INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA

Driving Sustainable Performance

Associate of IFAC

CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

MONDAY: 05 JUNE 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

The following information relates to Kamanzi Rwanda Limited (KRL), a manufacturing company which has been in operation since 2007:

1. On 1 June, 2009 KRL acquired a piece of land in Kicukiro district for Frw 25 million for an undetermined purpose. On 1 June, 2012 KRL started constructing a building on the land for use as its administrative headquarters. On 1 June, 2013 the company's administrative staff moved into that building. Three years later (on 1 June 2016) KRL's administrative staff moved into yet other newly acquired premises at Gikondo. The old building was immediately rented to an independent third party. On 31 May, 2017 KRL accepted an unsolicited offer from the tenant to purchase the building in Kicukiro district from KRL with immediate effect. The fair value of the property (land and related building) can be measured reliably without undue cost or effort on an ongoing basis. **(3 Marks)**

2. On 20 June, 2017 before the authorisation for issue of KRL's financial statements for the year ended 31 May, 2017 court ordered KRL to pay Frw 37 million in damages in full and final settlement of a patent infringement lawsuit brought against them by one of their competitors. The patent infringement occurred during the year ending 31 May, 2016. The amount of damages awarded to the competitor was significantly higher than the range of Frw 5 million – Frw 15 million that KRL had justifiably expected to pay. However, KRL would not contest the judgement. In their 31 May, 2016 annual financial statements KRL reported the liability for the lawsuit at Frw 10 million this estimate was made in good faith and taking into account all available evidence. **(4 Marks)**

3. KRL leased equipment with a cash cost of Frw 673.2 million from Shema Limited in terms of a finance lease agreement. The lease began on 1 June, 2016. There are 6 installments of Frw 150.7 million each, payable annually in arrears and the discount rate (interest rate implicit) is 10%. KRL depreciates equipment at 25% per annum on the straight-line basis to a nil residual value. **(5 Marks)**

4. At one of KRL's industrial sites in Bugesera district, contamination was reported on 31 May, 2017. There is no environmental legislation in the jurisdiction concerned that requires the remedy of contaminated sites. KRL, however, has a widely published environmental policy in which it undertakes to clean up all contamination that it causes and it has a record of honouring this published policy. KRL's engineers have estimated that the expenditure to rectify the environmental damage will be between Frw 45 million and Frw 95 million. The expenditure will be incurred in 5 years time. Management has estimated that the appropriate discount rate is 10% and a discount factor of 0.621 for year five. **(4 Marks)**

5. On 1 January, 2017 KRL received from government a grant in the form of a transfer of an infrastructure to be used to control contamination of the kind referred to above, to be installed by 30 June, 2017. The fair value of the infrastructure is Frw 110 million and estimated useful life of 10 years. KRL's accounting policy for grants related to non-monetary assets is to recognise such grants at fair value. **(4 Marks)**

REQUIRED:

Discuss, with the help of workings where necessary, how each of the items above should be treated in the financial statements of KRL for the year ended 31 May, 2017 in accordance with the relevant International Financial Reporting Standards.

NB: Provide proceeding and subsequent period explanations and computations where applicable.

(Total 20 Marks)

QUESTION TWO

Gatanazi Ltd (GL) is a trading company located in Kibuye in Karongi district in the west province of Rwanda, and has been in operation for 12 years. In recent years GL has been acquiring humbly performing businesses and selling them at a substantial profit within a period of two to three years of their acquisition. On 1 July, 2016 GL acquired 80% of the ordinary share capital of Ngoga Ltd based in Rwamagana at a cost of Frw 534,560,000. On the same date it also acquired 50% of Ngoga Ltd's 10% loan notes at par. The summarised draft financial statements of both companies are as follows:

Statement of profit or loss for the year ended 31 March, 2017

	Gatanazi Ltd	**Ngoga Ltd**
	Frw '000'	**Frw '000'**
Sales revenue	3,120,000	1,248,000
Cost of sales	(2,184,000)	(1,040,000)
Gross profit	936,000	208,000
Operating expenses	(312,000)	(10,400)
Loan interest received/ (paid)	3,900	(10,400)
Profit before tax	627,900	187,200
Income tax expense	(156,000)	(31,200)
Profit for the year	**471,900**	**156,000**

Statements of Financial Position as at 31 March, 2017

	Gatanazi Ltd	**Ngoga Ltd**
Assets:	Frw '000'	Frw '000'
Tangible non-current assets	1,004,640	416,000
Investments	586,560	
	1,591,200	416,000
Current Assets:		
Inventory	208,000	104,000
Receivables	468,000	249,600
Cash and bank	104,000	62,400
	780,000	416,000
Total assets	**2,371,200**	**832,000**
Equity and liabilities:		
Equity:		
Ordinary shares Frw 52 per share	520,000	104,000
Retained earnings	1,331,200	436,800
	1,851,200	540,800
Non-current liabilities:		

10% bank loan		104,000
Current liabilities:		
Payables	426,400	153,504
Tax	93,600	33,696
	520,000	187,200
Total equity and liabilities	**2,371,200**	**832,000**

Additional information:

1. The fair values of Ngoga Ltd's assets were equal to their book values with the exception of its plant, which had a fair value of Frw 166.4 million in excess of its book value at the date of acquisition. The remaining life of all of Ngoga Ltd's plant at the date of its acquisition was four years and this period has not changed as a result of the acquisition. Depreciation of plant is on a straight-line basis and charged to cost of sales. Ngoga Ltd has not adjusted the value of its plant to its fair value.

2. In the post-acquisition period GL sold goods to Ngoga Ltd at a price of Frw 624 million. These goods had cost GL Frw 468 million. During the year Ngoga Ltd had sold Frw 520 million (at cost to Ngoga Ltd) of these goods for Frw 780 million.

3. GL bears almost all of the administration costs incurred on behalf of the group (invoicing, credit control etc.). It does not charge Ngoga Ltd for this service as to do so would not have a material effect on the group profit.

4. Revenues and profits should be deemed to accrue evenly throughout the year.

5. The current accounts of the two companies were reconciled at the year-end with Ngoga Ltd owing GL Frw 39 million.

6. The goodwill was reviewed for impairment at the end of the reporting period and had suffered an impairment loss of Frw 15.6 million which is to be treated as an operating expense.

7. GL's opening retained earnings were Frw 859,300,000 and Ngoga Ltd's were Frw 280,800,000. No dividends were paid or declared by either entity during the year.

8. It is group policy to value the non-controlling interest at acquisition at fair value. The directors valued the non-controlling interest at Frw 130 million at the date of acquisition.

REQUIRED:

(a) Prepare consolidated Statement of profit or loss and Statement of financial position for GL group for the year ended 31 March, 2017. **(26 Marks)**

(b) Discuss the need to eliminate unrealised profits when preparing group financial statements. **(4 Marks)**

(Total 30 Marks)

QUESTION THREE

ATAK is a cooperative of members who operate taxi business at the airport together with other businesses of restaurant and fuel station. They provided the following trial balance and additional information for the year ended 31 December 2016.

	Frw "000"	Frw "000"
Revenue		
Taxi fare		55,000
Restaurant sales		44,000
Overnight parking fee		8,540
Fuel station sales		396,000
Cost of sales		
Fuel for station	290,000	
Restaurant	6,500	
Taxi fuel	21,000	
Vehicle hire	14,000	
Airport parking fee	3,340	
Salaries for staff	32,000	
Repairs, maintenance and utilities	45,000	
Cash in hand at bank	75,300	
Receivables	16,300	
Payables		14,600
Building and station (cost Frw12 million)	9,000	
Furniture and equipment	5,600	
Motor vehicles	88,000	
Inventory as at 31 December 2016:		
Restaurant	1,200	
Fuel	10,500	
Deferred tax asset 01 January 2016	4,300	
Deferred tax liability 01 January 2016		410
Advance payment to Kotracta	1,500	
Insurance	6,100	
Investment in 15% Treasury bonds	12,000	
Members contributed capital 01 January 2016		81,000
Additional members contribution during the year		12,000
Retained profit 01 January 2016		30,090
	641,640	**641,640**

Additional information:

1. The inventory of restaurant supplies was found to be expired amounting to Frw465,000.

2. RURA charges for the year are 1% of the gross revenue from taxi fare payable before 31 March 2017.

3. The deferred tax asset relates to previous year's tax losses and are yet to be utilized. The taxable profit for the year was assessed to be Frw 23 million. There was taxable temporary difference of Frw 1.2 million assessed as at the end of the year.

4. The amount paid to Kotracta, relates to an advance on a contract to construct pavement on the parking area. At the end of the year the work certified to be complete and payable to contractor was Frw Frw2.3 million.

5. Depreciation for the year is determined as follows

   Building and station 5% straight-line

   Motor vehicles 25% reducing balance

   Furniture and equipment 25% reducing balance

6. Airport parking fee Frw 540,000 was yet to be paid and vehicle insurance paid on 01 November 2016 Frw 3.6 million was for a full year.

7. The management proposed on 30 December 2016 an amount of bonus/dividend payable to members Frw3.3 million according to shares held as at 31 December 2016.

8. Interest is yet to be accrued on the investment in treasury bonds.

REQUIRED:

For the year ended 31 December 2016,

(a) Statement of profit /loss **(13 Marks)**

(b) Statement of changes in equity **(4 Marks)**

(c) Statement of financial position **(13 Marks)**

(Total 30 Marks)

SECTION (B)

Attempt one question in this section.

QUESTION FOUR

Ganza Rwanda Limited (GRL) has been in operation for a number of years. Its directors are contemplating expansion in operating activities into other parts of East Africa and require an evaluation of the company's cash flows as of 31 May, 2017. The following statements of cash flows for the years ended 31 May, have been provided for that purpose:

	2017	**2016**
Cash flows from operating activities:	Frw '000'	Frw '000'
Net income	660,000	534,000
Adjustments:		
Depreciation expense	360,000	426,000
Loss on sale of equipment	18,000	-
Decrease in accounts receivable	300,000	258,000
Decrease/ (increase in inventory)	120,000	(108,000)
Interest paid	(212,400)	(270,000)
Increase in accounts payable	1,080,000	858,000

(Decrease)/ increase in accrued liabilities	(60,000)	12,000
Net cash provided by operating activities	**2,265,600**	**1,710,000**
<u>Cash flows from investing activities:</u>		
Sale of equipment	102,000	-
Purchase of long-term investments	(150,000)	(270,000)
Purchase of land	(1,560,000)	(900,000)
Net cash used in investing activities	**(1,608,000)**	**(1,170,000)**
<u>Cash flows from financing activities:</u>		
Payment of dividends	(360,000)	(288,000)
Payment of loans payable	(1,617,600)	(384,000)
Further loans received	1,233,600	.
Net cash used in financing activities	**(744,000)**	**(672,000)**
Net decrease in cash	(86,400)	(132,000)
Cash at beginning of year	300,000	432,000
Cash at end of year	**213,600**	**300,000**

Additional Information:

1. Net sales were:

	Frw "000"
2017	3,024,000
2016	2,402,400

2 **The liabilities for the period were:**

	2017	**2016**
	Frw "000"	**Frw "000"**
Trade payables	3,932,600	2,852,600
Accrued liabilities	127,400	187,400
15% bank loan	1,416,000	1,800,000

During the year management obtained an additional loan of Frw 1.2336 billion with a grace period of 12 months. However, the directors resolved to repay part of this amount by 31 May, 2017 to avoid any effects on the solvency of the company.

3. The company acquired additional land in anticipation of the expansion.

REQUIRED:

Prepare a report to management of GRL analysing the solvency, liquidity, and viability of the company using the information provided above. **(Total 20 Marks)**

QUESTION FIVE

The Organic Law No. 12/2013/OL of 12/09/2013 establishes principles and modalities for sound management of state finances and property. It relates to public financial management of central Government, local administration, public institutions and parastatal organisations.

REQUIRED:

(a) Discuss any three of the fundamental principles of public finance management under the organic law on state finances and property regulations for the use of public finance. **(3 Marks)**

(b) Discuss **any six of** the responsibilities of the minister under the Organic Law on state finances and property regulations for the use of public finances. **(6 Marks)**

(c) The International Public Sector Accounting Standards Board (IPSASB) follows a very structured and public due process in the development of all International Public Sector Accounting Standards (IPSAS). This process provides the opportunity for all those interested in financial reporting in the public sector, including those preparers and users directly affected by the IPSASs, to make their views known to the IPSASB, and ensure that their views are considered in the standard-setting development process.

REQUIRED:

Discuss the IPSAS setting process clearly identifying the responsibility of each body involved.

(11 Marks)

(Total 20 Marks)

End of question paper