CERTIFIED PUBLIC ACCOUNTANT
ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: WEDNESDAY, 25 AUGUST 2021

MODEL ANSWERS AND MARKING GUIDE

SECTION A

Marking Guide

	Marks
QUESTION ONE: GIRAMBA GROUP	
Part (a): Translated Financial Statements of Agape plc **Translated Statement of Profit or Loss for Agape plc (in Frw)**	
Each correct line in the P&L in Frw currency (other than the sub/other totals) awarded 0.5 marks, Maximum 3 Marks	3
Translated Statement of Financial Position for Agape (in Frw) Each correct line in the statement of financial position in Frw currency (other than the sub/other totals) awarded 0.5 marks, Maximum 3 Marks	3
Part (b): Consolidated Financial Statements for Giramba Group	
Consolidated Profit or Loss (in Frw) Each correct line in the Consolidated P&L in Frw currency (other than the sub/other totals) awarded 0.5 marks, Maximum 4 Marks	4
Each correct line in the consolidated statement of financial position in Frw currency (other than the sub/other totals) awarded 0.5 marks, Maximum 5 Marks	5
Workings (restrict to calculations NOT explanations) - covering both part (a) and (b) Note: Workings may be done on the face of the financial statements and these will earn the same marks as the equivalent workings presented as "separate workings" Provision for un-realized profits (un-sold goods)	0.5
Exchange difference in Agape books in Kram's currency (for sales by Agape to Giramba)	1
Exchange difference in Agape books in Kram's currency (for Agape's loan from Giramba)	1
Goodwill calculations in Frw as below:	
(i) Goodwill on acquisition (30 April 2019)	2

(ii) Re-translated Goodwill balance (31 December 2019) PLUS the exchange difference (split as 0.5 marks for retranslated Goodwill and 0.5 marks for the exchange difference)	1
(iii) Re-translated Goodwill balance (31 December 2020) PLUS the exchange difference (split as 0.5 marks for retranslated Goodwill and 0.5 marks for the exchange difference)	1
(iv) Impairment loss on Goodwill (correctly calculated in KR and translated to Frw)	1
Fair Value adjustment calculations - Agape's tangible non-current assets as below:	
(i) Correct Fair value adjustment computed	1
(ii) Extra depreciation correctly computed for year ended 31 Dec 2019	0.5
(iii) Extra depreciation correctly computed for year ended 31 Dec 2020	0.5
Convertible loan note for the correct calculations as below:	
(i) Financial liability/debt element	1
(ii) Equity element	0.5
(iii) Finance cost	0.5
Consolidated Retained Earnings (with each correct line within the working awarded 0.5 marks), Maximum 4 Marks	**4**
Non-Controlling Interests correctly calculated as below:	
(i) NCIs calculation for Consolidated statement of financial position (with each correct line within the working awarded 0.5 marks), Maximum 2 Marks	2
(ii) NCIs calculation for Consolidated statement of P&L and other comprehensive income (with each correct line within the working awarded 0.5 marks),	2
Group Translation reserve calculation in Frw (with each correct calculated line within the working awarded 0.5 marks), Maximum 2 Marks	2
Consolidated Tangible Non-Current assets (with each correct calculated line leading to the final answer awarded 0.5 marks), Maximum 1.5 Marks	1.5
Consolidated Current assets (with each correct calculated line leading to the final answer awarded 0.5 marks), Maximum 1.5 Marks	1.5
	1.5

Consolidated Non-Current Liabilities (with each correct calculated line leading to the final answer awarded 0.5 marks), Maximum 1.5 Marks	
Maximum Marks for both part (a) and part (b)	**41**
Part (c) - Earnings Per Share (In Frw'million)	
Basic EPS - correct formula and calculation	2
Diluted EPS - correct formula and calculation	2
Workings (marks will awarded for ONLY calculations and NOT explanations and these are available whether these are separated or done within the answer) as below: (i) Weighted Average No. of ordinary shares (with each correct element of the working earning 0.5 marks), Maximum 2 Marks	2
(ii) Theoretical Ex-Rights Price (with each correct element of the working earning 0.5 marks), Maximum 2 Marks	2
(iii) Convertible loan note impact on the Diluted EPS (with each correct element of the working earning 0.5 marks), Maximum 1 Mark	1
Maximum Marks for both part (c)	9
Total Marks	**50**

Detailed answer

Part (a)

	Kr'million	**Rate**	**Frw'million**
Revenue	30,600	5.1	6,000
Cost of Sales	(26,150)	5.1	(5,127)
Gross Profit	**4,450**		**873**
Administrative and Distribution Costs	(510)	5.1	(100)
Exchange differences (in Agape's accounts) including:			
Exchange Gain on Loan balance to Giramba (W2)	150	5.1	29
Exchange Loss on trade receivable from Giramba (W1)	(20)	5.1	(4)
Finance Costs	(1,020)	5.1	(200)
Profit before tax	**3,050**		**598**
Income tax expense	(876)	5.1	(172)
Profit for the year	**2,174**		**426**

Translated Statement of Financial Position for Agape as at 31 December 2020

	Kr'million	Rate	Frw'million
Assets			
Non-Current Assets			
Tangible assets	18,900	5	3,780
Net Current Assets ((Kr'm 6450 - 20 (Exchange loss on receivable W1))	6,430	5	1,286
Total Assets	25,330		5,066
Equity			
Share Capital (Frw/Kr 10 per share)	2,400	4	600
Share Premium	800	4	200
Retained Earnings			
At 1 April 2019	6,100	4	1,525
Post-acquisition after dividends paid (balancing figure)	5,030		541
Total Equity	**14,330**		**2,866**
Non-Current Liabilities ((9900 - 150 (Exchange loss on Loan from Giramba W2))	9,750	5	1,950
Current Liabilities	1,250	5	250
Total Equity and Liabilities	25,330		5,066

Part (b)

Giramba Consolidated Statement of Profit and Loss and Other Comprehensive Income - 31 December 2020 (in Frw' millions)

Revenue ((16500 + 6000 - 200 (intragroup sale))	22,300
Cost of Sales ((9450 + 5127 - 200 (intragroup sale) + 50 (Un-realized profit) + 69 (extra depreciation))	(14,496)
Gross Profit	**7,804**
Administrative and Distribution Costs (4200 + 100)	(4,300)
Impairment loss on Goodwill (W3)	(30)
Exchange differences (in Agape's accounts) including:	
Exchange Gain on Loan balance to Giramba - part (a)	29
Exchange Loss on trade receivable from Giramba - part (a)	(4)
Finance Costs ((220 +200 + 5 (additional l charge on convertible loan W6))	(425)
Profit before tax	**3,075**
Income tax expense (789 + 172)	(961)
Profit for the year	**2,114**
Other Comprehensive Income:	
Exchange loss - translation of Agape ((343 x 80% (W9))	(253)

Exchange loss - retranslation of Goodwill ((10 x 80% (W3))	(8)
Total Comprehensive Income	**1,852**

Profit for the year attributed to:	
Parent shareholders (balancing figure)	2,058
Non-controlling interests (W7)	56
	2,114

Total Comprehensive income attributed to:	
Parent shareholders (balancing figure)	1,796
Non-controlling interests (W7)	56
	1,852

Giramba Consolidated Statement of Financial Position as at 31 December 2020 (in Frw' millions)

Assets	
Non-Current Assets	
Tangible assets ((9450 + 3780 + 275 (W4) - 69 (W4) -60 (W4))	13,368
Goodwill (re-translated balance W3)	90
Loan to Agape (Intra-group loan cancels on consolidation)	-
Current Assets (W10)	8,616
Total Assets	**22,074**
Equity	
Share Capital (Frw/Kr 10 per share)	3,300
Share Premium	3,500
Retained Earnings (W6)	9,180
Other reserves (W5)	15
Non-Controlling Interests (W6)	609
Total Equity	**16,604**
Non-Current Liabilities (W11)	4,719
Current Liabilities ((600 + 250 - 100 (intra-group balance))	750
Total Equity and Liabilities	**22,074**

Workings (all rounded in millions of the applied currencies)

W1: Sales by Agape to Giramba

(a) Provision for un-realized profits (un-sold goods)

Profit element	25%

Value of unsold goods	200
Un-realized profit (in consolidation accounts)	50

(b) Exchange difference in Agape books	Frw'million	Rate	Kr'million
Value of sales transaction	200	5.2	1,040
Less: part-settlement	100	5.2	520
Balance (Receivable)	**100**		**520**
Re-translated balance (Receivable on 31 December 2020)	100	5.0	500
Exchange loss (KR 520m - 500m)			**20**

W2: Agape's loan from Giramba

In Agape's accounts (in Krams):	Frw'million	Rate	Kr'million
Amount received (31 May 2020)	500	5.3	2,650
Less: Part settlement (31 December 2020)	(130)	5.0	(650)
Loan balance (31 December 2020)	370		2,000
Loan balance (31 December 2020) - re-translated in KR	370	5.0	1,850
Exchange Gain on Loan (in Agape's accounts: KR 2,000m - 1,850m)			**150**

W3: Goodwill

	Kr'million	Rate	Frw'million
Purchase consideration	8,800	4.0	2,200
Plus: FV of the NCI	2,200	4.0	550
Less: FV of net assets	(10,400)	4.0	(2,600)
Goodwill on acquisition (30 April 2019)	**600**		**150**
Goodwill balance (31 December 2019) - re-translated	**600**	**4.6**	**130**
Exchange loss - retranslated Goodwill (31 December 2019)			**20**
Less: Impairment loss on Goodwill (31 December 2020)	(150)	5.0	(30)
Goodwill balance (31 December 2020)	**450**		**100**
Goodwill balance (31 December 2020) - re-translated	**450**	**5.0**	**90**
Exchange loss - retranslated Goodwill (31 December 2020)			**10**

W4: Fair adjustments for Agape's tangible non-current assets

	Kr'million	Rate	Frw'million
FV on net assets in Agape on acquisition date	10,400	4	2,600
Carrying amounts of net assets in Agape on acquisition date:			
Share Capital (Agape)	2,400	4	600
Share Premium (Agape)	800	4	200
Retained Earnings (Agape)	6,100	4	1,525
FV increase on tangible non-current assets on acquisition date (balance)	1,100		275
	9,300		2,325
Extra depreciation on FV increase in year-ended 31 December 2019 (Frw 275m / 4 years)			69
Extra depreciation on FV increase in year-ended 31 December 2020 (Frw 275m / 4 years)			69

W5: Convertible Loan note (in Giramba and consolidated financial statements) (in Frw)
(1) Financial liability (Debt) and Equity elements on 1 January 2020:

Details	**Cash flows (actual)**	**Discount rate (9%)**	**Present Value**
Fixed annual interest	12	2.531	30.4
Principal refund	200	0.772	154.4
Total (Financial Liability)			
			185
Equity element (difference)			15

(2) Finance cost on 31 December 2020

Total Finance cost on 31 December 2020	17
Less: Actual finance cost paid	12
Extra finance cost	5

W6: Consolidated Retained Earnings and NCI (In Group Equity)

	Giramba	**Agape**
Retained Earnings on 31 Dec 2020 (Note: For Agape translated post acquisition retained earnings in part (a)	8,950	541
Less: Provision for un-realized profits (W1)	-	(50)

Less: Impairment loss on Goodwill (W3)		(30)
Less: Exchange loss - retranslation of Goodwill on 31 December 2019 (W3)		(20)
Less: Exchange loss - retranslation of Goodwill on 31 December 2020(W3)		(10)
Less: Extra depreciation on Agape's tangible non-current assets on 31 December 2019 (Parent's 80%) (W4)		(69)
Less: Extra depreciation on Agape's tangible non-current assets on 31 December 2020 (Parent's 80%) (W4)		(69)
Less: Extra finance costs on Giramba's convertible loan (W5)	(5)	
Adjusted total retained earnings	**8,945**	**294**

Consolidated Retained Earnings (In Group Equity)	
Giramba (Parent)	8,945
Agape (Subsidiary - 80% of adjusted post-acquisition retained earnings)	235
Consolidated retained earnings	**9,180**

Non-Controlling Interests (In Group Equity)	
NCI on acquisition (30 April 2019) (W3)	550
Agape (Subsidiary - 20% of adjusted post-acquisition retained earnings)	59
NCI (Consolidated Statement of Financial Position)	**609**

W7: Non-Controlling Interests (Consolidated P&L and Other Comprehensive Income)

	PFY	**TCI**
Profit for year / Total Comprehensive Income	85	85
Less: Provision for un-realized profits (NCI's 20% share) (W1)	(10)	(10)
Less: Impairment loss on Goodwill (NCI's 20%) (W3)	(6)	(6)
Less: Extra depreciation on Agape's tangible non-current assets on 31 December 2020 (NCI's 20%) (W4)	(14)	(14)

Totals	**56**	**56**

W9: Group Translation reserves

	KR'millions	Rate
Opening net assets (1 January 2020) - Given in note (iv)	12,680	4.6
Closing net assets (31 December 2020)	14,330	5.0
Change in net assets in the year	1,650	
Profit for the year (Agape's P&L) - at average rate	2,174	5.1
Exchange loss (translation of Agape in year-ended 31 December 2020) (Frw 426 - 109)		

W10: Consolidated Current Assets (in Frw)

Giramba	7,350
Agape (translated in part a)	1,286
Less: Provision of un-realized profits - inventory(W1)	(50)
Less: Intra-group balance (W1)	(100)
Plus: In-Transit settlement of Loan (from Agape to Giramba) (W2)	130
	8,616

W11: Consolidated Non-Current Liabilities (in Frw)

Giramba	3,150
Agape (translated in part a)	1,950
Less: Intra-group Loan balance (W2)	(370)
Less: Equity option - convertible loan (W5)	(15)
Plus: Extra-finance costs (convertible loan) (W6)	5
	4,719

Part (c) - Earnings Per Share (In Frw'million')

Basic Earnings per share = Profits for the year (attributed to Parent Shareholders) / Weighted Average Number of Ordinary shares

Where:

Consolidated Profits for the Year (in Part b above)	2,058
Divide by: Weighted Average No. of Shares in Giramba Group (W1)	389
Basic EPS (for the year ended 31 December 2020)	**5**
Diluted Earnings Per Share - based on: Group profits for the year attributed to Parent shareholders (part b) plus After-tax savings on convertible loan interest (W3 below)	2,070
Divide by: Weighted Average No. of ordinary shares (used in BEPS calculation above) plus ordinary shares from conversion of convertible loan notes (in W3 below)	589
Diluted EPS (for the year ended 31 December 2020)	**4**

Workings:

W1: Weighted Average No. of ordinary shares (year-ended 31 Dec 2020)

	Actual No	**Weighted No**	
1 Jan 2020 - 30 Sept 2020: Actual No of Ordinary shares in Parent - Giramba (Frw 3,330 / Frw 10 per share) x 9/12 months x Rights issue factor (30/27 - see W2)	330	274	(Rounded-off)
1 Oct 2020: Rights issued shares (2:5)	132		
1 Oct 2020 - 31 Dec 2020: Actual No. of ordinary shares (with rights-issued shares added) x 3/12 months	462	116	(Rounded-off)
Total for Weighted Average No. of ordinary shares		**389**	

W2: Rights Issue Factor (f) = Actual Cum Rights Price / Theoretical Ex-Rights Price (TERP)

Where: TERP is:

Before Rights Issue: Value of shares held	5	shares at Frw 30 each	150
Rights issued shares (value)	2	shares at Frw 20 each	40

After Rights Issue: Value of shares held	7		190
TERP = Frw 190 divided by 7	27		
Rights issue factor = 30 / 27	1.105		

W3: Impact arising from a full conversion of the convertible loan notes:

(i) After-tax savings on loan interest expense (70% x Frw 17m) (see W5 for the total finance cost on financial liability element)	17	70%	12
(ii) Additional number of ordinary shares following conversion of convertible loan notes ((1,000 bonds x Frw 200,000) divided by 1) - rounded to millions	1,000	200,000	200

SECTION B

QUESTION TWO: RUSIZI CONTRACTORS

Marking Guide

Part (a)

- Acknowledge not to include un-paid pension contribution in pension assets	1
- Justification with requirement of IAS 19	1
- Accounting treatment: un-paid pension contribution in financial statements	1
- Accounting treatment for the pension scheme assets in financial statements	1
- Maximum marks	4

Part (b)

Marks are awards ONLY for correct calculations (not explanations) provided for:

- Changes in present value of pension obligations (0.5 marks per correct line)	2.5
- Remeasurement difference – due on the present value of pension obligation	1
- Changes in fair value of pension assets (0.5 marks per correct line)	1.5
- Remeasurement difference – due on the present value of pension asset	1
- Correct calculation of "Net Pension Obligations"	1
- Net remeasurement difference	1

Expense (extracts) in the P&L correctly presented including:

- Past service cost	1
- Current service cost	1
- Net interest cost	1

Workings (can be held separately or as part of the main calculations included in the answer) including:

Past service cost:	
- Brief explanation of IAS 19's accounting treatment	1
- A correct double entry	1
Current service cost:	
- Brief explanation of IAS 19's accounting treatment	1
- A correct double entry	1
- Benefits paid in the year:	
- Brief explanation of IAS 19's accounting treatment	1
- A correct double entry	1
Contributions paid into the pension scheme:	
- Brief explanation of IAS 19's accounting treatment	1
- A correct double entry	1
Net Interest cost:	

-	Brief explanation of IAS 19's accounting treatment	1
-	A correct double entry	1
Maximum marks		21
Total Marks		**25**

Detailed answer

Part (a):

- The contribution payable by Rusizi Contractors Limited to the separate Insurance company will not count as an asset for the valuation of the pension fund asset (1 mark).
- This is because in accordance IAS 19 "Employee Benefits" states that Plan assets should not include un-paid contributions due from the reporting entity to the fund (1 mark).
- Therefore, the financial statements of Rusizi Contractors Limited would report the unpaid amount as an amount payable to the Insurance Company as the trustees and there may be legal repercussions if the amount is not paid within a short period of time (1 mark)
- The fair value of the Plan assets at the end of the year (31 March 2021) of Frw 17,435 million will be reduced by the un-paid contributions of Frw 44 million to recognize the fair value of the actual amount of contributions paid by Rusizi Contractors in the plan assets of Frw 17,391 million

Part (b):

Changes in the Present Value of the Pension Obligations (in Frw'millions)	
Opening balance (1 April 2020)	16,500
Plus: Past service cost (W1)	495
Plus: Current service cost (W2)	220
Less: Benefits paid (W3)	(231)
Plus: Net interest cost (W5)	63
Carrying value (before remeasurement adjustments)	**17,047**
Re-measurement loss to pension obligations	1,515
Closing balance (31 March 2021)	**18,562**

Changes in the Fair Value of the Plan Assets (in Frw'millions)	
Opening balance (1 April 2020)	15,950
Less: Benefits paid (W3)	(231)
Plus: Contributions paid into scheme (W4)	110
Carrying value (before remeasurement adjustments)	**15,829**

Re-measurement gains on Plan Assets	1,562
Closing balance (31 March 2021) (17,435 less 44)	**17,391**

Expense recognised in the Profit or Loss for year-ended 31 March 2021 (in Frw'millions)

Past service cost (W1)	495
Current service cost (W2)	220
Net Interest cost (W5)	63
	778

Remeasurement differences recognized in the year-ended 31 March 2021 (in Frw'millions)

Re-measurement gains on Plan Assets	1,562
Less: Re-measurement loss to pension obligations	(1,515)
Net remeasurement gains	**47**

Statement of Financial Position as at 31 March 2021 (extract)

Present Value of Pension Obligations	18,562
Less: Fair Value of Plan Assets	(17,391)
Net Pension obligations (within Non-Current Liabilities)	**1,171**

Workings (all rounded in Frw'millions):

W1: Past service cost

The company will recognise the past service costs of Frw 495 million immediately as the benefits vest on 1 April 2020 hence increasing the pension obligations on 1 April 2020.

DR P&L (Past Service cost)	495	
CR Pension obligations		495

W2: Current service costs

The company will recognise the present value of the benefits earned by the employees in the current year as current service costs at the reporting date (31 March 2021)

DR P&L (Current Service cost)	220	
CR Pension obligations		220

W3: Benefits paid

Benefits paid to former employees (through the insurance company) reduce the pension obligations of the company while using up the plan assets held in the scheme by the amount settled

DR Pension obligations	231	
CR Plan assets		231

W4: Contributions paid into the pension scheme

The amount recognised by the company is restricted to only the cash contributions made by the reporting date and this increases the plan assets by the amount contributed

DR Plan Assets	110	
CR Bank		110

W5: Net Interest cost

The interest cost is based on the discount rate and the net pension obligation at the beginning of the accounting period (1 April 2020) but should reflect changes in pension obligations during the period hence includes the past service cost

Opening pension obligation (1 April 2020)	16,500
Plus: Past service cost (W1)	495
Less: Opening plan assets (1 April 2020)	(15,950)
Adjusted opening net pension obligations	1,045
Discount rate (1 April 2020)	6%
Net Interest cost	**63**

DR P&L (Net interest cost)	63	
CR Pension obligation		63

QUESTION THREE: BIGIRIMANA GROUP

Marking guide

Consolidated Statement of Cash Flows Each correctly presented line with a correct amount on the face of the consolidated Statement of cash flows earns 0.5 marks (including sub / other totals).	10
Workings (can be held separately or as part of the main calculations included in the answer) for cash flow implications relating to:	
-Non-Controlling Interests (award 0.5 marks per line with a correct amount).	2
-Intangible assets (award 0.5 marks per line with a correct amount).	1
-Property, plant and equipment (award 0.5 marks per line with a correct amount).	3
-Separate or additional working for net cash from disposal and transfer of PPE (Award 0.5 marks per line with a correct amount).	2
-Trade receivables (award 0.5 marks per line with a correct amount).	2
-Income taxes paid (award 0.5 marks per line with a correct amount).	2
-Investment in Joint Venture (award 0.5 marks per line with a correct amount)	2
-Other Investments	1
Total Marks	**25**

Detailed answer

BIGIRIMANA'S CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 NOVEMBER 2020 (in Frw'million)

Cash flows generated from Operating activities

Profit before tax	598
Adjustments for:	
Interest payable	19
Interest receivable	(27)
Loss of disposal of discontinued operations	25
Loss on disposal of property, plant & equipment	7
Defence costs of take-over bid	20
Profit share from interests in a joint venture	(75)
Depreciation charge of PPE (W3)	150

Amortization of intangible assets (W2)	20	
Settlement of defence of take-over bids ((15 (2019 balance) + 20 (P&L) - 30 (2020 balance))	(5)	
Operating cash flows before changes in working capital	**732**	
Increase in inventories ((680 (2019 balance) - 60 (disposal of Peruza) - 720 (2020 balance))	(100)	
Increase in receivables (W5)	(189)	
Increase in payables ((973 (2019 balance) - 105 (disposal of Peruza) - 1300 (2020 balance))	432	
Cash generated from operations	**875**	
Interest paid ((30 (2019 balance) + 19 (P&L) - 40 (2020 balance))	(9)	
Income taxes paid (W6)	(115)	
Net cash generated from operating activities		**751**
Cash flows generated from investing activities		
Purchase of additional PPE (W3)	(380)	
Disposal proceeds for PPE (W4)	68	
Cash paid for investment in joint venture Kevina Ltd (W7)	(25)	
Cash paid to purchase corporate bonds (W8)	(35)	
Cash paid for additional Government securities for Frw (51m - 23m) (note d)	(28)	
Interest received ((4 (2019 balance) + 27 (P&L) - 5 (2020 balance))	26	
Net cash outflow - disposal of Peruza Ltd ((75 (cash disposal proceeds received) - 130 (Cash/bank balance on disposal date))	(55)	
Net cash generated from investing activities		**(429)**
Cash flows generated from financing activities		
Dividends paid to non-controlling interests (W1)	(231)	
Ordinary equity dividends paid ((70 (2019 balance) + 130 (SOCIE) - 80 (2020 balance))	(120)	
Net cash generated from financing activities		**(351)**

Net change in cash and cash equivalents		**(29)**
Add: Cash and cash equivalents brought forward ((133 (2019 balance) + 21 (cash on 7-day deposit in 2019))		154
Cash and cash equivalents carried forward ((24 (2019 balance) + 101 (cash on 7-day deposit in 2020))		**125**

Workings

W1: Non-controlling interests

Balance 1 December 2019	570	
Less: Disposal of Peruza Ltd	(84)	
Plus: NCI's share of profit for the year	75	
	561	
Balance - Dividends paid to NCI (for cash)	(231)	-
Closing Balance 30 November 2020	**330**	

W2: Intangible assets

Balance 1 December 2019	144	
Less: Amortization charge this year (note b)	(20)	
Less: Disposal of Peruza Ltd	(64)	
Balance (30 November 2020)	60	

W3: Property, Plant & Equipment

Balance 1 December 2019 (cost)	2,100	
Less: Balance 1 December 2019 (accumulated depreciation)	(300)	1,800
Less: Deficit on revaluation of land and buildings (SOCIE)		(30)
Plus: Purchase of additional PPE		380
Less: Cost of PPE disposed & transferred		(680)

Less: Depreciation charge for the year		(150)
Plus: Accumulated depreciation for transfers & disposals of PPE		95
Balance 30 November 2020 (cost)	1,770	
Balance 30 November 2020 (accumulated depreciation)	(355)	1,415

W4: Disposals and Transfers schedule - PPE

Cost - Disposals and Transfers (PPE) (W3)	680	
Less: Accumulated depreciation (disposals & transfers PPE)	(95)	585
Less: PPE in Peruza Ltd on disposal date		(310)
Less: PPE transferred to a Joint Venture (Kevina Ltd) (note c)		(200)
Less: Loss on disposal of PPE (in P&L)		(7)
Balance = cash proceeds from disposal of PPE (To cash flow statement)		**68**

W5: Trade receivables

Opening Balance 1 December 2019	540	
Less: Interest receivable (included in trade receivable on 1 December 2019) (note g)	(4)	536
Less: Disposal of Peruza Ltd		(50)
Balance - net increase in trade receivables in the year		189
Closing Balance 30 November 2020	680	
Less: Interest receivable (included in trade receivable on 1 November 2019) (note g)	(5)	675

W6: Income taxes paid

Balance 1 December 2019	150	
Less: Disposal of Peruza Ltd	(25)	
Plus Income tax expense (in P&L)	191	

Less: Taxes attributed to joint venture Kevina (note e)	(20)
Balance - income taxes paid in the year for cash	(115)
Closing balance 30 November 2020	181

W7: Investment in a Joint Venture (Kevina Ltd)

Balance 1 December 2019	-
Plus: New investments in the year paid through transfer of:	
PPE transferred to joint venture Kevina Ltd (W3)	200
Cash paid (note c)	25
Plus: Profit share from interests in a joint venture (P&L)	75
Less: Tax expense attributable to joint venture (note e)	(20)
Less: Deficit on revaluation of land and buildings in a joint venture (in SOCIE)	(15)
Balance 30 November 2020	**265**

W8: Other Investments

Balance 1 December 2019	-
Plus: New investments acquired in the year in:	
Musanze Ltd (share exchange for sale of Peruza Ltd) - non cash (note b)	300
Corporate bonds (paid in cash)	35
Less: Loss on revaluation of a financial asset (SOCIE)	(10)
Balance 30 November 2020	**325**

QUESTION FOUR: GLOBAL ENERGY LINK LTD

Marking guide

Part (a): Global Energy Link Ltd	
(i)A brief explanation of benefits arising from social and environmental reporting to Global Energy Link Ltd (1 mark for each valid benefit briefly explained). Award 1 mark for any valid additional relevant benefits outside the model answer guide	
Maximum marks for part (a) (i)	**5**
(ii) A brief explanation for how to extend and improve the current disclosures of the Corporate environmental governance made by Global Energy Link Ltd (1 mark for each valid point made). Award 1 mark for any valid additional relevant points outside the model answer guide Maximum marks for part (a) (ii)	5
Part (b): Public Sector Financial Reporting in Rwanda	
(i) A brief explanation for the need for a regulatory framework surrounding public sector financial reporting in Rwanda. Award marks as below: 1 mark for an introduction of the requirement for a regulatory framework in guiding the presentation of relevant and faithful financial information to benefit the users of public sector financial statements.1 mark for each valid brief explanation surrounding public sector financial reporting in Rwanda. Award 1 mark for any valid additional relevant explanation outside the model answer guide. Maximum marks for part (b) (i)	5
(ii)A report to the Accountant General of the Republic of Rwanda, explaining the challenges faced by the public sector of Rwanda associated with moving from modified cash basis to accrual basis of accounting. Marks awarded as below: 1 mark for each valid explained challenge faced by the public sector of Rwanda in moving from cash basis to accrual basis of accounting (award 0.5 marks if they only "identify" the valid challenge but do not provide an adequate explanation). Allow for any valid additional relevant challenges outside the model answer guide A maximum of 2 professional marks (awarded as 1 mark for a correct reporting format and 1 mark for both a valid introduction and conclusion)	
Maximum marks for part (b) (ii) including the professional marks	10
Total marks	**25**

Detailed answer

Part (a) (i): Benefits of social and environmental reporting:

The following benefits will accrue to Rwanda Energy if the company voluntarily publishes environmental and social reports in their financial statements:

- It demonstrates coherence of overall management strategy to important stakeholders like the customers, suppliers, investors, government regulators etc.
- It strengthens relationships of the company with its stakeholder
- It increases competitive advantages
- It increases public recognition for corporate accountability and responsibility
- Target setting and external reporting drive continual environmental and social improvement
- Effective self-regulation by the company will minimize the risk of regulatory intervention
- It may improve access to "lists of preferred suppliers" of customers with green procurement policies
- It reduces corporate risk which in turn reduces financing costs and broaden the range of investors
- It enhances employee morale
- It leads to improved profitability in the future.

Part (a)(ii): Additional input for the Corporate Environment Governance Report:

The reporting of corporate environmental governance by Rwanda Energy could be improved by including the following additional information in the financial statements:

- A statement of the environmental policy covering all aspects of business activity
- The management systems which reduce and minimize environmental risks (reference can be made to internationally recognized environmental management systems)
- Details of environmental training and expertise held by the company's employees
- A report on the company's environmental performance including disclosing verified emissions to air/land and water and how the company is seeking to reduce these and other environmental impacts.
- Details of any environmental offences that resulted in enforcement actions, fines etc. and any serious pollution incidents.
- A report on historical trends for key indicators and a comparison with the corporate targets
- A simple environmental income and expenditure statement and a balance sheet that among others includes income and value derived from the environment, expenditure on natural resources, investment in anti-pollution equipment, licenses etc.

Part b (i): The need for a regulatory framework:

A regulatory framework provides a framework that ensures the presentation of relevant and faithful financial information meeting the needs of the users of public sector financial statements.

A regulatory framework is needed for the following reasons:

- A regulatory framework provides a single set of accounting principles that ensures consistent application of accounting policies in financial reporting by the public sector entities taking into consideration a wide range of users of these financial statements e.g. investors, lenders, customers etc. with different needs
- A regulatory framework increases the users' understanding of and confidence in the financial statements by requiring the entities to provide comparable information aimed to enhance the credibility of the financial reports.
- Due to the increasing globalization resulting into trans-national financing, foreign direct investment and securities trading, the regulatory framework is able to provide a single set of accounting rules for the measurement and recognition of assets, liabilities, revenues and expenses in the financial statements of entities
- A regulatory environment regulates the behavior of public sector entities towards the users of financial reports by requiring financial statements that give a financial accountability that depicts a true and fair view of the entity's financial performance and position

Part b (ii): Challenges in applying accrual based IPSAS by public sector entities in Rwanda

Sample answer to part (b) (ii)

To: Accountant General, Republic of Rwanda

From: Accounts Trainee, CPA (Rwanda)

Date: (Exams date)

Subject: Challenges faced by the Public Sector of Rwanda associated with moving from modified cash basis to accrual basis of accounting

Introduction

The public sector entities in Rwanda have struggled to progress from the cash-based IPSAS to accrual-based IPSAS in the recent past. This is mainly attributed to challenges that are usually associated with the transition process in addition to traditional hurdles faced in implementing the accrual-based IPSAS. Below are the specific challenges faced by the public sector entities in the Republic or Rwanda relating to the transition from cash-based IPSAS to accrual-based IPSAS.

Challenges faced

At the time of adopting IPSAS by the Government of Rwanda, it was evident that applying the IPSAS accrual accounting approach will not result in an improved decision-making process but this will present increased costs and complexity of generating financial reports for the government departments.

In the absence of a strong public finance knowledge to critically analyze public sector financial reports, accrual accounting may also not be easily understood by the management of the Rwandan government entities.

The Government of Rwanda like other governments mainly pursues goals that lie outside the business sector of the economy with targets that are not mainly profit-oriented such as social assistance to the citizens and conserving the natural and cultural environment. To achieve its goals, the government budgets shift to an outputs-based appropriation and hence the adoption of accrual accounting may adversely impact on the efficiency on resources management.

In regard to the Rwanda's local government experiences with accrual accounting, the costs of preparing and presenting financial information using accrual accounting exceeds the associated benefits. For example, in accounting for assets determining the depreciation methods and rates using a best-estimate is too costly to determine with certainty and yet such information may not be useful for management purposes.

Government financial reports are intended to act as an accountability to the public of the actual funds raised in available cash and spent therefrom by the public sector. This at times is seen to be simple and straight-forward as an accountability report to the public compared to reporting the public incomes earned and expenses incurred with some not supported by actual receipts and payments. Hence accrual accounting supported financial reports may not improve accountability as the accounting information will not easily be understood by the wider public mainly composed of non-accountants who may be involved in decision-making processes. For example, the accountability financial performance targets of Rwanda Revenue Authority (RRA) to the public are assessed on actual cash receipts and not revenue receivables.

The Government of Rwanda uses cash basis budget information which is more standardized, straight-forward and less subjective and hence easily applied in the government's financial management and planning compared to accrual accounting which lacks these qualitative attributes. This makes the co-existence of accrual accounting and cash-basis budgets not very beneficial since it is not clear if expenditures reported under accruals information is considered "actually used" where the government budgets are still "cash based"

Accrual accounting concepts like profitability, financial position or return on assets are meaningless for government decision-making purposes which are a typical accounting logic for the private sector except for the Government Business Entities (GBEs). Therefore, the accrual concept of profit or loss makes no sense for the government and in the public sector, there may be no direct relation between revenues and costs. As a consequence, the government entity's management cannot be reasonably evaluated through the differences between revenues and costs but by other more realistic measures.

Transition from cash-basis to accruals accounting is also challenging as there are difficulties with the preparation of the first balance sheet under the new accrual accounting framework for the Government entities as they may not how to measure the opening accrual value for some special assets for the government like heritage and infrastructure assets. A simple change in the depreciation rate in subsequent years for such assets may also affect the economic results, leading to misinterpretation of the local authority financial results and position.

Another problem arises with assets restricted to the public sector that do not have comparable assets in the private sector such as infrastructure, art and heritage assets. Such assets have no international consensus on how to measure them for financial reporting purposes with the potential that local governments in Rwanda may adopt different measurement basis such as fair value or historical costs less depreciation and/or possibly some local governments not disclosing them in their financial statements. This makes the financial statements of the public sectors impossible to compare either within the country boundaries or internationally with other countries.

In addition to the differences of concepts between the government ministries and government business-oriented entities, there are also "social risks" in adopting private sector accounting standards for the government. As the private sector is profit-oriented, some public institutions have the risk that adopting measures that deviate them from their social goals.

Many private sector resources are not of a financial nature, which means that such resources cannot meaningfully be included in a statement of financial position. Besides being time consuming, this information may not be useful for decision-making purposes.

Conclusion

Based on the challenges of public sector entities applying accrual accounting IPSAS, it is important to have a critical view of transferring the private sector standards to the government departments. Aside any similarities, the public sector accountability role is considered to be wider than that of the private sector. Also, the social purposes of the public sector mean that not all public sector assets should be treated in the same manner as private sector assets as they may need to be split into two different categories such as commercial and social/environmental assets. Public sector liabilities need to also be treated differently as these should encompass obligations resulting from legislations. In addition, also negative net assets in the public sector do not necessarily mean the entity is insolvent. In conclusion the accrual-based IPSAS could be a great opportunity to address public sector financial reporting if these were not based mainly on private sector accounting standards as the starting point.

End of model answer and marking guide