

**CERTIFIED PUBLIC ACCOUNTANT**  
**INTERMEDIATE LEVEL EXAMINATIONS**  
**I1.2: FINANCIAL REPORTING**  
**TUESDAY 3 DECEMBER 2013**

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**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.

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## SECTION A

*Attempt all questions in this section.*

### QUESTION ONE

Problems Ltd went into voluntary liquidation on 30<sup>th</sup> November 2012. Its statement of financial position as at that date was as follows:

<b>Assets</b>	<b>“000”</b>
Land and buildings	50,000
Plant and machinery	125,000
Patents	20,000
Stock	27,500
Debtors	55,000
Cash at bank	15,000
Profit and loss account balance	56,250
	<b>348,750</b>
<b>Equity and liabilities</b>	
<b>Issued and subscribed capital</b>	
1,000,000 10% cumulative preference shares of Frw 100each	100,000
500,000 equity shares of Frw 100 each, Frw 75 Paid	37,500
1,500,000 equity shares of Frw 100each, Frw 60 paid	90,000
15% debentures secured by a floating charge	50,000
Interest outstanding on debentures	7,500
Creditors	63,570
	<b>348,750</b>

#### **Additional information**

1. Preference shares were in arrears for two years and the creditors included preferential creditors of Frw 7,600,000.
2. The liquidation expenses amounted to Frw 5,450,000. The liquidator is entitled to a commission of 3% on assets realized except cash.
3. The assets were realized as follows:

	<b>“000”</b>
Land and buildings	60,000
Plant and machinery	100,000
Patents	15,000
Stocks	30,000
Debtors	40,000

4. The final payments ( including those relating to debentures) were made on 31 May 2013

#### **Required:**

- a) The liquidator's final statement of account as at 31 May 2013. **(16 Marks)**
- b) State and explain circumstances under which a group of contracts may be treated as a single construction contract according to IAS 11 **( 4 Marks)**

**(Total: 20Marks)**

## QUESTION TWO

- a) Differentiate between equity method of accounting for associates and joint ventures and the full consolidation method of accounting for subsidiaries **(2 marks)**
- b) How does the full goodwill method differ from the partial goodwill method of determining goodwill? **(2 marks)**
- c) How should a bargain purchase (negative goodwill) be dealt with according to IFRS 3 Business combination **(2 marks)**
- d) Under what circumstances may a parent company not present consolidated financial statements. **(4 marks)**
- e) The income statements for Kilod, Limod and Nimod for the year ended 31 December 2012 are shown below.

	<b>Kilod</b>	<b>Limod</b>	<b>Nimod</b>
	<b>Frw000</b>	<b>Frw000</b>	<b>Frw000</b>
Revenue	4,000	1,500	1,200
Cost of sales	(2,300)	(1,000)	(800)
Gross profit	1,700	500	400
Distribution costs	(900)	(120)	(80)
Administrative expenses	(350)	( 150)	(100)
Other income	70	-	-
Profit before tax	520	230	220
Income tax expense	(250)	(80)	(100)
Profit for the year	270	150	120

### Additional information:

- 1) Kilod acquired 70% of the ordinary share capital of Limod on 1 January 2011 for Frw 8,200,000 when the retained earnings of Kilod amounted to Frw 3,400,000. At the date of acquisition the net assets of Limod were assessed to have a fair value of Frw 10,000,000. The only fair value adjustment required on acquisition related to depreciable assets (see note2 below). The group policy is to value non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest at the date of acquisition was Frw 2,200,000.

- 2) At the date of acquisition, depreciable assets of Limod with a remaining useful life at that date of 6 years had a fair value of Frw 240,000 more than their book value. The group policy is to depreciate non-current assets on a straight line basis over their remaining economic useful life. Depreciation is charged to administrative expenses.
- 3) An impairment review conducted on 31 December 2012 showed goodwill being impaired by 15%. Impairment losses are charged to administrative expenses.
- 4) Kilod acquired 40% of the ordinary share capital of Nimod on 1 October 2012. Kilod is now able to exercise significant influence over the operating and financial policies of Nimod.
- 5) During the year to 31 December 2012, Kilod and Limod paid ordinary dividends of Frw 300,000 and Frw 100,000 respectively. Income from investments is included within other income.
- 6) Limod sold goods to Kilod on 1 November 2012 with a sales value of Frw 140,000. Half of these goods remain in Kilod's inventories at the year end. Limod makes 20% profit margin on all sales. Limod's and Kilod's showed amount owing to each other of Frw 30,000.

**Required:**

- (i). Prepare the consolidated income statement for the Kilod Group for the year ended 31 December 2012. (Round all workings to the nearest Frw000) **(10 Marks)**
- (ii). Determine amounts to be included in the Kilod's statement of financial position as 31 December 2012 for
  - Goodwill balance
  - Non controlling interest
  - Consolidated retained earnings and
  - Investment in associate

**(10 Marks)**  
**(Total 30 Marks)**

### QUESTION THREE

- a) State and explain any four advantages that will accrue from the adoption of the International Public Sector Accounting Standards (IPSAS) by governments and public entities. **( 8 Marks)**
- b) The following information was extracted from the books of Lukavu ltd, a retail business as at the end of its financial year on 30<sup>th</sup> June 2013:

Type of inventory	A	B	C	D
Quantity ('000' Units)	240	180	120	210
Cost price per Unit (Frw)	150	340	180	100
Cost of Replacement per unit	180	312	168	90
Estimated cost of selling per unit	80	104	60	21
Expected selling price per unit	300	400	320	180

The company's policy is to realize a gross profit margin of 30% on the selling price

#### Required:

Determine the value of inventory, using IAS 2 that would appear in the statement of financial position. **(6 Marks)**

- c) The following list of balances was extracted from the books of Abaturage bank Ltd as at 31 December 2012.

	Frw "000"
Interest income: Loans and advances	2,512,419
: Government securities	545,508
: Deposit and placement with other banks	196,711
Fees and commission income	883,253
Foreign exchange income	147,376
Other incomes	2,031,859
Cash	3,015,005
Balance due from central bank	2,138,352
Government securities	13,542,935
Interest expenses: Customers deposits	244,580
: Deposit and placements from other banks	2,630
: Others	247,315
Decrease in loan loss provision	25, 341
Staff costs	1,453,471
Directors Emoluments	16,097
Rental charges	181,867
Depreciation of property, plant and equipment	357,508
Amortization	65,673
Other operating expenses	1,409,511
Income tax expense	473,535

Deposits and balances due from other banks	6,891,393
Loans and advances to customers	21,836,453
Investment properties	453,099
Property and equipment	2,602,876
Intangible assets	228,495
Other assets	2,420,657
Customers deposits	31,535,515
Deposits and balances due to other banks	53,322
Borrowings	4,521,390
Current tax payable	209,036
Other liabilities	1,893,316
Ordinary share capital	1,811,050
Share premium	10,543,037
Revaluation reserve	12,216
Retained earnings brought forward	407,176
Loan loss reserve	252,906
Proposed dividends	543,387
Letters of credit guarantees and acceptances	2,758,326
Contingent liabilities	8,517

**Required:**

Statement of Comprehensive income statement for the year ended 31 December 2012

**(16 Marks)**

**(Total: 30 Marks)**

**SECTION B**

*Attempt one question in this section*

**QUESTION FOUR**

The following information relates to the draft financial statements of Chigali summarized statements of financial position as at:

	31 March 2013		31 March 2012	
	Frw'000	Frw'000	Frw'000	Frw'000
<b>Assets</b>				
Non-current assets				
Property, plant and equipment (note (i))		19,000		25,000
<b>Current assets</b>				
Inventory		12,500		4,600
Trade receivables		4,500		2,500
Tax refund due		500		-
Bank		-		1,500

<b>Total assets</b>		<b>36,500</b>		<b>33,600</b>
<b>Equity and liabilities</b>				
Equity				
Equity shares of Frw 1 each (note (ii))		10,000		8,000
Share premium (note (ii))	3,200		4,000	
Retained earnings	4,500	7,700	6,300	10,300
		<b>17,700</b>	<b>10,300</b>	<b>18,300</b>
<b>Non-current liabilities</b>				
10% loan note (note (iii))	-		5,000	
Finance lease obligations	4,800		2,000	
Deferred tax	1,200	6,000	800	7,800
<b>Current liabilities</b>				
10% loan note (note (iii))	5,000		-	
Tax	-		2,500	
Bank overdraft	1,400		-	
Finance lease obligations	1,700		800	
Trade payables	4,700	12,800	4,200	7,500
<b>Total equity and liabilities</b>		<b>36,500</b>		<b>33,600</b>

Summarized income statements for the years ended:

	<b>31-Mar-2013</b>	<b>31-Mar-2012</b>
	<b>Frw,000</b>	<b>Frw,000</b>
Revenue	55,000	40,000
Cost of sales	43,800)	(25,000)
<b>Gross profit</b>	<b>11,200</b>	<b>15,000</b>
Operating expenses	(12,000)	(6,000)
Finance costs (note (iv))	(1,000)	(600)
<b>Profit (loss) before tax</b>	<b>(1,800)</b>	<b>8,400</b>
Income tax relief (expense)	700	(2,800)
<b>Profit (loss) for the year</b>	<b>(1,100)</b>	<b>5,600</b>

The following additional information is available:

- (i) Property, plant and equipment is made up of:

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>“000”</b>	<b>“000”</b>
Leasehold property	Nil	8,800
Owned plant	12,500	14,200
Leased plant	<u>6,500</u>	<u>2,500</u>

	<b><u>19,000</u></b>	<b><u>25,500</u></b>
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During the year Chigali sold its leasehold property for Frw 8,500,000 and entered into an arrangement to rent it back from the purchaser. There were no additions to or disposals of owned plant during the year. The depreciation charges (to cost of sales) for the year ended 31 March 2013 were:

	<b>“000”</b>
Leasehold property	200
Owned plant	1,700
Leased plant	<u>1,800</u>
	<b><u>3,700</u></b>

(ii) On 1 July 2009 there was a bonus issue of shares from share premium of one new share for every 10 held. On 1 October 2009 there was a fully subscribed cash issue of shares at par.

(iii) The 10% loan note is due for repayment on 30 June 2010. Chigali is in negotiations with the loan provider to refinance the same amount for another five years.

(iv) The finance costs are made up of:

For year ended:

	<b>31 March 2013</b>	<b>31 March 2012</b>
	<b>“000”</b>	<b>“000”</b>
Finance lease charges	300	100
Overdraft interest	200	Nil
Loan note interest	<u>500</u>	<u>500</u>
	<b><u>1,000</u></b>	<b><u>600</u></b>

**Required:**

Prepare a statement of cash flows for Chigali for the year ended 31 March 2013 in accordance with IAS 7 *Statement of cash flows*, using the indirect method;

**(Total: 20Marks)**

### QUESTION FIVE

a) In respect of Government of Rwanda organic law on state finances and property (N° 37/2006 of 12/09/2006), define: **(2 Marks)**

- (i) Budget agency
- (ii) Chief budget manager

b) State any three roles of Chief Budget manager of a budget agency **(6 Marks)**



- c) The following data has been collected from the Ministry of Natural Resources (MINARE) for the fiscal year ended 30 June 2013:

<b>Accounts</b>	<b>Frw '000'</b>
Reserves	18,000
Accumulated surpluses as at 01 July 2012	7,500
Cash and cash equivalents	5,000
Receivables	2,000
Inventory	1,000
Transfers from Exchequer	25,000
Receipts from fees, fines and licenses	5,000
Reserves from foreign exchange transactions	1,000
Transfers from other Ministries	500
Other revenue	6,000
Payables	5,000
Land, buildings and furniture	35,000
Computer equipment and motor vehicles	5,000
Wages and salaries	10,000
Transfers to other ministries	5,000
Supplies and consumables used	4,000
Other expenses	12,000
Finance costs	1,000
Long term borrowings	10,000
Liability for long term employee benefits	2,000

**Required:**

The following statements according to IPSAS 1 'Presentation of Financial Statements':

- (i) Statement of financial performance for the year ended 30 June 2013 **(6 Marks)**
- (ii) Statement of financial position as at 30 June 2013 **(6 Marks)**

**(Total: 20Marks)**

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**End of question paper**