CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 22, AUGUST 2023

MAKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Making Guide

(a)	
• Award two marks for each explained cycle, • student may provide a public finance management cycle diagram and S/he makes a brief explanation on each cycle of the diagram so in this case award two marks for each reasonable explanation provided • Alternatively, student may break the cycle into small cycle (sub-cycle) other than one provided in the model answer.in this case award 1 mark for each sub-cycle explained where cycle is composed by 2 sub-cycle	10
(b)	
Award 0.5 for each correct line shown in the fund account excluding totals &Subtotals	8
Award 01 mark for computation of impairment	1
Award 01 mark for adjustment of accrued contribution	1
Total	**20**

Model Answers

a) Public Finance cycle explained as follows

Manual of public financial management in Rwanda shows the process of how Rwandan public finance system is built. Public finance Management cycle is explained as below

1) **Planning and budgeting**: The cycle starts with planning process, under this stage; the public institutions identify programs, projects likely to be implemented and rank them into priorities to achieve optimum balance of needs using available resources. The budget process goes with preparation of medium-term expenditure (MTEF) and annual budget is prepared based on MTEF.

2) **Finance Law**: The detailed budget from individual agencies is consolidated by MINECOFIN for submission to Parliament. Parliament reviews the drafts budget and conduct budget consultation with all sector ministries. After consultation session, parliament committee issue recommendations for improvement of the budget framework paper. The recommendations are incorporated and draft budget law is prepared and late approved by parliament before commencement of the next fiscal year

3) **Resource mobilization:** After voting finance law on budget, the resources are mobilized through tax collections and through other means such as grants or loans.

4) **Procurement and budget execution:** The government institution prepare annual procurement plan based on the approved budget. Procurement plan should agree with budget to ensure that the institution has available resources of procured goods. After completing tendering process, the institution prepares cash flow plan based on the budget and on priorities. MINECOFIN avail funds to respective public intuition to execute planned activities

5) **Accounting and financial reporting:** The public institution record funds received and maintain records on how the funds were utilized. Budget agency that received government funds should prepare financial reports on monthly, quarterly and annual basis

6) **Audits and oversight:** Starting from August each year, Audit General could conduct an audit of previous year. The auditor general shall submit annual audit report to parliament indicating the manner in which the budget was utilized. The institution must ensure that supporting documents are kept safely for future reference and external oversight

b) Table 1.1: Kigali Equity fund account for the year ended 30 June 2020

	FRW 000	**FRW 000**
Income		
Employers' contributions		11,617
Employee contributions	802+2,200	3,002
Government contribution for vulnerable groups		550
		15,169
Benefit paid		(1,121)
Net income		**14,048**
Transfers from other scheme	828	
Transfers to other scheme	(47)	
Net transfer income		**781**
Other income		18
Fair value gain on investment		2,940
Investment income	1,428	
Tax on investment income	(27)	
Investment management expense	(54)	
Net investment income		**1,347**
Expense		
Administrative expense		(259)
Impairment of long-term investment	18,500*10%	(1,850)
Depreciation		(400)
Other expense		(150)
Fund account surplus for the year		**16,475**
Opening balance of surplus for fund		25,548
Fund account bal c/d		**42,023**

QUESTION TWO

Marking guide	Marks
a) Award 0.5 marks for each correct figure under cash flow from operating activities except sub-totals and totals	5.5
Award 0.5 marks for each correct figure under cash flow from Investment activities except sub-totals and totals	2
Award 0.5 mark for each correct figure under cash flow from Financing activities except sub-totals and totals	1.5
Award 0.5 marks March for cash at the start and cash at the ended correctly brought into consolidated SOCF	1
Workings:	
✓ Award 0.5 marks for correct figure/line on goodwill calculation except for totals and sub-totals (W1)	3.5
✓ Award 0.5 marks for correct figure/line on PPE working except for totals and sub-totals (W2)	3.5
✓ Award 0.5 marks for each correct figure in the calculation amortization except totals and sub totals(W3)	2
✓ Award 0.5 marks for each correct figure in the calculation on investment in associates except for subtotals and totals(W4)	1.5
✓ Award 0.5 marks for each correct figure in the calculation on retained earnings except for totals and sub-totals (W5)	1.5
✓ Award 0.5 marks for each correct figure in the calculation on NCI except for totals and sub-totals (W6)	2
✓ Award 0.5 marks for each correct figure in the calculation tax paid except for totals and sub-totals (W7)	2
✓ 1 mark for well-presented consolidation statement of cash flow (format as per IAS1)	1
Sub-total (A)	**27**
b) - Award 1 mark for well stated treatment of interest paid, interest received and dividend received for financial institutions.	1
- Award 1 mark for well stated treatment of interest paid, interest received and dividend received for other entities	1
- Award 1 mark for well stated treatment of dividend paid	1
Note: The student must provide reasons of reporting interest or dividend in operating cash flows or in financing activities, for example, If student said that interest and dividend are reported under operating cash flow, he/she must say why.	
	Sub-total (B) 3
	Total marks 30

Model answers

a)

Peloque Ltd		
Consolidated Statement of Cash Flow for the Year ended 31 December 2022		
Cash flow from Operating Activities		
	FRW 000	**FRW 000**
Profit Before tax	16,200	
Adjustments for:		
Amortization of intangibles **(W3)**	960	
Loss on disposal (9,600 -8,160)	1,440	
Total depreciation for the year	9,384	
Interest expense	1,200	
Share of profit from associate	(2,880)	
Cash flow before working capital change	**26,304**	
Working capital changes		
Decrease in Inventory (7,320+1,800-8,880)	240	
Decrease in Trade and other Receivables (4,200+1,020-4,680)	540	
Decrease in trade payable (5,760+900-6,240)	(420)	
Cash flow from operations	**26,664**	
Interest Paid	(1,200)	
Tax Paid **(W7)**	(4,164)	
Net Cash flow from Operating Activities		**21,300**
Cash flow from Investment Activities		
Proceeds from sale of PPE	8,160	
Acquisition of PPE **(W2)**	(36,024)	
Dividend received from associate **(W4)**	2,640	
Investment in subsidiary - Cash paid (2,370-240)	(2,130)	
Net Cash flow from Investment Activities		**(27,354)**
Cash flow from Financing Activities		
Dividend Paid to owners of the parent **(W5)**	(168)	
Dividend Paid to NCI **(W6)**	(3,918)	
Loan acquired during the year (22,800-13,200)	9,600	
Net Cash flow from financing activities		**5,514**
Net cash out flow for the period		**(540)**
Cash & Cash equivalent - At the start		**1,020**
- At the end		**480**

Workings	FRW 000	
(1) Goodwill		
Fair value of consideration [(75%*60Shares*16/15*125) + 2,370		8,370
Assets acquired		
Share capital	6,000	
Share premium	1,200	
Retained earnings	960	
Fair value adjustments	1,080	
	9,240	
Parent shares (75%* 9,240)		(6,930)
Goodwill		**1,440**

(2) Property, Plant and Equipment	
At the beginning	31,320
Acquired from subsidiary	7,320
Fair value adjustment	1,080
	39,720
Less Depreciation	(9,384)
Less -Disposal of plant	(9,600)
	20,736
Acquisition during the period (Balancing figure)	**36,024**
Carrying amount at the end	**56,760**

(3) Amortization of intangibles	
Balance b/f	3,720
Goodwill from subsidiary	1,440
	5,160
Amortization for the year balancing figure	**960**
Balance c/f	4,200

(4) Investments in associates	
Balance b/f	6,000
Share of profit from associates	2,880
	8,880
Less Balance c/f	(6,240)
Dividend received (Balance)	**2,640**

(5) Retained earnings

Balance b/f	10,380
Profit for the year	9,168
	19,548
Balance c/f	(19,380)
Dividend Paid (balance)	**168**

(6) Non-Controlling Interest

Balance b/f	7,320
Profit attributable to NCI	1,248
Non-controlling interest share in subsidiary (25%*9,240)	2,310
	(10,878)
Dividend Paid to NCI (Balancing figure)	**3,918**
Balance c/f	6,960

(7) Current tax

Balance b/f	2,520
Acquired from subsidiary	1,320
Tax expense for the period	5,784
	9,624
Tax Paid (balancing figure)	**4,164**
Balance c/f	5,460

(b)
IAS 7 statement of cash flow provides guidance on treatment of interest and Dividend

For Financial institutions: Interest paid and interest and dividends received are classified under operating cash flow.

For other entities other than financial institution: Interest and dividend received could be classified as operating cash flow because it forms part of profit or loss account. However, the entity may choose to classify interest paid under financing activities to shows **costs of obtaining financial resource**s and Dividend received could be reported under investment activities to show **returns on investments**

Dividend paid are usually classified as financing cash flow because they represent **costs of obtaining equity funds**. Alternatively, the dividends could be reported in operating activities to determine the ability of entity to pay dividends out of operating cash flow.

QUESTION THREE

Making Guide

(a)	**Marks**
Award 0.5 mark for each correct line excluding totals in the face of income statement	3.5
Correct computation of decrease in deferred tax	0.5
Award 0.5 for each correct line shown in the working for cost of sales (Refer to Working one)	2.5
Each correct line shown in the workings for Administrative cost awarded 0.5 (Refer to working two)	3
Working three for Distribution cost; award marks as follows	
Recorded motor vehicle depreciation	0.5
Well shown impairment	0.5
Correct balance as per trial balance	0.5
Working four: Expense resulting from building	
Correct computation of depreciation charge for the year	0.5
Correct computed revaluation loss	0.5
Offset revaluation loss against previous surplus	0.5
Compute balance expensed in profit or loss	0.5
Sub-Total-Q3-A	**13**
(b)	
Award 0.5 mark for each correct line in the financial position (Q1,B) Do Not Award marks on totals and sub-totals	10.5
Working relating to motor vehicle	
Deducting asset held for sale from existing balance	0.5
Deducting depreciation of transferred motor vehicle from existing balance	0.5
For income tax working	
Correct computed deferred tax for the year	0.5
Lease working	
Correct computation of present value of annual lease rentals	0.5
Correct computation of lease movement schedule	0.5
Sub-Total (Q3,B)	**13**
(c)	
0.5 mark for opening balances of retained earnings and reserves 1 mark for share capital Award 1 mark for revaluation deficit deducted from Revaluation reserve balance 0.5 mark for interim dividend 0.5 for profit for the year	1 1 1 0.5 0.5
Sub-Total	4
Grand total	**30**

Model Answers

a) Table 3.1: KBV Ltd's statement of comprehensive income for the year ended 31 December 2021

	Reference	FRW 000
Sales		910,000
Cost of sales	W1	(400,400)
Gross profit		**509,600**
Expenditure		
Administrative expense	W2	(59,200)
Distribution expense	W3	(84,661)
Finance cost	W6	(5,730)
Profit before tax		**360,009**
Income tax	W8	(15,000)
Profit after tax		**345,009**
Other comprehensive income		
Gain on investment through OCI	360,000-354,000	6,000
Total comprehensive income		**351,009**

b) Table 3.2: KBV Ltd's statement of financial position as at 31 December 2021

Assets	**Reference**	**FRW 000**
Non-current Assets		
Building	W4	300,000
Plant	W5	135,000
Motor Vehicle	W7	89,000
Intangible assets		95,400
Leased Truck W9	38,607-3,861	34,746
Total Non-current assets		**654,146**
Current Assets		
Asset held for sale		12,000
Inventory	155,000-15,000	140,000
Investment at Fair value through OCI		360,000
Trade receivable		176,000
Total current Asset		**688,000**
Total Assets		**1,342,146**
Equity and Liabilities		
Ordinary share capital		320,000
Retained Earning	(Q1c)	431,809
Revaluation reserves	(Q1c)	6,000
Total owners' funds		**757,809**
Liabilities		
Noncurrent Liabilities		
1% Debentures		380,000
Lease obligation	W9	32,314
Deferred tax	W8	15,000

Long-term employee benefits			31,200
Total Non-current Liability			**458,514**
Current liabilities			
Trade payable			80,000
Lease obligation	W9	35,537-32,314	3,223
Bank			21,000
Accrued interest		3,800-2,200	1,600
Unpaid tax			20,000
Total current liability			**125,823**
Total equity and liability			**1,342,146**

c) Table 3.3: KBV Ltd's statement of change in equity as at 31 December 2021

	Ordinary share capital	**Revaluation reserves**	**Retained earnings**
	FRW 000	**FRW 000**	**FRW 000**
Bal b/d	320,000	50,000	91,800
Revaluation loss on building		(50,000)	
Profit for the year			345,009
Interim Dividend			(5,000)
Gain on investment		6,000	
Bal c/d	**320,000**	**6,000**	**431,809**

Working one: Cost of sales

		Refer	**FRW 000**
Balance per TB			320,000
Overstated Closing stock			15,000
Building depreciation	46,000*60%	W4	27,600
Revaluation deficit on building	18,000*60%	W4	10,800
Plant depreciation	45,000*60%	W5	27,000
Total			**400,400**

Working two: Administrative cost

			FRW 000
Balance per TB			42,800
Provision for legal case			(400)
Building depreciation	46,000*20%	W4	9,200
Revaluation deficit on building	18,000*20%	W4	3,600
Plant depreciation	45,000*20%	W5	9,000
Adjustment on lease payment expensed by error		W9	(5,000)
Total			**59,200**

Working three: Distribution cost

	Refer	**FRW 000**
Balance per TB		40,000

		Refer	FRW 000
Building depreciation	46,000*20%	W4	9,200
Revaluation deficit on building	18,000*20%	W4	3,600
Plant depreciation	45,000*20%	W5	9,000
Depreciation of Motor vehicle and leased truck	15,000+3,861	W7	18,861
Impairment of motor vehicle classified as held for sale		W7	4,000
Total			**84,661**

Working four: Building

		FRW 000	Addition comment
Revalued Amount		460,000	
Accumulated depreciation as at 01-Jan-21		(46,000)	
Depreciation for the year ended 31-Dec-21	460,000*10%	(46,000)	Allocated as follows: 60% cost of sales, 20% Administrative cost and 20% to distribution cost
NBV as at 31 December 2021		368,000	
Revalued amount as at 31 Dec 2021 (bal c/d)		300,000	
Revaluation loss		(68,000)	
Amount to be expensed	(68,000-50,000)	18,000	Allocated as follows: 60% cost of sales, 20% Administrative cost and 20% to distribution cost

Treatment of Revaluation loss of FRW 68,000,

IAS 16, State that if an asset's carrying amount is decreased because of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in profit or loss to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus. In the trial balance, there was a reserve of FRW 50 million. Therefore, FRW 50 million will be offset against previous recognized surplus for this building and the remaining balance will be expensed.

Working Five: Plant

		FRW 000
Cost		220,000
Accumulated depreciation		(40,000)
Charge for the year	(220,000-40,000) *25%	(45,000)
Bal c/d		135,000

Note: Depreciation charge of plant is allocated as follows: 60% to cost of sales, 20% to administrative cost and 20% to distribution cost

Working six: Finance cost

	FRW 000
Balance per Trial balance	2,200

Unpaid interest	(380,000*1%)-2,200	1,600
Finance cost on lease	W9	1,930
Total		**5,730**

Working seven: Motor vehicle

		FRW 000	FRW 000
Cost			180,000
Asset classified as held for sale			(30,000)
Sub-tot A			150,000
Accumulated depreciation		60,000	
Less depreciation of asset classified under IFRS 5	30,000-16,000	(14,000)	
Charge for the year	150,000*10%	15,000	
Sub-total B			61,000
Balance c/d (net book value)			**89,000**

Accounting treatment for Motor vehicle held for sale		
Cost		30,000
Depreciation		(14,000)
Net book value as at classification date	**30,000-14,000**	**16,000**
Fair value of asset as at classification date		12,000
Impairment	**16,000-12,000**	**4,000**

IFRS 5 state that non-current assets held for sale should be measured at the lower of their carrying amount and fair value less cost to sell

Working Eight: Income tax

		FRW 000
Current tax		20,000
Decrease in deferred tax (Refer to working per rows below)		(5,000)
		15,000
Deferred tax		
Taxable Temporary difference		50,000
Deferred tax liability	50,000*30%	15,000
Deferred tax liability as per trial balance		(20,000)
Decrease in deferred tax		(5,000)

Working nine: Leased Truck

Present value of lease rentals

$$PV\ of\ lease\ rentals = \frac{a(1-(1+i)^{-n})}{i} = \frac{5{,}000(1-(1+5\%)^{-10})}{5\%} = 38{,}607$$

Lease obligation movement schedule

Period	**Opening balance**	**Interest at 5%**	**Annual lease payment**	**Closing balance**
	FRW 000	**FRW 000**	**FRW 000**	**FRW 000**
31-Dec-21	38,607	1,930	5,000	35,537
31-Dec-22	35,537	1,777	5,000	32,314

Depreciation of leased asset =38,607/10=3,861

SECTION B

QUESTION FOUR

Making Guide

(a)	
(i)	
Computation of computed finance cost	1
Computation of issue costs	1
Adjusted borrowing cost for the effect of suspended period	1
Computed investment income	1
Calculation of capitalized amount	1
Amount expensed	1
(ii)	
Award 1 mark for each of reasonable condition stated for starting of capitalization of borrowing cost, maximum 4 marks	4
(b)	
(i)	
Computed profit after tax for 2020 and for 2021, award 0.5 mark for each	1
Computed basic earnings per share for 2020	1
Computed basic earnings per share for 2021	1
(ii)	
Calculation of interest that would be saved on conversion	1
Increase in shares due to conversion	1
Computed diluted earnings per share	1
(c)	
Award 1 mark for each factor that determine functional currency, Maximum 4 marks	4
Total	**20**

Model Answers

(a) (i) Borrowing costs

Table 4.1

		FRW 000
Finance cost	800,000*10%	80,000
Add Issue cost	$\frac{800,000}{4} * 2\%$	4,000
Total borrowing costs		**84,000**
Suspended period: Two months		
Adjusted borrowing costs	84,000*10/12	70,000
Less Investment income	(450,000*5%)*2/12	(3,750)
Amount to be capitalized		**66,250**
Amount to be expensed	**84,000*2/12**	**14,000**

(ii) In accordance with IAS 23 Borrowing costs, capitalization of borrowing costs starts if and only

(1) The assets under development met criteria of qualifying asset
(2) The entity incurs expenditure for the asset
(3) The entity incurs borrowing costs
(4) The activities to prepare the assets for its intended use or sale are in progress

(b)
Table 4.2
Compute profit after tax

	2020	**2021**
	FRW 000	**FRW 000**
Profit before tax	10,000	12,000
Less Income tax @30%	(3,000)	(3,600)
Profit after tax	7,000	8,400

(i) Table 4.3: basic EPS

	2020	**2021**
	FRW 000	**FRW 000**
Shares in issue	5,000	5,000
Profit after tax	7,000	8,400
Basic EPS $\frac{PAT}{Issue\ ordinary\ shares}$	$\frac{7,000}{5,000} = 1.4$	$\frac{8,400}{5,000} = 1.68$

(ii) Table 4.4: diluted EPS

		FRW 000
Interested that will be saved on conversion (FRW)	40,000*5%*(1-30%)	1,400
Addition shares on conversion	$\frac{\mathbf{40,000}}{\mathbf{1,000}} \boldsymbol{x\ 50}$	**2,000**

$$Diluted\ EPS\ for\ 2021 = \frac{8,400 + 1,400}{5,000 + 2,000} = 1.4$$

(c)

Factors that determine functional currency are:

1) The currency that mainly influences sales prices for goods and services (i.e. the currency in which prices are denominated and settled)
2) The currency of the country whose competitive forces and regulations mainly determine the sales price of goods and services
3) The currency that mainly influences labour, material and other costs of providing goods and services
4) The currency in which funding from issuing debt and equity is generated
5) The currency in which receipts from operating activities are usually retained

QUESTION FIVE

Making Guide

(a)	
Award 1 mark for any valid point provided on differences between IPSAS and IFRS. including any valid point provided by a student outside the model answer, Maximum 5 Marks	5
Award 1 mark for any valid point provided on similarities between IPSAS and IFRS, including any valid point provided by a student outside the model answer, Maximum 4 marks	4
For any valid point outside model answer provide 1 mark	
(b)	
Award 1 mark for each point with brief explanation of benefit of social and environmental reporting up to a Maximum of 6 Marks. However, student who provides benefit of social and environmental reporting without any explanation, S/he will be given 0.5 Mark for any valid benefit up to a maximum of 3 Marks. For example, a student may provide 3 valid points with explanations and 3 valid point without explanations, in this case, 4.5 marks will be awarded i.e. (3*1) + (3*0.5).	6

(c)	
Discussion on presentation of profit or loss and other comprehensive income, award 3 Marks. Any less marks can be awarded due to the validity of statement made by student	3
A well stated difference between profit or loss and other comprehensive income, award 3 Marks. Any less marks can be awarded due to the validity of statement made by student	2
Total	**20**

Model Answers

(a)

Ref/00010/2021
Date: 25/01/2021

From: CPA Djema

To: Minister
Ministry of finance and economics planning

Dear Sir

Re: Inception Report for consultancy services relating to developing Public Finance Module

Below are differences between IFRS and IPSAS

(1) International financial standards (IFRSs) are accounting standards developed to guide private sector on recording financial transactions and to regulate the way financial statements are prepared to ensure consistency and comparability. While International public sector accounting standards are applied in public/government institutions like Ministries, local entities which primarily devote to offer services for the wellbeing of the citizens
(2) International Financial Reporting Standards are based on the accrual accounting while Internal Public Sector Accounting Standards may be applied on the cash basis, modified cash basis or full accrual accounting.
(3) Under IFRSs, an item is recognized in the statement of financial position if the item meets the definition of asset, a liability or equity but for public entities there is nothing like equity. For IPSAS items to be recognized are Assets, Liabilities, Revenues, Ownership contributions and ownership distributions. Other items not specified above may be recognized in the financial statements if it can be measured in a way that meets the qualitative characteristics.
(4) IFRS provides standards on the economic point of view in the private sector but those phenomena are irrelevant to the operations of public entities e.g share based payment, Earning per share.
(5) IPSAS classify revenue into exchange transactions and non-exchange transactions while under IFRS revenue relates to sale of goods or rendering services

(6) Component of financial statements under IFRS and IPSAS look similar.
One important difference however is the comparison of budget and actual amounts. Budget performance report in public sector is vital to the users but in private sector, budget performance report is for internal use only and it does not form part of financial report available to external stakeholders.

Similarities between IFRSs and IPSASs

(1) Both are standard developed to provide guidance in recording financial transactions and for preparation of financial reports
(2) The report prepared based on either IFRS or IPSAS should be comparable between private and public entities when reporting on the same or similar transactions. And both base on the same accounting principals
(3) Income tax perspective: IPSAS assumes that the entities that operates within the public sector are exempted from income tax. If it happens that the public entity becomes liable for income tax, they must apply the requirements as per IAS 12 (income tax)
(4) IPSAS are developed based on the content of IFRS and modified to the extent to match these with the nature and operations in public institutions

(b)

Social and Environmental reporting relates to preparation of reports about company's social environmental, employees, other stakeholders' interactions and consequences of those interactions.

Benefits of social and environment reporting

1) Building and strengthening relationship between company and stakeholders: The company communicates with their stakeholders through publication of reports, when the reports are publicly available, the stakeholders could track impact and results of companies' operation and their strategy
2) Act as catalyzer of competitive advantage: The clients are attracted by how company is responsive to them, if the company reports social and environment issues, it increases trust that client have over the company
3) Increasing public recognition for corporate accountability. Social and environment reports evidence how company is accountable on the effect of their operations
4) Boosting employees' morale and increase companies' performance. If the company publish social and environment reports, the employees believe that the company respect human rights and this increase performance at work place
5) Reduction of litigation risk for non-compliance: Social reports serves as precaution way of minimize potential risks and this save funds on the side of the company
6) Social and environmental reports provide details of costs incurred by company for fulfilling corporate social responsibility and this build good bond with external environment

(c)

i) Of recent, the company prepare statement of profit or loss that portrait details of other comprehensive income at edge of Profit or loss account

IAS 1 state that financial performance of company could be shown in a combined statement of profit or loss and other comprehensive income or it could be in form of two separate statements, statement of profit or loss and statement of other comprehensive income

The entity should provide separate disclosure showing items of other comprehensive income that would be reclassified to profit or loss account and those that would not be reclassified to profit of loss and their effect on tax. The items classified under other comprehensive income should be reported in the capital reserve and if realization is clear, those items should be reclassified under revenue reserves.

ii) Profit or loss represent the total of all items of income and expenses except profit not realized while other comprehensive income comprises items of income not yet realized as profit and their associated costs

END OF MARKING GUIDE AND MODEL ANSWERS