INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

MONDAY: 2 DECEMBER 2019

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 (COMPULSORY)

QUESTION ONE

On 1st January 2019, Plex Ltd acquired 80% of the equity share capital of Smex Ltd. The acquisition consideration was satisfied by a share exchange of two shares in Plex Ltd for every three acquired shares in Smex Ltd. At the date of acquisition, market values of each share in Plex Ltd and Smex Ltd were Frw 30 and Frw 25 each respectively Plex Ltd has not accounted for the acquisition in its books.

Extracts of income statement for the year ended 30 September 2019

	Plex Ltd "Frw 000'	Smex Ltd""Frw 000"
Revenue	638,000	312,000
Cost of sales	(470,000)	(252,000)
Gross profit	168,000	60,000

Statement of financial position as at 30 September 2019

Assets	**Plex Ltd "Frw 000'**	**Smex Ltd""Frw 000"**
Non-current assets		
Property, plant & equipment	199,000	151,000
Other investment: 8% loan note	11,000	
Total non-current assets	210,000	151,000
Current assets		
Inventory	66,300	54,500
Accounts receivables	46,500	25,000
Bank balance	15,000	7,200
Total current assets	**127,800**	**86,700**
Total assets	**337,800**	**237,700**
Equity & liabilities		
Equity shares of Frw 10 each	112,000	102,000
Revolution surplus	32,000	Nil
Retained earnings	75,000	47,000
Total equity	**219,000**	**149,000**
Non-current liabilities		
8% loan notes	37,000	22,000
Current liabilities		
A/C payables	71,000	56,000
Current t tax payables	10,800	10,700
Total liabilities	**118,800**	**88,700**
Total equity & liabilities	**337,800**	**237,700**

The following information is relevant

1. On date of acquisition the fair values of Smex Ltd assets and liabilities were equal to their carrying amounts except for land and plant whose fair values were Frw 12,000,000 and Frw 28,000,000 in excess of their carrying amounts respectively. Plant is to be depreciated on a pro-rata basis over the remaining useful life of 4 years. Smex has not incorporated the fair value property increase into its financial statements. Any depreciation is part of cost of sales.

2. On 1st January 2019, Plex Ltd also acquired 50% of the 8% loan notes from Smex Ltd.
3. Sales from Plex Ltd to Smex Ltd throughout the year ended 30 September 2019 had consistently been Frw 3,012,000 per month. Plex Ltd made a mark-up on cost of 20% on all these sales. Smex Ltd had sold a quarter of these goods by 30 September 2019.
4. Smex Ltd owed Plex Ltd Frw 12,000,000 as at the year end with regard to the transaction in note 3 above. The books of Smex Ltd, however showed that it owed Plex Ltd only Frw 8,000,000. Smex Ltd had sent a cheque to Plex Ltd on September 2019 which was not received by Plex Ltd until 5 October 2019.
5. Profit after tax of Smex Ltd for the year ended 30 Sept 2019 was Frw 20,000,000. Assume profit accrued evenly throughout the year.
6. Plex Ltd policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, share price of Smex Ltd at that date can be deemed to be representative of the fair value of the shares held by non-controlling interest.
7. The goodwill arising on acquisition of Smex Ltd is impaired by 20%. Impairment is charged to cost of sales.

REQUIRED:

In accordance with International Financial Reporting Standards prepare:

a. Extract of consolidated income statement for the year ended 30 September 2019 showing the following items;
   i. Revenue **(2 marks)**
   ii. Cost of sales (**5marks)**

b. The Consolidated Statement of Financial Position as at 30th September 2019 **(23 Marks)**

(Total 30 marks)

QUESTION TWO

The following trial balance was extracted from the books of Lindox Ltd as at 30th September 2018

	Frw "000"	**Frw "000"**
Trade receivables & payables	393,545	401,600
Equity shares of Frw 10 each	-	450,000
6% redeemable preference shares of Frw 10 each	-	350,000
Inventories (1 October 2017)	264,060	-
Administrative expenses	780,000	-
Current tax	-	40,000
Accumulated depreciation	-	
Buildings	-	135,000
Plant & equipment	-	332,700
Provision for damages	-	60,000
Deferred tax	-	27,000
Revenue	-	1,975,280
Purchases	458,411	-
Distribution expenses	206,000	-
Retained earnings (1st October 2017)	-	223,300
Interim dividend paid on ordinary shares	150,000	-
Bank balance	-	31,136
Suspense account	-	36,000
Financial assets available for sale	100,000	-
Land (cost)	360,000	-
Buildings(cost)	540,000	-
Plant & equipments (810,000)	810,000	-
Total	**4,062,016**	**4,062,016**

The following information is relevant

1. The closing inventories as at 30 September 2018 were not ascertained. However, inventory count undertaken on 20 October 2018 indicated the value of inventories at selling price to be Frw 314,600,000. The company uses a uniform mark up of 30%. The sales and purchases for the period from 1st October 2018 to 20 October 2018 were Frw 223,600,000 and Frw 116,692,000 respectively.

2. A provision for current tax for the year ended 30 September 2018 of Frw 350,000,000 is required. The balance on current tax in the trial balance above represents the under/over provision of the tax liability for the year ended 30 September 2017. At 30 September 2018, the tax base of Lindox ltd.'s net assets were Frw 120,000,000 less than their carrying amounts. The income tax rate is 25%

3. Administrative expenses include a provision for damages for a customer whose order was not delivered on time. The customer is seeking Frw 300,000,000 in damages. The lawyer has advised that there is a 20% chance that the customer will be successful. A provision for damages amounting to Frw 60,000,000 has been made.

4. Buildings are depreciated at the rate of 2% based on cost while plant and equipment are depreciated at the rate of 25% based on cost. No depreciation is charged in the year of disposal.

   Allocation of depreciation on property, plant & equipment is a follow:

70% to cost of sales
20% to administrative expenses
10% to distribution expenses

5. The balance in the suspense account represents sales proceeds of an item of equipment which cost Frw 180,000,000. The item was sold during the year and had accumulated depreciation of Frw 135,000,000 at the start of the year. Any gain or loss is reported to the relevant depreciation expense.
6. The financial assets available for sale fair value as at 30 September 2018 increased to Frw 120,000,000.

REQUIRED

Prepare the following financial statements in accordance with IFRS's

a. Statement of profit/loss and other comprehensive incomes for the year ended 30 September 2018. (**11.5 marks**)

b. Statement of financial position as at 30 September 2018. **(18.5 marks)**

N.B: Statement of changes in Equity is not required.

(Total 30 marks)

QUESTION THREE

The following scenarios related to the items that affect the financial statements. You are to provide different requirements as shown after each scenario.

a) Scenario 1

A company Munene Ltd deals in selling laptop computers to its local customers in Kigali. Its financial reporting period ends 31/12 each year.

Shortly after the reporting period date in February 2019, a major credit customer of an entity went into liquidation because of heavy trading losses and it is expected that a debt of Frw 12,500,000 will not be recoverable.

Frw 10,000,000 of the debt relates to sales made prior to the end of the year and Frw 2,500,000 relates to sales made in the first two weeks of the new financial year.

In the year 2018 financial statements, the whole debt has been written off, but one of the directors has suggested that as the liquidation is an event after reporting date, the debt should not in fact be written off but a disclosure should be made by note to this year financial statements and the debt written off in the year 2019's financial statements.

REQUIRED

Advice whether the director suggestion is correct and explain how this scenario should be treated in financial statements for the year ended 31/12/2018. (**5marks)**

b) Scenario 2

The company Hakim & Sons Ltd (HSL) carries out mining of precious metals and it is proud of its reputation. In Financial year ended 31/12/2018 as part of its annual financial statements, the company published details of its environmental policies including site clearing and re-planting trees.

Mining activities caused significant damage to the environment including deforestation. The company incurred capital costs of Frw 1 billion in respect of the mine and it is expected that the mine will be abandoned in 8 years' time.

HSL Ltd has estimated that the cost of clearing the site and re-planting the trees after 8 years will be Frw 250 million if the replanting is successful at the first attempt, but it will probably be necessary to make a further attempt, which will increase the cost by a further Frw 50 million. The company's cost of capital is 10%.

REQUIRED

i. Prepare relevant journal entries for the above events **(3marks)**

ii. Prepare extracts of financial statements for the year ended 31 December 2018 **(7 marks)**

c)Scenario 3

A company Giramahoro Ltd acquired right of use asset on 1st January 2018 under a five-year lease which has an implicit interest rate of 10% per annum. The present value of future lease payments at the lease inception date was Frw 350 million. The rentals are 92 million per annum payable on 30th December each year. The useful life of the leased plant was 7 years.

REQUIRED

Extract income statement and statement of financial position as at 31 December 2018 in the books of Giramahoro Ltd in accordance with new IFRS 16 (Leases). **(5 marks)**

(Total 20 marks)

SECTION B

QUESTION FOUR

a. Clearly differentiate direct method from indirect method of presenting the statement of cash flow as per International Accounting Standard (IAS) 7 Statement of cash flows. (**4 Marks**)

b. Haguma is a public listed manufacturing company. Its draft summarised financial statements for the year ended 30 September 2019 and 2018 comparative) are.

Statement of profit / loss and other comprehension income for the year ended 30 September:

	2019	2018
	Frw "000"	Frw "000"
Revenue	44,900	44,000
Cost of sales	(31,300)	(29,000)

Gross profit	**13,600**	**15,000**
Distribution cost	(2,400)	(2,100)
Administrative Expenses	(7,850)	(5,900)
Investment properties		
- Rental Income received	350	400
- Fair value changes	(700)	500
Finance costs	(600)	(600)
Profit before tax	**2,400**	**7,300**
Income tax	(600)	(1,700)
Profit for the year	**1,800**	**5,600**
Other comprehensive income	(1,300)	1,000
Total comprehensive income	**500**	**6,600**

Statement of financial position as at 30 September

	2019	2018
Non-current assets	**Frw "000"**	**Frw"000"**
Property, plant and equipment	26,700	25,200
Investment property	4,100	5,000
Current assets	**30,800**	**30,200**
Inventory	2,300	3,100
Trade receivables	3,000	3,400
Bank	-	300
	5,300	**6,800**
Total assets	**36,100**	**37,000**
Equity and liabilities equity:		
Equity shares of 1Frw each	17,200	15,00
Revaluation reserve	1,200	2,500
Retained earnings	7,700	8,700
	26,100	**26,200**
Non-current liabilities		
12% loan note	5,000	5,000
Current liabilities		
Trade payables	4,200	3,900
Accrued finance costs	100	500
Bank overdraft	200	-
Current tax payable	500	1,850
	5,000	**5,800**
Total equity and liabilities	**36,100**	**37,000**

Additional information

1. On 1 July 2019, Haguma acquired a new investment property at a cost of Frw 1.4 million. On the same date, Haguma transferred one of its other investment properties to property, plant and equipment at its fair value of Frw 1.6 million as it became owner occupied on that date. Haguma adopts the fair value model for its investment properties
2. Haguma also has a policy of revaluing its other properties including property, plant and equipment to market value at the end of each year. Other comprehensive income and the revaluation reserve both relate to these properties.
3. Depreciation of property, plant and equipment during the year was Frw 1.5 million. An item of plant with a carrying amount of Frw 2.3 million was sold for Frw 1.8 million during September 2019.

REQUIRED

Prepare the statement of cash flows for Haguma for the year ended 30 September 2019 in accordance with international accounting standard (IAS) 7 Statement of Cash flows using indirect method.

(16 marks)

(Total Marks 20)

QUESTION FIVE

i. IFRS 15 (revenue from contracts with customers) is the new standard effective from 1st January 2018, set out the process of recognizing revenue. **(5 marks)**

ii. In the context of IAS 32, (presentation of financial instruments) differentiate financial liability from equity instrument and give two examples of each type. **(5 marks)**

iii. International public sector accounting standards (IPSAs) are developed by IPSAB. Explain three benefits of adopting IPSASs to the government of Rwanda? **(5 marks)**

iv. The following information was extracted from a government entity for the year ended 30 June 2019

		Frw
Taxes		2,000,000
Depreciation and amortization		600,000
Transfer from other government entities		730,000
Wages and salaries & employee benefits		700,000
Other revenues		600,000
Supplies & consumables		300,000
Other expenses		280,000
General public services		620,000
Finance cost		600,000
Fines & fees, penalties & licences		500,000
Grant & transfers to other government entities		1,000,000

REQUIRED

Prepare statement of financial performance for the year ended 30 June 2019. **(5 marks)**

(Total Marks 20)