CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 27, AUGUST 2024

INSTRUCTIONS:

1. **Time Allowed: 3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections**: A & B.**
3. Section **A** has **one Compulsory Question** while section **B** has **three optional questions** to choose any **two.**
4. In summary attempt **three questions.**
5. Marks allocated to each question are shown at the end of the question.
6. Show all workings where necessary.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

a) Kabuga group Ltd acquired and controls many subsidiaries and associated companies many years ago.

The following financial statements relates to Kabuga group Ltd for the financial year ended 31st December 2023.

Consolidated statement of financial position for the year ended 31st December 2022 & 2023.

	31st December 2023	31st December 2022
Non-current assets	**FRW 'Million'**	**FRW 'Million'**
Property plant and equipment	1,500	1,250
Intangible assets including goodwill	600	450
Investment in associate	300	200
Other investments	400	400
Total non-current assets	**2,800**	**2,300**
Current assets		
Inventory	650	750
Accounts and other receivables	700	650
Prepayments	500	400
Short term investments	400	400
Cash in hand	1,700	-
Total current assets	**3,950**	**2,200**
Total assets	**6,750**	**4,500**
Equity and liabilities		
Equity		
Issued and paid ordinary shares (FRW 1000)	1,000	800
Share premium on issue	250	200
Revaluation reserve	200	150
Revenue reserve	2,250	1,100
Non-controlling interest	250	150
Total equity	**3,950**	**2,400**
Long term liabilities		
Obligation under finance lease	1,500	650
Deferred tax liability	500	350
Total long term liabilities	**2,000**	**1,000**

Current liabilities		
Current tax	150	100
Accounts and other payables	200	
Accrued interest	450	550
Bank overdraft	-	450
Total current liabilities	**600**	**1,100**
Total liabilities	**2,800**	**2,100**
Total equity and liabilities	**6,750**	**4,500**

Additional information.

1. The non-current assets carrying values shown in the consolidated statement of financial position for the financial years ended 31st December 2022 and 2023 were obtained as shown below.

Details	31st December 2023 FRW 'Million'	31st December 2022 FRW 'Million'
Opening carrying values	1,800	1,500
Accumulated depreciation	300	250
Closing carrying values	**1,500**	**1,250**

2. A plant which was acquired by the group in the year 2021 at a cost of FRW 500 million was disposed during the financial year ended 31st December 2023 at a gain of FRW 50 million. The accumulated depreciation as at the date of disposal was FRW 350 million.
3. The freehold property which forms part of property plant and equipment was revalued upward during the financial year, that ended 31st December 2023 and the resulting revaluation reserve was recorded in the revaluation account.
4. Kabuga group Ltd 80% subsidiary which was acquired several year ago was disposed during the financial year ended 31st December 2023 at a gain FRW 150 million. The net assets of this subsidiary were FRW 1,850 million while the purchase consideration paid as at the time of acquisition was FRW 1,900 million.
5. No goodwill impairment that was reported as at the date of disposal of the subsidiary and the group uses proportional method of accounting for goodwill.
6. The net assets of the subsidiary as at the date of disposal were as follows;

Particulars of net assets disposed	Value as at the date of disposal FRW 'Million'
Property plant and equipment	650
Inventories	450
Accounts and other receivables	550
Prepayments	300
Bank overdraft	(150)

Accounts and other payables	(200)
Current tax	(100)
Net assets	**1,500**

7. The group acquired new property plant and equipment part of which was financed through a finance lease to a tune of FRW 350 million. The rest of the property plant and equipment were acquired using cash in the bank.
8. Other intangible assets, excluding goodwill, were impaired during the year ending December 31, 2023 by FRW 30 million and this was accounted for.
9. The extract of the consolidated income statement as at 31st December 2023 was as follows;

Particulars of income statement items	Amount FRW 'Million'
Revenue	7,500
Cost of goods sold	(4,000)
Gross profits	3,500
Gain on sales of PPE	50
Gain on sale disposal of subsidiary	150
Associate profit after tax	120
Selling and distribution expense	(370)
Administration expense	(450)
Finance cost	(350)
Profit before tax	2,650
Income tax charge	(500)
Profit after tax	2,150
Profits attributable to NCI	430
Profits attributable to the group	1,720
Total profits	**2,150**

10. The gains on sale of asset and subsidiary were included at the operating level of the income statement.
11. The depreciation charge for the year was expensed to the income statement and is included in the administration expenses.

Required;

Prepare Kabuga group ltd consolidated statement of cash flows for the financial year ended 31st December 2023 in accordance with IAS 7 'Statement of cash flows'

(30 Marks)

b) Vision 2050 Ltd is a company incorporated and operating in Rwanda. The company has its internal pension fund where all contributions is channelled to at the end of every period to cater for employees' retirement benefits after the expiry of their service period with the company. The management decided of vision 2050 Ltd resolved to engage actuarial professional to help them carry out the performance of the fund to ascertain if it is performing to their expectation and whether it has enough resources to cater for their staff when their retirement is due. The actuarial engaged carried out the assignment and provided the following details for the year ended 31st December 2022 and 2023.

Details	**31st December 2023**	**31st December 2022**
	FRW '000'	**FRW '000'**
Expected return on plan asset (at the beginning of the year)	10%	12%
Discount rate at the start of the year	8%	10%
Current service cost	500,000	450,000
Benefits paid during the year	350,000	250,000
Annual contribution paid into the fund	550,000	450,000
Remaining service life of employees in the scheme	10years	8years
Unrecognized actuarial gains at the beginning of the year	300,000	-

Additional information

1. Any unrecognized actuarial gains at the beginning of the year that is above the corridor rule is spread over the remaining useful life of employees and recognized during the year.
2. The present value of the obligation plan as at 1st January 2022 was FRW 1,500 million and this increased by 10% at the end of the year.
3. The fair value of the plan asset as at 1st January 2022 was estimated at FRW 1,800 million and this increased by 5% as at year end.
4. The present value obligation plan and fair value of plan asset as at 31st December 2023 were FRW 1,450 million and FRW 1,750 million respectively.

Required

For the two years' ended 31st December 2022 and 2023, **compute**

i) Actuarial gain or loss on the present value obligation plan (2 Marks)

ii) Actuarial gain or loss on the fair value plan asset (2 Marks)

iii) Unrecognized actuarial gains/losses recognized during the year (2 Marks)

iv) Net pension cost/income recognized in the income statement (2 Marks)

v) Net pension asset/liability recognized in the statement of financial position (2 Marks)

c) All companies listed at the stock exchange are supposed to determine the earnings per share at the end of each financial year. IAS 33 then outlines the procedures of accounting for both basic and diluted earnings per share. In light of the above statement;

KERINGET Ltd is one of the prominent companies listed on the Rwanda Stock Exchange. As of January 1, 2023, the company provided an overview of its capital structure, detailing the composition of its equity and debt financing.

- Issued and paid up ordinary share capital of FRW 100 each 100,000,000
- 6% Convertible preference share capital of FRW 50 each 100,000,000
- The preference shares are convertible at the holder option at the rate of 1000 ordinary shares for every 10,000 preference shares held. As at 1st October 2023 the holders of FRW 60 million converted them into ordinary shares.
- Profit after tax during the year ended 31st December 2023 amounted to FRW 25.7Million.

Required:

Explain the accounting treatment of the following when computing earnings per share

i) Convertible Preference Shares (1 Mark)

ii) Partly Paid Ordinary Shares (1 Mark)

iii) Preference Dividends In Arrears (1 Mark)

iv) Compute KERINGET Ltd.'s basic and diluted EPS for the year ended 31st December 2023 and comment on the diluted EPS. (7 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

a) Sometimes businesses are confronted with emerging transactions that will impact the business favourably or otherwise. These transactions ought to be re-examined and accorded the attention they deserve since they affect many stakeholders who depend on the financial information for decision making purposes. For the financial year ended 31st December 2023, XYZ Ltd a company registered and operating in Rwanda was confronted with following transactions.

- The government of Rwanda proposed changes to the existing income tax law (personal income tax and corporate income) and this was to take effect in the succeeding year.
- The legal suit filed against the company by a former staff was heard, determined and judgement delivered in favour of the petitioner (staff member) immediately after the end of the financial year. The company had made a provision in respect of this contingent liability amounting to FRW 50 million. However, after the judgement was delivered the actual amount of liability that the company will settle is FRW 75 million.
- One of the major clients of the company who consumes more than 50% of what the company manufactures was adjudicated bankrupt by a court of law. The amount that was due from this specific client as per the record was FRW 750 million. This court declaration came after the financial statements of the company have been prepared.
- Inventory in store whose net realisable value was FRW 325 million was disposed after the financial statements have been prepared during the year ended.
- The company declared dividends during the year ended 31st December 2023 on 1st January 2024. Due to liquidity problems the company resolved to convert the dividend to equity by increasing shareholding of the existing shareholders. The dividends declared amounted to FRW 15 million. These dividends were to be funded from the revaluation reserve account.

Required:

In the context of IAS 10 Events after the reporting period, **classify the nature of the above events as well as indicate the accounting treatment of each.** (10 Marks)

b) During the financial year ended 31st December 2020, P Ltd a company registered and operating in Rwanda acquired 75% and 80 % of the share capital of companies' Q Ltd and R Ltd respectively. Due to good performance P Ltd also acquired 40% and 45% of the share capital of companies' M Ltd and N Ltd respectively during the financial year ended 31st December 2022. S Ltd jointly control T Ltd with company P and this control was acquiring in the year ended 31st December 2023. All the companies' financial years end on 31st December and they operate in the same industry.

These companies trade with each other including lending each other, selling goods and services to each other, selling of non-current assets to each other. During the year ended 31st December 2023 the following transactions took place;

1. P Ltd sold PPE to Q ltd and acquired another one from R Ltd.
2. T Ltd Lent P Ltd some cash amounting to FRW 20 million.
3. M Ltd & N Ltd each sold goods to the parent company
4. S Ltd purchased goods from T Ltd
5. S Ltd guaranteed P Ltd to get a loan

Required

In reference to the above scenario and in accordance with IAS 24 (Related party disclosures) **identify three related party relationships and two related party transactions.** (5 Marks)

c) KJV Ltd is a company that owns a number of exploration machines and leases them to other companies in exchange for lease rentals. The machine lease period depends on the contract agreement. However, the period can be reduced only with mutual consent among the parties to the contract. Prime ltd is another company that deals exploration business approached KJV Ltd for an arrangement over the lease of a machine for use in exploration activities.

The terms of the lease agreement were as follows;

- The lease agreement provided for the transfer of risk and rewards by KJV Ltd to Prime Ltd immediately the lease agreement is signed.
- The lease period was 5 years while the machine to be leased out had a useful life of 4years as at the date of lease.
- The machine to be leased has a fair value of FRW 300 million.
- The annual lease rentals payable in arrears were FRW 66 million
- The implicit interest rate was 10%.
- Sum of digits method is used to allocate the finance lease interest.
- The machine was leased to Prime Ltd on 1st January 2019.

Required;

i) The amount of net investment in the lease to be reflected in the books of the lessor for the years ended 31st December 2019, 2020, and 2021 (6 Marks)

ii) Distinguish between the accounting treatment of lease rental in the books of a lessee in a case of a finance lease from that of an operating lease (2 Marks)

iii) Justify why a company opts to finance leasing when in need of an asset for use as opposed to purchasing a new asset like in the case of Prime Ltd. (2 Marks)

(Total: 25 Marks)

QUESTION THREE

a) Ufanisi Ltd has been making losses at the same time facing liquidity problems over a period time. To resolve these managerial actions ought to be taken once the general assembly has ratified these proposals. During the general assembly of the company that was held on 31st December 2023, it was resolved that the company management should carry out a scheme of capital reconstruction as follows;

1. The ordinary share capital to reduce by FRW 750 per share.
2. The preference dividend were 3 years in arrears and half of it was to be written off and the remaining balance converted to equity shares
3. The non-current assets were adjusted to their fair values as follows
   - Land and building FRW 600,000,000
   - Motor vehicles FRW 125,000,000
   - Plant and machinery FRW 75,000,000
   - Inventory FRW 45,000,000
4. The following item were to be written off
   - Trading losses
   - Goodwill.
5. It is estimated that the company will make annual profit before interest and tax of FRW 250Million at the end of the first year of implementation of the proposed capital reconstruction.
6. The existing preference shareholders are to be exchange with a new 8% preference share capital and the shareholders accepted to be converted. This did not affect the preference dividend that were already in arrears
7. The existing debenture holders accepted to be issued with a new debenture but of 4% interest rate.
8. The scheme of capital reconstruction was effected on 1st January 2024.
9. The applicable tax rate is 30%

The statement of financial position as at 31st December 2023 was as presented below;

Particulars of financial statement item	**FRW '000'**
Land and buildings	595,000
Motor vehicles	140,000
Plant and machinery	85,000
Goodwill	5,000
Total non-current assets	**825,000**
Current assets	
Inventory	50,000
Trade receivables	120,000
Cash in hand	5,000
Total current assets	**175,000**

Total assets	**1,000,000**
Equity and liabilities	
Equity share capital of FRW 1000 each	1,250,000
10% preference share capital of FRW 500 each	200,000
Accumulated trading losses	(650,000)
Liabilities	
8% debentures	120,000
Preference dividends in arrears	60,000
Bank overdraft	20,000
Total equity and liabilities	**1,000,000**

Required:

i) **Prepare Ufanisi Ltd statement of financial position as at 1st January 2024.** (10 Marks)

ii) **Prepare a Statement showing the distribution of profits after tax to capital providers of Ufanisi Ltd immediately after reconstruction.** (2 Marks)

b) Companies do not operate in isolation; they are part of the society and their way of doing business including how they relate with other stakeholders in the society impacts positively or otherwise the society as well the sales especially where the society has appreciated their efforts through feedback.

Rwandacom Ltd is a telecommunication company operating in the republic Rwanda. This pride itself with some of the activities they passionately carry out in additional to their normal businesses. For instance, they have an initiative dubbed **'Education for the vulnerable'** which is an initiative of mobilising funds from own source revenue to support vulnerable children at all levels of education by ensuring that their plight of education has been taken care of. They actually sponsor these children to pursue studies in and out of the republic of Rwanda and eventually they become useful people in the society. Those who complete their studies successfully up to university level end up securing employment with Rwandacom Ltd after completing their internship. There are others who secure jobs in other companies while others Rwandacom finds for them job placements.

On the other hand, Rwandacom also doesn't associate itself with job discrimination on the basis of gender, they always advocate for equal opportunity for all job applicants of either gender. Education funding isn't the only initiative they have, they also support individual citizens who are accused over certain criminal offences by hiring for them advocates who represent them legally in courts of law to ensure justice is not subverted for lack of legal representation. This company is the favourable to many citizens of its association with members of the society.

Required:

From the case highlighted above;

i) Briefly explain social responsibility accounting (2 Marks)

ii) Identify ways in which Rwandacom is socially responsible to the society (4 Marks)

c) Mr John Munyarugendo is a newly appointed managing director of Klinic Ltd a registered multinational oil exploration company. During the year ended 31st December 2024, the general assembly approved the recommendation of the Environmental management of authority in Rwanda and unanimously resolved to implement that. The report required the company to improve on their environmental reporting since the company's principal activity is oil exploration, which results to environment degradation. When the board of directors shared this with newly appointed managing director, the managing director responded by saying accounting has got nothing to do with matters related to environment, that the company is not under any obligation whatsoever to do environmental reporting. The board of directors insisted on the implementation of the minutes of the general assembly which included the adoption of the national environmental management authority recommendation, since failure to implement the recommendation will amount to insubordination.

As an accounting student pursuing the advanced level of the certified public accounting training, you have been approached by Mr John Munyarugendo for professional advice on matters to do with environmental reporting, so as to help the managing director and the board of directors read from the same page to end the standoff. It should be noted that the recommendation came from the environment management authority meaning implementation is not a choice but the managing director who is charged with the responsibility of implementing all company decisions is having a contrary about implementation.

Required;

In reference to the above scenario**, explain to Mr John Munyarugendo;**

i) The 4 usefulness of environmental reporting to the company (4 Marks)

ii) The 3 negative impacts of disregarding environmental reporting as a company (3 Marks)

(Total: 25 Marks)

QUESTION FOUR

a) The accounting profession is far and wide governed by legal and ethical framework to enhance accountability and consistency when reporting financial information.

Required;

In light of the above statement, **explain briefly**

i) Two ethical issues governing financial reporting. (2 Marks)

ii) Three legal issue governing financial reporting in Rwanda. (3 Marks)

b) The following financial data relates to ABC Ltd for the financial years ended 31st December 2022.

Statement of financial position

	31st December 2022
Non-current assets	**FRW '000'**
Land and buildings	1,500,000
Motor vehicles	1,000,000
Plant and machinery	800,000
Investments	700,000
Total non-current assets	**4,000,000**
Current assets	
Inventory	350,000
Accounts receivable	550,000
Cash and bank balances	100,000
Total current assets	**1,000,000**
Total assets	**5,000,000**
Equity and liabilities	
Ordinary shares capital (FRW 100 each)	2,000,000
Share premium	500,000
Revenue reserve	400,000
Total equity	**2,900,000**
8% Debentures	400,000
Bank loan	800,000
Accounts payable	500,000
Accrued interest	400,000
Total liabilities	**2,100,000**
Total equity and liabilities	**5,000,000**

Income statement extract

	Year ended 31st December 2022	Year ended 31st December 2023
Details	FRW '000'	FRW '000'
Turnover	3,500,000	4,500,000
Cost of sales	3,200,000	4,100,000
Gross profit	300,000	400,000
Operating expenses		
Selling and distribution cost	(45,000)	(50,000)
Administration cost	(75,000)	(50,000)
Interest expense	(32,000)	(48,000)
Profit before tax	148,000	217,000
Income tax expense	(44,400)	(65,100)
Profit after tax	**103,600**	**151,900**

Additional information

1. The opening inventory as at 1st January 2022 was FRW 450 million.
2. During the year ended 31st December 2023 the company bought on credit items for resale worth FRW 4,000 million out of which only FRW 3,375 million worth of this stock was sold on credit at cost plus 25% mark up.
3. During the year ended 31st December 2023 a credit customer who owed the company FRW 150 million was declared bankrupt by a court of law while a provision for bad and doubtful debts of 5% was to be created.
4. The company repaid a bank loan amounting to FRW 200 million and issued a new debenture whose nominal value is FRW 400 million.
5. As at 1st January 2022 the accounts receivable and accounts payable balances stood at FRW 450 million and FRW 600 million respectively.
6. The company received FRW 4,400 million from credit customers and paid suppliers an amount of FRW 4,100 million during the year ended 31st December 2023.
7. The year has 365 days.
8. The company proposed to pay dividends of FRW 5 per share.

Required:

Compute and interpret the following financial ratios for the financial years ended 31st December 2022 and 2023 clearly indicating the implication of the ratios to the company.

i) Inventory turnover (4 Marks)

ii) Debtors collections days (4 Marks)

iii) Creditors repayment period (4 Marks)

iv) Debt equity ratio (4 Marks)

v) Dividend cover (4 Marks)

(Total: 25 Marks)

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