

CERTIFIED PUBLIC ACCOUNTANT INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 25, APRIL 2023

MARKING GUIDE AND MODEL ANSWERS

023 IcparApril **X1,2** IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril **Page 1 of 20**

023 IcparApril2023 Ic

Marking Guide⁰²³ IcparApril2023 Ic

2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparMarks
(a) 3 IcparApril2023
(i) Definition of borrowing cost 1cparApril2023 1cp
Explanation of suspension of capitalization 1½
Explanation of cessation of capitalization 1½
Explanation of assets completed in parts 1/2
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril
(ii) Borrowing cost for investments on 1.01.2023 - 1/2 mark each 3 Japan April 2023 Japan April 2023
Borrowing cost for investments on 1.09.2023 - 1/2 mark each 1/2023 IcparApril2023 IcparApril 1
Investment income (FRW 267 & FRW 533) - 1/2 mark each 12023 Iopar April 2023 Iopar April 20
Asset recognition 3 Icpar April 2023 Icp
Asset value Asset value Asset value
2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril
(b) Definition (2023 IcparApril2023
(c) (i) Format of mail (addressee, addressor and subject) April 2023 Topar
Identification of research phase amount/value 023 IcparApril2023 IcparApril2023 IcparApril1023 IcparApril1023 IcparApril2023 I
Explanation of treatment of research phase costs 23 IcparApril2023 IcparApril2023 IcparApril11
Identification of development phase amount/value cparApril2023 IcparApril2023 IcparAp
Explanation of treatment of development phase costs
General and maintenance cost 1 Cpar April 2023 Icpar Apri
2023 Teparaprii2023 Teparaprii2023 Teparaprii2023 Teparaprii2023 Teparaprii2023 Teparaprii2 2023 Teparaprii2023 Teparaprii2023 Teparaprii2023 Teparaprii2023 Teparaprii2023 Teparaprii2023
(ii) SOPL summary entries 1 mark for each item recorded
SOFP summary 123 Leentries 1 mark for each item recorded 12023 LeparApril2023 LeparApril2023
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril
2023 Icpar A pril 2 023 Icpar A pril 2 023 Icpar A pril 2 023 Icpar A pril 2 020 Icpar A pril 2 000 Icpar

023 IcparApril **I1.2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic Page 2 of 20 IcparApril2

Model Answers

a) (i) Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds. They may include among others interest on finance charges, interest on bank overdrafts, short term and long-term loans.

Suspension of capitalization 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

- Capitalization shall be suspended during extended periods for which active development to the qualifying asset is interrupted, unless that period is a necessary part of the process for the production of the asset.
- However, capitalization of borrowing costs should not be suspended for a temporary delay during the construction of a qualifying asset and which delay was expected or anticipated.

Cessation of capitalization

- Capitalization of borrowing costs shall cease at that point when substantially all activities necessary to bring the asset for its intended use or eventual sale are virtually complete. i.e. when for example, minor modifications, such as, beautification/ decoration of an asset to the users specification, routine administrative work etc. then the asset is considered substantially complete and therefore ready for its intended use.
- For assets completed in parts or under development, parts may become ready for use at 23 logar/pm/20 different. Therefore, capitalization ceases on those parts that are ready for use.

(11) 3 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Description VIIZUZ3 IcparApril2UZ3	IcparApr	Plant 1	$1.2023 \ Ic_{j}$	Plant 2	rApril2
2023	IcparApr	ii2023 IcparApri	FRW	varApril2023 Icpa	FRW
2023	Icnar An	il2023 TeparApri	000	narAprii2023 Tepa	000
Interest / borrowing cost	IcparApr	il2023 IcparApri	il2023 Ic	parApril2023 Iepa	rApril2
1 year (Jan – Dec 2023) April 2023	IA ar Apr	10,000*10%	1,000	20,000*10%	2,000
Less: Investment Income 2023	IcparApr	il2023 IcparApr	$il2023 Ic_i$	varApril2023 Icpa	rApril2
8 months (Jan - Aug 2023)	I B varApr IcparApr	5,000*8%*8/ 12	267	10,000*8%*8/	533 2 April 2
Borrowing costs to be capitalised	C(A- B)	il2023 TeparApri il2023 TeparApri il2023 TeparApr	733	arApril2023 Icpa arApril2023 Icpa	1,467
Expenditure incurred and April 2023	IcnarAm	il2023 IcnarAnr	10,00	parApril2023 Icna	20,00
	IcparApr	il2023 IcparApri	023 Ic	parApril2023 Icpa	Opril2
Total Asset cost recognized in	<i>IcparApr</i>	il2023 IcparApri	10,73	parApril2023 Icpa	21,46
SOFPparApril2023 IcparApril2023	IcparApr	il2023 IcparApr	23 23 Ic	parApril2023 Icpa	r A pril2

I1.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic

b) An intangible asset is defined as an identifiable, non-monetary asset without physica substance.

(c) (i)

To:directors@ingabiremail.com

From:fumutoni@ingabiremail.com

Subject: Recognition of website development costs.

Dear sir/madam/team/ all

With reference regarding your inquiry about the recognition of the website development costs. During the development of an intangible asset, where the current website is recognized, costs are categorized into research phase and development phase in accordance with IAS 38, Intangible Assets and below are my recommendations.

Each of the costs incurred in respect of software development will be treated as below.

FRW 10million to conduct research to substantiate the director's decision: Research is a feasibility study that comprises the planning phase under IAS 38 for the website. All costs incurred during this phase should be expensed through the statement of profit or loss and other comprehensive incomes immediately they are incurred (within the period in which they are incurred)

FRW 20 million – Coding, Assembly and access security check and FRW 10 million - web pages layout, review and upload of information:

These costs relate to the development phase in accordance with IAS 38. Cost incurred was primarily for online purchase of items and service ordering by any probable client and not being used for marketing and promotional purposes (which would then be recognized as expenses too)

These costs are capitalized i.e. included as part of the cost of the website, that is treated as an intangible asset.

FRW 5 million – monthly, other development costs:

The general and maintenance costs on monthly basis will be expensed as incurred. The costs are for repair of the website not for development. The incurrence of the cost started in August, hence, only two months will be charged to Profit or loss account for the year.

Happy explaining this further in case of any clarity or other inquiries.

Regards

Finance Manager

I1.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic

(ii) 1 Lepar April 2023 I Lepar

Ingabire Ltd's extract statement of profit or loss for the year ended 30th September 2023 1000 April 2022

023 IcparApril **FRWe'million'**2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Research costs 123 IcparApril2023 Ic

Note: These costs can be captured under Cost of sales or Administration costs

Ingabire Ltd's extract statement of financial position as at 30 September 2022 FRW 'million'

Access security check 20 April 202 Icpar April

O23 IcparApril Note: These costs should be captured under non-current assets (separate recognition as 23 IcparApril (2023 Icp

QUESTION TWO

Marking Guide

(a) Statement of profit or loss and other comprehensive incomes par April 202	Icpa Marks
RevenuerApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril202	3 IcparApr0.50
Cost of sales (1 mark for posting cost sales in P/L and 1 mark for each correct line shown in the working one (1)	3 IcparApril 4 0. 3 IcparApril 20.
Other income 12023 Ionay April 2023 Iona	0.5
Distribution costs 3 Jenar April 2023 Je	1cngr Apr 0.5
Loss on fair value of investment 23 IcparApril2023 IcparApril2023 IcparApril202	3 IcparApril 20
Administrative expenses April2023 IcparApril2023 IcparApril2023 IcparApril202	3 IcparApril 1 0.
Finance costs (0.5 mark for posting finance cost in the P/L and 0.5 mark for interest expense on preference, 0.5 for interest expense on loan note and 0.5 mark for interest expense on convertible loan note)	3 IcparApril 2) 3 IcparApril 20 3 IcparApril 20
Income tax expense	2 Iongu April 2
Other comprehensive income	Icnar Any 0.5
Total cpar April 2023 Icpar April 2023	IcparApri15

(b) Statement of financial position	Marks	.3 IcparApril2)3 IcparApril2
Property, plant and equipment 2023 IcparApril2023 IcparApril2023 Icpar	rApril2023 IcparApril20	3 IcparApril2
0.5-Frehold NBV23 IcparApril2023 IcparApril2023 IcparApril2023 Icpar	rApril2023 IcparApril20.	?3 IcparApril2
0.5-Plant and equipment NBV2023 IcparApril2023 IcparApril2023 Icpa	rApril2023 IcparApril20.	?3 IcparApril2
0.5-Computer equipment NBV 023 IcparApril2023 IcparApril2023 Icpar	rApril2023 IcparApril20.	?3 IcparApril2
0.5-Motor vehicle NBV April 2023 Icpar April 2023 Icpar April 2023 Icpar	rApril2023 IcparApril20.	?3 IcparApril2
Intangible assets	April 2023 1cpar April 0.5	!3 IcparApril2

023 IcparApril **I1,2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic **Page 5 of 20** IcparApril2

Inventory 1 mark for adjusting closing stock and 0.5 for posting closing stock in SOFP	2023 IcparApril2
Investment pril 2023 Icpar April 2023 Ic	2023 IcparApril2 2023 IcparApril2
Trade receivable 23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApril2
EquityparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApril2
Share premium 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApr0.5
Revaluation reserve Parapril 2023 Icparapril 2	0.5
General reserve	0.5
Retained earnings and its adjustment	2023 Icnar Apr 1.5
Dividend paid reduced from retained earning 2023 IcparApril2023 Icpa April	2023 IcparApr0.5
8% loan note il2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApr0.5
5% convertible loan note April 2023 Icpar April 2023 Icpar April 2023 Icpar April 2023 Icpar April	2023 IcparApr0.5
12 Preference share CparApril2023 IcparApril2023 Ic	2023 IcparApr _{0.5}
Deferred tax	2023 IcparApr 0.5
Trade payable	2023 Janay April 0.5
Bank overdraft 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril 2023 IcparApril	2023 IcparApr 0.5
Unpaid interest 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	2023 IcparApril2
Current tax payable cparApril2023 cparApril2023 cparApril2023 cparApril	2023 IcparApi 0.5
Total par April 2023 Icpar April 2023 Icpar April 2023 Icpar April 2023 Icpar April	2023 IcparApri 15
G-Total April 2023 Icpar April 2023 Icpa	30 Marks

Model Answers 23 IcparApril2023 Icpa

023 IcparApril2(a) 3 IcparApril2023 IcparApril2023

023 IcparApril **Advertisers Ltd** 23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Statement of Profit/ loss and other comprehensive incomes for the year ended 30 September 2022.

2023 IcparApril2023 IcparApril2023 IcparApril2023	CparApril FRW '000'	FRW '000'
Sales revenue	s leparApril2023 IeparApril	68,865
Less: Cost of sales (W1)	3 .cparAprii2023 IcparAp ii 3 IonarAprii2023 IonarAprii	(47,735)
2023 IcparApril2023 IcparApril2023 IcparApril2023	3 IcparApril2023 IcparApril	2023 Icpar April 20
Gross Profit 12023 IcparApril2023 IcparApril2023	3 [cparApril2023 IcparApril]	2023 Icpai 21,130
Add: Other incomes oparApril2023 IcparApril2023	3 [cparApril2023 [cparApril]	2023 IcparApril2023 .
Investment income IcparApril2023 IcparApril2023	3 [cparApril2023 [cparApril]	2023 IcparAp360 23
Fair value loss on investments (W3)	3 cparApril2023 cparApril2	2023 IcparA(300)
Less: Operating costs / expenses	5 cparApril2023 cparApril	2023
Less: Distribution costs	Toparaprii2023 Toparaprii2	(5,650)
Less: Administration costs (W3)	8,540+1,000	(9,540)
Less: Finance costs / Interest cost (W4)	3 IcparApril2023 IcparApril	2023 Icpa (1,300)
Profit before tax (PBT) April 2023 Icpar April 2023	3 IcparApril2023 IcparApril2	2023 Icpar/ 4,700
Less: Income tax expenses (W7) 23 Japan April 2023	3,200-200+1,600	(4,600)
Net Profit/ Loss 23 1cparApril2023 1cparApril2023	3 cparApril2023 cparApril2	2023 IcparAp 100)23

023 IcparApril **I1,2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic

Tanan Anni 12023 Tanan Anni 12	023	FRW '000'	FRW '000'
Other compreh	ensive incomes	icparApril2023 IcparApril	2023 IcparApril202
Freehold revalua	ation surplus 12023 IcparApril2023	3,540+1,500	2023 Icpar 5,040
parApri Total profit and	d other comprehensive income 23	cparApril2023 IcparApril	2023 Icpar/ 5,140
CeparApril2(b)3 IcparApril2	023 IeparApril2023 IeparApril2023 I	CparApril2023 IcparApril	2023 IcparApril202

Advertisers Ltd 23 IcparApril2023 Ic

Statement of Financial position as at 30 September 2022

2023 IcparApril2023 IcparApril202.	cparApril2023 lcparApril202 FRW '000'	FRW '000'
Noncurrent Assets	IcparApril2023 IcparApril2023 IcparApril20	Total
PPE (W3)	14,100+4,500+13,455	32,055
Intangible assets (W3)	10,000-3,000-1,000	6,000
Investments (W3) 3 Tepar April 2002	Icpar April 2023 Icpar April 2023 8,700-300	8,400
Current Assets 23 loparApril202	lcparApril2023	23 IcparApril20 23 IcparApril20
Closing inventory (W2)	CparApril2023 CparApril2023 2,500-250	2,250
Trade receivables (W6)	11,200-6,000	5,200
Total Assets	leparApril2023	53,905
2023 Icpar April 2023 Icpar April 2023 Equity ar April 2023 Icpar April 2023	IcparApril2023 IcparApril2023 IcparApril20 IcparApril2023 IcparApril2023 IcparApril20	23 IcparApril20 23 IcparApril20
Ordinary Share capital (W5)	IcparApril2023 IcparApril214,500+1,250	3 1000 15,750
Share premium 023 Icpar April202	IcparApril2023 IcparApril2023 IcparApril20	3 Japan 2,500
Revaluation reserves (W3)	CparApril2023 CparApril202 800+5,040 0	5,840
General reserve	tcparApril2023 1cparApril2023 1cparApril20	1,500
Retained Earnings (W6 & W5)	4,600-1,250(w5)- 2,500(w6) + 100	950
Less: Dividends paid	Jepar April 2023 Jepar April 2023 Jepar April 20	(8,900)
Noncurrent liabilities ar April 202	IcparApril2023 IcparApril2023 IcparApril20	23 IcparApril20
5% convertible loan note 4pril202	IcparApril2023 IcparApril2023 IcparApril20	23 Icpa 18,400
8% loan note 2023 IcparApril202	lcparApril2023	3 Icpar 2,500
(12% Preference shares)	lcparApril2023	3,000
Deferred tax (W7)	2,300+1,600	3,900
Current Liabilities	tepur April 2023 Tepur April 2023 Tepur April 20 Tenar Anvil 2023 Tenar Anvil 2023 Tenar Anvil 20	23 1cpurapru20 13 1cpar / nvi170
Trade payables	JeparApril2023 JeparApril2023 JeparApril20	3,400
Unpaid interest 023 IcparApril202	IcparApril2023 IcparApril2023 IcparAW40	23 IcparAp 955
Bank overdrafts 223 IcparApril202	IcparApril2023 IcparApril2023 IcparApril20	23 IcparAp 910
Current tax payable (W7)	lcparApril2023	3,200
Total Equity & Liabilities	lcparApril2023	53,905

023 IcparApril **I1,2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic **Page 7 of 20** IcparApril2

Workings

023 IcparApril **W1 - Cost of sales** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Cost of sales (12023 IcparApril 2023 IcparApri	
2023 IeparApril2023 IeparApril2023 IeparApril2023 Iepar	April2023 IcparApril2023 IcparApril2
Opening Inventory CPUI APP 2023 ICPUI APPUZ023 ICPUI	April2023 IcparApril2023 Icpar23,150
Add Purchases 223 IcparApril 2023 IcparApril 2	April 2023 1cpar April 2023 1cpa 39,500
Closing inventory (w2)	(2,250)
Depreciation - Buildings	April 2023 Janar April 2023 Janar An 440
Depreciation - other assets 2023 Icpar April 2023 Icpar	April2023 IcparApril2023 Icpar/3,395
Loss through Fraud IcparApril 2023 IcparApril2023 Icpar	April2023 IcparApril2023 Icpar/3,500
2023 IcparApril2023 IcparApril2023 IcparApril2023 Icpar	April2023 IcparApril2023 Icpa: 47,735

023 IcparApril2W2 - Inventory 23 IcparApril2023 Icp

023 IcparApr	Closing inventory	Dr Closing Inventory (Current assets)	pri 2,500 _{Icpar April 2023 Icpar April 2}
023 IcparApr		Dr Closing Inventory (Cost of sales)	pril2023 Icpa 2,500 2023 IcparApril2
023 IcparApr	Obsolete inventory –	This inventory should be measure at the lower of co	st and NRV - IAS 2023 IcparApril2
023 IeparApr 023 IeparApr	il2023 leparApril2023 le Cost _{leparApril2023 le}		pril2023 leparApril2023 leparApril2 pril2023 leparApril2023 leparApril2
023 IcparApr 023 IcparApr	NRV (500*50%)		pril2023 IcparApril2023 IcparApril2 pril2023 IcparAp250)23 IcparApril2
023 IcparApr	Loss in value of inve	ntory:ril2023 IcparApril2023 IcparApril2023 IcparA	pril2023 IcparAp 250 023 IcparApril2
023 IcparApr		parApril202 Dr. Cost of sales & Cr. Inventory	pril2023 IcparApril2023 IcparApril2

023 IcparApril **W3 – Non-Current Assets** ril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

(1)3 2023	Freehold property April2023 IcparApril2023 IcparApr	Buildin gs pril20	Land April 2 23 IcparApril 2	TotabarApril2023 IcparApril2 023 IcparApril2023 IcparApril2
2023	IcparApril2023 IcparApril2023 Ic	FRW 20	FRW April	(FRW) arApril2023 IcparApril2
1023	As per TB - 1. 10. 2021	11,000	3,000	14,000 "April2023 IcparApril2
1023	Less Accumulated depreciation	parApril20	23 IcparApril2	023 TeparApril2023 TeparApril2
2023	Depreciation (11,000/25 years)	narApril20 narApril20	13 IcparApril2 23 IcparApril	Dr. Cost of sales & Cr. Asset
	IcvarApril2023 IcparApril2023 Ic	(440)	23 IcparApril2	023 IcparApril2023 IcparApril.
2023	Carrying amount as at 30.09.22	10,560	3 Icpa 3,000	023 IcparApril2023 IcparApril
2023	Revaluation on 30.09.22	14,100	3 Icpa4,500	To SOFP - PPE 23 IcparApril
2023 2023	Revaluation gains April 2023 In	3,540	1,500	Dr. Asset & Cr. Revaluation reserve

(2) Investments

023 IcparApril Investments are carried at their Fair value as at every period end 3 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Fair value b/ fwd - As per TB 8,700 Fair value as at 30.09.22 8,400

023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApr Dr. P&L & Cr. Available for sale 23 IcparApril2

023 JeparApril Fair value loss 2023 JeparApril 2023 JeparApril 2023 (300) | Investments April 2023 JeparApril 2023 JeparApril

023 IcparApril **I1.2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic Page 8 of 20 IcparApril2

(3) Other Assets

Other Assets	Cost pril202	Acc. Depn 23 10p	Depn ²⁰²³	NBV 120
Plant & equipment	13,750	(3,200)	(1,375)	9,175
Computer equipment	7,200	(2,000)	(1,800)	3,400
Motor vehicles	1,500	(400)	(220)	880
Total cparApril2023 IcparApril	1202 1000 22,450	3 IcparApri (5,600)	(3,395)	13,455

Amortization of Brand: 10,000*10% = 1,000 charged to administrative costs

W4 - Preference shares

The finance costs should be computed using the effective rate of 12% on the issue proceeds for six months.

Finance costs that should be paid	IcparApril2023 I. (3,000*12%*6/12) April2023 Icpar 180 I.
Finance costs actually recognised	IcparApril2023 Ic (3,000*10%*6/12) 4pril2023 Icpar 150 I
Finance costs payable **April2023	IcparApril2023 IcparApril2023 IcparApril2023 IcparA30 l.

Dr. Finance Costs & Cr. 12% Preference shares 23 CparApril2023 IcparApril2023 Icp

023 IcparApril These preference shares are redeemable i.e., they are treated as debt and their dividend is 23 IcparApril 023 IcparApril 12023 IcparApril 12023

8% loan note 2023 IcparApril2023 Icp

Finance costs that should be paid	(2,500*8%)	200
Finance costs actually recognised		110
Finance costs payable		90

5% Convertible loan note

023 IcparApril Finance costs that should be paid	3 IcparApril2023	2023 Icpa 920 /il2023 IcparApril2
023 IcparApril Finance costs actually recognised		2023 Icpa <mark>85</mark> 5ril2023 IcparApril2
Finance costs payable April 202		2023 Icpa <mark>835</mark> ril2023 IcparApril2
023		

Summary of Finance charge in profit or loss account and balance sheet 2023 IcparApril2023 IcparApril2023

Category April 2023 Icpar April 2023 Icp	ri Amount rApril2023 ri 2023 IcparApril2023	Paid amount Icpd IcparApril2023 Icpd	Unpaid amount in Balance sheet	
2023 IcparApril2023 IcparAp	ri 2023 IcparAp FRW	IcparApril20 FRW	rApril2023 Icpar/FRW	
5% Convertible loan note	920	85	835	
8% loan note	200	Lengy April 2023 110	40 April 2023 Ionay April 90	
Preference dividend	12023 Janar April 180	Jenar April 2023 150	rApril2023 IonarApril30	
Total parApril2023 IcparAp	ri 2023 IcparApr 1,300	IcparApril2023345	vApril2023 IcparAp955)	

023 IcparApril **I1,2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Ic **Page 9 of 20** IcparApril2

W5 – Bonus Issue

Issues are made based on the number of shares

Bonus Issue (500,000 shares *1/4*FRW10) = 1250 - Dr. Retained Earnings & Cr. Share capital

W6 - Fraud

The fraud is an adjusting event - According to IAS 10 - Events after the reporting period

Note: It should be written off since it is unrecoverable (split between current period and previous period through Retained Earnings)

Dr. Income surplus - Prior year (R/E)	2,500
12022 Ianau Anvil 2022 Ianau Anvil 2022 Ianau Anvil 2022	

Dr. P& L - Current period 3,500

Cr. Trade receivables par April 2023 Icpar April 2023 Icp

W7 - Taxation

The balance on the current year tax represents an over provision of tax for the previous period, thus a reduction in tax for the current period by FRW 200

Tax provision for the year ended 30 September 2022 of FRW 3,200 should be recognized

Dr. Tax expense		mil2023 13,200

Cr. Tax payable 3,200

Deferred tax

The changes in deferred tax liability are recognized through the P&L

Deferred tax b/ fwd - As per TB 2,300

Deferred tax c/fwd - As per scenario (13,000*30%) 3,900

Increase in deferred tax liability IcparApril2023 I

W8 - Legal Case

As at 30 September 2022 the decision / position of court is not very clear, and according to the lawyer's information, it is therefore not probable and the amount too cannot reliably be measured.

Therefore, this signifies a contingent liability, which should only be disclosed in a note to the financial statements as at 30 September 2022.

II.2 | leparApril2023 | leparApril2023 | leparApril2023 | leparApril2023 | leparApril2023 | Page 10 of 20

QUESTION THREE

Marking Guide 23 IcparApril2023 Icpa

Consolidated statement of financial position 023 IcparApril2023 Ic

2023 TeparApril2023 TeparApril2023 TeparApril2023 TeparApril2023 TeparApril2023 TeparApril2023 TeparApril	Marks
Property, plant and equipment 2023 IcparApril2023 I	ril2023 Icpar 2.5
Intangible assets 23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	ril2023 IcparApı
Investment in NL and other investments April2023 Icpar/pril2023 Icpar/pril	ril2023 IcparApA
Goodwill (1 mark for posting goodwill in SOFP and 6 marks for working)	ril2023 IcparAp 7 ril2023 IcparApri
Inventory 1 mark for posting inventory in SOFP and 1 mark working on unrealized profit	ru2023 IcparApr <u>2</u> ril2023 IcparApri vil2023 IcparApri
Trade receivable 23 IcparApril2023 I	ril2023 IcparApri
Cash and bank 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	ril2023 IcparA 0.5
EquityparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	ril2023 IcparApr <mark>i</mark>
Consolidated retained earnings (1 mark for posting retained earnings in the SOFP and 6 marks for working)	ril2023 IcparAp 7 ril2023 IcparApri
Non-controlling interest (1 Mark for posting NCI in the SOFP and 3 marks for working)	ril2023 IcparApr ₄ ril2023 IcparApri vil2023 IcparApri
Long-term borrowing	ri12023 Ionar 0.5
Deferred tax ril2023 IcparApril2023	ril2023 IcparApı
Bank overdraft 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	ril2023 Icpar 0.5
Trade payable 2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril	ril2023 IcparApr <mark>i</mark>
Total par April 2023 Icpar	ril2023 IcparA ₃₀

023 IcparApril **Model Answers**023 IcparApril2023 Ic

023 IcparApril Munyaneza Group's consolidated statement of financial position as at 31st December 23 IcparApril2 023 IcparApril 2022 cparApril 2023 IcparApril 2023 IcparApril

2023 IcparApril2023 IcparApril2023 IcparApril2	023 IcparApril2023 IcparApri	FRW 'million'
Noncurrent Assets CPGYAPTIZUZZ ICPGYAPTIZ	023 IcparApril2023 IcparApri	l2023 IcparApril20
Property Plant and Equipment	60,000+38,000+6.4(w5)	98,006
Intangible Assets	8,500+6,000 + 1.8 (w5)	14,502
Investment in NL and other investments (W3)	55,000 - 11,750	43,250
Good will - (W4) 3 IcparApril2023 IcparApril2	023 IcparApril2023 IcparApri	11023 Icpar 4,198
Current Assets 023 IcparApril2023 IcparApril2	023 IcparApril2023 IcparApri	ll2023 IcparApril20
Inventory (W5) 023 IcparApril2023 IcparApril20	15,200+10,000-11-3	25,186
Trade receivables (W5)	3,400+6,300 - 20	9,680
Cash and Bank	7,400+2,000	9,400
Total Assets	023 ToparAprii2023 ToparApri 023 ToparApril2023 ToparApri	204,222
Equity and Liabilities ar April 2023 Icpar April 2	023 IcparApril2023 IcparApri	il2023 IeparApril20
EquityparApril2023 IcparApril2023 IcparApril20	023 IcparApril2023 IcparApri	il2023 IcparApril20
Share capital of FRW 1,000 12023 IoparApril2	023 IcparApril2023 IcparApri	11 023 Icpa/70,000

023 IcparApril **I1,2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I **Page 11 of 20** IcparApril2

12023 Tepuraprii2023 Tepuraprii2023 Tepuraprii2 12023 Tenas Anvil2023 Tenas Anvil2023 Tenas Anvil2	023	FRW 'million'
Consolidated Retained Earnings (CRE) – (W6)	023 IcparApril2023 Icpar/	64,929
Non-controlling interest (NCI) – (W7) ar April 2	023 IcparApril2023 Icpar	April 023 Icpar10,013
Non-Current Liabilities April 2023 Icpar April 2	023 IcparApril2023 Icparz	April2023 IcparApril20
Long term borrowings ar April 2023 Icpar April 2	9,200+6,000	4p 11 023 Icpa 15,200
Deferred tax 112023 IcparApril2023 IcparApril2	15,000 + 7,000	4p
Current Liabilities	023 IcparApril2023 IcparA	1prii 2023 1cparAprii 20
Bank overdraft	023 TeparApril2023 Tepara 023 TenarApril2023 Tenar	2,000
Trade payables (W5)	12,900+7,200-20	20,080
2023 IcparApril2023 IcparApril2023 IcparApril2	023 IcparApril2023 IcparA	April2023 IcparApril20
Total Equity and Liabilities 2023 IcparApril2	023 IcparApril2023 IcparA	April 023 Icp 204,222)

April2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril

cparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril

Workings pril2023 IcparApril2023 Icp

W1 - Munyaneza Group's year end - 31st December 2022

W2 - Munyaneza Group's structure ar April 2023 Icpar Apri

Munyaneza Ltd (ML)_{rApril2}023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

75%CI Date of reporting - 31st December 2022 25% NCI Date of Acquisition - 1st July 2022

Ndayizeye Ltd (NL)

A parent subsidiary relationship exists between ML and NL

ML therefore controls NL 75%

25% belongs to NCI proportion

Acquisition date 1st July 2022 (6 months consolidation) pri/2023 IcparApril2023 I

Consolidate NL according to IFRS 3 Business Combination (Line by m12023 IcparApril2023 IcparApri

W3 - Consideration parApril2023 IcparApril2023 Icpa

NL was acquired using two methods.

2023 Ic	parApril2023 IcparApril2023 IcparApril2	023 IcparApril2023 IcparApril2023 IcpaMillion
2 1 023 Ic	Cash payment "April2023 IcparA; ril2	023 IcparApril2023 IcparApril2023 IcparAp500
2)23 Ic	Share purchase (10,000/1,000 *75% *	1,500) parApril2023 1. parApril2023 1cpa 11,250
2023 10	Total ²⁰²³ IcparApril2023 IcparApril2	023 IcparApril2023 It parApril2023 Icpar 11,750

Note: These were recorded in ML's financial statements, therefore they should be cancelled out on consolidation

023 IcparApril II.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I Page 12 of 20

W4 - Goodwill Calculation

2023 TeparApril2023 TeparApril2023 TeparAp	Million Million	Million
2023 IcparApril2023 IcparApril2023 IcparAx	pril2023 IcpurApril2 FRW cparAp	pril2023 Icpar ÉRW 0
Consideration/2023 IcparApril2 23 IcparAp	pril2023 IcparApril 11,750 arA	pril2023 IcparApril20
NCI as at Acquisition (10,000/1,000*25%*	*1,000) CP WAPFIL 2,500 WA	pril2023 IcparApril20
2023 IcparApril2023 IcparApril2023 IcparAp	ril2023 IcparApril2023 IcparAp	pril2023 1cpa/14,250
Fair value of NL's net assets as at acquis	ition 23 IcpurApril2023 IcpurApril	pril2023 IcparApril20.
Share capital	10,000	pril2023 IcparApril20. pvil2023 IcparApril20
Pre - Acquisition reserves	pril2023 IchurApril202327	pril2023 IcparApril20
Fair value Adjustments ar April 23 Icpar Ap	pril2023 IcpurApril2023 IcparA	pril2023 IcparApril20
Plant (20-12) 1/2023 IcparApril2 23 IcparAp	pril2023 IcparApril2023 I&parAp	pril2023 IcparApril20.
Brand (8 - 6) 12023 IcparApril2 23 IcparAp	pril2023 IcparApril2023 I 2 parAp	pril2023 Icpa/10,037
Acquired Goodwill	oril2023 IcparApril2023 IcparAj	pril2023 1cpar 4,213
Less: Impairment of Goodwill	rril2023 lcpurApril2023 lcpurAj	pruzoza IcparAp (15)
Actual Goodwill as at 31 Dec 2022	жи2023 1 срагдрги2023 1срагд nni12023 Ionar Anril2023 Ionar 4	4,198

W5 – Intra Group Issues

(1)Excess Fair value and excess depreciation

2023 1cparApril2023 1cparApril2	1023 Icpar.	Million	raprii2023 leparAprii2023 leparAprii20
2025	1023 Tepar.	FRW	
Plant Char April 2023 Ichar April	1023 Icpar	4 8 2023 Icno	rAnril2023 IcnarAnril2023 IcnarAnril20
Less: Depreciation	(8/5	A-1.6) 23 Icpa	Dr. CRE - 75%, Dr. NCI - 25% &
	years)	April2023 Icpa	rApCr. Plant parApril2023 IcparApril20
NBV (Add it to SOFP on	023 Icpar	Apr 6.4 023 Icpa	rApril2023 IcparApril2023 IcparApril20
PPE)cparApril2023 IcparApril2	023 Icpar	April2023 Icpa	rApril2023 IcparApril2023 IcparApril20

2023 IcparApril2023 Icpar.	April2023 Icpa	Millio	3 IcparApril2023 IcparApril2023 IcparApril20
2023 IcparApril2023 Icpar	April2023 Icpo	r n pril202	3 IcparApril2023 IcparApril2023 IcparApril20
2023 IcparApril2023 Icpar.	April2023 Icpo	FRW	3 IcparApril2023 IcparApril2023 IcparApril20
Brand excess Fair value	April2023 Icpa April2023 Icpa April2023 Icpa	2 pril 202 r April 202	3 IcparApril2023 IcparApril2023 IcparApril20 3 IcparApril2023 IcparApril2023 IcparApril20 3 IcparApril2023 IcparApril2023 IcparApril20
Less: Amortization	(2/10	0.2	Dr. CRE - 75%, Dr. NCI - 25% & Cr.
2023 IcparApril2023 Icpar	years)	rApril202	Brand ₄ pril ₂ 023 Icpar ₄ pril ₂ 023 Icpar ₄ pril ₂ 0
NBV cpar April 2023 Icpar	April2023 Icpa	1.8 11202	To CSOFP - Intangible Assets

023 IcparApril **X1.2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I Page 13 of 20 IcparApril2

(2) Intra group transaction - sale of inventory (It is the parent that sold)

Cancel out the sale on consolidation.

023 IcparApril2 Dr. Sales (pril2023 Icp 80 pril2023 IcparApril2023 IcparApril2023

Cancel out the Provision for unrealized profit (PURP) - at 100%

(80*40/140*50%) = 11 (Dr. CRE 100% & Cr. Inventory 100%)

(3)Intra group transaction - sale of inventory (subsidiary sold)

Cancel out the sale on consolidation. parApril2023 IcparApril2023 Icpar

Dr. Sales

Cr. Cost of sales

Cancel out the PURP - at 100%

(60*20/100*1/4) = 3 (Dr. CRE 75%, Dr. NCI 25% & Cr. Inventory 100%)

(4) Intra group balances - Receivables & Payables ar April 2023 Icpar Apri

These should be cancelled out on consolidation.

Dr. Payables	IcparApril2(20	9
Cr. Receivables	IcparApril2(20	3

023 IcparApril W6 - Consolidated Retained Earnings (CRE) 23 IcparApril 2023 Ic

ML's R/E - 100%		42,400
NL's R/E - (post-Acquisition * parent %ge)	(30,100 - 27)*75%	22,555
Adjusted by: 12023 IcparApril2023 IcparApril20		
Impairment of good will - 75% 023 Icpar/April20	(15*75%)	w(11.25)23 IcparApril2023 1
Depn - Plant - 75% IcparApril2023 IcparApril20	2(1.6*75%) 2023 Iopa	ar (1.2)2023 IcparApril2023 I
Amortisation - Brand - 75% 12023 IcparApril20	2(0.2*75%) 2023 Iopa	ur(0.15)023 IcparApril2023 I
PURP - parent sold - 100% 12023 IcparApril20		ur <mark>(11)</mark> l2023 IcparApril2023 I
PURP - subsidiary sold - 75%	(3*75%)	(2.25)

Total CRE 64,929

W7 - Non controlling interest (NCI)

NCI leparApr as 023 lepar at ril2023 / Acquisition		
(10,000/1,000*25%*1,000) 12023 IcparApril202		3 Icpar 2,500
	3 (30,100 1/202	3 Icp <u>arApril2</u> 0
NL's R/E - (post-Acquisition X NCI %ge)	27)*25%	7,518
Impairment of good will - 25%	(15*25%)	(3.75)
Depn - Plant - 25%	(1.6*25%)	(0.4)

023 IcparApril **I1,2** IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I **Page 14 of 20** IcparApril2

Amortisation - Brand - 25%	(0.2*25%)	(0.05)
PURP - subsidiary sold - 25%	(3*25%)	(0.75)

Total NCI pril2023 IcparApril2023 Ic

QUESTION FOUR

Marking Guide

(a) 2 marks per event ar April 2023 Icpar April 2023 Icpar April 2023 Imaximum 023 Icpar Ap	12
Note: these should be split between, identification of event and explanation 1 each	
(b) Definition of joint arrangements April 2023 Icpar Apr	ril40
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparAp	
Definition & explanation of joint operation	21/2
Definition & explanation of joint venture	21/2
Characteristics – 1 mark for each-maximum	2
	8
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 Icp	20

Model answers 023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril

a)

- (i) This is a non-adjusting event. The entity shall not recognize dividends declared to shareholders after the reporting period as it has no liability or obligation at the end of the reporting period i.e. whether after or before authorization of issuance of financial statements. Such dividends are disclosed in the notes to the F/S in accordance with IAS 1 Presentation of Financial Statements.
- (ii) This is an adjusting event. Even though QT ltd had no obligation to provide after sales services as of 30 June 2022 but the company had sold the items by then. In accordance with accrual basis, the service cost (warranty cost) of FRW 2,000,000 will be recognized in the financial statements as at the reporting period. (Dr. Warranty expenses (P&L) FRW 2,000,000 and Cr. Provision for warranty claims FRW 2,000,000)
- (iii)This is a non-adjusting Event. The price of Dell laptops started falling after the end of the reporting period which indicates stock obsolescence. This therefore should only require a disclosure to be made the financial statements as at the reporting period. Disclosure is the nature of event being government announcement of reduction in taxes and the financial effect which is FRW 3,500*500,000 = FRW 1,750,000,000. (FRW 1,750,000,000 FRW 1,500,000,000) = FRW 250,000,000 loss
- (iv) This is a non-adjusting Event. The fire only arose after the reporting date and therefore has got no correlation as at 30 June 2022. QT Limited should only disclose this event to the notes to the financial statements as at 30 June 2022. i.e. The fire as the nature and the FRW 5,500,000 as its financial implication

II.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I

- (v) According to IAS 10, this is an adjusting event. The bankruptcy of a major customer that occurs after the reporting period but before financial statements are issued confirms that a loss that existed as at the end of the reporting period. The entity needs to adjust its trade receivable balance as at 30 June 2022. i.e. Dr. Bad debts (expense) P&L & Cr. Trade receivables.
- (vi) This is neither an adjusting nor non adjusting event within the financial statements as at 30th June 2022. This event happened outside the brackets of IAS 10. This will therefore be effected in the financial statements as at 30 June 2023.

b)

A joint arrangement is an arrangement in which two or more parties / entities have joint control over another entity.

Joint control: the contractually agreed sharing of control. this exists only when decisions are made with the unanimous consent of the parties sharing control. There are therefore two types of joint arrangement.

Joint operation: This is an arrangement through which the parties to the arrangement have rights to certain assets and obligations for certain liabilities of the arrangement.

Joint operations may or may not separate legal entities. Each venture will record its share of the operation's assets, liabilities, expenses and gains as determined by the substance of the contract setting up the joint operation. There are no adjustments needed on consolidation.

Joint venture: This is an arrangement through which the parties have joint control over the Net assets of the venture (as distinct from the individual assets and liabilities). It will be a separate legal entity. In this situation, the investment is accounted for either at cost, or in accordance with IFRS 9 – financial instruments in the individual financial statements of each venturer but on consolidation, equity accounting is used exactly as for associates.

Characteristics under joint arrangements include;

- The parties are bound by a contractual arrangement and
- The contractual arrangement gives two or more of those parties joint control of the arrangement.

I1.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I

QUESTION FIVE

Marking Guide

(a)		
(i)	Distinction (enhancing & fundamental) – 1 mark each //2023	IcparApril2023 IcparApril2
	1.5 mark per valid characteristic identified and explained. 023	
(iii)	A valid illustration award 2 marks "April2023 IcparApril2023	IcparApril2023 IcparApril20
(b)		
(i)	1 mark per duty explained.	T 1 170000 T 1 173
(ii)	Differentiating accrual from cash accounting	Icnar April 2023 Icnar April 20
	Illustrative example April 2023 Icpar April 2023 Icpar April 2023	IcparApril2023 IcparApril20
(iii)	1 mark each (benefit/challenge) parApril2023 IcparApril2023	IcparApril2023 IcparApril50
		Total for question 20

Model answers

a)

(i) Fundamental qualitative characteristics of financial information are those characteristics that financial statements should bear or they are qualities that refer to the adherence generally accepted accounting principles in financial reporting, whereas.

Enhancing qualitative characteristics are additional benefits added to the fundamental characteristics to improve the decisions and usefulness of financial information.

(ii) Qualitative characteristics of financial information are explained below

Reliability: This is one of the characteristics that relates to the content of information within the financial statements. The information provided is reliable when it is free from material error and bias. This means that it can be depended on by the users to represent faithfully what it represents.

Understandability: Understandability is a characteristic that that relates to presentation of financial statements. Financial statements should be presented in such a way that its readily understandable by all the users. Its assumed that all users have the ability and knowledge of the business and willingness to study the information as shown within the financial statements

Comparability: This characteristic relates also to presentation of financial statements. Users must be in position to compare the financial statements of a similar company between periods / over time to assess trends or financial statements of different companies to evaluate financial position, performance and changes in equity, which in all aspects requires consistency.

Relevance: This is qualitative characteristic that relates to content of financial information. The information bears the aspect of relevance when it influences a user's decision, either

II.2 | InparApril 2023 | Page 17 of 20

enabling them evaluate well the past, present and or future events or by supporting them in confirmation or rectifying past evaluations made.

Faithful representation This is when the financial information truthfully represents the underlying picture / state of an entity. Faithful representation is achieved when information within the financials is complete, neutral (without any understatement or overstatement bias) and free from error

(iii)

Inventory should be valued in the financial statements using either FIFO or weighted average methods and whichever method has been adopted must be consistently applied from one period to another. If a change is to be made to a particular method of valuation adopted, this must be disclosed in the notes to the financial statements and retrospective treatment done so that the current and prior periods can still be compared.

b)

(i)

Accountant general:

Statutory Duties:

- Advisor to the minister of finance and the government on accounting matters
- Responsible to the minister of finance for the custody, safety and integrity of the consolidated fund and other public funds under their care.
- Responsible for compilation and management of the consolidated fund and other public funds
- Responsible for receipt, secure custody of public moneys payable into the consolidated fund
- They are the chief accounting officer of the government responsible for keeping, rendering and publishing statements of public accounts as required by law.
- They approve departmental accounting instructions and promotes the development of efficient accounting systems within departments.
- In consultation with the auditor general, they specify for departments, the accounting basis, policies and classification system to ensure proper system of accounting.
- Advising departments on economic and financial policy.
- Keeping public expenditure within acceptable total resources for the year.
- Relating each spending department's requirements to the economic resources estimated to be available.
- Controlling government expenditures through co-ordination and monitoring operations.
- Considering matters covered by the reports of the public accounts committee of parliament and co-operating to improve financial control.

etc

I1.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 I

The Auditor General

The auditor-general shall audit in such manner as he thinks necessary the public and other government accounts and shall ascertain whether;

- The accounts are properly kept.
- All public monies have been fully accounted for and rules and procedures applicable are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue.
- Monies have been expensed for the purpose for which they were appropriated, and the expenditures have been made as authorized.
- Essential records are maintained, and the rules and procedures applied are sufficient to safeguard and control public property.
- Programs and activities have been taken with due regard to economy, efficiency and
 effectiveness in relation to the resources utilized and results achieved.
- Submission of special audit report to parliament.
- Examine annual statement of public accounts prepared by controller and accountant general.
- etc.

Parliament

- Scrutinize and approval of national budget.
- Scrutinize, approval or disapproval of public expenditure, grants, loans, taxes, etc to ensure that government operates with the remits of the approved national budget or Appropriation Act.
- Scrutinize of Auditor General's reports on public accounts and interrogating public officials on the audit findings and recommendations.
- Parliament may also undertake direct monitoring of projects approved in the budget through visits to project sites to monitor project implementation or service delivery.
- Dissemination of laws and legislative instruments to enforce financial accountability and transparency.
- Holding public officers accountable for financial losses to the country.
- Mandated during budget execution to receive in year implementation reports through select committees.

(ii)

Differences in accrual accounting and cash accounting include:

- Under accrual accounting revenues are reported when they are earned and expenditures
 when incurred and not when cash is received or paid out as it is the case under cash
 accounting.
- Under accrual accounting allowances are permitted for receivables but no such allowances
 are allowed to be accounted for under cash accounting.
- Reports using cash accounting are mainly on cash condition of the entity giving receipt
 and payment information, but in accrual accounting, the financial statement / reports are
 prepared to measure financial performance, position and cash condition of the entity.

II.2 | cparApril2023 | lcparApril2023 | lcparApril2023 | lcparApril2023 | Page 19 of 20

- Under accrual accounting, nonfinancial assets are capitalised through the statement of
 financial position and depreciated over their useful life span but under cash accounting,
 their cost is written off in the year of acquisition or construction, without any depreciation
 charged.
- Under accrual accounting government obligations are disclosure on the statement of financial position when its highly probable that they will be paid but in the cash accounting system such information is not disclosed on the financial statement until they are paid.

(iii)

Benefits of Accrual Basis IPSAS

- Better national/international comparability and consistency of financial information
- Enhances of accountability and oversight control.
- Enables improved government finance statistical information.
- They help in transparency within government accounting and financial reporting which influences government's cost of refinancing.
- Better recognition of risks, opportunities, cost awareness and efficiency.
- Better decision making and improvement of assets and liabilities management.
- Focus on public sector specific issues in financial reporting.

Challenges of Accrual Basis IPSAS

- It is not useful for cash flow management, in fact, it may hide cash flow problems
- Incorporating non-cash transactions can be complicated and subjective such as depreciation and provision which are all based on estimation.
- Where management performance is measured using accrual basis, this can encourage creative accounting. i.e. Management manipulating financial statement to show improved performance.

END OF MARKING GUIDE AND MODEL ANSWERS

II.2 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IPage 20 of 2