CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 28, NOVEMBER 2023

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **three** compulsory questions.
4. Section **B** has **two** questions, **one** question to be attempted.
5. In summary attempt **four** questions, **three** in section A and **one** in section B.
6. Marks allocated to each question are shown at the end of the question.
7. Show all your workings where necessary.
8. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

(a) Rebero Manufacturers Ltd constructed a plant with a 10-year life span. The construction was completed on 31st March 2020 and the plant was brought into use on 1st April 2020. The total cost of construction was FRW 48,000,000.

The company's policy is to value its plant to their market value at the end of each year. Accumulated depreciation is eliminated and the property is restated to the revalued amount. Annual depreciation is calculated on the carrying values at the beginning of the year.

The market value of the plant on 31st March 2021 and 2022 were FRW 46,200,000 and FRW 35,000,000 respectively.

The existing balance on the revaluation at 1st April 2020 was FRW 10,000,000 and this related to some non-depreciable land whose value had not been changed significantly since 1st April 2020.
It is the company's policy to realize revaluation surpluses annually based on increased depreciation.

Required:

(i) Prepare extracts of statement of profit or loss, statement of changes in equity and statement of financial position for the years ended 31th March 2021 and 2022 (8 Marks)
(ii) Explain how initial property plant and equipment should be measured (2 Marks)

(b) Tayari a manufacturing company purchases an investment property for FRW 200,000,000 on 1st January 2019 for its investment potential. The land element of the cost is believed to be FRW 80,000,000, and the building element is expected to have a useful life of 20 years. At 31st December 2020, local property indices suggest that the fair value of the property has risen to FRW 220,000,000. Straight line method of depreciation is applied

Required:

(i) Explain two conditions that must be met for the recognition of property under IAS 40 Investment property. (2 Marks)
(ii) Show how the property would be presented in the financial statements as at 31st December, 2020 if from the initial recognition of investment property, Tayari adopts:
1) **The cost Model,** (4 Marks)
2) **The fair Value Model** (4 Marks)

(Total: 20 Marks)

QUESTION TWO

Zuri PLC, a company trading on the Rwanda Security's Exchange market has prepared the following trial balance as at 31st December, 2022.

Particulars		FRW 000	FRW 000
Distribution costs		180,000	
Administration costs		273,600	
Investment income			5,760
Cost of sales		1,969,920	
Sales			3,074,400
Interest on loan	Note 4	21,600	
Dividends paid	Note 5	276,480	
Trade receivables		410,400	
Trade payables			528,480
Current tax	Note 6	15,840	
Deferred tax	Note 6		17,280
Ordinary share Capital at FRW 100 per share			864,000
6% Loan notes	Note 4		360,000
Retained earnings (1st January, 2022)			266,400
Land and building at cost (Land 144,000,000)	Note 3	720,000	
Accumulated Depreciation on building (1st January, 2022)	Note 3		115,200
Plant and Equipment at cost	Note 2	1,205,280	
Accumulated Depreciation on Plant and Equipment (1st January, 2022)	Note 2		485,280
Inventories (31st December, 2022)	Note 1	357,120	
Financial Asset Investment	Note 7	244,800	
Bank		41,760	-
Total		**5,716,800**	**5,716,800**

Notes:

1) The inventory in the trial balance is at cost. The net realizable value of the inventory is FRW 345,120,000.
2) Depreciation of plant and equipment is at a rate of 15% per annum. All depreciation charge is to be apportioned to expenses in the following proportions:
   Cost of Sales 75%
   Administration costs 25%
3) The company's policy is to value land and building at depreciated cost. The company revalued its property on 1st January 2022 to market value. The new value of the property was FRW 864,000,000 (Land FRW 172,800,000) as at that date. Building had a remaining life of 16 years as at that date of revaluation. The company will make a transfer from revaluation reserve to retained earnings in respect of realization of revaluation reserve. Ignore tax on revaluation.

4) The company issued FRW 360,000,000 6% loan notes on 1st January 2022. Issue cost of FRW 14,400,000 were incurred and are included in administrative expenses. The loan note will be redeemed on 31st December 2024 at a premium which gives an effective interest rate on the loan of 8%.
5) The company paid ordinary dividends of FRW 32 per share during the year ended 31st December, 2022.
6) The balance on the current tax represents under/over provision of tax liability for the previous year ended 31 December 2021. A provision for income tax for the year ended 31st December 2022 of FRW 106,560,000 is required. As at 31st December 2022 the company had taxable temporary difference of FRW 72,000,000 requiring provision for deferred tax. Any deferred tax adjustment should be recorded in the statement of profit or loss.
7) The financial assets investments had a fair value of FRW 226,080,000 as at 31st December 2022. There were no acquisitions or disposal of this investment during the year. This is a "financial asset whose changes in the fair value are recognized in the profit or loss in accordance with IFRS 9.
8) Assume an income tax rate of 30%

Required:

Prepare the following financial statements:

(a) Statement of profit and loss and other comprehensive income for the year ended 31st December 2022 (14 Marks)
(b) Statement of changes in equity for the year ended 31st December 2022 (6 Marks)
(c) Statement of Financial Position for the year ended 31st December, 2022 (10 Marks)

(Total: 30 Marks)

QUESTION THREE

Peril Ltd acquired 120,000 of the ordinary shares of Sars Ltd on the 1st of January, 2020 and paid FRW 8,000,000 in cash and issued one share for every two shares acquired in Sar Ltd. The market price of Peril shares at the date of acquisition was FRW 200 per share. Investment in Sars as a result of share exchange has not been included in the non-current assets of Peril Ltd. On 1st January 2020, Peril also acquired FRW 1,600,000 10% loan notes from Sars Ltd and Peril Ltd has included this in the "investment in Sars" figure of FRW 8,000,000 in the non-current assets". The capital reserves on the date of acquisition were FRW 2,000,000 and retained earnings on the same date was FRW 800,000.

The following statement of financial position relates to the two companies for the year ended 31 December 2022

Consolidated statement of financial position as at 31st December 2022

Particulars	Peril Ltd		Sars Ltd	
	FRW 000	FRW 000	FRW 000	FRW 000
Non-Current Assets				
Land		20,000		10,000
Building		30,000		16,000
Plant		28,000		10,000
Investment in Sars		8,000		-
Total Non-Current Assets		**86,000**		**36,000**
Current Assets				
Inventory	12,000		8,000	
Accounts Receivables	16,000		10,000	
Bank	5,000		-	
Total Current Assets		**33,000**		**18,000**
Total Assets		**119,000**		**54,000**
Equity and Liabilities				
EQUITY				
Ordinary share capital at FRW 100 each		40,000		20,000
Capital Reserves		20,000		8,000
Retained Earnings		18,000		10,000
Total Equity		**78,000**		**38,000**
Non-Current Liabilities				
10% Loan Notes	12,000		2,200	
Deferred Tax	8,000		1,800	
Total Non-Current Liabilities		**20,000**		**4,000**
Current Liabilities				
Accounts payables	16,000		6,000	
Proposed Dividends (Note 5)	5,000		4,000	

Particulars	Peril Ltd		Sars Ltd	
	FRW 000	FRW 000	FRW 000	FRW 000
Bank Overdraft	-		2,000	
Total Current Liabilities		**21,000**		**12,000**
Total Equity and Liabilities		**119,000**		**54,000**

Additional Information:

1) On the date of acquisition all the non-current assets in the books of Sars Ltd were having the same fair value apart from Land and Building which had a fair value of FRW 2,000,000 and FRW 4,000,000 respectively **above** the carrying values. No depreciation is provided on land but buildings are charged depreciation at an annual rate of 5% on cost.
2) Included in the plant of Sars Ltd is plant bought from Peril Ltd on 1st January 2021 at a price of FRW 4,000,000. Peril Ltd reported a profit of a third on cost. The depreciation on plant is at a rate of 30% reducing balance.
3) Included in the inventory of Peril Ltd are inventory purchased from Sars Ltd. The inventory has a selling price of FRW 3,000,000. Sars Ltd reports a profit of 25% on cost. A quarter of the inventory is still in stock on 31 December 2022.
4) Included in the accounts payable of Peril Ltd is an amount of FRW 5,000,000 due to Sars Ltd. This amount stands at FRW 5,600,000 in the books of Sars Ltd. This difference is due to cash in transit.
5) Peril Ltd has not accounted for its share of proposed dividends in Sars Ltd
6) Goodwill has been impaired by 40% by the statement of financial position date on 31 December 2022.
7) Non-controlling interest are carried at the proportionate share of identifiable net assets in Sars Ltd.

Required:

(a) Prepare the Consolidated statement of financial position as at 31st December 2022. Clearly indicate the workings below to be included in consolidated statement of financial position:

(i) Goodwill

(ii) Consolidated Retained Earning

(iii) Non-Controlling Interest

(26 Marks)

(b) Explain any four circumstances when the parent is exempted from preparing consolidated financial statements (4 Marks)

(Total: 30 Marks)

SECTION B

QUESTION FOUR

(a) Kabuga Ltd makes up its accounts to 31st December each financial year. The company enters into a lease (as a lessee) to lease an item of equipment with the following terms.

The inception of the lease date is 1st January 2022. The lease term is five years and FRW 2,000,000 is paid at the commencement of the lease followed by four payments of FRW 2,000,000 payable at the start of each subsequent year.

On the inception of the lease, the fair value of the equipment is FRW 8,000,000 and the present value of future lease payments is FRW 6,075,000. The useful life of the equipment is eight years and the implicit interest rate is 12%.

Required:

(i) Show how this lease should be accounted for in the statement of financial position as at 31st December 2022 (8 Marks)

(ii) Explain the accounting treatment of sale and lease back in the books of the lessee (the response is restricted only to asset and not lease liability) (4 Marks)

(b) Virunga Ltd is a manufacturing company that sells four products W, X, Y and Z. The Chief Accountant of the company has been valuing inventory based on the price at which the goods were produced without following the principles of IAS 2 Inventories. You have been hired as valuation expert to help advise Virunga how to value its inventory following relevant accounting standards. The following information is available at the year end.

Particulars	W	X	Y	Z
Cost (FRW)	24,000	26,000	36,000	20,000
Selling Price (FRW)	18,000	32,000	34,000	28,000
Units	200	400	600	800

To sell product X and Y, Virunga Ltd would incur an extra FRW 4,000 and FRW 6,000 respectively as selling costs for the items at a saleable condition.

Required:

(i) According to the principles of IAS 2 Inventories, **explain how inventories should be valued** (2 Marks)

(ii) Determine the value of each product and the total value of all the products W, X, Y and Z. (6 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) The conceptual framework states that qualitative characteristics are the attributes that make financial information useful to the users. Chapter two of the conceptual framework distinguishes between fundamental and enhancing qualitative characteristics for analysis purpose.

Required:

(i) Explain the two fundamental qualitative characteristics of financial statements (4 Marks)

(ii) Explain any three enhancing qualitative characteristics of financial statements (6 Marks)

(b) The following information was extracted from the books of the Ministry of Gender for the financial year ended 30th June 2022

Particulars	**FRW 000**
Cash	1,125,000
Receivables	450,000
Accumulated fund	1,687,500
Inventory of consumables	225,000
Transfer from exchequer	5,625,000
Fees, Fines & Licences	1,125,000
Liability for long-term benefits	450,000
Long term borrowing	2,250,000
Finance costs	225,000
Reserves	4,050,000
Supplies and consumables used	900,000
Wages and salaries	2,250,000
Other expenses	2,700,000
Transfer from other ministries	112,500
Computer equipment	600,000
Vehicles	525,000
Land and building	7,875,000
Revenue from exchange transactions	225,000
Other revenues	1,350,000
Payables	1,125,000
Transfer to other ministries	1,125,000

Required:

Using the information provided above, prepare for the Ministry of Gender:

(i) A statement of financial performance for the year ended 30th June 2022 (4 Marks)

(ii) A statement of financial position as at 30th June 2022 (6 Marks)

(Total: 20 Marks)

End of Question paper