ICPAR

Unlimited possibilities

CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

MARKING GUIDE AND MODEL ANSWERS

TUESDAY, 28 MAY 2024

QUESTION ONE: FANCY LTD
MARKING GUIDE

	Marks
(a)(i) Fleet of Vehicles:	
Award 0.5 marks for a correct calculation of the "accumulated depreciation to 30 June 2023"; 0.5 marks for a correct calculation of the "profit on disposal of vehicles" and 1 mark for the journal entry for the disposal of the vehicles. Maximum of 2 marks	2
(a)(ii) Change in use of the building on 1 July 2023	
Award 0.5 marks for a correct calculation of the "accumulated depreciation of the building by 30 June 2023" and 1 mark for the journal entry for the "change in use of the building on 1 July 2023"	1.5
Fair value gain on investment property on 31 December 2023	
Award 0.5 marks for a correct calculation of the "fair value gain on investment property on 31 December 2023" and 1 mark for the accounting treatment	1.5
(a)(iii) Accounting for rent received for the investment property	
Award 1 mark for the correct accounting entry for rent receipt on 1 July 2023 and award 1 mark for a correct accounting entry on the realization of rental income on 31 Dec 2023. A maximum of 2 marks	2
Sub-total - Q1(a)	**7**
(b) Deferred tax accounting	
Award marks as follows Temporary difference of PPE 1 mark Temporary difference of Trade receivable 1 mark Temporary difference of provision for liability 0.5 mark	2.5
Award 1 mark for a correct calculation for the deferred tax liability at 31 December 2023	0.5
Award 1 mark for a correct calculation for the "increase in deferred tax liability this year to 31 December 2023"	0.5
Award 0.5 marks for a correct calculation of the "deferred tax on property revaluation gain" and 0.5 marks for "deferred tax liability to be recognized in the P&L" - a max of 1 mark	1
Award 1 mark for the correct accounting entry for the "deferred tax liability" for the year ended 31 Dec 2023	1.5
Sub-total - Q1(b)	**6**
c) IAS 41's accounting principles for biological assets	
Award 1 mark for every valid criteria required for the recognition of biological assets. A maximum of 2 marks	2

Award 1 mark for each valid point made in reference to IAS 41 for measurement of biological assets (and this includes 1 mark for initial measure, 1 mark for a subsequent measure under the fair value method, a mark for treatment of the fair value changes under the fair value method. Award mark for the alternative cost method) A maximum of 3 marks	3
Award 1 mark for each valid disclosure note made / explained. A maximum of 2 valid disclosure notes and 2 marks	2
Sub-total - Q1(c)	**7**
TOTAL MARKS FOR QUESTION ONE	**20**

MODEL ANSWER FOR QUESTION ONE:

a)

(i) Accounting entry for the computed gain/(loss) on the disposal of the vehicles

Initial cost (1 January 2014)	200,000,000	
Accumulated depreciation to 30 June 2023 (FRW 200m / 20 years * 9.5 years)	(95,000,000)	
Carrying Amount (30 June 2023)		**105,000,000**
Profit / (loss) on disposal of vehicles		
Disposal proceeds - sale of vehicles	150,000,000	
Less: Carrying amount of vehicles (30 June 2023)	(105,000,000)	
Profit on disposal of vehicles (150m - 105m)	**45,000,000**	
Accounting entries - disposal of vehicles		
Dr Cash or Bank (disposal proceeds)	150,000,000	
Dr: Accumulated depreciation	95,000,000	
Cr Vehicles (from PPE at carrying amount)		200,000,000
Cr Profit on disposal (in P&L)		45,000,000

ii. Investment property

Accounting entry - Change in the use from office building (IAS 16 Property, plant and equipment) to an investment property (under IAS 40) on 1 July 2023

Initial cost (1 January 2001)	750,000,000	
Accumulated depreciation to 30 June 2023 (FRW 750m / 50 years * 22.5 years)	(337,500,000)	
Carrying Amount (30 June 2023)		**412,500,000**
Accounting entry - change in use of the building on 1 July 2023		
Dr Investment property	412,500,000	
Dr: Accumulated depreciation	337,500,000	
Cr PPE (Office building)		750,000,000

Accounting entry – fair value gain of the investment property on 31 December 2023

Fair value gain on investment property on 31 December 2023

Fair value on 31 December 2023	520,000,000
Less: Fair value on 1 July 2023	(412,500,000)
Fair value gain on 31 Dec 2023 (520m - 412.5m)	**107,500,000**

Accounting entry - Fair value gain for the investment property on 31 Dec 2023

Dr Investment property	107,500,000	
Cr P&L (other income)		107,500,000

iii) Accounting entries for the rent received

Accounting entry - receipt of advance rent on 1 July 2023

Dr Cash or Bank	50,000,000	
Cr Deferred Income (current liabilities)		50,000,000

Accounting entry for realised / earned rental income on 31 Dec 2023

Dr Deferred Income (current liabilities) (FRW 50m * 6/12 months)	25,000,000	
Cr P&L (other income)		25,000,000

Q1)b)

	Carrying amount "000"	**Tax base "000"**	**Temporary difference "000"**	
PPE	1,200,000	490,000	710,000	TTD
Trade receivable	300,000	-	300,000	TTD
Provision for liability	(50,000)		(50,000)	DTD
Total			**960,000**	**TTD**
	Deferred tax liability bal c/d 960,000*30%	288,000		
	Deferred tax liability bal b/d	250,000		
	Increase in deferred tax liability	38,000		
	Deferred tax chargeable in reserve 40,000*30%	12,000		
	Deferred tax chargeable in P/L	26,000		
Accounting entries	DR: Income tax-PL	26,000		
	Dr: Reserve account	12,000		
	Cr: Deferred tax account		38,000	

c) A brief explanation of the accounting principles for biological assets in accordance with IAS 41 ***Agriculture***

i) Recognition:
In accordance to IAS 41 *Agriculture*, a biological asset (that includes animals and/or plants which should not be bearer plants) should be recognised in the financial statements of Fancy Ltd when all the following conditions are satisfied:
- The entity controls the asset because of past events; and
- It is probable that the future economic benefits associated with the asset will flow to the entity.
- The fair value or cost of the asset to the entity can be measured reliably.

ii) Measurement:

Initial recognition

IAS 41 requires Fancy Ltd to initially measure the biological assets at the cost incurred to get the plantations (i.e., the biological assets) in a condition ready for their intended use.

Initial recognition for granted assets: A biological asset shall be measured on initial recognition at its fair value less costs to sell, however, on initial recognition for a biological asset the quoted market prices may not available and for which alternative fair value measurements are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses

Subsequent recognition

Subsequently at the end of each year (e.g., on 31 December 2023), Fancy Ltd shall apply a fair-value measurement approach where all the biological assets should be measured at their fair value less estimated costs of sale.

Any change in the fair value at the end of each reporting date representing fair value gains or losses is recognised in the profit or loss.

The IAS 41 allows an alternative method of valuation if a fair value cannot be determined because (say) the market determined prices or values are not available which in this case is by use of a "cost method" in which case, the biological asset can be measured at cost less accumulated depreciation and less any impairment losses.

iii) Disclosures:

The following disclosures in the notes to the financial statements are required for biological assets:

- Class of animal or plant
- Nature of activities (consumable or bearer)
- Maturity or immaturity for intended purpose
- Where activities are consumable, the maturity criterion will be attainment of harvestable specifications, whereas in bearer activities, it will be attainment of sufficient maturity to sustain economic harvests.
- An entity shall disclose the aggregate gain
- or loss arising during the current period on initial recognition of
- biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets
- An entity shall provide a description of each group of biological assets.

- The existence and carrying amounts of biological assets whose
- title is restricted, and the carrying amounts of biological assets pledged as security for liabilities
- The number of commitments for the development or
- acquisition of biological assets; and
- The gain or loss arising from changes in fair
- value less costs to sell

QUESTION TWO: MUHANGA GROUP

MARKING GUIDE

	Mark
Award 0.5 marks for each correct figure used in the presented consolidated statement of financial position (excluding totals and sub-totals) Retained earnings award 1 Non-controlling interest award 1 mark	10.5
For workings done (either separately or included on the face of the consolidated statement of financial position) and this also includes the total for the working - based on a maximum for each working as below:	
(i) Goodwill (including a separate computation for pre-acquisition retained earnings)	5.5
(ii) Computation of the purchase consideration - to acquire Guma (including the accounting treatment for the share-exchange)	3
(iii) Computation of the consolidated retained earnings	4.5
(iv) NCIs in Guma	1
(v) Investment in associate	1.5
(vi) Provision for un-realised profits (for both sales)	2
Pre-Acquisition profit in Guma	1
Purchase consideration	1
TOTAL MARKS FOR QUESTION TWO	**30**

MODEL ANSWER:

Consolidated statement of financial position for Muhanga Group as at 31 December 2023

Assets	**FRW millions**
Non-current assets	
Property, plant and equipment (25,500 + 13,900 - 1,200 W1 + 200 W1)	38,400
Investments (27,600 - 24,000 W2 - 3,600 W5)	-
Investment in associate (W5)	4,640
Goodwill (W1)	20,880
Total non-current liabilities	**63,920**
Current assets	
Inventory (12,500 + 2,400 - 500 W6)	14,400
Cash (4,500 + 12,400)	16,900
Receivables (750 + 810)	1,560
Total current assets	**32,860**
Total Asset	**96,780**
Equity	
Share capital of FRW 1 each (only in Muhanga: 15,000 + 2,400 W2)	17,400

Share premium (3,000 + 9,600 W2)	12,600
Retained earnings (W3)	24,984
Non-controlling interests (W4)	3,736
Total equity	**58,720**
Non-current liabilities	
20% loan notes	3,000
Current liabilities	
Trade and account payable (9,500 + 4,500)	14,000
Tax payable (15,350 + 5,710)	21,060
Total equity and liabilities	**96,780**

Workings (all monetary figures are rounded to the nearest full FRW million)

W1: Goodwill in Guma		
Fair value of consideration (W2)		36,000
Fair value of NCIs on date of acquisition (1 Sept 2023): 20% * 5,000 shares * FRW 4 per share in Guma		4,000
Less: Fair value for Net assets (on 1 Sept 2023)		
Share capital	5,000	
Share premium	2,300	
Retained earnings *(see below)*	10,700	
Fair value adjustment / reduction on property	(1,200)	
		(16,800)
Goodwill at acquisition		**23,200**
Impairment loss on Goodwill at 31 Dec 2023 (5%*23,200)		(2,320)
Good will balance on 31 Dec 2023 (23,200 - 1,160)		**20,880**

Retained earnings in Guma on 1 Sept 2023 (Pre-acquisition)	
Retained earnings at reporting date (31 Dec 2023)	12,000
Less: Profit of 4 months from acquisition date to reporting date (1 Sept - 31 Dec 2023)	1,300
Total (12,300 - 1,300)	**10,700**

W2: Purchase consideration - acquisition of Guma

Share exchange - No. of shares issued by Muhanga to acquire Guma (3/5 share * 5,000 shares in Guma * 80% acquired)	2,400
Fair value of share-exchange in FRW (No. of shares acquired in Guma of 2,400 shares * FRW 5 per Muhanga's share) - NOT YET IN MUHANGA'S FINANCIAL STATEMENTS	12,000
Plus: Immediate Cash payment	24,000
Total consideration to acquire Guma	**36,000**

Share exchange (to be accounted for in the Group accounts)

Share capital (No. of issued shares of 2,400 shares * FRW 1 per share) in FRW	2,400
Share premium (No. of issued shares of 2,400 shares * FRW 4 per share) in FRW	9,600

W3: Consolidated retained earnings

	Muhanga	**Guma**
As per question (on 31 Dec 2023)	25,000	12,000
Less: Pre-acquisition retained earnings (W1 for Guma) (W5 for Eagle)		(10,700)
Plus: Reduced depreciation charge - fair value reduction in property for Guma		200
Less: Impairment loss on Goodwill in Guma at 31 Dec 2023 (10%*23,200)		(2,320)
Less: Un-realized profits (for unsold good: 500 + 800) (W6)	(320)	(500)
Sub-total	**24,680**	**(1,320)**
Less: Muhanga's share of Guma post-acquisition loss (80% * 1,320 loss)	(1,056)	
Plus: Share of profits in Associate / Eagle (1 July - 31 Dec 2023): 40% * (6/12 * profits this year of 6,800) - also see W5	1,360	
Consolidated retained earnings at 31 Dec 2023 (24,680 - 1,056 + 1,904)	**24,984**	

W4: Non-Controlling Interests (only in Guma)

Fair value of NCIs on date of acquisition (W1)	4,000

Less: NCI's share of Guma post-acquisition loss (20% * 1,320 loss) - also see W3	(264)	
NCI balance at 31 Dec 2023 (to group equity)	**3,736**	

W5: Investment in Associate (Eagle Ltd)

Initial Cost on investment in Eagle in FRW (purchase consideration: 2,400 shares * FRW 1.5 per share)	3,600	
Plus: Share of profits in Associate / Eagle (1 July - 31 Dec 2023): 40% * (6/12 * profits this year of 6,800)	1,360	
Less: Un-realized profits in unsold goods (from Muhanga) on 31 Dec 2023) (W6)	(320)	
Investment in Associate at 31 Dec 2023	**4,640**	

W6: Provision for unrealized profits

	Muhanga	**Guma**
Guma (a subsidiary) sales to Muhanga (a parent): 2,000 unsold goods * 25% profit margin)		500
Muhanga (a parent) sales to Eagle (an associate): 4,000 unsold goods * 20% profit margin * 40% shareholding in Eagle)	320	

QUESTION THREE

MARKING GUIDE FOR QUESTION THREE

Q3)a)	**Mark**
Award 1 mark for each example	2
Present Value of unpaid lease payment	1
Award 05 mark for legal included in the computation of right of use asset	0.5
Award 05 mark for initial payment included in the computation of right of use asset	0.5
Award 1 mark of closing balance of lease liability for each year-Maximum 4 marks	4
Right of Use for the 5 years: Award 0.5 marks for each correct end oy year balance (maximum of 2 marks for all the 5 years)	2
Maximum marks to be awarded	**8**
Sub-question (c)	
C.(i) Definition of significant influence (1 mark for definition and 1 mark for linking significant influence to voting rights in form of voting shareholding)	2
C.(ii) Award 1 mark for each example of an evidence of significant influence - maximum of 3 marks. Examples of evidence include:	3
Representation on the board of directors:	
Participation in the policy making process	
Material transactions between investor and investee	
Interchange of management personnel	
Provision of essential technical information	
Maximum marks to be awarded	**5**
Sub-question (d): Muhabura Ltd's Land (an investment property)	
Award as below:	
A justified classification of the land as an investment property	1
Year ended 31 December 2022	
Initial recognition of land-Award 0.5	0.5
Explanation that the fair value increase on land shall be recognized in the P&L - 1 mark	1
Accounting entries for fair value gain for the year ended 31 Dec 2022 (the double entry)	1
Year ended 31 December 2023	
Explanation that the fair value decrease on land shall be recognised in the P&L - 1 mark and 0.5 marks for the correct calculation of the fair value decrease	1.5

Accounting entries for fair value decrease for the year ended 31 Dec 2023 (the double entry)	1
Maximum marks to be awarded	**6**

Sub-question (d): Research and Development cost for Muhima Ltd

Correct explanation of research and development phase award 2 marks Award 1 mark for any four (4) correct reference of the condition for recognition of a capitalized development cost Award 1 marks for correct explanation to the case at Muhima Ltd regarding costs incurred in reference to the conditions laid down in IAS 38. Award 1 for accounting treatment of FRW 30 million Conclusion including treatment of future profit and future costs attract 1 mark. A maximum of 9 marks	
Maximum marks to be awarded	**9**
TOTAL MARKS - QUESTION THREE	30

MODEL ANSWER

Q3)a)

a) When inventory become wholly or partially obsolete, in this case the net realizable value of the inventory will be low than its costs
b) When the selling prices of goods have declined, in the market due to different condition the price may fall down unity costs
c)If inventory is moved from one place to another and it is damaged in the process, in this case, the NRV will be lower than costs
d) Expected cost of completion for work in progress items increased due to additional materials increased above the agreed selling price for orders already placed by customers

Q3)b)

Lease commencement: 01 Jan 2023
TURA HEZA will need to recognize right of use asset and lease liability
Right of use

	FRW
	"000"
PRESENT VALUE OF UNPAID LEASE AS AT 1/01/2023 70,000*3.037	212,611
Legal costs	5,000
Initial payment	70,000
Right of use asset,	**287,611**

Double entries

Dr: Right of use asset	Frw 287,590	
Cr: Lease liability	Frw 212,611	
Cr: Bank		FRW 75,000

Subsequently, TURAHEZA Ltd will depreciate the Right of use asset over the lease term, 5 years.
Annual depreciation:
287,611/5 57,522

Lease schedule

Period	**Opening balance**	**Interest expense @ 12%**	**Lease payment**	**Closing balance**
	A	**B=(A-C)*12%**	**C**	**D=A+B-C**
31-Dec-23	212,611	25,513	0	238,124
31-Dec-24	238,124	20,175	70,000	188,299
31-Dec-25	188,299	14,196	70,000	132,495
31-Dec-26	132,495	7,499	70,000	70,000
31-Dec-27	70,000	0	70,000	0

Income statement

	31-Dec-23	**31-Dec-24**	**31-Dec-25**	**31-Dec-26**	**31-Dec-27**
Expense					
Interest	25,513	20,175	14,196	7,499	
Depreciation	57,522	57,522	57,522	57,522	57,522

Balance sheet

	31-Dec-23	**31-Dec-24**	**31-Dec-25**	**31-Dec-26**	**31-Dec-27**
Non-current assets					
Right of use assets	287,611	287,611	287,611	287,611	287,611
Accumulated depreciation	57,522	115,044	172,567	230,089	287,611
NBV	230,089	172,567	115,044	57,522	0
Liability					
NCL					
Lease obligation	238,124-70,000=168,124	188,299-70,000=118,299	132,495-70,000=62,495		
Current liability					
Lease obligation	70,000	70,000	70,000	70,000	

Q3)c)

i) **Significant Influence:** this is the power to participate in the financial and operating policies of the investee which is not control nor joint venture. The significant influence can exist when investor has voting right of 20% and above up to less than 50%.

ii)

Existence of significant influence is evidence in one or more of the following ways

- Representation on the board of directors of the investee
- Participation in the policy making decision
- Material transaction between investor and investee
- Interchange of managerial personnel
- Provisional of essential technical information
  Accounting for the investment in Associate

d)

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both. The land acquired by Muhabura was for the purpose of capital appreciation-This classify it to be investment property. The land acquired is an investment property per IAS 40 because it was acquired to earn capital appreciation

Initial recognitional
The land will be recognized initially at costs, in respect of this acquisition, the costs was **FRW 45 million**

Dr: Investment FRW 45 million
Cr: Bank/liability FRW 45 million

Subsequently, the land will be measured at fair value, A gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss for the period in which it arises.

By December 2022,
Again of FRW 9 million i.e 54-45 will be recognized as follows

Dr: Investment property	9 million	
Cr: Gain in Profit or Loss account		9 million

By December 2023, the fair value fall below the existing carrying amount which indicate a loss, therefore, the loss will be taken to profit or loss account, this loss will be recognized in the profit or loss account as follows

Dr: Loss on fair value-P/L 54-40	14 million	
Cr: Investment property		14 million

E) IAS 38

Research costs
Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding

Development
Development is the process whereby the entity apply research findings or other knowledge to design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Accounting treatment
Research expenditure must be recognized as an expense in the Income Statement when it is incurred, i.e. it cannot be capitalized.

An intangible asset arising from development shall be recognized as asset if, and only if, an entity can demonstrate all of the following

*Probable future economic benefits will be generated by the asset and flow to the entity
*Intention to complete and use or sell the asset
*Resources exist to complete the development and to use/sell the asset
*Ability to use or sell the asset

*Technical feasibility of completing the asset so that it will be available for use or sale
*Expenditure attributable to the development of the asset can be measured reliable.

N.B: There are circumstances where an entity cannot distinguish research phase and development phase. If so, then the entire expenditure is classified as research costs and must be expensed

Conclusion

Though Muhima Ltd demonstrated the intention to finish the development, but they have exhausted all their current source of funds, and for that reason they don't know when the project will be completed. Meaning that resources to complete the development is not available.
Therefore, accounting standards i.e IAS 38 requires MUHIMA Ltd to expense entire costs of FRW 30 million as management is not able to separate the research and development and resources are not available to complete the development.

Dr: Expense P/L	FRW 30 million	
Cr: Bank/liability		RW 30 Miilion

The estimated profit of FRW 15 million cannot be recognized and future costs to complete the budgeted costs of FRW 77 million can not be capitalized until condition required by IAS 38 are satisfied.

SECTION B

QUESTION FOUR:

Marking Guide

	Marks
Question a) tested student knowledge about understanding of IAS 38-Intangible assets. Award marks as below	
Award 2 mark for identifying the patent right to be recognized at its current FV of FRW 10 million	2
Award 2 marks for computing goodwill (where 1 mark is for FV adjustment that includes the patent rights of FRW 10 million	2
Award 1 mark for justifying that additional FV increase on the patent rights of FRW 6 million (To make it FRW 16 million) cannot be included in the financial statements	1
2 Marks for specifying that the new patent will be reported at FRW 14 million	2
Part B: ii) Award as below 1 mark for identifying that company cannot control staff 1 Mark for identifying IAS 38's rule for treatment of staff training costs 1 mark for correct conclusion (links company staff training costs and expense in P/L)	3
Sub-total	**10**
Part B-(i) Award one (1) mark for each outlined point	**3**
Part B-(ii)	
Award 1 mark for loan computation	1
Award 2 marks for double entry to record loan received	2
Award 1 Mark for computation of interest for 3 months	1
Well computed re-invested loan attracts one (1) mark	1
Award one (1) mark for computation of investment income	1
Award one (1) mark for well computed capitalized amount	1
Sub-total	**7**
Total	**20**

MODEL ANSWER

Q4)a)

(i) Munezero Beer Ltd's existing patent for wine which is already in use should be capitalized as it meets criteria under IAS 38-Intangible asset. IFRS 10 requires that the net asset on the acquisition of control over a subsidiary should be valued at their fair value. Therefore, the patent in Munezero Beer Ltd will be reported in consolidated financial statement at its fair value of FRW 10 million at date of acquisition.

The FRW 16 million value which is the estimated future value for the wine will depend on the pending outcome of drink trial tests done, and therefore, this future fair value for the wine can't be recognized on the date of acquisition.

The goodwill arising on the acquisition of Munezero Beer Ltd will only be accounted of in the group accounts. The goodwill on the acquisition of Munezero Beer Ltd shall be recognised at an amount of FRW 5 million which is computed as the difference between Purchase consideration and fair value of net assets (i.e., FRW 40 million - FRW 35 million). The fair value of the net assets of FRW 35 million comprises of the carrying amount of the net assets of FRW 25 million adjusted with an increase to take into consideration the fair value of the Patent of FRW 10 million.

(ii) The patent for new wine will generate future economic benefits as they have been approved for drink use. There is existence of the market, management, have ascertained reliably the costs and that the company can control the asset.
The patent will be recorded at cost of FRW 14 million.

(iii) In accordance with IAS 38 Intangible assets, staff training costs (including specialised training) cannot be capitalized. IAS 38 states that such training costs must be expensed as employees do not represent a resource controlled by the entity and, therefore ca not be recognized the training costs as an intangible asset.

Therefore, though the specialized training courses paid for by Ingenzi Wine Ltd will result in skilled employees and hence an improvement in production quality with the staff requiring less supervision, these expenses shall be charged to the profit or loss as the company does not control the staff (they can leave the company any time) and this fails the control element of the definition of an intangible asset.

Question Four (b) (i)

IAS 23 Borrowing Costs requires the entity to commence the capitalization of borrowing costs for a qualifying asset at the earliest of the date when:

- Expenditures for the asset are being incurred. In the case given, the construction process started in January 2024; therefore, this condition will be met when the borrowed fund will be incurred on construction of proposed building
- Borrowing costs are being incurred which implies that the borrowed funds are in use

to finance the construction of building.

- Activities that are necessary to prepare the asset for its intended use or sale are in progress. When active construction of qualifying asset is suspended, capitalization of borrowing costs is suspended immediately

Part B (ii);

Loan received and associated interest will be treated as follows

	FRW Million
Loan received from Bank (48,000*80%)	38,400
Loan re-invested in a commercial bank (38,400*40%)	15,360
Interest expense (38,400*80%*10%*3/12)	960
Less investment income (15,360*4%*3/12)	(154)
Amount to be capitalized	**806**

On receipt of the bank loan, the accounting entry will be recognised as below:

Dr Bank	FRW 38,400 million	
Cr Long-term loan (in non-current liabilities)		FRW 38,400 million

QUESTION FIVE:

Sub-question (a)

i)

Integrated reporting definition	2 marks	
Award 1 mark per point and 1 mark per explanation (making a total of 2 marks per capital type) – a maximum of 10 points Financial capital Manufactured capital Human resource capital Intellectual capital Natural capital	10 marks	
Maximum marks to be awarded (Q4a)		**12 marks**

Sub-question 4(b)

i) Meaning for the concept of:

Fundamental qualitative characteristics	1 mark	
Enhancing qualitative characteristics	1 mark	
Maximum marks to be awarded Q4(b):		**2 marks**

ii)
Fundamental & enhancing qualitative characteristics
Award 0.5 marks per point and 0.5 marks per explanation (maximum of 1 mark per characteristic explained) – this includes the characteristics below:

Relevance	1 mark	
Faithful representation	1 mark	
Comparability	1 mark	
Verifiability	1 mark	
Timeliness	1 mark	
Understandability	1 mark	
Maximum marks to be awarded:		**6 marks**
TOTAL MARKS	**20 marks**	

MODEL ANSWER:
a) i)
Integrated reporting is a more concise communication of an organisation's strategy, governance, and performance. It demonstrates the links between the organisation's financial performance and its wider social, environmental, and economic context. Additionally, it illustrates how organisations create value from their activities over the short, medium and long term.

The main purpose of integrated reporting is to enable more effective board level decision making, improve the quality of information available to investors, and encourage more integrated thinking and business practices.

The following are the six capitals included in the integrated reporting and this including how they provide insight to shareholders:

Financial capital is the pool of funds available to a company, including both debt and equity finance. The focus is on the source of funds, rather than its application which results in the acquisition of manufactured or other forms of capital.

Manufactured capital is seen as human-created equipment, production-oriented equipment and tools, with a distinction drawn between inventory category and the plant and equipment category. These are the tangible assets which are employed by the company to create value.

Intellectual capital is a key element in the company's future earning potential, with a tight link and contingency between investment in R&D, innovation, human resources and external relationships which can ultimately determine the company's sustainable competitive advantage.

Human capital is the individual capabilities, knowledge, skills and experience of the company's employees and managers, as they are relevant to the task at hand.

Social and relationship capital which in a business context includes community acceptance, government relations and customer loyalty.

Natural capital which includes naturally occurring resources, such as oil, which can be used by businesses to provide a return to the company.

b) i) **Qualitative characteristics of financial information**
The Conceptual Framework distinguishes between fundamental and enhancing qualitative characteristics, for analysis purposes where the:

- **Fundamental qualitative characteristics** distinguish useful financial reporting information from information that is not useful or misleading.
- **Enhancing qualitative characteristics** distinguish more useful information from less useful information with a focus of enhancing the qualities of the good financial information built on the fundamental qualitative characteristics.

ii)
Fundamental qualitative characteristics:

- **Relevance:** Information is relevant if it is capable of a making a difference in the decisions made by the users. Relevance is affected by the nature and materiality of information.
- **Faithful representation:** For the financial information to be faithfully represented, information must be complete, neutral, and free from error
- **Enhancing qualitative characteristics:**
- **Comparability:** Financial information should enable the user to identify and understand similarities in, and differences among items.
- **Verifiability:** Financial information should assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.
- **Timeliness:** Financial information should be available to decision makers in time to be capable of influencing their decision. Information provided when it is too late is generally considered less useful.
- **Understandability:** Financial information should be presented clearly and concisely for the users to understand them.