INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

FRIDAY: 4 DECEMBER 2015

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

This section has three compulsory questions

QUESTION ONE

(a) IAS 20: Accounting for Government Grants and Disclosures of Government Assistance, provides two methods of accounting for government grants. State two arguments for each method. **(4 Marks)**

(b) On 1 March, 2015 ABC Ltd purchased equipment worth Frw 200,000,000 and received a grant from the government of Frw 50,000,000 towards the cost of the equipment. ABC Ltd's accounting policy is to treat the grant as deferred income. The equipment has an estimated useful life of 8 years.

REQUIRED:

(i) Show the accounting entries to record the acquisition of the equipment and the receipt of the government grant in the year ended 30 November 2015. **(6 Marks)**

(ii) The government further transferred additional equipment to ABC Ltd on 1 June, 2015. The fair value of the equipment transferred was assessed to be Frw 80,000,000. However, the cost of such equipment on 1 June 2015 was estimated at Frw 60,000,000. Show the entries to record this non-monetary government grant in the books of ABC Ltd. **(5 Marks)**

(c) Certain forms of government assistance cannot reasonably have a value placed upon them and certain transaction with government cannot be distinguished from the normal trading transactions of the entity. State two examples of government assistance which cannot reasonably have a value placed upon them. **(2 Marks)**

(d) IAS 41: Agriculture defines agricultural activity as the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or additional biological assets. State three examples each of: biological assets; agricultural produce; and products that are as a result of processing agricultural produce after harvest. **(3 Marks)**

(Total 20 Marks)

QUESTION TWO

Humura Ltd acquired 80% of Ndaho Ltd for Frw 120,000,000 on 1 November, 2014 when the share capital of Ndaho Ltd was Frw 50,000,000 and reserves were Frw 5,000,000.

The statements of profit or loss and other comprehensive income for Humura Ltd and Ndaho Ltd for the year ended 31 October, 2015 were as follows.

	Humura Ltd	**Ndaho Ltd Frw**
	Frw '000'	**Frw '000'**
Revenue	1,800,000	700,000
cost of sales	(1,100,000)	(500,000)
Gross profit	700,000	200,000
Administrative expenses	(250,000)	(70,000)
Selling and distribution expenses	(150,000)	(50,000)
Net profit	**300,000**	**80,000**

Additional information:

(i) The share capital and reserves of Ndaho Ltd and Humura Ltd as at 31 October 2015 stood as follows.

	Ndaho Ltd	Humura Ltd
	Frw	Frw
Share capital	50,000,000	200,000,000
Reserves	6,000,000	180,000000

During the year, Ndaho Ltd sold goods worth Frw 200,000,000 to Humura Ltd. at a markup of 20%. 40% of these goods were still in Humura Ltd's inventory at the year end.

(ii) Humura Ltd owns 40% of the ordinary shares of Kiyovu Ltd and has a seat on its board. Kiyovu Ltd's accounts for the period ended 31 October, 2015 showed an after tax profit of Frw 49,000,000.

(iii) At 31 October, 2015 Humura Ltd's total number of shares was 200,000. All shares were fully issued and paid up.

(iv) Humura Ltd has assets denominated in USD. On 1 November, 2014, these assets had a fair value of USD 50,000. Included in this value is a loan of USD 10,000 issued to Ndaho Ltd at an interest rate of 20% per annum payable at the end of each year. The interest payable by Ndaho Ltd for the ended 31 October 2015 was included in the administrative expenses. The exchange rates as on 1 November, 2014 and 31 October, 2015 were Frw 750 and Frw 810 respectively to 1 USD. No record of the foreign exchange differences has been included in the books of Humura Ltd.

(v) Corporation tax is to be calculated at a rate of 30%

REQUIRED:

(a) Consolidated statement of profit or loss and other Comprehensive incomes; and a consolidated statement of changes in equity for the year ended 31 October, 2015. **(25 Marks)**

(b) Basic earnings per share for Humura Ltd after the consolidation. **(2 Marks)**

(c) Explain the circumstances under which a group may decide to dispose of part of its subsidiaries.

(3 Marks)

(Total 30 Marks)

QUESTION THREE

Kabeza Ltd is incorporated in Rwanda and listed on the stock exchange. The trial balance for the company for the year ended 31 December, 2014 is as follows:

	Frw '000'	Frw '000'
Share capital		75,000
Dividends paid	10,000	
Turnover		1,000,000
Inventory	50,000	
Purchases	800,000	
Returns	5,000	11,000
Discounts	1,000	2,500
Carriage on purchases	2,100	
Land	50,000	
Buildings	30,000	
Accumulated depreciation (Buildings)		9,000
Plant and machinery at cost	45,000	
Accumulated depreciation (Plant & Machinery)		13,500
Motor vehicles at cost	25,000	
Accumulated depreciation (Motor vehicles)		7,500
Rent and rates	3,200	
Power and fuel	2,200	
General expenses	7,000	
Cash at hand	15,000	
Cash at bank	63,000	
Loan from bank		80,000
Trade receivables and payables	150,000	60,000
	1,258,500	**1,258,500**

Additional notes:

(i) Included in plant and machinery is machinery worth to Frw 3,000,000 which had been recommended to be reclassified as held for sale on 1 January 2014. No adjustment has been done to this item.

(ii) Depreciation is charged on a straight line basis on plant and machinery at 10 %, and motor vehicles at 10% per annum. On 1 January, 2014 Kabeza Ltd decided to change the depreciation method on buildings. Buildings had always been depreciated at a rate of 5% on straight line basis per annum. The estimated remaining useful life of the buildings was 10 years and management decided to depreciate the buildings on a straight line basis on the assumption that there was no residue value at the end of the 10 years.

(iii) Kabeza Ltd invested in the development of a new system to assist in its operations. During the year, the company incurred Frw 5,000,000 in relation to the development of the system. This was included in general expenses.

(iv) On 31 December, 2014 inventory with a cost of Frw 102,000,000 had a net realizable value of Frw 88,000,000 due to changes in economic conditions.

(v) Kabeza Ltd sells goods on a sale and/or return basis. Included in the trade receivables is a value of Frw 30,000,000 relating to goods sold on the sale and/or return basis. By 31 December 2014, it was established that 30% of these goods were to be returned. A provision of 5% on account receivables was to be provided for doubtful debts.

(vi) Income taxes for the year ended 31 December, 2014 of Frw 1,300,000 had not been paid. This amount was included in trade payables. Tax rate is 30%.

REQUIRED:

(a) A schedule for property, plant and equipment. **(5 Marks)**

(b) A statement of profit or loss and other comprehensive income for year ended 31 December 2014. **(12 Marks)**

(c) Statement of financial position as at 31 December, 2014. **(13 Marks)**

(Total 30 Marks)

SECTION B

Attempt one of the two questions in this section.

QUESTION FOUR

(a) Different parties require different financial information from financial statements. However, it is possible to construct a series of financial ratios that would provide all parties with information that they would find relevant. Financial ratios are extremely useful if used and interpreted appropriately, otherwise they can be very misleading.

REQUIRED:

(i) Identify any two user groups of each of the following categories of ratios.

- Profitability ratios **(1 Mark)**
- Liquidity Ratios **(1 Mark)**
- Efficiency ratios **(1 Mark)**
- Shareholders' ratios **(1 Mark)**
- Capital structure ratios **(1 Mark)**

(ii) State and describe two examples of each of the above categories of ratios. **(10 Marks)**

(b) Briefly explain any two limitations of using financial statement-based ratios in predicting the future performance of an entity. **(2 Marks)**

(c) Identify any three ways by which management can change the gearing and/or capital structure of a company. **(3 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) The government of Rwanda rolled out a 5-year Public Finance Management (PFM) reform strategy with the aim of enhancing the public finance management system to prepare efficient, effective, transparent, and to reduce opportunities for corruption. The reform process is being implemented under four pillars and reinforced by 12 distinct but complementary components that encompass the whole range of activities including planning and budgeting, budget execution and expenditure control, audit and inspection, reporting and accountability, and oversight arrangements. The Chief Budget Managers play a central role in the implementation of the PFM strategy and contribute directly to its success.

REQUIRED:

(i) Identify the four pillars under which the reform process is being implemented. **(4 Marks)**

(ii) State any six complementary components which reinforce the pillars in (a) (i) above. **(6 Marks)**

(iii) Outline any seven duties/responsibilities of the Chief Budget Manager as specified in Articles 21 and 25 of the Organic Budget Law. **(7 Marks)**

(b) IAS 34 Interim Financial Reporting: defines an interim financial report as a financial report containing either a complete set of financial statement as described in IAS1, or a set of condensed financial statements for an interim period. An interim period is a financial reporting period shorter than a full financial year. Whereas the preparation of interim financial reports is not mandatory, the International Accounting Standards Board (IASB) strictly recommends to governments that interim financial reports should be a requirement for companies whose equity or debt securities are publicly traded.

REQUIRED:

Identify the minimum components of an interim financial report as specified by IAS 34: Interim Financial Reporting. **(3 Marks)**

(Total 20 Marks)

End of question paper

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