CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 26, AUGUST 2025

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

Apex Ltd is a local company operating in the mining industry in Rwanda and is listed on the Rwanda stock market. Two years ago, the Board of Directors of Apex Ltd approved a plan to diversify in other business segments on a phased basis. For implementation of board decision, Apex Ltd has acquired a shareholding in Base Ltd, Cart Ltd and Dive Ltd. All the companies having an accounting date of 31 December.

The following statements of financial position relate to Apex Ltd and its subsidiaries as at 31 December 2024:

	Apex Ltd	Base Ltd	Cart Ltd
	FRW"Million"	FRW"Million"	KShs"Million"
Assets			
Non-current assets			
Property, plant and equipment	34,795	12,562	6,500
Other Intangible assets	5,670	4,120	350
Investments	105,800	-	-
Total non-current assets	**146,265**	**16,682**	**6,850**
Current assets			
Inventories	8,946	5,345	-
Trade receivables	4,038	7,938	1,220
Cash and bank	1,296	4,785	680
Total current assets	**14,280**	**18,068**	**1,900**
Total assets	**160,545**	**34,750**	**8,750**
Equity and Liabilities			
Equity:			
Ordinary share capital	45,000	10,000	4,100
Retained earnings	87,083	19,228	3,590
Other components of equity	24,347	3,100	-
Total equity	**156,430**	**32,328**	**7,690**
Current Liabilities			
Trade payables	2,695	1,472	735
Other current liabilities	1,420	950	325
Total current liabilities	**4,115**	**2,422**	**1,060**
Total equity and liabilities	**160,545**	**34,750**	**8,750**

The following additional information is available:

1) As part of the business diversification strategy approved by the Board, Apex Ltd has made the following investments (which are recognized at their initial cost in the carrying amount of the investments):

i) On 1 January 2022, Apex Ltd acquired 80% of the ordinary share capital of Base Ltd, a company locally based in Rwanda and operating in the transportation and Logistics industry. Apex Ltd paid an immediate cash consideration of FRW 27,500 million to acquire the shareholding in Base Ltd. On the acquisition date, the retained earnings in Base Ltd were valued at FRW 9,600 million while the non-controlling interests in Base Ltd had a fair value of FRW 5,200 million on the date of acquisition. All the other components of equity reported in the financial statements of Base Ltd are post-acquisition reserves.

ii) On 1 October 2024, Apex Ltd acquired 100% of the ordinary share capital of Cart Ltd, a fast-growing Kenyan-based Commercial Bank. Apex Ltd business strategy was to acquire a foreign-based financial institution from which it would borrow funds for capital investments in future. Apex Ltd paid an immediate cash consideration of Kshs 7,000 million to acquire Cart Ltd when the retained earnings in Cart Ltd were Kshs 3,100 million on that date. Any exchange differences on the translation of the financial statements of Cart Ltd are considered to be immaterial.

iii) On 1 January 2024, Apex Ltd and Nice Ltd (another mining company) agreed to a contractual joint arrangement to take over another company Dive Ltd with Apex Ltd acquiring 40% of the ordinary shares in Dive Ltd on that day. Dive Ltd is a local company in Rwanda that imports and sells spare parts of machinery to companies operating in the mining industry. Apex Ltd paid an immediate cash consideration of FRW 6,000 million to purchase the shareholding in Dive Ltd. The investment of Apex Ltd in Dive Ltd qualifies as an investment in a Joint Venture in accordance with IFRS 11 *Joint arrangements* and IAS 28 *Investment in Associates and Joint Ventures*. The retained earnings in Dive Ltd were FRW 7,200 million on 1 January 2024 and FRW 8,440 million on 31 December 2024.

iv) Other investments in the financial statements of Apex Ltd relate to the debt instruments purchased on 31 December 2024 at FRW 9,300 million and these investments are held in un-related companies.

2) On the acquisition of Base Ltd, the carrying value of the identifiable net assets were equal to their fair values except an item of plant that had fair value increase of FRW 2,500 million. The plant was assessed to have a useful life of 4 years from 1 January 2022 (the date of acquisition). Ignore any deferred tax implications related to this fair value increase.
There was no fair value adjustments related to the identifiable net assets of Cart Ltd and Dive Ltd on the date of their acquisition.

3) In the year ended 31 December 2024, Base Ltd provided transportation services to Apex Ltd and charged an invoice of FRW 520 million. This is part of the current service contract

where Base Ltd provides transportation of the heavy machinery of Apex Ltd from one mining site to another site. In the year to 31 December 2024, the full invoice value of FRW 520 million which was based on normal price and terms remained unsettled on 31 December 2024 because Apex Ltd received the invoice on 5th January 2025 (Apex Ltd did not recognize this invoice in its financial statements at 31 December 2024). Ignore any unrealized profit on this transaction.

4) Dive Ltd sold machinery spare parts of FRW 750 million to Apex Ltd on 31 December 2024 and all these spare parts were correctly reported in the property, plant and equipment of Apex Ltd at the reporting date. Dive Ltd sells all its spare parts with a profit margin of 20%.

5) On 31 December 2024, a heavy earthquake caused significant damage to a plant used in the mining activities of Apex Ltd. An expert valuation was immediately conducted on 31 December 2024 and provided a valuation report with the following information for the plant:
   - Fair Value of the plant was FRW 2,650 million
   - Costs to sell the plant was FRW 150 million
   - The plant's value in use was FRW 2,550 million

   The plant is recognized in the financial statements of Apex Ltd at its carrying amount of FRW 3,200 million at 31 December 2024.

6) Below is an extract of the relevant exchange rates between the Rwanda Francs (FRW) and the Kenya Shillings (Kshs) that prevailed in the year:

Descriptions	**1 Kshs to FRWs**
1 October 2024	9
31 December 2024	11
Average exchange rate	10

Required:

a) Prepare the Consolidated Statement of Financial Position of Apex Group Ltd as at 31 December 2024. (40 Marks)

Note:

(i) All monetary figures must be rounded to full millions (no decimals)

(ii) Show all the relevant workings

b) The Group Finance Director is preparing a summary of the disclosure notes to be included in the consolidated financial statements for Apex Group. He has approached you for advice on the disclosures applicable to the transactions that have taken place during the year between Apex Ltd, Base Ltd Cart Ltd and Dive Ltd

Required:

Briefly justify whether Base Ltd and Dive Ltd are related parties to Apex Ltd and state any TWO disclosure notes that the Group Financial Director has to include in the Apex consolidated financial statements regarding the transportation services provided by Base Ltd in the year to 31 December 2024. (5 Marks)

c) You have been informed that in the year ended 31 December 2024, Apex Ltd plans to commence publishing a "sustainable report" and "ESG report" alongside the financial statements. In preparation for the meeting, you have received an email from a consultant developing these additional reports for Apex Ltd which in part reads as follows:

"The Sustainable Development Goals (SDGs) apply to all countries including the Republic of Rwanda and the SDGs set priorities for governments to apply in implementing the SDGs at national level. SDGs demand a corporate response and provide insights for companies on how they can create economic, social and environmental value for their investors and other stakeholders. It is important that entities such as Apex Ltd in the mining sector incorporate sustainability reporting in their corporate reports and in addition the company should develop a policy on their actions for ESG (Environmental, Social and Governance) which is acceptable to its stakeholders".

Required:

In the context of Apex Ltd.'s operations as a mining company, **distinguish between "Sustainability reporting" and "ESG Reporting" and briefly state any ONE example of information contents that should be reported in each of the THREE components of an ESG report relevant to Apex Ltd** (5 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

The following "extracts" from the trial balance have been taken from the accounting records of Frontline Co as at 30 June 2025:

	Debit	Credit
	FRW "million"	FRW "million"
Revenue		43,200
Cost of sales	23,200	
Other operating expenses	13,520	
Tax		130
Convertible loan notes		5,000
Interest expenses	1,240	
Investment income		120
Retained earnings at 1 July 2024		35,400
Ordinary share capital (FRW 1,000 per share) at 1 July 2024		12,200

Additional Information:

1) On 1 July 2023, Frontline Co entered into a major construction contract where the performance obligation is satisfied over time. The contract price is FRW 9,000 million, and the estimated total contract costs are FRW 7,200 million. By 30 June 2024, costs of FRW 3,600 million had been incurred, and at 30 June 2025 the cumulative costs incurred were FRW 5,760 million. At 30 June 2025, the company's engineers certified that only 70% of the work was complete, whereas the cost-to-cost method indicates 80% completion. The contract also includes a penalty clause of FRW 200 million if the project is not completed by 30 June 2026. At 30 June 2025, the project is expected to finish on time. At 30 June 2024, revenue had been correctly recognised, but no entries have been made for the year ended 30 June 2025.

2) On 1 January 2025, Frontline Co's legal advisors informed the company that a major supplier had initiated legal proceedings for failure to settle a payable. The legal opinion suggested a 90% probability of losing the case and incurring a penalty, including court costs, of FRW 1,012 million payable on 1 January 2026. On 1 January 2025, the company recognised a provision of FRW 800 million in operating expenses and made no further adjustments. The company's cost of capital is 10% per annum (discount factor for one year = 0.9091).

   In addition, a second lawsuit has been filed by another supplier claiming FRW 500 million. Legal opinion suggests there is only a 40% chance of losing this case. Further, the company has an insurance policy which may reimburse up to FRW 300 million of any confirmed settlement, although the insurer has not yet confirmed liability.

3) The tax balance in the trial balance relates to prior year under/over provision. The estimated current tax liability for the year ended 30 June 2025 is FRW 2,100 million. In addition, the following balances relate to temporary differences at 30 June 2025:

Item	**Carrying amount (FRW "Million")**	**Tax base (FRW "Million")**
Property, plant & equipment (includes revaluation surplus in OCI)	12,000	10,500
Provision for legal case	800	–
Financial instrument FVTOCI	1,020	1,000

Frontline Co also has unused tax losses of FRW 400 million available to carry forward. The tax rate is 25%. Movements in deferred tax should be charged to profit or loss, except for those relating to items recognised in other comprehensive income.

4) On 1 July 2024, Frontline Co issued 8% convertible loan notes amounting to FRW 5,000 million, redeemable in two years. Interest is payable annually in arrears. Each loan note can be converted into one share for every FRW 2,000 at maturity. If not converted, the loan notes are redeemable at a premium of FRW 200 million. Transaction costs of FRW 100 million were incurred on issue. Similar loan notes without conversion rights would have required a 10% return.

   The loan notes issued by the company include a provision allowing the company to redeem (or 'call') them at its discretion after one year. If the company exercises this option, it will repurchase the loan notes at a price equivalent to 102% of their face value (par), which provides investors with a slight premium over the original value.

   Relevant discount factors are as follows:

Rate	**1 year**	**2 years**
8%	0.926	0.857
10%	0.909	0.826

5) On 1 July 2024, Frontline Co purchased a debt instrument for FRW 1,000 million, classified at fair value through other comprehensive income (FVTOCI). The instrument has a par value of FRW 1,250 million, a five-year term, and a coupon of 4.7% annually. The effective interest rate (EIR) is 10%. At 30 June 2025, the fair value was FRW 1,020 million. Frontline Co maintained the financial instrument at its original cost in the financial statements at 30 June 2025 and therefore not recognised the changes in the value of the financial instrument in accordance with IFRS 9 *Financial Instruments*.

   In addition, the company purchased a trading investment on 1 January 2025 for FRW 600 million, classified as FVTPL. At 30 June 2025, the fair value of this investment was FRW

650 million. Expected credit losses on the FVTOCI instrument were estimated at FRW 50 million at 30 June 2025.

6) On 30 June 2025, it was discovered that a former stores manager had stolen inventory worth FRW 2,500 million. Of this amount, FRW 1,600 million related to the prior year ended 30 June 2024 and FRW 900 million related to the current year. An insurance claim for FRW 1,000 million has been submitted but the insurer has not yet confirmed liability. No adjustments have yet been made.

7) On 1 November 2024, Frontline Co made a rights issue of 1.5 million ordinary shares at FRW 2,200 per share when the market price was FRW 2,800 per share. The proceeds were credited to a suspense account. On 30 June 2025, the company declared a dividend of FRW 550 million, which it intends to partly fund from share premium. These transactions have not been recorded.

Required:

a) **Prepare a statement of profit or loss and other comprehensive income for Frontline Co for the year ended 30 June 2025.** (19 Marks)

b) **Prepare a statement of changes in equity for Frontline Co for the year ended 30 June 2025.** (6 Marks)

Notes:

1. *You are required to support your answer with "workings" and these should be well referenced in the preparation of the financial statements.*
2. *All monetary figures should be rounded to the nearest FRW millions (no decimals).*

(Total: 25 Marks)

QUESTION THREE

a) Kimironko General Stores (KGS), a retail company that operates in Kimironko selling groceries to the public. Since last year in 2023, the company has struggled to raise finance needed to increase their product lines that are being demanded by their customers. As part of the financing strategy, it sold its office building to M&N Ltd on 1 July 2024 for FRW 1,000 million and simultaneously leased back the property for a period of 10 years. On the date of sale, the asset had a carrying amount of FRW 600 million and a fair value of FRW 900 million.

KGS will make annual lease payments of FRW 115 million; the interest rate implicit in the lease is 5%. The cumulative discount factor (annuity factor) for years 1 to 10 is 7.72.

Required:

In accordance with IFRS 16 *Leases*, **discuss how KGS should account for the sale and leaseback transaction on 1 July 2024 and advise the amount that will be reported as a depreciation charge and the total finance cost in the profit or loss for the year-end 30 June 2025** (10 Marks)

b) Fabric Ltd, a public limited company on the Rwanda Stock Exchange, operates in the fashion industry and has a financial year end of 30 June 2025. The company's sells its products within different shops located in the city centres across Rwanda. The company's products are hugely subsidised by government make prices affordable to the general population of Rwanda. Consequently, the Government of Rwanda freely allocates space to Fabric Ltd in government buildings. Fabric Ltd creates selling areas (points) using the allocated space which are branded as "model areas". The company feels that model areas located in the government properties helps the entity promote its merchandise. The model areas are special for Fabric Ltd.'s use and currently there is no reliable market for such model areas.

Fabric Ltd pays for all the costs of the model areas including design, decoration and construction costs. According to the legal contracts between Fabric Ltd and the Government of Rwanda requires Fabric Ltd to use the model areas for two years, after which Fabric Ltd is required to dismantle the model areas. The costs of dismantling the model areas are normally 20% of the original construction cost. The elements of the area are worthless when dismantled. The current accounting practice followed by Fabric Ltd is to charge the full cost of the model areas against profit or loss in the year when the area is dismantled.
The company has estimated that the average age of the existing 'model areas' is eight months at 30 June 2025.

The accumulated cost of the model areas shown in the statement of financial position at 30 June 2025 is FRW 200 million and the present value of the dismantling costs related to the model area as at 30 June 2024 based on a discount rate of 5.5% has been estimated as FRW 36 million (both figures are based on estimates at the start of the 2-year useful life of the model areas).

Required:

Discuss how the "model areas" should be treated in the financial statements of Fabric Ltd for the year ended 30 June 2025 in accordance with the relevant International Financial Reporting Standards. (9 Marks)

c) Simba Metals Ltd (SML) is engaged in the manufacture of metals. During the year ended 30 June 2025, the company undertook an extension of its manufacturing plant. SML applied for a construction permit on 1 August 2024 and began the tender process on the same date by engaging consultants. Construction started on 1 October 2024 and, despite a one-month delay in January 2025 due to bad weather, the extension was ready for use on 31 March 2025, with operations commencing on 30 April 2025

The terms of the contract with the construction company require regular progress payments based on the work completed. Despite a one-month unscheduled break in the construction in January 2025, due to unexpected bad weather. The extension was ready for use on 31 March 2025 and SML Co began to use the new facilities on 30 April 2025.

The expansion was funded through a specific loan of FRW 520 million with an annual interest rate of 5%. The funds were drawn down on 1 August 2024 and were invested in a deposit account, attracting 2% interest per annum until commencing construction work. The entire loan was used on 1 October 2024 to make a progress payment to the construction company. The loan was repaid on 30 June 2025.

Required:

Discuss what amount of borrowing costs incurred in the year ended 30 June 2025 should be recognised in the SML financial statements. (6 Marks)

(Total: 25 Marks)

QUESTION FOUR

Umucyo Plc is a diversified Rwandan conglomerate listed on the Rwanda Stock Exchange. The company operates two principal divisions: a property investment business and a technology division. The directors are in the process of preparing the group's financial statements for the year ended 31 December 2024. The group is currently negotiating a major bond issue, and the board is under pressure to demonstrate strong financial results and financial stability. Several issues have arisen which the audit committee believes require careful consideration.

The technology division

The technology division was acquired three years ago for RWF 20 billion and has been treated as a single cash-generating unit (CGU). The carrying amount of the CGU at 31 December 2024 comprises: RWF 3 billion goodwill, RWF 11 billion of property, plant and equipment (PPE), RWF 5 billion of capitalised development costs, and RWF 1 billion of allocated corporate assets. One of the PPE assets is a building carried at fair value under the revaluation model (RWF 4 billion) and may not be impaired below this amount. A patent included in the development costs has an active secondary market and could be sold for RWF 2.5 billion.

The directors have prepared cash flow projections based on optimistic assumptions about growth and estimated a value in use (VIU) of RWF 15 billion. An independent valuation commissioned by the audit committee suggested a fair value less costs of disposal (FVLCD) of RWF 14 billion. The draft financial statements currently report the CGU at its carrying amount of RWF 20 billion. Some directors have argued that recognising an impairment at this stage would damage investor confidence and risk breaching the terms of the proposed bond issue. Others suggest excluding the allocated corporate assets from the CGU, which would reduce the apparent impairment charge.

The property portfolio

The property portfolio includes several investment properties and one newly constructed tower. The tower is partly leased to external tenants (fair value RWF 8 billion) and partly occupied by Umucyo Plc's head office staff (fair value RWF 4 billion). The board has difficulty determining how to account for the split between investment property and owner-occupied property.

During the year, the company vacated its previous head office, which had been carried under IAS 16 at RWF 6 billion. The building was subsequently leased to third parties. On the date of transfer, the property had an independently determined fair value of RWF 7.2 billion. The directors are unsure whether to measure the gain on transfer immediately or defer it .

A further property in the portfolio has been affected by asbestos. This property was previously valued at RWF 5.5 billion, but the latest valuation has reduced its fair value to RWF 3.5 billion. Some directors propose disclosing the fall in value in the notes only, on the grounds that recognition would reduce reported equity and potentially undermine the group's credit rating.

Share based payment

In July 2023, the group granted 2.5 million equity-settled share options to senior executives. Each option allows the purchase of one share at RWF 500, conditional on three years of service and achieving a consolidated revenue growth target of 10% by June 2026. The fair value per option at grant date was RWF 180, reflecting the likelihood of achieving the performance condition.

In the first year (to June 2024), management expected staff turnover of 5% over the vesting period. However, in the second year (to June 2025), actual staff departures were higher, and expected turnover was revised to 8%. Despite this, the group has already exceeded the revenue growth target, making the performance condition almost certain to be satisfied. In September 2025, the board modified the scheme by lowering the vesting target, which increased the fair value of the options by RWF 20 each. Some directors argue that the additional expense arising from the modification should not be recognised immediately, since it could reduce distributable profits and limit the group's capacity to pay dividends.

The audit committee has requested a technical report setting out the financial reporting implications of these matters.

Required:

a) **Evaluate the impairment test for the technology CGU and comment on the implications for the financial statements and the bond issue.** (8 Marks)

b) **Discuss the accounting treatment of the property portfolio and evaluate the board's approach against IFRS requirements and the conceptual framework.** (7 Marks)

c) **Analyze the recognition and measurement of the executive option scheme and assess the directors' proposal to defer recognition.** (10 Marks)

(Total: 25 Marks)

End of question paper.

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