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CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 27, MAY 2025

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

a) Kamonyi Ltd was incorporated several years ago with the long-term objective of producing sorghum-based beer for the local market. However, the company did not initially develop a formal operational plan. After some time, the management resolved that the company would dedicate its first year entirely to research and development activities aimed at formulating an effective method for producing high-quality sorghum beer.

During this research and development phase, Kamonyi Ltd encountered significant operational limitations, particularly a lack of skilled personnel with the technical expertise required to advance the project. As a result, the shareholders agreed to sell 100% of the company's ordinary share capital to Muhanga Ltd, a well-established entity in Rwanda specializing in the production of indigenous beers.

At the date of acquisition, Kamonyi Ltd:

- Had not commenced commercial production or earned any revenue,
- Held assets such as research equipment, testing facilities, and a small laboratory office,
- Employed a small team of junior researchers, and
- Had net assets that equalled their fair value

Following the acquisition, Muhanga Ltd assumed control and deployed its technical experts to finalize the research and development process with a view to commercial production.

Required:

Using the principles of IFRS 3 *Business Combinations*, critically assess whether Kamonyi Ltd constituted a business at the date of acquisition, and explain the impact on accounting for the acquisition in Muhanga Ltd's consolidated financial statements (8 Marks)

b) The following are the financial statements relating to companies H Ltd, S Ltd, R Ltd, and A Ltd for the financial year ended 30th September 2023.

Separate Statements of financial position as of 30 September 2023

Details	H Ltd	S Ltd	R Ltd	A Ltd
	FRW "000"	FRW "000"	FRW "000"	FRW "000"
Non-current assets				
PPE	479,000	404,000	609,000	548,000
Investment in S	403,600	-	-	-
Investment in R	470,310	-	-	-
Investment in A	135,228	-	-	-
Other investments	50,000	20,000	10,000	5,000
Total non-current assets	1,538,138	424,000	619,000	553,000

Details	H Ltd	S Ltd	R Ltd	A Ltd
Current assets				
Inventory	100,000	150,000	100,000	50,000
Trade receivables	140,000	120,000	80,000	60,000
Prepayments	10,000	8,000	5,000	2,000
Investments	50,000	22,000	15,000	8,000
Cash and bank balances	101,000	101,000	71,000	11,000
Total current assets	401,000	401,000	271,000	131,000
Total assets	1,939,138	825,000	890,000	684,000
Equity and liabilities				
Equity and reserves				
Issued and paid-up ordinary share	800,000	400,000	480,000	360,000
Share premium	80,000	40,000	45,000	35,000
Retained earnings	250,000	120,000	135,000	105,000
Total equity and reserves	1,130,000	560,000	660,000	500,000
Non-current liabilities				
Bank loan	6,000	3,000	3,000	2,000
10% loan stock	500,000	100,000	80,000	68,000
Deferred tax liability	4,000	2,000	2,000	1,000
Total non-current liabilities	510,000	105,000	85,000	71,000
Current liabilities				
Trade and other payables	190,000	150,000	135,000	105,000
Accruals	109,138	10,000	10,000	8,000
Total current liabilities	299,138	160,000	145,000	113,000
Total equity and liabilities	1,939,138	825,000	890,000	684,000

Statement of profit or loss for the year ended 30th September 2023

Details	H Ltd	S Ltd	R Ltd	A Ltd
Incomes	FRW “000”	FRW “000”	FRW “000”	FRW “000”
Turnover	800,000	700,000	600,000	400,000
Cost of sales	(250,000)	(250,000)	(200,000)	(150,000)
Gross profit	550,000	450,000	400,000	250,000
Other incomes	50,000	-	-	-
Total incomes	600,000	450,000	400,000	250,000
Operating expenses				
Selling & distribution	(275,000)	(175,000)	(185,000)	(70,000)
Administration expenses	(155,000)	(125,000)	(75,000)	(60,000)
Operation profit	170,000	150,000	140,000	120,000
Finance cost	(20,000)	(10,000)	(8,000)	(6,800)
Profit tax	150,000	140,000	132,000	113,200
Income tax expense	(45,000)	(42,000)	(39,600)	(33,960)
Profit after tax	105,000	98,000	92,400	79,240
Dividends paid on	(35,000)	(30,000)	(20,000)	(20,000)
1/4/23				

Details	H Ltd	S Ltd	R Ltd	A Ltd
Retained profit for year	70,000	68,000	72,400	59,240
Retained profits b/f	180,000	52,000	62,600	45,760
Retained profits c/f	250,000	120,000	135,000	105,000

Additional information:

1. The nominal value of each share issued by H Ltd and its investee companies is FRW 1,000.
2. H Ltd acquired investments in S Ltd, R Ltd and A Ltd as follows:

Investee company	Purchase consideration FRW	Date of acquisition	Number of shares acquired
S Ltd	403,600,000	1 st October 2022	320,000
R Ltd	470,310,000	1 st July 2022	360,000
A Ltd	135,228,000	1 st October 2022	108,000

3. On the same date of acquisition of S Ltd, H Ltd also acquired 50% of the loan stock from S Ltd at a cost of FRW 50 million. This item was not accounted for as an asset by H Ltd in the statement of financial position presented above.
4. The group uses the partial method to account for its goodwill. An impairment review conducted at the end of the financial year revealed that none of H Ltd.'s investments had been impaired.
5. Other income figures appearing in the Statement of profit or loss of H Ltd comprise of dividends received from all investee companies and interest income from the investment in the loan stock held in S Ltd.
6. It is the group policy to value the non-controlling interest at the end of the accounting period using their proportionate share of net assets.
7. On 1st July 2023, H Ltd sold an item of plant to S Ltd making a gain of FRW 50 million. It is the group's policy to charge a full year depreciation charge in the year of purchase. The Plant is depreciated at the rate of 20% per annum.
8. H Ltd disposed off 72,000 of its shares acquired in R Ltd on 30th June 2023 for FRW 80 million. H Ltd has not accounted for this transaction in its financial statement
9. During the year, S Ltd sold goods worth FRW100 million to H Ltd at a profit of 25% on cost. Half of these goods were still in the inventory of H Ltd as at the end of the financial year.
10. H Ltd owed S Ltd FRW 80 million as a result of the transaction described in Note 9 above. However, the balances in the books of H Ltd and S Ltd did not agree. In H Ltd's records, the outstanding balance was recorded as FRW 70 million due to a remittance made to S Ltd prior to year-end. This remittance had not yet been received or recorded by S Ltd as at the end of the financial year.
11. The purchase consideration for the acquisition of S Ltd by H Ltd, as noted above, excludes a share-for-share exchange arrangement, under which H Ltd issued one of its own shares

for every eight shares acquired in S Ltd. As at 1st October 2022, the market value per share was FRW 1,050 for H Ltd and FRW 1,100 for S Ltd. This share exchange transaction has not yet been accounted for in H Ltd's books.

Required:

- i) Compute the gain/loss on disposal of H Ltd shares in R Ltd to be consolidated (4 Marks)**
 - ii) Compute goodwill on acquisition of S Ltd and R Ltd. (4 Marks)**
 - iii) Prepare for H Ltd and its investee companies' consolidated income statement for the year ended 30th September 2023. (13 Marks)**
 - iv) Prepare for H Ltd and its investee companies' consolidated statement of financial position as at 30th September 2023 (15 Marks)**
 - v) In reference to the consolidation process of H group above, explain THREE items that are not consolidated even though they appear in the financial statements of either the parent or subsidiary (6 Marks)**
- (Total: 50 Marks)**

SECTION B

QUESTION TWO

a) Maxima Ltd.'s first-time adoption to IFRS financial statements

Maxima Ltd is a fast-growing food-processing company in the manufacturing sector in Rwanda and has established three factories in different region. The Board of Directors approved the plan for the company to adopt the publication of its first IFRS-financial statements for the year ended 31 December 2024. Though Maxima Ltd has in the previous years, prepared financial statements using the local Generally Acceptable Accounting Practices (GAAPs) in Rwanda, the Directors are only certain that the first IFRS financial statements can only have an IFRS comparative financial information for the prior year ended 31 December 2023.

Required:

In accordance with IFRS *1 First-time adoption to International Financial Reporting Standards*, briefly explain to the Directors of Maxima Ltd:

- i) The meaning of an “opening statement of financial position” and the practical date of transition to the IFRS financial statements for Maxima Ltd (2 Marks)
- ii) Any THREE previously applied accounting framework under which Maxima’s financial statements can be prepared to be acceptable to transit to IFRS Accounting Standards (3 Marks)

b) In preparation of the company’s statement of cash flows, you have been provided with the following correctly prepared IFRS-financial statements for Maxima Ltd for the year ended 31 December 2024 (all figures have been rounded to the nearest full FRW millions):

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2024

Description	FRW million
Revenue	76,012
Cost of sales	(53,620)
Gross profit	22,392
Administration and distribution costs	(15,272)
Other operating expenses	(625)
Dividend income	1,260
Loss on disposal of PPE	(27)
Finance costs	(2,950)
Profit before tax	4,778
Income taxes	(1,810)
Profit for the year	2,968
<i>Other comprehensive income items (items NOT to be reclassified to profit or loss):</i>	

Remeasurement gain - Defined benefit pension scheme	135
Total comprehensive income	3,103

Statement of Changes in Equity for the year ended 31 December 2024

	Share capital	Retained earnings	Other equity reserves	Total
	FRW million	FRW million	FRW million	FRW million
Balance - 1 January 2024	15,750	12,056	8,386	36,192
issued ordinary shares	5,000			5,000
Total comprehensive income for the year		2,968	135	3,103
Ordinary Dividends paid in the year		(3,500)		(3,500)
Balance - 31 December 2024	20,750	11,524	8,521	40,795

Statement of Financial Position as at 31 December 2024

	2024	2023
	FRW million	FRW million
Assets		
Non-current assets		
Property, plant and equipment	38,250	36,338
Intangible assets	3,520	3,700
Financial assets	12,600	-
Total non-current assets	54,370	40,038
Current assets		
Inventories	5,165	4,900
Trade receivables	8,641	9,754
Cash and Bank	650	1,500
Total current assets	14,456	16,154
Total assets	68,826	56,192
Equity and Liabilities		
Equity:		
Ordinary share capital	20,750	15,750
Retained earnings	11,524	12,056
Other equity reserves	8,521	8,386
Total equity	40,795	36,192
Non-Current Liabilities		

	2024	2023
	FRW million	FRW million
Debenture notes	25,000	18,000
Defined benefit pension obligation	1,420	950
Total current liabilities	26,420	18,950
Current Liabilities		
Trade payables	964	522
Finance costs payable	150	354
Income taxes payable	497	174
Total current liabilities	1,611	1,050
Total equity and liabilities	68,826	56,192

Additional information:

1. Property, plant and equipment

Maxima had the following changes in the carrying amount of the property, plant and equipment

Description	FRW million
Net Book Value Balance – 1 January 2024	36 338
Plus: Additional PPE assets purchased in the period (outstanding payable balance FRW 5,000 million settled through an ordinary share issue)	9 532
Less: Carrying amount for disposed PPE	(2 100)
Less: Revaluation loss for the year (included in administration expenses)	(1 240)
Less: Depreciation charge for the year	(4 280)
Net Book Value Balance – 31 December 2024	38 250

The disposed PPE item was sold at a loss of FRW 27 million which has been recognized in the profit or loss.

2. Intangible assets

The amortization charge on the intangible assets has been recognized as part of the administration expenses in the profit or loss.

3. Financial Assets

On 1 January 2024, Maxima Ltd acquired a 5% shareholding in Zombo Ltd (a non-listed entity based in Rwanda) paying cash on the same day. Maxima Ltd has carried the financial asset at its cost in accordance with IFRS 9 Financial Instruments. The dividend income reported in the profit or loss was received on 31 December 2024 in relation to this investment held in Zombo Ltd.

4. Defined Benefit Pension Scheme

Maxima Ltd has always operated a pension scheme for its employees that is being classified correctly as a defined benefit scheme in accordance with IAS 19 Employee Benefits. The following schedule represents the changes in the balance of the defined benefit pension scheme:

Description	FRW million
Net Pension obligation - Book Value on 1 January 2024	950
Service costs for the year to 31 December 2024 (included in the administration expenses)	725
Cash contributions paid into the pension scheme - on 31 December 2024	(120)
Net re-measurement gain	(135)
Net Pension obligation - Book Value on 31 December 2024	1 420

Required:

In accordance with IAS 7 Statement of Cash Flows, using the indirect method, **prepare a statement of cash flows of Maxima Ltd for the year ended 31 December 2024 (20 Marks)**
(Total: 25 Marks)

Note: All figures MUST be rounded to the full millions (no decimal places)

QUESTION THREE

a) Accounting treatment of costs incurred to rehabilitate damaged asset

Fresh Cuts Ltd is a major wholesaler of fresh meat products across Rwanda, their financial year ends on 31 December. In January 2024, a chemical leakage from refrigerators of Fresh Cuts Ltd caused contamination of some of the company's property. Consequently, Fresh Cuts Ltd has incurred FRW 300 million in clean-up costs, FRW 600 million in the upgrading of the refrigerators to prevent similar leakage in future and FRW 30 million paid as a penalty to the regulator. Except for the penalty, Fresh Cuts Ltd has capitalized all the other costs in their property, plant and equipment asset account as "costs of improvements"

Required:

In accordance with conceptual framework, discuss the appropriateness of the accounting policy adopted by Fresh Cuts Ltd in relation to the above-mentioned costs incurred.
(5 Marks)

b) Fresh Cuts Ltd.'s herd of cows

In addition, Fresh Cuts maintains a large farm on which the company keeps a herd of cows which is operated as an organized commercial activity.

The following information is available relating to the herd of cows in the year-ended 31 December 2024:

1. Fresh Cuts Ltd purchased a herd of 10,000 two-year-old cows at 1 January 2024 for a total price of FRW 500 million which was also the market fair value on that date. The cows that

the company converts into meat for sale to the customers will usually be three-year old cows (as a minimum requirement). On 31 December 2024, the following fair values were available:

- The fair value of two-year-old cows on open market - FRW 600 million
- The fair value of three-year-old cows - FRW 750 million

2. According to Fresh Cuts Ltd, all the three-year cows were converted into packaged meat and made available for sale as meat which is the company's ordinary activity. The packaged meat from the 10,000 cows on 31 December 2024 had a net realizable value of FRW 720 million. The conversion costs for these batch of cows was FRW 10 million.

Required:

i) In accordance with IAS 41 *Agriculture*, briefly justify the recognition of herd of cows as biological assets by Fresh Cuts Ltd and explain the principles of measurement applicable to the herd of cows of Fresh Cuts Ltd at 31 December 2024 (before conversion into packaged meat) explaining the break-down components of the fair value change on 31 December 2024 attributable to the price change and physical change. (6 Marks)

ii) Advise the Directors of Fresh Cuts Ltd on the accounting treatment of the conversion of the company's herds of cow into packaged meat on 31 December 2024, including the final carrying amount of the meat to be recognized in the financial statements at 31 December 2024. (3 Marks)

c) Fresh Cuts Ltd.'s financing schemes

During the year, Fresh Cuts Ltd was able to raise sufficient finance capital to fund a huge investment in long-term fixed assets. The following details relate to the funding sources:

i) On 1 January 2024, Fresh Cuts Ltd issued a three-year 6% convertible loan note for FRW 20,000 million. The loan notes give the loan note holder as a choice, a right to convert the loan notes into ordinary shares of Fresh Cuts Ltd on the maturity date. The prevailing market interest rate of similar loan notes without a conversion right was 9% on 1 January 2024. The applicable discount rates for the three-year period are:

	6%	9%
Compound discount rate (all 3 years)	2.673	2.531
Discount rate at End of Year 3	0.840	0.772

Required:

Explain (using appropriate calculations) the accounting treatment for the convertible loan notes in the financial statements of Fresh Cuts Ltd on 1 January 2024 and 31 December 2024. (6 Marks)

Note: All calculations and figures use must be rounded to the nearest FRW million (no decimal places)

ii) On 1 January 2024, Fresh Cuts Ltd issued an irredeemable preference share capital of FRW 500 million with a cumulative dividend at 4%. The terms of the preference share issue grants the preference shareholder a right to an annual cumulative dividend payable (whether or not the company is sufficiently liquid). On 31 December 2024, the company declared a dividend of FRW 20m to the preference shareholders holding these preference shares. However, the company could not settle this dividend because of insufficient funds.

Required:

In reference to the applicable IFRS Accounting Standards on Financial Instruments, **briefly discuss (with appropriate calculations) whether the issued preference shares should be presented as equity or a liability in the financial statements of Fresh Cuts Ltd in the year ended 31 December 2024**

(5 Marks)

(Total: 25 Marks)

QUESTION FOUR

Paint Ltd, a company in Rwanda produces finished paint products which are sold to construction companies and the public. Initially, Paint Ltd was a privately owned company until 1 January 2024 when the company became a publicly-traded company having successfully floated its shares on the Rwanda stock market on the same day.

a) The interim financial reports of Paint Ltd

Paint Ltd applies IFRS Accounting Standards to prepare its financial statements. In accordance with IAS 34 *Interim Financial Reporting*, Paint Ltd is aware that as a publicly-traded company, the company is required to publish interim financial statements at least as of the end of the first half of the financial year ending 31 December 2024, and such reports should be made publicly available not later than 60 days after the end of the interim period.

Paint Ltd has approached you as a consultant to provide the company's accountant with guidance on the preparation of the first set of the interim financial report for the six-month period (1 January 2024 to 30 June 2024).

Required:

In accordance with IAS 34, **provide a summary of FIVE (5) minimum components that should be published in the interim financial reports of Paint Ltd**

(5 Marks)

b) Specialized machinery for Paint Ltd

In the year ended 31 December 2023, in order to modernize the production of quality paint products, Paint Ltd purchased a specialized heavy-duty machine and correctly recognized it as an item of property, plant and equipment. The machine had a 10-year useful economic life with an annual depreciation of FRW 100 million. On 31 December 2023, the machine was correctly reported with a net carrying amount of FRW 1,000 million while its tax base was FRW 800 million (taking into account the tax regulations related to the machine) on the same date.

In the year ended 31 December 2024, the machine was correctly reported with a net carrying amount of FRW 1,250 million after taking into account a revaluation surplus of FRW 350 million (recognized in the other comprehensive income). After taking into account the local tax regulations, the machine had a tax base of FRW 650 million on 31 December 2024.

Paint Ltd pays a tax rate of 30%.

The Directors of Paint Ltd are not aware of IAS 12 Income Taxes.

Required:

In accordance with IAS 12 *Income taxes*, explain to the Directors of Paint Ltd (with applicable calculations), the deferred tax implications related to the specialized machinery for the two years ended 31 December 2023 and 31 December 2024 (10 Marks)

c) Defined pension plan for employees of Paint Ltd

Paint Ltd operates a defined benefit pension plan for its factory employees.

At 1 January 2024, the present value of the defined benefit obligation was FRW 700 million and the fair value of the pension assets was FRW 720 million while on 31 December 2024, the present value of the defined benefit obligation was FRW 770 million and the fair value of the pension assets was FRW 825 million.

The following changes / movement was attributed to the defined benefit plan in the year ended 31 December 2024:

- Current service cost of FRW 190 million
- The applicable interest rate was 4%
- Contributions of FRW 200m were paid to the pension plan
- Settlements of FRW 100 million were paid out to the retirees

It has been determined on 31 December 2024 that the present value of future economic benefits relating to the pension plan is FRW 48 million.

Required:

In accordance with IAS 19 *Employee Benefits*, compute Paint Ltd, the amounts regarding the pension scheme that will be recognized in statement of profit or loss and other comprehensive income and an extract of the working for the balance to be presented in the statement of financial position for the pension scheme showing the accounting journals for the changes in the year. (10 Marks)

(Total: 25 Marks)

End of question paper