



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE EXAMINATIONS
I1.2: FINANCIAL REPORTING
DATE: TUESDAY 26, AUGUST 2025
MARKING GUIDE AND MODEL ANSWERS**

SECTION A

QUESTION ONE

Marking guide

a)	Marks
Award 1 mark for calculating Netbook value of an old building	1
Award 1 mark for calculating surplus of an old building	1
Award 1 mark for calculating revaluation loss of an old building	1
Award 1 mark for each double entry	6
Award 0.5 marks for each posting in the extract financial statements	4
Sub-total	13
b)	
Award 1 mark for the computation of the following Deferred tax liability Increase in deferred tax Computation of deferred tax on revaluation	3
Award 0.5 for each of each temporary difference computed	1.5
Award 0.5 for computing deferred tax charged in the profit or loss account	0.5
Award 0.5 for showing deferred tax balance b/d	0.5
Award 0.5 for each double entry shown	1.5
Sub-total	7
Total	20

Model Answer

a) IAS 16 and IAS 40 Treatment

		FRW'000
Old office		
Carrying amount as at 01 July 2022		
Cost		860,000
Accumulated depreciation	$860,000/20 \times 9.5$	(408,500)
Netbook Value		451,500
Fair value as at 01 July 2022		500,000
Surplus		48,500

Dr Old building	48,500	
Cr Revaluation reserve		48,500

The additional cost of 60 million incurred to rehabilitate the asset will be capitalized as follows

Dr Old building	60,000	
CR Cash, bank or Liability		60,000

Being capitalization of addition cost incurred on the building

As at 31 December 2022, there is a loss on fair value

Fair value as at 31/12/2022	410,000	
Fair value bal b/d	560,000	
Loss	(150,000)	

Dr Loss of fair value (P&L)	150,000	
Cr Investment property		150,000

Acquisition of new building-1/07/2022

Dr Building	4,000,000	
Cr Loan		4,000,000

Being recognition of new asset acquired on loan

Interest for the year

Dr Interest expense	$4,000,000 \times 6\% \times 6/12$	120,000	
Cr Interest due			120,000

Depreciation for the year of new building

Dr Depreciation expense	$4,000,000/10 \times 6/12$	200,000	
Cr Accumulated depreciation			200,000

Extract statement of profit or loss for the year ended 31 December 2022		FRW 000
Expense		
Depreciation-Old building	$860,000/20 \times 6/12$	21,500
Loss on fair value		150,000
Interest expense		120,000
Depreciation-new building		200,000
Other comprehensive income		48,500
Statement of financial position as at 31 December 2022		
Investment property		410,000
Building- new office	$4,000,000 - 200,000$	3,800,000

Equity	
Revaluation reserve	48,500

b) Deferred tax of Pfunda Cement Ltd

	Carrying amount	Tax base	Temporary difference
	FRW 000	FRW 000	FRW 000
Property, plant and equipment-Carrying amount	120,000	49,000	71,000
Accrued income	30,000	0	30,000
Provision	(5,000)	0	(5,000)
			96,000
			Deferred tax (FRW 000)
Deferred tax liability	96,000*30%		28,800
Deferred tax bal b/d			25,000
Increase in deferred tax liability			3,800
Deferred tax on revaluation	4,000*30%		1,200
Deferred tax charged in P/L			2,600

Journal entries

Dr Income Tax-Profit or loss

a/c 2,600

Dr Revaluation reserve 1,200

Cr Deferred tax 3,800

QUESTION TWO

Marking guide

	Marks
<p>Statement of financial position Award 0.5 mark for the correct figure posted in the financial position.</p> <p>Workings on SOFP</p> <p>*Building Award 1 mark for computation of revaluation surplus on reclassification date. Award 1 mark for the Computation of market value portion for IAS 16, and IAS 40</p> <p>Award 0.5 mark for computation of fair value gain on investment building</p> <p>*Lease Award 1 mark for the computation of the present value of leased assets 1 Mark for the lease schedule showing the lease obligation closing balance <i>Award 0.5 marks for the correct computation of the depreciation of the right-of-use of Assets and their book value</i></p> <p>*PPE schedule Award 1.5 Marks for a well-prepared PPE schedule. i.e 0.5 marks for Land and Building, 0.5 marks for Machinery, and 0.5 marks for other long-term assets.</p>	17
<p>Statement of comprehensive income Award 0.5 mark for each correct figure posted in the statement of comprehensive, except subtotals and totals</p> <p>Working associated with the statement of comprehensive income, award marks as follows</p> <p>*Correct the impairment on inventory added to the costs of Sales-Award 0.5 mark *Administrative costs: Award 0.5 for each of the following items: impairment of receivables, increase in provisions, depreciation *Computation of Depreciation: Award 0.5 mark for each computed depreciation Income tax *Award 1.5 for computation of income tax</p>	10
<p>*Statement of change in equity *Well stated opening balance award 1 *Award 0.5 for gain on investment property and revaluation surplus *Award 1 mark for profit for the year shown in the SOCE</p>	3

Total	30
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Model Answer

a) Statement of financial position as at 31 December 2024

Non-current assets			
		FRW"000"	FRW"000"
Land and building	W6	86,656,000	
Machinery equipment	W5	34,422,280	
Other long-term assets	W5	15,170,000	
Leased motor vehicle	W7	207,906	
Investment in other companies		15,000	
Other investment-Building	W6	38,400,000	
Total non-current assets			174,871,186
Current assets			
Intangible assets		916,850	
Inventories		43,555,218	
Trade and other receivables	Frw 15,723,158-628,926	15,094,232	
Cash and bank	FRW 1,366,661-80,000	1,286,661	
Total Current Assets			60,852,961
Total Assets			235,724,147
Equity and liabilities			
Equity			
Share capital		5,142,850	
Share premium		84,857	
Retained earnings		48,954,409	
Other reserves		27,077,766	
Owners funds			81,259,882
Non-current liabilities			
Deferred tax	W8	14,562,900	
33% Loan note		22,003,200	
Lease obligation	W7	146,671	
Total Non-current liabilities			36,712,771
Current liabilities			
Trade and other payables		69,528,402	
Bank loans		34,010,923	
Lease obligation	W7	67,170	
Current tax	W8	13,500,000	
Provisions		220,000	
Prepaid income		425,000	

Total Current liabilities		117,751,495
Total equity and liabilities		235,724,147

b) Statement of total comprehensive income for the year ended 31 December 2024

Statement of Profit or loss account			
		FRW"000"	FRW"000"
Sales 215,435,451-425,000			215,010,451
Cost of sales			(124,778,299)
			90,232,152
Investment income			1,460,005
Gain on building fair value W6			16,000,000
			107,692,157
Expense			
Administrative costs W2		29,409,629	
Selling and Distribution costs		21,075,093	
Interest 7,169,429+16,632 (Lease)		7,186,061	
Total expense			57,670,783
Profit before tax			50,021,374
Income tax W8			27,380,695
Profit for the year			22,640,679
Other comprehensive income			
Gain on investment 15,000-9,224			5,776
Total comprehensive income			22,646,455

c) Statement of change in equity

	Share capital	Share premium	Other reserves	Retained earnings	Total
	FRW"000"	FRW"000"	FRW"000"	FRW"000"	FRW"000"
Opening balance	5,142,850	84,857	2,071,990	26,313,730	33,613,427
Gain on investment			5,776		5,776
Revaluation surplus			25,000,000		25,000,000
Profit for the year	-			22,640,679	22,640,679
Balance on 31 Dec 2024	5,142,850	84,857	27,077,766	48,954,409	81,259,882

Workings

Working 1

Cost of sales

	FRW"000"	FRW"000"
Balance per Trial Balance		117,778,299
Impairment of inventory 50,555,218-43,555,218		7,000,000
Opening stock		50,555,218
Closing stock		-43,555,218
Total		124,778,299

Working 2

Administrative costs

Balance per Trial balance	21,089,703
Impairment of receivables: 15,723,158*4%	628,926
Depreciation	7,668,000
Increase in provision 220 million -197 million	23,000
	29,409,629

Working 3

Account receivables	15,723,158
Impairment	(628,926)
	15,094,232

Working 4

Property plant and equipment

	Land and building FRW"000"	Machinery equipment FRW"000"	Other long term assets FRW"000"
Cost	125,400,000	54,218,000	24,300,000
Reclassification	(22,400,000)		
Revaluation gain	25,000,000		
	128,000,000	54,218,000	24,300,000
Depreciation			
Accumulated depreciation on 1 Jan 2024	40,000,000	15,971,022	6,700,000
Depreciation charge	1,344,000	3,824,698	2,430,000
Reclassification and disposal			

Total depreciation as at 31 Dec 2024	41,344,000	19,795,720	9,130,000
NBV on 1 Jan 2024	85,400,000	38,246,978	17,600,000
NBV on 31 December 2024	86,656,000	34,422,280	15,170,000

Working 5

Depreciation charge for the year

Building 33,600,000*4%	1,344,000
Machinery 38,246,978*10%	3,824,698
Furniture and fitting 24,300,000*10%	2,430,000
Leased motor vehicle 277,208/4	69,302
	7,668,000

Working 6-Building

On 1 January 2024, the part of building (2floors) were held for earning rentals and that portion must be reclassified to IAS 40

Treatment of building in the financial year 2024 is detailed below

NBV of bundling on reclassification date i.e 1 Jan 2024

Cost of land	54,400,000
Cost of building	71,000,000
Accumulated depreciation up to 1 Jan 2024	(40,000,000)

NBV of building **31,000,000**

Market value of building on 1 January 2024 56,000,000

Gain on revaluation **25,000,000**

Floors of the building 5

Floors held for investment purpose 2

NBV of portion classified to Investment property on 1 January 2024(2/5*31 billion) 12,400,000

NBV of portion classified under IAS 16 on 1 January 2024 (3/5*31 billion) 18,600,000

31,000,000

Market value of portion classified to Investment property on 1 January 2024 (2/5*56 billion) 22,400,000

Market of portion classified under IAS 16 on 1 January 2024 (3/5*56 billion) 33,600,000

56,000,000

Market value of portion classified to Investment property on 1 Jan 2024 (2/5*56 billion) 22,400,000

Market value of portion classified to Investment property on 31 December 2024 38,400,000

Fair value gain **16,000,000**

Working 7

Lease-IFRS 16

Present value of lease rentals	PV factor	interest	Rental Frw"000"	PV Frw"000"
Year 1	0.9434		80,000	75,472
Year 2	0.89		80,000	71,200
Year 3	0.8396		80,000	67,168
Year 4	0.7921		80,000	63,368
				277,208

Lease schedule	Opening balance	Interest	Payment	Closing balance
Year	Frw"000"	Frw"000"		Frw"000"
2024	277,208	16,632.48	80,000	213,840
2025	213,840	12,830.43	80,000	146,671
2026	146,671	8,800.25	80,000	75,471
2027	75,471	4,528.27	80,000	(0)

Depreciation of leased assets $277,208/4$ 69,302

Working 8**Income tax**

Current tax	13,500,000
Under provision for 2023	12,789,638
Increase in deferred tax	1,091,057
	27,380,695
Deferred tax for 2024 $48,543,000 \times 30\%$	14,562,900
Deferred tax per trial balance	13,471,843
Increase in deferred tax	1,091,057

QUESTION THREE

MARKING GUIDE

Description	Marks
a)i)	
Share exchange	0.5
Cash	0.5
Deferred consideration	0.5
NCI at fair value	0.5
Share capital	0.5
Retained earnings	0.5
Fair value adjustment	0.5
Impairment of Goodwill	0.5
Goodwill at acquisition	0.5
Goodwill at reporting	0.5
Sub-total	5
ii)	
Award 0.5 marks for each posting in the consolidated statement of financial position	5.5
Workings:	
Net Assets of the subsidiary	3
Disclosing Contingent Liability in working	1
Retained earnings (Award 0.5 marks for each computation in retained earnings)	3.5
NCI (Award 0.5 marks for each computation in NCI)	1.5
Investment in associate (Award 0.5 marks for each computation in investment)	1.5
Sub-total	16
b) Award 1 mark for the introduction and 2 marks for each well-explained difference	9
Grand Total	30

MODEL ANSWER

a) i) Goodwill arising on acquisition	Frw million	Frw million
Cost of the investment		
Cash		
share exchange ($75\% * 1500/100 * 1/3 * 300$)		1,125
Cash		2,500
Deferred Consideration ($2,000 * 0.826$)		1,652
NCI at fair value		675
		5,952
Less net assets at acquisition		
Share capital	1,500	
Retained earnings	1,850	
Fair value adjustment	1,500	

Total Net assets		4,850
Goodwill at acquisition		1,102
Less impairment		(50)
Goodwill at the reporting date		<u>1,052</u>

ii)

Virunga Group

Consolidated statement of financial position as at 31 December 2022

Non-current assets	Frw million	Frw million
Property, plant and equipment		11,125
Goodwill		1,052
Investment in associate		<u>1,645</u>
		13,822
Current assets		
Inventories	1,749	
Receivables	1,600	
Cash and cash equivalents	<u>825</u>	<u>4,174</u>
Total assets		<u>17,996</u>
Equity and liabilities		
Share capital Frw 100 each		2,000
Non-controlling interest		813
Retained earnings		<u>7,491</u>
Total equity		<u>10,304</u>
Non-current liabilities		
Long-term loan		4,300
Current liabilities		
Trade payables		1,575
Deferred consideration (1,652+165)		<u>1,817</u>
Total liabilities		<u>7,692</u>
Total equity and liabilities		<u>17,996</u>

WORKINGS:

W1 Net assets of Nyarugenge

	Frw million	Frw million
	at acquisition	at reporting
Share capital	1,500	1,500
Retained earnings	1,850	2,500
Fair value adjustment	1,500	1,500
Depreciation on the fair value adjustment		(50)
	<u>4,850</u>	<u>5,450</u>

Post -acquisition retained earnings = 5450 - 4850

600

W2 Retained earnings	Frw million
Retained earnings of Virunga at reporting date	7,100
Retained earnings of Nyarugenge 75%*(5450-4850)	450
Retained earnings of Rwamagana (40%*750*6/12)	150
Impairment Nyarugenge (75%*50)	(38)
Impairment Rwamagana (5 - given in question)	(5)
Provision for unrealized profit in inventory (9*25/125*50%)	(0.9)
finance cost on the deferred consideration (1652*10%)	<u>(165)</u>
Retained earnings at end of year	<u>7,491</u>

W3 Associate	
Cost of investment in an associate	1,500
Post impairment profit (40%*750*6/12)	150
Impairment of the associate (Provided in question)	<u>(5)</u>
Value of associate at end of the year	<u>1,645</u>

W4 NCI	
NCI at acquisition	675
NCI share of post-acquisition profits (25%*(5450-4850)	150
NCI share of impairment (25%*50)	<u>(13)</u>
	<u>813</u>

W5. Contingent liability must be disclosed in the Note to the financial statements as per IAS 37.

b) Differences between IAS 27 and IPSAS 6

In developing this revised IPSAS 6, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 27, “Consolidated Financial Statements and Accounting for Controlled Entities” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 27 for a public sector specific reason; such variances are retained in this IPSAS 6 and are noted in the Comparison with IAS 27. Any changes to IAS 27 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 1.

Below are differences between IAS 27 and IPSAS 6

- (i) At initial adoption of IPSAS 6, the IPSASB has not considered the applicability of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to public sector entities. Therefore, therefore IPSAS 6 does not reflect accounting treatment of IFRS 5 while IAS 27 provide treatment of IFRS 5 in the separate financial statements.
- (ii) IPSAS 6 uses different terminology, compared to former IAS 27. In IPSAS 6 the most significant examples are the use of the terms “statement of financial performance,” “net assets/equity,” “economic entity,” “controlling entity” and “controlled entity” in IPSAS 6. The equivalent terms in IAS 27 are “income statement,” “equity,” “group, “parent,” and “subsidiary.”

- (iii) IPSAS 6 permits entities to use the equity method to account for controlled entities in the separate financial statements of controlling entities while IAS 27 does not permit use of equity method in separate financial statements
- (iv) IPSAS 6 requires controlling entities to disclose a list of significant controlled entities in consolidated financial statements. IAS 27 does not require this disclosure
- (v) IPSAS 6 includes a transitional provision that permits entities to not eliminate all balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard. IAS 27 does not contain transitional provisions

SECTION B

QUESTION FOUR

MAKING GUIDE

QUESTION FOUR (A)	Marks
Award 1 mark for a clear definition of an exchange transaction	1
Award 1 mark for a clear definition of a non-exchange transaction	1
Award 1 mark for each clearly example of an exchange transaction	3
Award 1 mark for each clearly example of a non-exchange transaction	3
Sub-total (A)	8
QUESTION FOUR (B)	
Award 0.5 mark for each correct answer in the branch inventory account	4
Award 1 mark for recording good stolen in the inventory account	1
Each correct entry in the branch mark account attracts 0.5 marks	3
Award 0.5 mark for correct entry in the Good received account	1
Award 0.5 mark for a correct record in the accounts receivable account	3
DNA-Do No Award mark for the opening balance of receivable	
For the Branch profit or loss account, award the marks as follows	
Sub-Total (B)	12
Total-Q2	20

a) BRANCH ACCOUNTS

Branch inventory a/c			
	Frw 000		Frw 000
Bal b/d	12,400	Good returned	4,120
		Good stolen	2,400
Good sent	42,400	Cash sales	19,200
Returns by customers	3,250	Credit sales	26,200
		Bal c/d	5,600
		Loss to mark-up a/c-	530
		Balancing figure	
	58,050		58,050

Branch mark up a/c			
	Frw 000		Frw 000
Returns 4,120*25/125	824	Bal b/d	2,480
Good stolen	480	12,400*25/125	
2,400*25/125		Good sent	8,480
		42,400*25/125	
Gross profit	8,006		
(balancing figure)			
Loss-stock a/c	530		
Bal c/d 5,600*25/125	1,120		
	10,960		10,960

Good received a/c			
	Frw 000		Frw 000
Returns	3,296	Branch	33,920
4120*100/125		42,400*100/125	
Purchase	30,624		
	33,920		33,920

Branch debtors a/c			
	Frw 000		Frw 000
Bal b/d	8,500	Returns	3,250
Credit sales	26,200	Discount allowed	915
		Bad debt	1,750
		Cash received	22,100
		Bal c/d	6,685
	34,700		34,700

b) IPSAS 23

Exchange Transactions: These are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

While **non-exchange transactions** are transactions where an entity receives value from another entity without giving approximately equal value in exchange or gives value to another entity without directly receiving appropriately equal value in exchange.

Exchange transaction	Non-exchange transaction
Research revenue: Kibuye Agribusiness board may charge fees in exchange for a service such as research.	Tax revenue: Tax is Non-quid pro quo where The taxpayer transfers resources to the Government, without receiving approximately equal value directly in exchange
Disposal of property: Kibuye Agribusiness board may charge the market value for sale of property	Grants: Kibuye agribusiness board may receive grant from donors to implement the research projects and there is no approximately equivalent goods or services that Kibuye agribusiness will give in return to the donor
Sale of seeds: Kibuye Agribusiness may develop different seeds and those seeds could be sold to farmers	Transfers: Treasury transfers funds to the public entities without expecting services or goods of equal value.
	Levy, and collect licensing fees, fines and penalties or any other revenue without an expectation to provide a service or goods of equal value

QUESTION FIVE

Marking guide

	Marks
a) Award 1 mark for each well-explained characteristic	6
b) Award 1 mark for each correct adjusting or non-adjusting event	5
c) Award mark as below	9
(i)	
✓ 1 mark for mentioning why the Elon space building is a qualifying asset	
✓ 1 mark for clarifying why capitalization of borrowing costs shall start in July 2024, attract 1 mark	
✓ 1 mark for mentioning that capitalization shall be suspended from September to October 2024	
✓ 0.5 for a well-computed amount to be capitalized	
✓ 0.5 for a well-computed amount to be expensed in Profit or loss	
(ii) Award 0.5 for each item included in the computation of work-in-progress except total	
(iii) Award 1 mark for each disclosure	
Total	20

Model answer

a) Qualitative characteristic of financial information

The financial information about the reporting entity that should be useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. The financial information from four potential TECH companies should facilitate the investment committee make well informed economic decision.

The financial information is useful to the decision makers if it is relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental characteristics of useful financial information

Relevance

Financial information will be relevant to the downtown investment committee, if information received is capable of making difference in the decision to be taken by investment committee. The information should enable the investment committee to predict what would happen in future in regard to those potential TECH companies. The investment committee can have predicted the future by making forecast based on current data embedded in the financial statements.

Faithful representation

The financial information is faithfully represented if it is complete, neutral and free from error

Enhanced qualitative characteristic

Comparability

The financial information received from four potential companies will be comparable if they are comparable to each other as they are in the same sector (TECH). The current financial information should be comparable with historical or previous issued financial information.

Understandability: The investment committee should understand the information provided by four TECH companies and those without financial education background, should be in position to understand and interpret the information

Timeliness

The financial information should be [provided on time.

happened without affecting the transactions at the date of the financial statements.

b) Adjusting or non-adjusting event (IAS 10)

- 1) The declaration of dividends is an event after the reporting date which is non-adjusting because it does not indicate that any transaction was reported incorrectly as at the end of the accounting period.

- 2) The destruction of the building valued at Frw 200,000,000 by fire is a non-adjusting event. This is because at the end of the accounting period the building indeed existed and was recorded correctly. The destruction on 10th January therefore requires derecognition of the building in the current period of 2024.
- 3) The selling of inventory for Frw 6,000,000 is an adjusting event. This is because the amount is lower than the carrying amount of the inventory which is Frw 7,500,000. According to IAS 2 inventory, the inventory should have been valued at the lower of cost and net realizable value. In this case, the inventory should be adjusted to Frw 6,000,000 to avoid overstating the inventory and making the financial statements misstated.
- 4) The announcement of intention to acquire a subsidiary Bright Shine limited on 31st January 2024 is a non-adjusting event because it has no effect on the financial position as reported at the end of the accounting period on 31st December 2023.
- 5) The discovery of fraud by the external auditor on 31st January 2024 is an adjusting event. This is because the financial statements on 31st December 2023 will be misstated by the fraud committed by the directors and must be adjusted as a way of correcting the financial statements.

c) Treatment of loan received in the Elon space financial statements

i) Elon Space Ltd received a loan from Bond Bank Plc to finance the construction of an office building. Based on IAS 23, the construction of an office building is a qualifying asset as the construction will take a substantial period to get ready for use or sale, and therefore, the borrowing costs to be incurred shall be capitalized.

The construction started in January 2024, but the loan was received in July 2024; hence, the capitalization of borrowing costs shall not start in January because the borrowing costs were not yet incurred toward the construction. Instead, the capitalization shall commence in July 2024.

On 1 September 2024, Elon Space Ltd suspended construction activities to allow the Government team to carry out an inspection for two months. In line with IAS 23, Elon Space Ltd shall suspend capitalizing borrowing costs for these two months. Within these two months, i.e, from 1 September 2024 to 31 October 2024, the borrowing costs of Frw 96 million shall be expensed in profit or loss account. In summary, only 4 months are eligible for capitalization in 2024

Computation of borrowing costs in 2024

	Frw"000"
Loan received $12,000,000 \times 60\%$	7,200,000
Borrowing costs to be capitalized $7,200,000 \times 8\% \times 4/12$	192,000
Borrowing costs to be expensed in 2024 FRW $7,200,000 \times 8\% \times 2/12$	96,000

ii) The value of work in progress to be presented in the financial position as at 31 December 2024

	Frw"000"
Purchased Materials	650,000
Labor costs	120,000
Closing stock of materials	(220,000)
Capitalized Borrowing Costs	192,000
	<hr/> 742,000

iii) If the entity satisfies that it incurs borrowing costs, the following disclosures must be made to the financial statements

- The amount of borrowing costs capitalized during the period
- The capitalization rate used to determine the amount of borrowing costs eligible for capitalization
- Adopted accounting policy

End of Marking guide and Model Answers