CERTIFIED PUBLIC ACCOUNTANT(CPA)

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

MONDAY: 4 JUNE 2018

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.

QUESTION ONE

(a) The International Accounting Standards Board (IASB) is charged with the responsibility of setting new and continuously reviewing the already existing accounting and financial reporting standards. In so doing, the IASB goes through a specific process.

REQUIRED:

Briefly describe the international financial reporting standards setting process of the IASB.

(12 Marks)

(b) A number countries all over the world have adopted the application of International Financial Reporting Standards (IFRS). In the recent years, Rwanda resolved to adopt the IFRS and started applying them. To enhance the adoption, users of financial information need to appreciate the benefits that they will derive from the adoption.

REQUIRED:

Explain **four** benefits of adopting the IFRS by business entities. **(4 Marks)**

(c) Quality financial information ought to depict fundamental and enhancing qualitative characteristics. These characteristics are attributes that make financial information useful to the users.

REQUIRED:

Explain the fundamental qualitative characteristics of financial information reported in the financial statements.

(4 Marks)
(Total 20Marks)

QUESTION TWO

Ugali Processing Ltd (UPL) deals in the processing of maize grain into different brands of flour. Recently, there has been shortage in the supply of maize grain due to its increased direct consumption. On 1 January, 2017, UPL acquired 80% of the ordinary shares of Bigori Ltd (BL) a company that deals in the production and marketing of high quality maize grain. This was done in order to secure a constant supply of maize grain. The retained earnings of BL on the date of acquisition were Frw 180 million.

You are the accountant of UPL and the following summarised draft financial statements of both companies for the year ended 31 December, 2017 were presented to you.

Statement of financial position as at 31 December 2017:

	UPL	BL
Assets:	Frw '000'	Frw '000'
Non-current assets	2,580,000	825,100
Current assets	364,000	198,200
	2,944,000	1,023,300
Equity &liabilities:		
Equity share capital Frw 10,00 per share	1,200,000	510,000
Retained earnings	950,000	278,000
	2,150,000	788,000
Current liabilities	244,000	79,300
Non-current liabilities	550,000	156,000
	794,000	235,300
Total equity and liabilities	2,944,000	1,023,300

Statement of profit or loss for the year ended 31 December 2017:

	UPL	BL
	Frw '000'	Frw '000'
Revenue	5,239,000	2,050,000
Cost of Sales	(3,450,000)	(1,210,000)
Profit	1,789,000	840,000
Administrative Expenses	(945,000)	(456,000)
Selling & Distribution expenses	(370,900)	(251,000)
Net Profit	473,100	133,000

Additional information:

1. UPL paid Frw 850 million as consideration for the shares acquired in BL and this investment has been included in the non-current assets of UPL.
2. During the year, UPL bought maize gain from BL for Frw 100 million. By 31 December, 2017, 60% of this maize was still in inventory of UPL. BL had sold this maize at a mark-up of 25%.
3. The fair value of BL's shares just before the date of acquisition was Frw 17,000 each and UPL measures non-controlling interest (NCI) at fair value.

REQUIRED:

As the accountant of UPL, you have been requested to compute the following items as they would appear in the consolidated financial statements of UPL group, and prepare financial statements extracts to record their effects where necessary, for the Chief Accountant to incorporate in consolidated financial statements for the year ended 31 December, 2017.

(a) Goodwill. **(9 marks)**
(b) Group retained earnings. **(7 marks)**
(c) Non-controlling interests as at 31 December, 2017. **(4 marks)**
(d) Group revenue & cost of sales. **(10 marks)**

(Total 30 marks)

QUESTION THREE:

Mbaho Byuma Ltd (MBL) manufactures and sells wood and metal products. The company has grown over time since its inception and this is attributed to the increased demand for its products. Management is planning to acquire a loan facility from a one of the commercial banks in Rwanda, to enable the company expand its operation in order to satisfy the increasing demand. Among the requirements for the loan facility, management is required to provide the company's financial statements to the bank.

The Chief Finance Officer has provided you with the following trial balance for the year ended 31 March, 2018.

	Dr. Frw '000'	Cr. Frw '000'
Land at cost	102,000	
Buildings at cost	51,500	
Plant &equipment at cost	73,200	
Motor vehicles at cost	30,000	
Accumulated depreciation 31 March, 2017:		
Buildings		10,300
Plant & equipment		29,960
Motor vehicles		4,500
Purchases & sales revenue	243,200	468,600
Share capital		225,100
Inventory 1 April, 2017	26,500	
Cash and bank	53,150	

Taxation		3,540
Distribution costs	43,150	
Administrative costs	83,100	
Trade receivables & payables	98,300	62,100
	804,100	804,100

Additional information:

1. On 1 April, 2017, a revaluation was done on land and buildings. This resulted in an increase of Frw 25,300,000 in the land value and reduction of Frw 8,200,000 in the buildings. This has not been recorded in the books. You are also informed that MBL depreciates its non-current assets on straight line basis as follows:

   Plant and equipment: 10% per annum on cost.
   Motor vehicles : 5% per annum on cost.
   Buildings had an estimated useful life of 15 years at the date of revaluation.

2. As a government initiative to support the growth of small scale enterprises, on 1 April, 2017 MBL was given a non-repayable cash grant of Frw 40,000,000 from the Rwandan government specifically to help in the construction of a storage facility for its wood products. By 31 March, 2018 only a quarter of this money had been spent on the construction of the storage facility. No record of this grant was made in the books. It is MBL's policy to account for such grants as deferred income.

3. Included in MBL's trade receivables is Frw 15,200,000 from Kanuma Ltd. On 5 April, 2018, Kanuma Ltd was declared bankrupt by a court of law. This was as a result of failure to honour loan obligations from different banks that later led to suits being filed against Kanuma Ltd for non-payment.

4. MBL sales its goods on a sale and return basis. During the year ended 31 March, 2018 MBL sold goods for Frw 22,000,000 on sale and return basis to various customers. By the year end, MBL had been notified that goods worth Frw 5,000,000 were to be returned on 1 April, 2018, but no adjustment was made in the books to the effect. MBL has always refunded customers who return goods.

5. MBL does inventory valuation at every year end. On 31 March, 2018 inventory valuation was done, and it was established that inventory which had cost Frw 30,500,000 was still in stores of MBL but market conditions on the same date showed that this inventory could be sold for Frw 33,100,000 having incurred Frw 3,500,000 as costs to sale. The corporation tax rate is 30% and that tax in the previous year ended 31 March, 2017 had been under provided by Frw 2,500,000.

REQUIRED:

In accordance with relevant financial reporting standards and international accounting Standards:

(a) Prepare MBL's property, plant & equipment schedule for the year ended 31 March, 2018
(8 Marks)

(b) With well-prepared notes/workings relating to inventory valuation, government grant, and events after the reporting date among others, prepare for MBL:

(i) A statement of profit or loss and other comprehensive income for the year ended 31 March, 2018.
(14 Marks)

(ii) A statement of financial position as at 31 March, 2018.
(8 Marks)
(Total 30 Marks)

QUESTION FOUR

Gasabo and Gisagara (G&G) a public accounting firm operating in Rwanda and offers advisory services. One of its clients Uhirwa Rwanda Limited (URL), a major manufacturing entity in Kigali with an accounting date is 31 December sought advice on a number of transactions. You are an employee of G&G, and one of the partners has asked you to advise on the treatment of the following transactions:

1. URL sold one of its office buildings to a financial institution and leased it back under a 20 year finance lease on 1 January, 2017. The sales price (which equates to fair value) was Frw 2.61 billion which is also the present value of minimum lease payments. The agreement transfers the title of the building back to URL names at the end of the lease at nil cost. The rental is Frw 210 million per annum in advance commencing 1 January, 2017. The implicit interest rate of the lease is 7%. The office building had a remaining economic life of 20 years on 1 January, 2017 and a carrying value (under the cost model) of Frw 2.09 billion. You are further informed that URL management is not sure whether IFRS: 16 Leasesis effective for application.

   (10 Marks)

2. URLsuffered losses on their sales in the first week of January 2018 due to a decrease in the prices of their products. The reduction in price was caused by falling demand of its products due to unexpected launch of superior products by one of its competitors on 28 December, 2017. You have been informed that URL managementthinksthe associated losses on the sale of these products should havebeen recognised in the next accounting period in line with the matching principle since the sales were made after the year end.The URLboard of directors meetings are held 2 month after the year end.

   (3 Marks)

3. On 1 August, 2017, URL commenced theconstruction of a mega factory in Rubavu in the western province of Rwanda in order to expand its operations. The direct costs incurred were Frw 60 million in August 2017, Frw 130 million in September 2017, Frw 173 million in October 2017 and then Frw197million in each month of November and December 2017. URL has not taken out any specific borrowings to finance the construction, but it hasincurred finance costs on its general borrowings during the period, which could have been avoided if the construction had not taken place. URL's weighted average cost of borrowings for the year ended 31 December, 2017, was 7%. There is need to advise management of URL on thetreatment of the above borrowing costs.

   (7 Marks)

REQUIRED:

Prepare notes to the Partner of G & G indicating clearly what adjustments need to be done by the management of URL in the financial statements for the year end 31 December, 2017.

(Total 20 Marks)

QUESTION FIVE

You are the accountant of a Government agency and the period of preparing financial statements has approached. Your subordinates have gathered all the required information and provided it to you for the finalisation of the agency's financial statements for the period ended 30 June, 2017.

The following information relates to the activities that happened in the period ended 30 June, 2017.

Details	Budgeted amount
Receipts:	Frw '000'
Revenue collections	879,000
Fees, fines, & penalties	100,000
Borrowings	154,000
Receipts from the treasury	550,000
Capital receipts	11,000
Other incomes	62,000
Total	1,756,000
Payments:	
Staff costs	365,000
Payments for goods & services	605,000
Donations & other transfer payments	90,000
Social assistance	84,000
Finance costs	45,000
Other costs	119,000
Repayment of borrowed funds	26,000
Capital expenditure	453,000
Total	1,787,000

Additional notes:

1. Included in the revenue collections is an amount of Frw 89 million which had not been received by 30 June, 2017.This was as result of delay in reminding clients to pay.In addition receipts from treasury includeFrw 57 million which had not yet been received by 30 June, 2017 pending clearance of previous accountabilities submitted. Of these funds Frw 30 million was to cater for staff costs and the balance to cater for payment of goods and services that had already been consumed.

   Other goods and services unpaid for amounted to Frw 13 million.No record of this has been made in the respective accounts. All the other revenues were as budgeted.
2. Except for the above adjustments, all the other expenses for the year ended 30 June 2017, were incurred as follows:

Expenditure	Frw '000'
Donations & other transfer payments	90,000
Social assistance	84,000
Finance costs	45,000
Other costs	120,000
Repayment of borrowed funds	26,000
Capital expenditure	511,000

3. On 30 June, 2017 the balances (exclusive of the above adjustments) outstanding on different accountsmaintained by the agency were as follows:

Details	Frw ‘000’
Cash & bank balances	189,000
Account receivable	30,000
Account payable	157,000
	376,000

4. The accumulated surplus from previous periods was Frw 89 million. Prior year adjustments resulting from last year and have been made during year ended 30 June, 2017 include the following.

Details	Frw ‘000’
Cash & bank balances	16,000
Account receivable	110,000
Account payable	7,000

REQUIRED:

For the period ended 30 June, 2017, prepare:

(a) Statement of revenues and expenditure and statement of financial assets & liabilities for the period ending 30 June, 2017.

(16 Marks)

b) Expenditure variance report clearly showing the over or under expenditure.

(4 Marks)

(Total 20 marks)

END OF QUESTION PAPER

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