CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY, 29 MARCH 2022

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

Gisakura Mining group presented the following information in its financial statements for the year ended 30 June 2020.

Gisakura Mining group statement of total comprehensive income for the year ended 30 June 2020

	FRW million
Gross profit	**3,000**
Other income	
Investment income	30
Gain on disposal of freehold land and building	150
	3,180
Expenses	
Distribution cos	(610)
Administrative cost	(850)
Finance costs	(500)
Share of profit after tax in associate	200
Profit before tax	**1,420**
Income tax expense	(350)
Profit for the year	**1,070**
Attributable to	
Holding company	920
Non-controlling interest	150
	1,070

Gisakura Mining group statement of financial position as at 30 June 2020

Details	**June 2020**		**June 2019**	
	FRW Million		**FRW Million**	
Assets				
Non-current assets				
Property, plant and equipment		2,700		2,900
Intangible assets		350		90
Investment in associates		300		700
Total non-current assets		**3,350**		**3,690**
Current assets				
Inventories	1,000		1,100	
Receivables	1,250		800	
Investments (at fair value)	200		450	

Details	June 2020		June 2019	
	FRW Million		FRW Million	
Cash in hand	100		-	
Total current assets		**2,550**		**2,350**
Total assets		**5,900**		**6,040**
Equity and liability				
Ordinary share capital		1,000		1,000
Revaluation reserve		-		180
Retained earnings		2,200		1,100
Total Equity owners' funds		**3,200**		**2,280**
Non-controlling interests		**850**		**840**
Non-current liability				
Lease obligations	550		300	
12% loan stock	-		900	
Deferred tax	250		200	
Total non-current liability		**800**		**1,400**
Current liabilities				
Trade payables	340		250	
Interest payable	60		50	
Current tax payable	150		120	
lease obligations	500		600	
Bank overdraft	-		500	
Total current liability		**1,050**		**1,520**
Total equity and liability		**5,900**		**6,040**

Additional information

1) Freehold land and building with carrying amount of FRW 900 million was disposed by Gisakura Mining Group. The group also acquired additional plant and machinery for FRW 400 million by way of leases.

2) The depreciation charge for the year ended 30 June 2020 was FRW 580 million.

3) During the year, the group acquired 80% of the share capital of Muhura Mining Ltd for FRW 1,000 million, the fair value of consideration was paid in cash. The non-controlling interest in Muhura Ltd are measured using proportionate of the identifiable net assets.

The net assets of Muhura Mining Ltd on the date of acquisition were as follows

	FRW million
Plant, and equipment	600
Inventory	200
Receivables	350
Cash and bank	80
Payables	130
Current tax	50

Required:

(a) Compute the goodwill on the acquisition of Muhura Mining Ltd (5 Marks)

(b) Prepare consolidated statement of cash flow of Gisakura Mining Group for the year ended 30 June 2020 (using the *indirect method* under IAS 7 *Statement of Cash flows*) (25 Marks)

(Total: 30 Marks)

QUESTION TWO

(a) You are the accountant of New Vision Ltd, a public limited whose financial year end is 31 December. The financial statements for the year ended 31 December 2020 will be authorized on 31 March 2021. New Vision Ltd is reviewing certain events which occurred between 31 December 2020 to 31 March 2021. These events are:

1. New Vison has a good relationship with its shareholders. Over the years, they have adopted a strategy of maximizing shareholders' wealth by increasing dividends payments. On 25 January 2021 the Directors of New Vision Ltd proposed a dividend of FRW 30,000,000 computed based on FRW 8 per share for the year ended 31 December 2020. The dividend and financial statements will be approved by shareholders at the annual general meeting on 31 March 2021. The chief finance officer feels that the dividend should be accrued in the financial statements for the year ended 31 December 2020.

2. Due to increase in uncertainty in the macroeconomic and deterioration in the business operation, on 20 February 2021 New Vision Ltd hired an expert to assess the usefulness of company's assets. The technical report submitted to management showed that the intangible assets with carrying amount of FRW 50,000,000 as at 31 December 2020 had a recoverable amount of FRW 18,000,000. The management believed that the lower recoverable amount could be caused by adverse effects of COVID-19 on business operations, COVID-19 affected the company's operation and resulted into idle intangible assets.

Required:

Draft an internal memo for presentation to the Directors of New Vision Ltd which discusses the accounting treatment of the above transactions in the financial statements for the year ended 31 December 2020. (6 Marks)

(b) The information detailed below relates to the current tax and deferred tax of New vision for the year ended 31 December 2020

1. The cost of property, plant and equipment as at 31 December 2020 was FRW 1,000 million with accumulated depreciation of FRW 20 Million. This included some buildings which were revalued upwards by FRW 50 million at 31 December 2020. The accelerated tax depreciation on property, plant and equipment as at 31 December 2020 was FRW 360 million.

2. Intangible assets as at 31 December 2019 was FRW 40 million and these relate to development expenses for projects still under development. Additional development expenditure of FRW 10 million was incurred during the year and the amortization charge for the year ended 31 December 2020 was FRW 5 million. The tax base of this intangible assets was nil and the products that relates to the intangible assets started being commercially produced in the year ended 31 December 2020.

3. Current assets include FRW 40 million due in respect of some patent royalty's receivable. The royalties relate to one of the company's older products which was being produced by other companies. Patent royalties are taxed only when received.

4. The rent receivable as at 31 December 2019 was FRW 60 million of which FRW 20 million was received during the year 2020, there was no new rental income earned during the year ended 31 December 2020. The rental is taxed on receipt basis.

5. New Vision Limited had a deferred tax liability of FRW 100 million as at 31 December 2019.

6. The estimated current tax of New Vision Ltd is FRW 30 million

7. The company's tax rate is 30%.

Required:

Compute income tax to be charged in the statement of profit and loss account of New Vision for the year ended 31 December 2020 and the balance in deferred tax account

(6 Marks)

(c) Rugobagoba Tea Ltd is a major producing tea company in Rwanda that operate in Western region. The accountant of Rugobagoba tea company is pursuing CPA and has learnt about the reclassification of a revaluation reserve in accordance with IAS 16. He has approached you seeking advice on the accounting treatment of their property, plant, and equipment in the financial statements.

Below is the information extracted from the trial balance of Rugobagoba Tea Ltd as at 31 December 2020.

Details	**FRW 000**	**FRW 000**
Property plant and equipment at cost	1,200,000	
Accumulated depreciation	(400,000)	
		800,000
Equity and Liability		
Ordinary share capital		900,000
Retained earning		400,000
Revaluation reserve		80,000

Included in the property, plant and equipment is a machine that was acquired on 01 January 2018. The machine was acquired at a total cost of FRW 200 million with an estimated useful economic life of 10 years. On 01 January 2020, the machine was revalued at FRW 180 million, but its useful economic life was not changed.

Required:

Using the information provided, **prepare the extract for the Rugobagoba's statement change in equity as at 31st December 2020 reflecting the implications of the revaluation of the machine above** (8 Marks)

(d) Bank de la Modernization Financial (BMF) was established in 2018 for increasing loan access to small business operators. Since its establishment, the bank had never complied with IFRS 9 in the treatment of financial instruments which resulted into qualified audit opinion for the past two years.

The management of BMF took a corrective decision to improve their financial reports with the aim to obtain unqualified audit opinion for the next financial audits.

The Financial controller has approached you to advise BMF on the following matters.

i. **Explain when and how the financial instruments should be recognized in the financial statements in accordance with IFRS 9, financial instruments** (2 Marks)

ii. **Explain the conditions necessary to measure financial asset at amortized cost or at fair value through other comprehensive income** (4 Marks)

iii. On 01 July 2019 BMF acquired a financial asset for FRW 10,000,000 and incurred a commission fee of FRW 200,000. On 30 June 2020, the market value of the financial asset was FRW 10,000,000. BMF intends to complete a sale of the financial asset where the related cost of disposal is a commission fee of FRW 100,000. However, the financial asset was not sold as it is still owned by BMF. The financial assets are measured at fair value through other comprehensive income

Required:

Explain how the financial assets shall be treated in the financial statement for the year ended 30 June 2020. (4 Marks)

(Total: 30 Marks)

QUESTION THREE

(a) The conceptual framework for financial reporting describes the objective of, and the concept for, general purpose of financial reporting. The conceptual framework is not a standard and its content does not override any specific accounting standard or any requirement in an accounting standard. The conceptual framework provides a recognition process and criteria for financial reporting.

Required:

Explain the recognition criteria for the elements of the financial statements as per Conceptual framework for financial reporting (5 Marks)

(b) Ubwiza Ltd is a company that produce flowers in western province. The main market of Ubwiza Ltd is in Europe-Netherlands with some few quantities sold to local markets. From March 2020 COVID -19 resulted into the temporally closure of freight travel to Europe as measures to minimize the spread of COVID-19, and as a consequence from then, Ubwiza Ltd lost access to foreign market. As a means to sustain the foreign market, the Board of Directors of Ubwiza Ltd decided to hire an agent called Maxom based in Netherlands whereby Ubwiza Ltd will ship flowers and the agent sells those flowers on behalf of Ubwiza Ltd as a consignee.

The following transactions took place from 1 May 2020 to 31 December 2020

1) Ubwiza Ltd consigns 20,000 plastic boxes of flowers costing FRW 1,000 per box to Maxom in Netherland
2) The Freight and insurance costs incurred by Ubwiza Ltd for the whole consigned goods was FRW 1,500,000
3) Total Packing cost paid at Kigali International airport is FRW 800,000

The flowers were received by Maxom in Netherlands who paid the following costs

4) Landing and offloading cost FRW 600,000
5) Import duties FRW 1,200,000
6) Advertising and selling costs of FRW 1,400,000

Additional information

(1) The terms of the agreement signed between Ubwiza Ltd and Maxom state that Maxom is entitled to a commission of 20% of the total plastic boxes sold. The bad debt is borne by Ubwiza Ltd.
(2) On 31 December 2020, Ubwiza Ltd received the annual account of sales from Maxom and noted that 16,000 plastic boxes were sold at FRW 2,000 per box.
(3) As at 31 December 2020, the cumulative bank remittance from Maxom to Ubwiza Ltd was FRW 24 million.

Required:

Prepare consignment accounts and consignee accounts on behalf of the consignor-Ubwiza Ltd for the year ended 31 December 2021 (10 Marks)

(c) IFRS 8 Operating Segments is applied to entities whose equity or debt securities are publicly traded or those which are in the process of issuing shares or debt security in public security markets. IFRS 8 provides the criteria for an operating segment to qualify as a reportable segment.

Required:

Based on the IFRS 8 Operating Segments, **briefly explain the minimum criteria required for an entity to classify an operating segment as a reportable segment.** (5 Marks)

(Total: 20 Marks)

SECTION B

QUESTION FOUR

Below is the trial balance of Jali Ltd as at 30 December 2020

Details	FRW 000	FRW 000
Motor vehicle - cost	850,000	
Accumulated depreciation-Motor vehicle		600,000
Revenue		9,500,000
Investment income		400,000
Purchases	4,580,000	
Distribution costs	800,000	
Cash and bank balance	550,000	
Administrative expense	1,100,000	
Land and building at cost (land of FRW 2,000 million)	5,000,000	
Accumulated depreciation - Building-01 January 2020		450,000
Intangible assets	888,000	
Inventory-1 January 2020	300,000	
Trade receivables/payables	560,000	600,000
Financial assets at fair value	100,000	
Deferred tax		25,000
Income Tax	24,000	
Interest	48,000	
Revaluation reserves		15,000
Ordinary share capital (FRW 200 per share)		2,500,000
Share premium		150,000
Retained earnings-1 January 2020		80,000
10% Loan note		480,000
	14,800,000	**14,800,000**

Additional information

1) The cost of inventory as at 31 December 2020 was FRW 50 million while its net realizable value was FRW 48 million.
2) The building was acquired on 01 July 2018 with expected useful life of 10 years. on 30 June 2020 Jali Ltd revalued building to its current value of FRW 2,800 million with no change in the useful life. As part of Jali Ltd's policy, a transfer of FRW 25 million from revaluation reserves to retained earnings is to be made due to excess depreciation in the year ended 31 December 2020. Depreciation is charged in the year of acquisition on prorate basis of time
3) The motor vehicles are depreciating at reducing balance using 10%.
   No depreciation charge on property, plant and equipment has been recognized in the year ended 31 December 2020. All depreciation charges should be recorded in the administrative expenses.
4) The current year's estimated corporation tax is FRW 60 million. The tax shown in the trial balance relates to under/over provision of tax for previous year ended 31 December 2019.
   The net taxable temporary difference as at 31 December 2020 is FRW 100 million. The applicable tax rate is 30%

Required:

(a) Prepare a statement of comprehensive income for Jali Ltd for the year ended 31 December 2020 (10 Marks)

(b) Prepare a statement of financial position for Jali Ltd as at 31 December 2020 (10 Marks)

(Total: 20 Marks)

QUESTION FIVE

The government of Rwanda acknowledge the importance of accrual accounting over cash accounting by introducing accrual accounting in public institutions. The main goal is to improve the use and management of resources, a desire to promote enhanced financial reporting and transparency, including greater accountability.

Required:

(a) Compare and contrast International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). (10 Marks)

(b) Under cash basis, the public entities used not to report non-current assets in the statement of financial position because old government manuals/circulars required them to make a disclosure for those assets. As the Government of Rwanda is migrating from the cash basis IPSAS to the accrual IPSAS accounting, the public sector must apply IPSAS 17 to recognize item of property, plant and equipment. **Explain the initial and subsequent measurement of item of property, plant and equipment in accordance with IPSAS 17.** (10 Marks)

(Total: 20 Marks)

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