CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL EXAMINATIONS

<u>A1.3: ADVANCED FINANCIAL REPORTING</u>

DATE: TUES DAY 27, AUGUST 2024

MARKING GUIDE & MODEL ANSWERS

QUESTION ONE
MARKING GUIDE

Q/NO	Criteria of awarding students marks	Marks
Q(1a)	Correct figure for profit before tax award 0.5mk	0.5
	Depreciation working (account) 1.5 marks, final answer presented in Statement 0.5	2
	Impairment of intangible assets working 0.5mark final 0.5mark	1
	Correct finance cost amount award 0.5mark	0.5
	Correct amount of gain on sale award 0.5mark	0.5
	Correct amount of gain on disposal of PPE award 0.5mark	0.5
	Correct amount of profit from associate	0.5
	Increase in inventory working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	Increase in receivables working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	Increase in prepayments working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	Increase in payables working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	Correct amount of tax paid award 1mark	1
	Purchase of PPE amount working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	Purchase of intangible assets working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	Subsidiary disposal proceeds working 1.5mark, final answer final answer presented in Statement 0.5mark	2
	PPE disposal proceeds	0.5
	Cash dividends received from associated companies	0.5
	Issuance of ordinary shares	0.5
	Share premium on issue	0.5
	Dividends paid to group shareholder working 1.5marks, final answer final answer presented in Statement 0.5mark	2
	Dividends paid to non-controlling shareholders working 1.5mks, final answer final answer presented in Statement 0.5mark	2
	Finance lease working 1.5marks, final answer final answer presented in Statement 0.5mark	2
	Accrued interest paid	0.5
	Cash & equivalent for the year	0.5
	Cash & cash equivalent at the beginning of the year	0.5
		30
Q1b(i)	Actuarial gain 1mark for each year's loss	**2**
Q1b(ii)	Actuarial loss 1mark for each year's gain	**2**
Q1b (iii)	Actuarial gains recognized each year 1mark	**2**
Q1b(iv)	Net pension cost in each year 1mark	**2**
Q1b(v)	Pension asset/liability for each year 1mark	**2**

Q1c(i)	Correct explanation on convertible preference shares award 1	**1**
Q1c(ii)	Correct explanation on partly paid ordinary shares award 1mark	**1**
Q1c(iii)	Correct explanation on preference dividends in arrears	**1**
Q1c(iv)	Computation of WANOS for basic EPS award 1mark, earnings 1mk, EPS 1mk Computation of WANOS for diluted EPS 1mk, incremental earnings 1mk, diluted EPS 1mk, interpretation of the Diluted EPS 1mk	3 4 **7**
Total		**50**

MODEL ANSWERS

PROPERTY PLANT AND EQUIPMENT ACCOUNT

	FRW 'Million'		FRW 'Million'
Balance b/f	1,250	Disposal account	150
Revaluation surplus	50	Subsidiary disposed	650
Finance lease	350	Depreciation charge for the year	200
Cash/Bank (Newly acquired)	**850**	Balance c/f	1,500
	2,500		**2,500**

PROVISION FOR DEPRECIATION ACCOUNT

	FRW 'Million'		**FRW 'Million'**
Disposal account	150	Balance b/f	250
Balance c/f	300	P&L (charge for the year)	**200**
	450		**450**

COST OF CONTROL ACCOUNT

	FRW 'Million'		**FRW 'Million'**
Purchase consideration paid	1,900	Net assets acquired (80%×1,850)	1,480
		Goodwill on acquisition (1,900-1,480)	**420**
	1,900		**1,900**

INTANGIBLE ASSETS ACCOUNT (INCLUDING GOODWILL)

	FRW 'Million'		**FRW 'Million'**
Balance b/f	450	Goodwill disposed	420
		Impairment	30
Cash/bank (newly acquired)	**600**	Balance c/f	**600**
	1,050		**1,050**

INVESTMENT IN ASSOCIATE ACCOUNT

	FRW 'Million'		FRW 'Million'
Balance b/f	200	Cash dividends received	**20**
Income statement	120	Balance c/f	300
	320		**320**

DISPOSAL ACCOUNT

	FRW 'Million'		FRW 'Million'
Property plant & equipment	150		
P&L (gain on disposal)	50	Cash/ bank (disposal proceeds)	**200**
	200		**200**

INVENTORY ACCOUNT

	FRW 'Million'		FRW 'Million'
Balance b/f	750	Subsidiary disposed	450
Cash/Bank (Newly acquired)	**350**	Balance c/f	650
	1,100		**1,100**

ACCOUNTS & OTHER RECEIVABLES ACCOUNT

	FRW 'Million'		FRW 'Million'
Balance b/f	650	Subsidiary disposed	550
Credit sales (balancing figure)	**600**	Balance c/f	700
	1,250		**1,250**

PREPAYMENTS ACCOUNT

	FRW 'Million'		FRW 'Million'
Balance b/f	400	Subsidiary disposed	300
Cash/bank (more prepayments)	400	Balance c/f	500
	800		**800**

CASH AND CASH EQUIVALENT

Details	**2023**	**2022**
	FRW 'Million'	**FRW 'Million'**
Short term investment	400	400
Cash in hand	1,700	-
Bank overdraft	-	(450)
Total cash & cash equivalent	**2,100**	**(50)**

OBLIGATION UNDER FINANCE LEASE ACCOUNT

	FRW 'Million'		FRW 'Million'
		Balance b/f	650
		Property plant and equipment	350
Balance c/f	1,500	Additional finance lease	**500**
	1,500		**1,500**

TAX ACCOUNT

	FRW 'Million'		FRW 'Million'
Subsidiary disposed	100	Balance b/f: Deferred tax	350
Cash/bank (amount paid)	**200**	: Current tax	100
Balance c/f: Deferred tax	500		
: Current tax	150	P&L (charge for the year	500
	950		**950**

ACCRUED INTEREST ACCOUNT

	FRW 'Million'		FRW 'Million'
Cash/Bank (amount paid)	**450**	Balance b/f	550
Balance c/f	450	P&L (charge to the income statement)	350
	900		**900**

ACCOUNTS AND OTHER PAYABLES

	FRW 'Million'		FRW 'Million'
Subsidiary disposed	200		
Balance c/f	200	Credit purchases	**400**
	400		**400**

NON CONTROLLING INTEREST ACCOUNT

	FRW 'Million'		FRW 'Million'
Net assets (subsidiary disposed)	300	Balance b/f	150
Cash dividends paid	**30**		
Balance c/f	250	P&L (profit share)	430
	580		**580**

DISPOSAL PROCEEDS FROM THE DISPOSAL OF THE SUBSIDIARY

	FRW 'Million'
NET ASSETS AS AT DISPOSAL DATE	1500
LESS NCI SHARE 20%(1500)	300
GROUP SHARE OF NET ASSETS	1200
ADD UNIMPAIRED GOODWILL DISPOSED	420
ADD GAIN ON DISPOSAL OF SUBSIDIARY	150
ADD OVERDRAFT GIVEN DISPOSED	150
TOTAL DISPOSAL PROCEEDS FROM SALE OF SUBS	1920

REVENUE RESERVE ACCOUNT

	FRW ‘Million’		FRW ‘Million’
Cash dividends paid	**570**	Balance b/f	1,100
Balance c/f	2,250	P&L (profit for the year)	1,720
	2,820		**2,820**

KABUGA GROUP LTD		
CONSOLIDATED STATEMENT OF CASHFLOWS		
FOR THE FINANCIAL YEAR ENDED 31st DECEMBER 2023.		
	FRW **'MILLION'**	FRW **'MILLION'**
CASHFLOW FROM OPERATING **ACTIVITIES**		2,650
Profit before tax		
add/less **non cash/operating activity items**		
Depreciation of PPE	200	
Impairment of intangible assets	30	
Finance cost	350	
Gain on sale of PPE	50	
Gain on disposal of subsidiary	150	
Profit after tax from associated companies	120	
	260	260
		2,910
Changes in working capital		
Increase in inventory	350	
Increase in prepayment	400	
Increase in accounts and other receivables	600	
Increase in accounts and other payables	400	(950)
less tax paid		200
Net cash and cash **equivalent from operations**		1,760
CASHFLOW FROM INVESTING **ACTIVITIES**		
Purchase of PPE	850	
Purchase of intangible assets	600	
subsidiary disposal proceeds	1920	
PPE Disposal proceeds	200	
cash dividends received from the associate	20	
net cash inflow from investing **activities**		**690**
CASHFLOW FROM **FINANCING ACTIVITIES**		
Issue of ordinary shares	200	
share premium on issue	50	
Dividends paid - group shareholders	**570**	
Dividends paid - NCI shareholders	**30**	
finance lease	**500**	

Accrued interest paid	450	
		(300)
Cash and cash equivalent for the year		2,150
Add cash and cash equivalent at the beginning		(50)
Cash and cash equivalent at the end of the year		**2,100**

Q1b (i)

ACTUARIAL GAIN/LOSS ON THE PRESENT VALUE OBLIGATION	**2022**	**2023**
	FRW '000'	**FRW '000'**
Opening balance	1,500,000	1,650,000
Add interest cost on the present value obligation	120,000	165,000
Add current service cost	500,000	450,000
Less benefits paid	350,000	250,000
projected closing balance	1,770,000	2,015,000
Actuarial gain	**(120,000)**	**(565,000)**
Actual closing balance	1,650,000	1,450,000

Q1b (ii)

ACTUARIAL GAIN/LOSS ON FAIR VALUE PLAN ASSET	**2022**	**2023**
	FRW '000'	**FRW '000'**
Opening balance	1,800,000	1,890,000
Add expected return on the plan asset	180,000	226,800
Add contributions received from the employer	550,000	450,000
Less benefits paid	350,000	250,000
Projected closing balance	2,180,000	2,316,800
Actuarial loss	(290,000)	(566,800)
Actual closing balance	1,890,000	1,750,000

Q1b (iii)

	2022	**2023**
CORRIDOR RULE	**FRW '000'**	**FRW '000'**
10% of PV of obligation plan (1,500,000)	150,000	
10% of FV of plan asset (1,800,000)	180,000	
therefore the corridor limit is the higher of the two which is	180,000	180,000
	2022	**2023**
UNRECOGNIZED ACTUARIAL GAINS/LOSSES	**FRW '000'**	**FRW '000'**
Opening balance	300,000	118,000
actuarial gain on PV of obligation plan	120,000	565,000
actuarial loss on FV of plan asset	290,000	566,800
actuarial gain recognized (300,000-180,000)/10years	12,000	-
Closing balance	**118,000**	**116,200**

Q1b (iv)

	2022	2023
Pension cost/income to the income statement	**FRW '000'**	**FRW '000'**
Interest cost	120,000	165,000
current service cost	500,000	450,000
less expected return on the plan asset	180,000	226,800
Less actuarial gains recognized during the year	12,000	
Net pension cost to the income statement	428,000	388,200

Q1b (v)

	2022	2023
Net pension liability/asset to the statement of financial position	**FRW '000'**	**FRW '000'**
Closing value of present value obligation plan	1,650,000	1,450,000
closing value of unrecognized actuarial gains	118,000	116,200
closing value of fair value of plan asset	1,890,000	1,750,000
Net pension asset to the statement of financial position	(122,000)	(183,800)

Q1c (i)

Convertible preference shares
In the context of IAS 33 (Earning per share), convertible preference shares are potential ordinary shares because they can be converted anytime at the holders' option to ordinary shares

The equity shares obtained from conversion of preference shares are included in the computation of basic earnings per share while those ones that remain convertible (potential ordinary shares) are used in the computation of diluted EPS.
The incremental earnings emanating from preference dividends savings since they cease to be paid on conversion, are included in the computation of diluted EPS.

Q1c (ii)

Partly paid ordinary shares
In the context of IAS 33 (Earnings per share) there are equity shares that are not fully paid up, only a proportion has been paid
They are included in the basic EPS computation only to the extent that they are fully paid. This means only the number of equity shares that are entitled to dividends participation will be used in the basic EPS computation.
In the future when market prices change before the shares becomes fully paid, the increase in price results to creation of bonus share element which is used in diluted EPS computation.

Q1c (iii)

Preference dividends in arrears
These are dividends accumulated from the previous financial periods, if they have been deducted from the current year's income, they should be added back since dividends are declared every year and deducted in the income statement

In nutshell these should be excluded when computing the earnings per share of the current financial period.

Q1c (iv)

WEIGHTED AVERAGE NO OF ORDINARY SHARES (WANOS)	
Number of ordinary shares outstanding as at beginning of the financial year	1,000,000
conversion of preference shares (60,000,000/50)×(1,000/10,000)	120,000
weighted converted preference shares 120,000×3/12	30,000
total weighted average no of ordinary shares	**1,030,000**
PROFITS ATTRIBUTABLE TO ORDINARY SHARES (PATOS)	
Profit after tax	**25,700,000**
preference dividends before conversion 6%{100,000,000}×9/12	4,500,000
preference dividends after conversion 6%{40,000,000}×3/12	600,000
profits attributable to ordinary shareholders(PATOS)	20,600,000
BASIC EPS PATOS/WANOS =20,600,000/1,030,000	**20**

DILUTED EPS	
Earnings	20,600,000
Incremental earnings (preference dividends calculated above)	5,100,000
Total earning	**25,700,000**
WANOS	1,030,000
Additional ordinary shares before conversion (100,000,000/50)×1,000/10,000*9/12	150,000
Additional ordinary shares after conversion (40,000,000/50)×(1,000/10,000)×9/12	20,000
total number of shares	**1,200,000**
DILUTED EPS	**21.42**

QUESTION TWO
MARKING GUIDE

Q/NO	Criteria of awarding students marks	marks
Q2a	• Correct classification 1 mark, accounting treatment 1mark • Correct classification 1 mark, accounting treatment 1mark • Correct classification 1 mark, accounting treatment 1mark • Correct classification 1 mark, accounting treatment 1mark • Correct classification 1 mark, accounting treatment 1mark	2 2 2 2 2 **10**
Q2b	• For each identified related party relationship 1mark max 3marks • For each identified related party transaction 1mark max 2marks	3 2 **5**
Q2c (i)	For 2019 - non-current asset 1mk current asset 1mk For 2020 - non-current asset 1mk current asset 1mk For 2021 - non-current asset 1mk current asset 1mk	2 2 2 **6**
Q2c(ii)	Treatment of lease rental in finance lease 1mark Treatment of lease rentals in operating lease 1mark	1 1 **2**
Q2(iii)	For each correct reason identified award 1mark max 2marks	**2**
Total		**25**

MODEL ANSWERS

Q2a

1. Proposed changes in the income tax law is a non-adjusting event since it can only affect the future preparation of financial statements
This has no accounting treatment to the already prepared financial statements however it will affect the future financial statements

2. Legal suit filed against the company and whose determination has been made and a ruling delivered against the company the matter has evidence with an exact amount to be paid. The matter is adjusting and the company accountant is expected to increase the provision by FRW 25Million which will make the consolidated amount of provision to be 75Millio with the additional provision 25Million

DR Retained earnings account
CR Provision account
To actualize the payment of FRW 75Million
DR Provision account
CR Cash/Bank

3. A credit customer who was declared bankrupt this is an adjusting event and the company accountant ought to make changes to the financial statements as follows

DR Retained earnings account
CR Accounts receivable account

4. Disposal of inventory
This is an adjusting event and the accountant ought to make changes as follows to the financial statements as follows for cash proceeds
DR Cash/bank
CR Sales

With the inventory at cost
DR Cost of sales account
CR inventory account

5. Dividends declared; this is a non-adjusting event because it is material once implemented it must be disclosed in form of foot notes.

Q2b

Related party relationships
1. Parent-subsidiary relationship - QLtd & RLtd are subsidiaries of PLtd
2. Joint ventures relationships - SLtd & PLtd jointly control T Ltd making them joint vent
3. Parent-associate relationship - MLtd & NLtd are associate companies of PLtd.

Related party transactions
1. Intercompany sale of PPE P Ltd sold PPE to Q ltd and acquired another one from R Ltd.
2. Intercompany lending T Ltd Lent P Ltd some cash amounting FRW 20Million.
3. Intercompany trading M Ltd & N Ltd each sold goods to the parent company S Ltd purchased goods from T Ltd.
4. Loan guarantee S Ltd guaranteed P Ltd to get a loan

Q2c (i)

years	**opening balance**	**Interest Using sum of digits method**	**cash repayment (lease rentals)**	**principal**	**closing balance**	**Non-current asset**	**current asset**
2019	300,000,000	10,000,000	66,000,000	56,000,000	244,000,000	**186,000,000**	**58,000,000**
2020	244,000,000	8,000,000	66,000,000	58,000,000	186,000,000	**66,000,000**	**60,000,000**
2021	186,000,000	6,000,000	66,000,000	60,000,000	126,000,000	**2,000,000**	**62,000,000**
2022	126,000,000	4,000,000	66,000,000	62,000,000	64,000,000	**-**	**-**
2023	64,000,000	2,000,000	66,000,000	64,000,000	-	-	-

Q2c (ii)

Lease rentals are expenses in the books of the lessee however in the case of an operating lease, the lease rentals are charged to the income statement as an operating expense while in the case of the finance lease, the lease rentals are split into the element of principal amount and interest after which the principal amount is capitalized and recognized in the statement of financial position while the finance lease interest is charged to income statement.

Q2c (iii)

1. Liquidity problems - the company is unable to raise the much require capital to acquire a new asset reason as to why they opt to use finance leasing
2. The asset can still be acquired at the end of the lease period at a relatively lower price
3. The lessee might be in need of a machine for use within a short period of time.

QUESTION THREE
<u>MARKING GUIDE</u>

Q/NO	**CRITERIA FOR AWARDING MARKS**	**marks**
Q3a(i)	Land and buildings adjusted carrying value award 0.5mk	0.5
	Motor vehicles adjusted carrying value award 0.5mk	0.5
	Plant and machinery adjusted carrying value award 0.5mk	0.5
	Inventory correct value award 0.5mk	0.5
	Trade receivables correct value award 0.5mk	0.5
	Cash in hand correct value award 0.5mk	0.5
	Equity share capital of FRW 250 each correct 0.5mk	0.5
	new issue of equity capital correct amount 0.5mk	0.5
	8% preference share capital of FRW 500 each correct amount 0.5mk	0.5
	capital reduction reserve accounting working 4mks final answer 0.5mk	4.5
	4% Debentures correct amount award 0.5mk	0.5
	bank overdraft award 0.5mk	0.5
		10
Q3a(ii)	Interest expense award 0.5mk	0.5
	Income tax award 0.5mk	0.5
	Preference dividends award 0.5mk	0.5
	Attributable to ordinary shareholders award 0.5mk	0.5
		2
Q3b(i)	Correct explanation award 2mks	**2**
Q3b(ii)	For each correct answer award 1mk with maximum of 4mks	**4**
Q3c(i)	Each usefulness award 1mk with a maximum of 4marks	**4**
Q3c(ii)	Each impact identified award 1mark with 3marks max	**3**
Total		**(25 Marks)**

MODEL ANSWERS

Q3a (i)

NON CURRENT ASSETS	**FRW '000'**
Land and buildings	600,000
Motor vehicles	125,000
Plant and machinery	75,000
Total non-current assets	**800,000**
Current assets	
Inventory	45,000
Trade receivables	120,000
Cash in hand	5,000
Total current assets	**170,000**
Total assets	**970,000**
Equity and liabilities	
Equity share capital of FRW 1000 each	312,500
new issue of equity capital	30,000
8% preference share capital of FRW 500 each	200,000
capital reduction reserve	287,500
Liabilities	
4% Debentures	120,000
bank overdraft	20,000
Total equity and liabilities	**970,000**

CAPITAL REDUCTION ACCOUNT

	FRW '000'		**FRW '000'**
Motor vehicles	15,000		
Plant and machinery	10,000		
Goodwill	5,000		
Inventory	5,000	Land and buildings	5,000
Accumulated losses w/off	650,000	Ordinary share capital	937,500
Balance c/f	**287,500**	Preference dividends	30,000
	972,500		**972,500**

LAND & BUILDINGS ACCOUNT

	FRW '000'		**FRW '000'**
Balance b/f	595,000		
Capital reduction account	5,000	Balance c/f	600,000
	600,000		**600,000**

MOTOR VEHICLE ACCOUNT

	FRW '000'		FRW '000'
		Capital reduction account	15,000
Balance b/f	140,000	Balance c/f	125,000
	140,000		**140,000**

PLANT AND MACHINERY ACCOUNT

	FRW '000'		FRW '000'
		Capital reduction account	10,000
Balance b/f	85,000	Balance c/f	75,000
	85,000		**85,000**

GOODWILL ACCOUNT

	FRW '000'		FRW '000'
Balance b/f	5,000	Capital reduction account	5,000
	5,000		**5,000**

INVENTORY ACCOUNT

	FRW '000'		FRW '000'
		Capital reduction account	5,000
Balance b/f	50,000	Balance c/f	45,000
	50,000		**50,000**

ORDINARY SHARE CAPITAL ACCOUNT

	FRW '000'		FRW '000'
Capital reduction account	937,500	Balance b/f	1,250,000
Balance c/f	342,500	Preference dividends in arrears	30,000
	1,280,000		**1,280,000**

10% PREFERENCE SHARE CAPITAL

	FRW '000'		FRW '000'
8% preference share capital	200,000	Balance b/f	200,000
	200,000		**200,000**

8% DEBENTURES ACCOUNT

	FRW '000'		FRW '000'
4% debentures account	120,000	Balance b/f	120,000
	120,000		**120,000**

PREFERENCE DIVIDENDS IN ARREARS

	FRW '000'		FRW '000'
Capital reduction account	30,000		
Ordinary share capital	30,000	Balance b/f	60,000
	60,000		**60,000**

PROFIT AND LOSS ACCOUNT

	FRW '000'		FRW '000'
Balance b/f	650,000	Capital reduction account	650,000
	650,000		**650,000**

8% PREFERENCE SHARE CAPITAL ACCOUNT

	FRW '000'		FRW '000'
Balance c/f	200,000	10% preference share capital	200,000
	200,000		**200,000**

4% DEBENTURES ACCOUNT

	FRW '000'		FRW '000'
Balance c/f	120,000	8% Debentures account	120,000
	120,000		**120,000**

Q3b (i)

It is the accounting for company on the social aspects of a certain group or society as a whole. It has got nothing to do with the usual accounting but rather what the company does in terms taking care of the society welfare where there are pressing needs. The budgets for resources to be spent on such activities and then appropriates them according to the activities.

Q3b (ii)

- poverty eradication by sponsoring vulnerable children from poor backgrounds in the society
- Finding internship/attachment placement for students who have graduated or are about to graduate from college
- Offering employment opportunities to some of the students who have graduated but have not secured jobs
- Searching for job opportunities for some other students who can't be absorbed by the company
- Advocating for equal job opportunities for all genders assist the less fortunate in the society as pursue for justice in the corridors of justice.

Q3C (i)

The 4 usefulness of environmental reporting to the company

- The report helps in reducing the agency gap between managers, directors and shareholders clarify environmental issues of concern.
- The report gives the company legitimacy to continue operating -sometimes the society where the company operates in can gang up against the company product because of the feeling and perception that company is not doing enough to safeguard the welfare of the society especially after occurrence of an accident. The report help to clarify the mitigation measures the company has undertaken to avert the same.
- It is a sign of accountability on the part of the company since the report shows that the company is compliant with the requirements of the regulatory bodies.
- The report can be used as evidence in case of a legal suit against the company. The company can take the court through the mitigation measures they have adopted for them to be acquitted.
- It is a key measure for encouraging the internal efficiency since it is necessary to establish a range of technical measurement systems for collection and processing of information that comprises environmental report.

Q3C (ii)

The 3 negative impacts of disregarding environmental reporting as a company

- The company is at risk of having its operational licence being revoked/withdrawn by the regulatory authorities.
- Resistance of the company products because of the society perception that the company is doing environmental degradation which endangers their lives.
- Legal suits orchestrated by accidents. The members of the society can take a bold step and sue the company for damage in case of accidents.
- Any other relevant justifying point given by the student.

QUESTION FOUR
MARKING GUIDE

Q/NO	CRITERIA FOR AWARDING STUDENT MARKS	Marks
Q4a	each correct ethical issue stated award 1mk max 2max each correct legal issue identified award 1mk	**2** **3**
Q4b	Inventory turnover formula 0.5mk, each year ratio 1mk, interpret 1.5mk Debtors days' formula 0.5mk, each year ratio 1mk, interpret 1.5mk Creditors days' formula 0.5mk, each year ratio 1mk, interpret 1.5mk Debt equity ratio formula 0.5mk, each year ratio 1mk, interpret 1.5mk Dividend cover formula 0.5mk, each year ratio 1mk, interpret 1.5mk	4 4 4 4 4 **20**
Total		**(25 Marks)**

Q4 (a)

i) Two ethical issues governing financial reporting.

1. Fair presentation of material facts in the financial statements without any misrepresentation or manipulation of material facts
2. **Avoid any publication** with to the best of the financial reporter knowledge is misleading and/or misguiding to the users of financial information
3. **Not to disclose any confidential information** of the client without prior authorization of the client company

ii) Three legal issue governing financial reporting in Rwanda.

1. Embrace international accounting standards issued by the global regulatory bodies where ICPAR is a member. E.g. IFAC
2. Adherence to the international financial reporting standards when preparing and presenting financial statements
3. Observing the revised reporting framework and adoption of the same as guided by the institute of certified public accountants of Rwanda
4. Closing the books of accounts when the financial year has ended.

Q4 (b)

Ratio	Formula	2022	2023
(i)Inventory turnover	Cost of sales / Average inventory	3,200,000,000 / 400,000,000 8times	4,100,000,000 / 300,000,000 14times
Interpretation			

This ratio to start with shows the number of times in any given year the available stocks were converted to sales, in the year 2022 it was approximately 4times while in 2023 it was approximately 14times it is therefore means stocks are being converted into sales, they are not just in stores.			
(ii)Debtors days	Average debtors Credit sales	3,500,000,000×365 500,000,000 52days	4,500,000,000×365 512,500,000 42days
Interpretation This ratio indicates on average the max credit period or number days that must lapse customers settle their accounts from ratios it is evident that in 2022 customers were taking 52days while in 2023 42 days this implies that in 2022 the duration was since it was taking longer for the company clear the suppliers after receiving money from customers in the year 2023 the scenario there is not favourable to the company since they must pay suppliers before receiving money from customers			
(iii)Creditors days	Average creditors Credit purchases	550,000,000×365 3,100,000,000 65days	450,000,000×365 4,000,000,000 41days
Interpretation this ratio indicates the duration or number of days a company takes before settling its suppliers amount owed to the them from the ratio it is evident that the company takes 65days in 2022 and 41days in the year 2023 this implies that in the year 2023 the scenario is ok since it is not affecting the cash cycle however in 2023 there is a problem because money meant to pay suppliers must have been received from the customers pay.			
(iv)Debt equity ratio	Debt (Debt + equity)	1,200,000,000×100 4,100,000,000 29%	1,400,000,000×100 4,451,900,000 31%
Interpretation This ratio measures the proportion of debt financing in a company as a percentage of debt to the total capital in the capital structure it is evident from the above ratios that in the year 2022 the ratio was 29% while in 2023 it was 31% a company is highly geared if the company is greater 50% but in this case the company is not highly geared in both years.			
(v)Dividend cover	Distributable profits Dividends declared	103,600,000 100,000,000 1.04times	151,900,000 100,000,000 1.52times
Interpretation This ratio serves to measures the company's ability to cover returns to capital providers in form of dividends it is therefore evident from the computations above that in the year 2022 it is covered 1.04times while in the year 2023 1.52times.			

INVENTORY TUROVER	**2022**	**2023**
Opening inventory	450,000,000	350,000,000
add purchases		4,000,000,000
less cost of sales		4,100,000,000
closing stock	350,000,000	250,000,000
average inventory	400,000,000	300,000,000
cost of sales	3,200,000,000	4,100,000,000

DEBTORS COLLECTION PERIOD/DAYS	**2022**	**2023**
opening balance	450,000,000	550,000,000
add credit sales		4,500,000,000
less cash received from customers		4,400,000,000
less bankrupt credit customers		150,000,000
less provision for bad and doubtful debts		25,000,000
closing balance	550,000,000	475,000,000
average debtors	500,000,000	512,500,000
sales	3,500,000,000	4,500,000,000
debtors collection days	52	42

CREDITOR REPAYMENT PERIOD		
	2022	**2023**
Opening balance	600,000,000	500,000,000
add credit purchases		4,000,000,000
payment to suppliers		4,100,000,000
closing stock	500,000,000	400,000,000
cost of sales	3,200,000,000	
average creditors	550,000,000	450,000,000
credit purchases	3,100,000,000	4,000,000,000
creditors repayment period/days	65	41.06

DEBT EQUITY RATIO	**2022**	**2023**
EQUITY	2,900,000,000	2,900,000,000
Add profit for the year		151,900,000
less dividends declared		100,000,000
Total equity	**2,900,000,000**	**3,051,900,000**

LONG TERM DEBT	**2022**	**2023**
8% Debentures	400,000,000	800,000,000
Bank loan	800,000,000	600,000,000
Total debt	**1,200,000,000**	**1,400,000,000**
Total equity and debt capital	**4,100,000,000**	**4,451,900,000**
Debt to equity ratio percentage	29	31.45

DIVIDEND COVER	**2022**	**2023**
PROFITS DISTRIBUTABLE	103,600,000	151,900,000
DIVIDENDS PROPOSED	100,000,000	100,000,000
DIVIDEND COVER	1.04	1.52

END OF THE MARKING GUIDE AND MODEL ANSWERS