



---

---

**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**I1.2: FINANCIAL REPORTING**

**DATE: TUESDAY, 29 MARCH 2022**

**MARKING GUIDE AND MODEL ANSWERS**

---

---

## SECTION A

### QUESTION ONE

#### Marking guide

	<b>Marks</b>
<b>(a)</b>	
Award 0.5 mark for correct figure of fair value of consideration shown in computation of goodwill	0.5
Award 0.5 mark for correct figure of proportionate net assets	0.5
Award 1 mark for correct figure of goodwill balance	1
Award 3 mark for working on computation of Net assets (0.5 Mark for each item shown)	3
<b>(b)</b>	
Each correct line in the Consolidated cash flow awarded 0.5 marks (Maximum 11.5)	11.5
Award 0.5 mark for each well shown working on Decrease in inventory, increase in receivable, decrease in payable (Maximum 1.5 marks)	1.5
Award two marks for well-prepared tax account working	2
Working on investment in associate (Well prepared) Award two marks	2
Award two marks for well-prepared working for property, plant and equipment account	2
Well prepared working for Intangible assets, award two marks	2
Award two marks for well-prepared working for non-controlling interest	2
Award two marks for well-prepared working for Lease	2
<b>Total marks</b>	<b>30</b>

## Model answers

### (a) Goodwill computation

		FRW million	
Fair value of consideration		1,000	
Less proportion of net assets	1,050*80%	(840)	
<b>Good will</b>		<b>160</b>	

### Working one

$$\text{Non – controlling interest} = 1,050 * 20\% = 210$$

### Net asset of Muhura Ltd at acquisition

	FRW million
Property, plant and equipment	600
Inventory	200
Receivables	350
Cash and bank	80
Payables	(130)
Current tax	(50)
	<b>1,050</b>

Or The student may compute goodwill as follows

		FRW million
Fair value of consideration		1,000
Add Non-controlling for proportionate for net asset	1,050*20%	210
Less Net assets acquired		(1,050)
<b>Good will</b>		<b>160</b>

### (b)

Gisakura Mining group consolidated statement of consolidated cash flow for the year ended 30 June 2020

Cash flow	FRW million	FRW million
<b>Cash flows generated from operating activities</b>		
Profit before tax		1,420
Less gain on disposal of freehold land and building		(150)
Less investment income		(30)

Less share of profit in associate		(200)	
Add depreciation for the year		580	
Add finance cost		500	
<b>Changes in working capital</b>			
Decrease in Inventory	1,100+200-1,000	300	
Increase in receivable	800+350-1,250	(100)	
Decrease in Trade payable	250+130-340	(40)	
<b>Cash generated from operations</b>		<b>2,280</b>	
Tax paid	W2	(320)	
Interest paid	W3	(490)	
<b>Net Cash flow from operations</b>			<b>1,470</b>
<b>Cash flows generated from investing activities</b>			
Investment income		30	
Proceed from disposal	W4	1,050	
Acquisition of subsidiary	1,000-80	(920)	
Dividend received from associates	W5	600	
Acquired asset	W6	(280)	
Acquired intangible asset	W7	(100)	
<b>Net Cash flow from investing activities</b>			<b>380</b>
<b>Cash flows generated from financing activities</b>			
Lease paid	W9	(250)	
12% Loan paid		(900)	
Dividend paid to NCI	W8	(350)	
<b>Net Cash flow from financing activities</b>			<b>(1,500)</b>
Net change in Cash and cash equivalent for the year			350
Cash and cash equivalent at the beginning of the year	450-500		(50)
Cash and cash equivalent at year end	200+100		300

### Working 2: Tax account

<b>Tax account</b>		<b>FRW million</b>	<b>FRW million</b>
			Bal b/d: Current
			120
Tax paid (balancing figure)	<b>320</b>	Bal b/d: Deferred	200
		New Subsidiary (Muhura)	50
		P/L tax charge	350
Bal c/d: Current	150		
Bal c/d: Deferred	250		
	<b>720</b>		<b>720</b>

**Working three: Interest paid**

	<b>FRW million</b>
Bal /d	50
Finance charge as per P/L	500
Balance c/d	(60)
Amount paid	490

**Working four: Proceeds from disposal of the asset**

	<b>FRW million</b>
Disposed asset	
NBV of freehold property	900
Add Gain on disposal	150
<b>Proceed from disposal</b>	<b>1,050</b>

**Working five: Dividend received from associate****Investment in associate account**

	<b>FRW million</b>		<b>FRW million</b>
Bal b/d	<b>700</b>	Dividend received (balancing figure)	600
Profit share for the year	200	Bal c/d	300
	<b>900</b>		<b>900</b>

**Working six: Property, plant and equipment****PPE a/c**

	<b>FRW million</b>		<b>FRW million</b>
Bal b/d	2,900	Disposal of asset	900
Leased asset	400	Depreciation (balancing figure)	580
New Subsidiary (Muhura)	600		
<b>Acquired asset (balancing figure)</b>	<b>280</b>		
		Bal c/d	2,700
	<b>4,180</b>		<b>4,180</b>

### Working 7: Intangible assets

#### Intangible asset a/c

	FRW million		FRW million
Bal b/d	90		
Goodwill acquired (Q1, a)	160		
Addition (Balance)	100	Balance c/d	350
	<b>350</b>		<b>350</b>

### Working 8: Dividend paid to NCI

#### Non-controlling interest a/c

	FRW million		FRW million
		Bal b/d	840
Dividend paid (balancing figure)	350	NCI in Muhura at acquisition (W1)	210
		Profit for the year	150
Bal c/d	850		
	<b>1,200</b>		<b>1,200</b>

### Working Nine (9): Lease

#### Lease obligations account

	FRW million		FRW million
		Bal b/d: NCL	300
Lease paid	250	Bal b/d: CL	600
Bal cd: CL	500	New Leased assets	400
Bal c/d: NCL	550		
	<b>1,300</b>		<b>1,300</b>

### Working ten (10): Dividend paid to owners

#### Retained earning a/c

	FRW million		FRW million
		Bal b/d	1,100
Dividend paid (balancing figure)	0	Reclassified reserves	180
		Profit for the year	920

Bal c/d	2,200	
	2,200	2,200

---

## QUESTION TWO

### Marking guide

#### (a)

Award two marks for well explained treatment of dividend proposed after preparing financial statement in accordance with IAS 10	2
Award one mark for proving that the intangible assets suffered impairment as at 31 December 2020	1
Award two mark for well explained treatment of impairment	2
Award one mark for computation of impairment	1

#### (b)

Award 0.5 mark for well computed carrying amount of Property, plant and equipment	0.5
Award 0.5 mark for well computed tax base for property, plant and equipment	0.5
Award 0.5 mark for well computed temporary difference for Property, plant and equipment	0.5
Award 0.5 mark for well computed temporary difference for development expenditure	0.5
Award 0.5 mark for well computed carrying amount of receivable	0.5
Award 0.5 mark for well computed temporary difference for receivable	0.5
Award 0.5 mark for well computed temporary difference for patent	0.5
Award 0.5 mark for well computed deferred tax balance b/d	0.5
Award 0.5 mark for well computed increase in deferred tax liability	0.5
Award 0.5 mark for correct figure of deferred tax on revaluation surplus	0.5
Award 0.5 mark for well computed deferred tax to be charged to profit or loss account	0.5
Award 0.5 mark for computation of total income tax for the year ended 31 December 2020	0.5

#### (c)

Correct calculation of accumulated depreciation, award 1 mark	1
Award one mark for correct calculation of net book value	1
Award 1 mark for correct calculation of revaluation surplus	1

Award 1 mark for calculation of depreciation based on revalued amount	1
Award 1 mark for calculation of depreciation based on cost	1
Each correct line within the statement of change in equity, award 0.5 mark (Maximum is 3 marks)	3
<b>(d)</b>	
Award one mark for condition necessary to make recognition of financial instruments	1
Criteria to be fulfilled in order to recognize financial instruments, award one mark	1
Brief explanation of conditions necessary to recognize financial asset at amortized costs (Award 1 mark for each condition)	2
Brief explanation of conditions necessary to recognize financial assets at fair value through other comprehensive income (Award 1 mark for each condition)	2
Well stated initial amount to be recognized for financial assets acquired by Bank de la modernization financier (BMF)	2
Brief explanations and calculation of subsequent measurement of financial assets acquired by Bank de la modernization financier (BMF)	2
<b>Total Marks</b>	<b>30</b>



## Model answers

### a) Internal Memo

**From: Accountant**

**To: Directors**

**Date:.....**

**Subject: Accounting treatment for events after reporting date**

i. IAS 10 state that if an entity declares dividends to holders of equity instruments after the reporting period but before the financial statements are authorized for issue, the entity shall not recognize those dividends as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes. The suggestion of Chief finance officer to accrue such dividends is incorrect and should not be given any consideration

ii. Because the recoverable amount of intangible assets is lower than its carrying amount, this indicates that the intangible asset suffered an impairment loss by the reporting date of 31 December 2020.

IAS 10 requires the impairment loss of an asset to be treated as an adjusting event at the reporting period as it provides evidence of a condition that existed at the end of the reporting period

IAS 36 state that if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. The reduction is recognized as an impairment loss

An impairment loss shall be recognized immediately in the profit or loss account unless the asset is carried at revalued amount with a revaluation reserve in which case the impairment loss is recognized in the other comprehensive income.

The impairment loss to be recognised is =  $50,000,000 - 18,000,000 = 32,000,000$

Dr.	Impairment loss P/L for 2020	FRW 32,000,000
Cr.	Intangible assets	FRW 32,000,000

#### **Being recognition of impairment loss on intangible assets**

The profit and loss for the year ended 31 December 2020 must be reduced to the extent of FRW 32,000,000. Similarly, intangible assets in the statements of financial position must be reduced to its recoverable amount. New balance of intangible assets as per statement of financial position is FRW 18 million

**b) Income tax charge for the year**

	<b>Carrying amount</b>	<b>Tax base</b>	<b>Temporary difference</b>
	<b>FRW 000</b>	<b>FRW 000</b>	<b>FRW 000</b>
PPE	1,000,000-20,000= 980,000	1,000,000-360,000 = 640,000	340,000 TTD
Deferred development expenditure	40,000+10,000-5,000=45,000	-	45,000 TTD
Patent royalties	40,000	-	40,000 TTD
Rent receivable	60,000-20,000 = 40,000	-	40,000 TTD
<b>Total</b>			<b>465,000</b>

	<b>FRW 000</b>
Deferred tax as at 31 December 2020 = 465,000 * 30%	139,500
Deferred tax as at 31 December 2019 (bal b/d)	(100,000)
Increase in deferred tax liability	39,500
Less Deferred tax for revaluation FRW 50,000*30%	(15,000)
<b>Amount to be charged in the P/L</b>	<b>24,500</b>

Dr.	P&L (Income tax)	FRW 24,500	
Dr.	Revaluation Reserve	FRW 15,000	
Cr	Deferred tax Liability		FRW 39,500

	<b>FRW 000</b>
Income tax for the year ended 31 December 2020 = 24,500 + 30,000	54,500

Deferred tax resulting from revaluation will be reported in the other comprehensive income and taken to reserve account

**c) Compute revaluation surplus/loss for machine**

	FRW 000
Cost of machine	200,000
Accumulated depreciation as at 31 December 2020	(40,000)
$\frac{200,000}{10} \times 2 \text{ years}$	
NBV (1 January 2020) i.e. opening balance from 31 December 2020	160,000
Revalued amount	180,000
Revaluation surplus	20,000

IAS 16 states that the revaluation surplus shall be recognized in other comprehensive income and taken to revaluation reserve in the equity, unless such increase reverses a revaluation decrease of the same previously recognized profit or loss account

The revaluation surplus included in reserves may be transferred directly to retained earnings when the asset is derecognized.

However, some of the surplus may be transferred as the asset is used by the entity. In such case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss

**Compute amount to be reclassified to retained earnings**

	<b>FRW 000</b>	
Revalued carrying amount	180,000	
Remaining useful life	$10 - 2 = 8$	
Depreciation based on the revalued amount	$\frac{180,000}{8} = 22,500$	
Depreciation based on original cost	Or $\frac{200,000}{10} = 20,000$	
Excess depreciation i.e amount to be reclassified to reserves	2,500	

## Extract statement of statement of change in equity as at 31 December 2020

	Ordinary share capital	Revaluation reserves	Retained earning
	FRW 000	FRW 000	FRW 000
Balance before adjustment	900,000	80,000	400,000
Revaluation surplus of machine		20,000	
Reclassified reserve as per IAS 16		(2,500)	2,500
Balance after adjustments	900,000	97,500	402,500

### d) Report to BMF on the accounting treatment of financial instruments

#### (1) Recognition of financial instruments

IFRS 9 Requires the entity to recognize a financial assets or financial liability in its statement of financial position when and only when the entity becomes a party to the contractual provisions of the financial instrument.

#### The financial instrument should initially be recognized as follows

The financial asset or financial liability should initially be measured at its fair value plus or minus (in the case of financial asset or financial liability not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability respectively.

#### (2) Measurement of financial instrument at amortized costs or at fair value through another

Financial asset should be measured at amortized costs if the following conditions are met

- (a) The financial asset is held to maturity i.e 5 years
- (b) The cash flows collected are interest and the principal amount is settled upon reaching redemption period

#### While

The financial assets shall be measured at fair value through other comprehensive income if:

- 1) The financial asset is held by entity for the objective to collect contractual cash flows and selling financial assets and

2) the financial assets could be sold anytime when an entity project benefit from that sale transaction

**(3)Accounting treatment of the financial asset acquired on 01 July 20199**

(a) Initially the financial assets must be recognized at its fair value plus transaction costs, therefore, BMF shall record them at FRW 10,200,000 i.e FRW 10,000,000 + FRW 200,000.

(b)As at 30 June 2020 the financial asset should be measured at FRW 10,000,000 (fair value at reporting date) without paying attention to commissions on sale because a sale did not take place. The loss of FRW 200,000 (10,200,000-10,000,000) must be recognized in the statement of other comprehensive income due to decrease in fair value of financial asset.

---

**QUESTION THREE**

**Marking guide**

	<b>Marks</b>
<b>(a)</b>	
A well explained recognition process and criteria	1
Explaining the elements to be recognized in statement of financial position and elements to be recognized in statement of profit or loss account	1
Brief explanations on conditions necessary that must be satisfied in order to recognize those elements (1 mark for each of two elements, maximum two marks)	2
Award 1 mark for any valid additional relevant condition/criteria outside the model answer guide	1
<b>(b)</b>	
Award 0. 5 marks for each correct figure in the consignee account (Maximum 3.5 marks)	3.5
Award 0. 5 marks for each correct figure in the consignment account (Maximum 4.5 marks)	4.5
Award 0. 5 marks for each correct figure shown in the working for computing value of unsold stock (Maximum 2 marks)	2
<b>(c)</b>	
Award 1 mark for valid criteria briefly explained	4
Award 1 mark for any other valid additional relevant criteria outside the model answer guide	1
<b>Total Marks</b>	<b>20</b>

## Model answers

a) Guidance for recognition process and criteria for financial reporting as per the Conceptual framework

➤ The Recognition process is the process of including in the statement of financial position or the statements of profit and loss account any item that meets the definition of either asset, a liability, equity, income and expenses.

➤ Only items that meet the definition of asset, a liability or equity are recognized in the statement of financial position. Likewise, only items that meet the definition of income or expenses are recognized in the statement of profit or loss account.

➤ Asset or liability is recognized only if recognition of that asset or liability and of any resulting income, expense or change in equity provides users of financial statements with information that is relevant and there must be a faithful presentation of those elements.

➤ The elements recognized must satisfy the following condition

✓ It is probable that any future economic benefit associated with the item being recognized will flow to or from the entity; and

✓ The item's cost or value can be measured with reliability.

Omitting an item that meets the definition of one of the elements makes the statements of financial position and elements of profit and loss account less complete and can exclude useful information from financial statements.

b)

<b>Dr</b>		<b>Consignee account (Maxom)</b>		<b>Cr</b>	
Description	FRW 000	Description	FRW 000		
Sales revenue (16,000*2,000)	32,000	Landing and offloading cost	600		
		Import duties	1,200		
		Advert and selling cost	1,400		
		Commission 10%*32,000	3,200		
		Bank remittance	24,000		
		Bal c/d	1,600		
	<b>32,000</b>				<b>32,000</b>

### Consignment account

Description	FRW 000	Description	FRW 000
Good on consignment 20,000*1,000	20,000	Sales 16,000*2,000	32,000
Freight and insurance cost	1,500	Closing stock (W1)	4,820
Packing fee	800		
Landing and offloading cost	600		
Import duties	1,200		
Advert and selling cost	1,400		
Commission 10%*32,000	3,200		
Profit on consignment to be taken to P/L (Balancing figure)	8,120		
	<b>36,820</b>		<b>36,820</b>

### Value of unsold stock:

Note: Unsold units on 31 Dec 2020: 4,000 boxes i.e (20,000 boxes dispatched to Maxom less 16,000 boxes sold by 31 Dec 2020)

	FRW	FRW 000
Initial cost 1,000*4,000		4,000
Add: Proportion of cost to be allocated to unsold items		
Freight and insurance	$\frac{4,000}{20,000} \times 1,500$	300
Packing fees	$\frac{4,000}{20,000} \times 800$	160
Land and offloading charges	$\frac{4,000}{20,000} \times 600$	120
Import duties	$\frac{4,000}{20,000} \times 1,200$	240
<b>Total</b>		<b>4,820</b>

The cost of advert and selling of FRW 1,400,000 was not apportioned to closing stock because these costs were incurred exclusively on the items sold and so these costs have no effect on the unsold items.

c) IFRS 8 states that entity shall report separately information about an operating segment that meets any of the following criteria

1) Its reported revenue, including both sales to external customer and intersegment sales or transfers, is 10 percent or more of the combined revenue i.e internal and external sales of all operating segments

2) Its asset are 10 percent (%) or more of the combined assets of all operating segments

3) The absolute amount of its reported or loss is 10 percent or more of the greater, in absolute amount, of:

(a) The combined reported profit of all operating segments that did not report a loss; and

(b) The combined reported loss of all operating segments that reported a loss

**4)** IFRS 8 further state that operating segments that do not meet any of the quantitative thresholds may be considered reportable and separately disclosed, if management believes that information about segment would be useful to users of the financial statements



## SECTION B

### QUESTION FOUR

#### Marking guide

	Marks
<b>(a)</b> Each correctly presented line with a correct amount on the face of the statement of comprehensive income earns 0.5 marks (including sub / other totals) (Maximum 4 marks)	4
<b>(b)</b> Each correctly presented line with a correct amount on the face of the statement of financial position award 0.5 marks (including sub / other totals) (Maximum 8 marks)	8
Each correct figure presented in working for cost of sales, award 0.5 mark (Maximum for cost of sales working is 1.5 marks)	1.5
Each correct figure presented in working for cost of administrative cost, award 0.5 mark (Maximum for cost of sales working is 1.5 marks)	1.5
Income tax working, award 0.5 mark for each correct figure shown for the income tax working. Maximum is 2.5 marks	2.5
For land and building working, award marks as follows:	2.5
0.5 mark for well shown accumulated depreciation	
0.5 mark for well computed revaluation surplus for building	
0.5 mark for computation of depreciation charge for the year in respect of building	
0.5 mark for excess depreciation to be reclassified to retained earnings	
0.5 mark for computation of depreciation of six months to be considered while preparing net book value of building because revaluation took place halfway the year	
<b>Total marks</b>	<b>20</b>

## Model answers

### a) Jali Ltd's statement of comprehensive income for the year ended 31 December 2020

			<b>FRW 000</b>
Revenue			9,500,000
Cost of sales	W1		(4,832,000)
<b>Gross profit</b>			<b>4,668,000</b>
Other income			
Investment income			400,000
<b>Expense</b>			
Administrative expense	W2	(1,450,000)	
Distribution cost		(800,000)	
Finance cost		(48,000)	
			<b>2,298,000</b>
<b>Profit before tax</b>			<b>2,770,000</b>
Income tax expense	W3		(89,000)
<b>Profit after tax</b>			<b>2,681,000</b>
<b>Other comprehensive income</b>			
Revaluation surplus	W4		400,000
<b>Total comprehensive income</b>			<b>3,081,000</b>

### (b) Jali Ltd.'s statement of financial position as at 31 December 2020

			<b>FRW 000</b>
<b>Assets</b>			
Land and building	W4	4,625,000	
Motor vehicle	W5	225,000	
Intangible assets		888,000	
Financial assets at fair value		100,000	
			<b>5,838,000</b>
Current assets			
Inventory		48,000	
Account receivable		560,000	
Cash and bank balance		550,000	
			1,158,000
<b>Total assets</b>			<b>6,996,000</b>
<b>Equity and liability</b>			
Ordinary share capital (FRW 200 each)			2,500,000
Share premium			150,000
Revaluation reserves		15,000+400,000-25,000	390,000

			<b>FRW 000</b>
Retained earnings		80,000+2,681,000+25,000	2,786,000
			<b>5,826,000</b>
Non-current liabilities			
10% Loan note		480,000	
Deferred tax	W3	30,000	
		<hr/>	510,000
Current liability			
Trade payable		600,000	
Current tax payable	W3	60,000	
		<hr/>	660,000
<b>Total Equity and liability</b>			<b>6,996,000</b>

### Working one Cost of sales

	FRW 000
Opening stock	300,000
Purchases	4,580,000
Closing stock	(48,000)
<b>Total</b>	<b>4,832,000</b>

### Working two: Administrative cost

	FRW 000
Balance as per TB	1,100,000
Depreciation of motor vehicle (850,000-600,000)*10%	25,000
Building depreciation	325,000
$\frac{3,000,000}{10} \times \frac{6}{12} + \frac{2,800,000}{8} \times \frac{6}{12}$	
<b>Total</b>	<b>1,450,000</b>

### Working three: Income tax

	FRW 000
Deferred tax bal b/d	25,000
Deferred tax bal c/d i.e FRW 100,000*30%	30,000
Increase	5,000

<b>Income tax charge</b>	
Current tax for year ended 31 December 2020	60,000
Under provision in year ended 31 December 2019	24,000
Deferred tax	5,000
<b>Total charge for the year</b>	<b>89,000</b>

#### Working four (4): Land and building

	<b>FRW 000</b>
Cost of building	3,000,000
Accumulated depreciation as at 30 June 2020 = 450 + (3,000/10*6/12)	(600,000)
<b>NBV as at 30 June 2020</b>	<b>2,400,000</b>
<b>Revalued amount as at 30 June 2020</b>	<b>2,800,000</b>
Revaluation surplus at 30 June 2020	400,000
Charge for the year = $\frac{3,000,000}{10} \times \frac{6}{12} + \frac{2,800,000}{8} \times \frac{6}{12}$	<b>325,000</b>
<b>Depreciation based on cost</b> $\frac{3,000,000}{10} \times \frac{6}{12}$	<b>150,000</b>
<b>Depreciation based on revalued amount (From July-Dec 2020)</b> $\frac{2,800,000}{8} \times \frac{6}{12}$	<b>175,000</b>
<b>Excess depreciation (Deducted it from reserves and add it to retained earnings)</b>	<b>25,000</b>

#### Land and Building NBV as at 31 December 2020

	<b>FRW 000</b>	<b>FRW 000</b>
Land		2,000,000
Building revalued amount as at 30 June 2020	2,800,000	
Charge for six months (From revaluation date to reporting date i.e July to December 2020)	$\frac{2,800,000}{8} \times \frac{6}{12} =$	(175,000)
		<b>2,625,000</b>
Land and building as at 31 December 2020 (SOFP)		<b>4,625,000</b>

#### Working Five: Motor vehicle

	<b>FRW 000</b>
Cost	850,000
Accumulated depreciation	(600,000)
Carrying amount as at 01 January 2020	250,000

Charge for the year at 10% i.e 250,000*10%	25,000
<b>Bal c/d</b>	<b>225,000</b>

**QUESTION FIVE**

**Marking guide**

	<b>Marks</b>
<b>(a)</b>	
Award two marks for each of 4 points stated with brief explanation	8
Award two marks for any additional valid reason stated outside the model answer guide	2
<b>(b)</b>	
Award one mark for condition necessary to recognize property, plant, and equipment	1
Award one mark for any point provided forming part of initial cost of asset, maximum 3 marks	3
Or award one marks for each of any three elements to be considered in computation of initial cost of asset	
Award 2 marks for well explained cost model as one method for subsequent measurement of property, plant and equipment (2 marks)	2
Award one mark for explanation of revaluation model as one method for subsequent measurement of property, plant and equipment	1
Award 2 mark for treatment of revaluation surplus, including explanation on treatment of revaluation surplus reversing previous losses.	2
Award one mark for brief explanation of de-recognition of item of property, plant and equipment in accordance with IPSAS 17	1
<b>Total marks</b>	<b>20</b>

## Model answers

(a)

International financial standards (IFRSs) are accounting standards developed in order to provide guidance on recording financial transactions and to regulate the way financial statements are prepared to ensure consistency and comparability. IFRS are used by private companies while International public sector accounting standards are applied in public/government institutions

1) There are differences between International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). However, there is also a close relationship between IPSAS and IFRS. The similarities arise because the IPSAS standards are developed based on the principals of IFRS.

2) Developing IPSAS basing on IFRS is to ensure that there is a comparability between private and public entities when reporting on the same or similar transactions.

3) International Financial Reporting standards (IFRSs) are developed for profit-oriented entities while International Public Sector Accounting Standards (IPSASs) are primarily developed for public entities like Ministries, local entities which primarily devote to offer services for the wellbeing of the citizens

4) International Financial Reporting Standards are based on the accrual accounting while Internal Public Sector Accounting Standards may be applied on the cash basis, modified cash basis or full accrual accounting.

5) **Conceptual framework:** under IFRSs, an item is recognized in the statement of financial position if the item meets the definition of asset, a liability or equity but for public entities there is nothing like equity. For IPSAS items to be recognized are Assets, Liabilities, Revenues, Ownership contributions and ownership distributions. Other items not specified above may be recognized in the financial statements if it can be measured in a way that meets the qualitative characteristics.

6) IFRS provides standards on the economic point of view in the private sector but those phenomena are irrelevant to the operations of public entities e.g share based payment, Earning per share.

7) Revenue recognition in the International Financial Reporting Standards differ with revenue recognition in the public sector accounting. Whereby, Revenue in the public sector is classified into exchange and non-exchange transaction

8) Income tax perspective: IPSAS assumes that the entities that operates within the public sector are exempted from income tax. If it happens that the public entity becomes liable for income tax, they must apply the requirements as per IAS 12 (income tax)

(b)

## **Recognition of property plant and equipment in accordance with IPSAS 17**

### **Definition**

IPSAS 17 defines Property, Plant and Equipment as tangible items that are held for use in the production, supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one reporting period

### **Condition necessary to recognize assets under IPSAS 17**

The cost of an item of property, plant and equipment shall be recognized in accordance with IPSAS 17 if

(1) It is probable that future economic benefits or service potential associated with the item will flow to the entity

(2) The cost or fair value of the item can be measured reliably

### **a) Initial recognition**

An item of property, plant, and equipment that qualifies for recognition as asset shall initially be measured at cost.

### **The initial cost is comprised by the following element**

(i) Its purchase price less trade discount,

(ii) Import duties and non-refundable taxes

(iii) Any cost directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

(iv) If the payment is deferred beyond normal credit terms, the difference between cash equivalents and the total payment is recognized as interest over the period of credit unless such interest is capitalized in accordance with IPSAS 5 Borrowing costs

(v) Initial estimate cost of the cost of dismantling

Asset can be measured at its fair value as at the date of acquisition if the assets was acquired through a non-exchange transaction

### **b) Subsequent measurement**

Assets classified under Property, plant and equipment should subsequently be measured either at;

**(1)Cost model:** if an entity chooses this model, it means that the item of property, plant and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment

Depreciation: Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately

**(2)Revaluation model:** IPSAS 17 state that when this model is opted by entity, item of property, plant and equipment must be measured at revalued amount being the fair value at the date of revaluation, less any subsequent accumulated depreciation and any subsequent accumulated losses.

### **Revaluation of assets**

(1)If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

(2)If the carrying amount of class of assets is increased due to revaluation, the increase shall be credited to revaluation surplus. Likewise, if the carrying amount of a class of assets is decreased as a result of revaluation, the decrease shall be recognized in deficit

(3)However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit

### **c) De-recognition**

An item of property, plant and equipment shall be derecognized if

(i) It is disposed

(ii) When no future economic benefits or services potential is expected from its use or disposal

The gain or loss arising from de-recognition of an item of property, plant and equipment shall be included in profit or loss account.

**END OF MARKING GUIDE AND MODEL ANSWERS**