CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 28, MAY 2024

MODEL ANSWERS & MARKING GUIDE

QUESTION ONE: FOUNTAIN GROUP

Marking guide	Marks
a) Accounting for the license and the related government grant - award marks as guided below:	
Award 1 mark for every valid (relevant) point referring to the accounting principles applicable for an intangible asset (under IAS 38) and Government grant (under IAS 20) linked to the information provided and in addition 1 mark for every correct point referring to an appropriate application regarding the license and the government grant on initial recognition and at the reporting date (refer to the model answer for details) - maximum of 11 marks	11
Award 0.5 marks for each correct figure used in the calculation of the closing balances for the license and government grant for the year ended 31 December 2023 (see model answer) - maximum of 3 marks	3
b)i) Computation of Goodwill on the acquisition of Rolls Ltd	
Award 0.5 marks for each correct figure used in the calculation of the Goodwill (including the sub-totals / final total). This should include any figure(s) used in the calculation of the net assets figure on the date of acquisition. A maximum of 3 marks	3
b)ii) Computation of Gain / (loss) on the partial disposal of shares in Swift - for the consolidated financial statements	
Award 0.5 marks for each correct figure used in the calculation of the consolidated gain / (loss) on the partial disposal of shares in Swift Ltd (including the final total). This should include any figure(s) used in the calculation of the sub workings for the balances of goodwill, net assets and non-controlling interests if these have separate workings (not their sub totals). A maximum of 6 marks	6
b)iii) Investment in associate (residual interests held in Swift Ltd as at 31 Dec 2023)	
Award 0.5 marks for each correct figure used in the calculation of the investment in associate (including the final total) - a maximum of 2 marks. In addition, award 1 mark for the requirement accounting adjustment for the dividend income received from Swift Ltd on 31 Dec 2023. In total, a maximum of 3 marks	3

c) Consolidated statement of profit or loss and other comprehensive income	
Award 0.5 marks for each correct figure used in the presentation of the consolidated statement of Profit or loss and other comprehensive income including sub-totals and totals - the figures awarded marks shall either be on the face or in the workings (maximum of 23 marks)	23
d) NCI balance in the consolidated statement of financial position	
Award 1 mark to the final computed figure of the NCI balance to be presented in the consolidated statement of financial position (or 0.5 marks for each correct figure used in computing the total amount of the NCI balance) - maximum of 1 mark	1
Total Marks	**50**

MODEL ANSWER TO QUESTION ONE: FOUNTAIN GROUP

Part (a): Accounting for a grant of an operating license

In accordance to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, a grant is recognized in the entity's financial statements where the grant has been received (or is receivable) and the conditions attached to the grant have been satisfied (or are expected to be satisfied)

IAS 20 identifies two types of government grants that include a grant related to an asset or a grant related to income where a grant related to income includes any grant other than a grant related to an asset.

IAS 20 permits the entity to account for a grant related to an asset using the "deferred income" method. For a grant related to an asset under the deferred income method, the entity will initially recognize the asset in the respective asset classification using an equivalent cost of acquiring a similar asset with the corresponding credit entry recognized as a deferred income item presented within the liabilities.

The amount initially recognized as deferred income in the liabilities will subsequently be released / amortized to the profit or loss on a straight-line method over the useful life of the related asset. This may be presented as "other income" in the profit or loss and it is matched with the related cost of the asset such as the depreciation / amortization charge.

The amount / balance of the deferred income in the liabilities at the reporting date is presented in the current liabilities representing the amount of the deferred income that will be released to the profit or loss in the next 12 months from the reporting date. The deferred income amount presented in the non-current liabilities is the balancing figure after deducting the current liability amount from the total deferred income balance.

In the case of Fountain Ltd, the grant of a 10-year operating license received from the Government of Rwanda on 1 October 2023 is a grant related to an asset as it is directly related to the acquisition of an intangible asset (the license). Fountain shall recognize the grant in its financial statements on grounds that it is certain that it will satisfy the conditions related to the grant over the 10-year period.

On the basis that Fountain applies the deferred income method, then initially on 1 October 2023, the entity shall recognize the intangible asset (the license) based on the cost of an equivalent license of FRW 1,800 million and as a deferred income in the liabilities as below:

Debit: License (as an intangible asset) FRW 1,800 million

Credit: Deferred income (in the liabilities) FRW 1,800 million

On the reporting date (31 December 2023):

- The license shall be amortized using the straight-line with the amortization charge of (1,800 / 10 years * 3/12 months) FRW 45 million. This shall be recognized as below:
  Debit: Administration costs (or cost of sales) FRW 45 million

  Credit: License (intangible asset) FRW 45 million

  The closing balance for the license presented under the intangible assets on 31 December 2023 shall be (1,800 – 45) FRW 1,755 million

- The Government Grant as a deferred income in the liabilities shall be amortized and transferred to the profit or loss (in the "other income") on a straight-line basis over the 10-year period and time-apportioned to three (3) months (1 October 2023 to 31 December 2023) by (1,800 / 10 years * 3/12 months) FRW 45 million. This shall be recognized as below:
  Debit: Government Grant (Deferred income in Liabilities) FRW 45 million
  Credit: Profit or loss (other incomes) FRW 45 million

- The closing balance of the Government grant presented as deferred income on 31 December in the liabilities shall be (1,800 – 45) FRW 1,755 million. This shall be presented in the statement of financial position under:
  - The "current liabilities" representing the amount of the deferred income that shall be released to the profit or loss in the next 12-months from the reporting date (of 31 December 2023) amounting to (1,800 / 10 years) FRW 180 million; and
  - The "non-current liabilities" representing that amount taken as the difference between the total deferred income balance of FRW 1,755 million and the amount

presented in the current liabilities of FRW 180 million resulting in a balance of (1,755 – 180) FRW 1,575 million

Part (b)(i) Computation of Goodwill on the acquisition of Rolls Ltd

	FRW Million
Purchase consideration	5,400
Plus: NCI (30%*8,550 net assets) - see "net assets working" below	2,565
Less: Fair value of net assets (see working below)	(8,550)
Bargain purchase (Negative Goodwill on acquisition)	**(585)**

Note: Net assets in Rolls on date of acquisition

	FRW Million
Fair value of net assets on acquisition date:	
Share capital	3,000
Retained earnings in Rolls on 1 April 2023	
Brought forward (31 Dec 2022)	4,500
Plus: Profits for the year (Jan - March 2023) 3/12*4,200	1,050
Fair value of net assets on acquisition date	**8,550**

Part (b)(ii): Computation of the Gain or loss on the partial disposal of shareholding in Swift Ltd (in FRW millions)

Disposal proceeds	4,500
Plus: Fair value of remaining (40%) interest in Swift	3,900
Plus: NCI balance on 1 July 2023 (see below)	2,310
Less: Net assets in Swift on 1 July 2023 (see below)	(11,550)
Less: Goodwill balance in Swift on 1 July 2023 (see below)	(1,200)
Loss on disposal (to Group P&L)	**(2,040)**

Note: Goodwill on acquisition date of Swift Ltd (1 Jan 2015)	**FRW Million**
Purchase consideration	7,200
Plus: NCI = 30%*net assets of (Share capital of 3,000 + Retained earnings on 1 Jan 2015 of 4,500)	1,500
Less: Fair value of net assets (Share capital of 3,000 + Retained earnings on 1 Jan 2015 of 4,500)	(7,500)
Goodwill on acquisition – also as the balance on 1 July 2023	**1,200**

Note: The net assets in Swift on 1 July 2023	
Total equity - 31 Dec 2023 (share capital of 3,000 + retained earnings on 31 Dec 2023 of 9,600)	12,600
Less: Profits for the year (July - Dec 2023) 6/12*2,100 (exclude dividends as these were paid after 1 July 2023)	(1,050)
Total equity / Net assets on 1 July 2023	**11,550**

Note: The NCI balance (in Swift) on 1 July 2023	
NCI value on date of acquisition (1 Jan 2015)	1,500
Plus: NCI share of post-acquisition reserves: 20% x (Net assets on 1 July 2023 as computed above of 11,550 LESS net assets on acquisition date in Goodwill computation of 7,500)	810
NCI value on date of acquisition (1 Jan 2020)	**2,310**

Part (b)(iii): The investment in associate balance (regarding Fountain's remaining investment in Swift Ltd) as at 31 December 2023 and the required adjustment for Fountain's dividend income received from Swift Ltd on 31 December 2023

Investment in associate (based on the residual interests held in Swift Ltd as at 31 Dec 2023) in FRW millions	
Swift is an associate (where Fountain has significant influence from July-Dec 2023)	
Initial value of investment in associate (fair value of the remaining 40% shareholding in Swift on 1 July 2023)	3,900
Plus: Share of profit for the year from Swift (before dividends: July-Dec 2023): 40%*6/12*2,100	420
Less: Dividends received from Swift (on 31 Dec 2023: 40%*600) - brief explanation below	(240)
Investment in associate - 31 Dec 2023	**4,080**

In accordance with the "Equity method" in IAS 28 *Investment in Associates and Joint ventures*, the dividend income received by Fountain from Swift on 31 December 2023 (when Swift was now an associate) is recognized as a reduction on "investment in associate". Therefore, since Fountain has presented the dividend income of FRW 240 million in the P&L (under "other incomes"), the required according accounting adjustment is

DR Other Incomes (Dividend income)	FRW 240 million	
CR Investment in associate		FRW 240 million

Part (c): Fountain's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	FRW million
Revenue[(24,000+13,500*6/12+18,000*9/12)] - 1,500 (W1)	42,750
Cost of sales [(9,000+ 6,000*6/12 + 6,000*9/12)] +50 (W1) - 1,500 (W1) + 150 (W1)	(15,200)
Gross profit	**27,550**
Other incomes:	
Dividends [240-240 (part biii)]	-
Grant income realized (part a)	45
Gain / (loss) on partial disposal of shares in Swift [(part bii)]	(2,040)
Bargain purchase / Negative goodwill [(part bi)]	585
Distribution costs (3,600+ 1800*6/12 + 2400*9/12)	(6,300)
Administrative costs (5,400+ 2,400*6/12+ 3600*9/12) + 45 (part a) + 800 (W2) + 1,200 (W2)	(11,345)
Profit before interest and tax	**8,975**
Finance costs (600+ 300*6/12 + 300*9/12) + 72 (W2)	(1,047)
Share of profit after tax in associate (40%*2,100*9/12) - see part (biii)	420
Profit before tax	**8,348**
Income tax expense (1,800 + 900*6/12 + 1,500*9/12)	(3,375)
Profit for the year	**4,973**
Other comprehensive income	
Re-measurement gain on net pension obligation (W2)	122
Total comprehensive income for the year	**5,095**
Profit for the year attributable to:	
Non-controlling interests (W3)	1,155
Parent (4,973 - 1,155)	3,818
Profit for the year	**4,973**
Total comprehensive income attributable to:	
Non-controlling interests (W3)	1,155
Parent (5,095 - 1,155)	3,940
Total comprehensive income for the year	**5,095**

Workings - all figures in workings are in FRW million where not indicated

W1: Fountain's sale of goods to Swift and Rolls on 1 October 2023		
(a) Sale of goods to Swift on 1 Oct 2023 ***(as associate from 1 July 2023)***		
Only compute and recognize the "un-realized profits" for the unsold goods as at 31 Dec 2023 (1/2*500*20/100)	50	
Accounting treatment:		
Debit: Profit or Loss (cost of sales)	50	
Credit: Inventory		50
(b) Sale of goods to Rolls (a subsidiary) on 1 Oct 2023		
Cancel intra group sale from Consolidated P&L		
DR Consolidated sales revenue	1,500	
CR Consolidated cost of sales		1,500
Un-realized profits (1/2 unsold goods*1,500*20% profit margin)	150	
Accounting treatment:		
DR Consolidated cost of sales	150	
CR Consolidated inventory		150

W2: Fountain's defined benefit pension scheme

	Pension scheme obligations	Pension scheme assets	Net pension obligations

Opening balance (1 Jan 2023)	4,500	4,100	400
Plus: Past service cost (dated 1 Jan 2023) - to recognize in P&L (admin costs)	800		800
Plus: Current service cost (31 Dec 2023) - to recognize in P&L (admin costs)	1,200		1,200
Plus: Net interest cost (31 Dec 2023) 6% (interest rate on 1 Jan 2023) * (4,500 + 800 - 4,100) net pension obligations on 1 Jan 2023 with past service cost added - to recognize in P&L (Finance costs)	72		72
Plus: Cash contributions paid into the scheme (31 Dec 2023)		1,500	(1,500)
Book-carrying amount of pension scheme - 31 Dec 2023	**6,572**	**5,600**	**972**
Closing balance (31 Dec 2023)	7,000	6,150	850
Net re-measurement gain adjustment on "net pension obligation" (972-850) - to be recognized in OCI			**122**

W3: Non-controlling interests

In Group P&L & other comprehensive income	**FRW million**
Profit for the year (exclude dividends paid)	**NCI amount**
Swift: Jan - June 2023 (2,100*6/12*20% NCI share)	210
Rolls: April - Dec 2023 (4,200*9/12*30% NCI share)	945
Total NCI share of Group profits for the year	**1,155**

Part (d): Computation of the consolidated non-controlling interests balance that will appear in the consolidated financial statements as at 31 December 2023

In Group Equity (NCIs only exist in Rolls at 31 Dec 2023)	
NCIs in Rolls - initial measure on 1 July 2023 (see - part bi)	2,565
Plus: NCI's share of Roll's profits for the year - see (c) above	945
NCI balance on 31 Dec 2023	**3,510**

QUESTION TWO: MEGA BEVERAGES LIMITED (MBL)

MARKING GUIDE TO QUESTION TWO

Marking guide	**Marks**
a) IAS 16 - Property, Plant and Equipment	
a)i) Award marks as below:	
1 mark for the correct calculation of the borrowing costs capitalized and 0.5 marks for each other correct line item included in the calculation of the initial cost of the store (except the total) – maximum of 4 marks	
	6
1 mark for each valid explanation for a figure NOT included in the initial capitalised cost of the store including treatment of the general overhead costs (1 mark) and the borrowing costs from January 2024 (1 mark). This includes a general explanation of what constitutes an initial cost of a PPE (with a maximum of 1 mark) - a total maximum of 2 marks	
a)ii) Award 1 mark for each valid point of an explanation made and 0.5 marks for any relevant calculation made (e.g., expensed borrowing costs, depreciation charge) regarding the impact on the profit and loss for the year ended 31 March 2024 - a maximum of 4 marks	
	4
Subtotal - part (a)	**10**
b) IAS 36 - Impairment loss	
i) Award 1 mark for correctly explaining a surrogate rate in context of IAS 36 and 0.5 marks for each applicable surrogate rate that can be used by an entity (e.g., entity's own weighted average cost of capital, entity's incremental borrowing rate, other relevant market borrowing rates - to a maximum of 1 mark). The maximum marks for (b)(i) is 2 marks	
	2
ii) Award marks as below:	
Carrying amount of the building on 31 March 2024: 0.5 marks for the initial purchase cost of the building + 1 mark for a correct calculated accumulated depreciation + 0.5 marks for a correct final answer for the carrying amount on 31 March 2024	
	2
Fair value less costs of disposal: Award 0.5 marks for the fair value + 0.5 marks for cost of disposal + 0.5 marks for a correct computed fair value less costs of disposal	
	1.5
Value in use: Award 0.5 marks for the value in use figure	0.5

Impairment loss: Award 1 mark for the correct figure computed as the "impairment loss" for the building (ignore the figures used for carrying amount and recoverable amount as the elements for these figures have been awarded marks above)	1
Subtotal - part (b)	**7**
c) IAS 40 - Investment Property	
Award 0.5 marks for each correct figure used (including computations made and the final figures) whether used in separate workings or within the extracts of the financial statements - a maximum of 8 marks	8
Do Not Award: Any narrative explanation for the rationale of the figures used in the computations	
Subtotal – part (c)	**8**
Total Marks	**25**

MODEL ANSWER TO QUESTION TWO

a) **Initial measurement of property plant and equipment – the constructed store in Rubavu**

In accordance with IAS 16 *Property, plant and equipment*, the initial cost of the asset shall be the purchases and/or self-construction costs and any other costs directly attributable costs incurred for bringing the asses to its present condition or use. i.e. costs incurred for the assets to be ready for use.

i) As per the above measurement principle in IAS 16, the initial cost of the store will be calculated as follows:

	FRW
Acquisition of Freehold land for construction	150,000,000
Architect fee	52,000,000
Site preparation cost	30,000,000
Construction material cost	720,000,000
Direct Labour costs	215,000,000
Legal fees for securing construction permit	42,000,000
Borrowing costs capitalized (Loan of FRW 500m*15%*9/12 active construction period April – Dec 2023)	56,250,000
Initial cost of the store	**1,265,250,000**

Notes:

1. The general overheads have not been included this is because these overheads will be incurred whether the entity constructs the store or not – they should be taken to profit or loss account. They are not specific overhead to the construction of this store.
2. The borrowing costs that qualify for capitalization are only for the nine (9) months of the active construction which is 1 April 2023 – 31 December 2023. Further borrowing costs incurred after 31 December 2023 will only be expensed to the profit or loss as the construction of the store was completed making the store ready for its intended purpose from 1 January 2024.

ii) Impact (if any) on the statement of profit or loss for the year ended 31st March 2024

The following will affect the statement of profit or loss for the year ended 31st March 2024

1. General overhead that the entity incurred shall be written off as an expense to profit and loss account i.e. FRW 105,000,000.
2. As explained above, it is only the borrowing costs (interest expenses) for 9 months (Construction period of 1 April 2023 – 31 December 2023) that will be included in the initial capitalized cost of the asset (As per IAS 23 – When the asset is complete, capitalization of borrowing costs stops). The borrowing costs (interest expenses) for the other 3 months from January to March 2024 will be written off as expenses to Profit or loss for the year ended 31 March 2024 amounting to (FRW 500 million*15%*3/12) FRW 18,750,000.
3. Depreciation charge – The initial cost of the store (including the capitalized borrowing costs) as an item of property, plant and equipment will be assessed for depreciation from the date the asset is ready for its intended use (i.e., from 1 January 2024). This is regardless of whether MBL will actually start using the store from 1 April 2024. Therefore, a depreciation charge for the three months (Jan – March 2024) of (1,265,250,000/20 years*3/12) FRW 15,815,625.

b)

i) A surrogate in this case is a substitute or an alternative discount rate that can be used in the absence of a market determined asset specific rate. An entity may use as a surrogate discount rate, the entity's own weighted average cost of capital or the entity's incremental borrowing rate or other relevant market borrowing rates.

ii)

Determination of whether the asset is impaired

Carrying amount	**FRW**
Cost	2,000,000,000

Accumulated depreciation to 31 December 2021 (2,000m/20)*4 Years i.e. 2020-2024	(400,000,000)
Carrying amount on 31 March 2024	**1,600,000,000**
Fair Value less cost to disposal (1,000m - 5m)	995,000,000
Present Value of net cash flows	1,200,000,000
The higher of Value in use and Fair value less cost to sell - Recoverable amount	**1,200,000,000**

Note: There is impairment since the Recoverable amount is less than the carrying amount

Impairment loss Determination	**FRW**
Carrying amount	1,600,000,000
Recoverable amount	(1,200,000,000)
Impairment loss	400,000,000

c)

Note that before the asset was transferred from IAS 16 to IAS 40 i.e. from owner-occupation to letting, the asset was used for 6 months in the current year-ended 31 March 2024 under consideration as owner occupied asset treated under IAS 16. So we will calculate depreciation only for 6 months as MBL adopts the fair value model for its investment properties and hence no depreciation charge shall arise on an investment property in the year.

Workings	**Frw**
Cost	500,000,000
Accumulated Depreciation (500,000,000/50)*9 Years i.e. April 2014 - March 2023	(90,000,000)
Carrying amount - 31 March 2023	410,000,000
Depreciation for the 6 months (1 April 2023 - 30 Sept 2023) - Before Transfer (500,000,000/50)*6/12	(5,000,000)
Carrying amount - At 30 June 2021 -Non Depreciation after this date	405,000,000
Fair Value at the date of transfer (1 Oct 2023) from PPE (IAS 16) to an Investment property (IAS 40)	500,000,000
Revaluation gain at the date of transfer (500,000,000 - 405,000,000) – OCI 0.5	95,000,000

Determining the Loss/gain at the reporting date:

Fair Value at 31 March 2024 - Reporting Date	600,000,000
Less Fair Value at transfer date - 1 October 2023	(500,000,000)
Fair value gain /loss - to be recognized in the profit or loss	100,000,000

MBL's,
Statement of profit or loss & Other comprehensive income (Extract) for the year ended 31 March 2024

	FRW
Profit or loss section	
Gain on Fair value (on the investment property) - in "other incomes"	100,000,000
Depreciation charge on PPE (in the "administration costs" or "cost of sales")	(5,000,000)
Other Comprehensive income section	
Revaluation gain on PPE	95,000,000

MBL's
Statement of financial position (Extract) as at 31 March 2024

Non-Current assets	FRW
Investment Property	600,000,000
Equity	
Revaluation reserve (no revaluation gain realized until the disposal of the asset)	95,000,000

QUESTION THREE: KAMANZI TICK COMPANY (KTC)

Marking guide	Marks
a) Convertible loan note issued by KTC **a)i) Accounting treatment for a convertible loan note** **Award marks as below:**	
1 mark for every valid (relevant) point referring to the accounting principles applicable for an issued convertible loan note in accordance to applicable IFRS standards and in addition 1 mark for every correct point referring to an appropriate application regarding the convertible loan note issued by KTC on initial recognition and at the reporting date (refer to the model answer for details) - maximum of 5 marks	5
0.5 marks for each correct figure used in the computation of the financial liability component and the equity component (on initial recognition and at the reporting date) - maximum of 5 marks	5
a)ii) Accounting treatment for the deferred tax implications arising from the convertible loan note on 31 December 2023	
Sub-total Q3(a)(i)	**10**
a)ii) Accounting treatment for deferred tax implications arising on convertible loan note **Award marks as below:**	
1 mark for every valid (relevant) point referring to the accounting principles applicable for a deferred tax accounting in accordance to applicable IFRS standards and in addition 1 mark for every correct point referring to an appropriate application regarding the deferred tax implication arising from the convertible loan note issued by KTC at the reporting date (refer to the model answer for details) - maximum of 5 marks	5
0.5 marks for each correct figure used in the computation of the deferred tax arising on the financial liability component at the reporting date (this includes the correct calculation of temporary difference for 0.5 marks and the deferred tax liability for 0.5 marks) - maximum of 1 mark	1
Sub-total Q3(a)(ii)	**6**
b) KTC's credit sale in foreign currency **b)i) Accounting treatment for credit sale denominated in a foreign currency** **Award marks as below:**	

1 mark for every valid (relevant) point referring to the accounting principles applicable for a credit sale transaction in accordance to applicable IFRS standards and in addition 1 mark for every correct point referring to an appropriate application regarding the credit sale by KTC on initial recognition and at the reporting date (refer to the model answer for details) - maximum of 5 marks	5
0.5 marks for each correct figure used in the computation of the translated credit sale / trade receivable (on initial recognition and at the reporting date) - maximum of 2 marks	2
Sub-total Q3(b)(i)	**7**
b)ii) Accounting treatment for deferred tax implications arising on the re-translated trade receivable	
Award marks as below:	
0.5 marks for each correct figure used in the computation of the deferred tax (this includes the correct calculation of temporary difference for 0.5 marks and the deferred tax asset for 0.5 marks) - maximum of 1 mark	1
1 mark for the correct accounting journal (split as 0.5 marks for each of the correct debit entry / reference and 0.5 marks for the correct credit entry / reference) - maximum of 1 mark	1
Sub-total Q3(b)(ii)	**2**
Total Marks	**25**

MODEL ANSWER TO QUESTION THREE: KAMANZI TICK COMPANY (KTC)

Q3a: Convertible loan notes

Q3(a)(i) – Accounting treatment for the convertible loan note issued by KTC

In accordance with IAS 32 *Financial Instruments – Presentation*, an issued convertible loan note which has a conversion option in a fixed number of equity instruments at the maturity date will in substance comprise of two components to the "issuer" which includes the financial liability component and the equity component.

The financial liability component is initially measured as the present value of the future cash payments (interest at the fixed interest rate annually and the principal repayment at the end of the loan term). The equity component is initially measured as the residual amount after deducting the financial liability component from the total proceeds received.

The financial liability component is recognized and presented within the non-current liabilities while the equity component is recognized and presented in the other equity reserves (or other components of equity) within equity.

In accordance with IFRS 9 *Financial Instruments*, at the end of each subsequent reporting date, the financial liability component is classified as a "financial liability carried at amortized cost" and re-measured using the effective interest rate. The equity component remains unchanged at the amount measured at the initial recognition.

In the case of the convertible loan notes issued by KTC, on 1 January 2023, these will be separated into two components with the financial liability component is initially measured at FRW 8,484 million and the equity component is initially measured as the residual amount of FRW 1,516 million. This is supported by the following calculations on 1 January 2023:

Financial liability component

Using the effective interest rate of 10%, the financial liability component is initially computed as:

	Cash flows (in FRW millions)	**Discount factor (10%)**	**Present value (in FRW millions)**
Annual interest payments (6%*50,000*200,000)	600	3.791	2,274
Principal repayment at end of year 5 (50,000*200,000)	10000	0.621	6,209
Financial liability: Present value on 1 Jan 2023			**8,484**
Equity component on 1 Jan 2023 (10,000 - 8,484)			**1,516**

On initial recognition (1 January 2023), the convertible loan notes are recognized as below:

Debit: Cash and Bank (with total proceeds received: 50,000*200,000)	FRW 10,000 million
Credit: Financial liability (in non-current liabilities)	FRW 8,484 million
Credit: Equity reserve (in Equity)	FRW 1,516 million

Subsequently at the reporting date (31 December 2023), the financial liability element as a financial liability carried at amortized cost (in accordance to IFRS 9) is re-measured using the amortized cost method to FRW 8,732 million. The equity component remains unchanged at FRW 1,516 million. The following calculations support the re-measurement of the financial liability at the reporting date (31 December 2023):

Financial liability

	Opening balance (1 Jan 2023)	**Finance cost (paid at fixed interest rate) 6%**	**Finance cost (at effective interest rate) 10%**	**Difference (in finance costs) (effective interest - fixed interest)**	**Closing balance (31 Dec 2023) (opening bal + difference)**
	FRW million	FRW million	FRW million	FRW million	FRW million
Re-measured financial liability in the year-ended 31 Dec 2023	8,484	600	848	248	8,732

Q3(a)(ii): Accounting treatment for the deferred tax implications arising from the financial liability component of the convertible loan note on the reporting date (31 December 2023)
In accordance to IAS 12 *Income taxes*, a temporary differences arises where the carrying amount of an asset/tax base is different from its tax base as long as this is not a permanent difference.

A temporary difference may be a taxable temporary difference that will result in taxable amounts in the future period(s) or a deductible temporary difference that will result in recoverable tax(es) in the future period(s).

A taxable temporary difference results in a deferred tax liability where an appropriate tax rate is applied and the deferred tax liability is recognized in the non-current liabilities and in the profit or loss or appropriately in the other comprehensive income if the temporary difference relates to an item recognized in the other comprehensive income.

A deductible temporary difference results in a deferred tax asset where an appropriate tax rate is applied. A deferred tax asset is recognized only where the entity is certain of future taxable profits from which the deductible temporary difference shall be recovered from. A deferred tax asset is recognized in the current assets and in the profit or loss or appropriately in the other comprehensive income if the temporary difference relates to an item recognized in the other comprehensive income.

In the case of KTC, a taxable temporary difference of FRW 1,268 million 0.5 arises on the reporting date (31 December 2023) when the carrying amount of the financial liability component of the convertible loan note of FRW 8,732 million is different from its tax base of FRW 10,000 million.

Consequently, a deferred tax liability of (1,268 million*30% tax rate) FRW 380 million 0.5 is recognized as an additional liability in the non-current liabilities and as an additional income tax expense in the profit or loss.

Q3(b)(i) Accounting treatment for a credit sale transaction denominated in a foreign currency

In accordance with IAS 21 *The effects of changes in foreign exchange rates*, a transaction denominated in a foreign currency is initially translated to the entity's functional currency using the spot exchange rate (i.e., the exchange rate on the date of the transaction).

Subsequently, at the reporting date, a monetary item (e.g., a trade receivable) denominated in a foreign currency with a closing balance is recognized in the financial statements using a re-translated balance into the entity's functional currency based on the closing rate (i.e., the exchange rate at the reporting date).

Any exchange differences arising from the re-translation of the monetary item is recognized in the entity's profit or loss.

In the case of KTC, the credit sale made to the Kenyan-based customer is initially (on 1 October 2023) translated to the FRW currency using the spot exchange rate as (Kshs 50m*10) FRW 500m. This is accounted for on 1 October 2023 as below:

Debit: Trade Receivables	FRW 500m	
Credit: Sales Revenue		FRW 500m

Subsequently at the reporting date (31 December 2023), with the full invoiced value of Kshs 50 million still outstanding, a re-translation of the trade receivable balance as a monetary item is made using the closing exchange rate on 31 December 2023 to (Kshs 50 million*9.8) FRW 490 million.

An exchange loss of (500 – 490) FRW 10 million should be recognized in the financial statements of KTC on 31 December 2023 as below:

Debit: Profit or loss (with the exchange loss on re-translation)	FRW 10m	
Credit: Trade receivable (with the exchange loss on re-translation)		FRW 10m

Q3(b)(ii) Computations for the deferred tax implications arising from the re-translated trade receivable at reporting date (31 December 2023)

	FRW millions
Tax base for the trade receivable balance on 31 Dec 2023 (maintained at transaction spot rate used on 1 Oct 2023): Kshs 50m*10	500

Carrying amount for the trade receivable balance on 31 Dec 2023 (based on a re-translated amount): Kshs 50m*9.8	490
A deductible temporary difference (500 - 490)	10
Apply KTC's tax rate	30%
Deferred tax asset on 31 Dec 2023 (10*30%)	**3**

The accounting treatment (separately) for the deferred tax asset in the financial statements of KTC on 31 December 2023 is:

Debit: Deferred tax asset (in the current assets)	FRW 3m	
Credit: Profit or loss (in the income tax expense account)		FRW 3m

QUESTION FOUR

Marking guide	**Marks**
a) Award 1 mark for each reason correctly explained - Max 5	5
b) ABC-Rwanda (a government agency applying IPSAS)	
Award 0.5 marks for each correct figure in the adjustments column including totals and subtotals - a maximum of 4 marks	4
Award 0.5 marks for each correct figure in the performance difference/variance column and subtotals - a maximum of 8 marks	8
Award 0.5 marks for each correct figure in the variance percentage of final budget column and subtotals - a maximum of 8 marks	8
Total Marks	**25**

MODEL ANSWER FOR QUESTION FOUR

a) It is important for IPSASB to provide guidance on public sector sustainability reporting due to the following reasons:

- The issue of climate change is currently emerging and public sector entities need to have guidance on how to incorporate effects of climate change in their financial reporting
- Individual jurisdictions are beginning to develop their own requirements. There is therefore need for global guidance for consistency, to enhance comparability, and drive high quality reporting for public sector entities.

- Sustainability reporting covers a wide range of environmental, social and governance topics that users of financial statements need to understand.
- The Public Sector will play an important role in addressing sustainability issues.
- The public sector has a broad range of roles in relation to development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs – i.e., sustainable development.
- Public sector action is needed to bring about the widespread changes across the globe required to deliver the benefits of sustainable development to its citizens.
- Through its leadership and policy responsibilities, as well as the powers to regulate, and through subsidies and incentives, the public sector is in a unique position to encourage private sector businesses and individual citizens to change their behaviors to achieve the Sustainable Development Goals (SDGs).

b) ABC-RWANDA (a government agency applying IPSAS standards)

ABC-Rwanda's statement of comparison of budget and actual amounts for the year ended 30 June 2023

	Original budget	**Adjustments**	**Final budget**	**Actual on comparable basis**	**Performance difference (Variance)**	**Variance percentage of final budget**
	FRW 000	**FRW 000**	**FRW 000**	**FRW 000**	**FRW 000**	
		% change*original budget figure				
Revenue						
Property taxes	12,187,500	-	12,187,500	12,165,031	22,469	0%
Public contributions and donations	287,500	(11,500)	276,000	248,656	27,344	10%
Fines, penalties and levies	11,225,000	(112,250)	11,112,750	11,135,438	(22,688)	0%
Licenses and permits	262,500	-	262,500	259,194	3,306	1%
Government grants and subsidies	8,562,500	-	8,562,500	8,562,206	294	0%
Rendering of services	9,553,750	(1,528,600)	8,025,150	6,268,106	1,757,044	22%
Sale of goods	61,687,500	-	61,687,500	61,682,888	4,613	0%
Finance Income	882,500	-	882,500	881,975	525	0%

Gains on disposal, rental income and agency fees	831,250	24,938	856,188	856,750	(563)	0%
Total income	**105,480,000**	**(1,627,413)**	**103,852,588**	**102,060,244**	**1,792,344**	
Expenses						
Compensation of employees	34,100,000	-	34,100,000	34,095,194	4,806	0%
Goods and services	43,687,500	873,750	44,561,250	49,129,575	(4,568,325)	-10%
Finance cost	1,900,000	(209,000)	1,691,000	1,685,719	5,281	0%
Rent paid	36,825	-	36,825	36,825	-	0%
Taxation paid	26,563	2,125	28,688	25,650	3,038	11%
Other expenses	6,512,444	3,386,471	9,898,915	11,276,056	(1,377,142)	-14%
Grants and subsidies paid	625,000	-	625,000	599,006	25,994	4%
Total expenditure	**86,888,331**	**4,053,346**	**90,941,677**	**96,848,025**	**(5,906,348)**	
Surplus/(Deficit)	**18,591,669**	**(5,680,758)**	**12,910,911**	**5,212,219**	**7,698,692**	

End of Model answers and marking guide