CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

TUESDAY, 30 NOVEMBER 2021

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **three** compulsory questions.
4. Section **B** has **two** questions, **one** question to be attempted.
5. In summary attempt **four** questions, **three** in section A and **one** in section B.
6. Marks allocated to each question are shown at the end of the question.
7. Show all your workings where applicable.
8. The question paper should not be taken out of the examination room.

SECTIONA

QUESTION ONE

On 1st April 2017 Rulindo Investment Company (RIC) Ltd acquired 1.2 million shares in Muhima Giant (MG) Ltd. RIC Ltd paid FRW 760 per share in cash and by share exchange on the basis of 1 share for every 4 shares acquired in MG Ltd. The market value of both RIC Ltd and MG Ltd shares on this date were at FRW 650. It is the group policy to value the non-controlling interest at fair value and therefore the market price of MG Ltd's shares on 1st April 2017 can be taken as a representative of the fair value of the non-controlling interests.

The summarized draft statements of financial position of both companies as at 30 September, 2017 are as follows:

	Rulindo Investment Company (RIC) Ltd	**Muhima Giant (MG) Ltd**
	FRW 000	**FRW 000**
Non-current Assets		
Property, plant, and equipment	929,000	605,600
Investment	1,042,000	-
Current Assets		
Inventories	631,200	411,600
Trade receivables	734,200	467,400
Cash and bank	116,000	221,160
Total Assets	**3,452,400**	**1,705,760**
Equity and Liabilities		
Share capital FRW 600 per share	981,000	960,000
Retained earning	936,400	1,500
Non-current liabilities		
Long-term borrowing	896,000	265,160
Current liabilities		
Payables	639,000	449,700
Dividends	-	29,400
Total equity & Liabilities	**3,452,400**	**1,705,760**

Additional information

1. Only the cash consideration paid by Rulindo Investment Company (RIC) Ltd has been recorded, the share exchange was not recorded.

2. Muhima Giant (MG) Ltd buys goods from RIC Ltd upon which RIC Ltd earns a profit margin of 25%. On 30 September 2017 MG Ltd.'s inventories included FRW 110 million of the goods purchased from RIC Ltd.
3. The retained profit of MG Ltd for the year ended 30 September 2017 was FRW 1,374,000. The profit of MG Ltd accrued evenly throughout the year.
4. On the date of acquisition of MG Ltd, the company's plant and equipment included plant that had a fair value of FRW 60 million in excess of its carrying value.
5. On 01 January 2017, MG Ltd conducted assets count to verify the status and usefulness of the assets held and noted that one motor vehicle acquired on 1 October 2010 at cost of FRW 10 million was no longer needed by the company, therefore, the company decided to dispose it off. The car had a useful economic life of 10 years when initially purchased on 1 October 2010. On 02 April 2017, RIC Ltd expressed interest to buy the motor vehicle and on 2 April 2017 the motor vehicle was transferred to RIC Ltd. As at the time of transfer, MG Ltd marked up the disposal proceeds by 40% above the net book value of the transferred motor vehicle.
6. An impairment review performed by RIC Ltd revealed that goodwill had been impaired by 20%.
7. Just after acquisition of MG Ltd, RIC Ltd offered a long term 15% FRW 130 million loan to MG Ltd. By 30 September 2017 the loan and related interest had not yet been paid.
8. At 30 September, 2017 RIC Ltd had receivables balance worth FRW 34 million owed by MG Ltd and a separate amount of the payables balance worth FRW 21 million owed to MG Ltd.
9. Property, plant, and equipment of RIC Ltd and MG Ltd are depreciated at the rate of 10% on a straight-line basis.
10. Dividend payable had already been accounted for by RIC Ltd and it is included in receivables balance.

Required:

a) **Briefly explain any TWO circumstances (other than voting ordinary share capital) under which significant influence could be evidenced in an associate company** (2 Marks)

In respect to the acquisition of MG Ltd by RIC Ltd:

b) **Compute the consolidated goodwill as at 30 September 2017** (5 Marks)

c) **Calculate group retained earnings as at 30 September, 2017** (5 Marks)

d) **Prepare a consolidated statement of financial position for RIC Ltd for the year ended 30 September, 2017** (18 Marks)

(Total 30 Marks)

QUESTION TWO

a) KMD ltd is a listed company incorporated in accordance with Rwandan law. The equity as at January 2018 was as follows:

- 100,000 equity shares of FRW 10 each.
- FRW 800,000, 8% convertible preference shares of FRW 10 each. Each preference share is convertible to two ordinary shares.

During the year the following events took place;

i. In order to motivate the management, the company has decided to provide **5 000** share options to its employees at an exercise price of **FRW 5**. The average market fair value of the share price is equal to the par value of one share. None of the share options were exercised as at 31st December 2018.
ii. During the year, the company made a profit before tax of **FRW 400,000**.
iii. On 01st April 2018 the company made a bonus issue of a one for every **3** shares to existing shareholders and on the same date, the company issued **20,000** shares at full market value.
iv. As at 31st December 2018, the convertible preference shares were not yet converted.

During the year ended 31st December 2017, the company reported an Earnings Per Share (EPS) of **FRW 5.**
The tax rate applicable is **30%.**

Required:

1. **Determine basic EPS for the year ended 31st December 2018.** (4 Marks)
2. **Adjust previous EPS as reported in 2017.** (2 Marks)
3. **Compute diluted EPS for the year ended 31st December 2018.** (3 Marks)

b) Leasing is important to Gasabo 4D ltd as a method to financing business operations. The Directors feel that it is important they provide users of financial statements with a complete and understandable picture of the entity's leasing activities. They believe that the current accounting model is inadequate and does not meet the needs of users of financial statements. Gasabo 4D has leased a truck for a fixed term of six years and the useful life of the truck is 12 years. The lease is non-cancellable, and there are no rights to extend the lease term or purchase the truck at the end of the term. There are no guarantees of its value at that point. The lessor does not have the right of access to the truck until the end of the contract or unless permission is granted by Gasabo 4D.

Fixed lease payments are due annually over the lease term after delivery of the truck, which is maintained by Gasabo 4D.
Gasabo 4D accounts for the lease as an operating lease but the directors are unsure as to whether the accounting treatment of an operating lease is conceptually correct.
The directors are aware that IASB published IFRS 16 (Lease) for the purpose of replacing IAS 17.

Required:

i. **Briefly explain the major change arising from the amendment of accounting for the operating leases by the lessee in accordance with IFRS 16 (Leases) and how the change in accounting treatment is accounted for in the lessee's financial statements** (2 Marks)

ii. Gasabo 4D Ltd enters into a 10-year lease for a 5,000 sq meters of office space. The annual lease payments are FRW 50,000 payable at the end of each year. The commencement date for the lease is 01st January 2015 and the discount rate is 6%.

On 01st January 2020 Gasabo 4D revised its operations which affected the leased space. The scope of the lease decreases by 50% so that Gasabo 4D leases only 2**,500 sq m** out of the original **5,000 sq m**. The annual payment decreases as well from **FRW 50,000** to **FRW 30,000**. The discount rate was revised to **5%.**

Required:

Show how the above leases could be treated in the books of account of Gasabo 4D Ltd for the year ended 31 December 2020. (14 Marks)

c) **Differentiate between financial asset and financial liability and state the circumstances under which a financial asset shall be derecognized from books of account.** (5 Marks)

(Total 30 Marks)

QUESTION THREE

a) Since mid-March 2020, the world is facing an economic downturn moment caused by the Covid-19 pandemic. To control and contain the Covid-19 impact, Rwanda implemented a range of containment measures including total lockdown, border closure, suspension of domestic travel, cancellation of public gatherings, institutions teleworking, closure of public schools, public places of worship and non-essential businesses.

Required:

Explain the effects of Covid-19 implications on financial reporting of companies

Note: Your answer should briefly discuss the effects of the Covid-19 implications in the company's financial statements under the following areas:

(i) Accounting treatment for borrowing costs
(ii) Impairment loss review and estimating future cash flows for non-current assets
(iii) Inventory measurement
(iv) Preparation of financial budgets
(v) Bad debts arising from sale of goods and/or services
(vi) Going concern assumption used in the financial statements
(vii) Assessment of risk and market conditions

(7 Marks)

b) Trust Transport Company (TTC) and Fast Delivery (FD) Ltd are two companies which offer transport services to tourists across East Africa. Mesimesi is an investor who is willing to invest in one of these two companies, however, he does not know how to analyze financial information.

Below are the financial statements of both companies for 2019 and 2020

Statement of profit or loss account for the year ended 31 December 2019 and 2020

	TTC		**FD Ltd**	
	2019	**2020**	**2019**	**2020**
	FRW 000	**FRW 000**	**FRW 000**	**FRW 000**
Revenue	12,000	13,000	23,000	35,000
Cost of goods sold	(5,000)	(6,000)	(15,000)	(24,000)
Gross profit	7,000	7,000	8,000	11,000
Expenses				
Sales and administrative costs	1,500	3,000	2,000	6,000
Marketing expenses	2,500	1,000	2,000	1,000
Other expense	-	1,000	1,000	2,000
Profit before tax	**3,000**	**2,000**	**3,000**	**2,000**
Tax	1,000	0	2,000	-
Profit after tax	**2,000**	**2,000**	**1,000**	**2,000**

Statement of financial position as at 31 December 2020 and 2019

	TTC Ltd		**FD Ltd**	
	2019	**2020**	**2019**	**2020**
	FRW 000	**FRW 000**	**FRW 000**	**FRW 000**
Assets				
Long term investment	3,000	6,000	1,000	2,000
PPE	2,000	1,000	18,000	25,000
Total non-current assets	**5,000**	**7,000**	**19,000**	**27,000**
Cash	2,000	6,000	5,000	12,000
Account receivable	11,000	8,000	5,000	8,000
Total current assets	**13,000**	**14,000**	**10,000**	**20,000**
Total assets	**18,000**	**21,000**	**29,000**	**47,000**
Equity				
Share capital	8,000	8,000	7,000	10,000
Retained earning	7,000	8,000	9,000	14,000
Liabilities				
Long term debt	0	1,000	4,000	8,000
Account payables	3,000	4,000	9,000	15,000
Equity and liabilities `	**18,000**	**21,000**	**29,000**	**47,000**

Required:

i. **Explain the limitations of ratio analysis** (3 Marks)

ii. Prepare a report to Mesimesi showing the analyzed financial information of TTC and FD using the following ratios

- ✓ **Gross profit margin**
- ✓ **Net profit margin**
- ✓ **Return on Assets**
- ✓ **Return on equity**

(10 Marks)

(Total 20 Marks)

SECTION B

QUESTION FOUR

Terimberi Muhinzi Cooperative (TMC) is one of the successful tea cooperatives in Rwanda and it is located in the Western Province. The cooperative has two main activities:

- Tea farming activities
- Tea factory activities

The tea leaves are normally transferred from the farm to the tea factory for processing. Due to limited capacity of the tea factory, some of the tea leaves are sold to other outside factories.

The following is the trial balance of TMC for the year ended 31 March 2020

Details	**FRW 000**	**FRW 000**
Tea factory activities		
Inventory as at 01/04/2019:		
-Green tea	48,680	
-Tangawizi tea	15,000	
-Mild blend	20,000	
Factory materials	32,000	
Sales:		
-Green tea		105,000
-Tangawizi tea		73,000
-Mild blend		11,000
Tea farming activities		
Inventory as at 01/04/2019:		
-Tea seeds in nursery bed	56,440	
Sales:		
- Tea seeds sold to other tea cooperatives		221,000
Materials purchased:		
-Nursery tea seed	40,000	
-Manure	15,000	
- Fertilizers	12,000	
TMC general transactions		
Bank loan (Applicable interest rate is 12.5%)		46,000
Trade receivables	126,360	
Trade payables		202,120
Bank	150,000	
Cost of office buildings as at 1/04/2019)	250,000	
Accumulated depreciation: Building		100,000
Fair value of biological assets as at 01/01/2019	18,000	
Factory plant	460,000	
Machineries	200,000	
Accumulated depreciation: Factory plant		40,000
General expenses	10,540	
Grants		200,000
Salaries and wages	62,000	
Repair and maintenance	45,000	
Insurance	3,100	
Members cumulative fund as at 01/04/2019		560,000
Statutory reserves		6,000

Totals	**1,564,120**	**1,564,120**

Additional information

1. During the year ended 31 March 2020 the tea leaves equivalent to FRW 38 million were transferred from tea farming activities to tea factory activities, there was no record made for these transfers.
2. The government agency responsible to oversee and regulate the operations of TMC instructed all cooperatives to transfer 20% of the annual profit to the statutory reserves to improve liquidity position of cooperatives.
3. Salaries and wages are apportioned as follows: 60% relate to tea farming activities, while 40% relate to tea factory activities.
4. Building is depreciated at rate of 10% reducing balance.
5. The fair value of biological assets as at 31 March 2020 was FRW 20 million.
6. The inventory as at 31 March 2020 were as follows:

	FRW 000
Tea factory activities	
Green tea	8,500
Tangawizi tea	7,300
Mild blend	6,200
Tea farming activities	
Tea seeds in nursery bed	5,100

7. On 01 April 2019, TMC received a government grant equivalent to FRW 200 million towards the acquisition of heavy machineries. The machineries were received on 01 April 2019 and some of these are used in tea farming activities while others are used in tea factory. The factory plant and machinery are both depreciated at 5% using straight line method.

8. The export charge equivalent to FRW 8,200,000 paid to National Agriculture Export Promotion Board (NAEPB) in relation to tea exported was not recorded by TMC. The payment was made using direct bank transfer to NAEPB's bank account opened in the central bank.

Required:

i. **Prepare Tea farming account and Tea factory account for the year ended 31 March 2020.** (9 Marks)
ii. **Prepare a general statement of profit & loss account and appropriation account of TMC for the year ended 31 March 2020.** (5 Marks)
iii. **Prepare a statement of financial position of TMC as at 31 March 2020.** (6 Marks)

(Total 20 Marks)

QUESTION FIVE

a) The government of Rwanda has announced a step-change in improving its Public Financial Management (PFM) that will be critical to achieve sets goals to move Rwanda towards middle-income status by 2035 and to high income status by 2050. Effective July 2019, the Government issued a detailed manual, which sets out the financial policies and procedures in PFM.

Required:

Explain the major changes introduced in the public financial management policies and procedures. (7 Marks)

b) Rwanda Youth Board (RYB) is a public institution mandated by Rwandan law. Its financial statements are prepared in accordance with IPSAS, financial year end closing procedures and Public Financial Management (PFM) policies and procedures.

The approved original budget of RYB on 01 July 2019 is as follows:

	Initial budget
	FRW
Tax revenue	481,588,845
Grants and transfers	16,427,314,317
Other revenues	3,074,733,668
Total receipts	**19,983,636,830**
Expenditure	
Acquisition of Non-current assets	5,072,533,938
Salaries and wages	6,860,004,814
Goods and services	2,635,441,370
Grants and other transfers to other reporting entities	1,334,267,642
Social assistance	3,517,957,569
Other expenses	563,431,497
Total expenditure	**19,983,636,830**

Additional information

1. Following the Government initiative to change the old mindset among the youth vis-à-vis business sector environment in Rwanda, from 1/07/2019, the youth noted opportunities in business sector and the big number of them started new businesses. During the revised budget, Rwanda Youth Board (RYB) decided to increase expected tax revenues and other revenues by **FRW 99,527,054** and **FRW 32,544,994** respectively.

2. One of the sub-implementing agencies of RYB was merged with other public entities and this resulted into revising transfers to reporting entities to **FRW 1,246,429,601**

3. RYB failed to comply with donor agreement and on 01/01/2020, the donor informed RYB that one of the funding lines equivalent to **FRW 69,310,349** was canceled with immediate effect.

4. On 31 December 2019, RYB convened a meeting with all heads of department to analyze how the budget was absorbed during the ended six months. The meeting resolved to revise some budget lines as follows:

	Meeting resolution
Expenditure	
Salaries and wages	Reduced by FRW (50,234,585)
Goods and services	Increased by FRW 300,734,867
Social assistance	Reduced by FRW (191,882,038)
Other expenses	Increased by FRW 79,741,277
Acquisition of Non-current assets	Increased by FRW 12,240,219

5. Below is the trial balance of RYB for the year ended 30 June 2020

	Dr	**Cr**
	FRW	**FRW**
Tax Revenue	-	494,245,370
Social Assistance	2,910,317,865	-
Acquisition of fixed assets	11,199,239,823	-
Grants and other transfers	-	15,853,871,979
Other revenues		2,029,108,810
Compensation of Employees	6,790,876,155	
Payables	-	8,818,876,918
Goods and Services	3,049,336,943	-
Grants and Other transfers to reporting entities	845,214,721	-
Other expenses	666,616,726	-
Cash and cash equivalents	1,350,556,363	-
Receivables from exchange transactions	545,597,213	-
Direct investments	854,000,000	-
Accumulated surplus/(deficits)	124,842,631	-
Prior year adjustments	-	1,140,495,363
	28,336,598,440	**28,336,598,440**

6. The revised budget of RYB was approved on 05 February 2020

Required:

Prepare the budget performance report of RYB for the year ended 30 June 2020 (13 Marks)

(Total 20 Marks)

End of question paper

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