

CPA

Certified Public Accountant Examination

Stage: Intermediate Level

Subject Title: I1.2 Financial Reporting

Revision Guide



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STUDY TECHNIQUE

What is the best way to manage my time?

- Identify all available free time between now and the examinations.
- Prepare a revision timetable with a list of “*must do*” activities.
- Remember to take a break (approx 10 minutes) after periods of intense study.



What areas should I revise?

- Rank your competence from Low to Medium to High for each topic.
- Allocate the least amount of time to topics ranked as high.
- Allocate between 25% - 50% of time for medium competence.
- Allocate up to 50% of time for low competence.

How do I prevent myself veering off-track?

- Introduce variety to your revision schedule.
- Change from one subject to another during the course of the day.
- Stick to your revision timetable to avoid spending too much time on one topic.

Are study groups a good idea?

- Yes, great learning happens in groups.
- Organise a study group with 4 – 6 people.
- Invite classmates of different strengths so that you can learn from one another.
- Share your notes to identify any gaps.

EXAMINATION TECHNIQUES

INTRODUCTION

Solving and dealing with problems is an essential part of learning, thinking and intelligence. A career in accounting will require you to deal with many problems.

In order to prepare you for this important task, professional accounting bodies are placing greater emphasis on problem solving as part of their examination process.

In exams, some problems we face are relatively straightforward, and you will be able to deal with them directly and quickly. However, some issues are more complex and you will need to work around the problem before you can either solve it or deal with it in some other way.

The purpose of this article is to help students to deal with problems in an exam setting. To achieve this, the remaining parts of the article contain the following sections:

- Preliminary issues
- An approach to dealing with and solving problems
- Conclusion.

Preliminaries

The first problem that you must deal with is your reaction to exam questions.

When presented with an exam paper, most students will quickly read through the questions and then many will ... **PANIC!**

Assuming that you have done a reasonable amount of work beforehand, you shouldn't be overly concerned about this reaction. It is both natural and essential. It is natural to panic in stressful situations because that is how the brain is programmed.

Archaeologists have estimated that humans have inhabited earth for over 200,000 years. For most of this time, we have been hunters, gatherers and protectors.

In order to survive on this planet we had to be good at spotting unusual items, because any strange occurrence in our immediate vicinity probably meant the presence of danger. The brain's natural reaction to sensing any extraordinary item is to prepare the body for 'fight or flight'. Unfortunately, neither reaction is appropriate in an exam setting.

The good news is that if you have spotted something unusual in the exam question, you have completed the first step in dealing with the problem: its identification. Students may wish to use various relaxation techniques in order to control the effects of the brain's extreme reaction to the unforeseen items that will occur in all examination questions.

However, you should also be reassured that once you have identified the unusual item, you can now prepare yourself for dealing with this, and other problems, contained in the exam paper.

A Suggested Approach for Solving and Dealing with Problems in Exams.

The main stages in the suggested approach are:

1. Identify the Problem
2. Define the Problem
3. Find and Implement a Solution
4. Review

1. Identify the Problem

As discussed in the previous section, there is a natural tendency to panic when faced with unusual items. We suggest the following approach for the preliminary stage of solving and dealing with problems in exams:

Scan through the exam question

You should expect to find problem areas and that your body will react to these items.

PANIC!!

Remember that this is both natural and essential.

Pause

Take deep breaths or whatever it takes to help your mind and body to calm down.

Try not to exhale too loudly – you will only distract other students!

Do something practical

Look at the question requirements.

Note the items that are essential and are worth the most marks.

Start your solution by neatly putting in the question number and labelling each part of your answer in accordance with the stated requirements.

Actively reread the question

Underline (or highlight) important items that refer to the question requirements. Tick or otherwise indicate the issues that you are familiar with. Put a circle around unusual items that will require further consideration.

2. Define the Problem

Having dealt with the preliminary issues outlined above, you have already made a good start by identifying the problem areas. Before you attempt to solve the problem, you should make sure that the problem is properly defined. This may take only a few seconds, but will be time well spent. In order to make sure that the problem is properly defined you should refer back to the question requirements. This is worth repeating: Every year, Examiner Reports note that students fail to pass exams because they do not answer the question asked. Examiners have a marking scheme and they can only award marks for solutions that deal with the issues as stipulated in the question requirements. Anything else is a waste of time. After you have re-read the question requirements ask yourself these questions in relation to the problem areas that you have identified:

Is this item essential in order to answer the question?

Remember that occasionally, examiners will put ‘red herrings’ (irrelevant issues) into the question in order to test your knowledge of a topic.

What’s it worth?

Figure out approximately how many marks the problem item is worth. This will help you to allocate the appropriate amount of time to this issue.

Can I break it down into smaller parts?

In many cases, significant problems can be broken down into its component parts. Some parts of the problem might be easy to solve.

Can I ignore this item (at least temporarily)?

Obviously, you don’t want to do this very often, but it can be a useful strategy for problems that cannot be solved immediately.

Note that if you leave something out, you should leave space in the solution to put in the answer at a later stage. There are a number of possible advantages to be gained from this approach:

- 1) It will allow you to make progress and complete other parts of the question that you are familiar with. This means that you will gain marks rather than fretting over something that your mind is not ready to deal with yet.
- 2) As you are working on the tasks that you are familiar with, your mind will relax and you may remember how to deal with the problem area.
- 3) When you complete parts of the answer, it may become apparent how to fill in the missing pieces of information. Many accounting questions are like jigsaw puzzles: when you

put in some of the parts that fit together, it is easier to see where the missing pieces should go and what they look like.

3. Find and Implement a Solution

In many cases, after identifying and defining the problem, it will be easy to deal with the issue and to move on to the next part of the question. However, for complex problems that are worth significant marks, you will have to spend more time working on the issue in order to deal with the problem. When this happens, you should follow these steps:

Map out the problem

Depending on your preferred learning style, you can do this in a variety of ways including diagrams, tables, pictures, sentences, bullet points or any combination of methods. It is best to do this in a working on a separate page (not on the exam paper) because some of this work will earn marks. Neat and clearly referenced workings will illustrate to the examiner that you have a systematic approach to answering the question.

Summarise what you know about the problem

Make sure that this is brief and that it relates to the question requirements. Put this information into the working where you have mapped out the problem. Be succinct and relevant. The information can be based on data contained in the question and your own knowledge and experience. Don't spend too long at this stage, but complete your workings as neatly as possible because this will maximise the marks you will be awarded.

Consider alternative solutions

Review your workings and compare this information to the question requirements. Complete as much of the solution as you can. Make sure it is in the format as stipulated in the question requirements. Consider different ways of solving the problem and try to eliminate at least one alternative.

Implement a solution

Go with your instinct and write in your solution. Leave extra space on the page for a change of mind and/or supplementary information. Make sure the solution refers to your workings that have been numbered.

4. Review

After dealing with each problem and question, you should spend a short while reviewing your solution. The temptation is to rush onto the next question, but a few moments spent in

reviewing your solution can help you to gain many marks. There are three questions to ask yourself here:

Have I met the question requirements?

Yes, we have mentioned this already. Examiner Reports over the years advise that failure to follow the instructions provided in the question requirements is a significant factor in causing students to lose marks. For instance, easy marks can be gained by putting your answer in the correct format. This could be in the form of a report or memo or whatever is asked in the question. Likewise, look carefully at the time period requested. The standard accounting period is 12 months, but occasionally examiners will specify a different accounting period.

Is my solution reasonable?

Look at the figures in your solution. How do they compare relative to the size of the figures provided in the question?

For example, if Revenue were 750,000 and your Net Profit figure was more than 1 million, then clearly this is worth checking.

If there were some extraordinary events it is possible for this to be correct, but more than likely, you have misread a figure from your calculator. Likewise, the depreciation expense should be a fraction of the value of the fixed assets.

What have I learned?

Very often in exams, different parts of the solution are interlinked. An answer from one of your workings can frequently be used in another part of the solution. The method used to figure out an answer may also be applicable to other parts of your solution.

Conclusion

In order to pass your exams you will have to solve many problems. The first problem to overcome is your reaction to unusual items. You must expect problems to arise in exams and be prepared to deal with them in a systematic manner. John Foster Dulles, a former US Secretary of State noted that: *The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.* We hope that, by applying the principles outlined in this article, you will be successful in your examinations and that you can move on to solve and deal with new problems.

ASSESSMENT STRATEGY

Examination Approach

Students are required to demonstrate a detailed understanding of accounting principles and the ability to apply these to practical situations. A peripheral knowledge does not suffice. In addition to testing technical competence the examination requires students to demonstrate effective communication skills, particularly in relation to the production of both internal memoranda and external financial reports for a wide variety of user groups. Students are expected to integrate and apply learning from this and other syllabi, as appropriate.

Examination Format

The examination is unseen, closed book and 3.5 hours' in duration. Students are required to answer questions 1 to 3, and either question 4 or 5.

One of the compulsory questions is multiple choice with 8 sections based mainly on International Financial Reporting Standards and the preparation of limited company and group accounts in accordance with those standards. The other two compulsory questions are mainly computational. Students are required to answer one of the remaining two questions.

Marks Allocation

Multiple Choice Question	20
Computational Questions (2 questions each carries 30 marks)	60
Choice of questions 4 or 5	20
Total	100

LEARNING RESOURCES

Core Texts

Connolly / International Financial Accounting and Reporting 3rd edition/ CAI 2011/ ISBN 9781907214646

Elliot and Elliot, Financial Accounting and Reporting, 2011 Prentice Hall (14th edition) ISBN 9780273744443

Manuals

I1.2 Financial Reporting – Institute of Certified Public Accountants of Rwanda

Supplementary Texts and Journals

Kirk, R.J. International Financial Reporting Standards in Depth, Volumes 1 & 2
ISBN 184
802 019.

Collins, McKeith / Financial Accounting and Reporting / McGraw-Hill 2009 /
ISBN 9780077114527

Kothari, Barone / Advanced Financial Accounting An International Approach /
2011/ FT Prentice Hall / ISBN 978-0-273-71274-9

Alfredson, Picker, et al / Applying International Financial Reporting Standards /
Wiley 009/ ISBN 978-0-470-81967-8.

Useful Websites (as at date of publication)

www.icparwanda.com

www.ifac.org/ - The International Federation of Accountants.

www.ifrs.org/ - The International Financial Reporting Standards Foundation.

www.fasb.org - Financial Accounting Standards Board (USA).

<http://www.ipsas.org>

I1.2 FINANCIAL REPORTING
REVISION QUESTIONS

REVISION QUESTIONS

Question 1

Big Motos Ltd sells high powered motorcycles, mainly for the high-end, elite sports market. A draft set of financial statements for the year ended 31 March 2011 has been prepared for you, the new Financial Accountant, by the Assistant Accountant. You have been asked by the Finance Director to report to him on the financial position as soon as possible.

Big Motos Ltd.

Statement of Comprehensive Income for the year ended 31/3/2011

	RWF'000
Revenue	1,960
Cost of sales	<u>(1,220)</u>
Gross profit	740
Other income	44
Distribution costs	(376)
Administrative expenses	<u>(164)</u>
Operating profit	244
Finance costs	<u>(8)</u>
Profit before tax	236
Income tax expense	<u>(36)</u>
Profit for the period	<u>200</u>

Statement of Financial Position (balance sheet) as at 31/3/2011

	RWF'000	RWF'000
Assets		
Non-current assets		
Property, plant & equipment (see note below)		676
Investment property at valuation 1/4/2010		<u>220</u>
		896
Current assets		
Inventories		80
Trade and other receivables		252
Cash and cash equivalents		<u>174</u>
		506
Total Assets		<u>1,402</u>

Equity and Liabilities**Equity**

Ordinary share capital .50rwf		250
Share premium		200
Revaluation reserve		70
Retained earnings 1/4/2010	355	
Profit for the year	200	
Dividends paid and accrued	<u>(60)</u>	
Retained earnings 31/3/2011		<u>495</u>
		1,015

Non-current liabilities

	RWF'000	RWF'000
10% Bank Term Loan 2014		80
Current liabilities		
Trade and other payables		241
Dividends		30
Taxation		<u>36</u>
		307
Total Liabilities		387
Total Equity and Liabilities		<u>1,402</u>

Note: Property, plant & equipment

	RWF'000	RWF'000
Land at cost		100
Property - at valuation 1/4/2008	300	
Accumulated depreciation 1/4/2010	<u>(12)</u>	288
Plant and equipment - at cost 31/3/11	240	
Accumulated depreciation 1/4/2010	<u>(72)</u>	168
Vehicles - at cost 31/3/11	192	
Accumulated depreciation 1/4/2010	<u>(72)</u>	<u>120</u>
Total		<u>676</u>

Following discussions with the Assistant Accountant and the Finance Director, the following additional information has come to light:

1. Depreciation, is usually provided on property, plant and equipment as follows:

Property:	2% per annum straight line (see 2. below)
Plant & Equipment:	10% per annum straight line

REQUIREMENTS:

- (a) Prepare, in a form suitable for publication, the Statement of Financial Position (balance sheet) of Big Motos Ltd as at 31 March 2011.

(14 marks)

Format & Presentation (1 Mark)

- (b) Prepare the Statement of Changes in Equity for the year ended 31 March 2011.

(6 marks)

- (c) Set out the following:

- (i) an appropriate accounting policy for property, plant and equipment; and
- (ii) any other accounting policy relevant to the Statement of Financial Position (balance sheet) of Big Motos Ltd.

(4 marks)

- (d) Write a brief memo to the Finance Director of Big Motos Ltd, explaining the required accounting treatment of items 5 and 7 above.

(5 marks)

[TOTAL: 30 MARKS]

QUESTION 2

Draft Statement of Comprehensive Incomes for the year ended 31/12/2010

	Paper Group RWF'000	Labels Ltd RWF'000	Pens Ltd RWF'000
Revenue	6,500	1,200	500
Cost of Sales	<u>(4,200)</u>	<u>(560)</u>	<u>(250)</u>
Gross Profit	2,300	640.00	250
Other Income	50		
Distribution Costs	(550)	(240)	(75)
Administrative Expenses	<u>(720)</u>	<u>(280)</u>	<u>(95)</u>
Operating Profit	1,080	120	80
Finance Costs	<u>(80)</u>	<u>(36)</u>	<u>(10)</u>
Profit Before Tax	1,000	84	70
Income Tax Expenses	<u>(250)</u>	<u>(64)</u>	<u>(10)</u>
Profit for the Period	<u><u>750</u></u>	<u><u>20</u></u>	<u><u>60</u></u>
Attributable to:			
Equity	696		
Minority Interest	<u>54</u>		
	<u><u>750</u></u>		

Draft Statement of Changes in Equity for the year ended 31/12/2010 [Extract]

	Retained Earnings RWF'000	Retained Earnings RWF'000	Retained Earnings RWF'000
Balance 1 January 2010	3100	800	180
Profit for the Year	750	20	60
Dividends Declared	<u>(500)</u>		
Balance 31 December 2010	<u><u>3,350</u></u>	<u><u>820</u></u>	<u><u>240</u></u>

Additional Information:

1. Paper Ltd (the parent company) acquired an 80% holding in Labels Ltd on 1 January 2007 for RWF2,650,000 when the fair value of the net assets of Labels Ltd was RWF3,100,000. The share capital (RWF1 nominal value) of Labels Ltd was RWF2,600,000 at the acquisition date and has not changed since. In 2008 the goodwill in Labels Ltd. was impaired by RWF110,000.
2. The draft group accounts of Paper Group do not include the results of Labels Ltd for the year ended 31 December 2010. On 1 October 2010 Paper Group sold its entire holding in Labels Ltd for RWF3,150,000. The disposal has not as yet been recognised in the consolidated accounts of the Paper Group.
3. Paper Ltd acquired a holding of 30% in Pens Ltd on 1 July 2009 for RWF205,000 when the share capital of Pens Ltd was RWF300,000 and the retained earnings were RWF150,000. During 2010 Paper Ltd sold goods to Pens Ltd for RWF100,000 at a margin of 20%. Half of these goods remained in inventory at the Statement of Financial Position (balance sheet) date and all trading balances were cleared. The new Group Financial Controller was unsure how to account for Pens Ltd so has not included any results for Pens Ltd in the draft group financial statements.
4. During the period from 1 January 2010 to the date of disposal, Labels Ltd sold goods valued at RWF350,000 at a margin of 25% to Paper Ltd. None of these goods were in the parent company's inventory at the date of disposal of Labels Ltd. However, Paper Ltd was still showing a payable of RWF85,000 in respect of these goods at 1 October 2010.
5. Included in administrative expenses in the draft Statement of Comprehensive Income of the Paper Group are the following two provisions in relation to the parent company:
 - a. A provision for trading losses in 2011 and 2012 in relation to another subsidiary, Pencils Ltd. A total of RWF40,000 has been provided for these losses.
 - b. A redundancy provision of RWF80,000 in respect of Pencils Ltd was agreed by the Paper Group board of directors in November 2010. No notification of the planned redundancies has yet been given to the employees affected although this is expected in March 2011 when the restructuring plan is complete.
6. Assume all profits and dividends are earned evenly over the accounting period and that Retained Earnings is the only reserve in the financial statements of Labels Ltd.

REQUIREMENTS:

- a) Prepare the Consolidated Statement of Comprehensive Income of the Paper Group for the year ended 31 December 2010 in a form suitable for publication and in accordance with International Financial Reporting Standards.

(14 Marks)

Format and Presentation (1 Mark)

- b) Prepare the Statement of Changes in Equity of the Paper Group for the year ended 31 December 2010 (Retained Earnings Extract only).

(5 Marks)

- c) Distinguish between the consolidation method prescribed for subsidiaries (purchase / acquisition accounting) and that prescribed for associates (equity accounting) under the following headings:

- (i) Impact on the consolidated Statement of Comprehensive Income;
- (ii) Impact on the consolidated Statement of Financial Position (balance sheet);
- (iii) Treatment of intra-group balances; and
- (iv) Treatment of intra-group transactions.

(10 Marks)

[TOTAL: 30 MARKS]

QUESTION 3.

The following multiple choice question contains 7 sections, each of which is followed by a choice of answers.

Only one of each set of answers is strictly correct.

REQUIREMENT:

Give your answer to each section in the answer sheet provided.

[TOTAL: 20 MARKS]

1. During the financial year to 31 December 2010, Greenco Ltd. spent RWF1 million on a new project to develop a sustainable replacement for plastic packaging. It is expected that it will take 2 years to ascertain whether new packaging will be environmentally friendly and, if it is, a further year to introduce it to the market. How should this expenditure be treated in the Statement of Comprehensive Income for the current year?
—
 - (a) RWF1 million expenditure should be deferred and written off to the Statement of Comprehensive Income over 3 years commencing in the current year
 - (b) RWF1 million should be written off to the Statement of Comprehensive Income in the current year
 - (c) RWF1 million expenditure should be deferred until commercial production of the new packaging commences
 - (d) RWF1 million expenditure should be deferred and written off to the Statement of Comprehensive Income over 2 years commencing in the current year

2. Which of the following items would not normally appear under the heading ‘Cash Flows from Investing Activities’ in a cash flow statement prepared under IAS 7 Cash Flow Statements -
 - (a) Dividends paid
 - (b) Interest received
 - (c) Dividends received
 - (d) Proceeds from Disposal of Property, Plant and Equipment

3. Olives LTD is preparing its group Statement of Financial Position (balance sheet) as at 30 June 2010, which also includes its 60% subsidiary Cheeses Ltd. The net book values of the property plant and equipment in the Statement of Financial Position (balance sheet)s of the two individual companies at that date are:

Olives LTD	RWF5.60 million
Cheeses Ltd	RWF2.40 million

On 1 July 2009 Olives LTD sold equipment that originally cost RWF1.0 million, with a net book value of RWF0.8 million to Cheeses Ltd for RWF0.5 million, as it was no longer useful to Olives LTD. The Olives Group accounting policy is to depreciate all plant and equipment at 20% of the reducing balance.

The net book value of the property plant and equipment in the Olives Group Statement of Financial Position (balance sheet) as at 30 June 2010 is:

- (a) RWF8 million
 - (b) RWF7.86 million
 - (c) RWF8.24 million
 - (d) RWF8.3 million
4. Under new environmental legislation, Makers Ltd is required to install new low energy lighting systems in each of its five manufacturing facilities. The legislation requires this by 31 January 2010 or a fine of RWF15,000 may be levied upon prosecution. As at 31 March 2010, the company's financial year end, the operations manager of Makers Ltd has not installed any of the required lighting systems but has received a quote of RWF20,000 from a local supplier. How much should the financial controller of Makers Ltd include as a provision in the financial statements for the year ended 31 March 2010?
- (a) RWF35,000
 - (b) RWF15,000
 - (c) Nothing
 - (d) RWF20,000
5. The Finance Director of Avid Listeners LTD, a radio and production company, wishes to include the following in the year end 31 December 2010 Statement of Financial Position (balance sheet) under the heading 'Intangible Assets':
- A new five year radio broadcasting license for the North West region which cost RWF1 million on 1 January 2010.
 - The brand name 'New FM' which the company had created was valued at RWF7.5 million on 1 January 2010 by professional brand valuers. It is estimated to have a useful life of 10 years.
 - The RWF2 million cost (paid in advance on 1 January) of a very successful marketing and advertising campaign which the Director credits with achieving a 5% market share at 31 December 2010. The campaign lasts for two years. The amount to be shown in the Statement of Financial Position (balance sheet) of Avid Listeners LTD as at 31 December 2010 under the heading "Intangible Assets" is:
- (a) RWF1,800,000
 - (b) RWF800,000
 - (c) RWF7,550,000
 - (d) RWF8,550,000
6. IAS 27 Consolidated and Separate Financial Statements requires which of the following?
- i. Elimination of all intra-group balances
 - ii. Elimination of all intra-group income and expenses

- iii. Exclusion from consolidation of an entity with business activities dissimilar to the parent company
 - iv. Use of uniform accounting policies to prepare consolidated financial statements
 - (a) (ii) and (iv) only
 - (b) (i), (ii) and (iv) only
 - (c) All of the above
 - (d) (iii) only
7. The following details are taken from the draft financial statements of MME LTD for the financial year ending 30 June 2010.

	30 June 2010 RWF'000	30 June 2009 RWF'000
Profit after tax	500	400
Ordinary dividends paid	20	30
No. of ordinary shares in issue at 30 June	<u>1,200,000</u>	<u>800,000</u>

On 1 July 2009 a rights issue of 1 share for every 2 shares held took place at RWF3 per share. The market price immediately preceding the rights issue was RWF4.50 per share.

The earnings per share figures to be disclosed with the 30 June 2010 Statement of Comprehensive Income of MME LTD should read:

	2010	2009
(a)	.417rwf	.50rwf
(b)	.40rwf	.44rwf
(c)	.40rwf	.46rwf
(d)	.417rwf	.44rwf

You are required to answer either Question 4 or 5.

QUESTION 4.

IAS 16 Property, Plant and Equipment sets out the requirements for the recognition, measurement and disclosures in respect of tangible non-current assets: property, plant and equipment. In particular, the standard allows a choice of measurement base between historical cost and revalued amount and sets out the measurement rules in each case.

- (a) Set out the main measurement requirements of IAS 16 in respect of the revaluation model and the conditions for its use by an entity.

(6 Marks)

- (b) Detail how surpluses and deficits on revaluation should be recognised in the financial statements.

(4 Marks)

- (c) The following transactions and issues occurred in relation to the Property, Plant & Equipment of Red Ravens Ltd during the period 1/1/2004 to 31/12/2010:

1/1/2004 Purchased machine for RWF2,000,000
Depreciation charged at rate of 10% per annum with residual value of RWF400,000.

Purchased building for RWF6,000,000
Depreciation charged at rate of 2.5% per annum with residual value of nil.

1/1/2007 Revalued machine to RWF1,700,000
Remaining useful life is now 4 years with a residual value of RWF500,000.

Revalued building to RWF8,000,000
Remaining useful life is now 40 years.

1/1/2010 Revalued machine to RWF600,000
Remaining useful life is now 2 years with a residual value of RWF200,000.

31/12/2010 Sold Building for RWF9,000,000

Assume a full year's depreciation is charged in year of acquisition and none in year of disposal. The company does not make a reserve transfer in relation to depreciation on revaluation surpluses.

REQUIREMENT:

Show the relevant extracts from the Statement of Comprehensive Income and Statement of Financial Position (balance sheet) of Red Ravens Ltd for the financial years ending 31 December 2004, 2007 and 2010.

NOTE: Reserve movements and notes to the financial statements are not required.

(10 Marks)

[TOTAL: 20 MARKS]

QUESTION 5.

IAS 21 The effects of changes in foreign exchange rates deals with the recording of transactions denominated in a foreign currency and also with the translation and presentation of foreign currency financial statements.

(a) Explain briefly the following terms:

- Foreign currency translation
- Presentation currency

(2 Marks)

(b) What is a functional currency? Describe the factors that would help an entity determine its functional currency in accordance with IAS 21.

(6 Marks)

(c) For an individual company, outline the two main causes of a foreign exchange difference in relation to the purchase of goods from a foreign currency supplier.

(2 Marks)

(d) On 15 November 2010, NS Electronics Ltd (“NS”), whose functional currency is the RWF, purchased raw materials from an American supplier for \$100,000. At the year-end 31 December 2010, one quarter (1/4) of these goods still remained in inventory. On 18 December, NS Electronics Ltd paid the supplier half of the amount due to them. The remaining balance was due to be paid on 18 January 2011.

The following exchange rates are available to you:

15 November 2010	RWF1000 = \$1.70	Spot rate
18 December 2010	RWF1000 = \$1.80	Spot rate
18 December 2010	RWF1000 = \$1.85	1 month forward rate
31 December 2010	RWF1000 = \$1.75	Spot rate
18 January 2011	RWF1000 = \$1.87	Spot rate

NS Electronics Ltd have not made any entries in their books to reflect the above.

REQUIREMENT:

(i) Show the relevant journal entries to record the above transactions in the books of NS Electronics Ltd for the year to 31 December 2010.

(7 Marks)

(ii) Present the relevant amounts that would appear in the Statement of Comprehensive Income and Statement of Financial Position (balance sheet) of NS Electronics Ltd at 31 December 2010 in respect of any:

- a. Gain / loss on foreign exchange
- b. Trade Payables
- c. Inventories

(3 Marks)

[TOTAL: 20 MARKS]

**I1.2 FINANCIAL REPORTING
REVISION SOLUTIONS**

REVISION SOLUTIONS

SOLUTION 1

(a)
31/3/2011

Statement of Financial Position (balance sheet) as at

		RWF'000
Assets		
Non-current assets		
Property, plant & equipment	W1	565.00
Investment property	W3	200.00
		<u>765.00</u>
Current assets		
Inventories	W4	68.00
Trade and other receivables	DRAFT	252.00
Cash at bank	DRAFT	174.00
		<u>494.00</u>
Total assets		<u><u>1,259.00</u></u>
Equity and Liabilities		
Equity		
Ordinary share capital	SOCE	250.00
Share premium	SOCE	200.00
Revaluation reserve	SOCE	-
Retained earnings 31/3/2011	SOCE	391.80
		<u>841.80</u>
Non-current liabilities		
10% Debentures 2014	DRAFT	80.00
Finance lease obligation	W7	25.86
Government Grant deferred income	W6	24.00
		<u>129.86</u>
Current liabilities		
Trade and other payables	DRAFT	241.00
Dividends	W5	-
Finance Lease obligation	W7	7.34
Government Grant deferred income	W6	3.00
Taxation	DRAFT	36.00
		<u>287.34</u>
Total Liabilities		<u>417.20</u>
Total Equity and Liabilities		<u><u>1,259.00</u></u>

Presentation (1 mark)

(15 marks)

	Ord Share Capital RWF'000	Share Premium RWF'000	Revaluation Reserve RWF'000	Retained Earnings RWF'000	Total Equity RWF'000
Balance 01/04/10	250.00	200.00	70.00	355.00	875.00
Errors (W4)	-	-	-	(20.00)	(20.00)
Restated Amounts	250.00	200.00	70.00	335.00	855.00
Profit for Period **	-	-	-	86.80	86.80
Revaluation of Premises (W2)	-	-	(70.00)		(70.00)
Ord Dividends - Paid	-	-	-	(30.00)	(30.00)
Ord Dividends - Proposed (W5)	-	-	-		-
Balance 31/03/11	250.00	200.00	-	391.80	841.80

(b) Statement of Changes in Equity for the year ended 31 March 2008

** Balancing figure

Presentation (0.5 marks)

Total (6 marks)

Workings

1. Property, plant and equipment

	Land RWF'000	Premises RWF'000	P&E RWF'000	Vehicles RWF'000	Total RWF'000
Cost/Valuation per DRAFT	100.00	300.00	240.00	192.00	832.00
Revaluation	-	(100.00)	-	-	(100.00)
Finance Lease Asset	-	-	40.00	-	40.00
	<u>100.00</u>	<u>200.00</u>	<u>280.00</u>	<u>192.00</u>	<u>772.00</u>
Acc Dep					
At 1/4/2010	-	12.00	72.00	72.00	156.00
Revaluation	-	(12.00)	-	-	(12.00)
Charge (Premises - 40 years)	-	5.00	-	-	-
for (P&E - 10 years)	-	-	28.00	-	-
year (NBV / 4 years)				30.00	63.00
	<u>-</u>	<u>5.00</u>	<u>100.00</u>	<u>102.00</u>	<u>207.00</u>
NBV 1/4/2010	<u>100.00</u>	<u>288.00</u>	<u>168.00</u>	<u>120.00</u>	<u>676.00</u>
NBV 31/3/2011	<u>100.00</u>	<u>195.00</u>	<u>180.00</u>	<u>90.00</u>	<u>565.00</u>

2.	Revaluation reserve	RWF'000
	Balance per DRAFT	70.0
	Revaluation of premises - 1/4/2010 Loss	<u>(70.0)</u>
	Balance at 31/3/2011	<u>0.0</u>
	Revaluation of premises - 1/4/2010 Cost	100.0
	Depreciation	<u>(12.0)</u>
	Revaluation Loss	88.0
	Revaluation Reserve	<u>(70.0)</u>
	Charge to Statement of Comprehensive Income	
	<u>18.0</u>	

3.	Investment property	RWF'000
	Valuation 31/3/2011	200.0
	Valuation per DRAFT	<u>220.0</u>

Fair value loss to Statement of Comprehensive Income

(20.0)

4.	Inventories		RWF'000
	Per DRAFT		80.0
	Inventory Write off [40 - (30 -2)]		<u>(12.0)</u>
	Inventory 31/3/2011		<u>68.0</u>

Error in stock count 2010- prior year error adjusted.

Dr Retained Earnings - 1/4/2010 20,000.0

Cr Cost of sales 2011 20,000.0

5.	Proposed dividend		RWF'000
	Dividend accrued per DRAFT		30.0
	IAS 10 - reversal required		<u>(30.0)</u>

0.0

Reversed in SOCE also

Dividend DRAFT

IAS 10 - reversal required

Dividend paid - SOCE

RWF'000

60.0

(30.0)

30.0

6. Grant deferred income

Training grant

Capital grant

Dr Other income

Cr Deferred grant income

Treatment ok

Not a revenue grant

RWF30,000

RWF30,000

Amortise grant over life of asset - 10 years

Dr Deferred grant income BS

Cr Other income IS

RWF3,000

RWF3,000

Other income per DRAFT

Training grant

Grant income - amortisation

RWF'000

44.0

14.0

3.0

17.0

Adjustment to other income - in Statement of Comprehensive Income

(27.0)

Deferred Income on Statement of Financial Position (balance sheet)

Non-Current Liability

24.0

Current Liability

3.0
27.0

7. Finance Lease
 Create asset and lease obligation
 Dr P & Equipment RWF40,000
 Cr Lease obligation RWF40,000

Depreciation of asset [10 years] RWF4,000

Note: Depreciation is normally over shorter of lease term and useful life, but as in this case it is almost certain the asset will be acquired at the end of the lease term, then the useful life is chosen.

Period	Opening Balance	Rental payment	Capital Payment	Finance Cost 8%	Capital Bal o/s
2011	40,000	10,000	6,800	3,200	33,200
2012	33,200	10,000	7,344	2,656	25,856

Dr Lease interest 8% RWF3,200
 Dr Capital Lease repayment RWF6,800
 Cr Rental payment - remove from Cost of sales RWF10,000

Finance Lease obligation
 Opening balance RWF40,000
 Capital repayment (RWF6,800)
 Total Balance 31/3/2011 RWF33,200

Split between:
 Current liability RWF7,344
 Non-current liability RWF25,856
RWF33,200

8. Proof of Profit / (loss) for the year - For illustration purposes only

	RWF'000
Profit after tax per draft	200.0
Depreciation charge	(63.0)
Revaluation loss	(18.0)
Investment property Fair Value loss	(20.0)
Inventory write-off	(12.0)
Opening inventory error	20.0
Other income	(27.0)
Finance lease interest	(3.2)
Lease rental payment	10.0
	<u>86.8</u>
Per SOCE	<u>86.8</u>

(c) **Accounting policies:** (2 x 2 Marks = 4 Marks)

(i) ***Property Plant and Equipment***

With the exception of the revaluation of buildings noted below, items of property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairments. Land is held at historical cost and is not depreciated.

Buildings are stated at valuation less accumulated depreciation and impairment charges. The most recent valuation was held on 1 April 2010 and was performed by a professionally qualified valuer.

Property, plant and equipment is depreciated so as to write off the book value of each item (except land) over its useful economic life on a straight line basis at the following rates:

Buildings	40 years
Plant & Equipment	10 years
Vehicles	4 years

(ii) ***Trade and other receivables and payables***

Trade and other receivables and payables are stated at cost, which approximates fair value given the short- dated nature of these assets and liabilities. Trade receivables are carried at cost at original invoice amount less an allowance for potentially uncollectible debts.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in acquiring the inventories and bringing them to their present location and condition and is based on the first in first out principle.

Investment Property

Investment Property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the Statement of Financial Position (balance sheet) date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the purchaser, are capitalised in the Statement of Financial Position (balance sheet) and are depreciated over their useful lives with any impairment being recognised in accumulated depreciation. The asset is recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the finance lease. The capital elements of future obligations under leases are included in liabilities in the company Statement of Financial Position (balance sheet) and analysed between current and non-current amounts. The interest elements of the rental obligations are charged to the Statement of Comprehensive Income over the periods of the relevant agreements and represent a constant proportion of the balance of capital repayments outstanding in line with the effective interest methodology.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Where investments are categorised as cash equivalents, the related balances have a maturity of three months or less from the date of acquisition. Where bank overdrafts are repayable on demand and form an integral part of cash management, they are netted against cash and cash equivalents.

Capital grants

Capital grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions have been complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is treated as a deferred credit and is released to the Group Statement of Comprehensive Income over the expected useful life of the relevant asset through equal annual instalments.

(d)

To: Finance Director – Big Motos Ltd

From: Financial Accountant – Finance Department Big Motos Ltd.

Date: xx April 2011

Subject: Treatment of proposed dividends and assets held under finance leases

Issue 5

(2 Marks)

According to IAS 10 Events after the Statement of Financial Position (balance sheet) date dividends must be either paid or declared in the financial year order to be included in the financial statements. Declared means in practice they have been approved by the shareholders at AGM.

This would also be a requirement of IAS 37 Provisions, contingent liabilities and contingent assets in order that an obligation exists so that a dividend accrual can be shown as on the Statement of Financial Position (balance sheet).

Issue 7

(3 Marks)

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the purchaser are capitalised in the Statement of Financial Position (balance sheet).

Finance leased assets are depreciated over their useful lives (or lease term if shorter).

The asset is recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the finance lease.

The capital elements of future lease obligations (i.e. a loan) are included in liabilities in the Statement of Financial Position (balance sheet) and analysed between current and non-current amounts.

The interest elements of the rental obligations are charged to the Statement of Comprehensive Income over the periods of the lease agreements and represent a constant proportion of the balance of capital repayments outstanding at the beginning of each period.

I will be pleased to provide any additional explanation or respond to any queries that you may have with respect to the above

N. Other
Financial Accountant.

Solution 2

(a) Consolidated Statement of Comprehensive Income of the Paper Group for the year ended 31 December 2010

	Paper Group	Labels Ltd	Adjustments	Consolidation	
	RWF'000	RWF'000	RWF'000	RWF'000	
3/4 Year					
Revenue	W1	6,500	900	(350)	7,050
Cost of Sales	W1	<u>(4,200)</u>	<u>(420)</u>	<u>350</u>	<u>(4,270)</u>
Gross Profit		2,300	480	-	2,780
Other Income		50		-	50
Distribution Costs		(550)	(180)	-	(730)
Administrative Expenses	W2	<u>(720)</u>	<u>(210)</u>	<u>120</u>	<u>(810)</u>
Operating Profit		1,080	90	120	1,290
Profit on Disposal	W3	-	-	358	358
Share of Profit of Associate	W4	-	-	15	15
Finance Costs		<u>(80)</u>	<u>(27)</u>	<u>-</u>	<u>(107)</u>
Profit before Tax		1,000	63	493	1,556
Income Tax Expense		<u>(250)</u>	<u>(48)</u>	<u>-</u>	<u>(298)</u>
Profit for the Period		<u>750</u>	<u>15</u>	<u>493</u>	<u>1,258</u>

Marks 6 x 1/4 = 1.5

6 x 1/2 = 3

Attributable to:

Equity

Minority interest

W5

1,201.0

57.0

1,258.0

Presentation (1 mark)

IS Total (15 marks)

(b) Statement of Changes in Equity of the Paper Group for the year ended 31 December 2010

	Retained Earnings RWF'000
Balance 1 January 2010 W6	3,239
Profit for the year	1,201
Dividends declared	<u>(500)</u>
Balance 31 December 2010	<u><u>3,940</u></u>

SOCE Total Marks (5 marks)

Workings for Parts (a and b).

W1 Revenue and Cost of sales

Adjust for intercompany sale only

Dr Revenue	350,000	
Cr Cost of Sales		350,000

W2 Administrative Expenses

a. Trading losses - reverse per IAS 37	RWF 40,000
b. Redundancy provision - no obligation exists as not announced to staff	RWF 80,000
	<u>RWF120,000</u>

Dr Provisions	RWF120,000	
Cr Administration Expenses		RWF120,000

W3 Gain on Disposal

Goodwill on Acquisition	Cost of investment	2,650,000
	Group share of net assets [80% x RWF3,100,000]	<u>(2,480,000)</u>
	Goodwill	170,000
	Impairment 2009	<u>(110,000)</u>
		<u><u>60,000</u></u>
Parent company gain	Proceeds	3,150,000
	Cost of investment	<u>(2,650,000)</u>
	Parent gain	<u><u>500,000</u></u>

Group Gain - method 1		
Parent gain		500,000
Group share post acquisition profits disposed [(800 + (20 x 3/4 year)) - (3,100 - 2,600)] x 80%	252,000	
less impairment	<u>(110,000)</u>	<u>(142,000)</u> <u>358,000</u>

Group Gain - method 2

Net assets at 31 October 2010		2,600,000
Share capital Labels		800,000
Retained earnings 1/1/10		15,000
Retained profit to 1 October 2009		<u>3,415,000</u>

(Net Assets at date of disposal X Groups share after disposal) [RWF3,415,000 x 0%]		NIL
+ Sales Proceeds		3,150,000
Less (Net Assets at date of disposal X Groups share before disposal) [RWF3,415,000 x 80%]		(2,732,000)
Less goodwill carrying amount		<u>(60,000)</u> <u>358,000</u>

W4 Share of profit of associate

Group share of profits - 1 Jan to 31 December 2010 [30% x PAT of Pens Ltd.]	18,000
Unrealised profit [RWF100,000 x 1/2 x 20% margin x 30% group share]	<u>(3,000)</u> <u>15,000</u>

No adjustment for sales amount from Paper Ltd to Pens Ltd.

W5 Minority Interest

Group MI per question		54,000
Labels Ltd [RWF60,000 x 3/4 year x 20%]		<u>3,000</u> <u>57,000</u>

W6 Retained Earnings 1/1/2010

	Paper	Labels	Pens
Balance per SOCE at date of Acquisition	3,100,000	800,000 <u>(500,000)</u> 300,000	180,000 <u>(150,000)</u> 30,000
Group share of Labels post acqn-80%	240,000		
Less goodwill impairment	(110,000)		
Group share of associate - 30%	9,000		
	<u>3,239,000</u>		

(c) Distinguish between the consolidation method prescribed for subsidiaries and that prescribed for associates under the following headings:

(i) Impact on the consolidated Statement of Comprehensive Income (IS);

	Subsidiary	Associate
1.	Full amount included for all items in IS, including taxation	Group share of associate profit after taxation shown presented before the Group profit before tax
2.	Individual line items shown	Individual line items (e.g Revenue) not shown
3.	Minority interest shown separately	No minority interest shown

(ii) Impact on the consolidated Statement of Financial Position (balance sheet) (BS);

	Subsidiary	Associate
1.	Gross amount of assets and liabilities included in consol BS	“Investment in associate” included in Non-current Assets = (Cost of investment + Group share of post acquisition retained earnings to date – impairments.) or (Group share of net assets of associate + Goodwill – impairments)
2.	Minority interest based on shareholding not owned by parent included in equity	No minority interest in relation to associate
3.	Group share of post acquisition retained earnings of sub included in group retained earnings	Group share of post acquisition retained earnings of associate included in Group retained earnings
4.	Goodwill shown separately in Non-current assets	Non-current assets – included in “investment in associate”

(iii) Treatment of intra-group balances; and

	Subsidiary	Associate
1.	All intra-group trading and operational balances (incl.dividends) removed.	No adjustment for intra-group trading and operational balances
2.	All intra-group loan holdings removed	Intra-group loans not removed

(iv) Treatment of intra-group transactions

	Subsidiary	Associate
1.	Group share of unrealised profits on intra-group transactions removed	Group share of unrealised profits only of intra-group transactions is removed
2.	Minority interest charged with any relevant amounts	No minority interest
3.	Group Revenue and Cost of Sales adjusted for gross amount of intra-group sales	No adjustment for intra-group sales

10 issues x 1 Mark = (10 Marks)

Solution 3

1. (b)
2. (a) Dividends paid
3. Solution (c)

Olives Ltd	RWF5.60 million
Cheeses Ltd	<u>RWF2.40 million</u>
	RWF8.00 million

Equipment

NBV if not transferred = RWF0.8million – (RWF0.8 millionx20%) RWF0.64 million

NBV at transfer value = RWF0.5million – (RWF0.5 millionx20%) RWF0.40 million

Under valuation of equipment	<u>RWF0.24 million</u>
Consolidated NBV of PPE	RWF8.24 million

4. (b) RWF15,000

According to IAS 37 Provisions, Contingent Liabilities and Contingent Assets a provision can only be made if there is an obligating event. As at 31 March there is no obligating event in relation to the fitting of the equipment (i.e. the equipment has not as yet been fitted) and therefore no provision can be provided. However, a provision for the potential fine of RWF15,000 may be accrued (see also Example 6, Appendix C of IAS 37).

5. (b) RWF800,000

Under IAS 38 Intangible Assets neither internally generated brands or advertising campaigns meet the definition of an intangible asset for inclusion on the Statement of Financial Position (balance sheet). Intangible assets must be amortised over their useful lives, which, in the case of the license, is five years.

- 6 (b) (i), (ii) and (iv) only

NOTE: iii) “Exclusion from consolidation of an entity with business activities dissimilar to the parent company.” Is not allowed as per IAS 27 paragraph 20.

7. (d)

EPS restated 2010 .417rwf .444 rwf

2010 - all shares held for the full year. No adjustment for bonus element required.

2009 - adjustment for bonus element required. Theoretical ex-rights price =

2 shares @ RWF4.50	RWF9.00
1 share @ RWF3	<u>RWF3.00</u>
3 shares @ RWF4.00	RWF12.00

$$\begin{aligned}
 \text{Adjustment} &= \text{RWF}0.50 \times \frac{\text{Theoretical ex-rights price}}{\text{Actual cum rights price}} \\
 &= \text{RWF}0.50 \times \frac{\text{RWF}4.00}{\text{RWF}4.50} \\
 &= .444\text{rwf}
 \end{aligned}$$

Solution 4

- (a) The main measurement requirements in respect of the revaluation model are as follows:
- Revaluations shall be made with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position (balance sheet) date.
 - Frequency of valuation is not mandated, but is required when a material difference occurs between carrying amount and fair value.
 - Fair value is normally the market value at date of valuation on an arm's length basis.
 - Fair value is usually (but not required to be) appraised by a professionally qualified person.
 - When an item of PPE is revalued, any accumulated depreciation on the asset to date is either: Restated proportionally with the change in the gross carrying amount so that the net equals the revalued amount;
or
Eliminated against the gross carrying amount and the net amount restated to the revalued amount;
 - Depreciation is always charged on the new revalued amount.
 - When one item of PPE is revalued, each item in the entire class of PPE to which the asset belongs must be revalued.

4 x 1.5 Mark = (6 Marks)

- (c) Revaluation surplus:

Recorded in –

- Equity as 'Revaluation reserve'; movement shown in SOCE
or
- Statement of Comprehensive Income – only if reversing a previous revaluation decrease in the same asset that went through the Statement of Comprehensive Income previously

Revaluation deficit:

Recorded in –

- Statement of Comprehensive Income – expense
or
- Equity as 'Revaluation reserve' movement shown in SOCE, only if, and to the extent of it reversing a previous revaluation surplus in the same asset that went through Equity previously. Any remaining deficit goes to the Statement of Comprehensive Income

2 x 2 Marks = (4 Marks)

(c) Extracts from financial statements

	2004	2007	2010
Statement of Comprehensive Income			
Depreciation charge	310,000	500,000	200,000
Revaluation deficit	-	-	20,000
Gain on disposal	-	-	1,600,000
Statement of Financial Position (balance sheet)			
Non current assets			
Property plant & equip	7,690,000	9,200,000	400,000
Equity			
Revaluation surplus		2,630,000	

Workings year ended 31/12/2004		
	I/S – Deprec	160,000
	Machine 10% x (2,000,000 -400,000)	<u>150,000</u>
	B/S – NBV Cost Depn NBV	<u>310,000</u>
	Machine 2,000,000 160,000 1,840,000	
	Building 6,000,000 150,000 5,850,000	
	8,000,000 310,000 7,690,000	

Workings Year ended 31 st Dec 07		
01/01/2007	<i>Revalue Machine</i>	
	Cost	2,000,000
	3yrs depreciation	<u>480,000</u>
	NBV @ 1/1/07	1,520,000
	Revalued amount	<u>1,700,000</u>
	Revaluation surplus	180,000
	<i>Revalue Building</i>	
	Cost	6,000,000
	3yrs depreciation	<u>450,000</u>
	NBV@ 01/01/07	5,550,000
	Revalued amount	<u>8,000,000</u>
	Revaluation surplus	<u>2,450,000</u>
31/12/2007	I/S Depreciation	
	Machine ((1,700,000-500,000)/EUL)	300,000
	Buildings (8,000,000/EUL)	<u>200,000</u>
		500,000
	B/S Property, plant & equipment	
	Cost/reval Depn NBV	
	Machine 1,700,000 300,000	1,400,000

	Building	<u>8,000,000</u>	<u>200,000</u>	<u>7,800,000</u>
		9,700,000	500,000	9,200,000
	Equity			
	Revaluation Surplus			2,630,000

Year ended 31/12/10		
01/01/2010	Machine Cost/valuation	1,700,000
	3yrs depreciation on valuation	<u>900,000</u>
	NBV @ 1/1/10	800,000
	Revalued amount	<u>600,000</u>
	Revaluation deficit	(200,000)
Deficit charged	Reval reserve – max = 2007 surplus	180,000
	I/S – deficit	<u>20,000</u>
	Total deficit	200,000

31/12/10			
	Building sold		
	Proceeds		
	9,000,000		
	Carrying amount	valuation	8,000,000
		Acc depr – 3 yrs	600,000
	<u>7,400,000</u>		
	Gain on disposal – IS		
	1,600,000		
	I/S		
	Depreciation charge		
	Machine ((600,000 – 200,000)/EUL)		200,000
	Revaluation deficit		20,000
	Gain on disposal of building		1,600,000
	B/S		
	Property, plant & Equipment		
		Cost/reval	Depn
	Machine	600,000	200,000
			NBV
			400,000
	Revaluation reserve-proof of movements		
		Building	Machine
	Opening Balance	2,450,000	180,000
	Disposal	(2,450,000)	
	Revaluation deficit(180,000)		(180,000)
	Closing Balance	0	0
			Total
			2,630,000
			(2,450,000)
			0
			0
			0
			10 marks

Solution 5

- (a) Foreign currency translation is the process of converting the annual financial statements of a foreign subsidiary or associate company from the foreign currency into the home or presentation currency of the parent company.

Presentation currency is the currency in which a company presents its financial statements. This is not necessarily the same as its functional currency.

2 x 1 Mark = (2 Marks)

- (b) Describe the factors that would help an entity determine its functional currency in accordance with IAS 21.

The functional currency of an entity is the currency of the primary economic environment in which the reporting entity operates and spends cash. Consideration of the following issues would help determine the functional currency: (IAS 21 para 9)

- the currency that mainly influences sales prices for goods and services (often the currency in which prices are denominated and settled);
- the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;
- the currency that mainly influences labour, material and other costs of providing goods and services (often the currency in which such costs are denominated and settled);
- the currency in which funds from financing activities are generated; (IAS 21 para 10) and
- the currency in which receipts from operating activities are usually retained (IAS 21 para 10).

An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. (IAS 21 para 13)

In most cases the functional currency is the currency of the country in which the entity is situated and carries out the majority of its transactions.

6 points x 1 Mark = (6 Marks)

- (c) For an individual company, the two main causes of a foreign exchange difference in relation to the purchase of goods from a foreign currency supplier are:

- (i) A difference between the exchange rate at which the goods are recorded as purchased and the rate on the day when payment is made.
- (ii) A difference between the exchange rate when the goods are purchased and recorded in Payables and the rate at the Statement of Financial Position (balance sheet) date (a monetary liability is re-translated to the closing rate at the Statement of Financial Position (balance sheet) date.)

2 x 1 Mark = (2 Marks)

(d) (i)

15 November – Purchases of goods in a foreign currency are translated at the FX rate on the date of purchase.

Dr	Purchases	RWF58,824	
Cr	Trade Payables		RWF58,824

Being the RWF cost of goods purchased for \$100,000 [100,000/ 1.7]

On 18 December, NS Electronics Ltd pay for half the goods, i.e. \$50,000 or RWF29,412, (RWF58,824 /2). At the rate ruling on that date, 1.80, this costs RWF27,778 [50,000/1.80].

Dr	Trade Payables	RWF29,412	
Cr	Statement of Comprehensive Income – exchange gain		
	RWF1,634		
Cr	Bank		RWF27,778

On 31 December, the outstanding trade payables liability in the Statement of Financial Position (balance sheet) must re-translated at the rate ruling on that date as it is a monetary amount. There is now \$50,000 outstanding. This is translated at 1.75 to RWF28,571, giving an exchange gain of RWF841 [RWF29,412 – RWF28,571].

Dr	Trade Payables	RWF841	
Cr	Statement of Comprehensive Income – exchange gain		
	RWF841		

7 entries x 1 Mark = (7 Marks)

d) (ii)

Statement of Comprehensive Income for the year ended 31 December 2010

		RWF
Gain on foreign exchange	[1,634 + 841]	2,475

Statement of Financial Position (balance sheet) as at 31 December 2010

Current Assets

Inventories	14,706
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Current Liabilities

Trade Payables	28,571
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NOTES:

- (i) At 31 December the Statement of Financial Position (balance sheet) liability for trade payables is at the amount of \$50,000 re-translated at the Statement of Financial Position (balance sheet) rate of \$1.75

- (ii) The stock is valued at cost, i.e, $\frac{1}{4} \times \text{RWF}58,824 = \text{RWF}14,706$ and is NOT re-translated.

3 entries x 1 Mark = (3 Marks)