



CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS
I1.2: FINANCIAL REPORTING
TUESDAY, 30 NOVEMBER 2021
MODEL ANSWERS AND MARKING GUIDE

SECTION A

QUESTION ONE

Marking Guide

RIC GROUP

Marks

Part (a): Circumstances under which significant influence is achieved

Award 1 mark for every correct circumstance that gives rise to significant influence (other than the percent voting ordinary shares held by the investor) for a maximum of two cases

2

Part (b): Consolidated Goodwill balance on 30 September 2017

Award 0.5 marks for each correct line included in the computation of the goodwill to the reporting date of 30 September 2017 (including the sub/other totals supporting the final carrying amount of the goodwill measure)

5

Part (c): Consolidated retained earnings on 30 September 2017

Award 0.5 marks for each correct line included in the computation of the consolidated retained earnings to the reporting date of 30 September 2017 (including the sub/other totals supporting the final carrying amount of the consolidated retained earnings balance)

5

Part (d): RIC Consolidated statement of financial position as at 30 Sept 2017

Award 0.5 marks for each correct amount of "totals" in the specific relevant line items included in the consolidated statement of financial position (other than the sub/other totals). This is exclusive of any workings done directly on the face of the financial statement (as these are separately awarded under marking for "workings" as guided below.

5

Workings (restrict to calculations NOT explanations) for:

Note: Workings may be done on the face of the consolidated statement of financial position, and these will earn the same marks as the equivalent workings presented as "separate workings"

(i) Property, plant & equipment (0.5 marks for each correct additions and/or consolidation adjustment excluding un-realised profit on intra-group sale of a PPE asset whose allocated marks are separately given below)

2

(ii) Investments (0.5 marks for each correct additions and/or consolidation adjustment)

1

(iii) inventories (0.5 marks for each correct additions and/or consolidation adjustment)

1

(iv) Trade receivables (0.5 marks for each correct additions and/or consolidation adjustment)	1.5
(v) Cash and bank	0.5
(vi) Non-controlling interests (0.5 marks for each correct additions and/or consolidation adjustment)	3
(vii) Long-term borrowings (0.5 marks for each correct additions and/or consolidation adjustment)	1
(viii) Payables (0.5 marks for each correct additions and/or consolidation adjustment)	2
(ix) Un-realised profits on intra-group sale of the PPE (asset)	1
Maximum marks	18

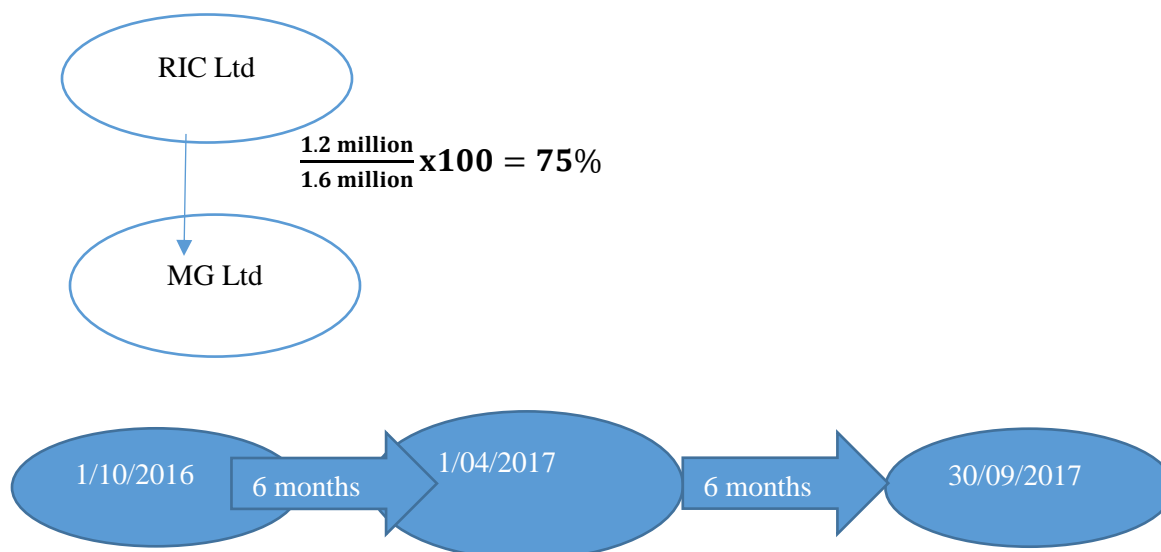
Total Marks for Question One	30
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Detailed answer

Q1. a)

Existence of significant influence is evidenced in one or more of the following ways

- (a) Representation on the board of directors of the investee
 - (b) Participation in the policy making decision
 - (c) Material transaction between investor and investee
 - (d) Interchange of managerial personnel
 - (e) Provision of essential technical information
- Accounting for the investment in Associate



Q1.b) Good will (W1)

		Amount Frw 000
Fair value of consideration		W2 1,107,000
Net asset		
Share capital	960,000	
Retained earnings	(W6) 813	
Fair value adjustment Plant	60,000	
Net asset		(1,020,813*0.75) (765,610)
Good will at acquisition attributable to parent		341,390
Impairment attributable to parent		341,390*0.2 68,278
Good will balance attributable to parent		(A) 273,112
Fair value of NCI		400*650 260,000
		(255,203)
Total net assets Refer to (A)	(1,020,813)*0.25	
		4,797
Impairment attributable to NCI	4,797*20%	(959)
Goodwill attributable to NCI		(B) 3,838
Total goodwill balance A+B		276,950

Q1.c) (W3) Retained earnings

Details	Amount Frw000
Rulindo Ltd	936,400
MUHIMA Ltd post acquisition	(1,500-813)*0.75 515
Impairment in MUHIMA LTD	W1 (68,278)
Unrealized profit on stock in MUHIMA	W7 (27,500)
Unrealized profit on assets sold	1,400*0.75 (1,050)
Depreciation on Fair value Adjustment	(60,000*0.1*6/12)*0.75 =(2,250)
Extra depreciation on Up OF ASSETES	1,400*0.1*6/12 70
Balance c/d	837,907

Q1.d. RIC consolidated statement of financial position as at 30th September 2017

Details	Amount Frw000
Non-current Assets	
Property, plant and equipment	$929,000+605,600+60,000-1,400+70-3000=$ 1,590,270
Investment	$1,042,000+195,000-1,107,000-130,000 =$ 0
Good will	(W1) 276,950
Current Assets	
Inventories	$631,200+411,600- 27,500 =$ 1,015,300
Trade receivables	$734,200+467,400-9,750-22,050-34,000-21,000=$ 1,114,800
Cash and bank	$116,000+221,160 =$ 337,160
Total Assets	4,334,480
Equity and Liabilities	
Share capital FRW 600 per share	$981,000+195,000(W2)$ 1,176,000
Retained earning	W3 837,907
Non-controlling interest	W4 258,113
Non-current liabilities	
Long-term borrowing	$896,000+265,160-130,000$ 1,031,160
Current liabilities	
Payables	$639,000+449,700-9,750-34,000-21,000$ 1,023,950
Dividends	$29,400*0.25$ or $29,400-29,400*0.75$ 7,350
Equity and Liabilities	4,334,480

W2. Fair value of consideration

Fair value of consideration	Frw 000
Cash payment $760*1,200$	912,000
Share exchange $(1/4)*1,200*650 =$	195,000
	1,107,000

W4 Non-controlling interest

	Amount Frw 000
NCI at acquisition	260,000
Post-acquisition in MUHIMA Ltd	$(1,500-813)*0.25$ 172
Unrealized profit on assets sold	$1,400*0.25$ (350)
Impairment	W1 (959)
Depreciation on Fair value Adjustment	$(60,000*0.1*6/12) *0.25$ (750)
Balance c/d	258,113

(W5) Unrealized profit on Assets sold

	Amount Frw000
Net book value of asset transferred	$10,000 - (10,000 * 0.1 * 6.5) = 3,500$
Proceed from disposal	$3,500 * 140 / 100 = 4,900$
Unrealized profit on this disposal	1,400

W6) Pre-acquisition profit

Details	Amount Frw 000
Balance as per financial statement	1,500
Less $1,374 * 6 / 12$	<u>(687)</u>
Pre-acquisition profit	813
Post-acquisition profit $1,374 * 6 / 12$ or $1,500 - 813$	687

W7

Unrealized profit on stock: $110,000 * 0.25 = 27,500$

QUESTION TWO**Marking guide****Marks****Part (a) Earnings Per Share Calculations for KMD Ltd****1. Calculation of the Basic Earnings Per Share for the year ended 31 December 2018**

Award 0.5 marks for every correct amount used and/or computed in arriving to the calculation of the Basic Earnings per share (including any correct amounts used in separate workings for the "weighted average number of ordinary shares" and the final correct Basic EPS figure)

4

2. Calculation of the Revised Basic Earnings Per Share for the previous year ended 31 December 2017

Award 0.5 marks for every correct amount used and/or computed in arriving to the calculation of the adjusted Basic Earnings per share on 31 December 2017 (excluding the final revised amount of the adjusted Basic EPS)

1

Award 1 mark for the correct figure of the revised Basic EPS for the previous year ended 31 December 2018

1

Maximum marks**2**

3. Calculation of the Diluted Earnings Per Share for the year ended 31 December 2018

Award 0.5 marks for every correct amount used and/or computed in arriving to the calculation of the Diluted Earnings per share (including any correct amounts used in separate workings for the "dilutive effect of the convertible preference shares" and the final correct Diluted EPS figure)

3

Part (b) Gasabo 4D Ltd - amendment of accounting for operation leases under IFRS 16

Up to 1 mark for a correct explanation of the major change arising from the amendment of accounting for the operating leases by the lessee in accordance with IFRS 16 (Leases)

1

Up to 1 mark for a correct explanation of the treatment of the change in the accounting of the operating leases in the lessee's financial statements (in line with IAS 8)

1

Maximum marks

2

Part (c) Gasabo 4D Ltd - lease of an office space with an amendment

Award 0.5 marks for every correct amount used in the calculation of lease obligation schedules both before and after the lease amendment (and this also includes use of correct accounting treatment that may either be by way of a double-entry approach or a brief explanation of the accounting treatment)

14

Part (d): Financial assets and financial liabilities

Award 0.5 marks for every correct element (picked also as examples of components) making up the definition of:

(i) A financial asset (in accordance to IFRS 9); and/or

1.5

(i) A financial liability (in accordance to IFRS 9)

1.5

Award 1 mark for each of the correct circumstance identified that results into the de-recognition of a financial asset (in accordance with IFRS 9)

2

Maximum marks

5

Total Marks for Question Two

30

Detailed Answers

Q2.A

Weighted shares

B/d		100,000
Bonus shares	$1/3 \times 100,000$	= 33,333
Shares issued at full market price	$20,000 \times 9/12$	= 15,000
Total		148,333

Profit before tax		400,000
Taxation	$400,000 \times 0.3$	(120,000)
Preference shares dividends	= $0.08 \times 800,000$	(64,000)
Profit after tax		216,000

i. Basic Earnings Per Share (EPS): PAT/Weighted common stock
= $216,000 / 148,333 = 1.46$

ii. Adjustment of previous EPS = $\frac{3}{4} \times 5 = 3.75$

iii. Diluted earnings per share

Value of share option: $5,000 \times 5 = 25,000$

Number of shares that would be issued at full market price = $25,000 / 10 = 2,500$

Bonus shares = $5,000 - 2,500 = 2,500$

Calculate the earnings per incremental share for each dilutive security.

Details	Increase in Earnings	Increase in Shares	EPS
	Frw 000	Number of shares	
	A	B	A/B
Share option	-	2,500	Nil
Cumulative preference shares	64,000	160,000	0.4

In Determining Dilutive EPS, you start with the securities which has the lowest incremental EPS. Therefore, the share options will be the first, Convertible preference shares and Convertible loan will be considered lastly as it has highest incremental EPS.

	Increase in Earnings	Increase in Shares	EPS
Basic	216,000	148,333	1.46
Share option	-	2,500	
	216,000	150,833	=1.43

Cumulative preference shares	64,000	160,000	
	280,000	310,833	0.9

$$\text{Diluted EPS} = \frac{280,000}{310,833} = 0.9$$

Workings

Increase in earnings due to conversion of preference shares, dividends that will be saved= $0.08 \times 800,000 = 64,000$

Increase in shares due to conversion of preference shares= $2 \times 80,000 = 160,000$

Q2.B)

- i. IFRS 16 suggested that if the entity has right of use of an asset and liability resulting from lease arrangement, the leased asset shall be reported in the statement of financial position.

Transition from IAS 17 to IFRS 16

- ✓ Existing operating lease where right of use asset is evidenced, the entity should use full or limited retrospective restatement to record the right of use asset with obligation arising out of the right to use asset.

Lessees are relieved from full retrospective application as specified in IAS 8. Instead, a so-called 'modified retrospective' approach can be used. Under this approach, comparative data is not modified and the cumulative effects of applying IFRS 16 are recognized at the date of initial application of this standard as an adjustment to the opening balance of equity.

- ✓ Leases previously classified as operating leases should be recognized under a modified retrospective application.

- ii. Treatment of leased space in the financial statement of Gasabo 4D

$$\text{PV} = a \times \text{annuity factor} = 50,000 \times 7.3601 = 368,005$$

Lease obligation schedule before modification

year	opening (1 Jan)	Interest	payment (31 Dec)	closing (31 Dec)
2015	368,005	22,080	(50,000)	340,085
2016	340,085	20,405	(50,000)	310,490
2017	310,490	18,629	(50,000)	279,119
2018	279,119	16,747	(50,000)	245,866
2019	245,866	14,752	(50,000)	210,618

Netbook value of leased assets before modification i.e as at 31 December 2019

$$368,005 - \left(\frac{368,000}{10} \times 5 \right) = 184,002.5$$

Lease modification made on 1 January 2020

The interest was revised to 5% and the payment was reduced to Frw 30,000

Calculation of gain/loss on the termination of the lease under old terms	
184,002	Right-of-use asset before modification
50%	Modified scope (2,500 sq m out of original 5,000 sq m)
92,001	Decrease of right-of-use asset
92,001	Remaining Right-of-use after scope decrease

Liability modification

210,618	Liability before modification
50%	Modified scope (2,500 sq m out of original 5,000 sq m)
105,309	Decrease of liability
105,309	Liability after scope decrease

Gain on the revision of lease agreement, compare the liability cancelled with the asset foregone

Liability cancelled	105,309
Right of use asset foregone	(92,001)
Gain	13,308

After revision

PV of leased asset = a x annuity factor = 30,000 x 4.329 = 129,870, the interest factor is now computed using revised rate i.e 5% and apply it to the remaining 5 years (from Jan 2020 to Dec 2024)

	Dr	Cr	
Lease liability	Frw 105,309		
Right of use asset	Frw 24,561		
Gain		Frw 13,308	
Lease obligation		Frw 24,561	(129,870-105,309)
Right of use asset		Frw 92,001	
Total	129,870	129,870	

Depreciation from Jan 2020 $\frac{92,001+24,561}{5} = 23,315$

Lease schedule after modification

year	opening (1 Jan)	Interest	payment(31 Dec)	closing (31 Dec)
2020	129,884	6,494	(30,000)	106,379
2021	106,379	5,319	(30,000)	81,697
2022	81,697	4,085	(30,000)	55,782
2023	55,782	2,789	(30,000)	28,571
2024	28,571	1,429	(30,000)	-

Q2.c)

Financial asset is any asset that is:

- (i) Cash;
- (ii) An equity instrument of another entity;
- (iii) A contractual right: To receive cash or another financial asset from another entity; while

Financial liability is a contractual obligation:

- i. To deliver cash or another financial asset to another entity; or
- ii. To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- iii. A contract that will or may be settled in the entity's own equity instruments

An entity should derecognize a financial asset when:

- ✓ The contractual rights to the cash flows from the financial asset expire; or
- ✓ It transfers substantially all the risks and rewards of ownership of the financial asset to another party

QUESTION THREE

Marking Guide

Marks

Part (a): Effects of COVID-19 implications on the financial reporting for companies

Award up to 1 mark for each correctly explanation of the effects of COVID-19 implications on the financial reporting for companies (within the seven areas identified in the question)

7

Part (b) (i) Limitation of Ratio analysis

Award 1 mark for each correct limitation of ratio analysis well explained

3

Part (b) (ii): Analysis of the financial performance and position of TTC Ltd and FD Ltd in the interest of Mesimesi

Award 0.5 marks for each ratio calculated (per year) for each of the two companies being analysed for the following ratios:	
Gross profit margin (separately for 2019 and 2020) for both TTC Ltd and FD Ltd	2
Net profit margin (separately for 2019 and 2020) for both TTC Ltd and FD Ltd	2
Return on assets (separately for 2019 and 2020) for both TTC Ltd and FD Ltd	2
Return on equity (separately for 2019 and 2020) for both TTC Ltd and FD Ltd	2
0.5 mark for each correct/valid point raised in the analysis made (based on the four ratios computed above)	2
Maximum marks	10

Total Marks for Question Three	20
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Detailed answer

Q3.A)

Impact of covid-19 on financial reporting

i. Treatment of borrowing costs

IAS 23 state that if the active development and/or construction of qualifying asset is suspended, capitalization of borrowing cost must be suspended as well. Given the total lockdown imposed as way of containing the spread of covid-19, some projects may have been stopped or suspended in one way or the other and if so, borrowing cost to be capitalized should be computed on prorated basis.

Renegotiation of borrowing rate or revision of WACC: If management negotiate a borrowing rate, necessary adjustment needs to be made and separate disclosure should be made to reflect the effect of change interest rate or WACC.

ii. Impairment test and estimating future cash flows

Some assets may be impaired: Covid-19 affected business operation and it increased economic uncertainty which necessitate the need to perform impairment test. Given the high level of uncertainty, it is a challenge to estimate the future cash flows to calculate the recoverable amount of assets. For each reporting period i.e quarter, interim the companies should perform an impairment review for all assets. Impairment must be charged under Profit or loss and the asset shall be written down to its recoverable amount

iii. Inventory measurement

Some companies/business have significantly affected by decreases in commodity prices and companies that are depending on one product may also be exposed to a greater risk of adverse economic impacts. The net realizable value of inventory is expected to be lower than the cost, as the market price of many products experienced a decrease

The following should be taken into consideration

- ✓ The selling price may fluctuate due to change in customer demand
- ✓ Some inventory may be deteriorated or become absolute which requires a write off
- ✓ **Estimated** cost to complete may change due to increase in the cost of materials

iv. Challenge in preparing budget

Covid-19 resulted into unpredictable economic trend; the business should be cautious while preparing forecast/budget by allowing margin for possible increase in costs and possible decrease in sales revenue

v. Increase in bad debt

Due to economic recession, the customers may not pay the amount due under revenue from contract (IFRS 15) which necessitate a need to revise the allowance for provision for bad debt

vi. Assess going concern

IAS 1 preparation and presentation of financial statements requires management to assess a company's ability to continue as going concern. Accordingly, given the uncertainty in business activity, the management should assess the impact of Covid-19 on the company's operation.

The revenue of some business decreased to nearest zero, among the affect business are: transport, hotel etc.,.

If management noted that the continuity of the business is doubtful, the company has no realistic alternative but it is no longer a going concern and the financial statements may have to be prepared on liquidation basis.

vii. Reflecting risk and market condition at the measurement date

The companies should take into consideration some key factors and risks while measuring fair value, among factors to be look at are

- ✓ Significant reduction in economic activity in terms of production and demand for goods and services which may have negative impact in forecast future cash flows used in a discounted cashflow valuation method
- ✓ Credit risk and liquidity risk

Question 3 b)

i. Limitation of ratios

- ✓ Company projections based on trend and ratios are not adequate as the trend is a reflection of historical actions which may or may not be applicable in the future
- ✓ Ratios are meaningless without a comparison against trend data or industry data and without looking at the causation factors
- ✓ There may be a window dressing intended to manipulate the financial statement: The records presented in the financial statements could be manipulated by accountant
- ✓ The benchmark used for financial ratios may not always be the most appropriate: Benchmark focus on company-to-company comparisons of how products and services perform against their toughest competitors or those recognized as leaders in their industry.

ii. Report on analyzes of financial information of TTC Ltd and FD Ltd

From: Independent consultant

To: Mesimes Ltd

Purpose: Analysis of financial performance of TTC and FD Ltd.

Ratio	Formula	TTC		FD		
		2019	2020	2019	2020	
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	$\frac{7,000}{12,000} \times 100$ = 58%	$\frac{7,000}{13,000} \times 100$ = 54%	$\frac{8,000}{23,000} \times 100$ = 35%	$\frac{11,000}{35,000} \times 100 = 31\%$	
Net profit margin	$\frac{\text{Net profit}}{\text{Sales}} \times 100$	$\frac{2,000}{12,000} \times 100$ = 17%	$\frac{2,000}{13,000} \times 100$ = 15%	$\frac{1,000}{23,000} \times 100$ = 4%	$\frac{2,000}{35,000} \times 100 = 6\%$	
Return on assets	$\frac{\text{Net income}}{\text{Total assets}} \times 100$	$\frac{2,000}{18,000} \times 100$ = 11%	$\frac{2,000}{21,000} \times 100$ = 9.5%	$\frac{1,000}{29,000} \times 100$ = 3.5%	$\frac{2,000}{47,000} \times 100$ = 4.25%%	
Return on equity	$\frac{\text{Net income to shareholders}}{\text{Total equity}}$	$\frac{2,000}{15,000} \times 100$ = 13%	$\frac{2,000}{16,000} \times 100$ = 13%	$\frac{1,000}{16,000} \times 100 = 6.2\%$	$\frac{2,000}{24,000} \times 100$ = 8.3%	

Gross profit margin: TTC ltd performed well with 54, the margin of FD ltd is nearly half of TTC ltd.'s margins. The high profit margin achieved by TTC may be driven by profit-oriented strategy, focusing on product with high margin and cost saving

NPM: The net profit margin of FD has improved in 2020 by almost 2%, this may be backed by efficient tax planning while the net profit margin of TTC declined by 2%. The increase in sales revenue did not yield any increase in net profit due to increase in other expenses

ROA: The assets of TTC are being used more efficiently compared to that of FD co, however, FD managed to improve the efficiency in using assets in 2020

ROE: Return on equity ratios measure the company's ability to provide return to equity holders. The return provided by TTC is better at 13% compared to that of FD at 8%

Conclusion: TTC Ltd is the best company than FD Ltd, therefore, Mesimesi should invest in TTC Ltd

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SECTION B

QUESTION FOUR

Marking guide

	Marks
Terimberi Muhinzi Cooperative (TMC)	
(i) Preparation of the Tea farming account and the Tea factory account for the year ended 31 March 2020	
Award 0.5 marks for each correct line included in the compilation of the Tea farming account (excluding the sub/other totals within the main Tea farming account and/or within separate workings)	4.5
Award 0.5 marks for each correct line included in the compilation of the Tea factory account (excluding the sub/other totals within the main Tea factory account and/or within separate workings)	4.5
Maximum marks	9
(ii) Preparation of the general statement of profit & loss account and appropriation account of TMC for the year ended 31 March 2020	
Award 0.5 marks for each correct line included in the prepared general statement of profit & loss account and appropriation account (excluding the sub/other totals within the main statement and/or within separate workings)	5
(ii) Preparation of the statement of financial position of TMC as at 31 March 2020	
Award 0.5 marks for each correct line included in the prepared (excluding the sub/other totals within the main statement and/or within separate workings)	6
Total Marks for Question Four	20

Detailed answer

Q4.

- i. Tea farming account for the year ended 31 December 2020**

	Frw 000	Frw 000
Sales		
-Tea seeds sold to other tea cooperatives		221,000
-Tea leaves transferred to tea factory		38,000
		259,000
Cost of sales		
Opening stock: Tea seeds in nursery bed	56,440	
Purchase of materials		
-Nursery tea seed	40,000	
-Manure	15,000	
- Fertilizers	12,000	
Closing stock: Tea seeds in nursery bed	(5,100)	
Cost of sales		118,340
Gross profit		140,660
Expenses		
Salaries and wages	37,200	
Total expenses		37,200
Net profit		103,460

Tea factory account for the year ended 31 March 2020

	Frw 000	Frw 000
Sales		
-Green tea		105,000
-Tangawizi tea		73,000
-Mild blend		11,000
Total revenue		189,000
Cost of sales		
Opening stock:		
-Green tea	48,680	
-Tangawizi tea	15,000	
-Mild blend	20,000	
Purchase of materials	32,000	
Tea leaves from farming activity	38,000	
Closing stock		
-Green tea	(8,500)	
-Tangawizi tea	(7,300)	
-Mild blend	(6,200)	
Cost of sales		(131,680)
Gross profit		57,320

	Frw 000	Frw 000
Expenses		
Salaries and wages	24,800	
Depreciation of factory plant	W3 23,000	
Export charge	8,200	
Total expenses		(56,000)
Net profit		1,320

ii. Terimbere Muhinzi Cooperative general income statement for the year ended 31 March 2020

	Frw 000	Frw 000
Profit from Tea farming	Refer to Q5.a)	103,460
Profit from tea factory	Q5.a)	1,320
		104,780
Other income		
Gain on fair value		2,000
Amortization of grant	W2	10,000
		116,780
Expenses		
Repair and maintenance	45,000	
Insurance	3,100	
Depreciation of building	W1 15,000	
Depreciation of Machineries	W4 10,000	
Interest	46,000*12.5% 5,750	
General expenses	10,540	
Total expenses		89,390
Cooperative Net profit for the period		27,390

Terimbere Muhinzi Cooperative appropriation account for the year ended 31 March 2020

	Frw 000
Profit for the period	27,390
Transfer to statutory reserve 27,390*20%	(5,478)
Retained profit	21,912

iii. Terimbere Muhinzi Cooperative statement of financial position as at 31 March 2020

	Frw 000	Frw 000	Frw 000
Assets	Cost	Acc. depreciation	NBV
Non-current Assets			
Building	250,000	W1 (115,000)	135,000

Factory plant	460,000	W3 (63,000)	397,000
Machineries	200,000	W4 (10,000)	190,000
Biological assets			20,000
Total NCA			742,000
Current assets			
Trade receivables	126,360		
Bank	141,800		
Inventory			
-Green tea	8,500		
-Tangawizi tea	7,300		
-Mild blend	6,200		
-Tea seeds in nursery bed	5,100		
Total current assets			295,260
Total assets			1,037,260
Members fund			
Accumulated fund			560,000
Statutory reserves 6,000+5,478			11,478
Retained Profit			21,912
			593,390
Liability			
Non-current liability			
Bank loan			46,000
Government grant	200,000-10,000-10,000		180,000
Total non-current liability			220,000
Current liability			
Grant	10,000		
Unpaid interest	5,750		
Trade payables	202,120		
Total current liability			217,870
Equity and liability			1,037,260

Workings

W1	Depreciation of building (250,000-100,000) *10%	15,000
W2	Grant amortization 200,000*5%	10,000
W3	Depreciation of factory plant	23,000
W4	Depreciation of machineries 200,000*5%	10,000

QUESTION FIVE

Marking Guide

Marks

Part (a): Major changes in the public financial management policies and procedures

Award 1 mark for a correct explanation of the major changes made in the public financial management policies and procedures

7

Part (b): Rwanda Youth Board (RYB) - Preparation of a budget performance report

Award 0.5 marks for each correct line included in the prepared budget performance report (including the sub/other totals within the main statement and/or within separate workings)

13

Total Marks for Question Five

20

Detailed answer

Q5.a)

Major changes introduced in the public financial management policies and procedures

S/N	Key changes in PFM	Comment
1	Accounting policy	<p>The previous manual prescribed a modified cash basis of accounting for all entities. The financial transactions and events were generally recognized in the books of accounts when cash is paid or received, the extent of modification was limited the outstanding invoices and advances that was required to be recognized in the books of accounts at the end of the reporting period.</p> <p>The government of Rwanda has initiated an effort to migrate to full accrual basis. the new PFM tackles both the cash and accrual basis accounting and recognize the modified accrual basis of accounting as the basis that shall be applied by all public entities during the transition to full accrual basis of accounting except for subsidiary entities to district which shall continue to use modified cash basis until further instruction</p>
2	Inventory management	<p>The following procedures in respect of inventory management were stated in new PFM</p> <p>Capturing and maintaining complete records of inventory items</p> <p>Stock count arrangements and reconciling with stores records</p>

S/N	Key changes in PFM	Comment
		<p>Valuation of inventory items Identifying obsolete stocks</p> <p>Inventory to be valued using the weighted average cost valuation method. The inventory maintained by public entities t the end of fiscal year will be reported in financial statement by way of disclosure</p>
3	Accounting records and registers	<p>The following registers are required as per new PFM Fixed assets including service concession assets Register for both finance and operating lease Intangible assets</p> <p>Account receivables arising out of non-exchange transactions The actual tax debt written off and recoveries of taxes debt previously written off but unexpectedly settled by the tax payer who previously defaulted</p>
4	Financial risk management	The chief budget manager will provide a certificate to indicate that the assessment of financial risks was carried out and the risk management plan was fully operation
5	Internal control environment	The chief budget manager re required to establish efficient and effective internal control system for the entity that fall under their management
6	Multi-year expenditure	Annual budget amount for the contract shall be committed and purchase orders should be issued progressively through the IFMS subject to availability of cash plan
7	Blacklisted suppliers not transact business with public entities and are to be deactivated in the IFMS	The accountant general is required to ensure that all blacklisted suppliers by the RPPA are deactivated in the IFMS system
8	Fruitless and wistful expenditure	The manual provides detailed procedure to enable the chief budget manager to exercise all reasonable care to prevent and detect fruitless and wasteful expenditure. A fruitfulness and wasteful expenditure register to be maintained by public entities each year
9	Accrual of annual performance-based bonus	the annual staff performance-based bonus will be accounted on accrual basis at the time when such bonus can be estimated reliably and the payment process will go through the normal commitment control
10	Disclosure of post-employment benefit payable to	The RSSB to provide appropriate financial information for purposes of including a note disclosure in the consolidated accounts of government in respect of the post-employment benefits payable to government employees based on a full valuation.

S/N	Key changes in PFM	Comment
	government employees	
11	Accounting for Prepayment	New PFM requires that all prepayments must be accounted for as accounts receivable to ensure that the goods and services for which the expenditure is prepaid are delivered
12	Foreign currency commitments	New PFM requires that all types of commitments in respect of foreign currency payment to be made at the prevailing spot exchange rate instead of rates used for budgeting or contracting purposes
13	Service concession agreements (PPP)	New PFM provide Procedures for the recording and reporting information on PPPs. Rwanda Development Board (RDB) is required to make a disclosure on PPPs as part of its financial statements.
14	Foreign currency translations temptation	IPSAS 4-effects of changes in foreign exchange rates will be applied
15	Management of non-current assets	New manual provides enhanced controls for administration, accounting and recording of non-current assets to ensure proper management of public property

Question 5.b

RYP budget performance report for the year ended 30 June 2020

Descripti on	Initial budget	Increase/ decrease	Revised budget	Actual	Variance (Surplus or deficit	Perform ance
	Frw	Frw	Frw	Frw	Frw	
	A	B	C=A+B	D	D-C	$\frac{D}{C} \times 100$
Tax revenue	481,588,845	99,527,054	581,115,899	494,245,370	(86,870,529)	85%
Grant and transfers	16,427,314,317	-69,310,349	16,358,003,968	15,853,871,979	(504,131,989)	97%
Other revenue	3,074,733,668	32,544,994	3,107,278,662	2,029,108,810	(1,078,169,852)	65%
Total receipts	19,983,636,830	62,761,699	20,046,398,529	18,377,226,159	(1,669,172,370)	92%
Expendit ure			0			
Acquisiti on of Non-	5,072,533,938	12,240,219	5,084,774,157	11,199,239,823	6,114,465,666	220%

Descripti on	Initial budget	Increase/ decrease	Revised budget	Actual	Variance (Surplus or deficit	Perform ance
	Frw	Frw	Frw	Frw	Frw	
	A	B	C=A+B	D	D-C	$\frac{D}{C} \times 100$
current assets						
Salaries and wages	6,860,004,814	-50,234,585	6,809,770,229	6,790,876,155	(18,894,074)	100%
Goods and services	2,635,441,370	300,734,867	2,936,176,237	3,049,336,943	113,160,706	104%
Grant and other transfers to other reporting entities	1,334,267,642	-87,838,041	1,246,429,601	845,214,721	(401,214,880)	68%
Social assistanc e	3,517,957,569	(191,882,038)	3,326,075,531	2,910,317,865	(415,757,666)	88%
Other expenses	563,431,497	79,741,277	643,172,774	666,616,726	23,443,952	104%
Total expendit ure	19,983,636,830	62,761,699	20,046,398,529	25,461,602,233	5,415,203,704	127%

End of Model answers and marking guide