CERTIFIED PUBLIC ACCOUNTANTS

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 26, NOVEMBER 2024

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** while Section **B** has **two questions, one question** to be attempted.
4. In summary attempt **four questions, three questions** in section **A** and **one** in section **B**.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where applicable.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

a) VIRUNGA Ltd purchased a property from RWAMAGANA Manufacturers Ltd in Eastern province of Rwanda. The details of the property purchased are as presented below:

		FRW '000'
List price of the property		750,000
Ancillary costs:		
Shipping and handling costs		65,000
Maintenance cost for 2 years		62,000
Pre-production testing costs		24,250
Site preparation costs:		
Retainer wall construction		20,360
Electrical installations		46,200
Labour costs		18,400
Early settlement discount	5%	
Trade discount on list price	10%	

Additional information:

1) Included in the electrical cable installation cost of FRW 46,200,000 is a cost of FRW 18,000,000 which was incurred to correct a mistake done after the electrical cable installation was completed.
2) In order to receive the license to operate the property from the local authority, it was agreed that the company incurs a cost of FRW 12,000,000 as dismantling cost, FRW 6,500,000 as removing costs and FRW 2,500,000 as restoration costs.
3) Borrowing cost of the loan used to finance the project was FRW 2,500,000 which met the conditions for capitalization.

Required:

Calculate the initial cost of the asset in accordance with the principles of IAS 16 Property, Plant and Equipment. (6 Marks)

b) Explain two conditions for de -recognition of investment property (IAS 40) and how gains or losses on disposal of investment property is calculated. (4 Marks)

c) According to IFRS 5 (Non-current assets held for sale and discontinued operations), a non-current asset (or disposal group) should be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A number of detailed criteria must be met: (a) The asset must be available for immediate sale in its present condition. (b) Its sale must be highly probable (i.e significantly more likely than not).

Required:

Explain any four conditions that must apply for a sale to be highly probable. (2 Marks)

d) AMAHORO Ltd runs a department that suffers a massive drop in income due to failure of technology on the 1st January, 2023. The following assets carrying values were recorded in the books just before the impairment of the unit:

Assets	**FRW '000'**
Goodwill	40,000
Technology	10,000
Brands	20,000
Land	100,000
Building	60,000
Other net assets	80,000

Additional information:

1) The recoverable value of the unit is estimated at FRW 170,000,000.
2) The technology is worthless following its complete failure.
3) The other net assets include inventory, receivables and payables. It is ascertained that the book value of the net assets isa reasonable representation of net realizable value.

Required:

Calculate the carrying amount of the asset after accounting for the impairment loss in accordance with IAS 36 Impairment of assets (8 Marks)

(Total 20 Marks)

QUESTION TWO

SANTO Café is popular restaurant operating in Kigali, the company started in 2003 with a single cafe and a team of 12 associates serving about 50 guests per day. Since its establishment, the company growth rate was higher than expected where over 200,000 guest visits a year across their two (2) locations.

In 2020, the company opened a branch in Rubavu to increase its area of coverage and the performance is measured separately from head office.

The balances extracted from head office and branch account for the period ended 31 December 2023 are detailed below

	Kigali-Head office		**Rubavu Branch**	
	Dr	**Cr**	**Dr**	**Cr**
	FRW 000	**FRW 000**	**FRW 000**	**FRW 000**
Land	60,000			
Building at cost	260,000			
Motor vehicle at cost	240,000		120,000	
Accumulated depreciation on 1 January 2023				
• Building		220,000		
• Motor vehicle		62,000		18,000
Purchases	520,000		35,000	
Share capital of FRW 200 each		221,800		
Retained earnings on 1 Jan 2023		180,000		21,000
Account receivable/payable	83,000	30,000	92,000	45,000
Administrative expense	92,300		43,100	
Sales		924,500		223,100
Goods sent to/received by Branch		74,000	54,000	
Loan at bank		167,000		
Branch current account	220,000			
Head office current Account				185,000
Balance at bank	164,000		66,000	
Inventory at 1 January 2023	240,000		82,000	
	1,879,300	**1,879,300**	**492,100**	**492,100**

Additional information:

1. In some case, head office transfers goods to Branch and if this happens, all goods are transferred at cost plus 25%

2. The inventory as at 31 December 2023 was as follows: At Head office: FRW 215 million while the inventory at branch was FRW 42.2 million

3. Included in the closing stock of Branch are goods received from Head office valued at FRW 12 million and were recorded at invoice price. The opening stock is reported at cost

4. Some goods transferred by Head office to branch in December 2023 were delayed to reach their destination due to Christmas traffic challenges and the goods were not received or recorded by branch until January 2024. All goods transferred were recorded by Head office by 31 December 2023

5. The remittance made by Branch valued at FRW 15 million to head office were received by Head office on 31 January 2024.

6. As at 31 December 2023, Rubavu branch owes FRW 24 million to Kigali head office resulting from goods transferred by Head office. The amount was included in the receivable of head office and payable of Branch

7. The buildings are depreciated on reducing balance basis at 10% per annum

8. The motor vehicles are depreciated at 5% per annum on a straight-line basis

Required

Prepare in Columnar format the:

a) **Head office, Branch and combined statement of profit or loss for the year ended 31 December 2023** (12 Marks)

b) **Head office, Branch and combined statement of financial position as at 31 December 2023** (18 Marks)

(Total: 30 Marks)

QUESTION THREE

The summarized statement of profit or loss and other comprehensive income for PAMOJA Ltd and SUBIRA Ltd, companies that are located in Kigali for the year ended 31st March, 2024 are as presented below:

	PAMOJA Ltd	**SUBIRA Ltd**
	FRW '000'	**FRW '000'**
Revenue	1,350,000	720,000
Cost of sales	780,000	330,000
Gross profit	570,000	390,000
Distribution costs	70,800	36,000
Administration costs	81,000	69,000
Profit before interest and tax	418,200	285,000
Finance costs	4,500	3,600
Profit before tax	413,700	281,400
Income tax	144,000	83,400
Profit for the year	269,700	198,000
Other comprehensive income		
Gain on revaluation of land (note iii)	7,500	3,000
Loss on fair value of investment in equity instrument	2,100	1,200
	5,400	1,800
Total comprehensive income for the year	275,100	199,800

Additional information:

1. On the 1st October, 2023 PAMOJA Ltd purchased 80% of the equity shares of SUBIRA Ltd. The acquisition was through a share exchange of **two** shares in PAMOJA Ltd for every **three** shares in SUBIRA Ltd. The market price of PAMOJA Ltd's shares as at the date of acquisition was FRW 250 per share while that of SUBIRA Ltd's shares on the same date was FRW 200 per share
2. The equity shares of SUBIRA at 1st October, 2023 was FRW 480,000,000 (FRW 100 per share). The other equity reserves FRW 6,600,000 and the retained earnings at the same date was FRW 375,000,000.
3. All the other non-current assets fair values of SUBIRA Ltd were the same as their book values apart from Land and Building whose fair value had increased by FRW 1,000,000 and FRW 2,000,000 respectively. The depreciation rate for building is 2% on straight line. SUBIRA Ltd has recognized the revaluation in its own financial statements.

4. PAMOJA Ltd transferred an item of plant to SUBIRA Ltd immediately after acquisition with carrying amount of FRW 12,000,000. The agreed transfer price was FRW 15,000,000. At this date the asset had a remaining useful life of two and a half years. PAMOJA Ltd had included the profit on this transfer as a reduction in its depreciation costs. All depreciation is charged to cost of sales.
5. SUBIRA Ltd sold goods to PAMOJA Ltd for FRW 120,000,000. These goods had cost SUBIRA Ltd FRW 90,000,000. FRW 36,000,000 of these goods remained in inventory of PAMOJA Ltd as at 31st March 2024.
6. The fair value of non-controlling interest in SUBIRA Ltd as at the date of acquisition was FRW 300,000,000.
7. The goodwill on acquisition of SUBIRA has not been impaired.
8. All the items in the statement of profit or loss and other comprehensive income accrue evenly throughout the year.

Required:

a) **Calculate the goodwill on acquisition of SUBIRA Ltd.** (6 Marks)

b) **Prepare the consolidated statement of profit or loss and other comprehensive income of PAMOJA group for the year ended 31st March, 2024.** (20 Marks)

c) **Explain the four exemptions from the requirement to present consolidated financial statements which are available to a parent company.** (4 Marks)

(Total: 30 Marks)

SECTION B

QUESTION FOUR

a) Kiyovu Limited has the following balances on the trial balance as at 31 December 2023:

Taxation	FRW 4,000,000 Credit
Deferred taxation	FRW 12,000,000 Credit

The taxation balance relates to an overprovision that the company had from 31 December 2022. At 31 December 2023, the directors have now estimated that the provision that will be necessary for the current year profits is FRW 15,000,000. The carrying amount of Kiyovu Limited's non-current assets exceeds the tax written-down value by FRW 30,000,000. The rate of tax is 30%.

Required:

i) **What is the charge for taxation that will appear in the statement of profit or loss for the year ended 31 December 2023?** (5 Marks)

ii) **Explain what is meant by the terms deferred tax, tax base of an asset and carrying amount of an asset.** (7 marks)

b) The following transactions occurred after the directors of Kiyovu Limited had prepared the financial statements at 31 December 2023:

1. The directors of the company declared a dividend of FRW 300 per share on 31 January 2024.
2. On 10th January 2024, a building used by the company for storage of goods and which was valued at FRW 200,000,000 was destroyed by fire.
3. On 20th January 2024, the company sold inventory for FRW 6,000,000 which had been recorded in the financial statements at 31 December 2023 at FRW 7,500,000.
4. On 31st January 2024, the directors of the company announced the intention of the company to acquire a subsidiary Bright shine Limited.
5. On 31 January 2024 during the conduct of an external audit for the company, the auditors discovered that one of the directors had stolen FRW 5,000,000 and that this information had been very carefully concealed for months.

Required

i) **Explain what is meant by adjusting and non-adjusting events as per IAS 10 events after the reporting period.** (3 Marks)

ii) **Identify for each transaction whether it is an adjusting or non-adjusting event. Justify your answer.** (5 Marks)

(Total 20 marks)

QUESTION FIVE

a) **Differentiate revenue expenditure from capital expenditure** (2 Marks)

b) **Explain how revenue expenditure and capital expenditure are presented in the financial statement** (2 Marks)

c) **Explain how deferred revenue are accounted for in the financial statements** (2 Marks)

d) IPSAS 17 *Property, Plant, and Equipment* is closely aligned with IAS 16 *Property, Plant, and Equipment*, sharing the same name and foundational principles. This standard plays a crucial role for entities in Rwanda's public sector as they transition from the IPSAS cash basis to the IPSAS accrual basis of accounting for the first time. Under the previous modified cash basis of accounting, government institutions in Rwanda did not include long-term assets in their statements of financial position, nor did they report depreciation. Instead, they maintained an asset register, which was treated as an off-statement-of-financial-position record. The adoption of IPSAS 17 now requires a more comprehensive approach, ensuring long-term assets and their depreciation are properly recognized in the financial statements, improving transparency and accountability.

Required:

i) **Explain how public sector entities in Rwanda that have been using cash accounting will initially and subsequently measure the items of property, plant and equipment for existing, gifted and new assets in accordance with IPSAS 17** (8 Marks)

ii) **Discuss four points that illustrate how the accounting principles in IPSAS 17 differ from the accounting principles in IAS 16** (6 Marks)

(Total 20 Marks)

End of Question Paper