INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

TUESDAY: 2 DECEMBER 2014

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 questions.
4. Section **B** has **two** 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 your workings.

SECTION A

Attempt all questions in this section.

QUESTION ONE

(a) NAT, a listed entity, had 10,000,000 ordinary Frw 1 shares in issue on 1 January 2013.

On 1 April 2013, NAT made a 1 for 2 bonus issue. On 1 October 2013 NAT issued 2,000,000 ordinary Frw 1 shares at their full market price of Frw 7.60 per share. NAT's shares were trading at Frw 8.05 per share on 31 December 2013. NAT's profit after tax for the year ended 31 December 2013 was Frw 8,200,000. The basic earnings per share for the year ended 31 December 2012 was previously reported at Frw 0. 623.

(b) NAT issued a convertible debt instrument on 1 January 2013. The liability element of the instrument had a value of Frw 6,000,000 on 1 January 2013. The effective interest rate in respect of this liability was 5% per annum. If fully converted 1,500,000 ordinary Frw 1 shares would be issued. NAT is subject to corporate income tax at a rate of 30%.

Required:

i) Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31 December 2013, including the comparative figure, in accordance with IAS 33 Earnings Per Share. **(6 Marks)**

(ii) Explain why the bonus issue of shares and the share issue at full market price are treated differently in the calculation of the basic earnings per share. **(4 Marks)**

iii) Calculate the diluted earnings per share to be reported in the financial statements of NAT for the year ended 31 December 2013, in accordance with IAS 33 Earnings Per Share. **(4 Marks)**

c) LP issued 4 million Frw 1 cumulative redeemable preference shares on 1 April 2012 at their par value. The shares carry a fixed coupon rate of 6%, which is payable annually in arrears. They are redeemable on 31 March 2016 at a premium of Frw 300,000. LP incurred a transaction cost on 1 April 2012 of 1% of the issue proceeds. The effective interest rate associated with the shares is approximately 7.97%.

Required:

In accordance with IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement:

(i) Prepare the journal entries to record the issue of the shares and the associated transaction costs; and **(3 Marks)**

(ii) Calculate the carrying value of the preference shares to be included in LP's statement of financial position as at 31 March 2013. **(3 Marks)**

(Total 20 Marks)

QUESTION TWO

a) According to IAS 7 Statement of Cash Flows, state the difference between direct and indirect method of preparing cash flow statement? (4 Marks)

b) State any four reasons why the cash and cash equivalents of the company will differ with its profits(4 Marks)

c) The following information relates to the draft financial statements of Inya Ltd.

Summarised statement of financial position as at:

	31 March 2014	**31 March 2013**
	Frw "000"	**Frw "000"**
Non-Current Assets		
Property, plant and equipment note (1)	19,000	25,500
Current Assets		
Inventory	12,500	4,600
Trade receivables	4,500	2,000
Tax refund due	500	**Nil**
Bank	Nil	1,500
Total assets	**36,500**	**33,600**
Equity and liabilities		
Equity		
Equity shares of Frw 1 each note (2)	10,000	8,000
Share premium note(2)	3,200	4,000
Retained earnings	4,500	6,300
Non-Current liabilities		
10% loan note (3)	Nil	5,000
Finance lease obligations	4,800	2,000
Deferred tax	1,200	800
Current liabilities		
10% loan note (3)	5000	Nil
Tax	Nil	2,500
Bank overdraft	1,400	Nil
Finance lease obligations	1,700	800
Trade payables	4,700	4,200
Total equity and liabilities	**36,500**	**33,600**

Summarised statement of profit or loss

	31 March 2014	31 March 2013
	Frw "000"	Frw "000"
Revenue	55,000	40,000
Less Cost of sales	(43,800)	(25,000)
Gross profit	11,200	15,000
Less Operating expenses	12,000	6,000
Less Finance costs (note 4)	1,000	600
Profit (loss) before tax	(1,800)	8,400
Income tax relief (expense)	700	(2,800)
Profit (loss) for the year	**(1,100)**	**5,600**

The following information is available:

1. Property, plant and equipment is made up of:

As at	31 March 2014	31 March 2013
	Frw "000"	Frw "000"
Leasehold property	Nil	8,800
Owned plant	12,500	14,200
Leased plant	6,500	2,500
	19,000	**25,500**

During the year Inya Ltd sold its leasehold property for Frw 8·5 million and entered into an arrangement to rent it back from the purchaser. There were no additions to or disposals of owned plant during the year. The depreciation charges (to cost of sales) for the year ended 31 March 2014 were:

	Frw "000"
Leasehold property	200
Owned plant	1,700
Leased plant	1,800
	3,700

2. On 1 July 2013 there was a bonus issue of shares from share premium of one new share for every 10 held. On 1 October 2013 there was a fully subscribed cash issue of shares at par.

3. The 10% loan note is due for repayment on 30 June 2014. Inya Ltd is in negotiations with the loan provider to refinance the same amount for another five years.

4. The finance cost is made up of the following:

For year ended:	31 March 2014	31 March 2013
	Frw "000"	Frw "000"
Finance lease charges	300	100
Overdraft interest	200	Nil
Loan note interest	500	500
	1,000	**600**

Required:

Prepare a statement of cash flows for Inya Ltd for the year ended 31 March 2014 in accordance with IAS 7 *Statement of Cash Flows*, using the indirect method. **(22 Marks)**

Total 30 Marks

QUESTION THREE

a) What are the accounting treatment for recognising, measuring, and disclosing all intangible assets as per IAS 38? **(4 Marks)**

b) H Ltd, a public listed company, acquired 75% of S Ltd's ordinary shares on 1 April 2013. H Ltd paid an immediate Frw 3·50 per share in cash and agreed to pay a further amount of Frw 108 million on 1 April 2014. H Ltd's cost of capital is 8% per annum. H Ltd has only recorded the cash consideration of Frw 3·50 per share.

The summarised Statement of financial position of the two companies at 31 March 2014 is shown below:

	H Ltd "Frw 000"	**S Ltd** "Frw 000"
Tangible non-current assets (note 1)	420	320
Development costs (note 4))	Nil	40
Investments (note 2)	300	20
Current assets	133	91
Total assets	**853**	**471**
Equity and Liabilities:		
Ordinary shares of Frw 1 each	270	80
Reserves:		
Share premium	80	40
Revaluation reserve	45	Nil
Retained earnings – 1 April 2013	160	134
-31 March 2014	190	76
Non-Current Liabilities		
10% interest company loan (note2)	Nil	60
Current liabilities	108	81
Total equity and liabilities	**853**	**471**

The following information is relevant:

1. H Ltd has a policy of revaluing land and buildings to fair value. At the date of acquisition S Ltd's Land and Buildings had a fair value Frw 20 million higher than their book value and at 31 March 2014 this had increased by a further Frw 4 million (ignore any additional depreciation).
2. Included in H Ltd's investments is a loan of Frw 60 million made to S Ltd at the date of acquisition. Interest is payable annually in arrears. S Ltd paid the interest due for the year on 31 March 2014, but H Ltd did not receive this until after the year end. H Ltd has not accounted for the accrued interest from S Ltd.
3. S Ltd had established a line of products under the brand name of Titanware. Acting on behalf of H Ltd, a firm of specialists, had valued the brand name at a value of Frw 40 million with an estimated life of 10 years as at 1 April 2013. The brand is not included in S Ltd's statement of Financial position.
4. S Ltd's development project was completed on 30 September 2013 at a cost of Frw 50 million. Frw 10 million of this had been amortised by 31 March 2014. Development costs capitalised by S Ltd at the date of acquisition were Frw 18 million. H Ltd's directors are of the opinion that S Ltd's development costs do not meet the criteria in IAS 38 'Intangible Assets' for recognition as an asset.

5. S Ltd sold goods to H Ltd during the year at a profit of Frw 6 million, one-third of these goods were still in the inventory of H Ltd at 31 March 2014.

6. An impairment test at 31 March 2014 on the consolidated goodwill concluded that it should be written down by Frw 22 million. No other assets were impaired.

Required:

Calculate the following figures as they would appear in the consolidated statement of financial position of H Ltd at 31 March 2014:

a) Goodwill; **(5 Marks)**

b) Non-controlling Interest; **(5 Marks)**

c) Share premium, **(4 Marks)**

d) Revaluation reserve; **(4 Marks)**

e) Retained earnings; **(4 Marks)**

f) Inventory; **(4 Marks)**

Total 30 Mark

SECTION B

Attempt one question in this section.

QUESTION FOUR

a) On 1 October 2013 Habib entered into a non cancellable agreement whereby Habib would lease a new locket booster. The terms of agreement were that Habib would pay 26 rentals of Frw 3,000,000 quarterly in advance commencing on 1 October 2013, and that after this initial period Habib could continue at its option to use the rocket booster for a nominal rental which is not material. The cash price of this asset would have been Frw 61,570,000 and the asset has a useful life of 10 years. Habib considers this lease to be finance lease and charges a full year's depreciation in the year of purchase of an asset. The rate of interest implicit in the lease is 2% per quarter.

On 1 July 2012 Habib entered into another non-cancellable agreement to lease a Zarkov Rocket for a period of 10 years at a rental of Frw 5,000,000 half yearly to be paid in advance, commencing on 1 July 2012. Habib considers this lease to be an operating lease.

Required:

Show how these transactions would be reflected in the financial statements for the year ended 31 December 2013. **(12 Marks)**

b) Information below related to Gaby for the year ended 31 March 2013. The balance on the provision for deferred taxation account at 1 April 2012 was Frw 35,000,000. This represented taxation of 35% on cumulative timing differences of Frw 100,000,000 at 1 April 2012. Capital allowances (tax depreciation) and depreciation for the year ending 31 March 2013 are as follows:

	Capital allowances	**Depreciation**
	Frw'000	Frw'000
2013 (Actual)	100,000	90,000

The income tax rate for 2013 is 30% and is expected to remain at this level for the foreseeable future.

Required:

State, with reasons, how to account for the deferred tax in the year ended 31 March 2013. **(8 Marks)**

(Total 20 Marks)

QUESTION FIVE

a) The definition of a liability forms an important element of the IASB conceptual framework for financial reporting and is the basis for IAS 37 Provision, Contingent Liabilities and Contingent Assets.

Define a liability and describe the circumstance under which provisions should be recognized. Give two examples of how the definition of liabilities enhances the reliability of the financial statements.

(5 Marks)

b) IAS 11 Construction Contracts deals with accounting requirements for construction contacts whose durations usually span at least two accounting periods.

Describe the issues related of revenue and profit recognition relating to construction contracts.

(5 Marks)

c) TV is a construction company that prepares its financial statements to 31 March each year. During the year ended 31 March 2014 the company commenced two construction contracts that are expected to take more than one year to complete. The position of each contract at 31 March 2014 is as follows:

Contract	**1**	**2**
	Frw "000"	**Frw "000"**
Agreed contract price	5,500	1,200
Estimated total costs at commencement	4,000	900
Estimated total costs at 31 March 2014	4,000	1,250
Agreed value of work completed at 31 March 2014	3,300	840
Progress billings invoiced and received at 31 March 2014	3,000	880
Contract costs incurred to 31 March 2014	3,900	720

The agreed value of the work completed at 31 March 2014 is considered to be equal to the revenue earned in the year ended 31 March 2014. The percentage of completion is calculated as the agreed value of the work completed to the agreed contract price.

Required:

Calculate the amounts which should appear in the statement of profit or loss and statement of financial position of TV Company at 31 March 2014 in respect of the above contracts. **(10 Marks)**

(Total 20 Marks)

End of question paper

BLANK PAGE