CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 27, FEBRUARY 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE
Marking Guide

	Marks
Award 0.5 for each correct posting made in the statement of cashflow	10
Award marks on workings as follows	
Intangible asset	1.5
Retained earnings	2
Property, plant and equipment	2
Share capital and share premium	2.5
Tax account	2
Total	**20**

Model Answers

Statement of cash flow for the period ended 31 July 2021

	FRW"000"	FRW"000"
Profit before tax	35,800	
Add: Loss on disposal	12,000	
Add: Depreciation charge	2,600	
Add: Finance charge	9,200	
Less gain on disposal of investment	(500)	
Increase in inventories	(5,760)	
Increase in receivables	(9,000)	
Increase in trade payable	960	
Tax paid	(15,400)	
Interest paid	(9,200)	
Cash and cash equivalent from operation		**20,700**
Investment activities		
Addition assets acquired	(34,020)	
addition intangibles acquired	(6,000)	
Disposed investment	3,500	
Proceed from disposal 23,500-12,000	11,500	
Net cash and cash equivalent from investment		**(25,020)**
Financing activities		
Dividend paid	(5,000)	
Loan received	9,800	
Issue of shares	7,200	
Net cash and cash equivalent from financing		**12,000**
Cash and cash equivalent for the period		7,680
Cash and cash equivalent at the beginning		(11,640)

Cash and cash equivalent at the end		**(3,960)**

WORKINGS

Intangible a/c			
Bal b/d	24,000		
Addition on cash	6,000		
		Bal c/d	30,000
Retained earnings a/c			
Dividend paid	5000	Bal b/d	21600
		Profit for the year	19200
Bal c/d	35800		

PPE a/c

Bal b/d	36,600	Disposed asset	23500
Revaluation upward	1,080	Depreciation charge	2600
Addition	34,020		
		Bal c/d	45,600

Share capital and share premium account

		Bal b/d	
		share capital	18,000
		Share premium	18,000
		Proceed from issue of share	7,200
Bal c/d			
share capital	24,000		
Share premium	19,200		

Tax account a/c

tax paid	15400	Bal b/d	13200
		Tax charge for the year	16600
Bal c/d	14400		

ACC. Depreciation a/c

Depreciation on disposed asset	7500	Bal b/d	45,700
		Charge for the year	2,600

Bal c/d	40,800

QUESTION TWO

Marking Guide

	Marks	
Statement of comprehensive income		
Award one mark for sales recorded	1	
Award 0.5 mark for each line correctly recorded in the profit or loss and other comprehensive income except for sub-totals and totals	3.5	
Working on cost of sales were prepared-Award 2 marks	2	
Working on Administrative Costs-Were shown attract 2 marks as follows 1 mark for development costs written off and 0.5 mark for each other posting made in the administration costs working	**2**	
Working on distribution costs	1	
Working on finance costs	1.5	
Workings on adjustment required for closing stock-award 1.5	1.5	
Current tax shown in the working for income tax-Award 0.5 mark	0.5	
Interest computation in the lease amortization schedule-Award 1 mark for each year-2022 and 2023	1	
Sub-total		**14**
Statement of financial position		
Award 0.5 for each correct posting made in the balance sheet except totals and sub-totals	**10**	
Working on bank balance for omitted and wrong records attract 2.5 mark	2.5	
Ordinary dividend deducted from retained earning-Award 0.5 mark	0.5	
Deferred tax adjustment working-Award 2 marks	2	
Closing balance of lease liability shown in the lease amortization schedule attract 0.5 mark for each first two years-2022 and 2023	1	
Sub-total		**16**

Model Answers

(a)

Statement of Total Comprehensive Income

		FRW "000"	FRW "000"
Sales			3,063,000
Cost of sales	W1		(1,736,050)
Gross profit			**1,326,950**
Expense			
Administration costs	W2	557,968	
Distribution costs	W3	261,095	
Loan interest	W4	34,938	
Total expense			**854,001**
Profit before tax			**472,949**
Income tax			37,460
Profit for the year			**435,489**
Other comprehensive income			
Revaluation surplus-Building			3,200
Revaluation surplus-Land			2,000
Total comprehensive income			**440,689**

(b)

Statement of Financial Position as At 30th November 2022

	FRW "000"	FRW "000"	FRW "000"
Non-current assets			
Land and building	430,000	(8,468)	421,532
Plant and Machinery	800,000	(369,350)	430,650
leased Motor vehicle	44,380	(11,095)	33,285
Development expenditure	85,000		85,000
Current assets			
Account receivable	1,129,000		
Inventory	123,000		
Cash in hand	5,000		
Bank balance	114,500		
Total current assets			**1,371,500**
Total assets			**2,341,967**
Equity and liabilities			
Frw 1,200 Ordinary share (fully paid)		350,000	
Retained earnings		668,489	
General reserve		181,000	

	FRW “000”	FRW “000”	FRW “000”
Revaluation reserve 5,200-1,560 for deferred tax		3,640	
			1,203,129
Non-current liability			
Deferred tax		17,520	
Lease obligation		24,300	
2.125% Loan stock (secured)		400,000	
22% Frw 1 Preference share (fully paid)		100,000	
Total			**541,820**
Current liability			
Account payable		467,500	
Development cost not yet paid		85,000	
Unpaid tax		34,000	
Lease obligation		10,518	
Total			**597,018**
Total equity and liability			**2,341,967**

Workings

W1. Cost of sales

	FRW “000”
Purchase	1,520,000
Opening stock	195,500
Closing stock	(123,000)
Pland and machinery depreciation	143,550
	1,736,050

W2. Administration costs

As per trial balance	422,000
Depreciation of building	8,468
Development costs written off	127500
Total	**557,968**

W3. Distribution costs

As per trial balance	250,000
Depreciation of leased motor vehicle	11,095
Total	**261,095**

W4. Loan interest

As per trial balance	8,500
Preference dividend	22,000
Finance charge in lease	4,438
Total	**34,938**

W5. Retained earning

Profit for the year	435,489
Ordinary dividend (Interim)	(9,000)
Retained earnings bal b/d	242,000
Retained earning	668,489

W 6. Bank balance

As per TB	(6,500)
Add: Proceed from the issue of 100,000 ordinary shares	120000
Add: Proceeds from the sale of plant	300,000
Less consideration for the acquisition of building	(285,000)
Lease payment	(14,000)
Total	**114,500**

W7. Closing stock

Inventory at costs	124,500
Less cost of damaged goods	(20,000)
Value of stock in good condition	104,500
Add: The lowest between cost and Net realizable value of damaged goods as shown below	18,500
Total closing stock	**123,000**

Cost of damaged goods	20,000
Net realizable value 23,000-4,500	18,500

The damaged goods will be included in the closing stock at FRW 18.5 Million

Working 8: Depreciation charges and revaluations

Land and building

Cost	450,000
Less land cost	(30,000)
Cost of building	420,000
Accumulated depreciation 1 Dec 2021	(25,200)
NBV 1 Dec 21	**394,800**
Revalued amount	398,000
Surplus	3,200
Revaluation surplus on land 32,000-30,000	2,000
Total reserve	**5,200**

Depreciation of building for the year

Revalued amount at start	398,000
Remaining useful life 50-3	47
Depreciation charge	8,468
Land and building in SOFP	421,532

Cost of plant and machinery	800,000
Accumulated depreciation at start	225,800
NBV	574,200
Dep charge for the year @ 25%	143,550

IAS 38 state that if the entity cannot separate Research cost and development cost, all cost must be expensed not capitalized. Therefore, the cost incurred in previous year must be written off.

Addition cost incurred on development phase must be capitalized thought the payment is not yet done

Dr. Development cost	85 Million
Cr. Liability	85 Million

W9. Tax

Current tax	34,000
Deferred tax	3,460
Income tax total	37,460

Taxable temporary difference	58,400
Deferred tax @30%	17,520
Deferred tax bal b/d	12,500
Increase in deferred tax 17,520-12,500	5,020
Less deferred tax on revaluations 5,200*30%	1,560
Deferred tax charged to P/L	3,460

W10. Lease

PV of lease payment 14,000*3.170	44,380
Dr: Right of use asset	44,380
Cr: Lease liability	44,380

Leased asset

$$PV\ of\ lease\ payments = \frac{a(1-(1+i))^{-n}}{i}$$

$$PV\ of\ lease\ payments = 14{,}000 * 3.17 = 44{,}380$$

Year	Opening	Interest @10%	Payment	Closing balance
	FRW "000"	FRW "000"	FRW "000"	FRW "000"
30-Nov-22	44,380	4,438	14,000	34,818
30-Nov-23	34,818	3,482	14,000	24,300
30-Nov-24	24,300	2,430	14,000	12,730
30-Nov-25	12,730	1,273	14,000	-

Depreciation of leased motor vehicle 44,380/4	11,095

QUESTION THREE
Marking Guide

	Marks	
Goodwill computations		
Award 0.5 mark for each correct line excluding sub-totals and totals	4	
Award one (1) mark for well computed fair value adjustment on building and included in the good will computations	1	
Sub-Total		5
Consolidated statement of total comprehensive income		
Award 1 mark for adding line by line on income and expense N.B: Check if the student has used 4 months to prorate subsidiary's income and expense	9	
Award marks on workings as follows		
Intercompany sales elimination	2	
Depreciation on FV adjustment deducted from administration costs	0.5	
Unrealized profit on stock added to cost of sales for elimination	1	
Unrealized profit on asset transfer eliminated in the other income	0.5	
Excess depreciation on asset transfer subtracted from administration expense	0.5	
Management fees eliminated from other income and administration costs	1	
Gain on fair value recorded in the other income	0.5	
Impairment charged to other expense	0.5	
Each correct line shown in the computation for NCI for the year attract 0.5	2.5	

Award 0.5 for profit for the year and comprehensive income allocation between parent and non-controlling interest	2	
Sub-total		20
Award 1 mark for explained accounting treatment of investment held in 4G Ltd		1
Award 1 mark for explained equity method of accounting		1
Award 1 mark for each condition that evidence significant influence (Max: 3 marks)		3
Sub-Total (C)		**5**
Total		**30**

Model Answers

(a)

Goodwill computation	**FRW**	**FRW**
Purchase consideration	**''000''**	**''000''**
Cash		90,000
Share exchange 2/3*60%*850*150		51,000
NCI		50,000
		191,000
Share capital	85,000	
Retained earning	22,000	
Other component of equity	8,100	
Fair value adjustment for building =125,100-85,000-22,000-8,100	10,000	
Net asset		**125,100**
Goodwill at acquisition		**65,900**
Impairment 10%		(6,590)
Goodwill at 31 Dec 2021		**59,310**

(b)

	Sub-workings	**Consolidated figures**
		FRW ''000''
Revenue	520,000+222,000*4/12- 80,000-12,000	502,000
Cost of sales	(204,000)+((66000)*4/12)+(80,000)+10,667-12,000+1,333	(306,000)
Gross profit		**196,000**
Investment income	42,500+16,000*4/12-15,000+6,000-5,000	38,833
Administration costs	(20000)+(11,000)*4/12+(15000)+(667)-125	(39,209)

Distribution cost	(8,200)+(4,300)*4/12	(9,633)
Other expense	(34000)+(19,000)*4/12+(6,590)	(46,923)
Operating profit		**139,068**
Net finance costs	(1,500)+(4000)*4/12	(2,833)
Profit before tax		**136,235**
Income tax expense	(25000)+(14,000)*4/12	(29,667)
Profit for the year		**106,568**
Other comprehensive income		
Gain on revaluation	12,000+8000*4/12	14,667
Total Comprehensive income		121,235
Profit attributable to		
	Parent: 106,568-(-553)	107,121
	NCI	(553)
Total comprehensive income attributable to		
	Parent: 121,235-2,647	118,587
	NCI	2,647

NCI for the year

		NCI %	
PAT	19700*4/12	40%	6,567
Depreciation on FV adjustment	(667)	40%	(267)
UP on stock	(10,667)	40%	(4,267)
Impairment	(6,590)	40%	(2,636)
Excess depreciation caused by Unrealized profit on asset disposal	125	40%	50
Total Profit for the year attributable to NCI			**(553)**
Other comprehensive income	8,000	40%	3,200
Total comprehensive income attributable to NCI			**2,647**

		FRW"000"
Unrealized profit on stock	80,000*20/120*80%	10,667
Depreciation on FV adjustment	10,000/5*4/12	667

Unrealized profit on goods sold by Nine GB Ltd	2000*8000/12000	1,333
Proceed from disposal		14,000

NBV		(9,000)
Gain on disposal-unrealized profit		**5,000**
Depreciation excess on UP on PPE sold by parent	5000/10*3/12	125

10 floor building Block

The investment is held at fair value and any gain or loss should be charged in the statement of profit or loss account.
The gain of FRW 6 million will appear in the other income

(c)

i) IAS 28-Investment in associate or joint venture state that if an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.
If the entity has significant influence in the investee, it shall account for those investment using equity method of accounting. Full consolidation is applied if and only when the investor has control over the investee, in this case, Nine GB Ltd has no control over 4G Ltd. The investment held in 4G Ltd must be accounted for using equity method of accounting

Equity methods of accounting

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment

ii) The existence of significant influence by an entity is usually evidenced in one or more of the following ways

✓ Representation on the board of directors or equivalent governing body of the investee
✓ Participation in policy-making processes, including participation in decisions about dividends or other distributions
✓ Material transactions between the entity and its investee
✓ Interchange of managerial personnel; or
✓ Provision of essential technical information.

SECTION B

QUESTION FOUR

Marking Guide

(a)	
i) Award 1 mark for each condition	2
ii) Award 0.5 for each journal entry and correct answer shown in the extract financial statements	8
(b)	
Award 1 mark for any component of other comprehensive income- Maximum 4 marks	4
(c)	
Award 1 mark for elaboration on accounting treatment for intangible assets with finite life	1
Award 1 mark for mentioning impairment test	1
Award 1 mark for computing carrying amount as at January 2022	1
Award 1 mark for computing depreciation charge for the year 2022`	1
Award 1 mark for computing impairment	1
Award 1 mark for stating accounting treatment of impairment and amount to present in the balance sheet	1
Total	**20**

Model Answers

(a)

(i) IAS 20 Accounting for Government Grants and Disclosure of Government Assistance states that a government grant is recognised only when there is reasonable assurance that

- the entity will comply with any conditions attached to the grant and
- the grant will be received.

Entity can choose to adopt capital or deferred income approach, MBS Ltd has adopted deferred income approach which means that grant received must be recognised in profit or loss on a systematic basis over the useful life of the asset.

(ii) Accounting for grant received

On 1 January 2023 Dr: Bank Cr: Grant Being recognition of government grant received	 120 million	 120 million
on 1 July 2023 Dr: Motor Vehicle-Asset Cr: Bank Being recognition of acquired tractor	 240 million	 240 million
Dr: Motor vehicle-Import duties DR: Motor vehicle-Transport Cr: Bank Being recognition of import duties and transport cost on tractor	15 million 5 million	 20 million
At year end Depreciation of asset Total cost Depreciation charge 260/10*6/12 Dr: Depreciation expense-P/L Cr: Accumulated depreciation a/c	 260 million 13 13 Million 13 million	
Amortization of grant by year end 120/10*6/12 N.B Amortization of grant starts when the assets is in use and there is depreciation charged on that asset Dr: Grant Cr: Other income-P/L	 6 6 million	 6 million

Extract statement of profit or loss account for the year ended 31 December 2023

Expense

Depreciation 13 Million

Other income

Grant 6 million

In Million

Balance sheet

Asset

Motor vehicle-Tractors 260 million-13million 247

Liability		
Non-current liability		
Government grant	120-6-12	102
Current liability		
Government grant		12

(b)

The component of other comprehensive income per IAS I are shown below

(a) Changes in revaluation surplus

(b) Remeasurements of defined benefit plans per IAS 19

(c) Gains and losses arising from translating the financial statements of a foreign operation per IAS 21

(d) Gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with IFRS 9

(e) The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income

(f) For particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk

(g) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value

(h) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument

(i) insurance finance income and expenses from contracts issued within the scope of IFRS 17 *Insurance Contracts* excluded from profit or loss when total insurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items,

(j) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation applying

(c)

IAS 38 Intangible Assets states an intangible asset with a finite useful life should be amortized on a systematic basis over that life. The license has 10 years useful life; therefore, it will be amortized over 10 years until the date when BMS Ltd receive information about Tap&Go which will dramatically eliminate E-Ticketing

AS 36 states that an entity should assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable amount of the asset. Thus, BMS Ltd should test the trademark for impairment.

At time of emerging new technology, BMS Ltd should compute carrying amount of License and amortize the remaining carrying amount until 1 January 2024 which is the date of launching new Tap&Go.

	FRW "000"
Cost	2,000
Useful life	10 years
Accumulated amortization until January 2022-Date of receiving information about new Tap&Go	2,000/10*2=400
NBV as at Jan 2022	**1,600**
Provided that new Tap&Go will be launched in January 2024 and the existing e-ticking can be used until that date, means after Jan 2024-E-ticketing will not be in operation-Revised useful life until Jan 2024 is 2 years i.e Jan 2022 to Jan 2024	
Amortization for the year ended 31 December 2022	1,600/2=800
Carrying amount as at 31 December 2022 1,600-800	800
Recoverable amount	500
Impairment	300

The license will be included in the financial position as at 31 December 2022 at value of FRW 500,000 which is the recoverable amount and impairment loss will be charged to profit or loss

QUESTION FIVE

Marking Guide

	Marks
(a)	
Award 1 Mark for each step elaborated	5
Award 1 mark for convincing explanation which must be linked with the given scenario	5
(b) (i)	
Award 1 mark for each correct element shown in the computation of initial costs of inventory excluding total	4
Award 1 mark for explained treatment of Value added tax	1
Award 1 mark for explained treatment of medical costs	1
Award 1 mark for explained treatment of selling costs	1
Award 1 mark for explained treatment of salary of marketing manager	1
(b)(ii)	
Award 2 marks for explaining how to account for the inventory batch number SPooJ22/15 in the balance sheet	2
Total	20

Model Answers

Before recognizing sales of FRW 354 million from sport materials sold, BM Global Ltd should ensure that the following steps are satisfied

1) Identify the contract (s) with a customer

A customer placed an order for a sport material. The order placed will represents a contract to supply the sport materials.

2) Identify the performance obligations in the contract:

The performance obligation is satisfied if the goods to be sold was transferred to the buyer and the buyer accepted goods by signing delivery note. BM Global Ltd supplied sport materials on 20 January 2024 and customer signed delivery note: This indicates that BM global fulfilled their performance obligation

3) Determine the transaction price:

The transaction price represents the price agreed between supplier and buyer for the delivery of goods or in return for performance obligation. The contract price of FRW 300 million for the delivery of sports materials represent transaction price. The VAT is not included since transaction price as defined by IFRS 15 does not include amounts collected on behalf of third parties

4) Allocate the transaction price to the performance obligations in the contract:

The order placed by customer shows that there is one performance obligation therefore, the full transaction price is allocated to the performance obligation for the delivery of the sport materials.

5) Recognize the revenue when (or as) the entity satisfies a performance obligation

The supplier delivered sports materials to customer and the customer has signed a delivery note to confirm acceptance of goods as satisfactory, this is evidence that BM Global Ltd has fulfilled its performance obligation. The revenue in the contract is earned and can therefore be recognized on 20 January 2024, the invoice date and payment dates are irrelevant in regard to revenue recognition. The revenue is recorded when earned which is the date when supplier fulfill performance obligation

(b)

(i) Initial costs of batch number SPooJ22/15

	FRW Million
Invoice price	830
Add: Import duties	23
Add: Transport and clearing	56
Add: Conversion costs for labelling T-shirts	41
Total initial costs	**950**

➢ The value added tax are not part of costs because they are recoverable, for initial costs, only unrecoverable taxes are considered

➢ Medical costs for damaged staff should not be part of stock, IAS 2 state that abnormal amounts of wasted materials, labour or other production costs shall be excluded from stock value. The amount will be expensed in Profit or loss account.

➢ Selling costs shall be expensed in profit or loss account as distribution costs

➢ The general administration overheads are excluded from inventory value, therefore, Salaries of marketing manager should not be part of stock value, instead the amount will be charged to profit or loss account

(ii) IAS 2-Inventory state that inventories shall be measured at the lower of cost and net realizable value. The cost of this batch is FRW 950 million yet the net realizable value if 820 million. This batch will be included in the inventory balance in the balance sheet at FRW 820 million. The difference of FRW 130 million between this recoverable amount and cots will be charged to Profit or loss as impairment

END OF MARKING GUIDE AND MODEL ANSWERS