CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 27, FEBRUARY 2024

INSTRUCTIONS:

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

SECTION A

QUESTION ONE

KINIGI Ltd, a public limited company, operates in the manufacturing sector. The company has investments in different other companies. The draft financial statements for the year ended 31 July 2023 are as follows:

Statement of total comprehensive income

	FRW"000"
Revenue	309,360
Cost of sales	(217,680)
Gross profits	**91,680**
Operating expense	
Distribution costs	(15,000)
Administrative expenses	(31,680)
Finance cost	(9,200)
Profits before taxation	**35,800**
Taxation	(16,600)
Profit for the years	**19,200**
Other comprehensive income	
Revaluation surplus-Property, plant and equipment	1,080
Total Comprehensive income	**20,280**

Statement of financial position

Assets	**FRW"000"**	**FRW"000"**
	July 2023	**July 2022**
Non-current assets		
Property, plant and equipment	45,600	36,600
Intangible assets	30,000	24,000
Investment	-	3,000
Current assets		
Inventories	18,000	12,240
Receivables	46,800	37,800
Short-term investment	6,000	
Cash in hand	240	120
Total assets	**146,640**	**113,760**
Equity and liabilities		
Equity		
Share capital (FRW 1,000 per share)	24,000	18,000
Share premium account	19,200	18,000
Revaluation surplus	12,000	10,920
Retained earnings	35,800	21,600
Non-current liabilities		
Loan	15,800	6,000
Current liabilities		
Trade payable	15,240	14,280
Bank overdraft	10,200	11,760
Taxation	14,400	13,200

Total equity and liabilities	**146,640**	**113,760**

Addition information

1. During the period, some plant and equipment with carrying amount of FRW 23.5 million was disposed of at loss of FRW 12 million. The initial cost of the asset was FRW 31 million
2. The following information relates to property, plant and equipment

	FRW "000"	**FRW "000"**
Cost	86,400	82,300
Accumulated depreciation	(40,800)	(45,700)
Carrying amount	45,600	36,600

3. During the year, the investment held in KMP Ltd was disposed at FRW 3.5 million
4. The company has made additional share issue and paid dividend before year ends
5. The short-term investment is part of cash equivalents

Required:

Prepare KINIGI's Ltd statement of cash flow for the year ended 31st July, 2023 in accordance with IAS 7. (20 Marks)

Show the workings appropriately

(Total: 20 Marks)

QUESTION TWO

Mashyuza Company is a public limited company operating in the tourism sector. Draft statements of financial position at 30 November, 2022 are as follows:

Description	**FRW 000**	**FRW 000**
Land and building 1/01/2017 (Cost)	450,000	
Plant and Machinery	800,000	
Development expenditure	127,500	
Accumulated depreciation		
Building 1/01/2017		25,200
Plant and machinery 1/01/2017		225,800
Inventory 1/01/2017	195,500	
FRW 1,200 Ordinary share (fully paid)		350,000
22% FRW 1 Preference share (fully paid)		100,000
2.125% Loan stock (secured)		400,000
Retained earnings 1/01/2017		242,000
General reserve 1/01/2017		181,000
Sales		3,063,000
Purchase	1,520,000	
Preference dividend	22,000	
Ordinary dividend (Interim)	9,000	
Loan interest	8,500	
Administration costs	422,000	

Suspense account	135,000	
Distribution costs	250,000	
Account receivable	1,129,000	
Account payable		467,500
Deferred tax		12,500
Cash in hand	5,000	
Bank balance		6,500
Total	**5,073,500**	**5,073,500**

The following information is relevant to the preparation of the financial statements

1. The suspense account appearing in the trial balance reflect different transactions as listed below

	FRW 000
Proceed from the issue of 100,000 ordinary shares	120,000
Proceeds from the sale of plant	300,000
Less consideration for the acquisition of new building	(285,000)
Balance	**135,000**

2. The inventory balance as at 30 November 2022 was valued at FRW 124.5 million at cost. Included in the stock are the goods purchased three weeks before the year-end at RWF 20 million, these goods was damaged during the stock count. The original estimated selling price of these goods was RWF 27 million. However, in order to make the goods ready for sale, remedial work costing RWF 4.5 million needs to be carried out, after which the goods will be sold for RWF23 million.

3. The land and building were acquired on 1 December, 2018, the cost of land element was FRW 30 million and the expect useful life of the building was estimated at eight years. As at 1 December, 2021, the land and building were revalued at FRW 430 million (Land element was FRW 32 million). Depreciation is charged to administration cost.

4. Plant and machinery were acquired some years ago and are depreciated at reducing balance method at 25% and charged to cost of sales.

5. The development cost balance in the trial balance represents the cost incurred in previous year to develop new system, the costs cover the research and development cost and until and the management cannot separate the cost incurred on research part and cost incurred on development part. During the year, development phase was still ongoing where Mashyuza Company has incurred addition cost of FRW 85 million for development of software but this was not recorded because the payment was not yet done until 30 November 2022.

6. The current tax was estimated at FRW 34 million while the taxable temporal difference as at 30 November 2022 was FRW 58.4 million including revaluation upward on land and building. Applicable tax rate is 30%

7. On 1 December 2021, Mashyuza Company ltd leased a Motor vehicle from General Motors ltd for four years, it was the responsibility of Mashyuza Company to repair the Motor vehicle. Mashyuza Company will make instalment lease payments of FRW 14,000,000 per year on 30 November. The first payment was made on 30 November 2022. The fair value of the machine was FRW 60,000,000 with an estimated useful life of 5 years. The interest rate implicit in the lease was 10% per year.

Required:

Prepare the following financial statements in accordance with IAS 1

(a) Statement of comprehensive income for the year ended 30 November, 2022 (14 Marks)

(b) Statement of financial position as at 30 November, 2022 (16 Marks)

Note: All the relevant workings must be shown

(Total: 30 Marks)

QUESTION THREE

The following draft financial statements relate to Nine GB Ltd, a public limited company. Analogue Ltd is a networking company that provide internet subscription but also has a wide portfolio of investment as a wholesale Company. Nine GB Ltd has investments in Analogue Ltd.

Draft statements of profit or loss and other comprehensive income for the year ended 31 December 2021 are shown below:

	Nine GB Ltd	**Analogue Ltd**
	FRW "000"	**FRW "000"**
Revenue	520,000	222,000
Cost of sales	(204,000)	(66,000)
Gross profit	**316,000**	**156,000**
Investment income	42,500	16,000
Administration costs	(20,000)	(11,000)
Distribution cost	(8,200)	(4,300)
Other expense	(34,000)	(19,000)
Operating profit	**296,300**	**137,700**
Net finance costs	(1,500)	(4,000)
Profit before tax	**294,800**	**133,700**
Income tax expense	(25,000)	(14,000)
Profit for the year	**269,800**	**119,700**
Other comprehensive income		
Gain on revaluation	12,000	8,000
Total Comprehensive income	**281,800**	**127,700**

The following information is relevant to the preparation of the group statement of profit or loss and other comprehensive income:

1. On 1 September 2021, Nine GB Ltd acquired 60% of the equity interests of Analogue Ltd, a public limited company. The purchase consideration comprised cash of FRW 90 million and share exchange of two (2) shares of Nine GB Ltd for every four (4) shares in Analogue Ltd, the fair value of Nine GB Ltd's share was FRW 150 at acquisition date. The fair value of the identifiable net assets acquired was FRW 125.1 million at that date. Nine GB Ltd uses the 'full goodwill' method for all acquisitions and the fair value of the non-controlling interest (NCI) in Analogue Ltd was FFRW 50 million on 1 September 2021. The difference between carrying amount and fair value of net assets at acquisition date attributed to a building with remaining useful life of 5 years from acquisition date
2. The extract statement of change in equity of Analogue as at 1 September 2021 was as follows

Equity	**FRW"000"**
Share capital of FRW 100 each	85,000
Retained earning	22,000
Other component of equity	8,100

3. Due to the losses of Analogue Ltd caused by new digital technologies, an impairment review was undertaken at 31 December 2021. It was decided that goodwill had reduced in value by 10%. Goodwill impairments are charged to other expenses

4. In December 2021, Nine GB Ltd provided technical assistances to Analogue and charged FRW 15 million, the fees were accounted for by both company before 31 December 2021

5. Nine GB Ltd holds properties for investment purposes. At 1 January 2021, Nine GB Ltd held a 10-floor building block at a fair value of FRW 40 million. The building was all let to unconnected third parties at a normal commercial rent. It was estimated that the fair value of the building was FRW 46 million at 31 December 2021.

6. On 10 November 2021, Analogue Ltd sold goods worth FRW 80 million to Nine GB Ltd at a mark-up of 20%. As at year end, Nine GB Ltd has sold only 60% of these goods.

7. Nine GB Ltd sold inventory to Analogue Ltd for FRW 12 million at fair value. Nine GB Ltd made a loss on the transaction of FRW 2 million and Analogue still holds FRW 8 million in inventory at the year end.

8. On 1 October 2021, Analogue Ltd purchased an item of property, plant and equipment for FRW 14 million while the net book value of the asset was FRW 9 million and this is being depreciated using the straight-line basis over 10 years with a zero residual value. Gain on disposal was correctly recorded in the other income. Depreciation is charged to administrative expense

Required:

(a) Goodwill on acquisition of Analogue Ltd

(5 Marks)

(b) Prepare the consolidated statement of comprehensive income for the Nine GB Group for the year ended 31 December 2021. (20 Marks)

(c) On 30 June 2021, Nine GB Ltd acquired 35% of the equity interests of 4G Ltd, a public limited company. The purchase consideration was immediate cash payment of FRW 60 million and FRW 2 million payable after four years. Due to a tight reporting deadline, the fair value of the identifiable net assets at acquisition had not been finalized by 31 December 2021 the date to publish financial statements. Board members of Nine GB Group wanted to apply full consolidation to report equity interest held in 4G Ltd but the chief finance officer denied such treatment.

Required:

(i) Advise Nine GB Ltd on the appropriate accounting treatment for investment held in 4G Ltd (2 Marks)

(ii) Outline conditions that evidence existence of significant influence in associate company (3 Marks)

(Total: 30 Marks)

SECTION B

QUESTION FOUR

(a) BMS Ltd is a private company based in agriculture sector operating in Nyabihu District. On 1 January 2023, BMS Ltd received government grant on bank account of FRW 120 million towards the purchase price of a new tractor to mechanize agriculture. On 1 July 2023, BMS Ltd purchased brand new tractor from General mechanics factory at cost of FRW 240 million in cash, which is estimated to have a useful life of 10 years. The import duties and transport cost incurred to bring the assets in usage condition was FRW 15 million and FRW 5 million respectively. By 1 July 2023, the tractor was ready for use. The company's policy recommends to adopt deferred income approach to account for all government grant.

Required:

(i) BMS Ltd is not aware on conditions necessary to recognize the government grant, advise them on when they should recognize the grant received. (2 Marks)

(ii) Show journal entries and prepare extract financial statements showing how the grant received and acquired tractor will be recorded and reported in the year ended 31 December 2023. (8 Marks)

(b) IAS 1 presentation of financial statements provide guidance on other comprehensive income, the standard state that other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other international financial reporting standards. Despite this guidance the accounting treatment and guidance with respect to other comprehensive income (OCI) has been criticized in recent years by users of financial statements. BMS Ltd is seeking guidance on elements to be classified under other comprehensive income in full compliance with IAS 1

Required:

Elaborate the components of other comprehensive income per IAS 1. (4 Marks)

(c) On 1 January 2020, BMS acquired a license to use E-ticketing for public buses for FRW 2 million. Initially, BMS expected to receive cash flows from the new system indefinitely. However, because of the difficulty in determining its useful life, BMS decided to amortize the license of new e-ticketing over a 10-year life, using the straight-line method. In January 2022, a competitor unexpectedly revealed a technological breakthrough which is expected to result in new system called Tap&Go which, when used, will significantly reduce the demand for existing E-ticking because Tap&Go is more friendly and passengers prefer it most. The demand for the E-ticketing system is expected to remain high until 1 January 2024, when the competitor is expected to launch its new Tap&Go. At 31 December 2022, the end of the financial year, BMS Ltd assessed the recoverable amount of the E-ticketing system FRW 500,000 and intends to sell it until 1 January 2024.

Required:

Advise management of BMS Ltd on how the E-ticking license should be accounted for in the financial statements ended 31 December 2021. (6 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) BM Global Ltd is a company that manufacturers sports equipment. A customer placed an order on 1 December 2023 for a national team sports materials at a price of FRW 300 million plus VAT at 18% of FRW 54 million. The sport materials were delivered to the customer on 20 January 2024, who accepted the goods as satisfactory by signing a delivery note. BM Global Ltd then invoiced the customer for the goods on 1 February 2024. The customer paid FRW 354 million on 2 February 2024.

Required:

Using five step model for revenue recognition, explain how the above revenue will be recognized (10 Marks)

(b) Dream sport Ltd is an international company that sells sport materials across the world and has signed different sponsorship agreement with notable football team.

On 1 December 2022, they imported sport materials from China with batch number of SPooJ22/15. The details of costs incurred in respect of the bath in December 2022 are shown below

	FRW "Million "
Invoice price	830
Import duties	23
Transport and clearing costs	56
Value added tax	34
Medical costs for casual labor who was damaged during offloading	0.2
Selling cost	2
Salaries of marketing manager	1.5

Before supplying sport kits to football team, the shirts are labelled with logo of the team and players' number among others. The costs incurred by Dream Sport Ltd for labelling shirts and other kits in this bath was FRW 41 million.

The year end 31 December 2022, and the net realizable value of this batch SPooJ22/15 as at 31 December 2022 was FRW 820 million

Required:

(i) Determine the initial costs of bath number SPooJ22/15 that will be included in the inventory and explain how each of the above costs will be accounted for. (8 Marks)

(ii) Show the value that will be presented in the balance sheet in regard to inventory material batch SPooJ22/15. (2 Marks)

(Total: 20 Marks)

End of question paper