ICPAR
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CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 29, NOVEMBER 2024

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide

Q1a)		**Marks**
	Description of circumstances in which non-consolidation of subsidiaries is appropriate under IFRS.	1
	Explanation of the specific IFRS provisions that allow for non-consolidation.	1
	Response to Issues Raised by Directors	
	Address the concern about including losses in consolidated financial statements and reasons relating to different business operation between parent and subsidiary	2
	Sub-total	**4**
Q1) B)i)		
	Award 1 mark for every correct line indicated in the computation of gain or loss excluding sub-totals	8
	Award 1 mark for correct line shown in computation of goodwill at disposal DNA i.e don't award marks on sub-totals	4
	Sub-total	**12**

QUESTION 1 B) ii)

Award marks as below

		Marks
Revenue		2
Cost of sales		3
Investment income		0.5
Gain on disposal		1
Distribution cost		1.5
Administrative expenses		1.5
Finance cost		1.5
Income tax expenses		1.5
Gain on revaluation		0.5
Profit for the year		
Attributable to the owners of the parent		0.5
Attributable to the owners of the no-controlling interest		0.5
Total comprehensive income		
Attributable to the owners of the parent		0.5
Attributable to the owners of the no-controlling interest		0.5
Working on NCI For the year		
Profit for the year		0.5
Depreciation on FV adjustment		0.5
Sub-total		**16**

QUESTION 1 C)

	Marks
Award 1 mark for correct explanation on the treatment of retained investment	1
Award 1 mark for each correct line in the computation of gain or loss	5
Sub-total	**6**

QUESTION 1 D)

Award marks as below

	Marks
Revenue	2
Cost of sales	2.5
Operating expenses	1
Impairment of goodwill	1
dividend from subsidiary	0.5
dividend from associate	0.5
Share of profit from associates	1
Income tax	1
Parent	1
Non-controlling interest	0.5
Award 1 mark for working of non-controlling interest	1
Sub-total	**12**

(Total: 50 Marks)

QUESTION ONE

MODEL ANSWER

(a) Memorandum to directors of Mutoni Ltd

To: Board of Directors, Mutoni Ltd
From: [Your Name/Position]
Date: [Insert Date]

Subject: Inclusion of Gasabo Ltd in Consolidated Financial Statements

Introduction:

This memorandum addresses your concerns regarding the inclusion of Gasabo Ltd in the consolidated financial statements and provides guidance based on International Financial Reporting Standards (IFRS).

According to **IFRS 10 - Consolidated Financial Statements**, Mutoni Ltd must consolidate all entities over which it has control. Control is established when Mutoni Ltd:

- Has power over the investee,
- Is exposed to or has rights to variable returns from the investee, and
- Can use its power to affect those returns.

Gasabo Ltd, as a subsidiary of Mutoni Ltd, must be included in the group accounts unless one of the following conditions is met:

- Mutoni Ltd no longer controls Gasabo Ltd, or
- Gasabo Ltd is classified as "held for sale" under **IFRS 5**, indicating an active plan to sell it within one year

Under IFRS 10 Consolidated Financial Statements, the income, expenses, and net assets of all group members (parent and subsidiary entities) should be included in the consolidated financial statements. The only circumstance for exception to consolidation per IFRS 10, paragraph 31, an investment entity shall not consolidate its subsidiaries when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.
Further, when the parent's control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future, the related subsidiary will not be consolidated. This decision must have been taken prior to the date of acquisition. Such a scenario could occur if the parent acquires a group of entities intending to dispose of one of the subsidiaries of that group. In these cases, the excluded subsidiary is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Regarding the concern about including Gasabo Ltd, which has been making losses, in the consolidated financial statements: IFRS 10 requires that the consolidated financial statements should reflect all resources controlled by the parent and the return generated by those resources, even if the return is negative. The argument that consolidating Gasabo Ltd is misleading because it operates in a different sector from the other entities in the group is addressed by IFRS 8 Operating Segments. IFRS 8 allows for additional disclosure in the notes to the consolidated financial statements to explain the different business sectors. Therefore, the correct approach is to include Gasabo Ltd in the consolidated financial statements and provide additional disclosures to explain the different sectors.

(b) (i)

Gain or losses on disposal of S Ltd

H Ltd disposed of a 65% shareholding in S Ltd out of its initial shareholding of 75%.

Control is lost on the date of disposal on 31 January 2022 and the
retained investment is a financial asset per IFRS 9.

A gain or loss on disposal is therefore calculated as:

	"000"	**"000"**
Consideration received		13,200
Fair value of retained 10% holding		1,900
Carrying amount at disposal date:		
Fair value (FV) of identifiable net assets at acquisition	11,500	
Profits since acquisition	3,900	
Other post-acquisition reserve	800	
Depreciation on FV adjustment (600 ×10/30 years)	(200)	
	16,000	
Add goodwill on disposal date (W1)	437.5	
Less NCI (W2)	(4,000)	
		(12,437.5)
Profit on disposal		**2,662.5**

Working 1: Disposed goodwill

	"000"
Purchase consideration	9,500
Share of NCI for net assets (11,500*25%)	2,875
	12,375
FV of identifiable net asset (10,900+600)	(11,500)
Goodwill at acquisition	**875**
Goodwill impaired 50%	(437.5)
Carrying amount at disposal date:	438

W2: Non-controlling interest as at disposal date

	FRW 000
NCI at acquisition	
Share of NCI for net assets (11,500*25%)	2,875
Share of post-acquisition profit 3,900*25%	975
Share of post-acquisition reserve 800*25%	200
Less excess depreciation on FV adjustment 600/30*10*25%	(50)
Total NCI at acquisition	**4,000**

QUESTION 1 (b) (ii)

H Ltd GROUP Consolidated profit and loss financial statements for the year ended 31 October 2022

	FRW	
	"000"	
Revenue (8,460+3,880*3/12+(3,200*6/12-400)	10,630	2
Cost of sales (4,040+2,910*3/12+(1,020*6/12)-400+20(w1)+5 (W2)	(4,903)	3
Gross profit	**5,728**	
Investment income	600	0.5
Gain on disposal (Q1)b)i) **2,663+800**	3,463	1
Distribution cost (725+200*(3/12) +(220*6/12))	(885)	1.5
Administrative expenses (1,150+350*3/12+(340*6/12)	(1,408)	1.5
Profit from operations	**7,498**	
Finance cost (450+175*3/12+(320*6/12)	(654)	1.5
Profit before tax	**6,844**	
Income tax expenses (680+80*3/12+(440*6/12))	(920)	1.5
Profit for the year	**5,924**	
Other comprehensive income		
Gain on revaluation	70	0.5
Total comprehensive income for the year	**5,994**	
Profit for the year		
Attributable to the owners of the parent 5,924-224	5,700	0.5
Attributable to the owners of the no-controlling interest	224	0.5
Total comprehensive income		
Attributable to the owners of the parent 5,994-224	5,770	0.5
Attributable to the owners of the no-controlling interest	224	0.5
Working 1-Unrealized profit		
Sales	400	
Margin	25%	
Remained	20%	

Unrealized profit	20	
Working 2: Excess depreciation on fair value adjustment 600/30*3/12	5	

	S Ltd	LG Ltd	Total
Profit for the year S Ltd 165*25%*3/12 LG Ltd (50%*860*6/12)	10	215	225
Depreciation on FV adjustment 5*25%	(1)		(1)
Total	**9**	**215**	**224**

<u>QUESTION ONE (C)</u>

ABD BANK disposes of a 15% shareholding in Liam, retaining another 15% shareholding. Significant influence is lost and therefore the investment becomes a financial asset rather than an associate. The retained investment will be accounted for in accordance with IFRS 9

		FRW 000
Consideration received		1,600
Far value of retained interest		1,600
		3,200
Cost	2,000	
Share of profit (30%*1,200)	360	
Carrying amount		(2,360)
Gain on disposal		**840**

<u>QUESTION 1 (D)</u>

SIGOMA corrected consolidated statement of profit or loss for the year ended 30 June 2023

	FRW 000	
Revenue 3,700-144	3,556	2
Cost of sales 3,069-144+6 (UP) w2	(2,931)	2.5
Gross Profit	**625**	
Operating expenses	(275)	1
Impairment of goodwill	(30)	1
dividend from subsidiary 24-24	0	0.5
dividend from associate 18-18	0	0.5
Share of profit from associates 120*30%*8/12-5UP	19	1
Profit before tax	**339**	
Income tax	(140)	1
Profit for the year	**199**	
Profit share to		
Parent 199-7.5	191.5	1
Non-controlling interest w1	7.5	0.5

Working 1

Profit attributable to non-controlling interest

	FRW 000
Subsidiary profit 66*25%	16.5
Less Unrealized profit on stock 144*20/120*1/4*25%	(1.5)
Less impairment 30*25%	(7.5)
	7.5

W2

Unrealized profit on MUKWANO sales	
144 0 × ¼ × 20/120	6
Of which NCI share is (25% × 6)	1.5
Unrealized profit on MURIGO Ltd sales	
128 × ½ × 25% margin × 30% group share	5

SECTION B

QUESTION TWO

MARKING GUIDE

a)	Identification of asset A as meeting condition for classification under held for sale Measurement of assets under IFRS 5 and the measurement of Asset A Requirement for Asset B and its measurement	2 Marks 4 Marks 2 Marks
b)	Identification of requirements for classification under IAS 40 Measurement of the asset under IAS 40 Conversion of the property from IAS 40 to IAS 16 Measurement at end of the year	2 Marks 2 Marks 2 Marks 1 Mark
c)	Classification under IAS 16 PPE Conversion of currency and calculating correct carrying amount Identifying non-monetary item not requiring retranslation Identifying unpaid liability as monetary item and retranslating Calculating carrying amount	2 Marks 2 Marks 2 Marks 2 Marks 2 Marks
	Total Marks	**25 MARKS**

a) IFRS 5 non-current assets held for sale and discontinued operations required assets to be classified as held for sale if they meet the requirements of the standard. This includes having the asset available for immediate sale in its current condition and management must have started looking for a buyer at a price that makes the sale reasonably possible. The sale must also be possible within the twelve months following the classification. The first property, identified as property, one will be identified as held for sale because it is available for immediate sale in its current condition. The property is being actively marketed at a reasonable price and the sale is indicated as possible within the next twelve months.

This will mean that the property will be removed from non-current assets and will be classified as held for sale under current assets. It will be measured at the lower of carrying amount and the fair value less costs to sell and it will not be subject to depreciation once classified as held for sale.

The fair value less cost to sell for property A is FRW 66.5 million after commission (70 *95%) while the carrying amount is FRW 60 million. This means that the property will be measured at the lower amount of FRW 60 million.

The second property, identified as property B, cannot be classified as held for sale. This is because the property is not available for immediate sale in its current condition as it has to undergo repairs before it is made available for sale.

This property has a fair value less cost to sell amounting to FRW (55m*95%-12m) = 40.25 million. This is because the extra FRW 12 million is incurred to get the asset ready for sale and is deducted as costs of sale. The carrying amount is FRW 45 million and therefore it will be recognised at FRW 40.25 million. This will require an impairment to be recognised in the financial statements of FRW 4.75m (FRW45m -40.25) which will be an operating expense in the SPL.

b) IAS 40 investment property defines investment property as land and buildings that are held by an entity for rental to others, capital appreciation or both. It does not include any own use such as administration or production of goods and services. This means that the property held by Kanombe for rental to Kirehe is to be classified as investment property under IAS40 from the date it is acquired on 1 January 2019. Since Kanombe limited uses fair value method, the property will be measured at fair value at each year end with any fair value gain being recognised in SPL.

The property ceases to be investment property when Kirehe ceases to use the property and it is converted into flats for sale. At the time it ceases to be investment property, the fair value is FRW 36 million and this gives a fair value gain of FRW 6 million (FRW 36m-30m) which is recognised in the statement of profit or loss.

Since the flats are being developed for sale, the investment property will be transferred to inventory at the fair value of FRW 36 million which is the initial measurement of the inventory. Additional cost of FRW 7 million incurred to develop the flats up to June 2023 will be added to the initial measurement to give a total of FRW 43 million. The total selling price of the flats will be FRW 6 million*10 = FRW 60 million and the net selling price will be after deducting FRW 5 million that is needed to make the flats ready for use which gives the net selling price as FRW 55 million. The inventory is valued at the lower of cost and net realisable value in accordance with IAS 2 inventory and therefore the flats will be measured at FRW 43 million. The flats will be classified under current assets.

c) The machine acquired by Kimironko limited on 1 November 2023 should be classified under IAS 16 PPE. The initial measurement of the machine is at cost and since the price is paid in foreign currency, then the exchange rates applicable on the transaction date will be used to translate the price from Tsh to FRW for the initial measurement of the machine.

Initial carrying amount = Tsh 1,200,000/2.5 = FRW 480,000

The price is payable on 31 January 2024, which means at the end of the year 31 December 2023 the amount is still owing and is a liability. The liability is a monetary item that will be retranslated at the closing rate prevailing at the end of the year. In this case, the liability will be Tsh 1,200,000/2.4 = FRW 500,000. This will give rise to an exchange loss of FRW 20,000 (FRW 500,000 – 480,000) that will be recognised in the statement of profit or loss.

The machine is a non-monetary item and therefore the carrying amount is not retranslated and will remain at the same spot rate that had been applied on the transaction date.

The costs of modification of FRW 45,000 in November 2023 will be added to the initial measurement of the machine to give a total cost of FRW 525,000 (FRW 480,000+45000).

The machine will then be depreciated over the useful life of five years from 1 December 2023, the date when it is brought to use.

Depreciation = FRW 525,000/5 = FRW 105,000 per annum and for the year ended 31 December 2023 the depreciation will be FRW 525,000/5*1/12 = FRW 8,750

The carrying amount of the machine will be shown at 31 December at FRW 516,250 (FRW 525,000-8,750).

QUESTION THREE

MARKING GUIDE

a)	Award 2 marks for the identification of IAS 20 application of deferred income method. Award 2 marks for explaining how the deferred income method works and 2 marks for calculating the profits based on the method.	2 Marks 4 Marks
b)	Award 2 Marks for explaining the requirements of IAS 38 relating to research and development. Award 2 Marks for explaining which intangible assets are to be capitalised and which ones are not. Award 2 marks for correctly identifying which intangible asset in the scenario is to be capitalised. Award 2 marks for correct explanation of the treatment of the production process.	2 Marks 2 Marks 2 Marks 2 Marks
c)	Award 0.5 mark for each factor showing impairment for a maximum 2 marks. Award 3 marks for the calculation of the impairment of the CGU	2 Marks 3 Marks
d)	Award 2 marks for explaining the conditions for grants to be recognised.	2 Marks

	Award 2 marks for explaining how grants relating to expenses are accounted for. Award 2 marks for explaining how grants relating to assets are accounted for.	2 Marks 2 Marks
	Total Marks	**25 Marks**

MODEL ANSWERS:

a) The grant obtained by Kicukiro from the ministry of health relates to the acquisition of an asset and the deferred income method can be used to account for the grant in accordance with IAS 20 accounting for government grants and disclosure of government assistance. In this case, Kicukiro will be required to treat the grant as income received in advance to be released to the company over the life of the asset. This method allows the asset to continue to be carried at cost in the financial statements. This will be accounted for as follows:

	FRW
Profit estimated	5,000,000
Depreciation (FRW 10,000,000/4 years)	(2,500,000)
Grant (20%*10,000,000)/4years	500,000
Profit	**3,000,000**

b) IAS 38 intangible assets required that internally generated intangible assets should not be recognised and only purchased intangible assets will be recognised. When an acquisition takes place, IFRS 3 requires goodwill to be accounted for as the excess of consideration paid and the assets acquired. Only purchased goodwill can be recognised and any internally generated goodwill cannot be recognised.

Any intangible assets that are acquired as part of a business combination will be recognised on condition that they can be separately distinguished and valued. In this case, the assets to be recognised by Kicukiro will be the following:

	FRW
Net assets acquired	18,000,000
Patent acquired at fair value	12,000,000
Research conducted for external client	2,500,000
Goodwill on acquisition (β)	7,500,000
Total consideration paid	**40,000,000**

This shows that the intangible assets acquired as part of the acquisition, including the patent and research for the external client will be recognised but the value to be used for the patent will be FRW 12 million and not FRW 15 million because the clinical trials are still awaiting approval as successful.

The new drug developed at a cost of FRW 16 million will be capitalised development cost and will then be amortised over the life of the drug. Patents are specifically not permitted to be revalued and therefore the change in fair value to FRW 20 million does not change the value of the patented drug.

The production process being developed meets the criteria for capitalisation when it becomes technically and financially feasible in March 2023. Thus, the costs that are incurred of FRW 4 million and FRW 2.5 million will be expensed. Costs to be capitalised will be the FRW 3 million incurred after the project becomes technically feasible.

This cost will then be amortised over the life of the project of ten years giving amortisation in the current year of FRW 3,000,000/10*3/12 = FRW 75,000 and the carrying amount will be FRW 3,000,000 -75,000 = FRW 2,925,000.

c) The circumstances that indicate an asset has been impaired include:

- A significant decrease in market value of asset in excess of normal passage of time
- Physical damage to the asset
- Adverse changes to economic performance of the asset becoming worse than expected
- Increase in market interest rates likely to affect recoverable amounts
- The carrying amount exceeds market capitalisation

At the start of the year the cash generating unit will be recognised as follows:

Total impairment = FRW 188-115m = FRW 68 million

	Carrying amount before impairment FRW million	**Impairment FRW million**	**Carrying amount after impairment FRW million**
Goodwill (223-183)	40	(15)	25
Motor vehicles	120	(30)	90
Licence	35	-	35
Other net assets (15+25-12)	28	-	28
	223	**(45)**	**178**

An impairment loss will be determined by comparing the carrying amount of FRW 143 million and the higher of fair value les cost to sell of FRW (183-30-20) = FRW 133 million and value in use of FRW 125 million which is FRW 133 million giving an impairment loss of FRW 45 million (FRW 178 - 133m).

	Carrying amount before impairment FRW million	Impairment FRW million	Carrying amount after impairment FRW million
Goodwill (223-183)	25	(25)	-
Motor vehicles	90	-	90
Licence	35	(20)	15
Other net assets (15+25-12)	28	-	28
	178	**(45)**	**133**

d) IAS 20 accounting for government grants and disclosure of government assistance requires that grants should not be recognised unless the entity will comply with the conditions attached to the grant and the entity will receive the grant. This is provided for both grants relating to cash or relating to reduction of liability to government. The income to be received as grant should be matched to the related costs to be incurred that they are expected to compensate on a systematic basis and the receipts basis can only be used when there is no other basis applicable.

Where the grant relates to acquisition of non-depreciable assets, some conditions must be met for the grant to be recognised as income over the period in which the cost of meeting the obligation is incurred. For grants relating to assets, the standard allows the grant to be deducted against the cost and only the net amount is depreciated or it can be accounted for as deferred income to be released over the useful life of the asset in the SPL.

QUESTION FOUR

Marking guide	**Marks**
a) Regulatory Framework:	
• Award 1 mark for an introduction well structured	1
• Award 1 mark for each reason correctly explained with maximum of 3 marks	4
Note: The candidate does not have necessarily to reproduce the exact texts in the model answer but the answer must be relevant	
Subtotal - Sub-Question (a)	**5**
b) IFRS 16 - Lease	
i) Award 2 marks for a complete answer narrating how classification of lease is done as per IFRS 16. Award only up to 1 mark if the candidate managed to explain the two classification i.e financing and operating without identifying who classifies the leases	2
ii) Award 2 marks if a candidate has been able to clearly explain the treatment of variable lease payments	2
c)	
• Award 2 marks for correct determination of the initial lease liability i.e. 0.5 marks for correct identification of the 9 installments + 0.5 marks for correct identification of the annuity factor/formula + 1 mark for correct calculation of the lease liability	2
• Award 0.5 marks for each correct figure used to determine of the right of use asset	2

• Award 2 marks for Subsequent Measurement –Asset i.e. 1 mark for each year correct measurement	2
• Award 0.5 marks for each correct figure in the subsequent measurement of lease Liability in the amortized cost schedule for the lease obligation	5
• Award 0.5 marks for each correct figure reported in the financial statements (SOP/L&SOFP)	5
Subtotal - Sub-Question (b)	**20**
Total Marks	**25**

Detailed answer

a)

From:
To: Director [email]

Subject: The reasons of having a regulatory framework for financial reporting

Dear Director,

Following your request, the following are reasons.
A regulatory framework is desirable for the following reasons:

1) Financial statements are based on principles and rules that can vary significantly from country to country. There is also a wide range of users of these financial statements (for example, investors, lenders, customers, government). Preparation of accounts based on different principles makes it difficult. If there is no consistency, it could be impossible, for investors to analyses and interpret the information. A regulatory framework would ensure consistency in financial reporting.

2) The information needs to be comparable, as without this quality the credibility of the financial reports would be undermined. This could have a negative impact on investment. A regulatory framework came in to increase the users understanding of and confidence in the financial statements.

3) Increasingly, globalization resulted in trans-national financing, foreign direct investment and securities trading. Thus, a single set of rules for the measurement and recognition of assets, liabilities, income and expenses is required.

4) A regulatory framework would also regulate the behavior of companies towards their investors, protecting the users of the financial statements. It would help ensure that the financial statements give a true and fair view of the company's financial performance and position.

5) A regulatory framework also assists national standard-setting bodies in developing a national standard.

6) It also assists accountants to apply relevant accounting standards in preparing financial statement and in dealing with topics that do not form the subject of international accounting standards.
In conclusion a regulatory framework supports the conceptual framework and the international standards in contextualizing these other frameworks as well as bringing in country specific issues not addressed elsewhere.

b)

i) With IFRS 16 is replacing IAS 17 – We still have operating and finance lease classification - However unlike IAS 17 it is not the lessee who classifies lease under the two types. The lessee has to recognize a right of use and a lease liability. It is now the lessor who classifies the lease as to whether it is a finance or operating lease.

ii) Variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another standard.

c)

We were given the following:

- Year end - 30 June each year
- Lease term 10 years - Economic useful life is 20 Years (IFRS 16 requires to use the lower of the lease term and the economic useful life while depreciating the right-of-use asset – in our case we will use 10 years. Note: where there will be transfer of ownership at the end of lease term, we use the economic useful life of the asset. That is if the lessee is ultimately sure that the asset will be transferred to the lessee at the end.)

- Annual lease payment – FRW 5 million payable in advance
- 1 payment being 1 July 2021
- Initial direct cost – FRW 1million
- Incentives received – FRW 500,000
- Implicit interest rate -10%

Determination of the initial lease liability

Lease liability – Present value of minimum lease payment (Note: For lease payments outstanding i.e. in this case 9 years and not 10 years – We have 9 installments remaining)

Lease liability = Annual lease payment *Annuity factor = 5 million * 5.759(Annuity factor for 9 Years, 10%) = 28,795,000

If we use annuity formula = $1 - (1 + r)^{-n}/r$, where n = Number of payments remaining and r = Rate

= $1-(1.1)^{-9}/0.1$ = 5.759 and multiply it with annual lease payment i.e. 5M*5.759 = 28,795,000 (Same as above)

Determination of the right of use asset	**FRW**
Present value of minimum lease payment (This excludes initial payment of 1 July 2021)	28,795,000
Add: Initial lease payment made	5,000,000
Add: Initial direct cost	1,000,000
Less: Incentives received	(500,000)
Initial cost -Right-of-use asset	**34,295,000**

Subsequent measurement

Subsequent Measurement – Right-of-Use Asset	**Cost**	**Accumulated Depreciation**	**Carrying amount**
	FRW	**FRW**	**FRW**
Year ended 30 June 2022	34,295,000	3,429,500	30,865,500
Year ended 30 June 2023	34,295,000	6,859,000	27,436,000

Subsequent measurement - Lease Liability Amortized cost schedule for the lease obligation

Year ended	**Bal b/f**	**Lease payment**	**Capital balance**	**Interest (10%)**	**Bal c/d**
	FRW	**FRW**	**FRW**	**FRW**	**FRW**
Year ended 30 June 2022	28,795,000	(Payment already made)	28,795,000	2,879,500	31,674,500
Year ended 30 June 2023	31,674,500	5,000,000	26,674,500	2,667,450	29,341,950

The question is how this lease will be accounted for in the financial statements of ANCHOR Ltd for the year ended 30 June 2022 and 30 June 2023 in accordance with IFRS 16

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Let's now show how the above will appear in the financial statements of ANCHOR Ltd

ANCHOR Ltd **Statement of profit or loss(Extract) for the year ended**	**30 June 2023** **FRW**	**30 June 2022** **FRW**
Depreciation	(3,429,500)	(3,429,500)
Finance Cost	(2,667,450)	(2,879,500)

ANCHOR Ltd **Statement of Financial Position (Extract)as at**	**30 June 2023** **FRW**	**30 June 2022** **FRW**
Non-Current Assets		
Right-of-use	27,436,000	30,865,500
Liabilities		
Non-Current Liabilities		
Lease obligation	24,341,950	26,674,500
Current Liabilities		
Lease obligation	5,000,000	5,000,000

End of Marking Guide and Model Answers