



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS
I1.2: FINANCIAL REPORTING
DATE: TUESDAY, 27 APRIL 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 necessary.

SECTION A

QUESTION ONE

- a) IFRS 9-Financial instruments which was affective from 1st January 2018, has significant impact particularly within the banking Sector.

Required:

Critically explain how IFRS 9 is likely to impact on the provisions for bad and doubtful debts by banks and by extension the case of accessing bank loans. (3Marks)

- b) Urwunguko Bank Ltd is a commercial bank that has been operating for more than 25 years in banking sector. The Chief Finance Officer has presented to you the following information extracted from the books of Urwunguko Bank Ltd as at 31st March 2020.

Particulars	Amount
	Frw "Million"
Property, Plant and equipment	6,750
Intangible assets	6,450
Ordinary shares (FRW.20 each)	15,255
Share premium	270
Revaluation reserves	1,380
Statutory reserves	5,730
Interest received on Loan Advances to customers	15,042
Interest received on Financial lease	14,040
Interest received on Deposits with other banks	3,024
Interest received on Government bonds	7,230
Interest paid on customer deposits	7,500
Interest paid on deposits with other banks	168
Fees and commission received	5,592
Forex commission income receivable	330
Other operating incomes	4,500
Fees and other expenses	450
Impairment of loans and advances	2,520
Administrative costs	11,580
General operating expenses	9,420
Income tax expenses	6,300
Retained revenue (1 st April 2019)	49,920
Deposits with central bank	38,400
Deposit due from other banks	57,600
Government bonds and other securities	46,230
Loans and advances to customers	396,810
Other Assets	2,145
Deferred tax assets	180
Other investments	468

Particulars	Amount
	Frw "Million"
Deferred tax liabilities	4,338
Other liabilities	3,300
Current tax liability	3,435
Deposits from other banks	6,600
Customer Deposits	452,985

The following information is also relevant:

- Intangible assets were impaired by 20% as at the end of the year.
- Property, Plant and Equipment is to be revalued to Frw 12,750 Million.
- An allowance for unserviced loans is to be created at 2% of the outstanding loans and advances to customers.

You are required to prepare:

- Urwunguko Bank Ltd statement of profit or loss and other comprehensive income for the year ended 31 March 2020.** (10 Marks)
- Urwunguko Bank Ltd Statement of financial position as at 31 March 2020.** (10 Marks)
- Nowadays many corporate boards have agreed on the need to take responsibilities for any potential or actual social impact caused by their companies' activities. This is done through a corporate social responsibilities report.

Required:

- Explain five benefits that would accrue to a company from the reporting of the company's social responsibility activities.** (2.5 Marks)
- Comparing to conventional financial accounting reporting with social responsibilities reporting, list and explain five challenges peculiar to social responsibility accounting.** (2.5 Marks)
- Write short notes on the five issues with stakeholders that may be addressed by a company's social responsibility activities.** (2 Marks)

(Total: 30 Marks)

QUESTION TWO

Hungayi Ltd secured a majority equity shareholding in Sake Ltd on 1 October 2015 on the following terms:

- An immediate payment of Frw 4 per share on 1 October 2015 and a further amount deferred until 1 October 2016 of Frw 5.4 Million.
- The immediate payment has been recorded in Hungayi Ltd.'s financial statements, but the deferred payment has not been recorded. Hungayi Ltd.'s cost of capital is 8% per annum, giving the deferred payment a current cost at 1st October 2015 of Frw 5 Million.
- On 1 February 2016, Hungayi Ltd also acquired 25% of the equity shares of Arable Ltd paying Frw 10 Million in cash.

The summarized statements of financial position of the three companies at 30 September 2016 are:

	Hungayi Ltd	Sake Ltd	Arable Ltd
	Frw"000"	Frw"000"	Frw"000"
Assets			
Non-Current Asset			
Property, Plant and equipment	40,000	31,000	30,000
Intangible Assets	7,500		
Investments:			
-Sake Ltd	32,000		
-Arable Ltd	10,000		
	89,500	31,000	30,000
Current Asset			
Inventories	11,200	8,400	10,000
Trade receivables	7,400	5,300	5,000
Cash and cash equivalents	3,400		2,000
	22,000	13,700	17,000
Total Asset	111,500	44,700	47,000
Equity and liabilities			
Equity			
Equity shares of Frw 1 each	50,000	10,000	10,000
Retained Earnings			
At 1 st October 2015	25,700	12,000	31,800
for the year ended 30 September 2016	9,200	6,000	1,200
	84,900	28,000	43,000
Non- current Liabilities			
Deferred tax	15,000	8,000	1,000
Current liabilities			
Bank		2,500	
Trade payables	11,600	6,200	3,000
	26,600	16,700	4,000
Total equity and liabilities	111,500	44,700	47,000

The following additional information are relevant:

- a) Hungayi Ltd.'s policy is to value the non- controlling interest at fair value at the date of acquisition. The Directors of Hungayi Ltd considered the fair value of the non-controlling interest in Sake Ltd to be Frw 7 Million on 1 October 2015.
- b) At the date of Acquisition, the fair values of Sake Ltd.'s property, plant and equipment were equal to their carrying amount with the exception of Sake Ltd.'s plant which had a fair value of Frw 4 Million above its carrying amount. At that date, the plant had a remaining useful life of four years. Sake Ltd uses straight line depreciation for plant assuming a nil residual value.
- c) Also, at the date of acquisition, Hungayi Ltd valued Sake Ltd.'s customer relationship as a customer base intangible asset at fair value of Frw 3 Million. Sake Ltd has not accounted for this asset. Trading relationships with Sake Ltd.'s customers last on average for six years.
- d) At 30 September 2016, Sake Ltd.'s inventory included goods bought from Hungayi Ltd at cost worth Frw 2.6 Million. Hungayi Ltd had marked up these goods by 30% on cost. Hungayi Ltd.'s agreed current account balance owed by Sake Ltd at 30 September 2016 was Frw 1.3 Million.
- e) Impairment tests were carried out on 30 September 2016 which concluded that consolidated goodwill was not impaired, but due to disappointing earnings, the value of the investment in Arable Ltd was impaired by Frw 2.5 Million.
- f) Assume all profits accrue evenly throughout the year.

Required:

As a chief Accountant of Hungayi Ltd, you are required to prepare the consolidated statement of financial position for Hungayi Ltd as at 30 September 2016. Clearly indicate the workings below to be included in consolidated financial information. (30 Marks)

- i. **Goodwill**
- ii. **Investment in Associates**
- iii. **Intercompany transactions**
- iv. **Group retained Earnings**
- v. **Non-controlling Interests.**

(Total: 30 Marks)

QUESTION THREE

- a) The financial information for a company needs to be reliable to any stakeholders who may have interest in company business. Kalinda is one of the investors in Product Ltd and he wants you to assist him to know the criteria that could show him that Product Ltd financial information is reliable so that they can invest more in the company.

Required

Explain to Kalinda the factors to be considered to prove that financial information of Product Ltd is reliable or not. (3 Marks)

- b) In the financial statements produced by the Product Ltd some of items like inventories, receivables, treasury bonds, etc. are measured in current value and Kalinda didn't understand how product Ltd measure their assets while he knows the cost for each item during its acquisition.

Required

As a financial reporting accountant explain to Kalinda the basis to be considered when Product Ltd is valuing items to be included in the financial information. (2 Marks)

- c) An entity should conduct a test at the end of each reporting period whether there is an indication of impairment of any asset as per IAS 36.

Required

Briefly explain the circumstances under which impairment losses can be reversed and how an entity should assess if the cash generating units have been impaired or not. (5 Marks)

- d) Umurungi Ltd has been operating in Gikondo Industrial Zone since 2006 and now the trade and commerce ministry relocated Umurungi Ltd to Prime economic Zone in Masoro. You are an accountant of Umurungi Ltd and below is information provided to you relating to the carrying amount of the assets comprising the cash generating units (CGU) of Umurungi Ltd as at 30 June 2019.

Particulars	CGU NO 1	CGU NO2
	Frw''000''	Frw''000''
Goodwill	-	25,000
Tangible fixed Assets	26,000	107,000
Inventories	22,000	23,000

The Financial planning analyst of Umurungi ltd. has prepared the following cash forecasts relating to the business operations of the two cash generating units.

Period	CGU NO 1 Cash flow	CGU NO2 Cash flow
	Frw"000"	Frw"000"
1	8,000	20,000
2	6,000	22,000
3	9,000	27,000
4	10,000	24,000
5	11,000	25,000
6	12,000	30,000
Total	56,000	148,000

Additional Information;

The Net realizable value of the assets of cash generating unit are Frw 50 Million and 70 Million for No1&2 respectively.

The discounting rate appropriate to the activities of the cash generating unit No1 is 10% and that of the cash generating unit No2 is 12%

Required:

- a) The recoverable amount of cash generating unit No1 and cash generating unit No2. (4.5 Marks)
 - b) The impairment loss, if any for cash generating unit No1&2. (1.5 Marks)
 - c) Allocate the impairment loss, if any between the assets of cash generating unit No1&2. (4 Marks)
- (Total 20 Marks)**

SECTION B

QUESTION FOUR

- a) With reference to IPSAS 9 (Revenue from exchange transactions), analyze the difference between exchange transactions and non-exchange transactions. (1 Mark)
- b) Public sector entities use the services of outside contractors for a variety of functions. Thus, they have to be able to show that they have obtained the best possible value for what they have spent on outside services commonly known as “**Value for Money**”. As a CPA graduate in financial reporting, you are invited by the Finance Minister to assist him to understand how this value for money should be obtained in Public Financial Management.

Required:

Clearly explain at least 4 underlying principles that show how the best value for money is achieved under Public Financial Management. (4 Marks)

- c) IPSAS 20 (**Related party disclosure**) defines a “**related party**” as any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. With reference to the above statement,
- i. **Explain the meaning of significant influence.** (1 Mark)
- ii. **Outline four ways in which significant influence might be exercised.** (4 Marks)
- d) Recently the Ministry of Trade and Commerce recruited you as an accountant and they presented to you the following summarized information extracted from the records of the Ministry for the fiscal year ended 30 June 2018.

Details	Amount Frw''000''
Reserves	288,000
Accumulated surplus as at 1 July 2017	120,000
Cash and cash equivalents	80,000
Receivables	32,000
Inventory	16,000
Transfer from exchequer	400,000
Fees, fines and Licenses	80,000
Revenue from exchange transactions	16,000
Transfers from other ministries	8,000
Other revenue	96,000
Payables	80,000
Land, Buildings and furniture	560,000
Computer equipment and Motor vehicles	80,000
Wages and salaries	160,000
Transfer to other ministries	80,000
Supplies and consumables used	64,000
Other expenses	192,000
Finance costs	16,000
Long term borrowings	160,000
Liability for long term employee benefits	32,000

Required:

Prepare Statement of revenue and expenditure and Statement of financial position for the period ended 30 June 2018 in accordance with IPSAS 1 (preparation of financial statements).

(10 Marks)

(Total: 20 Marks)

QUESTION FIVE

Covipus Ltd is a company operating in Rwanda that deals in manufacturing and supply of drugs and other medical equipment. Its board meeting is held on an annual basis and below are the statements of financial position of Covipus Ltd as at 31 March 2020 and 31 March 2019, together with the statement of profit or loss and other comprehensive income for the year ended 31 March 2020 that will assist you to do a presentation relating to financial performance of Covipus Ltd.

Statement of Financial Position		
Particulars	2020	2019
	Frw''000''	Frw''000''
Non- current asset		
Property, Plant and equipment	925	737
Development expenditure	290	160
Total Non- current asset	1,215	897
Current Assets		
Inventories	360	227
Trade receivables	274	324
Investments	143	46
cash and cash equivalents	29	117
Total Current Assets	806	714
Total Assets	2,021	1,611
Equity		
share capital-FRW 1 ordinary shares	500	400
Share premium	350	100
Revaluation surplus	160	60
Retained Earnings	229	255
Total Equity	1,239	815
Non-current liabilities		
6% debentures	150	100
Lease liabilities	100	80
Deferred tax	48	45
Total Non-current liabilities	298	225
Current liabilities		
Trade payables	274	352

Statement of Financial Position		
Particulars	2020	2019
Lease liabilities	17	12
current tax	56	153
Debenture Interest	5	
Bank overdraft	132	54
Total Current liabilities	484	571
Total equity and liabilities	2,021	1,611

Statement of Profit or Loss and Other Comprehensive Income	
Particulars	Frw''000''
Revenue	1,476
Cost of sales	(962)
Gross profit	514
other expenses	(157)
Finance costs	(15)
profit before tax	342
Income tax expense	(162)
Profit for the year	180
Other comprehensive income	
Gain on revaluation of Property, plant and equipment	100
Total comprehensive income for the year	280

The following information are relevant:

- a) During 2020, amortization of Frw 240,000 was charged on development projects.
- b) During 2020, items of property, plant and equipment with a carrying amount of Frw 412,000 were sold for Frw 440,000. Profit on sale of these items was netted off against other expenses. Depreciation charged in the year against the property, plant and equipment totaled Frw 228,000. Covipus Ltd acquired Frw 224, 000 of property, Plant and equipment by means of lease with payments being made in arrears on the last day of each accounting period.
- c) The current asset investments are government bonds and management has decided to classify them as cash equivalents.
- d) The new debentures were issued on 1 April 2019. Finance cost includes debenture interest and lease finance charges only.
- e) During the year Covipus Ltd made a 1 for 8 bonus issue, capitalizing its retained earnings, followed by the right issue.

Required:

As a Chief finance officer of Covipus Ltd, you are required to:

- a. **Prepare the statement of cash flows for Covipus Ltd. Use indirect method. The net cash from operating activities was Frw 40,000 inflow.** (12 Marks)
- b. The board of directors of Covipus Ltd want explanations as to why the statement of cash flow is showing a net cash outflow while the company has made a profit. **Explain to the board where Covipus Ltd has generated and spent its cash during the year by including any concerns or comments to inventory or working capital cycle, capital investment, intangibles asset, right issue where appropriate.** (8 Marks)

(Total: 20 Marks)

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