CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY, 29 NOVEMBER 2022

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

Rafiki Plc is a company incorporated in Rwanda selling agricultural equipment including farm-cultivating tractors. Rafiki plc holds investments in two other companies namely Simba Ltd selling agricultural seedlings and Tropical Ltd selling agricultural pesticides. The three companies all sell their products to retailers located in different cities within Rwanda.

The following statements of financial position relate to Rafiki plc, Simba Ltd and Tropical Ltd for the year-ended 31 October 2022.

	Rafiki	**Simba**	**Tropical**
	FRW million	**FRW million**	**FRW million**
Assets			
Non-current assets			
Property, plant & equipment	7,750	1,190	1,449
Other Intangible assets	3,150	150	441
Investment in Simba Ltd	2,509		
Investment in Tropical Ltd	749		
Total non-current assets	**14,158**	**1,340**	**1,890**
Current assets			
Inventories	3,492	756	434
Receivables	1,890	378	189
Defined benefit plan asset	244		
Cash and bank	386	126	63
Total current assets	**6,012**	**1,260**	**686**
Total assets	**20,170**	**2,600**	**2,576**
Equity and Liabilities			
Equity			
Share capital	3,500	630	378
Share premium	875	320	882
Revaluation reserve	1,545		
Retained earnings	3,540	768	245
Total equity	**9,460**	**1,718**	**1,505**
Non-current liabilities			
Long-term borrowings	3,780	252	56
Current liabilities			
Trade & other payables	4,410	504	567
Taxes payable	2,520	126	448

	Rafiki	Simba	Tropical
	FRW million	**FRW million**	**FRW million**
Total current liabilities	**6,930**	**630**	**1,015**
Total equity and liabilities	**20,170**	**2,600**	**2,576**

The following information is relevant to the preparation of the group financial statements of the Rafiki group:

1. Rafiki initially **acquired 30% ordinary share capital in Simba** on 1 November 2020 for FRW 650 million when the net assets in Simba were valued at FRW 1,470 million. Included in the net assets on 1 November 2020 were retained earnings of FRW 520 million. The 30% shareholding did not constitute significant influence over Simba. Later, on 1 November 2021, **Rafiki acquired an additional 50% ordinary share capital in Simba** for FRW 1,410 million when the net assets in Simba were valued at FRW 1,582 million. Included in the net assets on 1 November 2021 were retained earnings of FRW 580 million.

Rafiki accounted for their investment in Simba at market fair value with any fair value changes recognized in the profit or loss. Immediately prior to obtaining control, the market value of the Rafiki's initial 30% shareholding in Simba was valued at FRW 1,099 million. On 31 October 2022, it was confirmed that the market value of the investment in Simba had not changed from its value determined on 1 November 2021.

The non-controlling interests in Simba are carried at their proportionate share of the identifiable net assets in Simba.

2. The excess of the fair value of the net assets of Simba over their carrying amounts at the dates of acquisition is due to an increase in the fair value of non-depreciable land. The non-depreciable land of Simba had a fair value increase of FRW 52 million on 1 November 2021. For deferred tax purposes, the group operates under a corporation tax rate of 30%. Fair value adjustment and deferred tax implications have not been recognized in the financial statements of any combining entity.

3. Rafiki acquired 25% ordinary share capital in Tropical on 1 November 2021 for FRW 693 million and retained earnings at that date were FRW 28 million. This gave Rafiki significant influence over Tropical on that date.

4. Rafiki sold a consignment of agricultural equipment (inventory) to Simba on 1 May 2022 for FRW 630 million which Simba converted into use as part of its factory equipment (an item of property, plant and equipment with an estimated useful life of ten years on the date of the sale). Rafiki made a profit on the sale of the equipment of FRW 126 million.

The group's policy is to depreciate this item of property, plant and equipment using the straight-line method over its estimated useful life of 10 years based on a time-apportionment basis. Any deferred tax implications arising on this fair value adjustment were assessed to be negligible. Assume that any depreciation charge implications to the non-controlling interests are immaterial i.e the entire depreciation will be charged to group account.

5. In addition, on 31 October 2022, Rafiki purchased 5-year debenture notes from Tropical at FRW 56 million at their cost. Although, Tropical has correctly recorded the issued debenture notes in its non-current liabilities, Rafiki has incorrectly presented the purchased debenture notes in the line for "Investment in Tropical Ltd" within its non-current assets. There were no intra-group balances outstanding at 31 October 2022.

6. On 1 August 2022, Rafiki sold five (5) large-sized farm-cultivating tractors to a customer for FRW 504 million when their carrying amount at the point of sale was FRW 315 million (as recognized in the cost of sales). The contractual terms for the sale required the customer to pay an initial **non-refundable deposit** of FRW 126 million immediately on the date of the sale followed by two equal instalments each of FRW 220.5 million (inclusive of a total interest of FRW 63 million) payable on 31 October 2022 and 31 October 2023. However, the customer suffered financial difficulties by the year-end and went into liquidation on 10 November 2022 with no payment expected from the customer. The initial deposit had been received on 1 August 2022 but the first instalment due on 31 October 2022 was not received.

The terms of the contract required Rafiki to maintain legal ownership of the tractors until the first instalment was paid. The tractors were physically held by Rafiki though they had been treated as sold (in the sales revenue) in the financial statements. The principal amount outstanding of FRW 378 million is presented as a "receivable" (in the current assets). The interest has not been recognized in the financial statements.

7. Rafiki operates a defined benefit pension plan for its employees. The present value of the future benefit obligations and the fair value of its plan assets on 1 November 2021 were FRW 693 million and FRW 945 million respectively with any adjustments in the opening balance included in the suspense account.

During the year ended 31 October 2022, the following movement in the pension plan was reported by the actuary's report (extract):

Description	**FRW 'million**
Contributions received in the pension plan	441
Benefits paid from the pension plan to former employees	630
Present cost of pensions incurred in the period (current service cost)	252
Present value of pension plan obligations at 31 October 2022	731
Fair value of pension plan assets at 31 October 2022	882
On 1 November 2021, the rules of the pension plan were changed to improve benefits of the plan members, with the actuary advising that this will cost FRW 202 million i.e past service costs.	

The yield on high quality corporate bonds on 31 October 2021 and 31 October 2022 was 10% and 12% respectively

In the event that the value of the pension plan assets exceeds the pension plan obligations at the reporting date, the pension scheme agreement with the pension fund manager allows Rafiki to utilize up to a limit of 70% of the over-funded i.e excess amount through future reduced pension contributions.
Other than the cash book entry for the contributions made into the pension plan (with the corresponding entry recognized in a suspense account), the details of the entire pension plan have not been recognized in Rafiki's financial statements.

8. Simba operates a 'trade name" which was acquired in a take-over of a competitor company on 1 November 2018 at FRW 330 million. The trade name has an estimated useful life of ten (10) years and it is associated with Simba's products sold in the market. In the financial statements, Simba has included the trade name in its "property, plant and equipment" account balance at its carrying amount (after correctly accounting for its amortization). The trade name earnings can be separately identified and could be sold separately from the rest of the business. Due to the emergency of new competitor this year, Simba's market share has significantly fallen down and consequently a fair value for the trade name was established on 31 October 2022 at FRW 184 million.

9. Tropical Ltd is considered to be a cash generating unit in its own right. At 31 October 2022, Rafiki determined that the recoverable amount of Tropical Ltd was FRW 2,900 million i.e tropicals' total recoverable value. However, there was no impairment loss on the recognized goodwill at the reporting date.

Required:

(a) **Prepare the consolidated statement of financial position of the Rafiki Group as at 31 October 2022 in accordance with the applicable International Financial Reporting Standards.** (45 Marks)

Note: Your answer should also provide the following:

- ✓ ***All applicable workings must be shown clearly***
- ✓ ***Brief explanation for the treatment of sale of the agricultural equipment by Rafiki to Simba including the profit/loss and excess depreciation implications arising from this transaction at the reporting date.***
- ✓ ***All calculations should be rounded to the nearest full FRW millions (ignore decimal points)***

(b) On 15 November 2022, Rafiki plc acquired 40% of the voting ordinary share capital of Bizimana Tea Growers (BTG), a company based in Gisenyi.

In addition to Rafiki plc, there are 12 other investors each holding 5% of the voting ordinary share capital of BTG. A shareholder agreement grants Rafiki plc the right to appoint, remove and set the remuneration of BTG's management responsible for directing the company's relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. Rafiki plc has not exercised its rights with regard to the management or activities of BTG.

Required:

In accordance with IFRS 10 Consolidated Financial Statements, **explain:**

i) The circumstances under which Rafiki can have control over BTG (2 Marks)

ii) Whether Rafiki plc should consolidate BTG in the Rafiki group accounts in the year ended 31 October 2023 (3 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

a) NDP Group of companies in Rwanda has a subsidiary company in Kenya called NDP Kenya Ltd, as part of its external investment that deals with electricity generation from wind power. The revenue and operating expenses are received and paid in Kenya Shillings as much as the initial investment has been done using the US dollars. Any dividend repatriations back to Rwanda are in US dollars. The functional and presentation currency for NDP Group of companies is Rwandan Francs (FRW).

Required:

You have been asked to advise the management of NDP Group of companies on the choice of functional currency for the NDP Kenya Ltd in accordance with relevant IFRS.

(7 Marks)

b) The following information relates to the subsidiary Karongi Mining Company (KMC) that is yet to be acquired by NDP Group of companies.

	Carrying amount	**Tax base amount**	**Fair value**
	FRW million	**FRW million**	**FRW million**
Assets			
Non-current assets			
Property, plant and equipment	600	900	720
Financial assets	108	144	120
Inventories	48	48	48
Trade receivables	72	84	72
Cash and cash equivalents	72	72	72
Total assets	**900**	**1,248**	**1,032**
Liabilities			
Long-term borrowings	120	120	120
Trade payables	84	84	84
Total liabilities	**204**	**204**	**204**

Tax rate applicable is 30%

Required:

Assist management of NDP Group of companies on the calculation of Deferred tax amount arising from the acquisition of this subsidiary KMC. (7 Marks)

c) The subsidiary company KMC is expected to lease some equipment for mining from the expected investor or parent NDP Group of companies. The equipment is to be used by KMC for its entire life which is more than 6 years.

In the pre-proposal, the lease payments will be made at start of each period according to amount that will be agreed on in the lease to ensure that the investment made by NDP is recovered in the life of the equipment. KMC is not sure the treatment of IFRS 16 lease and consult CPA to advise on that matter.

Required:

Explain how will the lease be accounted for by KMC once signed by the parties in the contract? (6 Marks)

d) NDP Group of companies with continuous intentions of investing in Kenya, they intended to borrow a long-term loan of 10 million Kenyan Shillings from I&M bank Kenya Ltd. The interest and related repayment of the principal was to be in Kenya Shillings. The repayment is to be in 5 years equal yearly installments at effective interest rate of 13% per year.

Required:

You have been asked to advise NDP Group management on how the loan, repayments and interest will be treated in the financial statements of NDP Group of companies.

Note: Computation are not required

(5 Marks)

(Total: 25 Marks)

QUESTION THREE

a) Joli Transporters Company (JTC) has over 900 employees whom they have registered in UPA insurance staff defined benefit plan. You have been provided the following information relating to the plan:

	Asset	Liability
	FRW Million	**FRW Million**
Balance at 01 January 2021	1,850	1,925
Balance at 31 December 2021	2,051	2,076

Other information about the movement during the period

	FRW Million
Current service cost	279
Payments of benefits	99
Contributions to scheme	310

The interest income and expense were at 10% and 12% of the opening balance of asset and liability respectively.

Required:

i) Differentiate between define benefit plan and defined contribution plan (4 Marks)

ii) From the above information, **determine the amount to charge in profit/loss and the balance to be reported in the statement of financial position as at 31 December 2021 as Net benefit plan liability/asset**. (Note actuarial gains/loss for the period are recognized in the period and not carried forward). (11 Marks)

b) As part of their staff retention scheme Joli Transporters Company (JTC) awarded each of the 923 employee 200 share options on 01 January 2020 to buy the JTC shares at agreed price of FRW 800 so long as they were in employment with the company for 3 years.

At 31 December 2020, six employees had left employment and it was expected that a further 11 will leave in next 2 years.

At 31 December 2021, eight employees had left employment and it was expected that a further six will leave in next 1 year.

Required:

i) Differentiate between cash settled and equity settled share-based payment especially on the treatment in statement of financial position (4 Marks)

ii) From the above information for JTC**, determine the amount of charge in the statement of profit and loss and the balance to be shown in the statement of financial position for each of the two years i.e 2020 and 2021** (6 Marks)

(Total: 25 Marks)

QUESTION FOUR

a) The Government of Rwanda (GoR) is in the process of changing to full accrual basis of accounting using International Public Sector Accounting Standards (IPSAS) in its Integrated Financial Management System (IFMS). Given the government has several budget agencies and Government Business Enterprises (GBE) in addition to its central and local government organs, it is ordinarily required to consolidate its financials to ensure there is a proper financial outlook of the Government of Rwanda. The constitution requires finance ministry to prepare consolidated financial statements of all government agencies covering the fiscal year ended.

Required:

You are required to write a brief report to the accountant general on guidance to prepare consolidate financial statements of the Government of Rwanda (GoR) in accordance with relevant IPSASs (10 Marks)

Ensure to use formal reporting format

b) In December 2021, the accountancy profession embraced the harmonized, global reporting system for reporting sustainability information. There had been developments earlier by other bodies like the International Integrated Reporting Council (IIRC) which is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and non-Government Organizations (NGOs).

Required:

Briefly state the 6 guiding principles of and the eight content elements included in the integrated report (15 Marks)

(Total: 25 Marks)

End of question paper