CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: 29 NOVEMBER 2022

MODEL ANSWER AND MARKING GUIDE

SECTION A

QUESTION ONE

Marking guide

MARKING GUIDE TO QUESTION 1: RAFIKI GROUP

	Marks
Part (a): Preparation of the consolidated statement of financial position as at 31 October 2022	
Award 0.5 marks for each correct figure that represents the **total balance** of each relevant line item presented on the face of the consolidated statement of financial position (excluding sub/other totals (**to a maximum of 8 marks**)	8
Award as below for workings (computed as separate workings or as part of the details directly presented on the face of the consolidated statement of financial position):	
Property, plant & equipment (0.5 marks for each separate correct figure shown on the face of the statement of financial position or in a separate specific working **summing-up** the consolidated PPE and the marks should **exclude** the total and other detailed workings)	2
Fair value gain on re-measurement of the original 30% shareholding in Simba (0.5 marks for each separate correct figure **including** the total)	1.5
Goodwill on acquisition of control over Simba (0.5 marks for each separate correct figure **excluding** the total and the deferred tax calculation whose mark allocation is guided below)	3
A correct calculation of deferred tax liability may be included in the goodwill working or as a separate working - up to a maximum of 1 mark (0.5 marks for each correct figure/tax rate making and including the total deferred tax liability). The calculation of deferred tax can be done either separately or within the calculation of Goodwill.	1
Consolidated retained earnings (0.5 marks for each separate correct figure **excluding** the total)	7
Non-controlling interests (0.5 marks for each separate correct figure **excluding** the total)	1.5
Investment in associate (0.5 marks for each separate correct figure **excluding** the total) including 1 mark for the correct calculation (or treatment) of the impairment loss suffered on the investment in associate	2.5

Accounting treatment for Rafiki's sale of equipment to Simba including a **brief explanation** of the accounting treatment for the un-realized profit (1 mark), a brief explanation of the consolidation adjustment for the excess depreciation arising (1 mark) and a correct calculation (with time-apportionment) for excess depreciation that needs to be reversed (0.5 marks per correct figure up to a maximum of 1 mark)	3
A brief correct explanation of the "presentation adjustment" for Rafiki's purchased debenture notes in Tropical (alternatively this may be presented in form of a double-entry approach). Any explanation or written reference that the debenture note transaction/balance is not an intra-group transaction/balance (since Tropical Ltd is an associate) will earn a bonus 1 mark.	1
Impairment of a receivable from a customer in liquidation including a brief correct explanation of the need to adjust/reverse the receivable (1 mark); a correct calculated amount of the receivable to adjust from the financial statements (1 mark); and a correct treatment/adjustment for the cost of sales and inventory to adjust (1 mark)	3
Defined benefit plan: Award up to 6 marks for the schedule/computation of the net pension asset (0.5 marks for each separate correct figure used in the computation **excluding** the final total). This should include 1 mark for a brief explanation of the impact of the asset ceiling on the adjustment of the net pension asset	6
Defined benefit plan: Award up to 2 marks for the computation / schedule making up the pension plan expense in the P&L (0.5 marks for each separate correct figure **excluding** the total) and up to 1 mark for the computation of the net re-measurement difference to be recognized in the other comprehensive income/other reserves (0.5 marks for each separate correct figure **excluding** the total)	3
Trade name: Award up to 1.5 marks for the computation of the adjusted trade name balance after the impairment loss and 1 mark for the explanation of the correct presentation of this as an "intangible asset" and not a PPE (this can be presented in form of double-entry adjustment)	2.5
Total marks for Question 1 (a)	**45**

Part (b)(i) Circumstances under which Rafiki can control BTG

Award 1 mark for every valid point made (and linked to the information in the scenario) including:

- explanation of control and how Rafiki can confirm control over BTG	1
- explanation of how Rafiki can confirm power over BTG (this may be given using correct examples of "relevant activities" that evidence power)	1

Part (b)(ii) whether Rafiki plc should consolidate BTG in the Rafiki group accounts in the year ended 31 October 2023

Award 1 mark for every valid point made (and linked to the information in the scenario) including:

- confirmation that Rafiki's current shareholding of 40% does not automatically give it control over BTG	1
- an explanation that Rafiki's having power over selection and remuneration of BTG's management is evidence that it controls (or has power over BTG)	1
- A conclusion that Rafiki has control over BTG and should therefore consolidate BTG in the group accounts	1
Total marks for Question one	**50**

MODEL ANSWER TO QUESTION 1: RAFIKI GROUP

(a)Rafiki Group's consolidated statement of financial position as at 31 October 2022 (in FRW 'millions)

Note: Due to the requirement to round-off to full amounts, the model answer may contain small numerical differences arising from rounding off which have been accepted"

	FRW millions
Assets	
Non-current assets	
Property, plant & equipment [7,750 + 1,190 + 52(W2) - 126(W6) + 6(W6) - 198 (W10)]	8,674
Goodwill (W2)	1,259
Other Intangible assets [3,150 +150 +198(W10) -14(W10)]	3,484
Loan asset (W7)	56
Investment in associate (Tropical Ltd) (W5)	725
Total non-current assets	**14,198**
Current assets	
Inventories [3,492 + 756 + 315(W8)]	4,563
Receivables [1,890 + 378 - 378(W8)]	1,890
Defined benefit plan asset (W9)	106
Cash and bank [386 + 126]	512
Total current assets	**7,071**
Total assets	**21,269**
Equity and Liabilities	
Equity	
Share capital	3,500
Share premium	875
Revaluation & other reserves [1,545 - 139 (W9)]	1,406
Retained earnings (W3)	3,529
Non-controlling interests (W4)	351
Total equity	**9,661**

Non-current liabilities		
Long-term borrowings [3,780 + 252]		4,032
Deferred tax liability (W2)		16
Total non-current liabilities		**4,048**
Current liabilities		
Trade & other payables	4,410 + 504	4,914
Taxes payable	2,520 + 126	2,646
Total current liabilities		**7,560**
Total equity and liabilities		**21,269**

Workings (all in FRW millions)

W1: Fair value gain - re-measurement of initial 30% Investment in Simba on 1 Nov 2021

	FRW Million
FV on 1 Nov 2021	1,099
Less: Cost of investment (1 Nov 2020)	(650)
FV gain on re-measurement (1 Nov 2021)	**449**

W2: Goodwill - acquisition of Simba

	FRW Million	**FRW Million**
Purchase consideration - 50% shareholding (1 Nov 2021)		1,410
Plus: Fair value for re-measured initial 30% shareholding (1 Nov 2021)		1,099
Plus: Non-controlling interest (1 Nov 2021) - 20% * 1,582m (net assets)		316
Less: Fair value of net assets (1 Nov 2021)		
As given in question	1,582	
Less: Deferred tax liability effect on FV gain on Land on 1 Nov 2021 (30% tax rate * FRW 52 million)	(16)	
Fair value of net assets (1 Nov 2021)		(1,566)
Goodwill		**1,259**

Fair Value adjustment and deferred tax effect: non-depreciable land in Simba (1 Nov 2021)

Included in the Goodwill calculation is the fair value increase in non-depreciable land of Simba on 1 November 2021 of FRW 52 million.

Debit: Group PPE	52	
Credit: Goodwill in Simba		52

Deferred tax liability due to FV increase on non-depreciable land in Simba (1 Nov 2021)

Debit: Goodwill (W2)	16	

Credit: Deferred Tax Liability (30% tax rate * FRW 52 million)		16

W3: Consolidated retained earnings

	Rafiki	Simba	Tropical
	FRW million	**FRW million**	**FRW million**
As per question	3,540	768	245
Less: Retained earnings on date of acquisition of investments in Simba (1 Nov 2021) and Tropical		(580)	(28)
Plus: FV gain on re-measurement of initial 30% shareholding in Simba (W1)	449		
Less: Un-realized profit on Rafiki's sale of equipment to Simba (W6)	(126)		
Plus: Adjustment for Rafiki's un-realised profit resulting into excess depreciation charge on equipment sold by Rafiki to Simba (W6)	6		
Less: Impairment loss on receivables in Rafiki (non-liquid customer) (W8)	(378)		
Plus: Reversal of cost of sales - unsold tractors to customer in liquidation (W8)	315		
Less: Defined benefit pension expense (W9)	(449)		
Less: impairment loss on investment in associate (W5)	(22)		
Less: impairment loss for trade-name in Simba (W10)		(14)	
Sub-totals	**3,335**	**174**	**217**
Plus: Group's share of post-acquisition retained earnings in:			
Simba: 80% * FRW 174m	139		
Tropical: 25% * FRW 217m	54		
Consolidated retained earnings	**3,529**		

W4: Non-controlling interests (in Simba)

	FRW Million
Value on 1 Nov 2021	316
Plus: 20% NCI's share of post-acquisition reserves in Simba for the year ended 31 Oct 2021 (W3) (20% * FRW 174m)	35
Total: Non-controlling interests	**351**

W5: Investment in Associate (Tropical)

	FRW Million
Initial investment in Tropical (1 Nov 2021)	693
Plus: 25% share of post-acquisition reserves for the year ended 31 Oct 2021 (W3) (25% * FRW 217m)	54
Total: Investment in associate (before impairment loss)	**747**
Less: Impairment loss - investment in associate (747m - 725m)	(22)
Recoverable amount of "investment in associate" - 25% * FRW 2,900m	**725**

W6: Rafiki's sale of an equipment to Simba (1 May 2022)

(i) Provision for Un-realised profits on sale of equipment

Debit: Consolidated retained earnings	126	
Credit: Group PPE (the equipment was turned into PPE by Simba)		126

Explanation for un-realised profit on the sale of the equipment: Though the sale by Rafiki is a sale of an inventory, this is transferred to an item of property, plant and equipment by Simba as the equipment is to be used in Simba's operations as a tangible non-current asset. Therefore, the adjustment of the un-realised profits impacts on the PPE account and not inventories.

(ii) Adjustment for excess Depreciation for equipment due to un-realised profit (May - Oct 2022)

Debit: Group PPE (due to excess depreciation from un-realised profits on PPE) (6-months depreciation: FRW 126m/10 years * 6/12 months)	6	
Credit: Consolidated retained earnings (6-months depreciation: FRW 126m/10 years * 6/12 months)		6

Explanation for accounting of the excess depreciation: The cause of the excess depreciation is the "un-realised profits reported in Rafiki's financial statements" and therefore this adjustment arises from the primary adjustment in Rafiki's accounts and hence the NCIs do not get a share of this adjustment.

W7: Presentation adjustment: Rafiki's purchased debenture notes in Tropical

This should be presented separated from Rafiki's "investment in associate" and therefore an adjustment needed is "Debit: Loan asset" with FRW 56 million.

As these are debenture notes held in Tropical (an associate), this investment (and any interest charged) is not an intra-group item and hence no cancellation of intra-group items / balances are needed.

W8: Impairment of Receivable in Rafiki's financial statements (Customer under liquidation)

(i) Impairment loss of receivable balance: An impairment loss on the receivable balance (selling price of FRW 504m less FRW 126m initial deposit) of FRW 378 million will have to be recognized (this is based on the receivable balance currently in Rafiki's financial statements which already excludes interest)

Debit: Consolidated retained earnings	378	
Credit: Trade receivables		378

(ii) In addition, there will be a reversal of cost of sales (since in substance, this is a no-sale transaction as Rafiki retained physical possession and control over the tractors which then return back into "inventory")

Debit: Inventories (at carrying amount of tractors)	315	
Credit: Consolidated retained earnings (cost of sales)		315

W9: Defined benefit pension plan - managed by Rafiki
(i) Net defined benefit asset recognized in the statement of financial position

	Pension assets	**Pension obligations**	**Net Asset**
	FRW Million	**FRW Million**	**FRW Million**
Opening balance (1 Nov 2021) - as per Question	945	693	252
Contributions paid into pension plan	441		441
Benefits paid from the scheme	(630)	(630)	-
Current service cost		252	(252)
Past service cost		202	(202)
Interest cost on pension obligations: 10% (interest rate at start of year) *(FRW 693m obligation at start of year plus FRW 202m past service cost)		89	(89)
Interest returns on pension assets: 10% (interest rate at start of year) *FRW 945m (asset value at start of year)	94		95
Sub totals (before re-measurement differences)	**850**	**606**	**244**
Re-measurement differences (gain on plan assets of FRW 32m; loss on pension obligations of FRW 125m; all giving a net re-measurement loss of FRW 93m	32	125	(93)
Closing balance (31 Oct 2022) – Net defined benefit plan asset	**882**	**731**	**151**
Re-measurement loss - due to asset ceiling (FRW 151m - FRW 106m) ***(Credit Defined benefit net asset)***			**(45)**
Closing balance (Net defined benefit plan asset) - limited to Asset ceiling (70% limit * FRW 151m net pension asset)			**106**

(ii) Defined benefit expense recognized in the P&L

	FRW Million
Current service cost	252
Past service cost	202
Less: Net interest on net pension assets (94m interest cost on obligations less 89m return on plan assets) *(note: any small figure variation is due to the rounding off in earlier figures computed)*	(5)
Total pension scheme cost	**449**

(iii) Re-measurement difference recognized in the Other Comprehensive Income (IAS 19 prohibits reclassification to P&L) - presented under "revaluation & other reserves"

	FRW Million
Re-measurement gain on pension plan assets (W9-i))	32
Less: Re-measurement loss on pension plan obligations based on market values on pension plan (W9-i))	(125)
Less: Re-measurement loss on pension plan - based on asset ceiling (W9-i) (Debit: OCI - Revaluation & other reserves)	(45)
Net re-measurement loss	**(139)**

W10: Simba's trade-name

	FRW Million
Carrying amount - 1 November 2018	330
Less: Accumulated amortization (Nov 2018 - Oct 2022) - FRW 330/10 years * 4 years	(132)
Carrying amount - 31 October 2022 (currently presented under PPE in error) 330-132	198
Recoverable amount (based on fair value) on 31 October 2022	184
Impairment loss for trade name on 31 October 2022 (198 – 184)	14

Adjustments required:

(i) Reclassification from PPE to other intangible assets on 31 October 2022

Debit: Other intangible assets	198	
Credit: Property, plant & equipment		198

(ii) Impairment loss on trade name

Debit: Consolidated retained earnings	14	
Credit: Other intangible assets		14

Part (b)

(i) Circumstances under which Rafiki will be assessed to control BTG

In respect to IFRS 16 "Consolidated financial statements" Rafiki plc will claim control over BTG only if Rafiki has:

- Power over the BTG and in this case Rafiki should confirm it has "power" over BTG where Rafiki can confirm it has any one of the following:

- Power over more than half of the voting rights in BTG by virtue of an agreement with the other investors; or
- Power to govern the financial and operating policies of BTG under a statute or an agreement; or
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body of BTG and control of BTG is by that board or body; or
- Power to cast the majority of votes at meetings of the board of directors or equivalent governing body of BTG and control of BTG is by that board or body.
- In addition, to Rafiki exercising power over BTG, it can be evidenced that Rafiki has: Exposure, or rights, to variable returns from its involvement with the BTG; and
- The ability to use its power over the BTG to affect the amount of Rafiki's returns.

Rafiki will be able to exercise "power" over BTG if Rafiki has existing rights that give it the current ability to direct the relevant activities of BTG (e.g. selling and purchasing goods or services; managing financial services; selecting, acquiring and disposing of assets).
There is no requirement that Rafiki should have exercised that power. It would be straight-forward to confirm that Rafiki has power over BTG if Rafiki held directly or solely held majority of voting rights or potential voting rights in BTG and as a result the ability to direct the relevant activities of BTG.

(ii) Whether Rafiki plc should consolidate BTG in the Rafiki group accounts in the year ended 31 October 2023

Based on the information provided, the absolute size of Rafiki's shareholding is 40% and the relative size of each of the other shareholders alone (5% each) in BTG are not conclusive in determining whether Rafiki has rights sufficient to give it power over BTG.
However, the fact that Rafiki has a contractual right to appoint, remove and set the remuneration of the management of BTG is sufficient evidence to conclude that Rafiki has power over BTG. The fact that Rafiki has not exercised this right is not a determining factor when assessing whether Rafiki has power over BTG.
In conclusion, Rafiki controls BTG from November 2022 (as the date of acquisition) and should consolidate BTG in the consolidated BTG in the Rafiki Group accounts for the year ended 31 October 2023.

SECTION B

QUESTION TWO

Marking guide

	Marking guide	**Marks**
a)		
	Award 1 mark for definition of Functional currency	1
	Award 1.5 mark each explained factors based on while determining functional currency of an entity (At least four (4) factors mean 6 marks.	6
	Sub-total	**7**
b)		
	Award 2 mark for well computed deductible temporary difference on PPE, finance assets and trade receivable values of net assets	6
	Award 1 mark for well computed deferred tax asset	1
	Sub-total	**7**
c)		
	Award 1 mark for definition of lease (1 mark)	1
	Award 1 mark for initial measurement of right of use asset and liability	1
	Award 1 mark for how right of use asset is determined	1
	Award 1 mark for explaining subsequent measurement of right of use asset	1
	Award 1 mark for subsequent measurement of lease liability	1
	Award 1 mark for stating that depreciation is charged by	1
	Sub-total	**6**
d)		
	Award 1 mark for showing it is denominated and repayment is in Kenya shilling and yet NPD Group uses Rwandan Franc (1 mark)	1
	Award 1 mark for amortized cost and showing that loan will be presented under noncurrent liability	1
	Award 1 mark for describing amortized cost (1 mark)	1
	Award 1 mark for clearly stating that loan will be converted and presented in financial statements using Rwanda Francs,	1
	Award 1 mark on the treatment of interest costs	1
	Sub-total	**5**
	Total marks	**25**

Total: 25 marks

Model answers

a)

✓ Functional currency is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash.

✓ Every reporting entity needs to determine its functional currency and measure its results and financial position in that currency. So, it means that NDP Kenya Ltd needs to determine its functional currency which can be different or same as the NDP Group (whose functional and presentation currency is the Rwandan Francs (FRW).

So, the following are considered to determine the functional currency for NDP Kenya Ltd:

✓ The currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); In this case the sales are in Kenya Shillings.

✓ The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. Once more, the generation and sales being in Kenya, the Kenya shillings can be considered here.

✓ The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled). For this case if the staff and spare parts are paid for in Kenya shillings, it will be considered as such.

Other factors may also be considered:

✓ The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated. In this case is the United States dollar

✓ The currency in which receipts from operating activities are usually retained. In this case, if not all the profit is repatriated then it will be in Kenya shillings.

✓ **Given the factors to consider above, it looks more appropriate to use the Kenya shillings as functional Currency for the NDP Kenya Ltd.**

b) Computation of Deferred tax

	Fair value	Tax base amount	Temporary Difference
	FRW million	FRW million	
Assets			
Non-current assets			
Property, plant and equipment	720	900	(180) DTD
Financial assets	120	144	(24) DTD
Inventories	48	48	0
Trade receivables	72	84	(12) DTD
Cash and cash equivalents	72	72	0
Liabilities			
Long-term borrowings	120	120	0
Trade payables	84	84	0
Net temporary difference			**(216) DTD**
Deferred taxable asset = 30%*216			64.8

DTD = Deductible temporary difference

c)

✓ A lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Given the lease term is more than a year (6 years) then the following will be applicable for KMC when the lease contract is signed.

✓ Upon lease commencement, a lessee determines value of right-of-use asset and a lease liability. Right of use asset is recognized as asset while related lease liability is recognized as liability

✓ The right-of-use asset is initially measured at the amount of present value of lease rentals plus any initial direct costs incurred by the lessee.

✓ After lease commencement, a lessee shall measure the right-of-use asset using a cost model, unless it is Investment property (use fair value model) or is a class that can be revalued (use revaluation model). The lessee depreciates the right of use assets based on the lease term and depreciation is charged to profit or loss account

✓ The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

✓ The lease liability is subsequently remeasured to reflect changes in the lease term (using a revised discount rate)

✓ The lease liability is split into non-current liability and current liability, the related interest costs is charged to profit or loss and this finance increase liability while lease payment reduce lease obligation

d)

✓ The loan is denominated in a currency other than the Rwanda Franc (FRW) which NPD Group uses as functional and presentation currency.

✓ For presentation purpose, the loan will be converted into Rwandan currency deemed to be presentation currency of NDP group, however, the loan repayment and related interest will be denominated in Kenyan shillings

✓ The loan will be measured at amortized cost.

✓ The amortized cost ensures that the equal loan repayments, reduce the principal to ensure that it results to the effective interest rate of 13% interest on remaining principal amount.

✓ Since the repayments and interest should be in Kenya shillings, the loan repayments (principal and interest will be translated at the amounts at date of repayment and due date.

✓ The related interest cost will eb charged to profit or loss for each year,

✓ The loan will be presented under non-current liability, and for the last 12 months, the loan liability and associated interest payable will be presented under current liability

QUESTION THREE

Marking guide

	Description	**Marks**
a)	i) Award 2 marks for correct explanation of defined benefit plan and 2 marks for defined contribution plan	4
	ii)	
	Interest income/(expense)	2
	Current service cost	1
	Actuarial gain/(loss)	2
	Net defined benefit liability	2
	Workings 0.5 mark for each entry other than opening and closing balance	4
	Sub-total	**11**
b)	i)Award 2 marks well explained cash settled share-based payment and equity settled share-based payment	2
	Award two (2) marks for well stated recognition of cash settled and equity settled share-based payment	2
	ii) Treatment of shared based payment in profit or loss and financial position	
	Award 1 mark for well computed share-based payment in 2020	1
	Award 1 mark for indicating cost to charge in P/L for 2020	1

	Award 1 mark for well indicated equity in SOFP as at 2020	1
	Award 1 mark for well computed share-based payment in 2021	1
	Award 1 mark for indicating cost to charge in P/L for 2020	1
	Award 1 mark for well indicated equity in SOFP as at 2020	1
	Sub-total	**6**
	Total Marks	**25**

Model answers

a)

i) Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods where as **defined benefit plans** are post-employment benefit plans other than defined contribution plans as **defined benefit plans** relates to post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

ii)

- ✓ The Charges/incomes in the profit or loss

	FRW Million
Interest expense (231-185)	(46)
Current service cost	(279)
Actuarial gain/(loss) (260-195)	65

- ✓ The net defined benefit liability in the statement of financial position as at 31 December 2021

Non-Current liabilities

	FRW Million
Net defined benefit liability (2,076-2,051)	25

- ✓ Workings

	Asset	**Liability**	**Net Asset/liability**
	FRW Million	**FRW Million**	**FRW Million**
Balance at 01 January 2021	1,850	1,925	(75)
Interest income/expense	185	231	(46)
Current service cost		279	(279)
Payments of benefits	(99)	(99)	-
Contributions to scheme	310		310
Actuarial gain/loss	(195)	260	65

Balance at 31 December 2021	2,051	2,076	(25)

b)

i) **Cash settled share-based payment** is a share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.

Equity-settled share-based payment transaction is A share-based payment transaction in which the entity

- Receives goods or services as consideration for its own equity instruments (including shares or share options), or
- Receives goods or services but has no obligation to settle the transaction with the supplier

Recognition

An entity shall recognize the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognize a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

ii)

	FRW Million	**FRW Million**
Financial statement for the year ended 31 December 2020		
Amount of equity to recognise [(923-6-11) *200*800*1/3] = 48,320,000		
Dr: Employee cost in P/L	48,320,000	
Cr: Equity in SOFP		48,320,000
Financial statement for the year ended 31 December 2021		
Amount of equity to recognise [(923-6-8-6) *200*800*2/3] = 96,320,000		96,320,000
Dr: staff cost in P/L (96,320,000-48,320,000)	48,000,000	
Cr: Equity		48,000,000

QUESTION FOUR

Marking guide

Questions	Guidance	Marks
a)		
	For format of the report (Title, To, Date, From, Introduction, body and conclusion)	2
	In the body	
	An introduction	**2**
	Any guidance provided on consolidated financials (award 1.5 mark for each point)	6
b)		
	Award **1** mark for stating and 0.5 MARK brief explanation of guiding principle provided (Six point are required mean 9 marks	9
	Award 1 mark for stating each content element of integrated report	6
	Sub-total	15

Total: 25 marks

Model answers

a) A brief report to the accountant general on how to consolidate the financial statements of the Government of Rwanda (GoR) in accordance with relevant IPSAS

REPORT

To: Accountant General

From: Financial Adviser

Date: 16 October 2022

<u>Title: Guidance on preparing government consolidate financial statements</u>

Introduction

This report provides a brief on how to consolidate financial statement of the Government of Rwanda (GoR). Since 2019 Government of Rwanda (GoR) started roadmap aimed to use of International Public Sector Accounting Standards (IPSAS) in its Integrated Financial Management System (IFMS). GoR consists of several budget agencies and Government Business Enterprises (GBE) in addition to its central and local government organs. This report will provide relevant guidance and process of consolidation of GoR financial statements.

The relevant accounting standards are in IPSAS is using the modified accrual basis of accounting.

Relevant IPSAS that accountant general should refer to while preparing government consolidated financial statements

IPSAS 6—Consolidated and Separate Financial Statements

IPSAS 7—Investments in Associates

IPSAS 8—Interests in Joint Ventures

IPSAS 34—Separate Financial Statements

IPSAS 35—Consolidated Financial Statements

IPSAS 36—Investments in Associates and Joint Ventures

IPSAS 37—Joint Arrangements

IPSAS 38—Disclosure of Interests in Other Entities

IPSAS 40—Public Sector Combinations

At each reporting date, the consolidation process will involve having all the entities and sub entities submit their separate financials to GoR Accountant General office prepared in accordance with relevant standard and policies. The consolidated financial statements should include but not limited to: government agencies, Ministries, local government, government business enterprise, government projects etc.

The financial statement will then be put in consolidation templates accordingly to match the standard. In putting into the consolidation templates there will be need for adjustments to fit into IPSAS consolidation (which are nearly wholly same as IFRS).

There will be need to also ensure that the accounting dates are the same (or have difference of maximum 3 months). The reporting dates of all consolidated entity must be 30 June or any other date provided that the gap period does not exceed 3 months. For any significant difference in dates, then the concerned body will be requested to prepare additional financials for consolidation purpose that match with government reporting date.

There will be aggregating of all the entities line by line items of assets, liabilities, income's, expenses and equity.

Any inter entities, transfers and balance are then to be cancelled out from the separate lines that are in income and expense, asset and liability or asset and equity. Eg: If ministry transferred funds to one of the subsidiaries, the inter entity transfers should be eliminated in full.

The consolidated figures will then be presented in the separate financials with notes and policies that are in accordance with IPSAS.

Accountant general should ensure that necessary disclosures such as government investments, government loan etc are properly made.

Conclusion

The relevant IPSAS for consolidation have been presented. The steps to be followed on how o consolidate the GoR financials that incorporates all the organs financials to come up with consolidated figures. It is hope that this will be of use in the GoR IFMS.

b)

According to the International Integrated Reporting Council (IIRC) Framework January 2021, the following seven guiding principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented:

✓ **Strategic focus and future orientation:** An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals

✓ **Connectivity of information:** An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time

✓ **Stakeholder relationships:** An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests

✓ **Materiality:** An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term

✓ **Conciseness:** An integrated report should be concise

✓ **Reliability and completeness:** An integrated report should include all material matters, both positive and negative, in a balanced way and without material error

✓ **Consistency and comparability:** The information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

The following are eight content elements of an integrated report that are fundamentally linked to each other and are not mutually exclusive:

✓ **Organizational overview and external environment:** What the organization do and what are the circumstances under which it operates?

✓ **Governance:** How does the organization's governance structure support its ability to create value in the short, medium and long term?

✓ **Business model:** What is the organization's business model?

✓ **Risks and opportunities:** What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?

✓ **Strategy and resource allocation:** Where does the organization want to go and how does it intend to get there?

✓ **Performance:** To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?

✓ **Outlook:** What challenges and uncertainties are the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

✓ **Basis of presentation:** How does the organization determine what matters to include in the integrated report and how are such matters.

END OF MARKING GUIDE AND MODEL ANSWERS