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**CERTIFIED PUBLIC ACCOUNTANT  
INTERMEDIATE LEVEL EXAMINATIONS**

**I1.2: FINANCIAL REPORTING**

**DATE: TUESDAY 26, AUGUST 2025**

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**INSTRUCTIONS:**

1. Time allowed: **3 hours and 15 minutes** (15 minutes reading and 3 hours writing)
2. This examination has **two** sections; **A&B**
3. Section **A** has three Compulsory Question while section **B** has two optional questions to choose only one
4. In summary attempt four questions, three questions in section A and one in section B
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings
7. The question paper should not be taken out of the examination room.

## **SECTION A**

### **QUESTION ONE**

#### **a) MARABA Coffee Plant (MCP) Ltd,**

MCP Ltd is a coffee factory based in the Southern Province of Rwanda; its core business is coffee processing for export. The company had the office building constructed in 2012 with an estimated useful life of 20 years where the construction process was completed on 31 December 2012 at **FRW 860,000,000**.

On 01 July 2022, MPC Ltd acquired a new office having a useful life of 10 years at FRW 4 billion using a bank loan bearing interest of 6% per annum and leased the old head office to a Coffee cooperative in return for monthly rentals. As the building was too old, a further **FRW 60 million** was spent on 02 July 2022 to rehabilitate the old office and get the property ready for letting. The fair value of the old head office as at 01 July 2022 and 31 December 2022 was **FRW 500 million and 410 million**, respectively. MPC Ltd opted to classify the old head office as an investment held at fair value from 01 July 2022. There was no adjustment made in respect of the above transactions.

#### **Required:**

**Prepare necessary journal entries to record the above transaction and show how it will appear in the extract financial statements for the year ended 31 December 2022.(13 Marks)**

**b) The information given below was extracted from the financial statements of Pfunda Cement Ltd at 31 December 2022.**

	<b>31-Dec-22</b>
	<b>FRW"000"</b>
Property, plant and equipment-Carrying amount	120,000
Accrued income	30,000
Provision	(5,000)
Profit before depreciation, accrued income and provision	140,000

During the year ended 31<sup>st</sup> December 2022, Property, plant and equipment registered a revaluation upward of FRW 4 million. As at 31<sup>st</sup> December 2021, Pfunda Cement Ltd had a deferred tax liability balance of FRW 25 million. The tax written down value of the property, plant and equipment as at 31 December 2022 was FRW 49,000,000. The provision is allowed for tax when the associated expense is paid and the accrued income is taxable only upon receipt, as per tax regulations. The rate of tax is 30%

**Required:**

**Compute the deferred tax as at 31<sup>st</sup> December 2022 and pass relevant journal entries to record the deferred tax of Pfunda Cement Ltd.**

(7 Marks)

**(Total:20 Marks)**

**QUESTION TWO**

Bugarama Industries is a leading food processing company in Rwanda, manufacturing a variety of products under their brand name- “Eat for healthy”. The factory has been in existence since 2000. However, it wasn’t until 2004 when it began operations including processing & selling pasteurized milk & yoghurt. The company present financial statements that complies with international financial reporting standards and below is the draft trial balance for the year ended 31 December 2024 prepared by Reporting Manager.

	<b>Dr</b> <b>FRW"000"</b>	<b>Cr</b> <b>FRW"000"</b>
Property, plant and equipment (Note 4)	141,246,978	
33% Loan note		22,003,200
Investment In other companies	9,224	
Sales		215,435,451
Investment income		1,460,005
Cost of sales	117,778,299	
Administrative costs	21,089,703	
Selling and distribution costs	21,075,093	
Interest	7,169,429	
Intangible assets	916,850	
Inventories at cost (System inventory on 31-Dec-24)	50,555,218	
Trade and other receivables	15,723,158	
Retained earnings		26,313,730
Other reserves		2,071,990
Share premium		84,857
Share capital		5,142,850
Trade and other payables		69,528,402
Bank loans		34,010,923
Cash and bank	1,366,661	
Provisions		197,000
Deferred tax		13,471,843
Income tax	12,789,638	
	<b>389,720,251</b>	<b>389,720,251</b>

**Additional information:**

- 1) The company resolved to comply with IFRS regarding impairment of financial instrument and the probability of default for outstanding receivable using simplified method was set at 4%.
- 2) The company applies LIFO method to account for inventory and this practice has been affecting the company due to old product being held in inventory for so long. For operational reasons, an entity could not carry out its annual stock take until five days after the year-end. The market value of the inventory as at 31<sup>st</sup> December 2024 determined during the stock take was FRW 43,555,218,000.
- 3) The investment in other companies is measured through other comprehensive income. The fair value of the investment as at 31<sup>st</sup> December 2024 were FRW 15 million.
- 4) The details of the company's property, plant and equipment as reported in the trial balance are detailed below:

	FRW"000"	FRW"000"	Depreciation policy
	Cost	Carrying amount on 1 <sup>st</sup> January 2024	
Land and building	125,400,000	85,400,000	4% on cost
Machinery equipment	54,218,000	38,246,978	10% Reducing balance
Other long-term assets	24,300,000	17,600,000	10% on costs
	<b>203,918,000</b>	<b>141,246,978</b>	

The building is a five-star building acquired on 1<sup>st</sup> January 2010 at cost of FRW 71 billion, the building was used for office purpose until 1<sup>st</sup> January 2024 when two first floors were rented to the main whole sale for the purpose of earning rentals. The building has 5 floors and each floor can be sold separately. The market value of the building on 1<sup>st</sup> January 2024 were FRW 56 billion. On 31<sup>st</sup> December 2024, the first two floors rented to whole sale had a market value of FRW 38.4 billion.

- 5) The company fleet was disposed of in 2023 and the company decided to lease motor vehicle from third parties. On 1<sup>st</sup> January 2024, Bugarama Industries Ltd signed a lease agreement with Gorilla Transport company to Lease 5 trucks. The lease is for four years and the annual total lease rentals is FRW 80 million per annum payable on 31<sup>st</sup> December. The implicit interest rate is 6%. The annual lease for 2024, was paid on 30<sup>th</sup> December 2024 but this was not recorded until receiving bank statement on 2<sup>nd</sup> January 2025.
- 6) The provision reported in the trial balance relate to the noncompliance with laws instructing industries to reduce air pollution by 2% each year. The provision for 2024 was set to FRW 220 million.
- 7) Included in the sales for the year ended 31<sup>st</sup> December 2024 is the customer payment of FRW 425 million received in May 2024. The contract with that customer requires Bugarama Industries to deliver goods on 31<sup>st</sup> January 2025.
- 8) BUGARAMA industries report financial statements in compliance with IAS 12-the income tax reported in the trial balance relate to under/over provision of tax for year 2023, the estimated corporate income tax for the year 2024 was 13.5 billion. The taxable temporary difference for the year ended 31<sup>st</sup> December 2024 was FRW 48,543,000,000.

- 9) The tax rate applicable for the year ended 31<sup>st</sup> December 2024 was 30%.
- 10) The intangible assets are held at revaluation model. As at the yearend on 31<sup>st</sup> December 2024, there was no change in the fair value of the intangible assets.

**Required:**

**Prepare the following financial statements of Bugarama Industries for the year ended 31<sup>st</sup> December 2024:**

- |                                            |            |
|--------------------------------------------|------------|
| a) Statement of financial position         | (17 Marks) |
| b) Statement of total comprehensive income | (10 Marks) |
| c) Statement of change in equity           | (3 Marks)  |

*Indicate clearly all the workings*

**(Total: 30 Marks)**

### QUESTION THREE

a) On 1<sup>st</sup> January 2022, Virunga Limited acquired 75% of Nyarugenge Limited's equity shares. At that time the retained earnings of Nyarugenge Ltd were FRW 1,850,000,000. The consideration paid by Virunga Limited consisted of the following:

One share issued for every three shares acquired in Nyarugenge Ltd.

A cash payment of FRW 2,500,000,000 payable on 1<sup>st</sup> January 2022 and FRW 2,000,000,000 payable on 1<sup>st</sup> January 2024.

The shares issued and the immediate cash payment are correctly accounted for but the deferred payment has not yet been accounted for. The cost of capital for Virunga Ltd is 10% and the appropriate discount factor for two years is 0.826. At acquisition, the market price of Virunga shares is FRW 300 while that of Nyarugenge is FRW 180.

On 1<sup>st</sup> July 2022, Virunga Ltd acquired 40% of the equity share capital of Rwamagana Limited by paying FRW 1,500,000,000 in cash.

The draft statements of financial position of the three companies as at 31<sup>st</sup> December 2022 are as follows:

	<b>Virunga Ltd</b>	<b>Nyarugenge Ltd</b>	<b>Rwamagana Ltd</b>
	FRW million	FRW million	FRW million
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	6,675	3,000	1,750
Investments	5,125		
	<b>11,800</b>	<b>3,000</b>	<b>1,750</b>
<b>Current assets</b>			
Inventories	1,100	650	500
Receivables	900	700	450
Cash and cash equivalents	325	500	350
	<b>2,325</b>	<b>1,850</b>	<b>1,300</b>
<b>Total assets</b>	<b>14,125</b>	<b>4,850</b>	<b>3,050</b>
Equity and Liabilities			
Share capital FRW 100 each	2,000	1,500	1,000
Retained earnings	7,100	2,500	1,650
	<b>9,100</b>	<b>4,000</b>	<b>2,650</b>
<b>Non-current liabilities</b>			
Long-term loans	4,000	300	
<b>Current liabilities</b>			
Trade payables	1,025	550	400
	<b>5,025</b>	<b>850</b>	<b>400</b>
<b>Total equity and liabilities</b>	<b>14,125</b>	<b>4,850</b>	<b>3,050</b>

**Additional information:**

- i) A fair value exercise that was done on 1<sup>st</sup> January 2022 determined that the fair values of Nyarugenge's net assets were exactly equal to the carrying amounts except for the following:
  - A building that had a fair value of FRW 1,500,000,000 above its carrying amount. The remaining useful life of the building at 1<sup>st</sup> January 2022 was estimated to be 30 years.
  - Nyarugenge Ltd had a contingent liability with a fair value of FRW 500,000,000. As at 31<sup>st</sup> December 2022, the fair value of this liability was re-estimated at FRW 300,000,000.
- ii) Virunga limited uses the policy of measuring the non-controlling interest at fair value at the date of acquisition. Using this policy, the share price of Nyarugenge at 1<sup>st</sup> January 2022 can be taken as representing the fair value of the shares held by the non- controlling interest.
- iii) Rwamagana Ltd made a profit for the year ended 31<sup>st</sup> December 2022 of FRW 750,000,000.
- iv) Virunga Ltd sold goods to Nyarugenge Ltd during the year ended 31<sup>st</sup> December 2022 for FRW 9,000,000. Virunga Ltd made a mark-up of 25%. Nyarugenge Ltd still had half of the goods in inventory at 31<sup>st</sup> December 2022.
- v) After conducting an impairment review at 31<sup>st</sup> December 2022, the goodwill in Nyarugenge Ltd was found to be impaired by FRW 50,000,000 while the investment in Rwamagana Ltd was impaired by FRW 5,000,000.

**Required:**

- i) **Calculate the goodwill arising at the date of acquisition of Nyarugenge Ltd.**  
(5 Marks)
- ii) **Prepare the consolidated statement of financial position for Virunga Ltd as at 31<sup>st</sup> December 2022.**  
(16 Marks)

**b)** In developing IPSAS 6-consolidated and separate financial statements, 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. IFRS 27 was updated but variances are retained in this IPSAS 6.

**Required:**

**Explain FOUR (4) differences between former IAS 27 and IPSAS 6-consolidated & separate financial statements.**  
(9 Marks)  
**(Total:30 marks)**

## **SECTION B**

### **QUESTION FOUR**

#### **a) Boston Café Ltd,**

Boston Cafee Ltd is a hotel registered to offer hospitality and tourism-related services in Kinigi area of Musanze district. On 1 October 2021 they opened a branch in Nyungwe region of the Southern province to attract tourist to the region; as the branch was still young, accounts were managed at Head Office in Musanze district.

**The following information relates to Nyungwe resort branch for the year ended 31/12/2022:**

	FRW “000”
<b>Transaction for the year</b>	
Good sent by head office to branch (Invoice price)	42,400
Good returned by branch to head office (Invoice price)	4,120
Cash sales	19,200
Credit sales	26,200
Return from customers to the branch	3,250
Discount allowed	915
Branch expense	23,240
Goods stolen at branch	2,400
Cash received from branch debtors	22,100

#### **Additional information:**

1.The balance as at 1<sup>st</sup> January 2022 and 31<sup>st</sup> December 2022 are shown below:

Description	1-Jan-2022	31-Dec-2022
	FRW”000”	FRW”000”
Inventory at selling price	12,400	5,600
Account receivable	8,500	Unknown

2.All purchases are made by the head office and transferred to branch at invoice plus 25%.

3.On 05<sup>th</sup> January 2023, a customer owing FRW 1,750,000 declare bankruptcy after Nyamagabe commercial court decision.

4.The allowance for doubtful debt for branches is determined at 5% while for head office is 2%.

#### **Required:**

**Prepare the following branch accounts for the year ended 31<sup>st</sup> December 2022:**

- i) Branch inventory account** (5 Marks)
- ii) Branch mark-up account** (3 Marks)
- iii) Good received account** (1 Marks)
- iv) Branch debtors account** (3 Marks)

b) Kibuye Agribusiness board (KAB) is the government institution specialized in the research for Agri-seeds. KAB is financed by government budget and internally generated revenue. The



chief finance officer received communication from central treasury informing them to classify revenue through exchange and non-exchange transaction.

**Required:**

**In accordance with IPSAS 23, Explain with examples three exchange and three non-exchange transactions.**

(8 Marks)

**(Total: 20 Marks)**

### **QUESTION FIVE**

a) Downtown Investment Ltd is real estate company based in Kigali managing prestigious buildings. The company want to diversify its investment in TECH companies to cope with current Artificial Intelligence. In July 2024, the investment committee of the Downtown Investment Ltd received four potential listed TECH companies looking for new investors. The financial statements from these four potential companies were sent to the committee for pre-selection and they scheduled a meeting for investment analysis and decision. Ahead of the meeting, they circulated agenda requiring investment committee members to understand financials that contain complete and usefulness information.

**Required:**

**Explain characteristics of useful financial information to the Downtown investment committee.**

(6 Marks)

b) The following transactions occurred after the directors of Kiyovu Limited had prepared the financial statements at 31<sup>st</sup> December 2023:

- 1) The directors of the company declared a dividend of FRW 300 per share on 31<sup>st</sup> January 2024.
- 2) On 10<sup>th</sup> January 2024, a building used by the company for storage of goods and which was valued at FRW 200,000,000 was destroyed by fire.
- 3) On 20<sup>th</sup> January 2024, the company sold inventory for FRW 6,000,000 which had been recorded in the financial statements at 31<sup>st</sup> December 2023 at FRW 7,500,000.
- 4) On 31<sup>st</sup> January, the directors of the company announced the intention of the company to acquire a subsidiary Bright shine Limited.
- 5) On 31<sup>st</sup> January 2024 during the conduct of an external audit for the company, the auditors discovered that one of the directors had stolen FRW 5,000,000 and that this information had been very carefully concealed for months.

**Required**

**Identify for each transaction whether it is an adjusting or non-adjusting event. Justify your answer.**

(5 Marks)

c) Elon space Ltd is the company specialized in the financial dealings including stock brokerage, equity investment in Eastern Africa countries under regional finance hub.

On 1<sup>st</sup> January 2024, Elon Space Ltd began construction of own office building that will cost FRW 12 billion. The construction is expected to take 3 years where 60% of construction will be financed by long term loan from Bond Bank Plc at annual interest rate of 8% and 40% to be financed by company's own reserve. The loan was issued on 1<sup>st</sup> July 2024 to Elon space Ltd's bank account after signing all preliminary loan documents.

On 1<sup>st</sup> September 2024, Elon Space Ltd received a letter from government Supervisory authorities responsible for building permits informing them to halt construction for 2 months due to scheduled city inspection aimed to check if the construction is in line with city master plan. The construction resumed on 1<sup>st</sup> November 2024.

The resources deployed toward the construction of Elon space own office in 2024 are:

	<b>FRW"000"</b>
Purchased Materials	650,000
Labor costs	120,000
Closing stock of materials	220,000

**Required:**

- i) **Discuss how Elon Space Ltd will account for the loan received from Bond bank Plc in the financial statements for the year ended 31<sup>st</sup> December 2024.** (4 Marks)
- ii) **Compute the value of work in progress to be presented in the financial position as at 31<sup>st</sup> December 2024.** (2 Marks)
- iii) **Outline THREE (3) disclosure requirements per IAS 23-Borrowing costs.** (3 Marks)

**(Total: 20 marks)**

**End of question paper**



