CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY, 28 NOVEMBER 2023

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE: RUTONGO (RIL) GROUP

Marking Guide

	Marks
Part (a) Goodwill calculation on the date of acquisition for:	
(i) Kamali (KHC)	
Award 0.5 marks for each correct figure used in the calculation of goodwill on the acquisition of KHC (maximum of 2 marks)	2
(ii) Butera (BQP)	
Award 0.5 marks for each correct figure used in the calculation of goodwill on the acquisition of BQP (a correct working for the RIL Group share of the KHC's cost of investment in BQP shall earn 1 mark) (maximum of 3 marks)	3
Total marks for Q1 (a)	**5**
Part (b): Preparation of the RIL's consolidated statement of profit or loss & other comprehensive income for the year ended 31 December 2022	
Award 0.5 marks for each correct figure that represents the **total balance** of each relevant line item presented on the face of the consolidated statement of profit or loss and other comprehensive income (including sub/other totals) (to a maximum of 14 marks)	14
Award as below for workings (computed as separate workings or as part of the details directly presented on the face of the consolidated statement of profit or loss and other comprehensive income):	
Group Structure: Award: 1 mark for correct calculation of RIL's "indirect shareholding in BQP, 0.5 marks for a correct total (direct and indirect) shareholding in BQP and 0.5 marks for a correct calculation of the NCIs in BQP (from RIL Group perceptive). The student must show workings	2
Impairment loss on Goodwill in KHC: Award 0.5 marks for a correct calculation of the impairment loss and 0.5 marks for the presentation of the impairment loss in the consolidated P&L	1
Non-controlling Interests: Award 0.5 marks for each correct figure that make up the total for the NCI (both the NCI share of the P&L NSI's share of the total comprehensive income (to a maximum of 6 marks)	6
Restructuring provision: Award 0.5 marks for a correct reference to the accounting treatment and award 0.5 marks for making a correct accounting adjustment (maximum of 1 mark)	1

Government grant: Award 0.5 marks for a correct reference to the accounting treatment and award 0.5 marks for making a correct accounting adjustment (maximum of 1 mark) 1

Financial assets carried at fair value through other comprehensive income: Award 0.5 marks for each correct calculation contribution to the total of the correct fair value gain on the investments and 0.5 mark for the adjustment / reversal of the initial draft fair value gains (maximum of 2 marks) 2

Revaluation of PPE: Award 0.5 marks for a correct reference to the accounting treatment of the revaluation gain relating to that amount of the revaluation loss previously revalued, 0.5 marks for a correct calculation for the remaining revaluation gain that is recognised under OCI 1

Intra-group sales: Award as below:

Cancelation of the intra-group sales: Award 0.5 marks for each double account entry used to adjust for a cancellation of the intra-group sales (in "sales revenue" and in the "cost of sales") (maximum of 1 mark) 1

Provision for un-realised profits: Award 0.5 marks for a correct calculation of the un-realised profits and 0.5 marks for a correct adjustment of the un-realised profits within the "cost of sales" (Max. of 1 mark) 1

Total marks for Q1 (b) 30

Part (c): Explanation (with suitable computations) of the accounting treatment for the disposal of shares held in a subsidiary

(i) Accounting for the disposal of BQP in KHC's individual financial statements

Award as below:

1 mark for each separate point regarding a correct reference to an accounting treatment for a disposal of shares (in view of individual financial statements) and an application to the information in the scenario (0.5 marks where the students only refer to the accounting treatment without any application to the information in the scenario (maximum of 2 marks) 2

0.5 marks for each correct figure used in the calculation of the "gain on the disposal of shares in BQP in the view of the individual financial statements of KHC and award 1 mark for the correct figure computed as profit/gain on the disposal (maximum, of 2 marks) 2

Total marks for Q1 (c) (i) 4

(i) Accounting for the disposal of BQP in RIL Group's consolidated financial statements

1 mark for each separate point regarding a correct reference to an accounting treatment for a disposal of shares (in view of RIL Group's consolidated financial statements) and an application to the information in the scenario (award 0.5 marks where the students only refer to the accounting treatment without any application to the information in the scenario (maximum of 8 marks) **8**

0.5 marks for each correct figure used in the calculation of the "gain on the disposal of shares in BQP in the RIL Group's consolidated financial statements and award 1 mark for the correct figure computed as profit/gain on the disposal (maximum, of 3 marks) **3**

Total marks for Q1 (c) (ii) **11**

Total marks for Q1 (c) **15**

Total Marks for Question One **50**

Model Answers

Part (a): Goodwill calculation on the acquisition of:

	(a) (i)	**(a) (ii)**
	Kamali (KHC)	**Butera (BQP)**
	FRW' million	**FRW' million**
Cost of investment		
Direct cost in KHC	90,000	18,000
Indirect cost in BQP (70% * 60,000)		42,000
Plus: Fair Value of NCIs	51,200	32,700
Less: Fair value of net assets	(92,800)	(55,600)
Goodwill on the date of acquisition	**48,400**	**37,100**

Part (b): RIL consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022

	FRW' million
Sales Revenue (98520 + 89794 + 71,410 - 15,000 W7)	244,724
Cost of sales (54670 + 42828 + 39650 + 630 W6 - 15,000 W7 + 2,500 W7)	(124,648)
Gross profit	**120,076**
Administration costs (9400 + 8567 + 6720)	(24,687)
Distribution costs (11900 + 10846 + 8640)	(30,386)
Other operating expenses (3770 + 3436 + 2725 + 6500 KHC restructuring provision)	(3,431)
Impairment loss - Goodwill in KHC (W1)	(9,680)
Other incomes:	-
Gains on Financial investments held at fair value (Cancel all - W5)	-
Government grant income (W4)	4,000
PPE revaluation gain offsetting prior-year revaluation loss (W6)	1,200
Finance costs (1175 + 852 +840)	(2,867)
Profits before tax	**54,225**
Income tax expense (4130 + 3764 + 2820)	(10,114)
Profit for the year	**44,111**
Other comprehensive income	
Gains on property revaluation (1900 - 1200 W6)	700
Fair value gain - financial investments carried at FVTOCI (W5)	5,190
Total comprehensive income	**50,001**
Profit for the year attributed to:	
Parent shareholders (balancing figure)	38,368
Non-controlling interests (W2)	5,743
	44,111
Total comprehensive income for the year attributed to:	
Parent shareholders (balancing figure)	41,044
Non-controlling interests (W2)	8,957
	50,001

Workings:

	FRW' million
W1: Impairment loss on Goodwill in KHC (20% * 48400 in part (a))	9,680

Note: Allocate 30% to NCI in W2

W2: Non-controlling interests

	Kamali (KHC)	**Butera (BQP)**	**Total**
	FRW' million	**FRW' million**	**FRW' million**
	30%	**40%**	
(i) Profit for the year			
Profits for the year (as given)	23,301	11,815	
Less: Impairment loss on Goodwill in KHC (W1)	(9,680)		
Less: KHC's restructuring provision (note 3)	(6,500)		
Plus: KHC's government grant income (W4)	4,000		
Less: "Draft" fair value gain on financial investments carried at FVTOCI wrongly presented in P&L (W5)	(2,200)	(1,800)	
Less: Extra depreciation charge on PPE in KHC due to fair value gain on acquisition (W6)	(630)		
Less: Un-realised profits (sale of goods by KHC to BQP) (W7)	(2,500)		
Adjusted profit for the year	**5,791**	**10,015**	**-**
NCI's share of profit for the year (30% in KHC and 40% in BQP)	**1,737**	**4,006**	**5,743**
(ii) Total comprehensive income			
Adjusted profit for the year	5,791	10,015	
Plus: Fair value gain on financial investments carried at FVTOCI (W5)	1,700	1,450	
Adjusted total comprehensive income	**9,228**	**15,471**	
NCI's share of total comprehensive income (30% in KHC and 40% in BQP)	**2,768**	**6,188**	**8,957**

W3: Restructuring provision by KHC

The restructuring provision qualifies as a present constructive obligation that should be recognised at the reporting date (31 December 2022). All restructuring costs of FRW 6,500 million should be recognised in the P&L.

W4: Government grant received by KHC

A grant to support KHC with the costs for restructuring plan is a "grant related to income". All restructuring costs have been recognised in the P&L and hence "full amount" of grant income should be recognised in the P&L.

DR Deferred Income FRW 4,000 million

CR P&L (e.g., as "other incomes") FRW 4,000 million

Note: Allocate 30% to NCI (in W2)

W5: Financial assets carried at fair value through other comprehensive income

	RIL	KHC	BQP	Total
Fair value (31 December 2022)	15,000	12,000	10,000	**37,000**
Initial cost (1 January 2022)	12,960	10,300	8,550	**31,810**
Difference: Fair value gain to be recognised under "other comprehensive income" (31 December 2022)	**2,040**	**1,700**	**1,450**	**5,190**
Draft fair value gain (wrongly included in P&L) - to be reversed from P&L	**2,500**	**2,200**	**1,800**	**6,500**

Note: Allocate to NCIs in W2 the gains relating to KHC (30%) and BQP (40%)

W6: PPE revaluation (by RIL)

(i) Fair value adjustments - net assets of KHC on acquisition

	FRW' million
Fair value of net assets on acquisition of KHC	92,800
Less Carrying amount of net assets on acquisition of KHC (15,000 share capital + 35,000 share premium + 36,500 retained earnings)	86,500
Fair value adjustment (increase) in PPE of KHC on acquisition (92,800 - 86,500)	**6,300**
Extra depreciation on KHC's PPE due to the fair value gain (6,300 / 10 years)	**630**

Adjustment: Increase the "cost of sales" with the extra depreciation
Note: Allocate 30% of the extra depreciation charge to the NCI (in W2)

(ii) RIL's PPE revaluation

	FRW' million
PPE revaluation gain on 31 December 2022	1,900
Allocate as below:	
(i) Initially to P&L - to the extent of the amount recognised in prior year (31 Dec 2021) as revaluation loss (CR P&L: Other expenses)	1,200
(ii) Balance of the revaluation gain to be recognised in OCI (1,900 - 1,200)	700

W7: Intra-group sales (KHC's sale of goods to BQP)

(i) Cancel the intra-group sales on consolidation
DR Sales Revenue FRW 15,000 million
CR Cost of sales FRW 15,000 million

(ii) Provide for un-realised profits
Un-realised profits (15,000 - 12,500) FRW 2,500 million
Increase the "Cost of sales" in consolidated P&L with the un-realised profit
Note: The un-realised profits are allocated to the NCIs in KHC (at 30%) in W2

Part (c): KHC's partial disposal of shareholding held in BQP

(i) Accounting treatment in the individual financial statements of KHC

On disposal of the shareholding in BQP, the individual financial statements of KHC shall recognize a gain on disposal of FRW 45,000 million in the profit or loss. This is computed as below:

	FRW' million
Disposal proceeds	85,000
Less: Cost of investment disposed of (40/60 * 60,000)	(40,000)
Gain on disposal of BQP	**45,000**

The "investment in BQP" balance will be revised to (60,000 – 40,000) FRW 20,000 million on 1 April 2023 and this will continue to be presented within the non-current assets of KHC's statement of financial position.

(ii) Accounting treatment in the consolidated financial statements of the RIL Group

IFRS 10 "Consolidated financial statements" applies the "substance over form" principle where a disposal of shareholding in a subsidiary result in a loss of control similar to KHC's part disposal of its shareholding in BQP losing control over BQP as it retains 20% shareholding after the disposal.

Under IFRS 10, the implication of the disposal of shares in BQP in the consolidated financial statements of RIG Group shall require the group on the date the shares are disposed (1 April 2023) where control in BQP is lost to:

De-recognise all the assets and liabilities (net assets) of BQP at their fair values of FRW 68,400 million on the date control is lost;

De-recognise the goodwill balance of FRW 37,100 million (as picked from part (a)) in respect of the BQP subsidiary disposed of on the date of the disposal

De-recognise the Non-Controlling Interests (NCI) in the Group equity at their fair value of FRW 42,900 million

Remeasure to fair value of FRW 25,000 million the remaining interest in the BQP (now a sub-associate) as attributed to the RIL Group as this becomes the "initial cost or measure" of the associate under the "equity method" moving forward.

A gain or loss on disposal of the shares in BQP for purposes of the RIL Group shall be computed as below:

	FRW' million
Disposal proceeds	85,000
Plus: Fair value of remaining 20% shareholding in BQP (attributable to RIL Group)	25,000
Plus: Fair value of non-controlling interests (attributable to RIL Group)	42,900
Less: Fair value of the net assets in BQP	(68,400)
Less: Goodwill balance in BQP (from part (a))	(37,100)
Gain on disposal of BQP	**47,400**

A gain of FRW 47,400 million shall be recognized in the consolidated profit or loss of the RIL Group

As indicated, the RIL Group shall retain a significant influence over BQP on the basis that KHC will have a direct significant influence over BQP implying this is a sub-associate to the RIL Group.

In the nine (9) months from 1 April 2023 to 31 December 2023: Under IAS 28 "Investment in Associates and Joint ventures", the RIL Group shall apply the equity method from 1 April 2023 to account for its investment in the associate in the RIL consolidated financial statements for the year ending 31 December 2023.

In the three (3) months from 1 January 2023 – 31 March 2023

RIL's consolidated profit or loss and other comprehensive income: Since the part disposal is expected to take place part-way in the year (on 1 April 2023), then consolidation of the BQP's profit or loss and other comprehensive income is applied up to 1 April 2023 when the control is lost (time-apportioning with 3/12 months January-March 2023 of the BQP's profit or loss and other comprehensive income line items) with the NCI figures in the consolidated profit or loss and other comprehensive income based on the same time-apportionment.

RIL's consolidated statement of financial position: This is prepared based the RIL's ownership status of significant influence in BQP at the reporting date (i.e., on 31 December 2023) implying that BQP as an associate is not consolidated but an "investment in associate" is recognized under the non-current assets to recognize RIL's investment amount in BQP as an associate.

SECTION B

QUESTION TWO

Marking guide	**Marks**
a) IFRS 16 – Leases:	
i)	
• Award 1mark for closing balance of lease obligation for each year end.	6
• Award 1 mark for each correct closing balance of decommissioning provision for each year end	6
ii)	
• Award 1 mark for the correct calculation of initial cost of right-of-use asset	1
• Award 1 mark for correct calculation of carrying amount of right-of-use asset – Year 1 end	1
• Award 1mark for collect calculation of lease liability value and decommission provision at the end of year 1 i.e. 0.5 marks each	1
Subtotal - Sub-Question (a)	**15**
b) IAS 40 Investment Property	
i) Award 1 mark for explanation of land recognition as an inventory	1
Award 1 mark for explanation of effect of incorrect accounting as investment property	
Award 1 mark for correct measurement of inventory as at 31 December 2020	1
ii) Award 2 marks for correct explanation of the accounting for Block A building	2
Award 1 mark for recognition of dual-purpose use for Block B	1
Award 1 mark for explanation of possible separate treatment of two portions- Block B	1
Award 1 mark for explanation of treatment of insignificant owner occupation-Block B	1
Award 2 marks for correct explanation of the accounting for Block C	2
Subtotal - Sub-Question (b)	**10**
Total Marks	**25**

a)

i)	
Lease Liability	
Rate	10%
Annual Installment	30,000
Period	6 Years
PV interest factor at 10% for 6 years	4.35525
Present value of annuity in FRW = 30,000*4.35525	130,658

Model answers

Lease Liability amortization

Year	**1**	**2**	**3**	**4**	**5**	**6**
	FRW	**FRW**	**FRW**	**FRW**	**FRW**	**FRW**
Opening Balance (A)	130,658	113,724	95,096	74,606	52,066	27,273
Interest B= A*10%	13,066	11,372	9,510	7,461	5,207	2,727
Lease payment C	30,000	30,000	30,000	30,000	30,000	30,000
Closing Balance, A+B-C	113,724	95,096	74,606	52,066	27,273	0
Decommissioning provision						
Rate	9%					
Future Value	9,000					
Period	6 Years					
Present Value of a lump sum	5,366					
Decommissioning provision amortization						
Year	**1**	**2**	**3**	**4**	**5**	**6**
	FRW	**FRW**	**FRW**	**FRW**	**FRW**	**FRW**
Initial/opening Balance	5,366	5,849	6,375	6,949	7,575	8,256
Interest	483	526	574	625	682	743
Final/closing Balance	5,849	6,375	6,949	7,575	8,256	9,000
ii)						**FRW**
The initial recognition of Right-of -use Asset						130,658
Present value of Decommissioning costs						5,366
Total cost for the Right-of -use asset						**136,024**
The asset will be recognized initially at FRW 136,024						
Carrying amount of the Right-of-use asset at the end of 1st Year						
Cost					136,024	
Accumulated Depreciation (136,024/6)					(22,671)	
Carrying amount					**113,353**	
The lease Liability Value - Closing Balance Year One					**113,724**	
Decommissioning provision - Closing balance Year one					**5,849**	

b)

i) Because Mica Ltd’s intention is to sell the land in the ordinary course of business, the land should be accounted for as inventories and measured at cost (i.e FRW 100 million).

If Mica Ltd incorrectly classifies this land as investment property because of the existence of the lease to Parking Co, Mica Ltd. will overstate profit and assets by FRW10 million in the current year when the fair value increment is recognised under IAS 40, and understate profits in future periods when the property is eventually sold. IAS 2 Inventory state that inventories are measured at lower of costs and net realizable value. At 31 December 2020, the inventory value for this land in the financial statements would be carried at FRW 100 million which is lower compared to net realizable value.

ii)

Block A building is an owner-occupied property (Mica Ltd, therefore, it must be accounted for in accordance with IAS 16. Block A building should be accounted for under the cost model as per IAS 16 i.e. Cost less accumulated depreciation less accumulated impairment losses. Mica Ltd might choose to account for Block A building under revaluation model if all buildings in this class are revalued, in this case Mica Ltd will be required to do regular revaluation to avoid that the carrying amount of the building becomes significantly different from its revalued amount.

Block B building had a dual purpose: 60% is owner occupied while 40% is leased. In accordance with IAS 40 paragraph 10, If these portions of Block B could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately i.e. the owner occupied portion under IAS 16 and the leased portion under IAS 40. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In this case owner occupied portion (60%) is not insignificant and thus if these portions are not separable, Block B building is accounted for as property, plant and equipment (IAS 16).

Block C This block is held for lease purpose and it meets definition of investment property, thus this block is an investment property as per paragraph 8 (d) of IAS 40 and should be accounted for under either cost model or fair value model.

QUESTION THREE

Marking guide	Marks
a) financial instruments (IFRS 9)– Cash flow hedge	
i) Award 1 mark for correct explanation of the risk covered by cash flow hedges	1
Award 1 mark for correct explanation of the treatment of effective hedge portion	1
Award 1 mark for correct explanation of the treatment of excess portion	1
Award 2 marks for subsequent treatment of cash flow hedge reserves	2
ii) Award 1 mark for correct explanation of non-entry option on 1st November 2021	1
Award 2 marks for correct calculation of the gain on forward contract by Dec 2021	2
Award 2 marks for correct entry on 31 December 2021	2
Award 2 marks for correct calculation of the gain on forward contract by Nov.2022	2
Award 3 marks for correct entry of the gain Nov.2022	3
Award 2 marks for correct entry of the asset purchase -Nov, 2022	2
Award 2 marks for correct settlement of the forward contract entry -Nov, 2022	2
Award 1 mark for explaining the subsequent treatment of cumulative gain in equity	1
Sub total	**20**
b) IFRS 12 – Disclosure of interests in other entities	
· Award 0.5 Marks for each correct bullet point of the significant judgements and assumptions	1.5
· Award 0.5 Marks bullet point of interests to be disclosed	1.5
· Award 2 marks for a correct mention of what the entity does if disclosures of both IFRS 12 and other IFRSs do not meet the objective.	2
Sub total	**5**
Total Marks	**25**

Model answers

a)

i) Cash flow hedges hedge the risk of change in value of future cash flows from a recognised asset or liability (or highly probable forecast transaction) that could affect profit or loss, e.g. hedging a variable rate interest income stream.

The hedging instrument is accounted for as follows:

(1) The portion of the gain or loss on the hedging instrument that is effective (i.e. up to the value of the loss or gain on cash flow hedged) is recognised in other comprehensive income ('items that may be reclassified subsequently to profit or loss') and the cash flow hedge reserve.

(2) Any excess is recognised immediately in profit or loss. The amount that has been accumulated in the cash flow hedge reserve is then accounted for as follows:

- If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the amount shall be removed from the cash flow reserve and be included directly in the initial cost or carrying amount of the asset or liability;
- For all other cash flow hedges, the amount shall be reclassified from other comprehensive income to profit or loss in the same period(s) that the hedged expected future cash flows affect profit or loss.

ii) Entries on 1st November 2021

The value of the forward contract at inception is zero so no entries recorded (other than any transaction costs), but risk disclosures will be made. The contractual commitment to buy the asset would be disclosed if material (IAS 16)

Entries on 31st December 2021	**Currency**	
Gain on forward contract (Hedging Instrument):	**KSH**	
Value of contract at 31 December 2021 (FRW120,000,000/1.24)	96,774,193	
Value of contract at 1 November 2021 (FRW 120,000,000/1.5)	(80,000,000)	
Gain on contract	16,774,194	

Compare to movement in value of asset - Hedged item(unrecognized):
Increase in KSH cost of asset
(FRW120,000,000/1.20 – FRW,000,000/1.45) = 17,241,380
As this is higher, the hedge is deemed fully effective at this point:

DEBIT Financial asset (Forward a/c)	16,774,194	
CREDIT Comprehensive Income (Equity)		16,774,194

Entries at 1 November 2022

Additional gain on forward contract (Hedging Instrument)

Value of contract at 1.11.2022 (FRW120,000,000/1.0)	120,000,000
Value of contract at 31.12.2021 (FRW 120,000,000/1.24)	(96,774,194)
Gain on contract	23,225,806
Compare to movement in value of asset - Hedged item (unrecognised):	
Increase in FRW cost of asset	
(FRW120,000,000/1.0 – FRW120,000,000/1.2)	20,000,000

Therefore, the hedge is not fully effective during this period, but it still meets the IFRS 9 hedging criteria (and hence hedge accounting can be used):

Debit Financial asset (Forward a/c)	23,225,806	
Credit Comprehensive Income (Equity)		20,000,000
Credit Profit or loss		3,225,806
Purchase of asset at market price		
Debit Asset (FRW 120,000,000/1.0)	120,000,000	
Credit Cash		120,000,000
Settlement of forward contract		
Debit Cash FRW 36,774,194 (16,774,194+20,000,000+3,225,806)	40,000,000	
Credit Financial asset (Forward a/c)		40,000,000

Realization of gain on hedging instrument

The cumulative gain of KSH 36,774,194(16,774,194+20,000,000) recognised in equity is removed from equity (the cash flow hedge reserve) and included directly in the initial cost of the asset.

b)

To meet the objective of IFRS 12, an entity shall disclose:

(1) the significant judgements and assumptions it has made in determining:

i. The nature of its interest in another entity or arrangement;
ii. The type of joint arrangement in which it has an interest;
iii. That it meets the definition of an investment entity, if applicable; and

(2) information about its interests in:

i. Subsidiaries;
ii. Joint arrangements and associates; and
iii. Structured entities that are not controlled by the entity (unconsolidated structured entities)

If the disclosures required by this IFRS, together with disclosures required by other IFRSs, do not meet the objective, an entity shall disclose whatever additional information is necessary to meet that objective.

QUESTION FOUR

Marking guide	Marks
a) (i) Award 1mark for each correct figure reported in the financial statements (extract)	4
Award 1 mark for each correct line on working 1 except total	2
Award 1 mark for correct mention of the reason of no impairment in 2021	1
Award 1 mark for each correct line on working 2 except totals/subtotals	3
ii)Award 1 mark for mentioning that Government Entity B does not recognize the license	1
Award 2 marks for mentioning that the ministry will recognize the license for indefinite useful life, i.e. only 1 mark if there is no mention of indefinite useful life	2
Award 1 mark for the mention of non-amortization	1
Award 1 mark for the mention of necessary periodical test of impairment	1
b)	
• For each sub question i.e. (i) to (v) – Award 1 mark for each correct description of the IPSAS criterion/requirement	5
• For each sub question i.e. (i) to (v) – Award 1 mark if the candidate has been able to relate climate matters effects to the standard on effects on financial statements	5
Total Marks	**25**

Model answers

a) i)

AB Ministry - Statement of Financial Performance (Extract)		
For the Year ended	**31 Mar. 2022**	**31 Mar. 2021**
	FRW	**FRW**
Expenditure on system development	-	9,000,000
Impairment Loss	2,000,000	-

AB Ministry - Statement of Financial Position (Extract)		
As at	**31 Mar. 2022**	**31 Mar. 2021**
	FRW	FRW
Intangible Asset (Software)	19,000,000	1,000,000

Workings

(1) Intangible assets	**31 Mar. 2021**
	FRW

Total expenditure incurred up to 31 March 2021	10,000,000
Less: Expenditure not meeting capitalization criteria	(9,000,000)
Carrying amount as at 31 March 2021	1,000,000

Note: No impairment loss in the first year since recoverable amount i.e. FRW 5,000,000 is greater than Carrying amount i.e. FRW 1,000,000

(2) Impairment loss	**31 Mar. 2022 FRW**
Capitalized expenditure 1st Year i.e. 2021	1,000,000
Capitalized expenditure 2nd Year i.e. 2022	20,000,000
Carrying amount as at 31 March 2022	21,000,000
Less recoverable amount	(19,000,000)
Impairment loss	2,000,000

ii)

Government Entity B does not recognize its power to grant broadcasting licenses as an intangible asset. The broadcasting license would be treated by AB Ministry as having an indefinite useful life because it is expected to contribute to the ministry's ability to provide free broadcasting services indefinitely. Therefore, the license would not be amortized until its useful life is determined to be finite. The license would be tested for impairment in accordance with IPSAS 21 i.e. annually and whenever there is an indication that it may be impaired.

b)

	Item	**Effects of climate-related matters on financial statements items/effects**
i)	Presentation of financial statements – going concern aspect (IPSAS 1)	IPSAS 1 requires the assessment of an entity's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern basis of preparation is appropriate, management of the entity takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. If climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon an entity's ability to continue as a going concern, IPSAS 1 requires disclosure of those uncertainties. When the entity's management has concluded that there are no material uncertainties related to the going concern assumption that require disclosure but reaching that conclusion involved significant judgement (for example, about the

		feasibility and effectiveness of any planned mitigation), IPSAS 1 requires disclosure of that judgement.
ii)	Inventory (IPSAS 12)	Climate-related matters may cause an entity's inventories to become obsolete, their selling prices to decline or their costs of completion to increase. If, as a result, the cost of inventories is not recoverable, IPSAS 12 requires the entity to write down those inventories to their net realisable value. Estimates of net realisable value are based on the most reliable evidence available, at the time that estimates are made, of the amount the inventories are expected to realise.
iii)	Provisions, contingent liabilities and contingent assets (IPSAS 19)	Climate-related matters may affect the recognition, measurement and disclosure of liabilities in the financial statements applying IPSAS 19, for example, related to: • regulatory requirements to remediate environmental damage • contracts that may become onerous (for example, due to potential loss of revenue or increased costs as a result of climate-related changes in legislation); or • restructurings to redesign processes to achieve climate-related targets. IPSAS 19 requires disclosure of the nature of a provision or contingent liability and an indication of the uncertainties about the amount or timing of any related outflows of economic benefits. Where necessary to provide adequate information, IPSAS 19 also requires disclosure of the major assumptions made about future events reflected in the amount of a provision
iv)	Property, Plant and Equipment (IPSAS 17)	Climate-related matters may prompt expenditure to change or adapt reporting entity's activities and operations. IPSA 17 specifies requirements for the recognition of costs as assets (as an item of property, plant and equipment). IPSAS 17 requires entities to review the estimated residual values and expected useful lives of assets at least annually, and to reflect changes—such as those that might arise from climate-related matters—in the amount of depreciation or amortization recognised in the current and subsequent periods. Climate-related matters may affect the estimated residual value and expected useful lives of assets, for example, because of obsolescence, legal restrictions or inaccessibility of the assets. entities are also

		required to disclose the expected useful lives for each class of asset and the nature and amount of any change in estimated residual values or expected useful lives.
v)	Financial Instruments disclosure (IPSAS 30)	IPSAS 30 requires disclosure of information about an entity's financial instruments, including information about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Climate-related matters may expose an entity party to the financial instrument to risks in relation to financial instruments. For example, for lenders (if government entity does), it may be necessary to provide information about the effect of climate-related matters on the measurement of expected credit losses or on concentrations of credit risk. For holders of equity investments, it may be necessary to provide information about investments by industry or sector, identifying sectors exposed to climate-related risks, when disclosing concentrations of market risk.

END OF MARKING GUIDE AND MODEL ANSWERS