CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 26, AUGUST 2025

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE:

Marking guide

MARKING GUIDE FOR QUESTION ONE

Marking guide	**Marks**
a) Consolidated statement of statement of financial position	
Award 0.5 marks for each correct figure used in the presentation of the consolidated statement of financial position excluding sub-totals and totals - the figures awarded marks shall either be on the face or in the workings (maximum of 15 marks)	15
Award for separate workings (or where applicable within the main answer) by awarding 0.5 marks per correct figure used including the total where applicable as below:	
Goodwill - acquisition of Base Ltd	2.5
Goodwill - acquisition of Cart Ltd	4
Correct calculation of the extra depreciation (Plant in Base Ltd)	0,5
Consolidated retained earnings	4,5
Other components of equity	1
Non-controlling interests	2.5
Translated statement of financial position for Cart Ltd (award 0.5 mark for each asset & liability correctly translated into presentation currency and award 1 mark for each correct equity component translated into FRW and 1 mark for translated reserve maximum of 7 marks)	7
Investment in Joint Venture (Dive Ltd)	1
Impairment loss of Plant in Apex Ltd (including 0.5 awarded for a Correct calculation of the impairment loss)	2
Total marks for Q1 (a)	**40**
Do Not Award:	
Any working and/or recognition for a translation / exchange difference on translated financial statements of Cart Ltd (the question has clearly instructed this working to be avoided)	
Any working and/or recognition for a translation / exchange difference on a re-translation of Goodwill for Cart Ltd (as this goodwill should correctly be a negative goodwill amount)	
b) Related parties and the related party transaction disclosures	
Award as below:	
- 1 mark for an appropriate definition of a related party (this could also be using examples of a related party relationship that is applicable to the information in the scenario)	1

- An appropriate justification / reason that confirms Apex Ltd.'s related party relationship to Base Ltd (1 mark) and to Dive Ltd (1 mark) - maximum of 2 marks	2
- 1 mark to any correct reference of the information to be disclosed for a related party transaction in relation to the transportation services provided by Dive Ltd to Apex Ltd (must apply to the information provided in the scenario) - maximum 2 marks	2
Total marks for Q1 (b)	**5**
c) Sustainability reporting and ESG reporting Award as below:	
- 1 mark for an appropriate definition of sustainability reporting (this could also be awarded where a correct example of information reported in a sustainability reporting is used to define the term)	1
- 1 mark for an appropriate definition of ESG reporting (**Do Not Award** using examples for the contents of an ESG report as these are separately examined with their own marks limit in the same question)	1
- 1 mark for each correct example of information content covered in each of the three components of Apex Ltd.'s ESG report - maximum of 3 marks (**Do Not Award** more than 1 correct example of information content in any of the three components making the ESG report)	3
Total marks for Q1 (c)	**5**
Total Marks for Question One	**50**

MODEL ANSWER TO QUESTION ONE

(a) Apex Consolidated Statement of Financial Position as at 31 December 2024

	FRW millions
Assets	
Non-current assets	
Property, plant and equipment (34,795 + 12,562 + 71,500 W6 + 2,500 FV increase Plant - Extra depreciation Plant in Base W2 - Unrealized profit on spare parts bought from Dive W9 - 650 Impairment loss Apex's PPE plant W10)	118,772
Goodwill (W1)	10,600
Other Intangible assets (5,670 + 4,120 + 3,850 W6)	13,640
Investments (105,800 - 27,500 Investment in Base Ltd - 63,000 Investment in Cart - 6,000 Initial investment in Dive)	9,300
Investment in Joint Venture (Dive Ltd) (W7)	6,496
Total non-current assets	**158,808**
Current assets	
Inventories (8,946 + 5,345)	14,291
Trade receivables (4,038 + 7,938 + 13,420 W6 - 520 Intra group receivable W8)	24,876
Cash and Bank (1,296 + 4,785 + 7,480 W6)	13,561
Total current assets	**52,728**
Total assets	**211,536**
Equity and Liabilities	
Equity:	
Ordinary share capital *(only for Apex Ltd as parent)*	45,000
Retained earnings (W4)	114,141
Other components of equity (W5)	26,827
Non-Controlling Interests (W6)	7,371
Total equity	**193,339**
Current Liabilities	
Trade payables (2,695 + 1,472 + 8,085 W6)	12,252
Other current liabilities (1,420 + 950 + 3,575 W6)	5,945
Total current liabilities	**18,197**
Total equity and liabilities	**211,536**

Workings (all rounded to nearest millions)

W1: Goodwill

Goodwill on acquisition of Base Ltd

Purchase consideration		27,500
Plus: Fair value of NCIs		5,200
Less: FV of net assets:		
Share capital	10,000	
Retained earnings on acquisition date	9,600	
Fair value increase on Plant (PPE)	2,500	
		(22,100)
Goodwill		**10,600**

Goodwill on acquisition of Cart Ltd

	Kshs	Rate	FRW
Purchase consideration	7,000	9	63,000
Plus: Fair value of NCIs	0	9	-
Less: FV of net assets:			
Share capital	(4,100)	9	(36,900)
Retained earnings on acquisition date	(3,100)	9	(27,900)
Goodwill (bargain purchase / negative goodwill) - CR Consolidated retained earnings	**(200)**		**(1,800)**

Note: No retranslation as this is negative goodwill (i.e., it is NOT an asset)

W2: Fair value adjustments: Plant in Base Ltd

On acquisition date (1 Jan 2022): Increase PPE by the FV increase in Plant		2,500
Extra depreciation by 31 December 2024 (fair value increase on plant) = 2,500 / 4 years * 3 years		1,875
Accounting treatment:		
DR Consolidated retained earnings (extra depreciation charge)	1,875	
CR Plant (PPE - with extra depreciation Charge)		1,875

W3: Consolidated retained earnings

	FRW" Million"
Retained earnings - Apex Ltd (100% as parent)	87,083
Plus: Share (80%) of post-acquisition retained earnings - Base Ltd {80% * (19,228 - 9,600)}	7,702
Plus: Share (100%) of translated post-acquisition retained earnings - Cart Ltd (100% * 4,900) W6	4,900
Exchange gain on retranslation	14,890
Consolidation adjustments for:	
Plus: Bargain purchase - negative goodwill (acquisition of Cart) (W1)	1,800
Less: Extra depreciation - Plant in Base Ltd (80% * 1,875)	(1,500)

Plus: Share (40%) of post-acquisition retained earnings in Dive {40% * (8,440 - 7,200) W7	496
Less: Apex Ltd expense (cancel Intercompany sales) - accrued transportation cost (W8)	(520)
Less: Un-realized profit (Dive's sale of spare parts to Apex) W9	(60)
Less: Impairment loss on Apex Ltd PPE plant (W10)	(650)
	114,141

W4: Consolidated Other Components of Equity

Other components of equity - Apex Ltd (100% as parent)	24,347
Plus: Share (80%) of Other Components of Equity - Base Ltd (80% * 3,100)	2,480
	26,827

W5: Non-Controlling Interests - in Base Ltd (at 20%)

Fair value of NCIs on acquisition date (1 Jan 2022)	5,200
Plus: NCI's share (20%) of post-acquisition retained earnings - Base Ltd {20% * (19,228 - 9,600)}	1,926
Less: NCI's share of extra depreciation - Plant in Base Ltd (20% * 1,875)	(375)
Plus: NCI's share of Other Components of Equity - Base Ltd (20% * 3,100)	620
	7,371

W6: Translation of Cart's statement of financial position as at 31 Dec 2024

	Kshs	**Rate**	**FRW**
Assets			
Non-current assets			
Property, plant and equipment	6,500	11	71,500
Other Intangible assets	350	11	3,850
Investments	-		
Total non-current assets	**6,850**		**75,350**
Current assets			
Trade receivables	1,220	11	13,420
Cash and Bank	680	11	7,480
Total current assets	**1,900**		**20,900**
Total assets	**8,750**		**96,250**
Equity and Liabilities			
Equity:			
Ordinary share capital	4,100	9	36,900

Retained earnings on 1 October 2024 (pre-acquisition)	3,100	9	27,900
Retained earnings (post-acquisition): Kshs (3,590 - 3,100)	490	10	4,900
Translations difference (Exchange gain)		Balance figure	14,890
Total equity	**7,690**		**84,590**
Current Liabilities			
Trade payables	735	11	8,085
Other current liabilities	325	11	3,575
Total current liabilities	**1,060**		**11,660**
Total equity and liabilities	**8,750**		**96,250**

W7: Investment in Joint Venture (Dive Ltd)

Initial cost of investment (1 Jan 2024)	6,000
Plus: Share (40%) of post-acquisition retained earnings in Dive {40% * (8,440 - 7,200)	496
	6,496

W8: Intra-group sale of transportation services (by Base Ltd to Apex Ltd)

Accrue the expense in Apex Ltd financial statements (year-ended 31 Dec 2024)

DR Expense (to consolidated retained earnings)	520	
CR Trade payables		520

Cancel the intra-group balance in consolidated financial statements

DR Trade payables	520	
CR Trade receivables		520
Note: Summary adjustment		
DR Expense (to consolidated retained earnings)	520	
CR Trade receivables		520

W9: Unrealized profit - Dive Ltd.'s sale of spare parts to Apex Ltd

Computed and recognise un-realized profit = 20/100 * FRW 750m * 40% share in joint venture	60	
Accounting adjustment:		
DR Profit share from Joint Venture (Consolidated retained earnings)	60	
CR Property, plant & equipment		60

W10: Impairment loss on PPE (plant) in Apex Ltd

Recoverable amount is higher of:		
Fair value less costs of disposal (2,650 - 150)	2,500	
Value in Use	2,550	
Therefore: Recoverable amount is HIGHER amount		2,550
Carrying amount of PPE (plant) on 31 December 2024 (as given)		3,200
Impairment loss for PPE (plant): 3,200 - 2,550		**650**
Accounting treatment (for impairment loss)		
DR Consolidated retained earnings	650	
CR PPE (Plant)		650

Part (b): Identification of the Related parties and the related party transaction disclosure required in the notes to the Apex consolidated financial statements

In accordance with IAS 24 *Related Parties Disclosures*, a related party is a person or entity that is related to the entity that is preparing its financial statements where for the other entity for example has control or joint control or significant influence over the reporting entity.

Therefore, Base Ltd is a related party to Apex Ltd on the basis that Apex Ltd has control over Base Ltd through the 80% ordinary shareholding which implies that Apex Ltd has power over the financial and operating policies of Base Ltd and hence Base Ltd is a subsidiary to Apex Ltd.
In addition, Dive Ltd is a related party to Apex Ltd on the basis that through a contractual arrangement with Nice Ltd, Apex Ltd has a joint control over Dive Ltd.

In accordance with IAS 24, the Group Finance Director is advised to add the following information as related party transaction disclosure notes in the Apex consolidated financial statements relating to the transportation services provided by Base Ltd to Apex Ltd:

- The nature of the related party transaction where the disclosure note must indicate that there is a service contract in place that requires Base Ltd to provide transportation services for the heavy mining machinery of Apex Ltd between mining sites.
- The transaction price that was charged for the transportation service and an indication that the price charged by Base Ltd to Apex Ltd was a fair market price similar to prices charged by Base Ltd to unrelated customers in the open market
- The payment terms for the transportation service where in this case, Base Ltd is providing the service to Apex Ltd on a payable basis with an invoice initially issued to Apex on the delivery of the services. This may be the same payment terms applied to the other customers of Base Ltd
- The outstanding balance of the invoiced amount at the reporting date in which case, the consolidated financial statements of Apex should disclose the fact that the entire invoice of FRW 520 million remained outstanding at the reporting date mainly because the invoice was received by Apex Ltd on 5th January 2025 which was after the end of the accounting period (31 December 2025)

Part (c): Apex Ltd – Sustainability reporting and ESG reporting including examples of the components that make up an ESG report relevant to Apex Ltd

In the context of Apex Ltd, a company involved in the mining industry in Rwanda:

- Sustainability reporting is an entity's practice of reporting publicly on its economic, environmental and/or social impacts and hence reporting the entity's contributions (positive or negative) towards the goal of sustainable development. Therefore, Apex Ltd.'s sustainability report will relate to wider aspects of ethical, environmental and responsible business practices (the relationship between Apex Ltd and the environment in which it operates) and creates a framework to help Apex Ltd evolve in response to its environment, and report on its actions.
- On the other hand, Environmental, social and governance (ESG) reporting refers to the quantitative or qualitative disclosures of data by an entity covering the entity's impacts in three areas including disclosures on the entity's environmental, social and governance aspects alongside financial considerations. Therefore, Apex Ltd.'s ESG report will point to specific environmental, social and governance criteria and will focus on helping the company's stakeholders to assess the company performance and risk.

Examples of the **main contents** to be covered in each of the three components of Apex Ltd.'s ESG report include:

1. **Environmental:** Apex Ltd will disclose how its mining activities interact with the environment and here the ESG report will report on:
   - Post-clearing mining Sites-Cleaning and handling costs to be incurred to prepare land where minerals were extracted
   - Air and water pollution
   - Emissions
   - Waste management
   - Water sacristy
   - Energy efficiency
2. **Social**: Apex Ltd will disclose its company's conduct towards the communities (both internal and external communities) of the areas in which the company's mining activities are conducted from and hence the ESG report will report on:
   - Community relations
   - Customer satisfaction
   - Employee engagement
   - Gender and diversity
   - Human rights
   - Labour standards
3. **Governance:** Apex Ltd will disclose information regarding how the entity behaves in its business activities and here the ESG report will report on:
   - The company's audit committee structure
   - The composition of the company's Board of Directors
   - Compensation packages for the Apex Ltd.'s senior executives
   - The information regarding any political contributions made
   - Lobbying activities of the company

SECTION B

QUESTION TWO

MARKING GUIDE

Marking Guide	Marks
Presentation of the Statement of Profit or Loss and Other Comprehensive Income	
Revenue Adjustments	
Revenue adjustment on a contract (50% to 80%) - calculation (see W1 in model answer)	1
Calculation and presentation of total revenue in the P&L (from TB and workings)	1
Cost of Sales	
Correct presentation of cost of sales figure from TB	1.5
Adjustment for operating expenses	
Calculation of additional legal penalty (see W2 in model answer)	1
Calculation of inventory fraud (see W6 in model answer)	0.5
Calculation and presentation of total operating expenses in P&L (from TB and workings)	1.5
Adjustment for investment income	
Calculation of interest income earned from the financial asset (see W5 in model answer)	1
Calculation and presentation total investment income in the P&L (from TB and workings)	1.5
Adjustment for interest expense	
Calculation of interest expense - unwinding discount on provision for legal penalty (see W2 in model answer)	0.5
Calculation of interest expense - convertible loan liability (see W4 in model answer)	0.5
Calculation and presentation total interest expense in the P&L (from TB and workings)	1.5
Adjustment for income tax expense	
Calculation of deferred tax (0.5 mark per correct figure used in the working) to a maximum of 2 marks (see W3 in model answer)	1
Correct presentation of the total for income tax expense in the P&L	1.5
Fair value loss - debt instrument carried at FVTOCI	
Calculation of the fair value loss on debt instrument carried at FVTOCI (see W5 in model answer)	1
Correct presentation in the OCI (presentation of calculated fair value loss - picked from working similar to W5 in model answer)	1
Additional marks will be awarded for: (1) A correct calculation of the liability element of the convertible loan notes (see W4 in model answer) - 1 mark per correct figure calculated as a present value figure (max. 2 marks)	3

Sub-total **Statement of change in equity** **Opening balances and prior year adjustment**	
Correct presentation of the opening balances (picked from the TB)	1
Prior year adjustment - inventory fraud	0.5
Share issue recognition and dividend presentation	
Share issue - presentation in SOCIE (0.5 marks for share capital and 0.5 marks for share premium)	1
Correct presentation of the Dividends in the SOCIE	0.5
Equity option - convertible loan notes	
Calculation of the equity option of convertible loan (see W4 in model answer)	0.5
Correct presentation of the equity option of the convertible loan notes in the SOCIE	0.5
1 mark for the total present value calculation of the liability amount and 1 mark for allocated transaction costs to equity and liability to give net adjusted liability and net equity component	1
Presentation of the "total comprehensive income" in SOCIE	
Correct presentation of "profit of the year figure" from the P&L to "retained earnings" in SOCIE (Note: the mark is for **a presentation in the correct column** NOT necessarily a correct figure)	0.5
Correct presentation of "fair value gain on debt instrument carried at FVTOCI" from OCI to "other equity reserve" in SOCIE (Note: the mark is for **a presentation in the correct column** NOT necessarily a correct figure)	0.5
Sub-total (Q2)b)	
Total marks for Question Two	**25**

MODEL ANSWER TO QUESTION TWO

Part (a): Frontline Co. statement of profit and loss and other comprehensive income for the year ended 30 June 2025

	FRW million
Revenue (43,200 + **1,800** (W1))	45,000
Cost of sales (23,200+900 (W6) +2,160 (W1))	(26,260)
Gross profit	**18,740**
Other operating expenses (13,520 + 120 (W2) + 50 (W5))	(13,690)
Operating profit	**5,050**
Investment income (120 + 100 (W5)) + 50 (W5))	270
Finance costs (1,240 + 46 (W2) + 489 (W4))	(1,775)
Profit before tax	**3,545**
Income tax expense (2,100 – 130(W3) -75(W3))	(2,045)
Profit for the year	**1,500**
Other comprehensive income:	
FVTOCI fair value loss (gross) (W5)	(21)
Deferred tax on FVTOCI item (W3)	(5)
OCI (net of tax)	**(26)**
Total comprehensive income	**1,474**

Part (b): Frontline Co. statement of changes in equity for the year ended 30 June 2025

	Share Capital FRW million	**Share Premium FRW million**	**Other Components FRW million**	**Retained Earnings FRW million**	**Total FRW million**
Balance at 1 Jul 2024	12,200	–	–	35,400	47,600
Prior-period error: inventory theft	–	–	–	(1,600)	(1,600)

Restated opening balance	**12,200**	**–**	**–**	**33,800**	**46,000**
Rights issue	1,500	1,800	–	–	3,300
Equity component – convertible notes	–	–	11	–	11
Profit for the year	–	–	–	1,500	1,500
OCI: FVTOCI loss net of tax	–	–	(26)	–	(26)
Dividend declared	–	–	–	(550)	(550)
Balance at 30 Jun 2025	**13,700**	**1,800**	**(15)**	**34,750**	**50,235**

WORKINGS

(1) Contract revenue

Contract price FRW 9,000m; estimated total cost FRW 7,200m.
Progress at 30 Jun 2025: engineers certify 70% complete (use output measure as the more reliable indicator this year).
Cumulative revenue to 30 Jun 2025 = 70% × 9,000 = 6,300.
As the contract started in 2023, that means there is a portion of revenue and costs alreared recognized as at 30 June 2024. To get revenue recognized as at 30 June 2024, percentage of completion is needed. Then completion percentage would FRW 3,600/7,200*100=50%
Revenue recognized as at 30 June 2024 FRW 9,000*50%=4,500

Revenue for 2025 = 6,300 − 4,500 = **1,800 million**
Variable consideration (late-completion penalty) ignored as completion is expected on time (no constraint)

You cannot recognise revenue without also recognising the related costs — otherwise you would create artificial profit. when they say *"no entries have been made"*, it usually implies both sides of the double entry (revenue and cost of sales) were omitted. Therefore, Contract costs incurred 2025: cumulative costs 5,760 − 3,600 = **2,160** (expense in 2025) to be recognized in cost sales

(2) Legal case
Case 1 (probability 90%):

On 1 January 2025, Frontline Co has a present obligation that is probable of payment and can be measured reliably at the most likely outcome of FRW 1,012 million. Therefore, a provision for a legal penalty should be recognised for this amount, discounted to present value, as the payment will be made in 12 months from the date the supplier filed the legal case.

The initial entry on 1 January 2025 in other operating expenses should therefore be computed as FRW 920 million (FRW 1,012m × 0.9091). They recorded only FRW 800 million, and therefore, an additional provision for a legal penalty amounting to FRW 120 million should be recognised with this increasing the other operating expenses.

In addition, by 30 June 2025 (i.e., 6 months from 1 January 2025) an interest cost should be recognised due to unwinding the discount based on the discount rate of 10% computed as FRW 46 million (FRW 920m x 10% x 6/12 months).

Case 2 (probability 40%):

- Disclose **contingent liability** only.
- Possible insurance reimbursement (up to 300) is **not recognised** (no virtual certainty).

(3) Taxation

Step 1: Current tax

The trial balance shows Tax (credit) 130m. That represents an over-provision from prior year (i.e. too much tax expense was booked in 2024, now reversed).

Management's estimate of the current year liability (for y/e 30 June 2025) is FRW 2,100m.

So, in the statement of profit or loss (P/L):

Current tax charge = 2,100m−130m = 1,970m

This 1,970 represents the net current year's tax charge after adjusting for the prior year's over-provision

Step 2: Deferred tax

Deferred tax arises from temporary differences between carrying amounts (per IFRS) and tax bases (per tax law). We apply the 25% rate to those differences.

(a) Property, Plant & Equipment (PPE)

- Carrying amount = 12,000m
- Tax base = 10,500m
- Temporary difference = **1,500m (taxable)**
- Deferred tax liability (DTL) = 1,500 × 25% = **375m**

Since the revaluation surplus (in OCI) is already included in the carrying value, we assume these 375 increases goes through profit or loss, not OCI

(b) Provision for legal case

- Carrying amount = 800m (expense recognised under IFRS)
- Tax base = 0 (not deductible until paid)
- Temporary difference = **800m (deductible)**
- Deferred tax asset (DTA) = 800m × 25% = **200m**

(c) FVTOCI financial asset

- Carrying amount = 1,020m
- Tax base = 1,000m
- Temporary difference = **20m (taxable)**
- DTL = 20m × 25% = **5m**

Because this relates to a FVTOCI asset, the deferred tax is recognised in **OCI**, not P/L

(d) Unused tax losses

- Tax losses carried forward = 400m
- DTA = 400m × 25% = **100m**

Recognise if probable that future taxable profits exist (assumed yes here). This DTA goes to profit or loss

Net deferred tax movement

Add up items (a), (b), and (d) for P/L effect:

- PPE (DTL) = +375
- Provision (DTA) = −200
- Tax losses (DTA) = −100
- **Net charge to P/L = 75**

OCI effect:

- FVTOCI item (DTL) = +5 (shown in OCI)

(4) Convertible loan notes

	Payment	**Discount factor**	**Present value**
	FRW million	**10%**	**FRW million**
Year ended 30 June 2025 (cash interest at 8%)	400	0.909	364
Year ended 30 June 2026 Interest at 8% and premium of 200m at redemption	5,600	0.826	4,625
Liability element - 1 July 2024			**4,989**

The equity element on 1 July 2024 is therefore FRW 11 million (5,000m – 4,989m) and this will be presented directly in the statement of changes in equity. This remains unchanged with the same amount at 30 June 2025 unless it changed by the proportion of transaction cost

Transaction costs are apportioned between liability and equity **pro rata**.

- Liability proportion = 4,989 / 5,000 ≈ 99.78%
- Equity proportion ≈ 0.22%

Component	Before costs	Allocation of costs	Net initial value
Liability	4,989	(99.8)	4,889
Equity	11	(0.2)	11
Total	**5,000**	**(100)**	**4,900**

Liability initially recognised = **4,889m**
Equity component (convertible option) = **11m**

An interest cost will be applied to the liability element. For the year ended 30 June 2025, a total interest cost on the liability element of FRW 489 million (4,889m × 10%) will have to be recognised in the profit or loss.

The issuer call option (redeem at 102% after one year) doesn't affect initial allocation since it wasn't exercised by 30 June 2025, but would be considered in future years if triggered

(5) Financial asset
Frontline has correctly recognised the debt instrument as a financial asset carried at fair value through other comprehensive income (FVTOCI) and initially the financial asset has correctly been recognised at the purchase cost of FRW 1,000 million. In accordance with IFRS 9 *Financial Instruments*, since this is a debt instrument, the total changes in the value of the financial asset (From FRW 1,000m to 1,020m) will partly be recognised as interest income (in the P&L) and a fair value change in the other comprehensive income (OCI).

In the first year ended 30 June 2025, interest income should be recognised at 10% of the carrying amount, giving FRW 100 million (1,000m x 10%). This increases the carrying amount of the financial asset. However, the actual interest income received on 30 June 2025 at the coupon rate of 4.7% was FRW 59 million (1,250m x 4.7%) which reduces the carrying amount of the financial asset. On 30 June 2025, these amounts are recognised by:

Dr Bank	FRW 59m
Dr Financial asset	FRW 41m
Cr Profit or loss – interest income	FRW 100m

The carrying amount of the financial asset after these amounts are recognised is FRW 1,041 (1,000m + 100m – 59m) or (1,000m + 41m).

However, as given in the scenario, the fair value of the financial asset at 30 June 2025 was FRW 1,020 million which requires an additional adjustment in form of a fair value loss of FRW 21 million (1,041m – 1,020m) to be recognized in the OCI as follows:

Dr OCI (fair value loss on financial asset carried at FVTOCI)	FRW 21m
Cr Financial asset	FRW 21m

Under IFRS 9, ECL on FVTOCI instruments is recognised in P/L, with a corresponding entry to OCI reserve (so the amortised cost balance reflects impairment, but the instrument continues at FVTOCI). Therefore, the Operating expenses will be increased by 50m and Equity reserve adjusted accordingly.

FVTPL Trading Investment Purchase (1 Jan 2025) = FRW 600m and now valued Fair value at 30 Jun 2025 = 650m. This will be recognized as a gain of 50m (650m-60m) and investment income in P/L will be increased by the same amounts

(6) Inventory Fraud

The FRW 900 million relating to the stolen inventory in the current year should be recognised in other operating expenses.

As no comparative amounts for prior periods are presented, the entire FRW 1,600 million relating to the stolen inventory in the prior year should be recognised as a prior year adjustment to retained earnings and presented in the statement of changes in equity.

Note: The prior-year adjustment relates to a correction of a prior-period error and the prior-year adjustment in compliance to *IAS 8 Accounting policies, changes in estimates and errors*.

(7) Issued Share capital and declared dividends

Issued share capital (November 2024)

	FRW million	
Proceeds received from the share issue (in Nov 2024): 1.5m shares x FRW 2,200 per share	3,300	
Allocated as:		
Ordinary share capital (1.5m shares x FRW 1,000 as nominal value)	1,500	DR Suspense / CR Share capital (in Equity)
Share premium (balancing figure: 3,300m - 1,500m)	1,800	DR Suspense / CR Share premium (in Equity)

Declared dividends (30 June 2025)

Frontline Co should apply the "accrual accounting" as required by the conceptual framework & IAS 1 Presentation of financial statements to recognize and present the declared dividends in the financial statements for the year ended 30 June 2025 as below:

DR Dividends (in Equity)	550m
CR Dividends payable (current liabilities)	550m

QUESTION THREE

MARKING GUIDE

Marking Guide	**Marks**
Part (a): Kimironko General Stores (KGS) - Sale and Leaseback transaction Award as below:	
- 1 mark for each correct / relevant accounting principle used as a reference from the accounting standard for a sale and leaseback transaction including IFRS 15 (Max. of 1 mark) and IFRS 16 (max. of 2 marks)	3
- 1 mark for each correct application of the accounting principle to the information relating to the sale and leaseback transaction of KGS (this includes 0.5 marks for each correct calculation used in the explanation and 1 mark for the summary of the accounting journal) - max. of 6 marks	6
- 0.5 mark for a specific / correct calculation of depreciation charge and 0.5 mark for specific / correct calculation of the finance charge - max. of 1 mark	1
Part (b): Fabric Ltd - model areas (as PPE assets) Award as below:	
- 1 mark for each correct / relevant accounting principle used as a reference from the accounting standard for the treatment of the "model areas" as guided by IAS 16 and 1 mark where IAS 37 is specifically referred to for the treatment of the provision of the dismantling cost (max. of 3 marks)	3
- 1 mark for each correct application of the accounting principle to the information relating to the "model areas" of Fabric Ltd (this includes 0.5 marks for each correct calculation used in the explanation) - max. of 6 marks	6
Part (c): Simba Metals Ltd (SML) - borrowing costs Award as below:	
- 1 mark for each correct / relevant accounting principle used as a reference from the accounting standard for the treatment of the borrowing costs as guided by IAS 23 (max. of 2 marks)	2
- 1 mark for each correct application of the accounting principle to the information relating to the "borrowing costs" of SML (this includes 0.5 marks for each correct calculation used in the explanation) - max. of 4 marks	4
Total marks for Question Four	**25**

MODEL ANSWER TO QUESTION THREE

Part (a): Kimironko General Stores (KGS) – sale and leaseback transaction

Based on the Scenario, if KGS business is to sale building, the sale transaction by Kimironko General Stores (KGS) would satisfy the performance obligations of IFRS 15 Revenue from contracts with customers and therefore both the sale and leaseback transaction shall be accounted for in accordance with IFRS 16 Leases.

Since, the actual disposal proceeds received FRW 1,000 million exceeded the fair value of the asset of FRW 900 million, the excess amount received of FRW 100m is recognised as a financial liability in the financial statements of KGS.

The present value of future lease payments shall include the excess amount received in the disposal proceeds as the lease rental to be paid will include this excess receipt as a refund to the buyer-lessor.

Therefore, the lease liability on 1 January 2025 shall be computed as FRW 887.8 million (FRW 115m x 7.72) and this includes:

- A “financial liability” under IFRS 9 *Financial Instruments* of FRW 100m as an additional finance provided by the buyer (FRW 1,000 million over the asset's fair value of FRW 900 million); and
- A “lease liability” under IFRS 16 *Leases* as the remaining amount of FRW 787.8 million relates to the lease liability.

The carrying amount of the building of FRW 600 million shall be de-recognised from the PPE asset as this asset classification has now changed from a PPE asset to a Right-of-use asset. Therefore, KGS shall CR PPE asset with FRW 600 million.

KGS shall recognise as an asset a “right-of-use asset” in its financial statements to recognise the leased asset. On the date of the leaseback (1 July 2025), the right-of use asset is measured as a proportion of the asset’s carrying amount “retained” which is computed as follows:

Carrying amount x {lease liability / fair value of asset}

=FRW 600m x (787.7m / 900m) OR FRW 600m x 87.53%
=FRW 525.2 million

KGS shall recognise the sale proceeds in the cash or bank based on the total disposal proceeds received of FRW 1,000 million from the sale of the asset. Therefore, KGS shall DR Cash and Bank with FRW 1,000 million.

KGS shall recognise a gain arising from the disposal of the asset in the profit or loss. Although the gain on the sale is FRW 300,000 (based on the fair value of FRW 900,000 less carrying amount of FRW 600,000), the amount of the gain on disposal to be recognised is only the portion that relates to the rights “transferred” to the buyer. This is computed as below:

Gain relating to retained rights:

Gain x {lease liability / fair value of asset}

= FRW 300m x (787.8m / 900m) OR FRW 300m x 87.53%

= FRW 262.6 million

Therefore, the gain relating to the transferred rights is FRW 37.4 million (i.e., 300m – 262.6m)

Alternatively, the gain on disposal to be recognised in the P&L can be computed as:

- 100% less proportion of asset retained
- 100% less {787.8m / 900m} = 100% - 87.53% = 12.47%
  i.e 12.47% x normal gain of FRW 300m = FRW 37.4m (as the gain to be recognized)

In summary, on 1 July 2025, KGS will account for the sale and leaseback transaction as follows (in FRW millions):

Dr Bank	1,000	
Dr Right-of-use asset	525.2	
Cr Property, plant and equipment		600
Cr Lease liability		787.8
Cr Financial liability		100
Cr Gain on rights transferred (to P&L)		37.4

In the profit or loss for the year ended 30 June 2025:

- The depreciation charge on the right-of-use asset shall be recognised and this will be be computed on a straight-line basis over the 10-year lease period, giving an annual depreciation charge of FRW FRW 52.5 million (FRW 525.2m / 10 years).
- The finance costs shall be recognised and this will be a total finance cost on the liability (in this case based on both the lease obligation of FRW 787.8m and the additional financial liability of FRW 100m) calculated using the interest rate implicit in the lease of 5%. This will lead to a total finance cost of FRW 44.39 million (5% × FRW 887.8 million) to be recognised in profit or loss.

Part (b): Fabric Ltd.'s Model areas

The cost of the model areas should be accounted for as property, plant and equipment in accordance with IAS16 *Property, Plant and Equipment* (PPE). IAS 16 defines PPE as tangible assets that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes, and are expected to be utilised in more than one period.

The "model areas" of Fabric Ltd meet the definition of an item of PPE under IAS 16 as the model areas are used in more than one accounting period (on average, these are used for 2 years), and from the model areas, customers of Fabric Ltd are able to view and buy the fashion goods in those areas. The costs of the model areas should be depreciated over their expected useful life to their expected residual value which in this case is zero.

In accordance with IAS 16, Fabric Ltd, after initial recognition, could use the cost model or revaluation model for the subsequent measurement of the model areas. However, it would be difficult to adopt the revaluation model as it would not be possible to measure fair value reliably. Normally market based information is used and yet there is no reliable market for properties similar to the model areas of Fabric Ltd.

Fabric Ltd has an obligation to dismantle the model areas after two years. The company should assess whether it has a present obligation as a result of a past event. The assessment should be carried out in accordance with IAS37 'Provisions, Contingent Liabilities and Contingent Assets'. In this case, Fabric Ltd has a present obligation to dismantle the model areas in existence and therefore a provision for a dismantling liability should be set up and the amount added to the cost of the asset. The costs of dismantling to be recognised are an initial estimate of the obligations which arise when PPE is acquired and as a consequence of using the asset. In this case the costs of dismantling the model areas are estimated at 20% of the construction cost and this should be measured, recognised in the financial statements as a:
Debit: PPE asset
Credit: Provision for a dismantling cost (in the liabilities)

The approximate age of the PPE is eight months. Thus the cost shown in the statement of financial position at 30 June 2025 should be:

Construction cost of model areas	=	FRW 200 million
Plus: Dismantling cost (at present value)	=	FRW 36 million
Total capitalised cost for model areas (PPE)	**=**	**FRW 236 million**

The depreciation charge for the model areas as PPE in the financial statements for Fabric for the year ended 30 June 2025 should be FRW 78.7 million (FRW 236m x 8/24 months). This is recognised as:

DR Profit or Loss (Depreciation charge)	78.7 million	
CR PPE (Model areas)		78.7 million

The closing balance of the model areas within the PPE at 30 June 2025 will be FRW 157.3 million (236m – 78.7m)

The discount related to the dismantling cost is unwound over the two-year period and recognised as a finance cost amounting to FRW 13.2 million (FRW 36m × 5·5% × 8/12 months) as:

Dr Profit or Loss (Finance cost) 1.32 million
CR Provision for dismantling liability 1.32 million

The closing balance for the provision for the dismantling costs (presented as a liability) at 30 June 2025 will be FRW 37.3 million (36m + 1.32m).

Part (c): Simba Metals Ltd (SML) – Borrowing costs

IAS 23 *Borrowing Costs* requires an entity to capitalise "eligible" borrowing costs in respect of a qualifying asset as part of the initial cost of the asset and all other borrowing costs are recognised in profit or loss as incurred.

Eligible borrowing costs are those borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset.

A qualifying asset is one that necessarily takes a substantial period of time to get ready for their intended use and includes property, plant and equipment. For SML's manufacturing plant, if it takes the entity a substantial period of time to construct the plant and get it ready for its intended purpose is evidence that the borrowing costs incurred during the process are eligible for capitalization.

SML's extension of its manufacturing plant is by nature a capitalised expenditure and classified as PPE – since the extension of the plant results in an enhancement of the asset and an increase in the economic flow of resources flowing to the entity. In accordance with IAS 23, the extension of the manufacturing plant is a "qualifying asset" considering that the company has a substantial period of time to complete the construction and get the asset ready for its intended use.

IAS 23 requires that borrowing costs are capitalised when all of the following conditions are met:

- Expenditure on the asset is being incurred
- Borrowing costs are being incurred
- Activities necessary to prepare the asset for intended use or sale are underway.

Therefore, based on the above criteria setout by IAS 23-the SML would start capitalizing borrowing from 1 October 2024 which in this case the actual date to commence the construction. The costs incurred prior to this date, would be expensed in the profit or loss account.

Under IAS 23, capitalisation of borrowing costs ceases when the activities to prepare the qualifying asset for intended use or sale are substantially complete. This in the case of SML is 31 March 2025 when the extension of the manufacturing plant is ready for use.

During extended periods in which the active development of a qualifying asset is suspended, the capitalisation of borrowing costs is also suspended. The question arises as to whether the one-month stoppage due to unexpected bad weather in January 2025 is an "extended period". IAS 23 does not define an extended period and therefore judgement should be applied. One month amounts to 8.3% (1/12 months) of the period when activities are underway to prepare the extension for intended use. On balance this appears to be an extended period and therefore borrowing costs incurred in that period are not capitalised.

In the case of specific borrowings, IAS 23 requires that the actual borrowing costs incurred less any investment income on the temporary investment of the borrowings are capitalised. As not all funds drawn down by SML were used immediately, the amount to be capitalised is reduced by investment income earned from the temporary deposit of excess funds.

Therefore, the amount to be capitalised in respect of the short-term FRW 520 million loan is:

	FRW millions
Interest incurred during capitalization period {FRW 520m x 5% x (6 – 1 suspended period) / 12 months}	10.8 m
Less: Investment income	(1.7m)
Net borrowing costs to be capitalized	**9.1 m**

The investment income earned in the two months of August 2024 and September 2024 of FRW 1.7m {FRW 520m x 2% x 2/12 months} will not be reduced from the capitalized borrowing costs as this was earned in the months before construction commenced. This will be offset from the interest cost in the profit or loss.

The net interest expense in the profit or loss for the year ended will be computed as below:

Total interest in the year: (FRW 520 x 5%) *11/12	23.83m
Interest capitalized	(9.1)
Borrowing costs to be expensed in the P&L	14.73m

QUESTION FOUR

Part (a) – IAS 36: Impairment of Assets (8 marks)

Marking scheme:
Part (a) – IAS 36: Impairment of Assets (8 marks)
Marking scheme:

- Identification of recoverable amount basis (0.5 mark)
- Calculation of impairment loss (1 mark)
- Correct allocation to goodwill (0.5 mark)
- Discussion of restrictions on PPE/intangibles (0.5 marks)
- Discussion of corporate assets and assumptions (2 marks)

- Well allocated impairment to assets 2 Marks
- Implications for faithful representation and bond covenants (1.5 marks)

Answer Model:
The carrying amount of the technology CGU is RWF 20 billion, consisting of goodwill of RWF 3 billion, PPE of RWF 11 billion, capitalised development costs of RWF 5 billion, and allocated corporate assets of RWF 1 billion. The recoverable amount is the higher of value in use (VIU) and fair value less costs of disposal (FVLCD). The directors' estimate of VIU is RWF 15 billion, while an independent valuer reported a FVLCD of RWF 14 billion. The higher amount of RWF 15 billion must be used. The impairment loss is therefore RWF 20 − RWF 15 = RWF 5 billion.

IAS 36 requires that impairment losses are allocated first to goodwill, which is fully written down (RWF 3 billion). The remaining RWF 2 billion must be allocated on a pro rata basis to PPE and development costs, subject to restrictions: the revalued building carried at RWF 4 billion cannot be reduced below fair value, and the patent with an active market value of RWF 2.5 billion cannot be impaired below that amount. The balance is allocated across the other assets.

Allocation of impairment to assets

	Carrying amount	**Market value for specific asset**	**Remaining book value**	**Impairment**	**Asset balance**
	FRW Billion	**FRW Billion**	**FRW Billion**	**FRW Billion**	**FRW Billion**
Goodwill	3		3	3	-
Allocating remaining impairment after goodwill 5-3=2billion					
Property, plant and equipment (PPE),	11	4	7.0	1.3	9.7
capitalized development costs	5	2.5	2.5	0.476	4.5
corporate assets	1		1	0.19	0.8

Total	20	7	14	5	15

The directors' suggestion to exclude corporate assets from the CGU is not consistent with IAS 36, which requires corporate assets to be allocated where reasonable. Optimistic assumptions in the VIU undermine prudence and faithful representation. **The impairment must be recognised transparently, even if this adversely affects bond negotiations**.

Journal entry: Dr Impairment loss (P&L) RWF 5bn; Cr Goodwill RWF 3bn; Cr PPE/Intangibles RWF 2bn.

Part (b) – IAS 40: Investment Property (7 marks)
Marking scheme:

• Treatment of mixed-use property (2 marks)
• Transfer of head office and measurement (2 marks)
• Recognition of asbestos impairment loss (2 marks)
• Discussion of directors' approach and conceptual framework (1 mark)

Answer Model:
Mixed-use tower: The tower is partly leased to tenants (RWF 8bn) and partly occupied by Umucyo Plc's staff (RWF 4bn). IAS 40 requires separate classification if the portions can be sold or leased separately. Therefore, RWF 8bn is classified as investment property and RWF 4bn remains as owner-occupied under IAS 16.

Vacated head office: The old HQ (carrying RWF 6bn) was transferred to investment property when made available for lease. On transfer, fair value was RWF 7.2bn. IAS 40 requires remeasurement at fair value on transfer. Journal: Dr Investment property RWF 7.2bn; Cr PPE RWF 6bn; Cr Revaluation surplus (or P&L if cost model) RWF 1.2bn.

Asbestos-affected property: Fair value fell from RWF 5.5bn to RWF 3.5bn. Under IAS 40's fair value model, the RWF 2bn loss must be recognised immediately in profit or loss. Journal: Dr Loss (P&L) RWF 2bn; Cr Investment property RWF 2bn.

Conceptual framework: The directors' suggestion to disclose the fall in value in the notes only would not meet faithful representation and relevance. Proper recognition is required to ensure neutrality and transparency for investors and creditors.

Part (c) – IFRS 2: Share-based Payment (10 marks)
Marking scheme:

• Correct calculation of year 1 expense (2 marks)
• Correct calculation of year 2 cumulative and incremental expense (2 marks)
• Correct calculation of year 3 expense (2 marks)
• Treatment of modification (2 marks)
• Discussion of directors' deferral proposal and governance implications (2 marks)

Answer Model:

Grant (July 2023): 2.5 million equity-settled options were awarded at a fair value of RWF 180 each, total RWF 450m, to be recognised over the 3-year vesting period. Vesting is conditional on service and performance (10% revenue growth). Non-market conditions are reflected in estimates of vesting.

Year 1: Expected turnover 5% and 2.375m i.e (2.5m*95%) options expected to vest. Expense = (2.375m × 180)/3 = RWF 142.5m. Journal: Dr Employee benefit expense 142.5m; Cr Equity – share option reserve 142.5m.

Year 2: Expected turnover revised to 8% and 2.3m options i.e (2.5m*92%). Cumulative expense = (2.3m × 180 × 2/3) = RWF 276m. Expense for Y2 = 276 − 142.5 = RWF 133.5m. Journal: Dr Employee benefit expense 133.5m; Cr Equity – share option reserve 133.5m.

Year 3: If 2.3m options vest, total = 2.3m × 180 = RWF 414m. Y3 expense = 414 − 276 = RWF 138m. Journal: Dr Employee benefit expense 138m; Cr Equity – share option reserve 138m.

Modification (Sept 2025): Vesting target lowered; FV increase RWF 20 per option. Incremental FV = 2.3m × 20 = RWF 46m. This must be recognised prospectively over the remaining vesting period. Journal: Dr Employee benefit expense 46m; Cr Equity – share option reserve 46m.

Directors' proposal: Deferring recognition until vesting is not permitted by IFRS 2. Recognition must occur systematically over the vesting period, and incremental fair value due to modification must be recognised immediately or over remaining vesting, depending on service. Deferral would understate expenses, overstate profits and distributable reserves, and mislead stakeholders. Proper recognition ensures faithful representation and transparency in remuneration reporting.