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**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

11.2: FINANCIAL REPORTING

DATE: TUESDAY 22, AUGUST 2023

INSTRUCTIONS:

- 1. Time allowed: 3 hours 15 minutes (15 minutes for reading and 3 hours for writing).**
- 2. This examination has two sections: A&B.**
- 3. Section A has Three compulsory questions.**
- 4. Section B has Two questions to choose one question.**
- 5. In summary attempt Four questions, Three in section A and One in section B.**
- 6. Marks allocated to each question are shown at the end of each question.**
- 7. Show all your workings appropriately.**
- 8. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

a) The financial systems within public entities in Rwanda is based on the procedural manual of public financial management. The manual provides guidance on the public financial management cycle followed in Rwanda and aimed to achieve highly effective financial management system.

Decentralized entities are governed by new executive committees and district council. Press news show that some members of the committees do not understand the process of public finance management cycle in Rwanda

Required:

Briefly explain public finance management cycle applicable in Rwanda? (10 Marks)

b) Kigali Equity Fund (KEF) is a parastatal company that operates pension scheme in Rwanda. Chief Reporting Officer submits to you the following list of balance of Kigali Equity Fund as at 30 June 2020.

Table 1.1: KEF's list of balance as at 30 June 2020.

Particulars	FRW 000	FRW 000
Employers' contributions		11,617
Equity funds of members		15,000
Employee contributions		802
Government contribution for vulnerable		550
Other income		18
Long term investment	18,500	
Benefit paid	1,121	
Property plant and equipment	33,173	
Transfers to another scheme	47	
Transfers from another scheme		828
Administrative expense	259	
Depreciation	400	
Other expense	150	
Investment income		1,428
Fair value gain on investment		2,940
Investment at fair value	5,000	
Investment management expense	54	
Tax on investment income	27	
Opening balance of fund surplus		25,548
	58,731	58,731

Additional information

- Long term investment represents funds invested in real estates; the impairment test conducted on 30 June 2020 shows that 10% of the investment was impaired.
- The contribution due from employees of FRW 2.2 million was not received until 2nd July 2020.

Required:

Prepare fund performance account for the year ended 30 June 2020. (10 Marks)

(Total: 20 Marks)

QUESTION TWO.

a) Peloque Ltd has a number of subsidiaries and investments in associates. On 1 July 2022 Peloque Ltd acquired 75% of an additional subsidiary Pimpo Ltd through a share exchange of 16 shares of Peloque Ltd to 15 shares acquired from Pimpo Ltd and they paid addition cash consideration of FRW 2,370,000. The value of Peloque Ltd's share at the acquisition date was FRW125.

The draft consolidated financial statements of Peloque Ltd for the year ended 31 December 2022 are as follows:

Consolidated statement of profit or loss for the year ended 31 December 2022		
Particulars		FRW “000”
Profit before interest and tax		14,520
Interest expense		(1,200)
		13,320
Share of profits from associates		2,880
Profit before tax		16,200
Income tax expense		(5,784)
		10,416
Non-controlling interest		(1,248)
Profit for the year attributable to parent		9,168

Consolidated Statements of Financial Position as at:			
Particulars	31 December 2022	31 December 2021	
Assets	FRW “000”	FRW “000”	
Non-Current Assets			
Property, Plant and Equipment	56,760	31,320	
Intangible assets	4,200	3,720	
Investment In Associates	6,240	6,000	
Total Noncurrent assets	67,200	41,040	
Current Assets			
Inventories	8,880	7,320	
Trade and other receivables	4,680	4,200	
Cash and cash equivalents	480	1,020	
Total Current assets	14,040	12,540	
Total Assets	81,240	53,580	
Equity and liabilities			
FRW 100 ordinary shares	16,800	12,000	
Share premium	3,600	2,400	
Retained earnings	19,380	10,380	
Non-controlling Interests	6,960	7,320	
Total Equity	46,740	32,100	
Non-Current Liabilities			
Long Term Borrowings	22,800	13,200	

Particulars	31 December 2022	31 December 2021
Current Liabilities		
Trade Payables	6,240	5,760
Current Tax	5,460	2,520
Total Current Liabilities	11,700	8,280
Total equity & Liabilities	81,240	53,580

Additional Information:

- The statement of financial position of Pimpo Ltd at the date of acquisition i.e. 1 July 2022 was as follow:

Pimpo Ltd.

Statement of Financial Position as at 1 July 2022

Assets	FRW “000”
Non-Current Assets	
Property, Plant and Equipment	7,320
Current Assets	
Inventories	1,800
Trade and other receivables	1,020
Cash and cash equivalents	240
Total Current assets	3,060
Total Assets	10,380
Equity and liabilities	
FRW 100 ordinary shares	6,000
Share premium	1,200
Retained earnings	960
Total Equity	8,160
Current Liabilities	
Trade Payables	900
Current Tax	1,320
Total Current Liabilities	2,220
Total equity & Liabilities	10,380

- At the date of acquisition, Pimpo Ltd’s assets and liabilities were recorded at their fair value with the exception of some plant which had a fair value of FRW 1,080,000 in excess of its carrying value.
- It is the group policy to measure non-controlling interest using proportionate of net asset acquired
- The property, plant and equipment during the year to 31 December 2022 show a plant with a carrying value of FRW 9,600,000 that was sold for FRW 8,160,000. Total depreciation for the year was FRW 9,384,000.

Required:

Prepare a consolidated statement of cash flows for Peloque Ltd in accordance with IAS 7 for the year ended 31 December 2022. (27 Marks)

b) Referring to the guidance of IAS 7 statement of cash flows, explain the treatment of interest and dividends in the cash flow statement. (3 Marks)

(Total 30 Marks)

QUESTION THREE

Kigali Best View (KBV) Ltd is a company incorporated in 2019. KBV Ltd offers tourism and hospitality related services.

Table 3.1: Trial balance of KBV Ltd for the year ended 31 December 2021.

	FRW 000	FRW 000
Building (Revalued amount as at 01 January 2020)	460,000	
Plant at Cost	220,000	
Motor vehicles (Cost)	180,000	
Accumulated depreciation as at 01 January 2021		
Building		46,000
Plant		40,000
Motor vehicles		60,000
Intangible assets	95,400	
Cost of sales	320,000	
Administrative costs	42,800	
Debenture interest paid	2,200	
Provisions		400
Investment at Fair value through other comprehensive income	354,000	
Sales		910,000
Ordinary shares of FRW 50 each (at par value)		320,000
Retained earnings (01-Jan-21)		91,800
1% Debentures		380,000
Trade receivables	176,000	
Interim dividend	5,000	
Revaluation surplus (building)		50,000
Deferred tax		20,000
Bank		21,000
Distribution costs	40,000	
Inventory (31-Dec-21)	155,000	
Trade payables		80,000
Long-term employee benefits		31,200
	2,050,400	2,050,400

Additional information

1. Chief accountant of KBV Ltd overstated closing stock by FRW 15,000,000

As at 31 December 2021, KBV Ltd had an ongoing court case lodged by their major customer called Gisiment supply Ltd. The court case is attributed to expired goods caused by high stock level of Gisiment supply Ltd. KBV Ltd made a provision of FRW 400,000 relating to this legal case and it was recorded in administrative expense.

The primary commercial court pronounced court decision in May 2021 and KBV Ltd won the case on the ground that the goods were supplied before expiration date, no damages claimed by KBV.

2. It is a policy of KBV Ltd to carry out revaluation of building when there is significant change in market value. On 31 December 2021, a professional valuer valued the buildings at FRW 300,000,000.
3. Depreciation policy of Kigali Best View Ltd is as follows

(a) Table 3.2: Depreciation basis and rates.

Asset	Method	Rate
Plant	Reducing balance	25%
Building	Straight Line	10%
Motor vehicle	Straight Line	10%

(b) Table 3.3: Apportionment of depreciations and revaluation gain or losses are as follows.

Building and Plant	Cost of sales	60%
	Administrative expenses	20%
	Distribution cost	20%
Motor vehicle	Distribution cost	100%

4. On 01 January 2021, Kigali Best View Ltd acquired Truck from Euromotors by way of lease for a period of 10 years. The annual lease rental was FRW 5,000,000 payable on 31 December each year. The implicit interest rate applicable was 5% per annum. There was no record made in respect of the leased assets but the lease payment was paid and recorded in administrative expense. Hint: $PVIFA(5\%, 10) = 7.7214$.
5. One of motor vehicle acquired on 1 May 2016 at cost of FRW 30,000,000 was crashed. The accident occurred on 02 January 2021. Immediately after the incident, KBV Ltd's management decided to dispose of the asset. However, as at 31 December 2021, the motor vehicle was not yet sold. The assessed carrying amount and fair value of damaged motor vehicle after the accident was FRW 16,000,000 and FRW 12,000,000 respectively.
6. The fair value of the Investment through other comprehensive income as at 31 December 2021 was FRW 360,000,000.
7. 1% debenture was issued on 01 January 2021 and will be redeemed in 2024.
8. The estimated corporation tax for the year ended 31 December 2021 was FRW 20,000,000 and taxable temporary difference was set at FRW 50,000,000. Tax rate is 30%.

Required:

- a) Prepare a statement of comprehensive income for the year ended 31 December 2021.

(13 Marks)

- b) Prepare a statement of financial position as at 31 December 2021.

(13 Marks)

- c) Prepare a statement of change in equity as at 31 December 2021.

(4 Marks)

(Total: 30 Marks)

SECTION B

QUESTION FOUR

The board of directors of Real Engineering Co (REC) requested company's financial advisor to prepare a report advising finance department for the accounting treatment of the following scenarios.

a) On 1 January 2021, REC commenced construction of a new office that is expected to take 4 years to complete. The project is financed entirely by a 4- year term loan of FRW 800 million taken out on 01 January 2021. The applicable interest rate was 10% per annum. Halfway the year on 30 May 2021, government imposed total locked down to contain the spread of covid-19. However, on 1 August 2021, government slowed down the measures to contain Covid outbreak and REC resumed works immediately. REC incurred issue costs of 2% of the loan value.

During the period when works was suspended, REC deposited FRW 450 million to XZM bank and earned return of 5% per annum. REC withdrew invested amount immediately after resuming the works on 01 August 2021. The company's year-end 31 December.

Required:

- i) **Based on the scenario above, compute the amount capitalized and expensed for the year ended 31 December 2021. (6 Marks)**
- ii) **Advise the board when REC shall start capitalizing borrowing costs incurred in respect of the borrowed funds (4 Marks)**

b) In 2020, REC reported a profit before tax of FRW 10 million and the ordinary shares issued was 5 million. On 01 January 2021, the liquidity of the company decreased, and the board decided to issue FRW 40 million 5% convertible loan. The loan stock issued in January 2021 is convertible in two years' time at the rate of 50 ordinary shares for every FRW 1,000 of stock.

The company had no existing other loan stock. The tax rate is 30%.

The profit before tax for the year ended 31 December 2021 was FRW 12 million

Required:

- i) **Compute basic earnings per share for the year ended 31 December 2020 and 31 December 2021. (3 Marks)**
- ii) **Compute diluted earnings per share for the year ended 31 December 2021. (3 Marks)**

c) REC submitted proposal to open a branch in foreign country. The item was on agenda during annual general meeting scheduled in March 2022. Financial advisor reported that if branch is opened, there would be a challenge to determine functional currency and feared that foreign investment may fail due to associated exchange losses.

Required:

State factors that should be considered when determining functional currency (4 Marks)

(Total: 20 Marks)

QUESTION FIVE

a) Ministry of finance and economics planning (MINECOFIN) signed a contract with CPA Djema for consultancy services to develop public finance module in Rwanda. Article one of the contracts relating to deliverables, states that CPA Djema is required to advise whether to adopt IFRS or IPSAS accrual in public sector.

Required:

Prepare inception report on behalf of CPA Djema indicating any five differences and any four similarities between IFRS and IPSAS. (9 Marks)

b) Western cement Ltd is a company that produces cement in Bugarama region. Of recent, Western Cement Ltd appointed you as company Chief Reporting Officer. During the induction period, you noticed that Western Cement Ltd prepares social and environmental report on annual basis.

Required:

Explain the benefits of social and environmental reporting. (6 Marks)

c) The purpose of the statement of profit or loss and other comprehensive income is to show entity's financial performance to the users for them to assess future net inflow of an entity.

Required:

i) Discuss the current presentation requirements of profit or loss and other comprehensive income. Based on the requirements of IAS 1, (3 Marks)

ii) Distinguish between profit or loss and other comprehensive income (2 Marks)

(Total: 20 Marks)

End of question paper.