CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATION

I1.2: FINANCIAL REPORTING

TUESDAY: 10 JUNE 2014

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

Attempt all questions in this section.

QUESTION ONE

a) From Organic Budget Law (OBL), explain the four key steps in planning and budgeting in the public sector. **(8 Marks)**

b) The following balances were extracted from the books of Handicap Persons Fund under the Ministry of Home Affairs for the year ended 30 April 2014.

Transactions	**Frw "000"**
Allowances to disabled persons	9,312,000
Payment for medical costs for disabled persons	480,000
Management expenses	224,000
Members contribution	6,438,400
Interest on investments	19,200,000
Grants and donations from GTZ	6,400,000
Investment account	256,000,000
Employers contributions	128,000
Fund account 30 April 2013	243,200,000
Cash at bank:	
Bank of Kigali account	3,200,000
Umurenge Sacco account	5,120,000
Paymaster General account at National Bank of Rwanda	1,030,400

The following information is also available :

1. A sum of Frw 130, 000,000 was due to be paid to disabled persons, but claims were not received until May 2014.
2. Interest on investments amounting to Frw 760,000,000 was to be paid to the fund in April 2014, but the cheque was not received until May 2014
3. The employer contributions for the year should not be less than 3% of the total members' contribution for the year.

4. One hundred members of the fund were late in paying the contribution for the year ended 30 April 2014 amounting to Frw 300,000 each

Required: **(12 Marks)**

(i) Income and expenditure account for the year ended 30 April 2014

(ii) A statement of financial position as at 30 April 2014

(Total: 20 Marks)

QUESTION TWO

On 1 April 2013, Barcelona acquired 60% of the equity share capital of Madrid in a share exchange of two shares in Barcelona for three shares in Madrid. The issue of shares has not yet been recorded by Barcelona. At the date of acquisition, shares in Barcelona had a market value of Frw 6,000 each. Below are the summarized draft financial statements of both companies.

Income statements for the year ended 30 September 2013

	Barcelona	**Madrid**
	Frw Millions	**Frw Millions**
Revenue	85,000	42,000
Cost of sales	(63,000)	(32,000)
Gross profit	22,000	10,000
Distribution costs	(2,000)	(2,000)
Administrative expenses	(6,000)	(3,200)
Finance costs	(300)	(400)
Profit before tax	13,700	4,400
Income tax expense	(4,700)	(1,400)
Profit for the year	**9,000**	**3,000**

Statements of financial position as at 30 September 2013

	Barcelona	**Madrid**
Non-current assets	**Frw Millions**	**Frw Millions**
Property, plant and equipment	40,600	12,600
Current assets	16,000	6,600

	Barcelona	**Madrid**
Total assets	**56,600**	**19,200**
Equity and liabilities		
Equity shares of Frw 1,000 each	10,000	4,000
Retained earnings	35,400	6,500
	45,400	**10,500**
Non-current liabilities		
10% loan notes	3,000	4,000
Current liabilities	8,200	4,700
Total equity and liabilities	**56,600**	**19,200**

The following information is relevant:

1. At the date of acquisition, the fair values of Madrid's assets were equal to their carrying amounts with the exception of an item of plant, which had a fair value of Frw 2,000 million in excess of its carrying amount. It had a remaining life of five years at that date [straight-line depreciation is used]. Barcelona has not adjusted the carrying amount of its plant as a result of the fair value exercise.
2. Sales from Madrid to Barcelona in the post acquisition period were Frw 8,000 million. Madrid made a mark up on cost of 40% on these sales. Barcelona had sold Frw 5,200 million (at cost to) of these goods by 30 September 2013.
3. Other than where indicated, income statement items are deemed to accrue evenly over the relevant period.
4. Madrid's trade receivables at 30 September 2013 include Frw 600 Million due from Barcelona which did not agree with Barcelona's corresponding trade payable. This was due to cash in transit of Frw 200 Million from Barcelona to Madrid. Both companies have positive bank balances.
5. Barcelona has a policy of accounting for any non-controlling interest at fair value. For this purpose the fair value of the goodwill attributable to the non-controlling interest in Madrid is Frw 1,500 million. Consolidated goodwill was not impaired at 30 September 2013.

Required:

a) Consolidated income statement for year ended 30 September 2013. **(12 Marks)**

b) Consolidated statement of financial position as at 30 September 2013. **(18 Marks)**

(Total: 30 Marks)

QUESTION THREE

(a) According to IAS 17 Leases, define a lease and differentiate between a finance lease and an operating lease. **(4 Marks)**

(b) Bralirwa leased its fleet of delivery vehicles through a finance lease on 1 April 2011. The fair value of the vehicles at that date was Frw 324,000,000. The lease is for 5 years and payments of Frw 77,700,349 are made every April in advance. The interest rate implicit in the lease is 10%.

Show the extract of the Statement of profit/loss and the Statement of financial position for years ended 31 March 2013 and 2014 in respect of the lease. **(6 Marks)**

c) Loyer's trial balance at 31 March 2014 is shown below:

	Frw million	Frw million
Administrative expenses	303	
Investments at fair value through other comprehensive income	564	
Cash and cash equivalents	21	
Government grant on plant acquired in the year		160
Cost of goods sold	908	
Distribution costs	176	
Interim dividend paid	50	
Income tax	12	
Inventory cost at 31 March 2014	76	
Land at cost – 31 March 2013	782	
Long term borrowings		280
Ordinary Shares Frw1 each, fully paid at 31 March 2014		500
Property, plant and equipment – at cost 31 March 2014	630	
Provision for deferred tax at 31 March 2013		19
Accumulated depreciation - property, plant and equipment at 31 March 2013		378
Retained earnings at 31 March 2013		321
Other reserves at 31 March 2013		48
Revenue		1,770

	Frw million	Frw million
Share premium at 31 March 2013		200
Trade payables		56
Trade receivables	210	
	3,732	**3,732**

Additional information provided :

1. Investments at fair value through other comprehensive income are carried in the financial statements at market value. The market value of the investments at 31 March 2013 was Frw 608,000,000. There were no purchases or sales investments during the year. Revaluations are recognized in other reserves
2. The income tax balance in the trial balance is a result of the under provision of tax for the year ended 31 March 2013. The taxation due for the year ended 31 March 2014 is estimated at Frw123, 000,000. The tax depreciation cumulative allowances at 31 March 2013 for property, plant and equipment were Frw 554,000,000. Corporation tax rate is 30%.
3. The fair value of land at 31 March 2014 was Frw 829,000,000. The land is not investment property. No deferred tax consequence for the revaluation of land. Revaluations are recognized in other reserves
4. Property, plant and equipment are depreciated at 20% per annum straight line. Depreciation of property, plant and equipment is considered to be part of cost of sales. Loyer's policy is to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. Government grant is to be amortized at the same rate as plant acquired.
5. The inventory's net realizable value as at 31 March 2014 was determined to be Frw 73,000,000.
6. Long term borrowings consist of a loan taken out on 1 April 2013 at effective interest of 5% per year. No loan interest has been paid at 31 March 2014.
7. Loyer paid an interim dividend of Frw 50,000,000 and proposed on 5 May 2014 a dividend of Frw 60,000,000 for the year ended 31 March 2014.

Required :

a) Statement of profit / loss for year ended 31 March 2014. **(12 Marks)**

b) Statement of changes in equity for year ended 31 March 2014. **(8 Marks)**

c) Statement of financial position as at 31 March 2014. **(10 Marks)**

(Total: 30 Marks)

SECTION B

Attempt one question in this section.

QUESTION FOUR

Juma commenced business on 1 January 2013 at a head office and at one branch. Purchases were made exclusively by head office where all goods were processed before sale. There was neither loss nor wastage in the processing. Only processed goods received from head office were handled by the branch and these were charged thereto at processed cost plus 10%. All sales whether by head office or the branch were at a uniform gross profit of 25% on the processed cost.

The following trial balances as on 31 December 2013 were extracted from the books before adjusting for any of the matters referred to below:

	Head office		**Branch**	
	Frw 000	**Frw 000**	**Frw 000**	**Frw 000**
Juma – capital		15,500		
Drawings	2,750			
Purchases	98,475			
Cost of processing	2,525			
Sales		64,000		41,000
Goods sent to/received by branch		46,200	44,000	
Selling and general expenses	9,450		1,060	
Debtors/creditors	15,480	30,070	5,680	540
Head office/branch				
Current account	19,490			13,075
Balance at bank	7,600		3,875	
	155,770	**155,770**	**54,615**	**54,615**

You ascertain that:

1. Goods charged by head office to the branch in December 2013, at Frw 2.2 million were not received or recorded by the branch until January 2014, and a remittance of Frw 4,215 million from the branch to head office in December 2013 was not received or recorded at head office until January 2014. Any necessary adjustments in respect of these items are to be made in the head office accounts.

2. Stock taking at the branch disclosed a shortage of goods of a selling value of Frw 1 million. There was no shortage or surplus at head office.

3. The cost of the stock of unprocessed goods at head office on 31st December 2013 was Frw 5 million.

For the purpose of the separate trading account of the head office, stocks are valued at cost. In the case of the separate account of the branch, stocks are to be valued at the price charged by head office. Any necessary adjustments are to be made in the head office profit and loss account.

You are required to prepare in columnar form for:

i. The head office ii. The branch and iii. The business as a whole:

a) Income statements for the year ended 31st December 2013. **(12 Marks)**

b) Statements of financial position on that date. **(8 Marks)**

(Total: 20 Marks)

QUESTION FIVE

(a) Explain the role played by the following in Public Financial Management (PFM) in government:

(i) National Parliament.

(ii) Auditor General.

(iii) Public Accounts Committee. **(6 Marks)**

(b) The Government of Rwanda recently rolled out an integrated financial management system (IFMS) in ministries, agencies and districts.

Required:

Briefly discuss the benefits of the implementation of the IFMS in these Ministries, Agencies and Districts. **(10 Marks)**

(c) Explain the term "Commitment Control System" in government accounting and give at least two challenges of commitment control system. **(4 Marks)**

(Total: 20 Marks)

End of question paper