ICPAR
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CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 26, NOVEMBER 2024

MARKING GUIDE & MODEL ANSWERS

QUESTION ONE

MARKING GUIDE

QN	Description	Marks
a	**IAS 16 Calculation of initial cost**	
	Purchase price less only trade discount no settlement	1
	Electrical cable installation (deduct repairs)	1
	All the remaining directly attributable costs (0.5 marks * 4)	2
	Dismantling, removing and restoration (only total answer)	1
	Borrowing costs	0.5
	Final answer	0.5
	Maximum marks awarded for part a	**6**
b	**IAS 40 Investment property**	
	Two conditions for de-recognition (1 mark * 2)	2
	How gain or loss on disposal is calculated	2
	Maximum marks awarded for part b	**4**
c	**IFRS 5 Non-current assets held for sale and discontinued operations**	
	1 mark awarded for each point explained (0.5 mark * 4)	2
	Maximum marks awarded for part c	**2**
d	**IAS 36 Impairment of assets**	
	Step 1 Calculation of correct carrying amount	1
	Step 2 Finding the recoverable amount	0
	Step 3 Difference between CA and RA	0.5
	Step 4: Accounting treatment:	
	Allocation of impairment to technology and goodwill (0.5 mark * 2)	1
	Apportionment of impairment to brand, land & building (0.5 mark * 3)	1.5
	Finding the total impairment loss	1
`	Finding the total carrying amount after impairment (0.5 mark * 6)	3
	Maximum marks awarded to part d	**8**
	Total	**20 Marks**

MODEL ANSWERS

a) **Calculation of cost of asset in accordance with IAS 16 Property, Plant and Equipment**

Cost of the Asset		FRW 000	FRW 000
1) Purchase price:			
List price			750,000
Less: Trade discount	(10% * 750,000)		75,000
			675,000
2) Directly attributable costs of bringing asset to its present location and condition:			
Shipping costs		65,000	
Pre-production testing		24,250	
Retainer wall construction		20,360	
Electrical installation	(46,200 - 18,000)	28,200	
Labour costs		18,400	156,210
3) Dismantling, removing and restoration costs			
Dismantling costs		12,000	
Removing costs		6,500	
Restoration costs		2,500	21,000
4) Capitalized borrowing cost			2,500
Total cost of the asset			**854,710**

b) **Explain two conditions for de-recognition of investment property (IAS 40) and how gains or losses on disposal of investment property is calculated**

An investment property should be derecognized when:

1) The property is disposed through sale.
2) The property is permanently withdrawn from use and no future economic benefits are expected from its disposal

Gains or losses on disposal of investment property are calculated as the difference between sales proceeds and the net book value of the property. When the sales proceeds are more than net book value there is a gain while when the net book values are more than sales proceeds there is a loss.

c) **Explain any four conditions that must apply for a sale to be highly probable according to IFRS 5**

For the sale to be highly probable, the following must apply:

1) Management must be committed to a plan to sell the asset.
2) There must be an active program to locate a buyer.
3) The asset must be marketed for sale at a price that is reasonable in relation to its current fair value.
4) The sale should be expected to take place within one year from the date of classification.
5) It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

d) Finding the carrying amount of asset after accounting for impairment (IAS 36)

Step 1: Calculate the carrying amount (CA)	FRW 000
Carrying amount = 40,000 + 10,000 + 20,000 + 100,000 + 60,000 + 80,000 =	310,000
Step 2: Find the recoverable amount	
Recoverable amount =	170,000

Step 3: Find the difference between step 1 and 2

If step 1 is greater than step 2 there is impairment loss

Carrying amount	310,000
Recoverable amount	170,000
Impairment loss	140,000

Step 4: Allocate the Impairment Loss

IAS 36 requires the impairment loss to be allocated to assets in the following order:

1. **First to Goodwill** (fully allocated until goodwill is reduced to zero).
2. **Then to Other Assets** on a pro-rata basis, except for:
   - Assets measured at fair value (e.g., inventory, receivables, payables).
   - Assets already reduced to recoverable amounts (e.g., technology in this case is worthless and is immediately written off).

Allocation of Impairment Loss:

- **Step 4.1:** Write off the technology (FRW 10,000):

  Remaining Impairment Loss =140,000−10,000 =130,000. {Remaining Impairment Loss} = 140,000 - 10,000 = 130,000.

  Remaining Impairment Loss = 140,000−10,000=130,000.

- **Step 4.2:** Write off goodwill (FRW 40,000):

  Remaining Impairment Loss=130,000−40,000=90,000. {Remaining Impairment Loss} = 130,000 - 40,000 = 90,000.

  Remaining Impairment Loss=130,000−40,000=90,000.

- **Step 4.3:** Allocate the remaining impairment loss (FRW 90,000) on a pro-rata basis to other assets with carrying values (brands, land, and building). The allocation ratio is based on their carrying amounts:

	Carrying amount before Impairment	Proportion	Allocation of Impairment	Carrying amount after impairment
	FRW 000		**FRW 000**	**FRW 000**
Brand	20,000	(20 / 180) * 90,000	10,000	10,000
Land	100,000	(100 / 180)* 90,000	50,000	50,000
Building	60,000	(60 / 180) * 90,000	30,000	30,000
Total	**180,000**		**90,000**	**90,000**

Step 5: Calculate the Adjusted Carrying Amounts

Assets	Initial Carrying Amount (FRW '000)	Impairment Allocated (FRW '000)	Adjusted Carrying Amount (FRW '000)
Goodwill	40,000	40,000	0
Technology	10,000	10,000	0
Brands	20,000	10,000	10,000
Land	100,000	50,000	50,000
Building	60,000	30,000	30,000
Other net assets	80,000	0	80,000
Total	**310,000**	**140,000**	**170,000**

QUESTION TWO

Marking Guide

	Marks
Statement of profit or loss account	
Computation of depreciation charge for building award 0.5 and motor vehicle of branch and head office award 1	1.5
Other items in the profit or loss account award marks as follows	
Sales	1.5
Goods transferred	0.5
Opening stock	1.5
Purchases	1.5
Closing stock	1.5
Stock in transit	1
Good received	0.5
Administrative costs	1.5
Depreciation	1
Sub-Total P/L	**12**
Adjustment for Branch current account	1
Item in the statement of financial position- Award marks as follows	
Statement of financial position	
Land	0.5
Building	0.5
Motor vehicle	1.5
Branch current account	1
Current assets	
Balance at bank	1.5
Cash in transit	0.5
Debtors	2
Inventory	2
Good in transit	1
Total assets	
Share capital	1
Retained earnings bal b/d	1.5
Profit for the year	0.5
Head office current account	0.5
Loan	1
Account payable	2
Subtotal-statement of financial position	18
Total	**30**

Model Answer

a) Statement of profit or loss account for the year ended 31 December 2023

	Head office	Branch	Sub working	Combined
	FRW	FRW		FRW
	000	000		000
Sales	924,500	223,100		1,147,600
Goods transferred	54,000			0
Total revenue	978,500	223,100		1,147,600
Cost of sales				
Opening stock	240,000	82,000	240,000+82,000	322,000
Purchases	520,000	35,000	520,000+35,000	555,000
Closing stock	(215,000)	(42,200)	215,000+42,200-2400	(254,800)
Stock in transit	(16,000)		20,000-4000	(16,000)
Good received	-	54,000		0
Cost of goods sold	**529,000**	**128,800**		**606,200**
Gross profit	**449,500**	**94,300**		**541,400**
Administrative costs	(92,300)	(43,100)	92,300+43,100	(135,400)
Depreciation	(16,000)	(6,000)		(22,000)
Total expense	**(108,300)**	**(49,100)**		**(157,400)**
Profit for the year	**341,200**	**45,200**		**384,000**

B) Statement of financial position as at 31 December 2023

	Head office	Branch	Sub working	Combined
	FRW	FRW		FRW
	000	000		000
Land	60,000			60,000
Building	36,000			36,000
Motor vehicle	166,000	96,000		262,000
Branch current account	185,000			
	447,000	**96,000**		**358,000**
Current assets				
Balance at bank	164,000	66,000		230,000
Cash in transit	15,000			15,000
Debtors	83,000	92,000	83,000+92,000-24,000	151,000
Inventory	215,000	42,200	215,000+42,200-2,400	254,800
Good in transit	16,000	-	20,000-4,000	16,000
	493,000	**200,200**		**666,800**
Total assets	**940,000**	**296,200**		**1,024,800**
Share capital	221,800			221,800
Retained earnings bal b/d	180,000	21,000		201,000
Profit for the year	341,200	45,200		384,000

	Head office	Branch	Sub working	Combined
	FRW	**FRW**		**FRW**
	000	**000**		**000**
Head office current account	-	185,000		
	743,000	**251,200**		**806,800**
Long term liability				
Loan	167,000			167,000
Short term liability				
Account payable	30,000	45,000	30,000+45,000-24,000	51,000
Total equity and liability	**940,000**	**296,200**		**1,024,800**

Workings

W1. Branch Current account

Balance per TB	220,000		
		Cash in transit	15,000
		Stock in transit	20,000
		Bal c/d	**185,000**

W2: PPE

	Head office	Branch
	FRW	**FRW**
	000	**000**
Building at cost	260,000	
Acc depreciation 1 Jan 2023	(220,000)	
Charge for the year	(4,000)	
Bal c/d	**36,000**	
Motor vehicle at cost	240,000	120,000
Acc depreciation 1 Jan 2023	(62,000)	(18,000)
Charge for the year	(12,000)	(6,000)
Bal c/d	**166,000**	**96,000**

W3: Good and cash in transit

	FRW 000
Good transferred	74,000
Good received	(54,000)
Good in transit	20,000

Dr: Good in transit account	20,000	
Cr: Branch current account		20,000

Cash in transit

Dr. Cash in transit	15,000	

Cr. Branch current account		15,000
Unrealized profit on CLOSING stock	12,000*25/125	2,400

QUESTION THREE

MARKING GUIDE

QN	Description	Marks
a	**Calculation of goodwill**	
	Calculation of purchase consideration (W2)	2
	Fair value of NCI	0.5
	Share capital	0.5
	Other equity reserves	0.5
	Retained earnings	0.5
	Fair value adjustment	0.5
	Total net assets	0.5
	Final answer of goodwill	1
	Maximum marks awarded for part a	**6**
b	Consolidated statement of profit or loss	
	Revenue (0.5 marks for each figure accounted for)	1.5
	Cost of sales (0.5 marks for each figure accounted for)	2.5
	Gross Profit	0.5
	Distribution costs (0.5 marks for each figure accounted for)	1.0
	Administration costs (0.5 marks for each figure accounted for)	1.0
	Profit before interest and tax	0.5
	Finance cost (0.5 marks for each figure accounted for)	1.0
	Profit before tax	0.5
	Income tax (0.5 marks for each figure accounted for)	1.0
	Profit for the year	0.5
	Gains on revaluation (0.5 marks for each figure accounted for)	1.0
	Investment in equity instrument (0.5 marks for each figure accounted for)	1.0
	Other comprehensive income net of tax	0.5
	Total comprehensive income for the year	0.5
	Profit attributable to parent	0.5
	Profit attributable to NCI	1.0
	Other comprehensive income attributable to parent	0.5
	Other comprehensive income attributable to NCI	1.0
	Total comprehensive income to parent	0.5
	Total comprehensive income to NCI	0.5
	Note: Working on purchase consideration marks allocated under goodwill	
	Fair value adjustment (W3a)	0.5

	Depreciation undercharge (W3b)	0.5
	Intercompany sales of plant (W4)	1
	Intercompany sale of goods (W5)	1
	Maximum marks awarded for part b	**20**
c	Exemptions from consolidation	
	1 mark awarded for each point explained (1 mark * 4)	4
	Maximum marks awarded for part c	**4**
	Total	**30 Marks**

MODEL ANSWERS

a) Calculate the goodwill on acquisition of SUBIRA.

	FRW '000'	**FRW '000'**
Purchase consideration	W2	640,000
Add: Fair value of non-controlling interest		300,000
		940,000
Net Assets of SUBIRA		
Share capital	480,000	
Other equity reserve	6,600	
Retained earnings	375,000	
Fair value adjustment (W3a)	3,000	
Total net assets		864,600
Goodwill		75,400

b) Prepare the consolidated statement of profit or loss and other comprehensive income of PAMOJA group for the year ended 31st March, 2024.

PAMOJA Group
Consolidated statement of profit or loss and other comprehensive income for the year ended 31st March, 2024

		FRW 000
Revenue (1,350,000 + {6/12*720,000}-120,000{W5}) - 15,000 (W4)		1,575,000
Cost of sales (780,000 + {6/12* 330,000}-111,000{W5}+20{W3b}-600{W4}) -12,000 (W4)		821,420
Gross profit		753,580
Distribution costs (70,800 + {6/12*36,000}		88,800
Administration costs (81,000 + {6/12*69,000}		115,500
Profit before interest and tax		549,280
Finance cost (4,500 +{6/12*3,600}		6,300
Profit before tax		542,980

Income tax (144,000 +{6/12*83,400}		185,700
Profit for the year		357,280
Other comprehensive income:		
Gains on revaluation (7500 + 3000)	10,500	
Investment in equity instrument (2100 + {6/12*1200})	2,700	
Other comprehensive income net of tax		13,200
Total comprehensive income for the year		370,480
Profit attributable to:		
Parent (Balancing figure)		338,522
Non controlling interest 20%* ({6/12*198,000}-9,000{W5}-20(W3b}+600)		18,958
		357,280
Other comprehensive income attributable to:		
Parent (Balancing Figure)		12,480
Non controlling interest (3,000 + {6/12*1200})*20%		720
		13,200
Total comprehensive income attributable to:		
Parent (338,522+ 12,480)		351,0021
Non controlling interest (18,958+ 720)		9,678
		370,480

Workings

W1) Dates

Period end date	31st March, 2024
Beginning of the period	1st April, 2023
Date of acquisition of SUBIRA	1st October, 2023 (6 months to end)

W2) Purchase consideration

Number of shares = 480,000 / 100 =	4,800	shares (000)
Number of shares acquired = 4800 * 80% =	3,840	
Purchase consideration = (3,840 * 2/3) * 250 =	640,000	

W3) Fair value adjustment and depreciation undercharge

a) Fair value adjustment

Land	1,000
Building	2,000
Total fair value adjustment	3,000

b) Depreciation undercharge

Depreciation per annum = 2,000 * 2% =	40	
Depreciation for 6 months = 40 * 6/12 =	20	Add Cost of sales

W4) Intercompany sale of plant (P to S)

Transfer price	15,000	
Cost	12,000	
Profit	3,000	
Depreciation overcharge:		
Depreciation per year = 3,000 / 2.5 years =	1,200	
Depreciation for 6 months = 1,200 * 6/12 =	600	Less Cost of sales

W5) Intercompany sale of goods (S to P)

Sales	120,000	
Cost	90,000	
Profit	30,000	
Unsold	36,000	
Unrealized profit = 36/120 * 30,000 =	9,000	
Sales	120,000	Less sales
Unrealized Profit	9,000	
Cost of sales (balancing figure)	111,000	Less cost of sales

c) Explain the exemptions from the requirement to present consolidated financial statements which are available to a parent company

A parent need not present consolidated financial statements if one of the following exemptions applies.

1. If itself a wholly or partly-owned subsidiary of another entity and its other owners do not object to it not preparing consolidated financial statements.
2. Its shares or debt instruments are not traded on any stock exchange.
3. Its financial statements are not being filed with any regulatory organization for the purpose of issuing any debt or equity instruments on any stock exchange.
4. Its own or ultimate parent produces publicly-available financial statements that comply with IFRS

SECTION B

QUESTION FOUR

MARKING GUIDE

(a)

(i)	
Correct calculation of reduction in deferred tax provision	1
Current year estimate	1
Prior period over provision	1
Deferred tax provision	1
Total charge for the year	1
Total	**5**
(ii)	
Explanation of tax base	2
Explanation of deferred tax	3
Explanation of carrying amount of asset	2
Total	**7**

(b)

(i)	
Award 1 mark each for the correct explanation of the adjusting and non-adjusting events with the reason why each is classified that way for a maximum of 3 marks	3
(ii)	
Award 1 mark for each point identified and explained correctly for a maximum of 5 marks for the question part.	5
Total	**8**

MODEL ANSWER

(a)

i) Charge for Taxation in the Statement of Profit or Loss

Step 1: Calculate Current Taxation

The directors estimate a provision of FRW 15,000,000 for the current year's profits. However, there is an **overprovision** of FRW 4,000,000 from the prior year. The current tax charge in the statement of profit or loss is adjusted for this overprovision:

Current Tax Charge = Provision for Current Year - Overprovision from Previous Year = 15,000,000 - 4,000,000 = **11,000,000**

Step 2: Calculate Deferred Taxation

Deferred tax arises due to the temporary difference between the carrying amount and the tax base of the non-current assets. The temporary difference is FRW 30,000,000, and the tax rate is 30%.

Deferred Tax Liability = Temporary Difference × Tax Rate

Deferred Tax Liability = 3,000,000×30% = 9,000,000

The trial balance shows a deferred tax liability of FRW 12,000,000 as of the year-end. Since the deferred tax liability decreases to FRW 9,000,000, the reduction (a deferred tax credit) represents an adjustment in the profit or loss

Deferred Tax Credit = 12,000,000 - 9,000,000 = 3,000,000

Step 3: Total Tax Charge

The total tax charge is the sum of the **current tax charge** and the **deferred tax credit**:

Total Tax Charge = Current Tax Charge + Deferred Tax Credit (Negative Value)

Total Tax Charge = 11,000,000 - 3,000,000 = 8,000,000

ii)

Deferred tax is the estimated future tax consequences of transactions and events recognized in the financial statements of the current and previous periods. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and the tax base of the asset or liability.

Tax base is the amount attributable to that asset or liability for tax purposes and can also be described as the tax written down value.

The carrying amount of an asset is the amount that is attributable to the asset in the financial statements for accounting purposes either as cost less accumulated depreciation or the revalued amount of the asset.

(b)

i) Adjusting events describe those events that provide additional evidence of conditions that existed at the statement of financial position date. These events require the financial statements to be adjusted because the evidence they contain that indicate the financial position does not reflect the correct position.

Non-adjusting events are those events that are indicative of conditions that arose after the statement of financial position date. This means that there is no adjustment that is required to the financial statements as the events happened without affecting the transactions at the date of the financial statements.

ii)

1) The declaration of dividends is an event after the reporting date which is non-adjusting because it does not indicate that any transaction was reported incorrectly as at the end of the accounting period.

2) The destruction of the building valued at FRW 200,000,000 by fire is a non-adjusting event. This is because at the end of the accounting period the building indeed existed and was recorded correctly. The destruction on 10th January therefore requires derecognition of the building in the current period of 2024.

3) The selling of inventory for FRW 6,000,000 is an adjusting event. This is because the amount is lower than the carrying amount of the inventory which is FRW 7,500,000. According to IAS 2 inventory, the inventory should have been valued at the lower of cost and net realizable value. In this case, the inventory should be adjusted to FRW 6,00,000 to avoid overstating the inventory and making the financial statements misstated.

4) The announcement of intention to acquire a subsidiary Bright Shine limited on 31st January 2024 is a non-adjusting event because it has no effect on the financial position as reported at the end of the accounting period on 31st December 2023.

5) The discovery of fraud by the external auditor on 31st January 2024 is an adjusting event. This is because the financial statements on 31st December 2023 will be misstated by the fraud committed by the directors and must be adjusted as a way of correcting the financial statements.

QUESTION FIVE

MARKING GUIDE

	Marks
a) Award 1 mark for a correct explanation of revenue expenditure and 1 mark for capital expenditure	**2**
b) Award 1 mark each for a correct explanation of: - Revenue expenditure in the financial statements; and - Capital expenditure in the financial statements	**2**
c) Award 2 mark for point elaborating treatment of deferred revenue	**2**
d) i) Award marks as below Initial recognition for existing assets Gifted assets treatment Initial recognitional for new acquired assets Subsequent recognition	 2 2 2 2 **8**
Award 1.5 marks for each of four correct differences between IAS 16 and IPSAS 17	**6**

MODEL ANSWER

a) Capital expenditure is expenditure, which the entity incurs as a result of the acquisition of long-term assets or improvement in their earning capacity not charged to profit or loss account. These capital expenditures are incurred to acquire or enhance asset that will be used for either administration, distribution of goods, production or investment etc

Revenue expenses are cost incurred to facilitate daily normal trading of the business, these expenses are either administration costs, distribution costs or costs incurred for maintenance of the assets i.e repair costs. Such costs are charged to profit or loss for the year

b) **Revenue expenses** are charged to profit or loss for the year while capital expenses are capitalized in the statement of financial position and depreciated based on their expected useful life

c) **Deferred revenue:** these refers to the income which may be received but not yet earned relating to future compliance or failure to fulfil performance obligations on time
Deferred revenues are presented in the statement of financial position as a liability. In the subsequent accounting period(s), the deferred income is credited to the profit or loss if the entity satisfies the specified condition(s) as stated in the IFRS 15 Revenue from contracts with customers or IAS 20 Accounting for Government Grants and Disclosure of Government assistance.

d)

i) Initial recognition of IPSAS 17-PPE

Existing and gifted assets

For existing assets in the asset register of public sector that were accounted for under modified cash accounting, the entity will collect the information relating to the assets where the entity should indicate the status of the asset, estimated fair value and estimated value in use from the date of first adoption of IPSAS 17.

Secondly, Items of property, plant, and equipment that were acquired at no cost, this might be the case if for example an asset was gifted as part of a legacy or was transferred at no cost from another government institution.

In such situations, the entity shall recognize the effect of the initial recognition of property, plant, and equipment at the estimated fair value and corresponding entry will be taken as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant, and equipment is initially recognized.

For new acquired assets

IPSAS 17 state that if new acquired assets fall under property, plant and equipment and that asset is not specifically dealt with by other IPSAS, the government institutions in Rwanda are required to measure the costs spent directly to the acquisition, construction, or development of that assets and it shall initially be recognized at cost.

Subsequent measurement

After initial measurement, the items of property, plant and equipment are measured either at cost model which is the costs less accumulated depreciation and any impairment loss or it is measured at revaluation model if the government institution is able to come up with fair value of that asset on regular reporting periods.

ii) Difference between property, plant and equipment per IPSAS 17 and per IAS 16

- IPSAS 17 provides the accounting treatment of public assets while under IAS 16 there is no public assets or social infrastructure
- Under IAS 16, it is stated that an item of proper, plant and equipment is initially recognized at costs or at it carrying amount if it is not acquired. While IPSAS 17 permits initially recognition of assets to be based at its costs even though it was acquired at no costs, in this case the initial cost under IPSAS 17 is fair value
- IAS 16 requires that when the entity adopt revaluation model and the item of property, plant and equipment is held at its revalued amount, the historical costs must be disclosed. However, under IPSAS 17 does not require the entity to disclose historical costs when revaluation model is applied is not there
- Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases are offset on a class of asset basis

  Under IPSAS 17 there are some technical terms not similar with stated in IAS 16, example, IPSAS requires the use of "net assets", where under IAS 16 this statement is known as equity

End of Marking guide and Model answers