CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY, 30 NOVEMBER 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.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Sigoma Ltd provided the following draft financial statements for the year ended 31 December 2020 together with its two related companies Lorisho Ltd and Torento Ltd.

Statement of profit and loss

	Sigoma Ltd	**Lorisho Ltd**	**Torento Ltd**
For year ended 31 December 2020	**FRW Million**	**FRW Million**	**FRW Million**
Sales		400,300	56,000
Cost of sales		(210,500)	(42,000)
Gross profit	-	189,800	14,000
Other income	85,600	96,600	78,500
Administration cost	(1,840)	(92,000)	(40,000)
Selling expenses		(46,000)	
Depreciation and amortization	(1,450)	(20,700)	(15,400)
Finance cost	(73,000)	(52,000)	(4,200)
Profit/(loss) before tax	9,310	75,700	32,900
Taxation	(4,850)	(67,200)	(15,600)
Profit or loss for the period	4,460	8,500	17,300

Statement of financial position as at 31 December 2020

	Sigoma Ltd	**Lorisho Ltd**	**Torento Ltd**
	FRW Million	**FRW Million**	**FRW Million**
Non-current assets			
Property plant and equipment	9,600	138,000	102,600
Intangible assets	5,400	1,500	8,600
Investment in subsidiary	143,000	39,000	
Total non-current assets	158,000	178,500	111,200
Current assets			
Inventory	75	85,600	82,000
Receivables	2,025	13,200	12,000
Cash and bank	5,600	3,500	23,500
Total current assets	7,700	102,300	117,500
Total assets	165,700	280,800	228,700
Equity			
Share capital of FRW 1000 each	2,000	50,000	30,000
Retained earnings	74,600	159,700	103,300
Other reserves	40,500	15,000	16,000
Total equity	117,100	224,700	149,300
Non-current liabilities			
Long term borrowing	45,000	45,000	65,000

	Sigoma Ltd	Lorisho Ltd	Torento Ltd
	FRW Million	FRW Million	FRW Million
Current liabilities			
Short term borrowing	3,200	2,500	8,500
Payables	400	8,600	5,900
Total current liabilities	3,600	11,100	14,400
Total equity and liabilities	165,700	280,800	228,700

Additional information:

1. Investment in Lorisho Ltd

Sigoma Ltd acquired 70% of the share capital of Lorisho Ltd some years back for FRW 75 billion cash transfer. On the date of acquisition, Lorisho Ltd's retained earnings balance was FRW 40 billion. The fair value of each share of Lorisho Ltd at that date was FRW 2,100. Sigoma Ltd measures non-controlling interests at acquisition at fair value. The fair values of net asset were equivalent to book values at acquisition date. All other reserves arose in the post-acquisition period.

2. Investment in Torento Ltd

Sigoma Ltd acquired control in Torento Ltd by acquisition of 30% of the share capital together with Lorisho Ltd acquiring 50% of share capital on the same date several years back when Torento Ltd's retained earnings was FRW 29 billion. Sigoma Ltd paid FRW 23 billion and Lorisho Ltd paid FRW 39 billion both as cash transfers to acquire the shares in Torento Ltd. The fair value of each share of Torento Ltd at that date was FRW 2,500. Sigoma Ltd measures non-controlling interests at acquisition at fair value. The fair values of Torento Ltd's net assets were equivalent to book values at acquisition date. All other reserves arose in the post-acquisition period.

3. Inter-entity transaction and balances

During the year, sales to Sigoma Ltd included in its Administration expenses and some remaining unused as inventory were as follows.

- Sales from Lorisho Ltd FRW 250 million: Still in inventory FRW 50 million: In payables FRW 100 million
- Sales from Torento Ltd FRW 100 million: Still in inventory FRW 25 million: In payables FRW 75 million.

All these sale prices are inclusive of a mark-up of 25%.

4. Management fee

Sigoma Ltd charges management fee to each subsidiary. Included in its other income and Administration expenses of the subsidiaries were FRW 170 million and FRW 120 million in Lorisho Ltd and Torento Ltd respectively

5. Borrowings

On 01 October 2020 Sigoma Ltd took FRW 45 billion loan for a term of 10 years from BK Bank at annual interest rate of 15% payable in arrears in equal installments per year. Sigoma immediately lent the amount to Lorisho Ltd at interest rate of 18% per annum for 10 years in arrears. The interest rate charged by Sigoma Ltd is considered similar to market rates. The loan is included in the Investment in Lorisho Ltd. Interest income is included in other income and receivables.

6. Goodwill impairment

Goodwill had never been impaired in previous years but the conditions and situations in year 2020 of the COVID 19 pandemic resulted into a reduction of activities that showed signs of impairment of goodwill. After assessment, the respective impairments loss was determined to be as follows:

Lorisho Ltd FRW 10 billion
Torento Ltd FRW 14 billion

Required:

a) **Prepare the consolidated statement of profit or loss for the year ended 31 December 2020 and the consolidated statement of financial position as at 31 December 2020.** (45 Marks)

b) **Regarding additional information Note 5 on Borrowings, provide summary disclosure notes in accordance with IAS 24 "Related Party Disclosures" in the separate financial statements of Sigoma Ltd.** (5 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

a) Green Coffee Company (GCC) (based in Rwanda) on 01 October 2020, sold 20,000 Kilograms of roasted coffee inventory to a Japanese customer at US$ 4.5 per kilogram and was to receive the total amount of the payment on 31 December 2020. Because of the exposure to possible foreign currency risk, GCC entered into a forward contract (Cash flow hedge) with BK Bank to deliver US$ 90,000 at an exchange rate of FRW 665 per 1 US $ on 31 December 2020. The following are the exchange rates applicable:

Date	Spot rate for 1 US $	Forward rate for 1 US $
01 October 2020	650 FRW	655 FRW
30 November 2020	652 FRW	653 FRW
31 December 2020	665 FRW	665 FRW

Required:

(i) If GCC did not enter into a forward contract, calculate the total gain or loss arising on the accounts receivable for the period ended 31 December 2020 (3 Marks)

(ii) Determine hedge effectiveness on 30 November 2020 and 31 December 2020. (2 Marks)

(iii)Show the journal entries on 30 November 2020 and 31 December 2020? (5 Marks)

- **For the account receivable**
- **For the cash flow hedge**

b) Single Source Properties (SSP) provides office space for rental on credit terms of 30 days. SSP uses Expected losses method on its rent receivables. At the start of the year 01 Jan 2020, they had FRW 250 million outstanding receivables with the following provision matrix.

Days	Gross carrying amount FRW million	Expected default rate
Current	100	0.20%
1 to30 days over-due	65	5%
31 to 60 days over-due	55	50%
Over 60 days	30	90%
Total	250	

During the year end there were significant changes due to effects of epidemic and other restrictions on business operations and a such SSP revised their expected default rates as much as there was no objective evidence of an impairment. At 31 December they had FRW 420 million outstanding receivables with the following provision matrix.

Days	Gross carrying amount FRW million	Expected default rate
Current	180	0.50%
1 to30 days overdue	130	7%
31 to 60 days over due	60	60%
Over 60 days	50	95%
Total	420	

Required:

Briefly explain the concept of "Expected credit loss method" of impairment of receivables in IFRS 9 Financial Instruments, then Prepare the provision matrix as at the start 01 January 2020 and end of the year 31 December 2020 and show the journal entry at the end of the year only. (10 Marks)

c) In a meeting of directors, one of the directors asked the Finance Director about a line item seen in the financial statements "Deferred tax liability".

Required:

To help the other directors, write a short memo to present to them to understand by defining the term "Deferred Tax" and provide at least three benefits of providing for deferred tax in financial statements of a listed company. (5 Marks)

(Total: 25 Marks)

QUESTION THREE

Multi Telecom Network Plc is in the process of restructuring and is also listing its shares in the Rwanda Securities Exchange (RSE). There were three situations presented to you to assist management to handle them.

1. Multi Telecom Network Plc granted share options to all of its 800 employees on 1 January 2019. Each employee will receive 200 share options provided they continue to be employed by Multi Telecom Network Plc for four years from the grant date. The fair value of an option at the grant date was FRW100.
2. Multi Telecom Network Plc also granted 100 share appreciation rights (SARs), to its 500 employees on 1 January 2019. To be eligible, employees must remain employed for four years from the date of issue and the rights must be exercised in January 2024, with settlement due in cash.

Relevant to situation 1 and 2 above.

• In the year to 31 December 2019, 100 staff left and a further 200 were expected to leave over the following three years.

• In the year to 31 December 2020, 80 staff left and a further 150 were expected to leave in the following two years.

The fair value of each SAR was FRW15 at 31 December 2019 and FRW18 at 31 December 2020.

3. Multi Telecom Network Plc made the decision to sale its telecom masts that was part of its property. This property was measured at carrying amount FRW 850 million as at 31 December 2020. The estimated fair value at that date is FRW 1.02 billion but a commission and valuation fees will be paid to real estate agents of FRW 210 million. Assume the requirements for classification as non-current asset held for sale had been met.

Required:

a) **Define "Equity settled share-based payment" and prepare the accounting entries to record the expense and equity associated with the share options in situation 1 above for each of the two years ended 31 December 2020, in accordance with IFRS 2 Share-based Payments.** (10 Marks)

b) **Define "Cash settled share-based payment" and prepare the accounting entries to record the expense and liability associated with the SARs in situation 2 above for each of the two years ended 31 December 2020, in accordance with IFRS 2 Share-based Payments.** (10 Marks)

c) **Determine any impairment loss if any in situation 3 above and describe treatment of the this in statement of profit/loss and the Statement of financial position as at 31 December 2020.** (5 Marks)

(Total: 25 marks)

QUESTION FOUR

a) Current trends for entities annual reporting especially those of public interest, have come up with new trends in corporate reporting. This includes the social responsibility the entity has to the public. To this end entities of public interest have resorted to Corporate Social Responsibility (CSR) Reporting.

Required:

Explain what is meant by Corporate Social Responsibility (CSR) reporting and examples of the key items that may be included in a company's Corporate Social Responsibility (CSR) report. (10 Marks)

b) The International Federation of Accountants (IFAC) board IFAC Board has established the International Public Sector Accounting Standards Board (IPSASB) to function as an independent standard-setting body under the auspices of IFAC.

The IPSASB's objective is to serve the public interest by developing high quality accounting standards and other publications for use by public sector entities around the world in the preparation of general-purpose financial reports. To this end it follows the due process in pronouncements of International Public Sector Accounting Standards (IPSASs), reporting guidelines studies, and research in financial reporting.

Required:

Briefly explain the due process to come up with pronouncements of IPSASs

(5 Marks)

c) Recently the Government of Rwanda (GoR) undertook the project of change into the full accrual system of the IPSASs which is a multi-year process. The government had already implemented the Integrated Financial Management system that was on modified cash basis. With the introduction of full accrual IPSASs, there is need for IFMS to change into full accrual.

Required:

As an adviser write a short report to the Accountant General advising on the best way IFMIS can be used to implement accrual IPSAS accounting.

(10 Marks)

(Total: 25 Marks)

End of question paper