INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

MONDAY: 27 NOVEMBER 2017

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 (3)** compulsory questions while Section **B** has **two (2)** questions, **one** question to be attempted.
4. In summary attempt **four (4)** 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)

Attempt all three questions in this section

QUESTION ONE

(a) IAS 17 sets out the factors that need to be considered in the decision whether risks and rewards of ownership have passed to the lessee. These factors are considered individually and in combination when making the decision and, if met, would indicate a finance lease.

REQUIRED:

Discuss **five** factors that need to be considered in the decision whether risks and rewards of ownership have passed to the lessee. **(5 Marks)**

(b) Gicanda Ltd is a construction company operating a stone quarry and with a number of contracts within Rwanda. For the year ended 31 October, 2017 the following information has been availed to you for your advice:

1. Gicanda Ltd entered into a six-year finance lease for an item of plant on 1 November, 2015. The agreement requires Gicanda Ltd to pay a deposit of Frw 728 million to be followed by five equal annual installments of Frw 1.092 billion on 1 November in each subsequent year. The price of the asset if purchased outright would be Frw 5.642 billion. Gicanda Ltd has just recently paid the insurance premium for the machine. Gicanda Ltd uses the sum of years' digits to allocate the finance charge for this lease.

2. Gicanda Ltd entered into a two-year contract on 1 December, 2016 at a contract price of Frw 8.75 billion. At the end of the accounting period the following information has been provided:

   - Contract costs incurred Frw 5.45 billion.
   - Estimated costs to completion Frw 4.02 billion.
   - Materials on site Frw 350 million.
   - Progress payment received Frw 2.1 billion.
   - Non-contract inventories Frw 6.0 billion.

3. At the start of the year Gicanda Ltd incurred Frw 200 million towards research and development of a new ballast production system. The above expenditure is analysed as follows.

Item	**Frw "Million"**
Research expenses	50
Development expenditure	150
Total	**200**

The new ballast production system was put into use 01 May, 2017 having a useful life of 5 years to nil residual value.

REQUIRED:
Prepare extracts of financial statements for the year ending 31 October, 2017, showing how the above items will be recognised. **(15 Marks)**

(Total 20 Marks)

QUESTION TWO
Kamena Ltd acquired 1.2 million shares in Gatora Ltd on 1 October, 2016 when the retained earnings of Gatora Ltd were Frw 65 million. Kamena Ltd paid Frw 912 million in cash and issued ordinary shares on the basis of 1 share for every 4 shares acquired in Gatora Ltd. The market value of both Kamena Ltd's and Gatora Ltd shares on this date were at Frw 650. It is the group policy to value the non-controlling interest at fair value. The summarized draft statements of financial position of both companies as at 30 September, 2017 are as follows:

	Kamena Ltd	**Gatora Ltd**
Assets:	**Frw "000"**	**Frw "000"**
Non-current assets:		
Property, plant & equipment	1,029,000	705,600
Investments	1,107,000	-
	2,136,000	**705,600**
Current assets:		
Inventories	531,200	311,600
Receivables	784,200	517,400
Cash and bank	196,000	41,160
	1,511,400	**870,160**
Total assets	**3,647,400**	**1,575,760**
Equity and liabilities:		
Equity share capital Frw 600 per share	1,176,000	960,000
Retained earnings	936,400	294,000
	2,112,400	**1,254,000**
Non-current liabilities:		
Long-term borrowings	896,000	135,160
Current liabilities:		
Payables	639,000	157,200
Dividends	-	29,400
	639,000	**186,600**
Total equity and liabilities	**3,647,400**	**1,575,760**

Additional information:

1. Kamena Ltd credited equity share capital and debited investment Gatora Ltd with the whole amount of the fair value of shares issued in exchange.
2. Gatora Ltd buys goods from Kamena Ltd upon which Kamena Ltd earns a margin of 25%. At 30 September, 2017 Gatora Ltd's inventories included Frw 110 million of the goods purchased from Kamena Ltd.
3. An impairment review performed by Kamena Ltd revealed that goodwill had been impaired by 20%.
4. Just after acquisition of Gatera Lts, Kamena Ltd offered a short term 15% Frw 130 million loan to Gatora Ltd. By 30 September, 2017 the loan and the related interest had not yet been paid (loan interest included in payables of Gatora Ltd). The loan and interest are included in the receivables of Kamena Ltd.
5. At 30 September, 2017 Kamena Ltd had receivables of Frw 34 million owed by Gatora Ltd and payables of Frw 21 million owed to Gatora Ltd. The amounts were the same in Gatora Ltd.
6. Dividend receivable had already been accounted for by Kamena Ltd included in receivables.

REQUIRED:

(a) Prepare a consolidated statement of financial position for Kamena Ltd for the year ended 30 September, 2017. **(22 Marks)**

(b) Discuss the steps involved in the acquisition method of accounting for business combination as per IFRS 3: Business Combinations and the circumstances under which a parent may not be required to present consolidated financial statements.

(8 Marks)

(Total 30 Marks)

QUESTION THREE

Kabuga Ltd deals in the manufacture of a wide range of consumer goods in the west province of Rwanda. The following information was extracted from the financial statements of Kabuga Ltd for the year ended 31 August, 2017:

Statement of profit or loss and other comprehensive income

	Frw "000"
Gross profit	240,300
Administrative expenses	(110,000)
Distribution expenses	(50,500)
Interest expense	(9,200)
Profit before tax	70,600
Income tax expense	(33,300)
Profit for the year	37,300
Other comprehensive income:	
Revaluation gain on property	11,100
Total comprehensive income for the year	**48,400**

Statement of Financial position as at 31 August

	2017	2016
Non-current assets:	**Frw "000"**	**Frw "000"**
Property plant & equipment	178,300	118,600
Intangible assets	85,000	42,500
Investments	-	45,100
	263,300	**206,200**
Current assets:		
Inventory	96,400	79,100
Receivables	108,000	87,000
Cast at hand	43,000	17,500
Cash at bank	-	14,000
	247,400	**197,600**
Total assets	**510,700**	**403,800**
Equity & Liabilities:		
Equity:		
Share capital (Frw 500 ordinary shares)	103,000	88,500
Share premium	2,650	1,200
Revaluation reserve	21,400	10,300
Retained earnings	149,000	125,300
	276,050	**225,300**
Noncurrent liabilities		
Long-term loan	91,600	74,600
Current liabilities:		
Trade payables	103,400	89,900
Taxation	24,150	14,000
Bank overdraft	15,500	-
	143,050	**103,900**
Total equity and liabilities	**510,700**	**403,800**

Additional information:

1. Due to the uncertainty of the investment climate in the country, the non-current investment was disposed of at Frw 40 million.
2. The following information relates to properly, plant & equipment of Kabuga Ltd as at 31 August:

	2017	**2016**
	Frw "000"	**Frw "000"**
Cost	298,000	219,300
Accumulated depreciation	(119,700)	(100,700)
Net book value	178,300	118,600

It is the policy of Kabuga Ltd to charge depreciation to administrative expenses.

3. During the year ended 31 August 2017, Kabuga Ltd issued 29,000 ordinary shares at a premium of Frw 50 per share and paid dividends of Frw 13.6 million.
4. Trade payables as at 31 August 2017 include interest payable of Frw 15,000,000 of which 40% was accruing at beginning of the year.

REQUIRED

(i) Explain the major areas where the statement of cash flows provides information not found elsewhere in the financial statements. **(6 Marks)**

(ii) Prepare for Kabuga Ltd a statement of cash flows for the year ended 31 August, 2017, using the indirect method in accordance with the requirements of IAS 7: Statement of Cash Flows. **(24 Marks)**

(Total 30 Marks)

SECTION (B)

Attempt one question in this section.

QUESTION FOUR

Uhirwa Ltd a trading company commenced business in central Kigali in 2016, preparing its financial statements to 31 October. The directors of Uhirwa Ltd are trying to assess the financial performance and financial position of the company for the year ending 31 October, 2017. The following information has been extracted from the financial statements of the company:

	Frw "000"
Sales	1,824,800
Operating costs	1,204,000
Other expenses	760,000
Interest on loans	47,250
Inventory	264,000
Receivables	378,000
Property, plant & equipment	712,000
Payables	286,000
Share capital	920,000
Loans	315,000
Cash and bank	110,000

All expenses were paid during the year with the exception of interest of loans.

REQUIRED:

Prepare a report to the management of Uhirwa Ltd commenting on the profitability (gross profit margin and Net profit margin), liquidity (Current and Quick Ratio), debt management (debt to equity and interest cover ratios), and activity (Inventory, receivable and payables days), of the company. **(Total 20 Marks)**

QUESTION FIVE

(a) In 2013 the Organic Law on state finances and property was introduced and gazetted in Rwanda. Under this law when using public funds, fundamental public finance management principles ought to be put into consideration.

REQUIRED:
Discuss any **six** powers of the minister under the organic law on state finances and property regulations for the use of public finances. **(6 Marks)**

(b) Since September 2009, the Ministry of Finance and Economic Planning (MINECOFIN) has been developing an Integrated Financial Management System (IFMIS) as part of the wider Public Financial Management (PFM) reforms. The system, known as SmartFMS, in-house developed software, has been developed specifically for the government of Rwanda.

REQUIRED:
Discuss the aims of the wider PFM reforms to the government of Rwanda in developing an IFMIS. **(6 Marks)**

(c) In a move to improve the capacity of government to provide the legislative bodies, citizens, media and other stakeholders with understandable, relevant, reliable, and comparable financial statements, the government of Rwanda has taken the path of adopting the International Public Sector Accounting Standards (IPSAS).

REQUIRED:
Discuss any **four** benefits that will be achieved by the government of Rwanda in adopting IPSAS. **(8 Marks)**

(Total 20 Marks)

End of question paper