
CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 1 EXAMINATIONS
A1.3: ADVANCED FINANCIAL REPORTING

WEDNESDAY: 4 DECEMBER 2019

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

SECTION A

QUESTION ONE

- (a) Ikiraro Ltd in the tea industry and listed on the Rwanda Stock Exchange was expanded by acquiring investments in other tea companies in Rwanda. The following information is provided regarding financial statements of the company and its subsidiary.

Statement of Financial Position as at 30th September 2019

	Ikiraro Ltd Frw “000”	Gasogi Ltd Frw “000”
Assets		
Non-Current Assets		
Property, Plant & Equipment	24,373,840	7,846,000
Investment in subsidiary	5,500,000	
Agricultural assets	957,200	1,024,000
Total Non-Current Assets	30,831,040	8,870,000
Current Assets		
Inventory	5,211,760	1,500,000
Receivables	504,000	1,650,000
Cash & bank	4,500,000	1,000,000
Total current assets	10,215,760	4,150,000
Total Assets	41,046,800	13,020,000
Equity & liabilities		
Equity		
Share capital of Frw 1,000 each	33,000,000	6,000,000
Retained earning	4,400,000	448,000
Total equity	37,400,000	6,448,000
Non-Current Liabilities		
Borrowings	1,360,000	4,800,000
Current Liabilities		
Payables	2,225,000	1,512,000
Tax payable	24,000	175,000
Environmental Provision	37,800	85,000
Total current liabilities	2,286,800	1,772,000
Total liabilities	3,646,800	6,572,000
Total Equity & Liabilities	41,046,800	13,020,000

1. Ikiraro Ltd acquired 90% of Gasogi Ltd shares on 01/10/2018 for a consideration of Frw 5 billion cash and Frw 550 million payable on 01/10/2019. Relevant interest rate is 10%. At acquisition date, the fair value of Gasogi Ltd shares was Frw 1,020 per share and the retained earnings balance was Frw 48 million. Property, Plant & Equipment had Frw 12 million less than carrying amount. Depreciation policy is 15% per year straight-line. Non-controlling interest is measured at fair value at acquisition.
2. To diversify its investments, Ikiraro Ltd bought 100,000 Crystal Telecom Ltd shares from the Rwanda Stock Exchange at the start of the year at a price of Frw 100 each. At the end of the year the share price had changed to Frw 216. These transactions and events are yet to be reflected in the financial statements.
3. During the year Gasogi Ltd sold bags of tea (inventory) to Ikiraro Ltd for Frw 25 million the profit in it was Frw 5 million. Ikiraro still had Frw 10 million of those goods in its inventory at the reporting date.
4. The fair value adjustment for tea plantations (Agricultural assets) had not been done. The fair values less estimated point of sale costs was Frw 990 million and Frw 1.1 billion for Ikiraro Ltd and Gasogi Ltd respectively.
5. Goodwill in Gasogi Ltd was tested for impairment at the end of the year and impairment loss of Frw 45 million was yet to be recognised.
6. Ikiraro Ltd sold 600,000 shares of Gasogi Ltd on 30/09/2019 to Mata Tea Ltd for cash consideration of Frw 810 million cash. Mata Tea Ltd neither had control nor significant influence in Gasogi Ltd. This has not been reflected in the financial statements.

REQUIRED:

- i) Write a brief report (with relevant calculations) to the Investment Committee of the board of Ikiraro explaining how the sale of the shares in Gasogi Ltd in note 6 will be dealt with by Ikiraro Ltd in separate and consolidated financial statements. Ignore any presentation issues.
(10 marks)
 - ii) Prepare consolidated statement of financial position as at 30 September 2019. (show all workings).
(30 marks)
- (b) The Ikiraro Ltd having been listed on the Rwanda Stock Exchange (RSE) together with other entities follows relevant regulations as per the Capital Markets Authority regarding disclosures. The listed entities include those cross listed from other stock exchanges and those listed only in Rwanda.

To enhance visibility and make capital cheaper, listed entities provide non-voluntary disclosures that even include those that are non-financial.

REQUIRED:

State any ten non-voluntary disclosures that are non-financial in nature that Ikiraro Ltd may disclose in its annual report.

(10 marks)

(Total 50 marks)

SECTION B

QUESTION TWO

(a) Songa company Ltd maintains both defined contribution and defined benefit plans for its staff with Rwanda Social Security Board (RSSB) and Ejo heza respectively. The accountant provided the following information regarding the two benefit plans for the year ended 30th September 2019.

RSSB employer and employee plan	Frw
Contribution:	
Paid during the year	14,310,000
Unpaid at start	780,000
Un paid end	610,000
Ejo heza plan	Frw
Play assets:	
Valuation at start of the year	52,410,000
Valuation at end of the year	64,500,000
Present value of obligation from actuary's assessment	
at start of the year	58,300,000
at end of the year	67,600,000
The retirement benefit paid to staff during the year	4,300,000
Contributions paid into the plan	10,830,000
The year's current service cost	9,500,000
Actuarial reserves balance at start of the year	12,100,000
The plan assets had a return of 14% while the plan obligation interest was 12%	

REQUIRED:

Prepare relevant calculations to be presented in the statement of profit or loss and other comprehensive incomes and the statement of financial position as at 30th September 2019 for the defined contribution plan and the defined benefit plan.

(8 marks)

(b) Dendo Ltd operates electricity mini-grid network of assets in Kirehe district. The network of assets without the generation plant had a total value of Frw 6,400,000,000 cost and Frw 4,700,000,000 carrying amount at the end of the year. Depreciation method is 10% reducing balance. During the 2019 rainy season, the section around the marshy areas was submerged and some poles and transformer damaged. This caused black outs in three sectors of Kirehe. The three sectors could not be supplied electricity for 3 months.

REQUIRED:

Using the information provided, write a memo to the board of directors of Dendo Ltd briefly explaining and presenting your case of possible impairment of assets according to IAS 36 Impairment of assets and how this may apply to the specific case of Dendo Ltd (Ignore any calculations). **(5 marks)**

c) Christal investments bought corporate bonds from the Tanzania stocks exchange for Frw 38,191,125 on 1st October 2017. The terms of the corporate bond were as follows;

Nominal Interest 12% per annum receivable every half yearly. The bond was to be bought back at end of 4 years at the nominal value of Frw 40,000,000. The effective interest is 13.5%

REQUIRED:

Show calculations of how this bond will be accounted for in the first two years ended 30th September 2019 with amortised cost **(4 marks)**

d) Rukundo Heavy Equipment Ltd (RHE) leases out caterpillars and tractors to others on finance lease terms. On 1st October 2017 RHE leased a caterpillar to Horizon company for Rwf 42,000,000 per year payable in four equal instalments starting 30th September 2018. The unguaranteed residual value at the end of the four years is Frw 5,000,000. The implicit rate of interest is 14% per annum. the carrying amount of the caterpillar was Frw 120,000,000 and the present value of lease payment Frw 122,375,917.

REQUIRED:

Explain with appropriate calculations how the above transaction will be disclosed in the financial statements for the years ended 30/09/2018 and 30/09/2019 in the financial statements of RHE.

(8 marks)

(Total 25 marks)

QUESTION THREE

Agaciro Group Ltd provided to you the following consolidated financial statements for the year ended 30th June 2019.

Consolidated statement of profit/loss and other comprehensive incomes

	2019
	Frw “000”
Revenue	1,530,000
Cost of shares	(1,100,000)
Gross profit	430,000
Interest and other income	12,000
Administrative expenses	(280,000)
Share of profit from associates	5,300
Profit /loss before tax	167,300
Taxation	(28,000)
Profit for the year	139,300
Other comprehensive income	
Revaluation gain on property	15,200
Total comprehensive income	154,500
Attributable to the parent:	
Profit for the year	116,000
Total comprehensive income	127,200

Consolidated statement of financial position as at 30 June

	2019 Frw “000”	2018 Frw “000”
Assets		
Non-current assets		
Property, Plant & Equipment	60,934,600	62,766,000
Investment in associates	239,300	234,000
Intangible assets	273,000	278,000
Goodwill	435,550	85,000
Total non-current assets	61,882,450	63,363,000
Current assets		
Inventory	6,514,700	7,500,000
Receivables	2,520,000	16,500,000
Cash & bank	53,773,910	51,784,110
Total current assets	62,808,610	75,784,110
Total assets	124,691,060	139,147,110
Equity & liabilities		
Equity		
Share capital of Frw 1,200 each	55,000,000	55,000,000
Revaluation reserve	37,000	25,800
Retained earning	164,300	108,000
Non-controlling interest	982,160	650,310
Total equity	56,183,460	55,784,110
Non-current liabilities		
Deferred grants	53,016,700	63,751,700
Deferred tax	18,900	16,300
Borrowings	6,560,000	12,000,000
Total non-current liabilities	59,595,600	75,768,000
Current liabilities		
Payables	8,900,000	7,560,000
Tax payable	12,000	35,000
Total current liabilities	8,912,000	7,595,000
Total equity & liabilities	124,691,060	139,147,110

Additional information

1. Included in the Administrative expenses are the following

	Frw “000”
Goodwill impaired	8,000
Amortization of intangibles	5,000
Depreciation of Property Plant & Equipment	11,056,000
Impairment of Property Plant & Equipment	38,000
Profit on disposal of Property Plant & Equipment	(103,000)
Realization of deferred grants	(10,860,000)
	<u>144,000</u>

2. During the year Agaciro Ltd acquired 95% of another company that became a subsidiary for Frw 7 billion cash. The net assets acquired had the following carrying amounts. Non-controlling interest was measured at the proportion of net assets at acquisition.

	Frw 000
Property Plant & Equipment	6,200,000
Inventory	432,000
Receivables	253,000
Cash & bank	292,000
Payables	(186,000)
	<u>6,991,000</u>

3. The Property Plant & Equipment were revalued upwards during the year and gain recognised in other comprehensive income. Disposal proceeds from sale of equipment was Frw 160 million. Frw 125 million of cash grant received during the year was for the acquisition of Property Plant & Equipment.

4. Dividend was paid out of profit to parent shareholders and to non-controlling interest shareholders at the end of the year.

REQUIRED:

Prepare the consolidated statement of cash flows for year ended 30th June 2019 using indirect method in accordance with IAS 7

(25 marks)

QUESTION FOUR

a) The Government of Rwanda recently is implementing accruals basis of accounting moving from the modified cash basis. Some government owned companies have already implemented accruals basis of accounting in using IFRS's. You were appointed the finance director of government owned company that had two subsidiaries. One of the subsidiaries is applying modified cash basis and the other full accrual basis. You are to provide consolidated financial statements in line with accrual basis that combines the entities financial statements.

REQUIRED:

- a) Write a brief report to the Accountant General on how you will consolidate the financial statements **(5 marks)**
- b) From the scenario in (a) state any 10 specific items of incomes /expenses and assets/liabilities that may pose challenges in recognition while changing from modified cash basis to accruals basis **(10 marks)**
- c) The Organic Budget Law (OBL) provides guidance to implement the Public Financial Management (PFM), in accordance with the constitution of Rwanda.

REQUIRED:

State any 10 roles of the chief budget manager in fulfilling the implementation of the PFM.

(10 Marks)

(Total 25 marks)

