CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY, 29 NOVEMBER 2022

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 applicable.
8. The question paper should not be taken out of the examination room.

SECTIONA

QUESTION ONE

a) **Briefly explain the difference between cash issue, right issue, and bonus issue as applied in IAS 33 Earnings Per Share.** (6 Marks)

b) Company A's accounting year starts from 1 January to 31 December. In the year ending December 2019 and 2020, the company made an accounting profit after tax and after preference dividend of FRW 90,000,000 and FRW 100,000,000 respectively. At the beginning of 2019, the company had ordinary shares in issue amounting to 100,000 shares, no addition shares issued in 2019. On 30 June 2020, the company made an issue of 20,000 ordinary shares at full market value.

During the year ending December 2021, the company made an accounting profit after tax of FRW 110,000,000. The company had issued on 1 January 2021 a 20% convertible loan stock of FRW 10,000,000 convertible to 1 ordinary share for every FRW 1,000 of the loan stock. This loan stock was not converted until 31 December 2021. The tax rate has been 30% since 2014.

Required:

i) **In accordance with IAS 33 *Earnings Per Share*, briefly differentiate between a Basic Earnings Per Share (Basic EPS) and a Diluted Earnings Per Share (Diluted EPS).** (2 Marks)

ii) **Calculate the Basic Earnings Per Share (Basic EPS) for the year ending December 2019 and 2020.** (3 Marks)

iii) **Calculate the Basic Earnings Per Share (Basic EPS), Diluted Earnings Per Share (Diluted EPS), and any Dilution/dilutive effect for the year ending 2021.** (5 Marks)

c) Company B is currently under financial difficulties. During the board meeting, the finance manager suggested to solve the problem by making an immediate issue of 10,000 convertible bonds at their current face value of FRW 1,000. The bonds was issued on 1st January 2021. The interests to these bonds will be paid in arrears at an annual interest rate of 12%. These bonds can be converted at any point in time up to their maturity date in 5 years from the date of issue into 500 shares.

Similar bonds without a conversion option have a current market interest rate of 18%. Below are the discount factors as applicable on the potential date of issuing the convertible bonds:

	12%	**18%**
Year 1	0.893	0.847
Year 2	0.797	0.718
Year 3	0.712	0.609

	12%	18%
Year 4	0.636	0.516
Year 5	0.567	0.437

The finance manager is not sure about how it will affect the statement of financial position and has requested for your professional help as the chief accountant.

Required:

Compute the carrying amount of the Liability component and equity component of the convertible loan note at the date of their issue.

(4 Marks)

(Total: 20 Marks)

QUESTION TWO

Below is the statement of financial position of Company A, B and C as at 31 December 2021. Company A made an investment in Company B and C.

	Company A	**Company B**	**Company C**
	"FRW" Million	**"FRW" Million**	**"FRW" Million**
Assets			
Non-current assets			
Land and Property	2,200,000	1,000,000	1,000,000
Equipment	500,000	100,000	200,000
Investment in B & C	3,200,000	0	0
Investment Property	308,000	300,000	400,000
	6,208,000	**1,400,000**	**1,600,000**
Current assets			
Inventories	222,000	1,000,000	400,000
Prepaid expenses	50,000	1,600,000	210,000
Cash	50,000	100,000	450,000
	322,000	**2,700,000**	**1060000**
Total assets	**6,530,000**	**4,100,000**	**2,660,000**
Equity and liabilities Equity			
Share capital (FRW1 ordinary shares)	3,000,000	1,250,000	1,000,000
Retained earnings	1,500,000	2,300,000	400,000
	4,500,000	**3,550,000**	**1,400,000**
Non-current liabilities			

	Company A	Company B	Company C
	"FRW" Million	"FRW" Million	"FRW" Million
Long-term Loan	800,000	200,000	760,000
Current liability			
Short-term loan	470,000	250,000	400,000
Accrued Expenses	760,000	100,000	100,000
Total current liability	**1,230,000**	**350,000**	**500,000**
Total equity and liability	**6,530,000**	**4,100,000**	**2,660,000**

Additional information:

1) On 1 January 2012, Company A purchased 1,000 billion ordinary shares of Company B for FRW 2,200,000 million. The retained earnings of Company B at acquisition were FRW 800,000 million.
2) On that date (1 January 2012), the market value of one ordinary share in Company B was FRW 1.65 and Company A's policy is to measure non-controlling interest (NCI) at their fair value.
3) On 1 January 2012, the fair value of Company B's property was FRW 500,000 million greater than their carrying value in statement of financial position. On that date, the remaining useful life of that property was 20 years.
4) During the year ending 31 December 2021, Company B sold production materials costing FRW 1,000,000 million to Company A of which 20% of these materials were still in the stock as at 31 December 2021. Company B has a costing method of adding a mark-up of 25% on each material sold.
5) On 31 March 2021, Company A purchased 300,000 million ordinary shares of Company C for FRW 1,000,000 million. The retained earnings of Company C at that date were FRW 300,000 million
6) Company A reviews impairment of goodwill each year. The assessment of this year revealed an impairment loss of FRW 30,000 million in Company B and an impairment loss of FRW 210,000 million of Company A's investment in Company C. There was no other impairment loss before this year.

Required:

Prepare group accounts as at 31 December 2021 showing:

(i) Goodwill (5 Marks)

(ii) Non-controlling interest (3 Marks)

(iii) Group retained earnings (8 Marks)

(iv) Consolidated statement of financial position (14 Marks)

<u>N.B:</u> Show all your workings not specified in (i), (ii), (iii) clearly)

(Total: 30 Marks)

QUESTION THREE

a) Smart Dealers Ltd a listed company recently hired David a new Finance Manager who was in a small private company, 10 times smaller compared to the size of Smart Dealers Ltd. David has been telling the Senior Reporting Manager, to remove segment disclosure as per IFRS 8 in the notes to the financials as he believes the note is not applicable to the company. There are (3) operating segments formed based on their geographical location. Each has its own discrete financial statements and each provides at least 15% of the total revenue of Smart Dealers Ltd. The new Finance Manager requested Senior Reporting manager to remove the note and send updated financial statements or send him an email explaining why he cannot remove these segmental from financials. He instructed that email should be copied to Chief Operating Decision Maker (CODM), Christine, who regularly reviews the financial performance and allocates resources to each operating segment.

Required:

In accordance with IFRS 8 *Operating Segments*, briefly explain:

(i) What an operating segment is? (2 Marks)

(ii) Criteria/conditions to base on while classifying segment among the reportable segment (4 Marks)

b) Company X, a construction company, entered into a 5-year lease agreement with another company that manufactures and rents large construction machines on 1 January 2021. The terms of the lease include paying FRW 10,000,000 each year in advance and first instalment was immediately paid on 01 January 2021.

To formulate the contract, Company X paid FRW 2,000,000 to the lawyer as legal fees. The interest rate implicit in the lease has been identified as 12% per annum (with a cumulative discount rate factor of 3.037 where applicable).

Required:

Show the right of use and the lease liability as per IFRS 16 *Leases* for 5 years starting from the first date of the lease (1 January 2021).

N.B: Extract financial statements are not required (6 Marks)

c) Since 1 January 2010 Company Y, a company that manufactures medical drugs, has been developing a new production process. The expenditures that have been spent to this process amount to FRW 120,000,000 and they were incurred evenly throughout the period. 10 years later, that is when the recognition criteria for this new process was met as an intangible asset in accordance with IAS 38 for Company Y.

Required:

Briefly, explain the criteria that should be met for development cost to be recognised as assets in accordance with IAS 38 Intangible assets (6 Marks)

d) You are hired as an accountant in Company Q, a wholesaler company that has a large number of customers. Company Q has been experiencing many legal cases for the past years arising from dissatisfied customers.

The Managing director (MD) of Company Q invited you in the meeting, under which you will discuss in more details the accounting principles relating to provisions, contingent liability, and contingent assets. But before then, the MD requested you to prepare a presentation on those issues which you will use in that meeting as there will be other members of the management team.

Required:

Discuss what should be included in this PowerPoint presentation using the following:

i) Recognition criteria for provision under IAS 37 Provisions, contingent liabilities and assets (2 Marks)

ii) Differentiation between a contingent liability and a contingent asset in accordance with IAS 37. (2 Marks)

iii) Company Q is undergoing a disposal plan of assets. The plan is subject to be approved in the meeting by management after convincing them if the plan would benefit the company.

Advise the management whether expected gain on disposal should be taken into account while measuring provision as per IAS 37 (2 Marks)

e) Bwiza company was acquired in January 2021 when the carrying amount of their non-current assets were valued at FRW 200,000,000 and goodwill at FRW 30,000,000. In 2021, an earthquake destroys one of their building. Before earthquake incidence, the destroyed building had a carrying amount of FRW 70,000,000. The Bwiza company decided to assess impairment loss as at 31 December 2021 and realised that the recoverable amount of the remaining assets was FRW 70,500,000.

Required:

Demonstrate how the impairment loss will be treated in the financial statements (P&L and SOFP) and explain how the impairment loss will be allocated to the remaining assets.

(6 Marks)

(Total: 30 Marks)

SECTION B

QUESTION FOUR

You have been recruited as the budget analyst of Muhabura Health Center (MHC), a public institution whose financial year ends 30 June. The current year's budget and trial balance have been provided below:

Approved annual budget for the year to 30 June 2021

Description	**Amount**
	FRW
Revenue from exchange transaction	5,000,000
Grants	10,000,000
Other Income	2,500,000
Total receipts	**17,500,000**
Expenditure	
Capital Expenditure	3,700,000
Salaries and wages	2,200,000
General expenses	5,700,000
Office Supplies	1,250,000
RSSB contributions	2,900,000
Other expenses	1,750,000
Total expenditure	**17,500,000**

Trial balance as of 30 June 2021

	Dr	**Cr**
Description	**FRW**	**FRW**
Revenue from exchange transaction		4,600,000
RSSB contributions	2,800,000	
Capital Expenditure	4,300,000	
Grants		10,000,000
Other Income		2,300,000
Salaries and wages	2,400,000	
Payables		8,120,000
General expenses	5,200,000	
Office Supplies	1,700,000	
Other expenses	1,500,000	

	Dr	Cr
Description	**FRW**	**FRW**
Cash / Bank	690,000	
Receivables	950,000	
Accumulated surplus/(deficits)	5,480,000	
Total	**25,020,000**	**25,020,000**

Required:

a) Prepare budget performance report of MHC for the year ended 30 June 2021.

(10 Marks)

b) Prepare a statement of revenues and expenditures of MHC for the year ended 30 June 2021.

(10 Marks)

(Total: 20 Marks)

QUESTION FIVE

The newly recruited Chief financial officer (CFO) of Mucyo co has neither worked in a bank nor in any company that has a branch. The CFO recently heard about your competence and experience with the bank in which you are the senior reporting manager and he is sure that you are the best person to help them understand all about branch accounting. They invite you in the meeting to advise them and share experience on branch accounting.

Required:

a) Explain the distinction between branch accounts and departmental accounts. (4 Marks)

b) Briefly explain three types of branches that are common to help the CFO get a clear view of which types of reports they will be dealing with. (3 Marks)

c) As senior reporting manager, you are provided with the following information for the year ended 31 December 2021 for Mucyo co.

	"FRW"000
Opening balances 1 January 2021	
Branch inventory (at cost)	550,000
Branch debtors	400,000
Closing balances 31 December 2021	
Branch inventory (at cost)	700,000
Transactions for the year:	
Goods sent by head office to branch at cost (All received by branch)	6,000,000
Goods returned by branch to head office (at cost)	150,000

	"FRW"000
Cash sales	2,500,000
Credit sales	7,000,000
Goods stolen at branch at cost	50,000
Cash sales stolen at branch (included in other sales)	35,000
Returns from branch debtors (at selling price)	300,000
Cash received from branch debtors	6,300,000
Discount allowed to debtors	120,000
Bad debts written off	75,000
Expenses of branch paid by head office.	780,000

Required:

Based on the financial information provided above and assuming that the invoicing of goods is done at cost, prepare the:

i) **Branch debtors account** (4 Marks)
ii) **Branch profit and loss account** (9 Marks)

(Total: 20 Marks)

End of question paper