CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

TUESDAY, 24 AUGUST 2021

MODEL ANSWERS AND MARKING GUIDE

SECTION A

QUESTION ONE

Marking guide

	Marks
Part (a): Objective of general-purpose financial statements	
A reasonably correct objective of the general-purpose financial statements	2
1 mark for any correct decisions made using the general-purpose financial statements to support the objective of financial statements	2
Maximum marks - part (a)	**4**
Part (b): Compare and Contrast "cash" and "profit"	
A correct definition of "cash" and "cash equivalents"	1
A correct definition of "profit" in view of financial statements	1
1 mark for each correct comparison and contrast of "cash" and "profit) up to a maximum of:	2
Maximum marks - part (b)	**4**
Part (c): Preparation of a Statement of Cash Flows	
Each correctly computed line item presented in the Statement of Cash Flow (0.5 marks per correct line)	4
Workings (whether the working is separately done, or the working is included on the face of the statement of cashflows):	
Depreciation charge	2
Loss on disposal of fixtures and fittings	1
Profit on sale of non-current asset investments	1
Net Interest expense (interest cost less interest income)	1
Increase in Inventory	1
Increase in Receivables	1
Increase in Payables	1
Taxes paid	1
Maximum marks - part (c)	**12**
Total marks	**20**

Detailed answer

a) As per Par. 1.2 of the conceptual framework, the Objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

Those decisions involve decisions about:

i. buying, selling or holding equity and debt instruments;
ii. providing or settling loans and other forms of credit; or
iii. exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

b) Comparing and contrasting cash and profit in financial statements analysis

cash

- Cash comprise of cash on hand and demand deposits, while and cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value.
- An investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition.
- Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash equivalents.
- Cash flow is cash that flows in and out of a business throughout a certain period of time.
- Cash is needed to keep and operate the business on a daily basis successfully
- Cash indicates clearly the picture of liquidity position of any company.

Profit

- Profit is defined as revenue less all the expenses of a company in a certain period.
- Profit is a major indicator of overall business success
- Profit can either be distributed to the owners and shareholders of the company, often in the form of dividend payments, or reinvested back into the company.
- Profits might, for example, be used to purchase new inventory for a business to sell, or used to finance research and development (R&D) of new products or services.

Cash is about liquidity (Money available) and profit is about the difference between revenue and expenses reported on accrual basis. Profit does not necessary show the cash remaining after covering expenses of the company due to non-cash items involved in profit like exchange gain, gain or loss on disposal of company non-current assets, fair value gains, depreciation/amortization charges, allowances for doubtful debt and others. This makes cash different from profit and it explains why an entity can have more profit with less cash or more cash with less profit.

c) Mugisha's Statement of Cash Flows

Mugisha Ltd	
Statement of Cash flow Extract for the Year Ended 31 December 2020	
	Frw"000"
Profit before tax	300,000
Depreciation charge for PPE (W1)	90,000
Loss on disposal of fixtures and fittings ((32,000 (disposal proceeds) – 45,000 (carrying value on date of disposal))	13,000
Profit on sale of non-current asset investments ((30,000 (disposal proceeds in note a) -25,000 (Carrying amount from 2019 in note v))	(5,000)
Interest expense (Net) ((75,000 (interest expense in P&L) - 25,000 (interest income in P&L))	50,000
Increase in Inventory ((150,000 (balance in 2020) -102,000 (balance in 2019))	(48,000)
Increase in Receivables ((390,000 (balance in 2020) -315,000 (balance in 2019))	(75,000)
Increase in Payables ((127,000 (balance in 2020) -119,000 (balance in 2019))	8,000
Interest paid (interest expense in P&L)	(75,000)
Taxes Paid ((110,000 (balance in 2019) + 140,000 (in P&L) - 120,000 (balance in 2020))	(130,000)
Net cash flow from Operating activities	**278,000**

Workings	**Frw"000"**	**Frw"000"**
W1: Depreciation charge on PPE for the year		
Depreciation as at 31 December 2020 (see note iii)		340,000
Depreciation as at 31 December 2019 (see note iii)	290,000	
Reversal of Accumulated depreciation on asset sold ((85,000 (cost) - 45,000 (carrying value on date of disposal) – see note ii)	(40,000)	250,000
Charge for the year (difference)		**90,000**

QUESTION TWO

Marking guide

	Marks
Part (a):	
A correct explanation of "significant influence"	1
A correct explanation of "control"	1
Use of a correct example(s) of indicators of significant influence and/or control to explain the difference between significant influence and control	1
Maximum marks - part (a)	**3**
Part (b): Consolidated statement of profit or loss and Consolidated statement of financial position	
Correct presented line items for the consolidated statement of profit or loss (each correct line item consolidated excluding the sub/other totals is awarded 1 mark)	7
Correct presented line items for the consolidated statement of financial position (each correct line item excluding the sub/other totals is awarded 1 mark)	6
Workings (whether the working is separately done, or the working is included within the face of the consolidated financial statements). Each correct line item within the working is awarded 0.5 marks including:	
Consolidated cost of sales	2
Aggregated value of intra-group sales and un-realised profits	2
Property, plant & equipment	2
Goodwill	3
Consolidated retained earnings	3
Non-Controlling interests in:	
Consolidated P&L	1
Consolidated SFP	1
Maximum marks - part (b)	**27**
Total marks	**30**

Detailed answer

a) Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of those policies. Generally, significant influence is presumed to exist when an investor holds, directly or indirectly, 20 per cent or more but less than fifty per cent of the voting power of the investee. The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

- representation on the board of directors or an equivalent governing body of the investee;
- participation in the policy-making process, including participation in decisions about dividends or other distributions;
- material transactions between the entity and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

Whereas **control** is the power to govern the financial and operating policies of the company so as to obtain economic benefits of its activities. It is evidenced by:

- The acquisition of more than 50% voting rights of the subsidiary company and voting rights are usually embedded in ordinary shares of the subsidiary;
- The Parent company governs the financial and operating policies of the subsidiary company either under statute or under agreement;
- When the Parent company has the power to appoint or remove the majority of Board of Directors;
- When the Parent company controls majority of the vote at the meeting of subsidiary company's Board of Directors.

b)

Beza Consolidated statement of profit or loss for the year ended 31 December 2019	
	Frw"000"
Revenue (11,000,000+(6,600,000 x 6/12) -(400,000+900,000 intra group sales)	13,000,000
Cost of sales (W1)	(10,930,000)
Gross profit	**2,070,000**
Distribution costs (300,000 + (200,000 x 6/12))	(400,000)
Administrative expenses (525,000 + (2400,000 x 6/12) - 340,000 (negative goodwill W3))	(305,000)
Loss on equity investments (note iii)	(20,000)
Decrease in contingent consideration (180,000 - 150,000)	30,000
Finance costs	(25,000)
Profit before tax	**1,350,000**
Income tax expense (350,000 - (100,000 x 6/12))	(300,000)
Profit for the year	**1,050,000**
Profit for the year attributable to:	
Equity holder of the parent (balancing figure)	1,125,000
Non-controlling interest (see below)	(75,000)
	1,050,000

Beza Consolidated Statements of financial position as at 31 December 2019

	Frw"000"
Assets	
Non-Current Assets	
Property, Plant and equipment (4,100,000 + 2,100,000 + 200,000 (Fair value adjustment note i) - 10,000 (extra depreciation W4))	6,390,000
Financial assets: Equity investment (1,600,000 - 1,350,000 (cash consideration to acquire Bwiza Ltd) - 20,000 (FV loss W4))	230,000
	6,620,000
Current assets ((1,650,000 + 480,000 - 60,000 URP (W2))	2,070,000
Total assets	**8,690,000**
Equity and liabilities	
Equity attributable to owners of the parent	
Equity shares of Frw 50 each	3,000,000
Retained earnings (W4)	2,890,000
	5,890,000
Non-controlling interest (W5)	370,000
Total equity	**6,260,000**
Current Liabilities	
Contingent consideration	150,000
Other payables (1,500,000 + 780,000)	2,280,000
Total equity and liabilities	**8,690,000**

Workings

W1 Cost of sales	**Frw"000"**
Beza Ltd	8,800,000
Bwiza Ltd (6,720,000*6/12)	3,360,000
Intra-group purchases (400,000+900,000)	(1,300,000)
URP in inventory (W2)	60,000
Additional depreciation on leased property (200,000/10 years x 6/12 months)	10,000
	10,930,000

W2 Un-realised Profit on intra-group sales	
Bwiza Ltd's profit on sale to Beza Ltd:	**Frw"000"**
Selling price	900,000
Less: Cost of sales ((400000 + 140,000 (cost of conversion))	(540,000)
Profit on Intra-group sale	360,000
Un-realised profit (150,000 (value of un-sold goods) / 900,000 (selling price) x 360,000 (profit element on sale)	**60,000**

W3 Goodwill in Bwiza	Frw"000"	Frw"000"
Investment @cost		
Immediate cash consideration (600,000/50 shares (i.e., each share valued at Frw 50) x 75% x 150		1,350,000
Contingent consideration		180,000
Non-controlling interest ((600,000/50) shares (i.e., each share valued at Frw 50) x 25% x 120))		360,000
		1,890,000
Share capital	600,000	
Retained Earnings 1,200,000 + (460,000 loss x 6/12)	1,430,000	
Fair value adjustment for property	200,000	
Net asset at the date of acquisition		**(2,230,000)**
Bargain purchase/Negative goodwill		**(340,000)**

W4 Consolidated Retained earnings	Beza Ltd	Bwiza Ltd
	Frw"000"	**Frw"000"**
Beza Ltd	2,850,000	
Bwiza Ltd 's post acquisition adjusted loss ((460,000 (loss for the year) x 6/12 months))		(230,000)
Extra depreciation on fair value adjustment on leased property ((200,000 / 10 (years) x 6/12 (months)) - note (i)		(10,000)
Unrealized profit on intra-group sales 60,000 (W2)		(60,000)
Negative good will ((340,000 (W3))		340,000
Loss on equity investments (note iii)	(20,000)	
Decrease in contingent consideration (180,000 - 150,000)	30,000	
	2,860,000	**40,000**
Plus: share of post-acquisition reserves in subsidiary (Bwiza Ltd) (75% x 40,000)	30,000	

Consolidated Retained Earnings	**2,890,000**	

W5 Non-controlling interest in Consolidated SFP	**Frw"000"**
NCI Fair Value at the acquisition date (W3)	360,000
NCI's share of post-acquisition reserves in subsidiary (Bwiza Ltd) (25% x 40,000)	10,000
	370,000

QUESTION THREE

Marking guide

	Marks
Part (a): Accounting treatment of leases by the lessor	
1 mark for every well explained issue relevant to the accounting treatment for leases for the lessor in accordance with IFRS 16	5
Part (b): Accounting for Borrowing costs	
1 mark for every well explained the key concepts for borrowing costs in accordance with IAS 23 "Borrowing costs" including any three (3) of the following:	3
(i) Requirement to capitalize borrowing costs for a qualifying asset	
(ii) Definition of a "qualifying asset"	
(iii) A brief explanation of when an entity "commences" and "ceases" to capitalize borrowing costs	
(iv) The requirement to expense any borrowing costs that do not qualify to be capitalized	
(v) Any other relevant accounting concept relevant to accounting for borrowing costs in line with IAS 23	
An extract of the statement of profit or loss presenting the correctly calculated finance cost arising from IAS 23 calculation'	1
An extract of the statement of financial position presenting the correctly calculated PPE inclusive of capitalized borrowing costs arising from IAS 23 calculation	1
Workings (marks are only available for computations NOT explanations) including:	
(i) A calculation for the capitalized borrowing costs (1 mark for each correctly computed amount making up the total capitalized borrowing cost)	5
(ii) A calculation for the correct weighted average interest rate (as a separate working or part of the combined calculation of capitalized borrowing costs)	2

(iii) A calculation of the borrowing costs that will be expensed in the P&L under IAS 23	1
(iv)A calculation for the PPE carrying amount that includes the capitalized borrowing costs (1 mark for each correctly presented and computed line item)	2
Maximum marks - part (b)	**15**
Part (c): Accounting for Grants related to assets	
Brief explanation of the recognition criteria for government grants in accordance with IAS 20	1
Recognition that the grant to Jambo Ltd qualifies as a grant related to an asset and qualifies to be recognized having satisfied the conditions of IAS 20 (linked to the information provided in the question scenario)	1
The accounting treatment that Jambo Ltd should apply to account for the government grant (using the deferred income approach under IAS 20)	2
A correct computation for the PPE (with 0.5 marks for each correctly computed line item)	2
An explanation for the correct accounting treatment of the "warranty cost" and justifying why this cost cannot be capitalized as part of the initial measure for the PPE	1
A correct calculation or narration or part of a financial statement extract for the following:	
(i) The depreciation charge for the PPE (0.5 marks) and the carrying value of the PPE at the reporting date after the depreciation charge (0.5 marks)	1
(ii) The amount of the government grant income to be released to the P&L by the reporting date	0.5
(iii) The carrying value of the deferred government grant income at the reporting date	0.5
(iv) The split of the carrying value of the deferred government income into the amount to be presented in the current liability (0.5 marks) and the non-current liabilities (0.5 marks)	1
Maximum marks - part (c)	**10**
Total marks	**30**

Detailed answer

a) **Accounting by lessors**

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, **a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

Upon lease commencement, **a lessor shall recognize assets held under a finance lease as a receivable at an amount equal to the net investment in the lease. A lessor recognizes finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.**

A lessor recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

b) **Accounting for Borrowing costs**

IAS 23 Borrowing costs requires that borrowing costs incurred for the acquisition or construction of qualifying asset to be capitalized. Under IAS 23, a qualifying asset is an asset that will necessarily take a substantial period of time to get ready for its intended use or sale.

The capitalization of the borrowing costs commences when the expenditure and borrowing costs on qualifying asset are being incurred, and continues during the period when the activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of the borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

In XYZ's case, where entity used existing borrowing on construction of asset, a weighted average capitalization rate is used to calculate borrowing costs for capitalization.

The balance of the finance costs is to be expensed as shown by the workings below.

Statement of profit or loss extracts	**Frw "M"**
Finance costs (w1)	112.54
Statement of financial position Extract	
Property, plant and equipment (w2&w3)	264.9

WORKINGS

1. Total borrowing costs on the loans:

	Frw"M"
12% x 500m	60
9% x 750m	67.5
Total	**127.5**
Less: Amount of borrowing costs to be capitalized (W2)	(14.96)
Total to be expensed	**112.54**

2. Weighted average rate = [12%x500/(500 +750)] + [9%x 750/(500 +750)]
= 0.048 + 0.054 = 0.102
= 10.2%

Borrowing costs for capitalization: Frw 180m x 10.2% x 9/12 months = Frw 13.77m

Frw 70m x 10.2% x 2/12 months = Frw 1.19m

Frw 14.96

3. **Total cost of PPE**

Drawn expenditure on PPE (Frw 180m +70m)	250
Capitalized borrowing costs (w2)	14.96
	264.96

Note:

Expenditure of Frw 180million was drawn on 1 April 2019 which is three (3) months into the current accounting period hence the borrowing cost is prorated for 9 months (April – December 2019) and that of Frw 70million was drawn on 1 November 2019 which is 10 months into the accounting period hence it is prorated for 2 months (November – December 2019).

c)

IAS 20 Accounting for government grants and disclosure of government assistance requires that a grant be recognized when the following criteria are met;

- The entity has or will comply with any conditions attached to the grant; and
- The entity has received or will actually receive the grant.

In the case of Jambo Limited, the fact that it qualified for the grant is evident of compliance with conditions and the government has confirmed it will transfer the funds to Jambo Ltd within two weeks after the end of the accounting period. This confirms that grant qualifies for recognition by Jambo Ltd in accordance with IAS 20.

Jambo Ltd therefore needs to recognize the grant on 1 July 2019 as deferred income in the statement of financial position and make an equal transfer to profit or loss per annum for three years, which is based on the estimated useful life of related asset (the item of plant to which the granted is related to).

In accordance with IAS 16 "Property, Plant and Equipment" the initial measure for the item of plant acquired by Jambo Ltd on 1 July 2019 will be computed as below:

	Frw"M"
Cost of plant (discounted price at 95% x Frw 240m)	228
Modification costs	30
Delivery and installation	15
Total cost for capitalization	**273**

Note that the warranty cost of **Frw 2million** is excluded as this is a revenue expenditure, and not a capital expenditure.

The annual depreciation for the plant over three years for the plant will be: Frw 273million/3 years = **Frw 91M**. This implies that the carrying value of the plant within PPE at the end of the year on 30 June 2020 after allowing for the depreciation charge shall be (Frw 273 million less Frw 91 million) **Frw 182 million.**

The amount of the Government grant to be recognized will be (25% x Frw 273m) = **Frw 68.25 million** and this will initially recognised as deferred income on 1 July 2019 with annual transfers of (Frw 68.25 million / 3 years) **Frw 22.75 million)**. This implies that the deferred government grant balance at the end of the first year ending 30 June 2020 shall be (68.25 million less 22.75 million) **Frw 45.5 million** which based on two (2) remaining years shall be presented in equal amounts of **Frw 22.75 million** in the non-current liabilities and the current liabilities.

Below are the extracts regarding the presentation of the government grant and the plant in financial statement of Jambo Ltd for the year ending 30 June 2020

Statement of profit or loss extract	**Frw "M"**
Government Grant Income	22.75
Depreciation charge	91

Statement of financial position extract	**Frw "M"**
Non-current assets	
Plant (273m – 91m)	182
Non-current liabilities	
Deferred grant income	22.75
Current liabilities	
Deferred grant income	22.75

SECTION B

QUESTION FOUR

Marking guide

	Marks
Part (a): Translated trial balance for Nairobi Branch	
Translated trial balance for Nairobi Branch to Frw currency (0.5 mark for each correct computed line)	5
Explanation for the determination and/or basis of the exchange rate applied to translate Nairobi branch account balances and transactions (1 mark for each correct basis for the foreign account balance translations in accordance with IAS 21)	2
Maximum marks - part (a)	**7**
Part (b) (i): Head office & Branch combined profit or loss	
Correct presented line items for the combined statement of profit or loss (each correct line item consolidated in Frw currency excluding the sub/other totals is awarded 1 mark)	7
Part (b) (ii): Head office & Branch combined profit or loss	
Correct presented line items for the combined statement of financial position (each correct line item consolidated in Frw currency excluding the sub/other totals is awarded 1 mark)	6
Maximum marks - part (b)	**13**
Total marks	**20**

Detailed answer

a)

EMJ
Nairobi Branch Trial Balance in Frw as on 30 September 2020

	Ksh "000"		Conversion		Frw "000"	
	Debit	**Credit**	**Exch. Rate**	**Basis**	**Debit**	**Credit**
Plant and Machinery @ cost	200		10	Assets: Closing rate	2,000	
Plant& Machinery Accumulated Depreciation		130	10	Assets: Closing rate		1,300
Debtors &Creditors	60	30	10	Assets & Liabilities: Closing rate	600	300
Inventories @ 1 October 2019	20		9	P&L item: Average rate	180	
Cash and bank balances	10		10	Assets: Closing rate	100	
Purchases &Sales	25	123	9	P&L item: Average rate	225	1107
Wages& salaries	45		9	P&L item: Average rate	405	
Rent	12		9	P&L item: Average rate	108	
office expenses	18		9	P&L item: Average rate	162	
commission receipts		107	9	P&L item: Average rate		963
Totals	**390**	**390**			**3,780**	**3,670**
Exchange Gain (Balancing figure)						110
					3,780	**3,780**

Basis for the foreign exchange rates applied:

Under IAS 21 "The effects of changes in the foreign exchange rates" the "Nairobi branch" is an extension and it is considered a foreign operation to EMJ with its translation of the account balances based on the following:

- All assets and liabilities are translated using the closing rate on the reporting date of 1Ksh@ Frw 10;
- All items of income and expenses are translated using the average rate during the accounting period of 1Ksh@ Frw 9; and
- The exchange rate difference arising on the translation of the trial balance is an exchange gain of Frw 110,000 which is computed as a balancing figure and these is reported as a reserve within equity in the consolidated statement of financial position.

b) (i)

EMJ			
Head office, branch and combined income statements for year ended 30 September 2020			
	Head Office	**Branch**	**Combined**
	Frw"000"	**Frw"000"**	**Frw"000"**
Sales	624	1,107	1,731
Opening inventories	100	180	280
Purchases	240	225	465
Closing inventories	(150)	(31)	(181)
Net Purchases	**190**	**374**	**564**
Gross Profit	**434**	**733**	**1,167**
Commission receipts	256	963	1,219
Total gross revenue	**690**	**1,696**	**2,386**
Operating expenses			
MD's salary	(30)		(30)
Wages& salaries	(75)	(405)	(480)
Rent	-	(108)	(108)
office expenses	(25)	(162)	(187)
Exchange loss	-	110	110
Miscellaneous expenses	(120)	-	(120)
Total expenses	**(250)**	**(565)**	**(815)**
Profit/(loss) for the year	**440**	**1,131**	**1,571**

b (ii)

EMJ			
Head office, branch and combined statement of Financial Position as at 31 September 2020.			
	Head Office	**Branch**	**Combined**
Non-current Assets	**Frw"000"**	**Frw"000"**	**Frw"000"**
Land	500	-	500
Buildings @cost	1,000	-	1,000
Depreciation	(200)	-	(200)
Plant and machinery	2,500	2,000	4,500
Depreciation	(600)	(1,300)	(1,900)
Total Non-Current Assets	**3,200**	**700**	**3,900**
	-	**-**	**-**
Stock	150	31	181
Trade receivables	280	600	880
Cash & Bank	10	100	110
	440	**731**	**1,171**
Total Assets	**3,640**	**1,431**	**5,071**
Equity & Liabilities			-
Share capital	2,000	-	2,000
Reserves& Surplus	1,000	-	1,000
Profit for the year	440	1,131	1,571
	3,440	**1,131**	**4,571**
Trade payables	200	300	500
Total Equity &Liabilities	**3,640**	**1,431**	**5,071**

QUESTION FIVE

Marking guide

QUESTION FIVE	**Marks**
Part (a):	
1 mark for every well-developed challenge faced by the Government of Rwanda to smoothly adopt the accrual based IPSAS approach. Any additional relevant challenge not in the model answer will awarded 1 mark (falling within the maximum of 5 marks)	5
Part (b) (i): Statement of changes in net assets	
Correct presented line items for the statement of changes in net assets (each correct line item excluding the sub/other totals is awarded 1 marks)	8
Part (b) (ii): Statement of net assets	
Correct presented line items for the statement of net assets (each correct line item excluding the sub/other totals is awarded 1 mark)	7
Maximum marks - part (b)	**15**
Total marks	**20**

Detailed answer

a)

The main challenges faced by the Government of Rwanda transition from the cash-based IPSAS to adopting accrual-based IPSAS include the following but are not limited to:

Applying the IPSAS accrual accounting approach has not resulted in an improved decision-making process but rather has presented increased costs and complexity of generating financial reports for the government departments.

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.

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 know 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.

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.

Many public 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.

b) i)

Teganya Pension Fund		
Statement of Changes in Net assets for the year ended 31 December 2018	**Frw "Million"**	**Frw "Million"**
Contributions		
Employers Normal Contributions	1,504	
Members normal contributions	912	
Additional contributions	158	
Members voluntary contributions	228	
Total contributions		**2,802**
Transfers in		
Individual transfers from other schemes	320	
Investment income	2,370	
Total Transfers in		**2,690**
		5,492
Benefits paid		
Pension Paid	382	
Commutation and lump sum retirement benefits	241	
Reduction in market value of an investment	1,132	
Individual transfer to other schemes	93	
Total benefit payables		**(1,848)**
		3,644
Other expenses		
Administrative expenses		(142)
Net Change for the year		**3,502**

ii)

Teganya Pension Fund		
Statement of Net assets as at 31 December 2018	**Frw "Million"**	**Frw "Million"**
Investments in Assets		
Fixed income investments	13,180	
Investment properties	6,616	
		19,796
Other investments		
Demand deposits	1,173	
Equity investments: Quoted	4,392	
Unquoted	1,000	
Current Assets		
Contributions due within 30 days	247	
		6,812
		26,608
Current Liabilities		
Accrued expenses	12	
Unpaid benefits	16	
		(28)
Net Assets for the year		**26,580**
Accumulated fund as at 1 January 2018		**23,078**
Net Change for the year		3,502
Net Assets c/d		**26,580**

End of model answers and marking guide