

---

---

**CERTIFIED PUBLIC ACCOUNTANT ADVANCED  
LEVEL 1 EXAMINATIONS**

**A1.3: ADVANCED FINANCIAL REPORTING**

**DATE: WEDNESDAY, 25 AUGUST 2021**

---

---

**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.

## SECTION A

### QUESTION ONE

Giramba a public limited company (Giramba plc) owns 80% of Agape a public limited company (Agape plc) which is located in another country. The currency of this country is the Kram (KR). Giramba plc acquired Agape plc on 30 April 2019 for Frw 2,200 million when the retained profits of Agape plc were KR 6,100 million. Agape plc has not issued any share capital since acquisition. The following financial statements relate to Giramba plc and Agape plc:

#### Statement of Profit or Loss for the year ended 31 December 2020

	Giramba Frw'million	Agape KR'million
Revenue	16,500	30,600
Cost of Sales	<u>(9,450)</u>	<u>(26,150)</u>
<b>Gross Profit</b>	<b>7,050</b>	<b>4,450</b>
Administrative and Distribution Costs	(4,200)	(510)
Finance Costs	<u>(220)</u>	<u>(1,020)</u>
<b>Profit before tax</b>	<b>2,630</b>	<b>2,920</b>
Income tax expense	<u>(789)</u>	<u>(876)</u>
<b>Profit for the year</b>	<b><u>1,841</u></b>	<b><u>2,044</u></b>

#### Statement of Financial Position as at 31 December 2020

	Giramba Frw'million	Agape KR'million
<b>Assets</b>		
<b>Non-Current Assets</b>		
Tangible assets	9,450	18,900
Investment in Agape plc	2,200	
Loan to Agape plc	500	
Net Current Assets	<u>7,350</u>	<u>6,450</u>
<b>Total Assets</b>	<b><u>19,500</u></b>	<b><u>25,350</u></b>
<b>Equity</b>		
Share Capital (Frw/Kr 10 per share)	3,300	2,400
Share Premium	3,500	800
Retained Earnings	<u>8,950</u>	<u>11,000</u>
<b>Total Equity</b>	<b>15,750</b>	<b>14,200</b>
Non-Current Liabilities	3,150	9,900
Current Liabilities	<u>600</u>	<u>1,250</u>
<b>Total Equity and Liabilities</b>	<b><u>19,500</u></b>	<b><u>25,350</u></b>

The following notes are relevant to the preparation of the consolidated financial statements:

- (i) During the year Agape plc sold goods to Giramba plc for Frw 200 million with a profit margin of 25% on the transaction. The exchange rate ruling on the date of the transaction was Frw 1 = KR 5.2. All the goods remained unsold at the year-end of 31 December 2020. Giramba plc had paid 50% of the price for the goods on the date of the sales transaction and the balance remained outstanding on 31 December 2020. The sale and part-settlement transactions were made in Giramba plc's currency.
- (ii) A loan of Frw 500 million was raised in Rwanda Francs (Frw) by Agape plc from Giramba plc on 31 May 2020. The loan is interest free and payable in 2026. The loan was translated by Agape plc at the spot rate on 31 May 2020. An amount of KR 65 million has been paid to Giramba plc by Agape plc on 31 December 2020 in part settlement of the loan. This amount has not been received by Giramba plc and was not included in the financial statements of Giramba plc at the reporting date. Except for the spot rate translations, no other translations have been made for the loan by Agape plc and Giramba plc.
- (iii) The fair value of the net assets of Agape plc at the date of acquisition was KR 10,400 million. An impairment review was carried out on 31 December 2020 and it was decided to write off 25% of the goodwill amount. On the date of acquisition, the increase in the fair value of the net assets in Agape plc over their carrying value is attributable to tangible non-current assets which had a remaining useful life of four (4) years at that date. The fair values have not been incorporated in the financial statements of Agape plc. It is the group's policy to depreciate assets without time apportionment in the year of acquisition. It is also the group's policy to maintain the fair value of these assets in the group accounts at the historical exchange rate rather than being re-translated every year on grounds that the exchange rate adjustments for these assets are considered not material.
- (iv) On 31 December 2019, the carrying amount of the net assets reported in Agape plc's statement of financial position was KR 12,680. The Group policy is to present the translation reserve arising from the translation of Agape plc's financial statements within the Group Retained Earnings. None of the two companies has paid any dividends in both the prior and the current accounting periods.

- (v) The following exchange rates are relevant to the financial statements:

	Kram to the Frw
30 April 2019	4.0
31 December 2019 / 1 January 2020	4.6
31 May 2020	5.3
30 June 2020	5.2
31 December 2020	5.0

Weighted Average for year 2020 5.1

- (vi) The Group's policy is to value the non-controlling interests at fair value. The fair value of the non-controlling interests in Agape plc on the date of acquisition was KR 2,200 million
- (vii) Giramba plc issued 1,000 convertible bonds on 01 January 2020 at their par value of Frw 200,000 per bond. These were recognized in the financial statements of Giramba plc as part of the non-current liabilities at the amount received on 1 January 2020. The bonds have a fixed interest rate of 6% (amount recognized in the financial statements of Giramba plc) and are redeemable in three years on 31 December 2022 or alternatively can be converted at the maturity date into 1 ordinary share for every Frw 1,000 value of the bond. The prevailing market interest rate for equivalent three-year bonds without the conversion right is 9%. The following discount rates for the 3-year bonds apply:

	Simple (3 <sup>rd</sup> year)	Cumulative (over 3 years)
6%	0.840	2.673
9%	0.772	2.531

**Required:**

- (a) **Prepare a translated statement of profit or loss for the year ended 31 December 2020 and a translated statement of financial position as at 31 December 2020 for Agape plc (all as translated in Frw) incorporating the information provided in the notes above. In your answer, show separately the working for the translation reserve arising from the translation of Agape plc's financial statements.** (See notes below for additional guidance)
- (b) **Prepare the consolidated statement of profit or loss for the year ended 31 December 2020 and statement of financial position as at 31 December 2020 for the Giramba Group.** (See notes below for additional guidance)

Guidance Notes for both part (a) and (b):

- (i) Show all workings. You are required to provide one set of workings combined for both part (a) and (b)
- (ii) Your answer and workings should be rounded to the nearest full million amounts for the currencies applied (avoid decimals)
- (iii) Where workings are separated from the main answer, provide adequate references for the workings within the answer.
- (iv) Ignore any deferred tax implications.
- (v) Both part (a) and (b) carry a combined total of 41 Marks

(41 Marks)

- (c) In addition to the information provided above, Giramba Group made a rights-issue of 2 new shares for every 5 shares held on 1 October 2020 for Frw 20 per share which was fully taken up by the shareholders. On 30 September 2020 the market price of Giramba Group's shares was Frw 30. The rights-issue has been correctly accounted for in the financial statements and does not change your answer in part (b) above.

Assume a tax rate of 30% for the Giramba Group

**Required:**

**Calculate the basic and diluted earnings per share for the Giramba group for the year ended 31 December 2020.** (9 Marks)

(You do not need to restate the Earnings per share for the prior year. Show all workings).

**(Total:50 Marks)**

## **SECTION B**

### **QUESTION TWO**

Rusizi Contractors Limited, a Rwandan local-based company that operates with a large workforce operates a funded defined benefit scheme as part of its staff retention initiative for its key employees. The defined benefit scheme provides a pension of 5% of the final salary to the employers for each year of their services to the company and this is managed separately by an Insurance Company. The cost of the pension scheme is determined using the projected unit credit method in accordance with IAS 19 “*Employee Benefits*”. This reflects service rendered to the dates of valuation of the pension scheme incorporating actuarial assumptions for the discount rates based on the market yields of high-quality corporate bonds.

The management of Rusizi Contractors Limited have provided you with the following information about the existing defined benefit plan for the current year ended 31 March 2021:

- (i) The fair value of the plan assets was Frw 15,950 million at 31 March 2020 and Frw 17,435 million at 31 March 2021 (inclusive of the unpaid contributions of Frw 44 million)
- (ii) The present value of the obligation to provide benefits to current and former employees was Frw 16,500 million at 31 March 2020 and Frw 18,562 million at 31 March 2021.
- (iii) With effect from 1 April 2020, the company had amended the plan so that the employees were now provided with an increased pension entitlement. The benefits became vested immediately and the actuaries computed that the present value of the cost of these benefits at 1 April 2020 was Frw 495 million.
- (iv) The actuarial-computed current service cost of providing benefits in regard to the employees’ service for the year ended 31 March 2021 was Frw 220 million. This is the present value of the pension benefits earned by the employees in the current year.
- (v) The pension benefits paid to former employees in the year through the Insurance company were Frw 231 million.
- (vi) After the company’s management review of the cash flow plans, Rusizi Contractors Limited did not make the contribution of Frw 44m when making the cash contributions of Frw 110m into the pension plan as contributions made for the current year.
- (vii) The discount rates that applied in the current period were 6% on 1 April 2020 and 7% at 31 March 2021.

#### **Required:**

- (a) Explain how the non-payment of contributions and the change in the pension benefits should be treated in the financial statements of Rusizi Contractors for the year ended 31 March 2021.** (4 Marks)

(b) Using the information provided, prepare a detailed schedule of the calculations that will support extracts for Rusizi Contractors Limited's statement of profit or loss and other comprehensive income for the year ended 31 March 2021 and statement of financial position as at 31 March 2021 in respect to the pension scheme for the accounting period showing the changes in the:

- Fair value of the plan assets;
- Present value of the pension obligations; and
- The net values for the pension scheme including the remeasurement differences

(Show all workings and where applicable appropriate accounting entries)

(21 Marks)

(Total: 25 Marks)

### QUESTION THREE

The following financial statements relate to Bigirimana Group

<b>Draft Consolidated Statement of Profit or Loss for the Year Ended 30 November 2020</b>			
		<b>Frw'million</b>	<b>Frw'million</b>
Revenue			5,721
Cost of sales			<u>(4,560)</u>
<b>Gross Profit</b>			<b>1,161</b>
Distribution costs			(309)
Administration costs			<u>(285)</u>
<b>Operating profits</b>			<b>567</b>
Profit share from interests in a joint venture			75
Other costs:			
Defense costs of take-over bid		(20)	
Loss on disposal of property, plant & equipment		(7)	
Loss of disposal of discontinued operations (note b)		<u>(25)</u>	
			(52)
Interest receivable		27	
Interest payable		(19)	
			<u>8</u>
<b>Profit before tax</b>			<b>598</b>
Income tax expense			<u>(191)</u>
<b>Profit for the period</b>			<b><u>407</u></b>
Profit for the period attributed to:			
Parent shareholders			332
Non-controlling interests			<u>75</u>
			<b><u>407</u></b>

<b>Consolidated Statement of Changes in Equity for the Year Ended 30 November 2020</b>			
		<b>Frw'million</b>	
Deficit on revaluation of land and buildings		(30)	
Deficit on revaluation of land and buildings in a joint venture		(15)	
Loss on revaluation of a financial asset		(10)	
Gain on re-translation of long-term borrowings		<u>28</u>	
<b>Net loss recognized in the other comprehensive income</b>		<b>(27)</b>	
Net profit for the period		332	
Ordinary dividends		<u>(130)</u>	
<b>Total movement in equity in the period</b>		<b><u>175</u></b>	
<b>Consolidated Statement of Financial Position as at 30 November 2020</b>			
		<b>2020</b>	<b>2019</b>
		<b>Frw'million</b>	<b>Frw'million</b>
<i>Assets</i>			
<i>Non-Current Assets</i>			
Property, plant and equipment (note f)		1,415	1,800
Intangible assets		60	144
Investment in Kevina (note c)		275	-
Other Investments (note d)		<u>325</u>	<u>-</u>
		<b><u>2,075</u></b>	<b><u>1,944</u></b>
<i>Current Assets</i>			
Inventories		720	680
Short-term investments (note d)		152	44
Trade receivables (note g)		680	540
Cash		<u>24</u>	<u>133</u>
		<b><u>1,576</u></b>	<b><u>1,397</u></b>
<b>Total Assets</b>		<b><u>3,651</u></b>	<b><u>3,341</u></b>
<b>Equity and Liabilities</b>			
<i>Equity</i>			
Equity capital		440	440
Other reserves		134	151
Retained earnings		930	728
Non-Controlling Interests		<u>330</u>	<u>570</u>
		<b><u>1,834</u></b>	<b><u>1,889</u></b>
<i>Non-Current Liabilities</i>			

Interest bearing borrowings		186	214
Provisions - takeover bid defense costs		<u>30</u>	<u>15</u>
		<b><u>216</u></b>	<b><u>229</u></b>
<b><i>Current Liabilities</i></b>			
Trade payables		1,300	973
Income tax		181	150
Dividends payable		80	70
Interest payable		<u>40</u>	<u>30</u>
		<b><u>1,601</u></b>	<b><u>1,223</u></b>
<b>Total Equity and Liabilities</b>		<b><u>3,651</u></b>	<b><u>3,341</u></b>

The following information is relevant to the Bigirimana Group

- (a) The group disposed of its entire shareholding held in a major subsidiary Peruza Ltd on 1 September 2020. Bigirimana held an 80% interest in the subsidiary at the date of disposal. The group required the subsidiary Peruza Ltd to prepare an interim statement of financial position at the date of disposal. The consolidated carrying values of the net assets in Peruza Ltd at the date of disposal are set out below in the summarized statement of financial position at 1 September 2020:

**Peruza Ltd's summarized statement of financial position as at 1 September 2020**

<b><i>Non-current assets</i></b>	<b>Frw'million</b>
Property, Plant and Equipment (accumulated depreciation at Frw 30 million)	310
<b><i>Current Assets</i></b>	
Inventories	60
Trade receivables	50
Cash	<u>130</u>
	<u>240</u>
<b>Total Assets</b>	<b><u>550</u></b>
<b>Equity and Liabilities</b>	
<b><i>Equity</i></b>	
Equity capital	100
Retained earnings	<u>320</u>
	<b><u>420</u></b>
<b><i>Current Liabilities</i></b>	
Trade payables	105
Income tax payable	<u>25</u>
	<b><u>130</u></b>
<b>Total Equity and Liabilities</b>	<b><u>550</u></b>

The Depreciation charge attributed to Peruza Ltd in the Profit or Loss for the period was Frw 9 million

- (b) The disposal of Peruza Ltd qualified as a discontinued operation in accordance with IFRS 5 “*Non-Current Assets Held for Sale and Discontinued Operations*”. The loss on the sale of discontinued operations arising for the disposal of Peruza Ltd in the consolidated financial statements comprises:

<b>Loss on disposal of Peruza Ltd</b>	<b>Frw'million</b>
Sales Proceeds	375
Non-controlling interests	84
Less: Fair value of net assets	(420)
Less: Goodwill balance	<u>(64)</u>
<b>Loss on disposal</b>	<b><u>(25)</u></b>

The consideration for the sale of Peruza Ltd was 200 million ordinary shares of Frw 1 in Musanze Ltd (the acquiring company) at a value of Frw 300 million and Frw 75 million in cash. No impairment loss on Goodwill took place in the year.

The amortization of other intangible assets for the year was Frw 20 million.

- (c) During the year, Bigirimana has transferred several of its property, plant and equipment to a newly created company Kevina Ltd, which is owned jointly by three parties (Bigirimana is one of the three parties). The total investment at the date of transfer in the joint venture by Bigirimana was Frw 225 million at a carrying value comprising of Frw 200 million of property, plant and equipment and Frw 25 million in cash. The Group has used the “equity accounting” method for the investment in the joint venture in Kevina Ltd. No dividends have been received from Kevina Ltd but the land and buildings in Kevina Ltd have been revalued at the year-end.
- (d) The investments included within the non-current assets comprised of the shares held in Musanze Ltd (Frw 300 million) and the investments in corporate bonds (Frw 25 million after their revaluation). The bonds had been purchased in November 2007 and were deemed to be highly liquid, although Bigirimana Group intended to hold them for the longer term as their maturity date is 1 January 2022.

The short-term investments comprised the following items:

	<b>2020</b>	<b>2019</b>
	<b>Frw'million</b>	<b>Frw'million</b>
Government securities (maturity date: 1 June 2021)	51	23
Cash on a seven-day deposit	<u>101</u>	<u>21</u>
	<b><u>152</u></b>	<b><u>44</u></b>

(e) The taxation charge in the profit or loss is made up of the following items:

	<b>Frw'million</b>
Income tax	
Tax attributable to joint venture	171
	<u>20</u>
	<b><u>191</u></b>

(f) The movement on the property, plant and equipment assets of the Bigirimana Group during the year was as follows:

	<b>Frw'million</b>
Cost or Valuation on 1 December 2019	
Additions	2,100
Revaluation	380
Disposals and Transfers	(30)
<b>At 30 November 2020</b>	<u>(680)</u>
	<b><u>1,770</u></b>
<b>Depreciation:</b>	
1 December 2019	
Charged during the year	300
Disposals and Transfers	150
<b>At 30 November 2020</b>	<u>(95)</u>
	<b><u>355</u></b>
Carrying Value at 30 November 2020	
	1,415
Carrying Value at 30 November 2019	
	1,800

(g) Interest receivable included in trade receivables was Frw 5 million at 30 November 2020 (Frw 4 million at 30 November 2019)

- (h) The interest-bearing borrowings are held in a foreign currency which are re-translated at each reporting date and Bigirimana Group's policy is to recognize the exchange differences directly in the equity.

**Required:**

**Using the indirect method, prepare the consolidated statement of cash flows for the Bigirimana Group for the year ended 30 November 2020 in accordance with the requirements of IAS 7 "Statement of Cash Flows"** (25 Marks)  
(Total: 25 Marks)

Note: Show all the relevant workings and you are not required to produce notes to the statement of cash flows. Your answer and workings should be rounded off to the nearest Frw millions.

**QUESTION FOUR**

- (a) The Directors of Global Energy Link Ltd, a public entity in Rwanda, feel that their financial statements do not address a broad enough range of users' needs. The company's main business is the generation and supply of electricity and gas. They have reviewed the financial statements and have realized that there is very little information about their corporate environment governance. The company discloses the following environmental information in their financial statements:

- The highest radiation dosage to a member of the public
- Total acid gas emissions and global warming potential
- Contribution to clean air through emission saving

**Required:**

- i. **Briefly explain to Global Energy Link Ltd the benefits of social and environmental reporting.** (5 Marks)
- ii. **Briefly explain how the current disclosures by Global Energy Link Ltd of its "Corporate environmental governance" could be extended and improved.** (5Marks)

- (b) You are an Accounts Trainee undertaking your professional accountancy course under the CPA (Rwanda) qualification.

According to the Republic of Rwanda, Article 21 of the Organic Law N° 37/2006 and Article 9 and Article 11 of Ministerial Order N° 002/07, the Chief Budget Manager is responsible for maintaining accounts and records of the budget agency. In addition, the Chief Budget Manager is responsible for the annual financial statements, which are prepared using the "modified cash basis" of accounting and using appropriate accounting policies supported by reasonable and prudent judgements and estimates.

**Required:**

- i. **Briefly explain the need for a regulatory framework surrounding public sector financial reporting in Rwanda** (5 Marks)
- ii. **Prepare 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.** (10 Marks  
(Total:25 Marks)

**End of question paper**