CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 25, APRIL 2023

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking Guide

	Marks
(a)	
(i) Definition of borrowing cost	½
Explanation of suspension of capitalization	1½
Explanation of cessation of capitalization	1½
Explanation of assets completed in parts	½
	4
(ii) Borrowing cost for investments on 1.01.2023 - ½mark each	1
Borrowing cost for investments on 1.09.2023 - ½mark each	1
Investment income (FRW 267 & FRW 533) - ½mark each	1
Asset recognition	1
Asset value	2
	6
(b) Definition	2
(c) (i) Format of mail (addressee, addressor and subject)	1
Identification of research phase amount/ value	1
Explanation of treatment of research phase costs	1
Identification of development phase amount/ value	1
Explanation of treatment of development phase costs	1
General and maintenance cost	1
	6
(ii) SOPL summary entries 1 mark for each item recorded	2
SOFP summary entries 1 mark for each item recorded	2
	4
Total	**20**

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

- 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 different. Therefore, capitalization ceases on those parts that are ready for use.

(ii)

Description		**Plant 1**		**Plant 2**	
			FRW 000		**FRW** 000
Interest / borrowing cost					
1 year (Jan – Dec 2023)	A	10,000*10%	1,000	20,000*10%	2,000
Less: Investment Income					
8 months (Jan - Aug 2023)	**B**	5,000*8%*8/12	267	10,000*8%*8/12	533
Borrowing costs to be capitalised	**C(A-B)**		**733**		**1,467**
Expenditure incurred			**10,000**		**20,000**
Total Asset cost recognized in SOFP			**10,733**		**21,467**

b) An intangible asset is defined as an identifiable, non-monetary asset without physical 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

(ii)

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

FRW 'million'

Research costs	10
Development costs (5million * 2 months)	10

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
Web pages layout and upload of information	10

Note: These costs should be captured under non-current assets (separate recognition as development costs)

QUESTION TWO

Marking Guide

(a) Statement of profit or loss and other comprehensive incomes	**Marks**
Revenue	0.5
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)	7
Other income	0.5
Distribution costs	0.5
Loss on fair value of investment	1
Administrative expenses	1
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)	2
Income tax expense	2
Other comprehensive income	0.5
Total	**15**

(b) Statement of financial position	**Marks**
Property, plant and equipment 0.5-Frehold NBV 0.5-Plant and equipment NBV 0.5-Computer equipment NBV 0.5-Motor vehicle NBV	2
Intangible assets	0.5

Inventory 1 mark for adjusting closing stock and 0.5 for posting closing stock in SOFP	1.5
Investment	1
Trade receivable	1
Equity	1
Share premium	0.5
Revaluation reserve	0.5
General reserve	0.5
Retained earnings and its adjustment	1.5
Dividend paid reduced from retained earning	0.5
8% loan note	0.5
5% convertible loan note	0.5
12 Preference share	0.5
Deferred tax	0.5
Trade payable	0.5
Bank overdraft	0.5
Unpaid interest	1
Current tax payable	0.5
Total	**15**
G-Total	**30 Marks**

Model Answers

(a)

Advertisers Ltd

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

	FRW '000'		FRW '000'
Sales revenue			68,865
Less: Cost of sales (W1)			(47,735)
Gross Profit			**21,130**
Add: Other incomes			
Investment income			360
Fair value loss on investments (W3)			(300)
Less: Operating costs / expenses			
Less: Distribution costs			(5,650)
Less: Administration costs (W3)	8,540+1,000		(9,540)
Less: Finance costs / Interest cost (W4)			(1,300)
Profit before tax (PBT)			**4,700**
Less: Income tax expenses (W7)	3,200-200+1,600		(4,600)
Net Profit/ Loss			**100**

	FRW '000'		FRW '000'
Other comprehensive incomes			
Freehold revaluation surplus	3,540+1,500		5,040
Total profit and other comprehensive income			**5,140**

(b)

Advertisers Ltd

Statement of Financial position as at 30 September 2022

	FRW '000'		FRW '000'
Noncurrent Assets			**Total**
PPE (W3)	14,100+4,500+13,455		32,055
Intangible assets (W3)	10,000-3,000-1,000		6,000
Investments (W3)	8,700-300		8,400
			-
Current Assets			
Closing inventory (W2)	2,500-250		2,250
Trade receivables (W6)	11,200-6,000		5,200
Total Assets			**53,905**
Equity			
Ordinary Share capital (W5)	14,500+1,250		15,750
Share premium			2,500
Revaluation reserves (W3)	800+5,040		5,840
General reserve			1,500
Retained Earnings (W6 & W5)	4,600-1,250(w5)- 2,500(w6) + 100		950
Less: Dividends paid			(8,900)
Noncurrent liabilities			
5% convertible loan note			18,400
8% loan note			2,500
(12% Preference shares)			3,000
Deferred tax (W7)	2,300+1,600		3,900
Current Liabilities			-
Trade payables			3,400
Unpaid interest	W4		955
Bank overdrafts			910
Current tax payable (W7)			3,200
Total Equity & Liabilities			**53,905**

Workings

W1 - Cost of sales

Cost of sales	
Opening Inventory	3,150
Add Purchases	39,500
Closing inventory (w2)	(2,250)
Depreciation - Buildings	440
Depreciation - other assets	3,395
Loss through Fraud	3,500
	47,735

W2 – Inventory

Closing inventory	Dr Closing Inventory (Current assets)	2,500
	Dr Closing Inventory (Cost of sales)	2,500

Obsolete inventory – This inventory should be measure at the lower of cost and NRV - IAS 2

Cost	500
NRV (500*50%)	250
Loss in value of inventory	**250**

Dr. Cost of sales & Cr. Inventory

W3 – Non-Current Assets

(1)	**Freehold property**	**Buildings**	**Land**	**Total**
		FRW	**FRW**	**FRW**
	As per TB - 1. 10. 2021	11,000	3,000	14,000
	Less Accumulated depreciation	-		
	Depreciation (11,000/25 years)	(440)	-	Dr. Cost of sales & Cr. Asset
	Carrying amount as at 30.09.22	10,560	3,000	
	Revaluation on 30.09.22	14,100	4,500	To SOFP - PPE
	Revaluation gains	3,540	1,500	Dr. Asset & Cr. Revaluation reserve

(2) Investments

Investments are carried at their Fair value as at every period end

Fair value b/ fwd - As per TB	8,700	
Fair value as at 30.09.22	8,400	
Fair value loss	(300)	Dr. P&L & Cr. Available for sale Investments

(3) Other Assets

Other Assets	Cost	Acc. Depn	Depn	NBV
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	22,450	(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	(3,000*12%*6/12)	180
Finance costs actually recognised	(3,000*10%*6/12)	150
Finance costs payable		**30**

Dr. Finance Costs & Cr. 12% Preference shares

These preference shares are redeemable i.e., they are treated as debt and their dividend is treated as a finance cost.

8% loan note

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

5% Convertible loan note

Finance costs that should be paid	18,400*5%	920
Finance costs actually recognised		85
Finance costs payable		**835**

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

Category	Amount	Paid amount	Unpaid amount in Balance sheet
	FRW	**FRW**	**FRW**
5% Convertible loan note	920	85	835
8% loan note	200	110	90
Preference dividend	180	150	30
Total	**1,300**	**345**	**955**

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	
Dr. P& L - Current period	3,500	
Cr. Trade receivables		6,000

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	3,200	
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 1,600 Dr. Tax &Cr. Deferred tax liability.

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.

QUESTION THREE

Marking Guide

Consolidated statement of financial position

	Marks
Property, plant and equipment	2.5
Intangible assets	1
Investment in NL and other investments	1
Goodwill (1 mark for posting goodwill in SOFP and 6 marks for working)	7
Inventory 1 mark for posting inventory in SOFP and 1 mark working on unrealized profit	2
Trade receivable	1
Cash and bank	0.5
Equity	1
Consolidated retained earnings (1 mark for posting retained earnings in the SOFP and 6 marks for working)	7
Non-controlling interest (1 Mark for posting NCI in the SOFP and 3 marks for working)	4
Long-term borrowing	0.5
Deferred tax	1
Bank overdraft	0.5
Trade payable	1
Total	**30**

Model Answers

Munyaneza Group's consolidated statement of financial position as at 31st December 2022

			FRW 'million'
Noncurrent Assets			
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)			4,198
Current Assets			
Inventory (W5)	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			**204,222**
Equity and Liabilities			
Equity			
Share capital of FRW 1,000			70,000

			FRW 'million'
Consolidated Retained Earnings (CRE) – (W6)			64,929
Non-controlling interest (NCI) – (W7)			10,013
Non-Current Liabilities			
Long term borrowings	9,200+6,000		15,200
Deferred tax	15,000 + 7,000		22,000
Current Liabilities			-
Bank overdraft			2,000
Trade payables (W5)	12,900+7,200-20		20,080
Total Equity and Liabilities			**204,222**

<u>Workings</u>

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

W2 - Munyaneza Group's structure

Munyaneza Ltd (ML)

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)
Consolidate NL according to IFRS 3 Business Combination (Line by line)

W3 – Consideration

NL was acquired using two methods.

				Million
1	Cash payment			500
2	Share purchase (10,000/1,000 *75%*1,500)			11,250
	Total			**11,750**

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

W4 - Goodwill Calculation

		Million FRW	Million FRW
Consideration		11,750	
NCI as at Acquisition (10,000/1,000*25%*1,000)		2,500	
			14,250
Fair value of NL's net assets as at acquisition			
Share capital		10,000	
Pre - Acquisition reserves		27	
Fair value Adjustments			
Plant (20-12)		8	
Brand (8 - 6)		2	**10,037**
Acquired Goodwill			**4,213**
Less: Impairment of Goodwill			(15)
Actual Goodwill as at 31 Dec 2022			**4,198**

W5 – Intra Group Issues

(1)Excess Fair value and excess depreciation

		Million FRW	
Plant		8	
Less: Depreciation	(8/5 years)	1.6	Dr. CRE - 75%, Dr. NCI - 25% & Cr. Plant
NBV (Add it to SOFP on PPE)		**6.4**	

		Million FRW	
Brand excess Fair value		**2**	
Less: Amortization	(2/10 years)	0.2	Dr. CRE - 75%, Dr. NCI - 25% & Cr. Brand
NBV		**1.8**	**To CSOFP - Intangible Assets**

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

Cancel out the sale on consolidation.

Dr. Sales	80
Cr. Cost of sales	80

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.

Dr. Sales	60
Cr. Cost of sales	60

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

These should be cancelled out on consolidation.

Dr. Payables	20
Cr. Receivables	20

W6 - Consolidated Retained Earnings (CRE)

ML's R/E - 100%			42,400
NL's R/E - (post-Acquisition * parent %ge)	(30,100 - 27)*75%		22,555
Adjusted by:			
Impairment of good will - 75%	(15*75%)	(11.25)	
Depn - Plant - 75%	(1.6*75%)	(1.2)	
Amortisation - Brand - 75%	(0.2*75%)	(0.15)	
PURP - parent sold - 100%		(11)	
PURP - subsidiary sold - 75%	(3*75%)	(2.25)	
Total CRE			**64,929**

W7 - Non controlling interest (NCI)

NCI as at Acquisition (10,000/1,000*25%*1,000)		2,500
NL's R/E - (post-Acquisition X NCI %ge)	(30,100 - 27)*25%	7,518
Impairment of good will - 25%	(15*25%)	(3.75)
Depn - Plant - 25%	(1.6*25%)	(0.4)

Amortisation - Brand - 25%	(0.2*25%)	(0.05)
PURP - subsidiary sold - 25%	(3*25%)	(0.75)
Total NCI		**10,013**

QUESTION FOUR

Marking Guide

(a) 2 marks per event	maximum	12
Note: these should be split between, identification of event and explanation	**1 each**	
(b) Definition of joint arrangements		1
Definition & explanation of joint operation		2½
Definition & explanation of joint venture		2½
Characteristics – 1 mark for each-maximum		2
		8
	Total for question	**20**

Model answers

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

(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.

QUESTION FIVE

Marking Guide

(a)

(i) Distinction (enhancing & fundamental) – 1 **mark each**		2
(ii) 1.5 mark per valid characteristic identified and explained.	maximum	6
(iii) A valid illustration award 2 marks		2
		10

(b)

(i) 1 mark per duty explained.		3
(ii) Differentiating accrual from cash accounting		1
Illustrative example		1
(iii) 1 mark each (benefit/ challenge)		5
		10
	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 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.

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.

- 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