CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 28, MAY 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 your workings where necessary.
7. The question paper should not be taken out of the examination room

SECTION A

QUESTION ONE

Fountain Ltd is a telecommunications company listed on the Rwanda Stock Exchange. Fountain Ltd earns revenue by selling telecommunication services (airtime & internet services) and mobile phone handsets at affordable prices to the general public in Rwanda. Fountain Ltd has investments in Swift Ltd and Rolls Ltd which are both local-based companies.

The financial statements for the year ended 31 December 2023 for the three companies are given below:

	Fountain Ltd	**Swift Ltd**	**Rolls Ltd**
	FRW million	**FRW million**	**FRW million**
Revenue	24,000	13,500	18,000
Cost of sales	(9,000)	(6,000)	(6,000)
Gross Profit	15,000	7,500	12,000
Other incomes: Dividend income	240		
Gain on disposal of shares in Swift Ltd	900		
Distribution costs	(3,600)	(1,800)	(2,400)
Administrative costs	(5,400)	(2,400)	(3,600)
Finance costs	(600)	(300)	(300)
Profit before tax	6,540	3,000	5,700
Income tax expense	(1,800)	(900)	(1,500)
Profit for the year	4,740	2,100	4,200
Dividends paid on 31 Dec 2023	(1,500)	(600)	
Retained profit for the year	3,240	1,500	4,200
Retained profit brought forward	12,360	7,500	4,500
Retained profit carried forward	**15,600**	**9,000**	**8,700**

Other information at 31 December 2023:

	Fountain Ltd	Swift Ltd	Rolls Ltd
	FRW million	FRW million	FRW million
Ordinary share capital (FRW 10 Par)	18,000	3,000	3,000

Additional information

1. On 1 January 2015, Fountain Ltd acquired 80% of the ordinary share capital of Swift Ltd for FRW 7,200 million when the retained earnings in Swift was FRW 4,500 million. There were no differences between the carrying value of the identifiable net assets of Swift with their fair values on the date of acquisition. The non-controlling interests in Swift Ltd are carried at their proportionate share of the identifiable net assets in Swift Ltd. Goodwill in Swift Ltd was not impaired by the date of the shares disposal.

2. On 1 April 2023, Fountain Ltd acquired 70% of the ordinary share capital of Rolls Ltd for FRW 5,400 million (this investment was completed immediately after the disposal of shares in Swift). The retained earnings in Rolls on 31 December 2022 were FRW 4,500 million. There were no differences between the carrying value of the identifiable net assets of Rolls with their fair values on the date of acquisition. The non-controlling interests in Rolls Ltd are carried at their proportionate share of the identifiable net assets in Rolls Ltd.

3. On 1 July 2023, Fountain Ltd sold half of its investment in Swift Ltd for FRW 4,500 million. After the disposal, Fountain Ltd is able to exercise significant influence over Swift. The fair value of the remaining investment in Swift Ltd was valued at FRW 3,900 million on the date of disposal. Though the disposal of shares in Swift Ltd has correctly been accounted for in the individual financial statements of Fountain, the disposal has not been recognized in the consolidated financial statements.

4. On 1 October 2023, Fountain Ltd sold goods (mobile phone handsets) to both Swift Ltd and Rolls Ltd worth FRW 500 million and FRW 1,500 million respectively. These sales transactions were each made at a profit margin of 20%. A half of the goods sold to both Swift Ltd and Rolls remained unsold at 31 December 2023.

5. For a number of years, Fountain Ltd has operated a defined benefit pension scheme for its senior management employees. The information below provides a summary of the balances and the interest rates that applied:

	Pension obligations (FRW million)	Pension assets (FRW million)	Interest rate
1 January 2023	4,500	4,100	6%
31 December 2023	7,000	6,150	7%

At the start of the financial year, the directors approved an amendment of the pension scheme to increase the pension commitment to the employees in the scheme due to a good financial performance that was recorded. The actuary has advised Fountain that the amendment in the pension scheme will increase the pension obligation by FRW 800 million in respect to the prior years. In addition, the current service cost for the year was estimated to be FRW 1,200 million and Fountain made a cash contribution to the pension scheme an amount of FRW 1,500 million on 31 December 2023. No pension benefits were settled in the year as the entitled employees continued to be in the pension scheme throughout the year.

Except for the cash contribution paid into the pension scheme, Fountain has not accounted for any other transaction regarding the pension scheme in its financial statements

6. Initially, access to Fountain's telecommunication services were restricted to the urban cities in Rwanda. On 1 October 2023, Fountain obtained a 10-year license from the Government of Rwanda to extend its telecommunication service network to the remote areas of Rwanda. The operating license was granted at no cost to Fountain on condition that the company provides an affordable non-disrupted network service to the general public who need the services accessed in the remotes areas. An equivalent 10-year operating license as that granted to Fountain Ltd costs FRW 1,800 million on 1 October 2023. Fountain Ltd is certain of satisfying the conditions attached to the grant. Fountain has not accounted for the granted license in its financial statements in the year but they are committed to apply the deferred income method under IAS 20 to recognize the grant income in its financial statements.

7. Except where stated otherwise, incomes and expenses for all the companies are deemed to accrue evenly throughout the accounting period.

Required:

(a) Briefly explain (with calculations where appropriate) how the license and the related grant to Fountain (in note 6 above) should be treated in its financial statements for the year ended 31 December 2023. Ignore the disclosure requirements (14 marks)

(b) Compute for recognition in the Fountain's consolidated financial statements:

(i) The Goodwill on the acquisition of Rolls Ltd (3 marks)

(ii) The Gain or loss on the partial disposal of shareholding in Swift Ltd (6 marks)

(iii) The investment in associate balance (regarding Fountain's remaining investment in Swift Ltd) as at 31 December 2023 and show the required adjustment for Fountain's dividend income received from Swift Ltd on 31 December 2023. (3 marks)

(c) Prepare the consolidated statement of profit or loss and other comprehensive income for Fountain Group for the year ended 31 December 2023 (23 marks)

(d) Compute the consolidated non-controlling interests balance that will appear in the consolidated financial statements as at 31 December 2023 (1 mark)

Note: *Show all workings (rounded to the nearest FRW millions without any decimal places)*

Total (50 Marks)

SECTION B

QUESTION TWO

Mega Beverages Limited (MBL) is a local company that sells beverages in Rwanda. As part of its expansion plans, MBL has recently constructed a store in Rubavu.

(a) The following costs were incurred in the construction of the store:

	FRW
Acquisition of Freehold land for construction	150,000,000
Architect fee	52,000,000
Site preparation cost	30,000,000
Construction material cost	720,000,000
Direct Labour costs	215,000,000
Legal fees for securing construction permit	42,000,000
General overheads	105,000,000

Additional information:

1. The year end for reporting purposes is 31 March each year.
2. The construction of the store started on 1 April 2023 and it was completed on 1 January 2024. The store was assessed to have an estimated economic useful life of 20 years from 1 January 2024.
3. The store was brought to use following its grand opening on 1 April 2024.
4. The company obtained a FRW 500 million bank loan on 1 April 2023 to finance the construction of this store. The asset meets the definition of a qualifying asset as per IAS 23 *Borrowing costs*. The annual interest rate of the loan is 15% and the loan is repayable on 01 April 2026.

Required:

In accordance with the relevant International Financial Reporting Standards:

(i) **Calculate the initial cost of the store to be included in the statement of financial position under Property, Plant and Equipment**.

Note: *In your answer and using the information provided, briefly provide an explanation for the costs that are not included in initial cost of the store.* (6 Marks)

(ii) **Explain (with appropriate calculations where necessary) the impact of the above information will have on the statement of profit or loss for the year ended 31st March 2024** (4 Marks)

(b)

(i) IAS 36 *Impairment of Assets* provides that in determining the value in use for an asset, a discount rate should be used. The standard provides how a market determined asset specific rate is arrived at. The standard further specifies that in case a market determined asset specific rate is not available, a surrogate must be used.

Required:

What is a surrogate with reference to IAS 36 and what should be considered in determining a surrogate? (2 Marks)

(ii) On 1 April 2020, MBL purchased a building in Kicukiro for FRW 2,000,000,000 and planned to use this building as customer care center that serves the customers in Kigali. The building had an estimated useful life of 20 years when purchased (a straight-line depreciation method should be used). On 31 March 2024 the Government of Rwanda embarked on a plan to introduce a car-free zone next to the building which limited the general public's access to the building, therefore reducing the value of the building. On 31 March 2024, MBL estimates that it can sell the building for FRW 1,000,000,000 paying FRW 5,000,000 as an estimated cost of disposal. Alternatively, if MBL continues to use the building, the present value of the net cash flows of the building on 31 March 2024, will be FRW 1,200,000,000.

Required:

Determine whether the building has suffered an impairment loss and calculate the amount of impairment loss if any for the year ended 31 March 2024 (5 Marks)

(c) MBL Ltd owns a building which it has been using as a branch office in Musanze. In order to reduce cost, on 1 October 2023, it moved its Musanze branch operations to one of its production centers in Nyabihu and is now letting out its old Musanze's branch office. MBL's policy is to use the fair value model for investment properties in accordance with IAS 40 *Investment Properties*.

The building had an original cost on 1 April 2014 of FRW 500,000,000 and was being depreciated over 50 years on prorate basis. MBL realizes any revaluation gains on property, plant and equipment on the disposal of the asset (in accordance with IAS 16 *PPE*).

On 1 October 2023, when MBL let out their building located in Musanze, its fair value was FRW 500,000,000. However, at 31 March 2024, the fair value had increased to FRW 600,000,000. Ignore deferred tax implications.

Required:

Using appropriate calculations and workings (where necessary), **show the impact of MBL's change in the use of the building as an extract in the statement of profit or loss and other comprehensive income for the year ended 31 March 2024 and the statement of financial position as at 31 March 2024.**

Note: *In part (c), you are NOT required to make narrative explanations for the accounting treatment applied* (8 Marks)

Total (25 Marks)

QUESTION THREE

Kamanzi Ticks Company (KTC) is a listed company on the Rwanda stock exchange and operates a fleet of heavy-duty trucks that are hired by mainly construction companies. KTC has operations that extend beyond the boundaries in Rwanda and applies International Financial Reporting Standards to prepare its financial statements. The directors of KTC are requesting for your technical advice over a number of transactions that took place in the financial statements for the year ended 31 December 2023. KTC remains certain of future taxable profits which will continue to be taxed ONLY in Rwanda at a tax rate of 30%.

(a) Convertible loan notes

In order to raise finance, KTC issued 50,000 of 6% convertible loan notes on 1 January 2023. The loan notes have a fixed term of 5 years. The loan notes were issued at a nominal value of FRW 200,000 per loan note. Interest is paid annually in arrears. The loan notes are convertible at any time up to their maturity date at the rate 400 shares for every loan note. On the same date of their issue, an equivalent loan note without the conversion rights had a market interest rate of 10% per annum.

The tax law in Rwanda maintains a tax base for the loan notes at their issued par value of FRW 10,000 million on 31 December 2023.

Below are the applicable discount factors:

	6%	10%
Simple discount factor (at the end of year 5)	0.747	0.621
Compound discount factor (over 5 years)	4.212	3.791

The directors of KTC are not sure of how to account for the convertible loan notes and the deferred tax implications.

Required:

In accordance to the applicable international financial reporting standards and using computations, briefly explain to the directors of KTC the accounting treatment for the:

(i) The convertible loan notes on the date of their issue and subsequently on the reporting date of 31 December 2023 (10 marks)

(ii) The deferred tax implications arising on the reporting date of 31 December 2023 (6 marks)

Note: *The figures and calculations MUST be rounded to the nearest FRW million (no decimal places) and the explanations should IGNORE disclosure requirements*

(b) KTC's invoice denominated in a foreign currency

In the current year ended 31 December 2023, KTC signed a contract with a major customer based in Kenya where in the contract, KTC hires its trucks to the customer to transport goods from Mombasa to Kigali. The contract stipulates that KTC invoices the customer in Kenya Shillings currency for hire services provided to the customer which amount is not hedged by KTC for any risk regarding the fluctuations of the Rwanda Francs against the Kenyan shillings.

On 1 October 2023, an invoice of Kshs 50 million was issued by KTC to the customer when the exchange rate was 1 Kshs = FRW 10. The transaction satisfied the requirements of IFRS 15 Revenue from contracts with customers to be recognized as sales revenue on 1 October 2023. The entire invoiced value remained outstanding at the reporting date (31 December 2023). The exchange rate on 31 December was 1 Kshs = FRW 9.8

The tax law in Rwanda maintains a tax base for this trade receivable balance at the spot exchange rate on the transaction date (1 October 2023) in the tax computations on 31 December 2023.

The directors of KTC are unsure of how to account for the above transaction and its consequential deferred tax implication in the financial statements at the reporting date.

Required:

In accordance to the applicable international financial reporting standards:

(i) With the support of appropriate calculations, **briefly explain the accounting treatment for the above transaction denominated in a foreign-currency on the initial recognition date (1 October 2023) and at the reporting date (31 December 2023)** (7 marks)

Note: *The explanations should IGNORE disclosure requirements*

(ii) Compute the deferred tax implications arising from the foreign-currency transaction at the reporting date (31 December 2023) and show its accounting journal (3 marks)

Note*: Narrative explanations are NOT required in part (b)(ii) of the question*

Additional Notes:

1. *You are NOT expected to aggregate the deferred tax implications of part (a) with those in part (b).*
2. *The figures and calculations in part (b) MUST be rounded to the nearest FRW million (no decimal places)*

(Total: 25 marks)

QUESTION FOUR

(a) The International Public Sector Accounting Standard Board (IPSASB) is a subsidiary body of the International Federation of Accountants (IFAC). Its main mandate includes among others to develop International Public Sector Accounting Standards (IPSAS), to facilitate convergence of the international standards and national standards and to enhance the quality and uniformity of reporting throughout the World. Currently IPSAB has embarked on the development of guidance/standard for advancing Public Sector Sustainability Reporting.

Required:

Using five reasons, **explain why you think it is important now for IPSASB to provide guidance on public sector sustainability reporting?** (5 Marks)

(b) IPSAS 24 *Budget Information in Financial Statements* requires a comparison of budget amounts and actual amounts arising from the execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable. The following information relate to the original budget and actual amounts for ABC-Rwanda (a government agency) for the year ended 30 June 2023. In addition, adjustments to the original budget were approved during the financial year as provided below.

ABC-Rwanda's Original budget and actual amounts for the year ended 30 June 2023

	Original budget	**Actual on comparable basis**
	FRW (000)	**FRW (000)**
Revenue		
Property taxes	12,187,500	12,165,031
Public contributions and donations	287,500	248,656
Fines, penalties and levies	11,225,000	11,135,438
Licenses and permits	262,500	259,194
Government grants and subsidies	8,562,500	8,562,206
Rendering of services	9,553,750	6,268,106
Sale of goods	61,687,500	61,682,888
Finance Income	882,500	881,975
Gains on disposal, rental income and agency fees	831,250	856,750
Total Revenue	**105,480,000**	**102,060,244**
Expenses		
Compensation of employees	34,100,000	34,095,194
Goods and services	43,687,500	49,129,575
Finance cost	1,900,000	1,685,719
Rent paid	36,825	36,825
Taxation paid	26,563	25,650

Other expenses	6,512,444	11,276,056
Grants and subsidies paid	625,000	599,006
Total Expenses	**86,888,331**	**96,848,025**

The following are required adjustments (in percentage changes) to be made by ABC-Rwanda on the original budget based on the approved revisions that were made during the financial year:

	% change	Required change
Revenue		
Public contributions and donations	4%	Decrease
Fines, penalties and levies	1%	Decrease
Rendering of services	16%	Decrease
Gains on disposal, rental income and agency fees	3%	Increase
Expenses		
Goods and services	2%	Increase
Finance cost	11%	Decrease
Taxation paid	8%	Increase
Other expenses	52%	Increase

Required:

Taking into consideration, the required adjustments to the original budget figures, **prepare the statement of comparison of revised budget and actual amounts for ABC-Rwanda for the year ended 30 June 2023** (20 marks)

Note: *Clearly indicate the variance percentage in the budget comparison report of the final budget. Disclosure notes are NOT required.*

Total: (25 Marks)

End of Question Paper

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