

# CERTIFIED PUBLIC ACCOUNTANT ADVANCED LEVEL 1 EXAMINATIONS A1.3: ADVANCED FINANCIAL REPORTING DATE: TUESDAY,29 MARCH 2022

# **INSTRUCTIONS:**

- 1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
- 2. This examination has two sections: A & B.
- 3. Section A has one Compulsory Question while section B has three optional questions to choose any two.
- 4. In summary attempt three questions.
- 5. Marks allocated to each question are shown at the end of the question.
- 6. Show all your workings where necessary.
- 7. The question paper should not be taken out of the examination room.

A1.3:2icparapril2022icparapril2022icparapril2022icparapril2022icparapril2022icparapril2022icparapiPage 1cof 8

# **SECTION A**

# **QUESTION ONE**

Ihora Ltd is a company that is in real estate business that it builds, rents and sales buildings. The company has investment in shares of two subsidiaries that are also in real estate business as follows:

- In Imiza Ltd domiciled in Rwanda 80% of Share capital
- In Zambe Ltd domiciled in Zambia where the functional currency is Zambian Kwacha (ZMW)- 60% of Share capital

You provided the following statement of financial Position for each of the companies as at 30 June 2021 PARAPRIL 2022 ICPARAPRIL 2022 ICPARAPR

IL OZZICPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCF II <b>Details</b> Rapril 2022iCPARAPRIL 2022iCPARAPRIL 2022iCF	Ihora Ltd	Imiza Ltd	Zambe Ltd
IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCP	PARAPRIL202FRW	PRIL20 FRW	APRIL20 ZMW
L2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCF L2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCF	PARAPRIL2 million	PRIL million	APRIL2 million
Assets: Arapril2022icparapril2022icparapril2022icp	PARAPRIL2022iCPARA PARAPRIL2022iCPARA	APRIL20221CPAR APRIL2022iCPAR	APRIL20221CPAF APRIL2022iCPAF
Non-current assets Parapril2022icparapril2022icp	PARAPRIL2022iCPARA PARAPRIL2022iCPARA	APRIL2022iCPAR APRIL2022iCPAR	APRIL2022iCPAF APRIL2022iCPAF
Property, plant and equipment 221CPARAPRIL 20221CF	PARA PRIL 2024, 150	PRIL201,150 R	APRIL2022i322 APRIL2022i322
Investment - Imiza Ltd APRIL 2022 CPARAPRIL 2022 CP	PARAPRIL2021,500	APRIL2022iCPAR	APRIL2022iCPAL
Investment - Zambe Ltd PRIL2022iCPARAPRIL2022iCF	ARAPRIL2029,000	APRIL2022iCPAR	APRIL2022iCPAL
Intangible assets 22iCPARAPRIL2022iCPARAPRIL2022iCF	Parapril $2022$ i $710$	APRIL2022i30	$\begin{array}{c} \text{APRIL2022iCf} \\ \text{APRIL2022iCf} \\ \text{O} \end{array}$
Total non-current assets IL2022iCPARAPRIL2022iCF	ARA RIL2 15,360	PRIL201,180	APRIL20221 APRIL20221 <b>332</b>
Current assets: 22icparapril2022icparapril2022icp	PARAPRIL20221CPARA PARAPRIL20221CPARA	APRIL20221CPAR APRIL2022iCPAR	APRIL2022iCPAF APRIL2022iCPAF
Inventories PRIL 2022 i CPARAPRIL 2022 i	PARA RIL2021,350	PRIL2022 <b>275</b> R	$_{ m APRIL 2022i}^{ m APRIL 2022i} 146$
Trade receivables 21CPARAPRIL 2022 (CPARAPRIL 2022) CPARAPRIL 2022 (CPARAPRIL 2022) (CPARAPRIL 2022) (CPARAPRIL 2022) (CPARAPR	PARAPRIL2022i910	PRIL2022225	APRIL2022iC 64
Cash and cash equivalents IL20221CPARAPRIL20221CF	PARAPRIL2021,020	PRIL2022500	APRIL2022iCI16
Total current assets ARAPRIL2022iCPARAPRIL2022iCF	PARAPRIL202 <b>3,280</b>	PRIL201,000 F	APRIL2022i <b>226</b>
Total assets IL2022iCPARAPRIL2022iCPARAPRIL2022iCF	ARA RIL2 18,640	PRIL202,180	APRIL2022iCFAI APRIL2022i <b>558</b>
Equity and liabilities: APRIL20221CPARAPRIL20221CF	AKAPRILZUZZICPARA PARAPRIL2022iCPARA	APRIL20221CPAR APRIL2022iCPAR	APRILZUZZICPAI APRIL2022iCPAI
Share capital IL2022iCPARAPRIL2022iCPARAPRIL2022iCP	ARA RIL 212,000	1,200	APRIL20221200 APRIL20221200
Retained earnings	PARA RIL2023,200	650	APRIL2022 160
Other equity IL2022iCPARAPRIL2022iCPARAPRIL2022iCF	PARAPRIL2022i 240	PRIL2022i 20 R	APRIL2022iCh4
Total equity 12022iCPARAPRIL2022iCPARAPRIL2022iCF	ARA RIL2 15,440	PRIL201,870	APRIL2022 374
Non-current liabilities: PRIL2022iCPARAPRIL2022iCF	PARAPRIL2022iCPARA	APRIL2022iCPAR	APRIL2022iCPAI
Long-term borrowings APRIL 2022 CPARAPRIL 2022 CF	PARAPRIL2021;200	PRIL20221CFAR PRIL20221 <b>95</b> F	APRIL2022ICPAI APRIL2022ICP
Deferred grant income APRIL 2022 CPARAPRIL 2022 CPA	PARAPRIL20221 PARA PARAPRIL20221 <b>250</b> A	PRIL20221 25 R	APRIL2022iCPA APRIL2022iCPA
Total non-current liabilities 221CPARAPRIL 20221CF	PARA RIL2021,450	PRIL2022 120 PRIL2022 120	APRIL2022iCPA APRIL2022iCI <b>16</b>
Current liabilities CPARAPRIL 2022 (CPARAPRIL 2022) (CPAR	PARAPRIL2022iCPARA	APRIL2022iCPAR	APRIL2022iCPAI
Trade and other payables Trade and other payables	PARAPRIL2021;150	PRIL2022150	APRIL2022i120
Tax payable PIL2022 iCPARAPRIL2022 iCPARAPRIL2022 iCF	PARAPRIL20221600	PRIL2022i40	APRIL2022iC48
Total current liabilities PRIL2022 iCPARAPRIL2022 iCF	PARAPRIL202 <b>1,750</b>	PRIL2022 <b>190</b> F	april2022iCpa April2022i <b>168</b>
Total liabilities 22iCPARAPRIL2022iCPARAPRIL2022iCF	PARAPRIL2023,200	APRIL2022ICPAR APRIL2022 <b>310</b> R	april2022icpai april2022i <b>184</b>
Total equity and liabilities	18,640	2,180	APRIL20221 <b>558</b> APRIL20221 <b>558</b>

 ${
m A1.3}$  2icparapril2022ic

#### Additional information

#### 1.20 Investment in subsidiaries

Investment in Imiza Ltd was done on 1 July 2020 when its retained earnings were FRW 200 million. Its fair value of the net assets at that date was FRW 1,640 million. Any fair value adjustment related to buildings. The fair value of non-controlling interest at that date was FRW 300 million.

Investment in Zambe Ltd was also done on 1 July 2020 when its retained earnings were 110 million Kwacha. Its fair value of net assets at that date was 334 million Kwacha. Any fair value adjustment related to buildings. The fair value of non-controlling interest at that date was 125 million Kwacha.

There has been no change in the other equity during the year except for any retranslation gain or loss.

Depreciation of buildings is at 10% Reducing balance basis.

Fair value of non-controlling interest is used in both investments in coming up with goodwill at acquisition.

Relevant exchange rates

Date CPARAPRIL2			I Kwacha=FRW
1 July 2020			
KILZUZZICI AKAI KILZU			
RILŽOŽŽIČPARAPRIL2(			22iCPARAPRIL2022iCPAR
Average for the	year PARAPRIL 2022 i CF		22iCPARAPRIL2022iC <b>45</b> R

## 2. 2 Goodwill impaired

Due to the economic effects of the ongoing pandemic and reduced rental and building prices, goodwill was assessed for impairment and the goodwill was impaired by FRW 100 million in respect of Imiza Ltd and 12 million Kwacha in respect of Zambe Ltd.

### 3. 20 Intercompany transaction

On 30 June 2021 there were sales on credit from the subsidiaries to Ihora Ltd of building materials as follows (all at a mark-up of 25%):

From Imiza Ltd: FRW 10 million, while

From Zambe Ltd: 1 million Kwacha

All the goods remained unsold and unpaid for by Ihora Ltd as at year end. The related company receivables and payables are included amongst the "trade receivables" and the "trade and other payables".

A1.3 2iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPIPAge 3 of 8

### 4.20 Environmental provision

During the year, Zambe Ltd constructed a sewage system in one of its real estate sites (completed on 30 June 2021) and as part of the requirements for the construction, the Zambian Government environmental authorities requires Zambe Ltd to plant trees as a way of reducing CO2 effects and rehabilitate the site. It is estimated that the cost of planting trees and to rehabilitate the site that is expected to be done in 20 years' time will be 67.275 million Kwacha. The related interest rate is 10%. This had not been provided for in the financial statements of Zambe Ltd.

# 5. Intangibles and deferred grant income

Deferred grant income relates to the intangible assets which includes carrying amount of the Integrated Financial System (IFS) that was partly paid for by the respective governments. The companies had not provided for amortization of the grant or intangible assets for the year. Its group policy to amortize the intangible assets and the related grants at 20% reducing balance basis.

# **Required:**

Prepare consolidated statement of financial Position as at 30 June 2021 (50 Marks)

(Total: 50 Marks)

m A1.3 2icparapril2022icparapril2022icparapril2022icparapril2022icparapril2022icparaprm Page~4~of~8

# **SECTION B**

#### **QUESTION TWO**

Cromwell Electrical Limited (CE Ltd) is an electricity infrastructure construction company offering its services to the electricity distribution company Rwanda Electron Limited (RE Ltd) and other customers who include Rwanda Local Governments (RLG). The construction contracts ordinarily involve construction of electricity distribution lines and streetlights that may be similar or customized according to mainly the RLG requirements. CE Ltd enters into two main types of contracts namely construction and maintenance. For construction contract part, CE Ltd contracts the infrastructure and hands it to RE Ltd or RLG once completed. Installments in the contract are structured most of the time to three installments with the first installment paid at start of the contract (according to "initial Bill of Quantities"), the second installment paid at the completion (after agreeing on "as built Bill of Quantities") and the last installment is paid after the defect liability period (based on as built Bill of Quantities less first and second installment paid"). For the case of maintenance contracts, they are structured in a way to provide regular checks and repairs according to a schedule agreed together with RLG. Installment for the maintenance contracts is paid every 3 months after proof of the maintenance work done according to job cards signed by both parties.

To be able to finance its activities which involve a lot of costs especially in starting construction contracts, CE Ltd ordinarily borrows funds from local lenders/banks either specifically for given contract or in general. CE Ltd is able to repay back the loans as it receives revenues from the construction contracts especially from the last installments.

You are the financial analyst and reporting manager for CE Ltd, and the CEO requested you to give clarifications on the following which relate to the financial reporting standards that they are not familiar with.

### Required:

- (a) In accordance with IFRS 15 Revenue from Contracts with Customers, **briefly explain how** the five-step model would be applied in the recognition of revenue (5 Marks)
- (b) With reference to the construction contracts managed by CE Ltd, explain how the revenue, expenses, assets, and liabilities relating to the type of construction contracts managed by CE Ltd should be recognized in the financial statements of CE Ltd (15 Marks)
- (c) Regarding the borrowings of CE Ltd and in the context of IAS 23 Borrowing Cost, explain how the borrowing costs should be recognized in the financial statements of CE Ltd.

(Total: 25 Marks)

A1.3:2iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPIL2022iCPARAPIPAge 5 of 8

# **QUESTION THREE**

You as the Financial analyst and the reporting head of Sokomorwa Ltd. You were provided the following extract of financial statements and additional information for three years by the Chief accountant.

Statement of Financial position as at 30 June	RAPRIL2022iCPARA	PRIL2022iCPARAPR	IL2022iCPARAPRII
Details RAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA	FAPRIL2022 <b>2019</b> A	PRIL2022iC <b>2020</b> R	IL2022iCPA <b>2021</b> I
IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA	FRW million	FRW million	FRW million
Property, plant and equipment 221CPARAPRIL20221CPA	APRIL 202 4,150	PRIL20221 8,650	14,650
Inventories  PRIL2022iCPARAPRI	HAPRIL20221,350	2,150	3,950
Trade receivables 21CPARAPRIL20221CPARAPRIL2	PAPRIL2022i 910A	RIL2022i <b>6,100</b>	L2022 10,100
Cash and cash equivalents IL2022iCPARAPRIL2022iCPA	FAPRIL2022 <b>1,020</b> A	PRIL202210 <b>1,220</b> R	1L20221CP/1,3201
Share capital (1,000 FRW each) CPARAPRIL20221CPA	FAPRIL20 <b>12,000</b> A	PRIL2022 <b>12,000</b> R	1L2022iC <b>12,000</b> 1
Retained earnings icparapril2022icparapril2022icpa	FAPRIL202 <b>5,200</b> A	PRIL20221 5,300 R	L20221CP 6,450
Trade and other payables RIL20221CPARAPRIL20221CPA	APRIL20221,150A	PRIL 2022 4,650	9,150
Short term borrowing RAPRIL 2022 ICPARAPRIL 20	FAPRIL2022i 600 <sup>A</sup>	6,600	15,600
Statement of profit or loss 20221CPARAPRIL20221CPA	RAPRIL2022iCPARA	PRIL2022iCPARAPR	IL2022iCPARAPRII
For year ended 30 June APRIL 2022 ICPARAPRIL 2022 ICPA	FAPRIL2022 <b>2019</b> A	PRIL20221C <b>2020</b> R	IL2022iCPA <b>2021</b> I
IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA	FRW million	FRW million	FRW million
Revenue	APRIL2038,600	PRIL202249,100	120221054,700
Cost of sales IL2022iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAP	28,400	PRIL202238,500	52,500
Finance cost IL2022iCPARAPRIL2	HAPRIL2022iCI40A HAPRIL2022iCI40A	PRIL 2022 1,400 R	3,250
Depreciation II 2022 CPARAPRIL 2022 CPARAPRIL 2022 CPARAPRIL 2023	FAPRIL2022iC498A	PRIL 2022 1,038	1,758
Profit/(loss) for the period L20221CPARAPRIL20221CPA	PAPRIL2022,500	PRIL20221CP 600	L20221CP/ <b>1</b> ,050
Dividends PRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA	FAPRIL2022iC <b>500</b> A	PRIL2022iCP <i>4</i> <b>500</b> R	IL2022iCPAR <b>500</b> I
Statement of Cash flowsril2022iCPARAPRIL2022iCPA	RAPRIL2022iCPARA RAPRIL2022iCPARA	PRIL2022iCPARAPR	IL2022ICFARAFRII IL2022iCPARAPRII
For year ended 30 June APRIL 2022 ICPARAPRIL 2	FAPRIL20222019A	PRIL202210 2020	L20221CPA2021
IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA IL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPA	FRW million	FRW million	FRW million
Cash flows - operating activities	APRIL 202 3,138	RIL2022i 3,038	(5,562)

The accountant had also calculated for you the following ratios:

Ratios parapril2022icparapril2	2019	APRIL202 2020	PRIL202 2021
Gross profit margin PARAPRIL20221CPARAPRIL20221CPA	26%	APRIL 202 22%	PRIL202214%
Operating profit/(loss) margin	RAPRIL20228%	APRIL2022i6%	PRIL 202211%
Operating expense margin IL2022iCPARAPRIL2022iCPA	RAPRIL202 <b>18%</b> R	APRIL2022 <b>15%</b>	PRIL2022 <b>14%</b>
Profit/(loss) margin PARAPRIL2022iCPARAPRIL2022iCPA	RAPRIL2022 <b>6%</b> R	APRIL2022i <b>1%</b>	PRIL2022i 2%
Return on equity22icPaRaPRIL2022icPaRaPRIL2022icPa	RAPRIL20215%R	APRIL2022i 3%	APRIL20221694R APRIL2022169
EPS (FRW/share)   CPARAPRIL20221CPARAPRIL20221CPA	$^{ m RAPRIL 2022}_{ m RAPRIL 2022} 208_{ m R}$	APRIL2022iC <b>50</b> R. APRIL2022iC <b>50</b> R.	APRIL2022iC 88. APRIL2022iC 88.
DPS (FRW/share) CPARAPRIL2022 CPARAPRIL202 CPA	RAPRIL2022iC <b>42</b> R RAPRIL2022iCFAR	APRIL2022iC <b>42</b> R. APRIL2022iCPAR.	APRIL2022iCH2 APRIL2022iCH2
Current ratio:1) CPARAPRIL2022 CPARAPRIL2022 CPARAPRIL2022 CPARAPRIL 2022 CP	RAPRIL2022i¶F <b>9</b> R	APRIL2022i 0.8	PRIL2022i <b>0.6</b>
Quick ratio PRIL2:12iCPARAPRIL2022iCPARAPRIL2022iCPA	RAPRIL2022i PAR	APRIL2022i <b>().7</b> R.	APRIL2022iQ <b>0.5</b> 8
Receivable's payment period days PARAPRIL 2022 ICPA	RAPRIL2022iCF <b>9</b> R	april2022ic <b>45</b> r.	APRIL2022iC <b>67</b> R
Payable payment period days 0221CPARAPRIL20221CPA	RAPRIL2022iCPAR RAPRIL2022idP <b>5</b> .R	APRIL2022iCPAR APRIL2022iC <b>44</b> R	APRIL2022iCF4R

A1.3 2iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202iCPARAPRIL202

Inventory holding period days 221CPARAPRIL20221CPA	RAPRIL2022idPAF	april2022ic $20$ r	APRIL2022iC <b>27</b> R
Asset's turnover (times) APRIL2022 (CPARAPRIL2022 (CPA	RAPRIL2022iCPAF	APRIL2022iCPAR APRIL2022iCP <b>6</b> R	APRIL2022iCPARI APRIL2022iCP <b>A</b> RI

The company has been growing in terms of operations and expansion of its assets base.

The company renewed its major production plant in the year ended 30 June 2021 in addition to other acquisitions of Property plant and equipment. The sales proceeds on the disposal of the old plant were FRW 19,620 million and the profit on disposal was FRW 11,620 million which is included in profit/(loss) for the period.

The company has a stable dividend payout policy of FRW 500 million every year.

Sokomorwa Ltd has many employees mainly in production process whose numbers have been increasing due to increase in operations. In the year ended 30 June 2021, as much as there was demand increase, the production costs increased due to the scarcity of a major component of production which could not easily be imported (there were travel restrictions due to Covid-19 Epidemic).

# Required:

From the information provided and your knowledge of non-financial information, you are required to write a short report to the Board of Directors for the company with the following included:

- (a) An analysis of the performance and financial position (based on the provided ratios and trend from the extract of financials) ARAPRIL 2022 CPARAPRIL 202
- (b) Given the situation of the company with many employees and effects on production costs shown, provide two short narrative information relating to employees and effects of Covid-19 on production to explain to management relating to them. (8 Marks)

Format of report 22icparapril 2022icparapril 2022icparapril 2022icparapril 2022icparapril 2022icparapril (2 Marks)

(Total: 25 Marks)

A1.3 2iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPRIL2022iCPARAPIPAge 7 of 8

#### **QUESTION FOUR**

The Government of Rwanda (GoR) in part of its macroeconomic policies, has been trying to encourage the private sector's participation in the economy. In this regard, there are a number of assets that it has taken major steps of transfer following private sector regulations together with parliament laws. Among these are shareholding in 10 companies that the GoR is the sole shareholder, 40 companies that the GoR is the non-controlling shareholder together with other shareholders and 150 other assets of property (land and buildings) that are held for possible investment by investors who will buy at them at a time that to build according to various master plans of the cities.

On another side, the GoR has other assets that are being used by the government directly or for public good/service like buildings, roads, bridges, national museums, and other assets in use.

# Required:

As a Consulting advisor to the GoR which is in the process of adopting full IPSAS, you are tasked to write a report advising the Accountant General of the GoR on the following:

(a) How to report government investment categories shown above in public financial statements of the Government of Rwanda using full accruals as per the relevant IPSAS

(15 Marks)

(b) From the last paragraph in the opening statement, describe the Reporting requirements on Property, Plant and Equipment in the context of IPSAS 17 (8 Marks)

Format of report 2000 parapril 2022 icparapril 2022 icparapril

(Total: 25 Marks)

End of question paper

A1.3 2iCPARAPRIL2022iCPARAPRIL