CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY, 22 AUGUST 2023

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE
Marking guide

(a) Consolidated cash flow	**Marks**
Each correct figure in the Consolidated cash flow awarded 0.5 marks (Maximum 9 mars) – including the final correct amounts posted from workings (and correct totals & sub-totals)	9
Cash and cash equivalent at the beginning	1
Cash and cash equivalent at the end	1
Award 0.5 marks for each correct figure/amount used separately in the workings for: - Decrease in inventory (maximum of 1.5 marks); - Increase in receivables (maximum of 1.5 marks); and - Interest paid (maximum 1.5 marks) **Note: A similar 1.5 marks allocation is awarded where the student's goes ahead and presents a working for the NIL change in "payables"**	4.5
Award 0.5 marks for each correct figure used in the working for property, plant and equipment	3.5
Award 0.5 marks for each correct figure used in the working for taxes paid	3.5
Award 0.5 marks for each correct figure used in the working for investment in associate	2
Award 0.5 marks for each correct figure used in the working for the computation of goodwill (including where applied the separate line items and their amounts making the total of the net assets in the new subsidiary on the date of its acquisition) – maximum of 4 marks. In addition, a maximum of 1 mark is awarded for the working of intangible assets (excluding the Goodwill figure that may be part of this additional intangible assets acquired)	5
Award 0.5 marks for each correct figure used in the working for lease rental paid	3
Award 0.5 marks for each correct figure used in the working for non-controlling interest (leading the amount of "dividends paid to the NCIs")	2.5
Award 0.5 marks for each correct figure used in the working for retained earnings (leading to the correct figure for "other dividends paid"	2
Award 2 marks for well-presented consolidation statement of cash flow (format as per IAS 7)	2
Sub-total (A)	**40**
(b) (i)	
Award 2 marks for a candidate who explained the consolidation exception as per Para. 31.	2
Award 2 marks for a candidate who explained provisions of Para. 32	2
Award 1 mark for a candidate who explained provisions of Para. 33	1
Note: the candidate does not necessarily need to mention which Para it is - Only explanations of the Para are important here.	

(b) (ii)	
Award 2 marks for the correct mention of the requirement to disclose the change of investment entity status and the reasons for the change	2
Award 1 mark for each correct bullet point of disclosures on effects on financial statements	3
Sub-total (B)	**10**
Total Marks	**50**

Model Answers

a) Mob group consolidated statement of cash flow for the year ended 31 December 2021

Table 2.1

Cash flow statement		**FRW Million**	**FRW Million**
Cash flows generated from operating activities			
Profit before tax		1,370	
Add loss on disposal		20	
Add finance cost		600	
Add depreciation for the year	W1	590	
Less investment income		(850)	
Less share of profit in associate		(320)	
Changes in working capital			
Increase in receivable	820 +20-1,070	(230)	
Decrease in Inventory	850+50-650	250	
Cash generated from operations		**1,430**	
Tax paid	W2	(220)	
Interest paid	60+600-60	(600)	
Net Cash flow from operations			**610**
Cash flows generated from investing activities			
Dividend received from associates	W3	70	
Acquired intangible asset	W4 &W8	(200)	
Proceed from disposal	300-20	280	
Acquisition of subsidiary	12+40	(52)	
Investment income		850	
Net Cash flow from investing activities			**948**
Cash flows generated from financing activities			
Dividend paid to NCI	W5	(160)	
Lease paid	W6	(550)	
Dividend paid to owners	W7	(200)	
Loan note paid		(400)	
Net Cash flow from financing activities			**(1,310)**
Net change in Cash and cash equivalent for the year			248
Cash and cash equivalent at the beginning of the year			0
Cash and cash equivalent at year end	300-52		248

Working one: Property, plant and equipment

PPE a/c

	FRW million		**FRW million**
Bal b/d	3,290	Disposal of asset	300
Leased asset	200	**Depreciation** (balancing figure)	**590**
New Subsidiary (White stone)	100		
Revaluation	100		
		Bal c/d	2,800

Working two: Tax account

Tax account

	FRW million		**FRW million**
		Bal b/d: Current	120
Tax paid (balancing figure)	220	Bal b/d: Deferred	200
		New Subsidiary (White stone)	45
		P/L tax charge	300
Bal c/d: Current	195		
Bal c/d: Deferred	250		
	665		**665**

Working three:

Investment in associate account

	FRW million		**FRW million**
Bal b/d	200	Dividend received (balancing figure)	70
Profit share for the year	320	Bal c/d	450

Working four:

Intangible asset a/c

	FRW million		**FRW million**
Bal b/d	0		
Goodwill acquired (W8)	**14.5**		
Addition (Balancing figure)	200	Balance c/d	214.5

Working five:

Non-controlling interest a/c

	FRW million		FRW million
		Bal b/d	840
Dividend paid (balancing figure)	**160**	NCI in White stone at acquisition (W8)	2.5
		Profit for the year	170
Bal c/d	852.5		
	1,012.5		**1,012.5**

Working Six

Lease obligations account

	FRW million		FRW million
		Bal b/d: NCL	400
Lease paid	**550**	Bal b/d: CL	1,000
Bal cd: CL	200	New Leased assets	200
Bal c/d: NCL	850		
	1,600		**1,600**

Working Seven

Retained earning a/c

	FRW million		FRW million
		Bal b/d	1,400
Dividend paid (balancing figure)	**200**		
		Profit for the year	900
Bal c/d	2,100		
	2,300		**2,300**

Working Eight: Goodwill computation

1. Net asset acquired

	FRW million
Property, plant and equipment	100
Inventory	50
Receivables	20
Cash and bank	(40)
Payables	(75)
Current tax	(45)
Net Asset acquired	**10**

2. Goodwill

		FRW million
Fair value of consideration		22
Less proportion of net assets	10*75%	(7.5)
Good will		**14.5**

Non-controlling interest =10*25%=2.5

b)

i) In relation to consolidation exception applicable to investment entity, paragraph 31 of IFRS 10 provides that, except as described in paragraph 32 of the same standard, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.

Paragraph 32 provides that, notwithstanding the requirement in paragraph 31(above), if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities, it shall consolidate that subsidiary in accordance with IFRS 10 and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.

As per paragraph 33 of IFRS 10, a parent of an investment entity shall consolidate all entities that it controls, including those controlled through an investment entity subsidiary, unless the parent itself is an investment entity.

ii) When an entity becomes, or ceases to be, an investment entity, it shall disclose the change of investment entity status and the reasons for the change. In addition, an entity that becomes an investment entity shall disclose the effect of the change of status on the financial statements for the period presented, including:

- The total fair value, as of the date of change of status, of the subsidiaries that cease to be consolidated;
- The total gain or loss, if any, calculated in accordance with IFRS 10; and
- The line item(s) in profit or loss in which the gain or loss is recognised (if not presented separately).

SECTION B

QUESTION TWO – BYUMBA GENERAL ENTERPRISES (BGE)

Marking Guide

Part (a): Calculations for the following as should be recognised by BGE in its financial statements:

(a) (i): The present value of the lease liability on 1 January 2022

Award 0.5 marks for a correct calculation of the present value of the future lease payment for each of the four years including the correct calculation of the present value of the lease liability on 1 January 2022 (maximum of 2 marks) 2

(a) (ii): The fair value of the right-of-use asset on 1 January 2022

Award 0.5 marks for each element making up the total fair value of the right-of-use asset including the correct "total sum" of the fair value of the right-of-use asset on 1 January 2022 (maximum of 2 marks) 2

(a) (iii) The balances for the lease liability and right-of-use asset for all the four years up to 31 December 2025

Lease liability: Award 1 mark for a correct calculation of the lease liability balance for each of the four years of the lease period (maximum of 4 marks on the liability balances);

Right-of-use asset: Award 1 mark for a correct calculation of the right-of-use asset balance for each of the four years of the lease period (maximum of 4 marks) - total maximum of 8 marks 8

(b): Deferred tax implications to BGE arising from the lease contract of the trucks and the accounting treatment for the deferred tax on 31 December 2022

For the explanation of the deferred tax implications, award a maximum of 4 marks picked from the mark allocation below:

The carrying amount based on a "net carrying amount" which is the leased liability balance offset by the asset balance (1 mark) and its application to BGE's case (1 mark)

Justifying the reason for the "tax base" being nil (1 mark)

Indicating or justifying that the temporary difference is a "deductible temporary difference (1 mark) and therefore a "deferred tax" should be recognised (1 mark)

Explaining the accounting treatment for a deferred tax asset (1 mark) - limit to 0.5 marks if the answer does not go ahead and refer to IAS 12's condition for recognition of a deferred tax asset

For the calculation of the deferred tax implications, award a maximum of 2 marks picked from the mark allocation below:

Net lease liability - award 1 mark for a correct calculation

Deferred tax asset - award 1 mark for a correct calculation

Maximum marks for part (b): 6

(c) PK Trucks Limited's lease accounting (as a lessor)

Award as below:

1 mark to justify the lease as an operating lease to the lessor

1 mark for explaining the appropriate accounting to be used by PK Trucks Ltd

Maximum marks for part (c): 2

Part (d): Ethical issues arising from the scenario and the actions you should take

Award 1 mark for every correctly explained ethical threat relating to the information in the Exams scenario (maximum 3 marks) 3

Award 1 mark for each justified action proposed for the Finance manager to consider regarding the identified ethical threats (maximum of 2 marks) 2

Total Marks for Question Two **25**

Model Answers

Part (a)(i): Present value of lease liability on 1 January 2022

Details (dates/years)	**Rental payment (FRW'million)**	**Discount rate**	**Present value (FRW'million)**
Year 1 (1 Jan 2022 – 31 Dec 2022)	-	1.000	-
Year 2 (1 Jan 2023 – 31 Dec 2023)	500,000	0.930	465,000
Year 3 (1 Jan 2024 – 31 Dec 2024)	500,000	0.865	432,500
Year 4 (1 Jan 2025 – 31 Dec 2025)	500,000	0.805	402,500
Present value of future lease payments (1 Jan 2022)			**1,300,000**

Part (a)(ii): Fair value of right-of-use asset on 1 January 2022

	(FRW'million)
Present value of lease liability (1 January 2022)	1,300,000
Plus: Lease rental payment made on 1 Jan 2022	500,000
Plus: Legal fees & other direct costs	45,000
Fair value of right-of-use assets (1 January 2022)	**1,845,000**

Part (a) (iii): Computations for the Lease liability and Right-of-use assets balances (1 Jan 2022 – 31 Dec 2025)

<u>**Lease liability balances**</u>

Details (dates/years)	**Lease Liability at start (1 Jan)**	**Lease rental payments (1 Jan)**	**Finance cost (7.5%) – 31 Dec**	**Lease liability at year-end (31 Dec)**
Year 1 (1 Jan 2022 – 31 Dec 2022)	1,300,000	-	97,500	1,397,500
Year 2 (1 Jan 2023 – 31 Dec 2023)	1,397,500	500,000	67,313	964,813
Year 3 (1 Jan 2024 – 31 Dec 2024)	964,813	500,000	34,861	Approx. 500,000
Year 4 (1 Jan 2025 – 31 Dec 2025)	500,000	500,000	-	-

Note: Lease liability balances closing on 31 December is computed as: Opening balance (1 January) less lease rental payments (made on 1 January) plus finance costs

Right-of-use asset balances

Details (dates/years)	Asset value at start (01 Jan)	Depreciation charge – 31 Dec (using 4 years)	Asset Value at year-end (31 Dec)
Year 1 (01/01/X1 – 31/12/X1)	1,845,000	461,250	1,383,750
Year 2 (01/01/X2 – 31/12/X2)	1,383,750	461,250	922,500
Year 3 (01/01/X3 – 31/12/X3)	922,500	461,250	461,250
Year 4 (01/01/X4 – 31/12/X4)	461,250	461,250	-

Note:

- Annual depreciation charge is computed using a straight-line depreciation method (assuming nil residual value) of 1,845,000/ 4 years (giving a depreciation of FRW 461,250 million annually)
- Right-of-use asset balances closing on 31 December is computed based on opening balance (1 January) less annual depreciation charge

Part (b): The deferred tax implications for BGE regarding the lease contract of the trucks

BGE shall assess any deferred tax implications arising from the current lease contract for the trucks leased at the end of each reporting period (31 December).

In determining the deferred tax implications, BGE (as the lessee) is required to determine the carrying amounts of the lease liability which is then offset by the carrying amount of the Right-of-use asset to determine the **net carrying amount** at each reporting date. The net carrying liability relating to the lease of the trucks in BRW's financial statements on 31 December 2022 is FRW 13,750 million (which in the first year for the BGE lease as seen in the calculation exhibit below).

However, from the tax laws applied by the Rwanda Revenue Authority as indicated for BGE's lease contract, the tax relief is only provided to lease rentals paid (i.e., dis-regarding the depreciation charge and the finance charge in the BGE's profit or loss) giving a tax base of NIL at each reporting date and this results into temporary differences at each reporting date.

On this basis, a net lease liability (which is usually the case in the earlier years of the lease contract) of FRW 13,750 million in BGE's accounts financial statements as the net liability carrying amount and a nil tax base, a "deductible temporary difference" of FRW 13,750 million will arise on 31 December 2022.

Consequently, a deferred tax asset shall be computed as FRW 4,125 million at the reporting date of 31 December 2022 (see calculation appendix below).

The deferred tax asset is recognized as a tax credit in the profit or loss and within the assets in the statement of financial position. This arises because the carrying amount of the net lease liability is greater than the tax base (always nil).

The deferred tax asset is computed using the tax rate of 30% applicable to BGE.

The recognition of the deferred tax asset will ONLY be acceptable if BGE expects future taxable profits from which the deductible temporary difference will be recovered and this position is reviewed at the end of each reporting date until the deferred tax asset is fully recovered.

Appendix: Calculation of the deferred tax asset on 31 December 2022

	FRW'million
Lease liability balance (31 Dec 2022) – from part (a)(iii)	1,397,500
Less: Right-of-use asset balance (31 Dec 2022) – from part (a)(iii)	1,383,750
Net Lease liability (31 December 2022) (1,397,500 – 1,383,750)	**13,750**
Tax base (based on RRA tax computations)	0
Deductible Temporary Difference (31 December 2022)	13,750
BGE's tax rate	30%
Deferred tax Asset (as at 31 December 2022) (13,750 * 30%)	**4,125**

Part (c): Classification and accounting treatment for the lease in the financial statements of PK Trucks Ltd ("the lessor")

According to IFRS 16 "Leases" an operating lease is a lease other-than finance lease i.e., a lease that does not transfer significant risks and rewards associated with the ownership of the leased asset to the lessee.

In the case provided, PK Trucks Ltd as a lessor shall have to classify the lease contract (with BGE) as an "operating Lease" on the basis that the lease period of four (4) years does not cover a major part of the economic useful life of twelve (12) years for the leased trucks.

In substance, PK Trucks Ltd has retained the significant risks and rewards associated with the trucks and therefore it will maintain the underlying asset on its statement of financial position appropriately (in this case as an item of property, plant and equipment)

The lease payments received/earned by PK Trucks shall be recognised as "operating income" in the profit or loss on a systematic basis over the 4-year lease period.

Part (d): Ethical issues arising from the scenario and the actions you should take as a consequence

Mr. Deo Kazungu (Deo), the MD of BGE and also a CPA member under ICPAR faces the following ethical dilemmas based on the information in the scenario:

Deo is involved in "insider-trading" by informing his wife of the proposed lease contract between BGE and PK Trucks Ltd. This arises when Deo discloses non-public information to his wife, Alice so as Alice makes a decision to acquire shares in PK Trucks Ltd based on information which the public do not yet know about.

Getting involved in insider-trading also indicates a breach to the ethical principal of maintaining a professional behavior expected of Deo who is a CPA. This arises as Alice (who as Deo's wife is provided with information by Deo) is in an advantageous position to make investment decisions which others do not have privy to in order for them to also have made investment decisions.

In addition, getting involved in inside-trading such as this may be seen as a breach of the local money laundering regulations in Rwanda if the funds used by Alice to invest are laundered money which when invested in shares will be considered a legitimate transaction possible in form of a "placement stage" under money laundering. This makes the investment transaction a fraudulent activity.

Deo has become privy to confidential information regarding the highly probable additional lease contract between BGE and PK Trucks Ltd. The duty of confidentiality being maintained by a professional accountant such as Deo is a key ethical principle under the IFAC code of ethics. Deo must not disclose to others such information to others or use such information for his own benefit unless there is a legal or professional right or duty to disclose the information.

Deo has a self-interest threat arising from his wife's ownership of shares in PK Trucks Ltd, a company, he may have used his position as MD of BGE to ensure a high value lease contract is given. The self-interest threat arises as Deo is under pressure to ensure the financial benefit is achieved by his wife if due to the new lease contract with BGE, the PK Trucks Ltd share price can increase prior to Alice's disposal of the shares.

In addition, Deo acting in a manner which ensures that Alice can hold shares which she plans to dispose of immediately the share price increases based on Deo's access to privileged information is a sign of Deo's lack of integrity. As a professional accountant, Deo is expected to act without any bias or due influence based on his position or access to privileged information which ethical principle has been breached by Deo.

Actions:

Discuss with Deo and bring to his attention the ethical requirements for a professional accountant which he must be subscribing to as registered CPA and member of the ICPAR and ensure notes of this discussion are taken

If Deo does not attend to the ethical requirements following your discussion with him, you may consider bringing the ethical breaches to the attention of:

- The Board of directors of the BGE requesting the Board to persuade Deo to ensure the ethical requirements are compiled to; and
- The accountancy body that Deo subscribes to (in this case ICPAR) after you have sought for a legal advice.

As a last resort, you may review the possibility of resigning from the position of a finance manager to BGE where breaches of ethical threats are not addressed professionally.

QUESTION THREE: RWANDA EXECUTIVE SUITES (RES)

Marking Guide

Part (a): Accounting treatment for the Head office building in the financial statements of RES for:

(i) Year-ended 31 December 2019

Award 1 mark for every relevant reference to an accounting principle (including IAS 16, IAS 23 and IAS 36) and/or 1 mark for the correct application of the accounting principle to RES' head office building. In addition, award 0.5 marks for every correct calculation done with a maximum of 2 marks for calculations (either calculations done separately as an appendix or calculations included within the narrative explanation) 7

(ii) Year-ended 31 December 2020

Award 1 mark for every relevant reference to an accounting principle (including IAS 16 and IAS 36) and/or 1 mark for the correct application of the accounting principles to RES' head office building. In addition, award 0.5 marks for every correct calculation done with a maximum of 2 marks for calculations (either calculations done separately as an appendix or calculations included within the narrative explanation) 5

(iii) Year-ended 31 December 2021

Award 1 mark for every relevant reference to an accounting principle (including IAS 16 and IAS 36) and/or 1 mark for the correct application of the accounting principle to RES' head office building. In addition, award 0.5 marks for every correct calculation done with a maximum of 2 marks for calculations (either calculations done separately as an appendix or calculations included within the narrative explanation) 5

(b) Change in use of the head office building (a transfer from PPE to an investment property)

Award 1 mark for every relevant reference to an accounting principle (including IAS 16 and IAS 40) and/or 1 mark for the correct application of the accounting principle to RES' change in use for the building. In addition, award 0.5 marks for every correct calculation done with a maximum of 2 marks for calculations (either calculations done separately as an appendix or calculations included within the narrative explanation) 8

Total Marks for Question Three **2**

Model Answers

(a) **Head office building in the financial statements of RES for:**

(i) **The financial year ended 31 December 2019**

In accordance with IAS 16 "Property, plant and equipment", capitalization of an item of PPE ceases when the asset is ready for its intended purpose. Therefore, on the construction of the head office building, RES was required to capitalize the construction cost as part of the initial measure of the PPE and up to when the building was ready for its intended purpose. This implies that the head office building was ready for its intended purpose on 31 December 2019 when the office partitioning and installation of the interior access routes in the building were completed.

In accordance with IAS 16, the initial measure of RES's head office building includes the total construction costs of FRW 600,000 million (including the FRW 90,000 million incurred on the office partitioning and interior access routes).

In addition, under IAS 23 "Borrowing costs", the initial cost of the head office building should include the related finance costs as this is a qualifying asset since the loan borrowed by RES was used specifically to finance the construction of the head office building and the construction took a substantial period (2 years) to get the building ready for its intended purpose.

Under IAS 23, the capitalization of the finance costs should cease when the fixed asset is substantially complete and in this case the construction of RES's head office was substantially completed on 31 December 2019. The finance costs to capitalize as part of the initial measure of the head office building are FRW 150,000 million (500,000 * 15% * 2 years).

The initial measure for the head office building on 31 December 2019 is:

	FRW' million
Construction costs (excluding finance costs)	600,000
Plus: Capitalized finance costs	150,000
Initial measure: Head office building on 31 Dec 2019	**750,000**

However, in accordance with IAS 36 "Impairment of assets" a tangible non-current asset should not be carried at an amount that is higher than its recoverable amount where the recoverable amount is the higher of its value-in-use and the net realizable value (net selling price).

The recoverable amount of RES's head office on the completion of its construction on 31 December 2019 is the net selling price of FRW 690,000 million since this is higher than its value-in-use of FRW 638,000. An impairment loss of FRW 60,000 million (750,000 less 690,000) should be recognised while the head office building is written down to FRW 690,000 million on 31 December 2019.

(ii) The financial year ended 31 December 2020

Year-ended 31 December 2020

In accordance with IAS 16 "Property, plant and equipment" where an asset has major components with separate useful economic lives, then these components are separated for purposes of calculating the depreciation charge. At the start of the financial year 1 January 2020, RES should separate the opening balance of the head office building into the following major components for purposes of calculating the depreciation charge for the year ended 31 December 2020:

	FRW'million
Head office roof (30% x 690,000)	207,000
Remaining head office building (70% x 690,000)	483,000
	690,000

The depreciation charge for the head office building for the year ended 31 December 2020 will be calculated using a straight-line method over the useful lives of the two separated major components. Therefore, on 31 December 2020, the depreciation charge of FRW 29,670 million shall be recognised in the financial statements leaving a carrying amount for head office building as FRW 660,330 million (as in the calculation schedule below).

	Opening balance (1 Jan 2020)	Depreciation charge	Closing balance 31 Dec 2020
	FRW'million	**FRW'million**	**FRW'million**
Roof (annual depreciation: 207,000 / 20 years)	207,000	10,350	196,650
Remaining Head office building (annual depreciation: 483,000 / 25 years)	483,000	19,320	463,680
	690,000	**29,670**	**660,330**

On 31 December 2020, in accordance with IAS 36 "Impairment of assets" the recoverable amount of the head office building is the value-in-use of FRW 580,000 since this is higher than the net selling price of FRW 560,000. An impairment loss of FRW 80,330 million (660,330 less 580,000) should be recognised while the head office building is written down to FRW 580,000 million on 31 December 2020.

The closing balance on 31 December 2020 of FRW 580,000 million for the head office building will be split in the separate major components as below:

	FRW'million
Head office roof (30% x 580,000)	174,000
Remaining head office building (70% x 580,000)	406,000
	580,000

(iii) Year-ended 31 December 2021

The depreciation charge for the head office building for the year ended 31 December 2021 will be calculated using a straight-line method over the useful lives of the two separated major components. Therefore, on 31 December 2021, the depreciation charge of FRW 26,075 million shall be recognised in the financial statements leaving a carrying amount for head office building as FRW 553,925 million (as in the calculation schedule below).

	Opening balance (1 Jan 2021)	Depreciation charge	Closing balance 31 Dec 2021
	FRW'million	**FRW'million**	**FRW'million**
Roof (annual depreciation: 174,000 / 19 remaining years)	174,000	9,158	164,842
Remaining Head office building (annual depreciation: 406,000 / 24 remaining years)	406,000	16,917	389,083
	580,000	**26,075**	**553,925**

On 31 December 2021, in accordance with IAS 36 "Impairment of assets" the recoverable amount of the head office building is the value-in-use of FRW 540,000 since this is higher than the net selling price of FRW 530,000. An impairment loss of FRW 13,925 million (553,925 less 540,000) should be recognised while the head office building is written down to FRW 540,000 million on 31 December 2021.

The closing balance on 31 December 2021 of FRW 540,000 million for the head office building will be split in the separate major components as below:

	FRW'million
Head office roof (30% x 540,000)	162,000
Remaining head office building (70% x 540,000)	378,000
	540,000

(b) Change in the use of the building: year-ended 31 December 2022

In accordance with IAS 40 "Investment properties" a transfer to / from an investment property is made only when there is a change in the use of the property. This occurs when the property meets or ceases to meet the definition of an investment property and there is evidence of the change in use for example where there is an end of "owner-occupation" in the case of a transfer from an owner-occupied property to an investment property.

On approval by the Board of RES and immediate occupation of the building by Kwik Insurance ("the tenant") on 1 February 2022, is clear evidence of a change in the use of RES' building from an owner-occupied building to an investment property and this change in use should be recognised in the financial statements of RES on 1 February 2022. This is an investment property from 1 February 2022 as RES is evidently earning rental income from the building which is rented to Kwik Insurance and hence the building will be classified as an investment property from 1 February 2022.

Under IAS 40, RES shall adopt the use of the "fair value model" for the investment property since the property's fair values can reliably be determined using the prevailing market values for such properties in Kigali.
On the change in use of the property, the measurement principles under IAS 16 "Property, plant and equipment" will be applied up to the date of change in use (1 February 2022). On 1 February 2022, when RES changes the use of the building, the revaluation amount of FRW 610,000 million is recognised as the valuation of the asset with the revaluation difference recognised in accordance with IAS 16.

Therefore, RES should recognise the revaluation surplus of FRW 70,000 million (610,000 – 540,000) by increasing the value of the building. Since under IAS 16, this is a subsequent revaluation with a surplus for a PPE that previous had revaluation losses (due to the cumulative impairment losses in the two previous years) the revaluation surplus of FRW 70,000 million shall all be recognised in the profit or loss as it is less than the recognised cumulative impairment losses for the past two years. The cumulative impairment losses earlier recognised for the building by 31 December 2021 were FRW 94,255 million (80,330 at 31 Dec 2020 + 13,925 at 31 Dec 2021).

On initial classification as an investment property (i.e., 1 February 2022), RES will measure the building at the revalued amount of FRW 610,000 million which is transferred from the PPE classification.

Subsequently, at the reporting date of 31 December 2022, under the "fair value model" of IAS 40 "Investment properties" RES:

- Cease to depreciate the building implying that there will be no depreciation charge for the building in the year ended 31 December 2022
- Carry the property using the fair value of FRW 650,000 million with the fair value increase of FRW 40,000 million (650,000 – 610,000) immediately recognised in the profit or loss.

QUESTION FOUR: RWANDA ACTION ON CHILD ABUSE TRUST (RACAT)

Marking Guide

Generally, award 0.5 marks for each correct figure used either in the workings or figure presented on the face of:

(a) Statement of financial performance:

Revenue: Cash grants	2
Revenue: Capital grants	0.5
Revenue: Other incomes	0.5
Personnel expenses	0.5
Administrative expenses	3.5
Operational expenses	1.5
Communication and publicity expenses	0.5
Other expenses	0.5
Surplus/(deficit) for the period	0.5
Total marks for part (a)	**10**

(b) Statement of financial position

Land and Buildings	3.5
Motor vehicles	0.5
Furniture and fixtures	1
Office equipment	1
MIS Software	1
Prepayments & Receivables	2
Cash and cash equivalents	0.5
10% Bank loan (Property mortgage) (principal 0.5 marks and interest 0.5 marks)	1
Payable to suppliers	1.5
Deferred Grants income	0.5
Capital contribution - Government of Rwanda	0.5
Accumulated reserves	2
Total marks for part (b)	**15**
Total Marks for Question Four	**25**

Model Answers

Part (a): Statement of Financial Performance for the year-ended 31 December 2022

	FRW'million	FRW'million
Revenue:		
Cash grants (W1)		805,000
Capital Grants (note 1)		100,000
Other incomes - fixed deposit interest (80,000 x 15%) note 3		12,000
Total Revenue		**917,000**
Less: Expenses		
Personnel expenses	195,675	
Administrative expenses (W2)	366,539	
Operational expenses (W3)	90,230	
Communication and publicity expenses	67,215	
Other expenses	7,120	
Total expenses		**(726,779)**
Surplus / (deficit) for the period		**190,221**

Part (b): Statement of Financial Position as at 31 December 2022

	FRW' millio n	FRW' million
Assets		
Non-current assets		
Land and Buildings (W4)	520,00 0	
Motor vehicles	100,00 0	
Furniture and fixtures (250,000 - 100,000 - 50,000 depreciation charge this year)	100,00 0	
Office equipment (315,600 - 126,240 - 63,120 depreciation charge this year)	126,24 0	
MIS Software (40,000 - 10,000 amortization charge)	30,000	
Total non-current assets		876,240
Current assets		
Prepayments & Receivables (W5)	340,00 0	
Cash and cash equivalents	231,50 0	
Total current assets		571,500
Total assets		**1,447,74 0**
Liabilities		
Non-current liabilities		

10% Bank loan (Property mortgage)	100,000	
Total non-current liabilities		100,000
Current liabilities		
Payable to suppliers (W6)	132,000	
Deferred Grants income (W1)	200,000	
Loan mortgage interest payable (10% x 100,000 x 6/12 months) (note 2)	5,000	
Total current liabilities		337,000
Total liabilities		**437,000**
Net assets ***(total assets less total liabilities)***		**1,010,740**
Net assets / Equity		
Capital contribution - Government of Rwanda		800,000
Accumulated reserves (W7)		210,740
Total net assets/equity		**1,010,740**

Workings:

W1: Cash grants (IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)

	FRW'million
Cash grants - in the account balances	825,000
Less: Advance cash grant (Gisenyi office administrative expenses from April 2023	(200,000)
Plus: Small Grants Income (from World Bank)	180,000
	805,000

W2: Administrative expenses

	FRW'million
As per account balances	158,419
Revaluation deficit - buildings (W4)	50,000
Depreciation charge - Buildings (W4)	30,000
Interest charge - loan / mortgage (10% x 100,000 x 6/12 months) (note 2)	5,000
Depreciation charge - Furniture & fittings (250,000 x 20%) - note 2	50,000
Depreciation charge - Office equipment (315,600 x 20%) - note 2	63,120
Amortization charge - MIS software (40,000 / 4 years) - note 2	10,000
	366,539

W3: Operational expenses

	FRW'million
As per account balances	88,230
Penalty - cancellation of motor vehicles lease (note 1)	2,000
	90,230

W4: Land and Buildings (IPSAS 17: Property, Plant & Equipment)

	FRW'million	FRW'million
Land		250,000
Buildings:		
Cost - per accounts (750,000 - 250,000)	500,000	
Less: Accumulated depreciation (1 Jan 2022) - per accounts	(150,000)	
Carrying amount (1 Jan 2022) (500,000 - 150,000)	**350,000**	
Revaluation (1 Jan 2022) - note 2	300,000	
Revaluation deficit (350,000 - 300,000)	50,000	
Depreciation charge for the year on buildings (300,000 / 10 years)	30,000	
Carrying amount - buildings (31 Dec 2022) (300,000 - 30,000)		270,000
Carrying amount - land & buildings (31 Dec 2022) (250,000 - 270,000)		**520,000**

W5: Prepayments and Receivables

	FRW'million
As per account balances	68,000
New small grants income (receivable from World Bank) - note 1	180,000
Fixed deposit investment (matured) - (principal of 80,000 + 15% interest of 12,000)	92,000
	340,000

W6: Payable to suppliers

	FRW'million
As per account balances	90,000
Penalty - cancellation of motor vehicles lease (note 1)	2,000
Payable to MIS software supplier (note 2)	40,000
	132,000

W7: Accumulated reserves

	FRW'million
On 1 January 2022 - per accounts	48,019
Less: Prior year error adjustment due to fraud (IPSAS 3 - Accounting policies, changes in estimates and errors)	(27,500)
Plus: surplus/(deficit) for the period	190,221
	210,740

END OF MARKING GUIDE AND MODEL ANSWERS