was measured at FRW 5,600 million.

Goodwill on the acquisition of KTC was correctly computed and recognised in the consolidated financial statements. An impairment review on Goodwill on 30 June 2024 confirmed an impairment loss which has been correctly recognised as part of the "administration costs" in the consolidated profit or loss.

In order to fund the acquisition of KTC, the RTG group funded the purchase consideration from the following sources (all received in cash on 1 July 2023):

Funds raised from the issue of:	FRW million
Ordinary share capital	15,000
15% loan notes	10,000
Total capital raised	**25,000**

2. **Property, plant and equipment**

The following schedule explains the change / movement in reported net book balance for property, plant and equipment in the consolidated financial statements:

	FRW' million
Opening net book balance (1 July 2023)	74,150
Plus: Fair value of PPE on the acquisition of a new subsidiary (KTC) - *Note 1*	25,380
Revaluation gain for property	245
Disposed property - net book value	(8,000)
Other additional PPE purchased for cash	12,500
Less: Depreciation charge for PPE - this year (in "cost of sales")	(6,275)
Closing net book balance (30 June 2024)	**98,000**

Due to the acquisition of KTC, the group disposed of surplus property in August 2023 and further benefited from a gain on disposal which was correctly computed as below:

	FRW' million
Disposal proceeds (in cash)	8,120
Less: Disposed property - net book value	(8,000)
Gain on disposal of PPE	**120**

3. **Non-controlling interests**

The following schedule represents the change / movement in the balance for the non-controlling interests as correctly applied in the preparation of the consolidated financial statements:

	FRW' million
Opening balance (1 July 2023)	4,560
Plus: NCI value on acquisition of new subsidiary (KTC*) - Note 1*	5,600
Plus: NCI share of total comprehensive income for the year	801
Closing balance (30 June 2024)	**10,961**

4. **Other intangible assets**

There were no additions or disposals of the other intangible assets. The amortization charge for the year on the other intangible assets has been correctly recognised in the "cost of sales"

5. **Retained earnings**

The following schedule represents the change / movement in the balance for the retained earnings as correctly applied in the preparation of the consolidated financial statements:

	FRW' million
Opening balance (1 July 2023)	25,610
Plus: Profit for the year (Parent's share)	3,203
Less: Ordinary share dividends paid (on 30 June 2024)	(400)
Closing balance (30 June 2024)	**28,413**

Required:

Prepare the RTG's consolidated statement of cash flows for the year ended 30 June 2024

(20 Marks)

Notes:

- Show all the necessary workings
- All figures used MUST be rounded to the full FRW millions (no decimal places)

(Total: 30 Marks)

SECTION B

QUESTION FOUR

Muganza Tech Agencies (MTA) is a public listed company that imports computer equipment and sells them to a variety of wholesalers and retailers in Rwanda. The company is listed on the Rwanda stock market. The following financial statements for MTA are for the year ended 30 June 2024.

MTA's statement of profit or loss for the year ended 30 June 2024

	FRW millions
Sales Revenue	3,233
Cost of sales	(2,493)
Gross profit	**740**
Other operating costs	(287)
Operating profits	**453**
Interest payable	(45)
Non-routine loss (Note 2)	(160)
Profit before tax	**248**
Income tax expense	(210)
Profit for the year	**38**

MTA's statement of financial position as at 30 June 2024

	FRW millions	**FRW millions**
Non-current assets		
Property, plant and equipment (Note 1)	720	
Sub-total		**720**
Current assets		
Inventory	367	
Trade receivables	427	
Bank	-	
Sub-total		**794**
Total assets		**1,514**
Equity and Liabilities		
Equity:		
Ordinary shares (FRW 2.5 per share)	200	
Retained earnings (Note 4)	247	
Total equity		**447**
Non-current liabilities		

8% Loan notes		400
Current liabilities		
Bank overdraft	87	
Trade payables	467	
Income tax payable	113	
Sub-total		**667**
Total Equity and Liabilities		**1,514**

Additional information:

1. **Property, plant and equipment**

	Cost	Accumulated depreciation	Net carrying amount
	FRW million	**FRW million**	**FRW million**
At 30 June 2024	4,800	4,080	720

2. **Non routine loss**

The "other losses" recognised in the profit or loss relate to the losses incurred on the disposal of obsolete inventory comprising of imported computers that were identified to be outdated on delivery to MTA's major customers in June 2024. An updated version of the same type of computers was imported by MTA's largest competitors and this attracted MTA main customers to switch their computer orders through the competitor.

3. **Share price for MTA's ordinary shares**

MTA's shares consistently had a market price of FRW 6 per share throughout the year to 30 June 2024

4. **Retained earnings**

The reconciled breakdown for the retained earnings balance at the reporting date is shown below:

	FRW millions
Retained earnings brought forward (1 July 2023)	221
Plus: Profit for the year	38
Less: Ordinary share dividends paid (Interim dividends of FRW 9m and final dividends of FRW 3m)	(12)
Retained earnings (30 June 2024)	**247**

5. **Industrial averages**

MTA subscribes to the industrial averages for the business sector in which it operates. The following industrial averages have been obtained by MTA from the sector for the year ended 30 June 2024:

Return on capital employed	22.1%
Net assets turnover	1.8 times
Gross profit margin	30%
Operating profit margin	12.5%
Current ratio	1.6 : 1
Quick ratio	0.9 : 1
Inventory holding days	46 days
Trade receivables collection days	45 days
Trade payables settlement days	55 days
Gearing ratio (Debt / Equity)	40%
Dividend yield	6%
Dividend cover	5 times

Required:

a) **Compute ratios for MTA for the year ended 30 June 2024 that are equivalent to those published in the above the industrial averages** (6 marks)

b) **As the Financial Analyst of MTA, write a report to MTA's Board of Directors in which you analyse MTA's financial performance in comparison to the industrial averages** (12 marks)

Note: Two (2) professional marks will be awarded for the format and quality of the analysis report in part (b) above. **(Total: 20 Marks)**

QUESTION FIVE

a) The IFRS *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) identifies faithful representation as a fundamental qualitative characteristic of useful financial information

Required:

Distinguish between fundamental and enhancing qualitative characteristics and explain why faithful representation is important (5 Marks)

b) You are the accountant of Ngoma Furniture Company (NFC), one of the largest local company producing quality furniture products in Rwanda. Majority of NFC's customers are companies that buy furniture in large quantities for office use.

In the year ended 30 June 2024, NFC entered into a sale and repurchase agreement with the Capital Bank to sell a large stock of un-processed timber to Capital Bank for FRW 360 million and this cash was immediately received on the date of the agreement (15 June 2024). The carrying value of the timber (i.e., work-in progress inventory) on 15 June 2024 was FRW 300 million and this is also the same value on 30 June 2024. Under the agreement, NFC has an option to repurchase the timber from Capital Bank after one month paying a premium above FRW 360 million of FRW 18 million, which represents a finance charge of 5% for the month. However, in the agreement, if NFC does not exercise the repurchase option after one momth, Capital Bank must sell back the timber to NFC after two months at a premium above the FRW 360 million of FRW 36 million which represents a finance charge of 5% for each of the two months. It is highly probable that NFC will repurchase the timber after one month of receiving the FRW 360 million from Capital Bank.

Required:

Explain, and quantify where appropriate, how NFC should account for the sale and repurchase transaction in its financial statements for the year ended 30 June 2024 showing the accounting entries on 15 June 2024 and 30 June 2024 (5 Marks)

c) **Reporting Climate-related risks in financial reports**

There is growing pressure from different key stakeholder groups for companies to include in their financial statements disclosures that provide meaningful and useful information about the climate-related risks that could impact on the company's business activities and how management in responding to these risks.

Required:

In the context of companies operating in Rwanda:

i) **Mention any THREE stakeholders that have an interest in companies incorporating climate-related risks in their financial reports including one reason (per stakeholder) why these stakeholders are interested in this information** (3 Marks)

ii) **Briefly explain any THREE challenges companies will face in presenting climate-related risks in their financial reports** (3 Marks)

d) A number of companies in developing countries have not yet adopted the IFRS Generally Accepted Accounting Principles (IFRS GAAPs) in the preparation of their financial statements. These companies have consistently indicated their ignorance on the application of IFRS 1 *First-time adoption of IFRS* for a First-Time Adopter (FTA) entity especially the need to prepare an IFRS opening statement of financial position.

Bizimana Appliances Ltd is one of the companies committed to adopt the IFRS GAAPs for the first time in the preparation of its first IFRS financial statements for the year ended 31 December 2024

Required:

Explain the requirements from IFRS 1 *First-Time Adoption of IFRSs* that Bizimana Appliances Ltd should apply as a First Time Adopter (FTA) in the preparation of the IFRS "Opening statement of financial position" (4 Marks)

(Total 20 Marks)

End of Question Paper