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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**11.2: FINANCIAL REPORTING**

**DATE: TUESDAY 25, APRIL 2023**

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**INSTRUCTIONS:**

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **two sections; A & B.**
- Section **A** has **three** compulsory questions.
- Section **B** has **two** questions, **one** question to be attempted.
- In summary attempt **four** questions, **three** in section A and **one** in section B.
- Marks allocated to each question are shown at the end of the question.
- Show all your workings where applicable.
- The question paper should not be taken out of the examination room.

## SECTION A

### QUESTION ONE

a) IAS 23: Borrowing Costs; provides circumstances for the capitalization of interest costs. It also identifies situations that exist for commencement, cessation of and suspension of borrowing costs capitalization.

**Required:**

i. Identify the circumstances for suspension and cessation of borrowing costs. (4 Marks)

ii. On 1 January 2023, MAF Ltd borrowed FRW 30 million to finance the production of two plants, which took a year to construct, to enable the company reducing on its production process. Construction started during the year and utilized the borrowed funds as follows with the remaining funds being temporarily invested rather than being kept on the company's business account.

	Plant 1	Plant 2
	FRW '000'	FRW '000'
1 January 2023	5,000	10,000
1 September 2023	5,000	10,000

The borrowing rate being 10%, and MAF can invest the surplus funds at 8%.

**Required:**

**Compute the borrowing costs that should be capitalized according to IAS 23 and compute the value of each asset as at 31 December 2023.** (6 Marks)

b) IAS 38 Intangible assets spells out the definition, recognition, measurement and treatment of intangible assets, giving a distinction between research and development phases.

**Required:**

**Define what an intangible asset is in accordance with IAS 38.** (2 Marks)

c) Ingabire Ltd, a limited company that was incorporated in 2012, operates in the construction industry and prepares financial statements on 30<sup>th</sup> September each year. The financial statements for the period ended 30<sup>th</sup> September 2022 are yet to be finalized and the following information is relevant for these financial statements.

In a meeting held on 30<sup>th</sup> January 2022, the company's directors decided to consider other avenues of improving their profitability. They decided to immediately assess the development of an Ingabire Ltd's website which was nonexistent, in order to provide online sales of items such as marram, bricks and sand that the company provided locally. The website will also enable customer to order for any services the company offers including building construction services.

On 15<sup>th</sup> February 2022, WebExt Ltd provided Ingabire Ltd with a quotation for the provision of the above service. Cost per quotation was as follows

Activity	Amount in FRW'million'
Research to substantiate the director's decision: Research	10
Coding, assembly and access security check before going live	20
Web pages layout, review and upload of information	10
Monthly charge to cater for general and maintenance costs from August 2022	5

The development process commenced 1 April 2022.

A technical team was formulated, having a web designer and a financial consultant to evaluate feasibility of the website and profitability. The team confirmed feasibility and profitability of the website at sales of FRW 60 million per annum.

**Required:**

- i. As the finance manager at Ingabire Ltd, write an email to the directors of Ingabire Ltd, explaining how these costs will be recognized, in accordance with IAS 38-Intangible assets. (6 Marks)
  - ii. Prepare relevant extracts explaining under which sections the above costs will be categorized. (2 Marks)
- (Total: 20 Marks)**

**Note:** You are not required to discuss the recognition criteria of an intangible asset.

## QUESTION TWO

Advertisers Ltd has been the most successful company in the advertising industry within Kibungo city for many years.

The following draft trial balance was extracted from its books for the year ended 30<sup>th</sup> September 2022.

Detail	Note	Dr.	Cr.
		FRW '000'	FRW '000'
Plant and equipment - Cost / Accumulated depreciation	2	13,750	3,200
25-year Freehold property - at valuation (1 October 2021)	2	14,000	
Computers - Cost / Accumulated depreciation	2	7,200	2,000
Motor vehicles - Cost / Accumulated depreciation	2	1,500	400
10-year Brand - at cost on 1 October 2018	2	10,000	
Accumulated amortization of Brand - 1 October 2021			3,000
Trade receivables and payables	5	11,200	3,400
Inventory on 1 October 2021	1	3,150	
Interest on convertible loan loan note		85	
Available for sale Investments	2	8,700	
Sales			68,865
Purchases		39,500	
Administration cost		8,540	
Distribution cost		5,650	
Deferred tax - 1 October 2021	6		2,300
Current tax	6		200
Investment income			360
Bank			910
Loan note Interest		110	
Dividend paid		8,900	
Preference dividends paid		150	
5% convertible loan note 2025			18,400
8% loan note			2,500
12% Preference shares (redeemable)	3		3,000
500,000 Ordinary shares			14,500
Share premium			2,500
Retained Earnings as at 1 October 2021	4		4,600
Revaluation surplus			800
General reserve			1,500
		<b>132,435</b>	<b>132,435</b>

**The following information is relevant:**

1. The carrying value of inventories at cost as at 30 September 2022 was FRW 2,500,000. Immediately after the period end, the store's manager realized that a particular inventory type included in the figure above costing FRW 500,000 was obsolete and could only be sold at half the price to customers.
2. **Non-current Assets**
  - Depreciation of property plant and equipment is to be provided as follows:

Plant and equipment	10% on cost.
Computer equipment	25% on cost.
Motor vehicles	20% on reducing balance.
Brand	10% on cost.
  - Freehold property has a land element of FRW 3,000,000. The buildings element is being depreciated on a straight-line basis.
  - Advertisers Ltd revalues its freehold property at the end of each accounting period. On 30 September 2022 the relevant value to be incorporated into the financial statements is FRW14,100,000 for buildings and FRW 4,500,000 for land. The building lifespan has not changed as a result of this revaluation.
  - The building's remaining life at the beginning of the current year (1 October 2021) was 25 years. Advertisers Ltd does not make an annual transfer from the revaluation reserve to retained earnings in respect of the realization of the revaluation surplus. Ignore deferred tax on the revaluation surplus.
  - Available for-sale investments held as at 30 September 2022 had a fair value of FRW 8,400,000. There were no acquisitions or disposals of these investments during the year.
  - No depreciation/amortization has not yet been charged on any non-current asset for the year ended 30 September 2022. Depreciation charges and loss on inventory are all charged to cost of sales but amortization charges to administration costs.
3. The preference shares were issued on 1 April 2022 at par. They are redeemable at a large premium which gives them an effective finance cost of 12% per annum.
4. On 31 March 2022 the company made a bonus issue from retained earnings of one new share for every four shares in issue at FRW 10 each. This transaction is yet to be recorded in the books.
5. In late September 2022 the directors of Advertisers Ltd engaged the services of a forensic auditor, who discovered a material fraud committed by its credit control department staff and FRW 6,000,000 of the trade receivables shown in the statement of financial position had actually paid of which deeper assessment indicates FRW 2,500,000 had been stolen in the year ended 30 September 2021 while remaining cash received was stolen in current period. The company is neither insured from this loss nor can it recover from the staff, since they all

left without resignation. It's not also deductible for tax purpose. The loss is charged to cost of sales

6. The balance on current tax represents the under/over provision of the tax liability for the year ended 30 September 2022. The directors have estimated the provision for income tax for the year ended 30 September 2022 at FRW 3,200,000. At 30 September 2022 the carrying amounts of Advertisers Ltd's net assets were FRW13,000,000 in excess of their tax base. The income tax rate of Advertisers Ltd is 30%.
7. During the year, Advertisers Ltd was sued for failure to advertise a product of BLM Manufactures Ltd as per the signed contract. However, this was due to delay in the production process at the factory of BLM. The case is currently outstanding, but it is expected to be settled in a few days after the year end. Advertisers Ltd's discussion with its lawyers indicated that the case is a bit fragile and therefore difficult to determine the outcome, as it can go either way, and that such cases have got no pre-stated estimated amount since they depend on the gravity of the issue.

You have recently been appointed as a financial accountant at Advertisers Ltd.

**Required:**

Prepare in accordance with IAS 1: Preparation and Presentation of Financial Statements.

- a) **The statement of comprehensive income for the year ended 30<sup>th</sup> September 2022.** (15 Marks)
  - b) **The statement of financial position as at 30<sup>th</sup> September 2022.** (15 Marks)
- (Total: 30 Marks)**

### QUESTION THREE

On 1<sup>st</sup> January 2022, Munyaneza Ltd (ML) a public listed company that was operating in Muhanga district-southern part of Rwanda went into an expansion program in a bid to win government contracts. They acquired majority equity shareholding in Ndayizeye Ltd (NL) of 75% equity shares, when their retained Earnings were FRW 27 million. Purchase consideration was paid as follows;

An immediate share purchase of FRW 1,500 per acquired share and cash payment of FRW 500 million both transactions were recorded by Munyaneza Ltd.

At the date of acquisition, shares in Ndayizeye Ltd had a stock market value of FRW 1,000.

**Below are the summarized statements of financial position of ML and NL as at 31 December 2022:**

	ML	NL
	FRW'million'	FRW'million'
<b>Non-current Assets</b>		
Property Plant and Equipment	60,000	38,000
Intangible Assets	8,500	6,000
Investment in NL and other investments	55,000	
<b>Total Non-current assets</b>	<b>123,500</b>	<b>44,000</b>
<b>Current Assets</b>		
Inventory	15,200	10,000
Trade receivables	3,400	6,300
Cash and Bank	7,400	2,000
<b>Total current assets</b>	<b>26,000</b>	<b>18,300</b>
<b>Total Assets</b>	<b>149,500</b>	<b>62,300</b>
<b>Equity and Liabilities</b>		
Equity		
Share capital of FRW 1,000	70,000	10,000
Retained Earnings	42,400	30,100
<b>Owners' funds total</b>	<b>112,400</b>	<b>40,100</b>
<b>Non-Current Liabilities</b>		
Long term borrowings	9,200	6,000
Deferred tax	15,000	7,000
<b>Total Non-current liability</b>	<b>24,200</b>	<b>13,000</b>
<b>Current Liabilities</b>		
Bank overdraft	-	2,000
Trade payables	12,900	7,200
<b>Total current liability</b>	<b>12,900</b>	<b>9,200</b>
<b>Total Equity and Liabilities</b>	<b>149,500</b>	<b>62,300</b>

### Additional information

1. Below is a summary of the fair value exercise done for Ndayizeye Ltd at the date of acquisition:

At Acquisition			
Asset	Carrying value	Fair value	Description
	FRW 'million'	FRW 'million'	
Plant	12	20	Remaining life span -5 years
Brand	6	8	Remaining life span – 10 years

At the date of acquisition, the fair value of Ndayizeye's net assets were equal to their carrying value with the exception of the above items that had a fair value and the excess was not adjusted in the books.

- Ndayizeye Ltd's inventory as at 31 December 2022 includes goods bought from Munyaneza Ltd for FRW 80 million (being selling price from Munyaneza). 50% of these goods are still in inventory of Ndayizeye as of 31 December 2022. Munyaneza Ltd invoices at markup of 40%.
- During the year Ndayizeye Ltd also sold goods to Munyaneza Ltd for FRW 60 million. These goods were sold at a margin of 20% and one quarter remained in inventory at the year end.
- Munyaneza Ltd's receivables as at 31 December 2022 include FRW 20 million due from Ndayizeye Ltd's which was in agreement with Ndayizeye Ltd's payable balance.
- On impairment testing on 31 December 2022, it was identified that no assets were impaired except goodwill impaired by FRW 15million.
- Its Munyaneza Ltd Co's policy to value the non-controlling interest of Ndayizeye Ltd at its Fair value at the date of acquisition. The share price of Ndayizeye Ltd at the date of acquisition should be used for this purpose.

### Required:

**Prepare Munyaneza Ltd Group's consolidated statement of financial position as at 31 December 2022, clearly showing;**

**i. Goodwill computation**

**ii. Group Retained Earnings**

**iii. Non-controlling interest**

(30 Marks)

**(Total: 30 Marks)**



## **SECTION B**

### **QUESTION FOUR**

a) QT Limited's year ended 30 June 2022, and its financial statements are deemed to be approved by the board on 15<sup>th</sup> September 2022.

#### **Required:**

**Discuss the implications on accounting treatment of the following events on the financial statements of the company for the year ended 30 June, 2022.**

- i. A dividend of FRW 50 million in relation to the financial year ending 30 June 2022, was declared in July 2022 and payment also made to shareholders on 31 July 2022. (2 Marks)
- ii. On 1 Jan 2022, the company's senior management team drafted a paper detailing way in which the company's clientele and sales would be increased, to be approved by CEO. One of the proposals was to offer one year free after sales services on all computers immediately. However, the CEO was not in the country due to health issues but later approved the proposal on 1 September 2022 which was also communicated. Warranty costs attributed to sales between January and June 2022 was estimated at FRW 2,000,000. (2 Marks)
- iii. QT Ltd imported different brands of laptops, but as at the year end, the Dell brand laptops remaining in inventory were 3,500 laptops, each costing FRW 500,000. After the year end, the taxes on this brand increased, that led to increase in dell brand prices and therefore buyers opted for the other brands. The government announced a reduction in taxes on all technological equipment in which computers too fall. This situation forced the management to start selling and the whole stock of these computers was to fetch FRW 1.5 billion. (2 Marks)
- iv. One of QT's outlets in Musanze caught a fire on 10 September 2022 and property worth FRW 5,500,000 was completely destroyed. They realized that its insurance cover had expired a month ago. (2 Marks)
- v. A trade receivable that owed the company FRW 10 million as at the year-end was declared bankrupt on 5 July 2022. QT Limited cannot recover any money from this bankrupt customer. (2 Marks)
- vi. The company announce issue of new shares worth FRW 200 million on 30th September 2022. (2 Marks)

**Note:** you may assume the above figures are material.

b) In accordance with IFRS 11 – Joint Arrangements, **distinguish between the two types of joint arrangements, outlining the characteristics.** (8 Marks)

**(Total:20 Marks)**

## QUESTION FIVE

a) The IAS 's conceptual framework for financial reporting identifies qualitative characteristics of useful financial information. These are subdivided into characteristics considered to be fundamental and those considered to be enhancing, all of these facilitate users of financial information to make decisions.

### Required:

- i. **Distinguish between enhancing and fundamental qualitative characteristics of useful financial information.** (2 Marks)
- ii. **Explain any four qualitative characteristics of financial information as spelt out within the framework.** (6 Marks)
- iii. **Illustrate with examples how the comparability concept /characteristic above may be applied to the accounting for inventory.** (2 Marks)

b) You have received the below email from the Chief Finance Officer (CFO).

From: busis.cfo@gmail.com

To: Bruno.fm@gmail.com

Dear Finance Manager,

Hope you're well.

Sorry, I have not been able to come over at office because I am attending a two-day workshop at Kigali serena hotel, organized by the Controller and Accountant General's office on public financial management. The agenda for discussion today is about adoption of accrual accounting in the public sector and the emphasis by each speaker is on the migration from cash basis to full accrual basis, saying it would enable transparency and also improve financial reporting in the public sector.

In the meeting they selected our institution to represent Rwanda in the EAC meeting. Our topic per agenda will be transparency and accountability in public financial management. Accordingly, you are tasked to prepare draft presentation to be tabled in this scheduled meeting

Regards,

Chief Finance Officer.

**Required:**

**Prepare presentation as requested by CFO**

**i. Explaining any one duty of each of the following public officers and institutions towards the effective public financial management.**

1. Accountant general (1 Mark)
2. Parliament (1 Mark)
3. The Auditor general. (1 Mark)

**ii. Explaining the difference between accrual accounting and cash accounting using practical examples from Rwanda. (2 Marks)**

**iii. Explaining three (3) benefits and two (2) challenges of adopting Accrual basis IPSAS for public sector accounting and reporting. (5 Marks)**

**(Total: 20 Marks)**

**End of question paper**

