INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

WEDNESDAY: 30 NOVEMBER 2016

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has two sections; A & B.
3. Section A has one Compulsory Question while section B has three optional questions to choose any two.
4. In summary attempt three questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings.
7. All iCPAR Examination rules and regulations apply.

SECTION A

This is a compulsory question

QUESTION ONE

(a) The following financial statements relate to Ngoma Ltd whose shares are traded on the Rwanda Stock Exchange market. Group statement of profit or loss and other comprehensive income for the period ended 30 September, 2016.

	Ngoma Ltd	**Kayonza Ltd**	**Nyanza Ltd**	**Burera Ltd**
	Frw '000'	**Frw '000'**	**Frw '000'**	**Frw '000'**
Sales revenue	7,896,000	4,567,000	3,564,320	6,789,200
Cost of sales	(3,675,400)	(2,564,700)	(1,789,650)	(4,125,270)
Gross profit	**4,220,600**	**2,002,300**	**1,774,670**	**2,663,930**
Other income	342,130	569,870	23,210	456,320
Distribution costs	(2,156,540)	(1,002,310)	(789,540)	(567,430)
Administration costs	(1,235,430)	(987,675)	(560,700)	(356,700)
Finance cost	(560,900)	(250,000)	(260,000)	(257,900)
Profit before tax	609,860	332,185	187,640	1,938,220
Income tax	(167,000)	(108,000)	(67,500)	(720,140)
Profit after tax	**442,860**	**224,185**	**120,140**	**1,218,080**

Additional information:

1. On 1 October, 2014 Ngoma Ltd acquired 75% of the equity in Kayonza Ltd whose shares were also traded on the Rwanda Stock Exchange market for Frw 500 million when the fair values of net assets and non-controlling interest of Kayonza Ltd were Frw 352 million and Frw 171 million respectively. Ngoma Ltd has included legal and accountancy costs of Frw 1.5 million in the cost of acquisition.

2. On 31 March, 2016 Ngoma Ltd acquired 65% of the equity in Burera Ltd for Frw 800 million when the fair values of net assets and non-controlling interest of Burera Ltd were Frw 650 million and Frw 322 million respectively.

3. Burera Ltd disposed of one of its vehicles on 30 September, 2016 for Frw 25 million. The vehicle was purchased two years before Ngoma Ltd acquired its shares in Burera Ltd at Frw 30 million. The group policy is to depreciate all vehicles on a straight-line basis over their useful lives of five years with nil residual value. At the time Ngoma Ltd acquired the shares in Burera Ltd, the fair value of the vehicle was Frw 21 million.

4. In a bid to implement its new strategic plan for the next five years, Ngoma Ltd sold all its shares in Kayonza Ltd for Frw 700 million on 30 April, 2016 when the fair values of net assets and non-controlling interest of Kayonza Ltd were Frw 450 million and Frw 250 million respectively. Kayonza Ltd was de-listed from the Stock Exchange market one month after Ngoma Ltd had disposed of its shares in the company.

5. Ngoma Ltd acquired 30% of the shares in Nyanza Ltd for Frw 230 million to gain access to the market on 1 May, 2016 on which date the fair value of the net assets of Nyanza Ltd was Frw 180 million.

6. On the 23 November, 2015 Burera Ltd sold goods to Ngoma Ltd for Frw 1,500 million at cost plus price of 25%. By the end of the period, a third of the goods remained in inventory.

7. It is group policy to value the non-controlling interest at acquisition at fair value.

REQUIRED:

(i) Consolidated statement of profit or loss and other comprehensive income for Ngoma Ltd for the period to 30 September, 2016. Round off your figures to the nearest thousand. **(20 Marks)**

(ii) Discuss the challenges that may be encountered by Ngoma Ltd in consolidating the results of Kayonza Ltd. **(5 Marks)**

(b) Gasabo Ltd whose reporting date is 30 September, experienced financial difficulties during the period ended 30 September, 2016 and opted to dispose of one of its specialised machines for Frw 2.5 billion. The company had purchased this machine for Frw 1.8 billion on 1 October, 2015. The buyer of the machine immediately leased it back to Gasabo Ltd for a period of twenty years, which was felt to be equivalent to the majority of the asset's economic life. The lease rentals for the period are Frw 220.5 million, payable annually in arrears. The interest rate implicit in the lease is 7%. The present value of the minimum lease payments is the same as the sale proceeds.

REQUIRED:

(i) Discuss, in accordance with IAS 17: Leases and with appropriate computations, the treatment of the above transactions in the financial statements of Gasabo Ltd for the period ended 30 September, 2016. **(10 Marks)**

(ii) Discuss the benefit Gasabo Ltd derived from the whole arrangement. **(5 Marks)**

(c) Rwamagana Ltd is a public limited company which is involved in research work in tropical diseases and often receives grants from both Government and Non-Governmental organisations to conduct research.You have been tasked to prepare the financial statements for Rwamagana Ltd for the period ended 30 June, 2016 and you have been provided with the following information.

1. The company received Frw 3 billion as a grant from the Government during the period under review and applied it in line with agreement with Government as follows:

- 40% was used as a contribution towards the purchase of specialized equipment for conducting research on HRE virus, which has had a negative impact on the productivity of the population. The total cost of the equipment was Frw 5 billion. The equipment had not yet arrived in the country by close of the reporting period. It is company policy to depreciate such equipment at 20% per annum on the straight-line basis.
- 30% was used to dispose of waste from the research activities of the company which had become a health risk to the communities in the nearby areas. The vendor selected to carry out this activity was paid after completing the exercise during the period under review.
- The balance was used as contribution to purchase a mobile laboratory. The company acquired the laboratory at a cost of Frw 3.5 billion. The expected useful life of the laboratory is ten years and is depreciated on a straight line basis with nil residual value.

2. The company acquired a bus for Frw 100 million on 1 July, 2013. The bus was revalued on 1 July, 2014 and 1 July, 2015 at Frw 60 million and Frw 80 million respectively. It is the company policy to depreciate buses on straight-line basis over their useful lives of 10 years with nil residual value.

3. The company sold one of its buildings in town for Frw 600 million during the period ended 30 June, 2016. The building was acquired five years ago for Frw 500 million. It is company policy to revalue its buildings annually. Two years from 30 June, 2016 the company revalued the buildings at Frw 510 million. It is also company policy to depreciate buildings on a straight-line basis over their useful lives of 20 years with nil residual value.

REQUIRED:

Discuss, with appropriate computations, the treatment of the above transactions in accordance with IAS 20: Accounting for Government Grants and Disclosure of Government Assistance and IAS 16: Property, Plant and Equipment. **(10 Marks)**

(Total 50 Marks)

SECTION B

Attempt two questions from this section

QUESTION TWO

(a) The following information relates to Gashumba & Sons Ltd for the period to 30 June, 2016.

1. Statement of profit or loss and other comprehensive income (extract)

	Frw "000"
Profit before interest and tax	992,000
Finance income	42,000
Finance cost	(16,000)
Profit before tax	1,018,000
Income tax expense	(452,000)
Profit for the year	566,000
Other comprehensive income:	
Gain on revaluation of property	120,000
Total comprehensive income for the year	686,000

2. Non-current assets

(i) Assets held at cost were impaired by Frw 25,000,000.

(ii) Freehold land and buildings were revalued to Frw 500,000,000 (book value Frw 380,000,000).

(iii) A previously revalued asset was sold for Frw 60,000,000. The details of the revaluation are:

	Frw '000'
Book value at revaluation	50,000
Revaluation	70,000
	120,000
Depreciation (120,000/10) × 3	(36,000)
	84,000

Gashumba & Sons Ltd applies IAS 16 which allows a reserve transfer of the realised surplus (the difference between depreciation based on revalued amount and depreciation based on cost) as the asset is used to retained earnings. Revaluations during the year related to land.

(iv) Details of investment properties are as follows:

	Frw '000'
Original cost	120,000
Revaluation surplus	40,000
Value at 1 July, 2015	160,000

The properties had a valuation on 30 June, 2016 of Frw 110,000,000. Gashumba & Sons Ltd has previously accounted for its investment properties by crediting gains to a revaluation surplus. Gashumba

& Sons Ltd now wishes to apply the fair value model of IAS 40 which provides that gains and losses should be accounted for in profit or loss. The elimination of the previous revaluation surplus is to be treated as a change in accounting policy in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). No adjustment has yet been made for the change in accounting policy or subsequent fall in value.

3. Share capital

During the year the company had the following changes to its capital structure:

(i) An issue of 200,000 ordinary shares with 2 ordinary bonus shares for each share capitalizing its share premium reserve.

(ii) An issue of 400,000 ordinary shares at Frw 1,000 per share.

4. Equity The book value of equity at the start of the period was as follows:

	Frw '000'
Share capital	480,800
Share premium	240,150
Retained earnings	420,120
Revaluation surplus	125,750
	1,266,820

5 Dividends paid during the period amounted to Frw 150,000,000.

REQUIRED:

Using the information above, prepare a statement of changes in equity for Gashumba & Sons Ltd for the period to 30 June, 2016. **(10 Marks)**

(b) The following information relates to Muteteli Ltd for the period to 30 June, 2016.

(i) Carrying amount of plant and equipment at 30 June, 2016 Frw 920 million.

(ii) Tax written down value of plant and equipment at 1 July, 2015 Frw 505 million.

(iii) During the period to 30 June, 2016 the company purchased plant and equipment for Frw 380 million which is eligible for tax depreciation.

(iv) Muteteli Ltd acquired its freehold property in 2015 for Frw 500 million. It was revalued in the 2016 financial statements to Frw 950 million.

Ignore depreciation on buildings. No tax allowances were available to Muteteli Ltd on buildings.

REQUIRED:

Draft the note to the statement of financial position as at 30 June 2016 (omitting comparatives), in respect of deferred tax. Assume a current income tax rate of 30%. Tax depreciation is at 25% on a reducing balance basis. **(15 Marks)**

(Total 25 Marks)

QUESTION THREE

(a) Kamonyi Ltd is a publicly listed pharmaceuticals company. During the period to 31 December, 2015 the following transactions took place:

(i) Frw 60 million was spent on developing a new throat cancer drug which received clinical approval on 1 June, 2015 and is proving commercially successful. The directors expect the project to be in profit within 12 months of the approval date. The throat cancer drug patent was registered on 1 June, 2015. It cost Frw 150 million and remains in force for three years.

(ii) A research project was set up on 1 September, 2015 which is expected to result in a new Ulcer cancer drug. Frw 80 million was spent on computer equipment and Frw 160 million on staff salaries. The equipment has an expected life of four years. The Ulcer cancer drug patent was registered on 1 October, 2015.

(iii) On 1 August, 2015, Kamonyi Ltd acquired an up-to-date list of customers at a cost of Frw 180 million and has been visiting them (the customers) to explain the new Ulcer cancer drug. The list is expected to generate sales for four years.

REQUIRED:

Prepare computations for amounts to be included in the statement of financial position for Kamonyi Ltd as at 31 December, 2015 and in the statement of profit or loss for that period. **(10 Marks)**

(b) Nyillingondo's inventory includes four items, for which the following details are available for the period to 31 December, 2015.

Product	Supplier's list price	Net realisable value
	Frw '000'	Frw '000'
A	540,000	625,000
B	321,000	230,000
C	620,000	619,000
D	320,000	290,000

The company receives 2½% trade discounts from its suppliers and it also takes advantage of a 2% discount for prompt payment.

REQUIRED:

(i) Calculate the total value of products A, B, C and D which should be shown in inventory in the statement of financial position. **(10 Marks)**

(ii) Evaluate and explain the difference that a change from weighted average to the first in first out (FIFO) method of inventory valuation is likely to have on profit or loss. **(5 Marks)**

(Total 25 Marks)

QUESTION FOUR

Mukamutara Ltd has carried on business for a number of years as a retailer of a wide variety of consumer products. Mukamutara Ltd operates from a number of stores in the Southern and Northern Provinces of Rwanda. In recent years the company has found it necessary to provide credit facilities to its customers in order to maintain its growth in revenue. As a result of this decision the liability to its bankers has increased substantially. The statutory financial statements for the period to 30 June, 2016 have recently been submitted and approved in the annual general meeting and extracts are provided below, together with comparative figures for the previous period.

Statement of profit or loss and other comprehensive income

	2016	2015
	Frw '000'	Frw '000'
Revenue	5,222,500	5,102,200
Cost of sales	**(5,021,750)**	**(4,921,500)**
Gross profit	200,750	180,700
Operating expenses	(104,700)	(83,640)
Operating profit	96,050	97,060
Interest from credit sales	52,290	52,260
Interest payable	(92,110)	(72,260)
Profit before taxation	56,230	77,060
Tax payable	(42,000)	(52,220)
Profit after tax	**14,230**	**24,840**

Statement of financial position:

	2016	2015
Assets:	**Frw '000'**	**Frw '000'**
Property, plant & equipment	4,532,200	3,954,000
Inventories	4,462,000	4,454,000
Trade receivables	4,463,300	3,455,000
Cash	441,500	356,200
	13,899,000	**12,219,200**
Equity and liabilities:		
Share capital	449,000	449,000
Reserves	4,428,200	4,403,360
	4,877,200	4,852,360
Bank loans	2,561,000	2,452,000
Other interest bearing borrowings	2,432,000	1,920,000
Trade payables	3,584,000	2,552,840
Tax payable	444,800	442,000
Total Equity & Liability	**13,899,000**	**12,219,200**

Other information

(a) (i) Depreciation charged for the two years in question was:

Year	Frw '000'
2016	700,000
2015	600,000

(ii) Other balances in December 2014

	Frw '000'
Closing inventory	3,442,000
Receivables	3,022,000
Payables	-

(b) The other interest bearing borrowings are secured by a floating charge over the assets of Mukamutara Ltd. Their repayment is due on 30 June, 2016.

(c) Dividends of Frw 30 Million were paid in 2014 and 2015. A dividend of Frw 20 Million has been proposed.

(d) The bank loans are unsecured. The maximum lending facility the bank will provide is Frw 930 Million.

(e) Over the past two years the level of credit sales has been as follows:

Year	Frw "000"
2016	5,100,000
2015	4,900,000

The entity offers extended credit terms for certain products to maintain market share in a highly competitive environment. Given the increase in the level of bank loans which has taken place in recent years, the company has recently written to its bankers to request an increase in the lending facility. The request was received by the bank on 15 October, 2016; two weeks after the financial statements were submitted and approved in the annual general meeting. The bank is concerned at the steep escalation in the level of the loans and has asked for a report on the financial performance of Mukamutara Ltd for the last two years.

REQUIRED:

As a management accountant employed by the bankers of Mukamutara Ltd, prepare a report to the bank which analyses the financial performance of the company for the period covered by the financial statements. Put particular emphasis on the bank's concern regarding the rapid increase in the level of borrowing. **(Total 25 Marks)**

End of question paper