CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: WEDNESDAY, 28 APRIL 2021

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections**; A & B.**
3. Section A has one Compulsory Question while section B has three optional questions to choose any two
4. In summary attempt three questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where necessary.

SECTION A

QUESTION ONE

Burera Ltd is a public limited company incorporated in Rwanda and listed in all the East African Securities Exchanges. It uses Rwandan Francs (Frw) as its reporting currency.

Burera Ltd acquired 70% of the equity shares of Tororo Ltd, a Ugandan company that uses the Uganda Shillings (Ush.) as its reporting currency. Consideration transferred to acquire 70% of the equity shares of Tororo Ltd was Ush. 1,840 million on 1st November 2018 as the date of acquisition. The balance of retained earnings was Ush.752 million and Tororo Ltd had no other components of equity at the date of acquisition. The fair value of the non-controlling interest was estimated as Frw 127.50 million at acquisition date. No fair value adjustments were deemed necessary in relation to the acquisition of Tororo Ltd. No dividend was paid by Tororo Ltd in the year ended 31 October 2019.

The following are the draft statements of financial position as at 31 October 2019 relating to Burera Ltd, a public limited company and two other companies in which it owns investments.

	Burera Ltd (Frw million)	Tororo Ltd (Ush million)	Sugira Ltd (Frw million)
Assets			
Non-current assets			
Property, plant and equipment	1,858	1,734	1,825
Investment in **Sugira Ltd**	2,550	-	-
Investment in **Tororo Ltd**	230	-	-
Financial assets	812	898	809
Total non-current assets	**5,450**	**2,632**	**2,634**
Current assets			
Inventories	100	80	60
Trade and other receivables	150	180	125
Cash and cash equivalent	280	210	619
Total current assets	**530**	**470**	**804**
Total assets	**5,980**	**3,102**	**3,438**
Equity and liabilities			
Equity shares	1,880	1,010	850
Retained earnings	1,030	1,092	874
Other components of equity	840	0	812
Total equity	**3,750**	**2,102**	**2,536**
Non-current liabilities	1,895	910	807
Current liabilities			
Trade and other payables	300	50	50
Tax payables	35	40	45
Total current payables	**335**	**90**	**95**
Total payables	**2,230**	**1,000**	**902**
Total equity and payables	**5,980**	**3,102**	**3,438**

The following additional information is relevant:

1. On 1 November 2017, Burera Ltd acquired 80% of the equity shares of Sugira Ltd, when the balance of retained earnings and other components of equity of Sugira Ltd were Frw 856 million and Frw 808 million respectively. The fair value of the net assets of Sugira Ltd was Frw 2,590 million at the date of acquisition. Any remaining difference in the fair value of the net assets at acquisition relates to land. The fair value of the non-controlling interest at acquisition date was estimated as Frw 825 million.

2. On 1 February 2019, Burera Ltd provided an interest-free loan to Tororo Ltd of Frw 100 million. Tororo Ltd recorded this loan correctly in its financial statements using the spot exchange rate. Tororo Ltd repaid Frw 50 million on 1 July 2019 when the spot exchange rate was Frw 1 to Ush 11. Tororo Ltd therefore reduced its non-current liabilities by Frw 50 Million. No further entries were made in Tororo Ltd's financial statements. The outstanding balance remains within the financial assets of Burera Ltd and the non-current liabilities of Tororo Ltd.

3. Burera ltd sold inventory to Sugira Ltd for Frw 125 million at fair value. Burera ltd made a loss on the transaction of Frw 22 million and Sugira ltd still holds Frw 85 million in inventory at the year end.

4. Burera Ltd operates a defined benefit scheme for its employees but has yet to record anything for the current year except to expense the cash contributions which were Frw 70 million. The opening defined benefit liability of Frw 160 million which is included in the non-current liabilities of Burera Ltd in its draft financial statements. Current service costs for the year were Frw 60 million and interest rates on good quality corporate bonds fell from 10% at the start of the year to 8% by 31 October 2019. The actuary has assessed that the net liability as at 31 October 2019 was Frw180 million. They do not maintain a defined benefit plan asset.
5. The following exchange rates are relevant for the preparation of the group financial statements:

	Ush to 1 Frw
1 November 2018	8
Average for the year to 31 October 2019	9.2
1 February 2019	8.5
31 October 2019	10.5

6. On 31 October 2019, an impairment review of goodwill was undertaken. No impairment was necessary in relation to Sugira Ltd but the goodwill of Tororo Ltd is to be impaired by 20%. Neither Burera Ltd, Sugira Ltd nor Tororo Ltd has issued any equity shares since acquisition.
7. Burera Ltd always uses the full goodwill method under IFRS 3 Business combinations.

Required:

a) Prepare a consolidated statement of financial position of Burera group as at 31 October 2019 in accordance with IFRSs. (Show all workings properly and should be completed to the nearest Frw 0.01 million). (42 marks)

b) Burera Ltd made a formal public announcement for a restructuring of the group after the end of the year on 10th November 2019. A provision has not been made in the financial statements as a public issue of shares is being planned and the company does not wish to lower its reported earnings. Prior to the year end, the company sold certain equipment and issued redundancy notices to some employees in anticipation of the formal commencement of the restructuring. The company prepared a formal plan for the restructuring which was approved by the Board of Directors and communicated to the trade union representatives prior to the year end. The Directors estimate the cost of the restructuring to be Frw 70 million and it could take up to one year and 6 months to complete the restructuring. The estimated cost of restructuring includes Frw 20 million associated with retraining and relocating existing employees. The Board of Directors feel that costs of Frw 40 million (of which Frw 10 million is relocation expenses) will have been incurred by the time the financial statements are approved.

Required:

Assume you completed CPA Rwanda and joined Burera group as the Director of Finance. You are required to explain to the Board of Directors of Burera group the treatment of the above case in the financial statements for the year ended 31 October 2019 in accordance to the relevant accounting standard. (8 Marks)

(Total :50 Marks)

SECTION B

QUESTION TWO

The following is the trial balance of Nzovu Ltd for the year ended 31 December 2019, a listed company on Rwanda Stock Exchange.

Particulars	**Debit**	**Credit**
	Frw (000)	**Frw (000)**
Revenue		528,000
Purchases	251,900	
Administration & distribution costs	183,150	
Property, plant& equipment (cost)	994,400	
Accumulated depreciation		124,000
Finance costs	23,400	
Available for sale financial assets	16,500	
Inventory as at 1st December 2019	46,750	
Trade receivables/payables	107,550	92,950
Cash and cash equivalent	24,750	
Deferred tax		2,600
Instalment tax paid	11,000	
Fair value of benefit plan assets	22,000	
Present value of benefit plan obligation		30,250
Dividends paid	14,000	
Long term borrowings		22,000
Ordinary share capital @ Frw 1,000 each		610,100
Retained profits		282,500
Available for sale reserve		1000
Actuarial gain reserve		2000
Total	**1,695,400**	**1,695,400**

The following additional information are relevant:

1. On 1st January 2019, Nzovu ltd decided to revalue its land for the first time. A qualified property valuer reported that the market value of the land on that day was Frw 77,500,000. The land was originally purchased five years ago for Frw 65,000,000 and this cost is included in Property, plant and equipment in the trial balance. The required provision for income tax for the year ended 31 December 2019 is Frw 19,400,000. Net taxable temporary differences of the net assets of Nzovu ltd including those relating to the revaluation of land is Frw 22,500,000 at 31 December 2019. Rate of corporate income tax is 30%.

2. The closing inventories as at 31 December were not ascertained. However, a stock count undertaken on 25th January 2020 indicated the value of inventories at selling price to be Frw 212,500,000. The company uses a uniform profit mark up of 25%. The sales and purchases for the period from 1st January 2020 to 25th January 2020 were Frw 44,000,000 and Frw 15,000,000 respectively.

3. The defined benefit plan had the assets and liabilities balances given in trial balance as at 1 January 2019. The following details are relevant:

   Interest rate for liability as at 1 January 2019……………………………..8%
   Expected rate of return as at 1 January 2019……………………….………..10%

Benefits paid…………………………………………………..	Frw 3,300,000
Current service cost……………………………………………	Frw 4,400,000
Contributions paid to the defined benefit plan…………………...	Frw 2,750,000
Fair value of plan assets on 31 December 2019…………………	Frw 27,500,000
Present value of plan obligations on 31 December 2019………....	Frw 37,000,000

4. On 1st January 2019, the company granted its 22 employees 5,000 options each to buy the company's shares at an exercise price of Frw 200 each. The fair value of the options on the same date was Frw 100 each and on 31 December 2019, the value was Frw 120. All the employees were still in employment and the options were to vest on 31 December 2020 so long as one was still in employment.

5. Financial assets available for sale is to be revalued upwards by Frw 1,100,000.
6. Property, plant and equipment depreciated at 10% per annum on straight line basis.

Required:

In accordance with international financial reporting standards, prepare

i) **The statement of profit or loss and other comprehensive income of Nzovu ltd for the year ended 31 December 2019.** (10 Marks)
ii) **Statement of changes in equity of Nzovu ltd for the year ended 31 December 2019.** (5 Marks)
iii) **Statement of financial position of Nzovu ltd as at 31 December 2019.** (10 Marks)

(Total :25 Marks)

QUESTION THREE

a) Lion Ltd

Lion Ltd is the company located in Kigali city and it manufactures electronic products to promote made in Rwanda and its financial year ended on 30 June 2020.

Lion Ltd commenced construction of a qualifying non-current asset located in Kigali city on 1st October 2019. On 1st November 2019, it borrowed Frw 55 million from Bank of Kigali at an annual interest rate of 18% to finance the development. In the middle of the month of March 2020 the workers were in lockdown due to Covid-19 whereby the Government of Rwanda announced the period of lockdown to prevent the pandemic. No work was done from 15 March 2020 until the end of lockdown on 15 April 2020. Since then, the construction activities were resumed and the project was still in progress as at 30th June 2020. Interest was paid monthly in arrears.

Required:

i. **With calculations, show Journal entries and the accounting treatment of the above case in financial statements of Lion Ltd for the year ended 30 June 2020 as required by IAS 23-Borrowing costs.** (3 Marks)

ii. **Discuss the conditions that must be met in order to capitalize borrowing costs under IAS 23-Borrowing costs. (Please specify when the capitalization of borrowing costs should commence, be suspended and cease).** (4 Marks)

b) Elephant Ltd

On 15 June 2019, Elephant Ltd took a decision to sell a business unit, and the criteria to classify the unit as held for sale were met on 1st July 2019. The accounting year end of Elephant Ltd is 31st December 2020. At 1st July 2019, the carrying amount of the assets and liabilities of the business unit prior to any 2019 year's depreciation or revaluation adjustments was as follows:

	Frw''000''
Inventory	2,800
Plant	1,500
Freehold property	24,000
Trade payables	(1,200)

The following information is relevant:

i. The plant is held under cost model of IAS 16, the plant was purchased on 1st July 2017 for Frw 2,000,000 and is being depreciated at 25% on cost. Its market value at 1st July 2019 was Frw 2,100,000 and selling costs amounting to Frw 100,000.

ii. Freehold property is held under revaluation model of IAS 16 and was last revalued on 31st December 2018 to Frw 24,000,000. Their market valuation on 1st July 2019 was Frw 28,000,000 and selling costs were insignificant at that date. Residual value was expected to be higher than cost.

iii. The inventory relates to goods purchased for resale and are held at cost. Their market value at 1st July 2019 was Frw 4,800,000. Associated selling costs would amount to Frw 1,800,000.

iv. It was anticipated at 1st July 2019 that the business unit will be sold for Frw 6,850,000 net of selling costs, to another company in a single transaction.

Required:

In respect of Elephant Ltd's year ended 31st December 2019, Show the amount recognised as Non-current asset held for sale under IFRS 5 at 1st July 2019 and the impairment charge (if any) for the business unit. (6 Marks)

c) Volcano Ltd

On 1st January 2019, Volcano Ltd sold a plant to Kigali Investment Ltd for its fair value of Frw 300 million. The plant had a carrying amount of Frw 120 million prior to the sale. This sale represents the satisfaction of a performance obligation in accordance with IFRS 15 - Revenue from contracts with customers. Volcano ltd enters into a contract with Kigali investment Ltd for the right to lease back the same plant for the next 5 years. The implicit rate of interest in the lease is 10% p.a. The present value of the annual lease payments is Frw 190 million. The remaining useful life of the asset is 20 Years.

Required:

With calculations, show journal entries for initial and subsequent measurement for the above case in Volcano Ltd's financial statements for year ended 31st December 2019. (5 Marks)

d) Biko Ltd

Biko Ltd is a public limited company with investments that are traded in different stock markets. Gakuru was employed as Director General of Biko Ltd. He has convinced the Board of Directors that investment in a new crypto-currency, iCoin, would generate high capital gains. As a result, Biko Ltd purchased 5 units of iCoin for Frw 24,000,000 on 5th December 2019. The Financial Controller has expressed his concern about how to report this investment in financial statements of BIKO ltd for the year ended 31st December 2019. Given the lack of accounting standard for such investments, the only alternative the Financial Controller proposes, is to include it as a cash equivalent.

Required:

In the absence of a specific accounting standard on crypto currencies, you are required to discuss how Biko Ltd should treat the investment in iCoin in its financial statements for the year ended 31 December 2019. (7 Marks)

(Total :25 Marks)

QUESTION FOUR

a) On behalf of Government of Rwanda, the Ministry of Finance and Economic Planning (MINECOFIN) has started 6 years roadmap (2019-2024) to move from modified cash basis to IPSAS accrual basis in reporting of financial results for all public sectors in the country to enhance the Public Financial Management (PFM).

You are required to:

i. **Explain the meaning of Public Financial Management (PFM).** (4 Marks)

ii. **Outline the 4 anticipated benefits that would accrue from the adoption of IPSAS accrual accounting by the Government of Rwanda.** (4 Marks)

iii. **Assume you are hired as consultant, and you are required to outline six preliminary critical activities to be in place so that the Government of Rwanda implements successfully IPSAS accrual accounting.** (5 Marks)

iv. **List 4 sources of revenue from non-exchange transactions recognized by the standard in accordance with IPSAS 23 (Revenue from non-exchange transactions).** (2 Marks)

b) The following information relates to the export sectors under Ministry of Agriculture (MINAGRI) for fiscal year 2019/2020.

	Segment assets	Segment liabilities	**Segment Revenue**			**Segment expenses**		
			Appropriations	Fees from external services	Inter-segment transfers	Staff costs	Depreciation of fixed assets	Other expenses
	Frw "Million"	Frw "Million"	Frw "Million"	Frw "Million"	Frw "Million"	Frw "Million"	Frw "Million"	Frw "Million"
Coffee export services	270	125	240	25	50	195	45	60
Tea export services	250	75	200	20	30	155	35	55
Sericulture export services	170	40	110	10	30	65	25	50
Other services	150	55	115	30	35	65	35	45

Additional information is relevant:

1. Unallocated central expenses amounted to Frw 35,000,000.
2. Unallocated central assets and unallocated liabilities amounted to Frw 175,000,000 and Frw 200,000,000 respectively.
3. Interest expense and interest revenue amounted to Frw 10,000,000 and Frw 20,000,000 respectively.

Required:

In respect of IPSAS 18 - Segment reporting, prepare segment report for the Ministry of Agriculture to be included in the financial reports for the year ended 30 June 2020. (10 Marks)

(Total :25 Marks)

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