CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 25, FEBRUARY 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

a) Rusumo Limited is a public company listed on the Rwanda Stock Exchange that manufactures kitchen utensils. During the year, the company acquired two other companies, Nyanza and Muhima Ltd.

The draft statements of financial position relating to the three companies at 31st December 2023 are as follows:

	Rusumo	Nyanza	Muhima
	FRW "000"	FRW "000"	FRW "000"
Non-current assets			
Property, plant and equipment	6,675	3,000	1,750
Investments	5,125	-	-
Total non-current assets	**11,800**	**3,000**	**1,750**
Inventories	1,100	650	500
Receivables	900	700	450
Cash and cash equivalents	325	500	350
	2,325	**1,850**	**1,300**
Total assets	**14,125**	**4,850**	**3,050**
Equity and liabilities			
Equity			
Equity shares (nominal value FRW 1)	2,000	1,500	1,000
Retained earnings	7,100	2,500	1,650
	9,100	**4,000**	**2,650**
Non-current liabilities			
Long term borrowings	4,000	300	-
Current liabilities			
Trade payables	1,025	550	400
	5,025	**850**	**400**
Total equity and liabilities	**14,125**	**4,850**	**3,050**

The following additional information has been provided in relation to the Rusumo group:

1. On 1st January 2023, Rusumo Limited acquired 75% of the equity interest in Nyanza, a public limited company that is also listed on the Rwanda stock exchange. At the acquisition date, the retained earnings of Nyanza were FRW 1,950,000 and the consideration comprised one share issued in Rusumo for every three acquired in Nyanza limited. A cash payment of FRW 3,500,000 was to be paid on 1 January 2023 and a cash payment of FRW 2,500,000 was to be paid on 1 January 2025.

2. The share issue and the cash payment that was made immediately are accounted for correctly. The payment expected in January 2025 has also been accounted for correctly. The cost of capital for Rusumo limited is 10% and the discount rate applicable over a two-year period for the company is determined as 0.826. The market price of shares for Rusumo at acquisition date was FRW 3 and FRW 1.80 per share for Nyanza.

3. A fair value exercise that was undertaken on 1st January 2023 determined that fair value of the net assets of Nyanza were equal to the carrying amount apart from a building with a fair value of FRW 1,500,000 which was more than the carrying amount and which had a remaining useful life of 30 years. A contingent liability with an estimated fair value of FRW 500,000 had a fair value measured at FRW 300,000 at 31st December 2023.

4. On 1st July 2023, Rusumo also acquired 40% of the share capital of Muhima at FRW 1,500,000 that was paid in cash.
5. Rusumo Limited measures non-controlling interest at fair value and on 1st January 2023, the share price of Nyanza is considered to be representative of the fair value of the shares held by the non-controlling interest.

6. The profit for the year ended 31st December 2023 made by Muhima was FRW 4,500,000.

7. Rusumo Limited sold goods to Nyanza during the year ended 31st December 2023 for FRW 9,000,000 and made a mark-up of 25%. Half of these goods were still in inventory at the year end.

8. After an impairment review as at 31st December 2023, the goodwill in Nyanza was found to be impaired by FRW 500,000 while the investment in Muhima was impaired by FRW 50,000.

Required:

Using the information provided**, Prepare the consolidated statement of financial position for Rusumo group for the year ended 31st December 2023.** (20 Marks)

Note: All relevant workings must be shown

b) On 1st October 2019, Rwamagana Ltd acquired 60% of the 1 million shares with a nominal value of FRW 5 in Bugesera Ltd and 1st February 2020, it also acquired 95% of the 1 million shares with a nominal value of FRW 10 in Gakenke Ltd.

These three companies operate in the same textiles industry and are located in Kigali, Rwanda. During the year ending 31st December 2023, the directors decided to make full disposal of the investment in Bugesera Ltd and the sale was completed on 30th June 2023 for FRW 72 million. This disposal has not been accounted for except to record the proceeds in a suspense account. Over the period from acquisition till the reporting date, Bugesera Ltd had reported profits of FRW 4.62 million.

The following information relates to Rwamagana Group and its subsidiaries:

Statements of profit or loss for year ended 31st December 2023:

	Rwamagana FRW"000"	**Bugesera FRW"000"**	**Gakenke FRW"000"**
Revenue	120,360	70,800	92,000
Cost of sales	(91,920)	(51,600)	(67,500)
Gross profit	28,440	19,200	24,500
Distribution costs	(3,560)	(3,980)	(3,402)
Administrative expenses	(6,000)	(4,740)	(5,010)
Investment income	850	-	100
Finance cost	(700)	-	(440)
Profit before tax	19,030	10,480	15,748
Income tax expense	(5,580)	(3,560)	(4,760)
Profit for the year	**13,450**	**6,920**	**10,988**

Additional information:

1. Rwamagana acquired Bugesera through a share exchange of two shares in Rwamagana for every three Bugesera shares that were acquired. The consideration also included a cash payment of FRW 15 million. The market value of Rwamagana shares at 1st October 2019 was FRW 4.60 and the market value of Bugesera shares was FRW 3.75. At the acquisition date, the retained earnings of Bugesera Limited were FRW 35 million. Land that had a carrying amount of FRW 5 million had a fair value of FRW 13 million. This land is still owned by Bugesera Limited.

2. The cost of investment in Gakenke Ltd in the books of Rwamagana Ltd is FRW 55 million. At the date of acquisition, the fair value of Gakenke's assets was the same as the carrying amounts except for a customer list that was not recognised in Gakenke's books. This list had a fair value of FRW 4 million as at 1st February 2020 and a remaining useful life of 10 years. Amortisation of intangible assets is recognised as an administrative cost. The retained earnings of Gakenke were FRW 40 million at the acquisition date. At 31st December 2023, the goodwill of Gakenke was found to be impaired by 10%. There was no impairment of goodwill previously.

3. Rwamagana uses a policy that measures non-controlling interest at the proportion of net assets at the acquisition date.

4. Sales from Rwamagana to Bugesera in the nine months to 30 June 2023 were FRW 2.8 million. Rwamagana made a mark-up of 20% on the sales and Bugesera still had one third of these goods in inventory as of 30 June 2023.
5. Rwamagana's investment income includes interest from Gakenke that was received on a loan of FRW 2.5 million made on 1 March 2023 that carries interest at 7% per annum and is to be repaid in full in 2025.

6. Incomes and expenses accrue evenly throughout the year unless it is stated otherwise.

7. The disposal of Bugesera is not identified as a discontinued operation in accordance with IFRS 5 Non-current assets held for sale and discontinued operations.

Required:

Using the information provided**, Prepare the consolidated statement of profit or loss for Rwamagana Ltd for the year ended 31st December 2023.** (30 Marks)

Note: All relevant workings must be shown **(Total: 50 Marks)**

SECTION B

QUESTION TWO

a) Bargi Co, a Rwandan company is in the process of preparing its financial statements for the year ended 31 December 2023. There are three transactions which have not yet been accounted for:

1 October 2023: Sale with a Service Plan

Bargi Co made sales of a large piece of technical equipment, which included a three-year service plan. The total sales price was FRW 1.8 billion, which was paid on 1 October 2023, and the technical equipment was delivered on that date.
On its own, the technical equipment would normally be sold for FRW 1.75 billion, and the three-year service plan would normally be sold for FRW 165 million.

18 November 2023: Warranty Replacement

Machinery sold by Bargi Co in January 2023 was found to be faulty, and various parts were replaced by Bargi Co under warranty. Bargi Co would normally sell the replacement parts for FRW 80 million. The total cost to Bargi Co for these replacement parts was FRW 60 million

1 December 2023: Sale with Repurchase Agreement

Bargi Co entered into a contract for the sale of goods for FRW 200 million. Bargi Co received FRW 200 million on 1 December 2023. Bargi Co has the right to repurchase these goods on 1 April 2024 for FRW 240 million. If Bargi Co fails to repurchase the goods in April 2024, they will refund the equivalent amount that they received on 1 December 2023

Required:

i) **Calculate the revenue to be recognized from the sale of technical equipment and the three-year service plan for the year ended 31 December 2023** (6 Marks)

ii) **Explain how the warranty replacement transaction should be accounted for in the financial statements for the year ended 31 December 2023** (**2** Marks)

iii) **Discuss how the contract for the sale of goods with the repurchase agreement should be accounted for in the financial statements for the year ended 31 December 2023** (2 Marks)

b) The directors of Radar Co, a Rwandan-based manufacturing company convened a board meeting on 1 July 2022 where they decided to close down one of companies' factories effective from 31 March 2023. The plan included selling the factory and its related plant.
On 1 January 2023, a formal plan was formulated and the factory's 250 employees were given three months' notice of redundancy. Customers and suppliers were also informed of the closure at this date.

The directors of Radar Co have provided the following information:

Fifty of the employees would be retrained and deployed to other subsidiaries within the group at a cost of FRW 125 million; the remainder will accept redundancy and be paid an average of FRW 5 million each in October 2023.

Required:

Calculate the provision which Radar Co would report in its statement of financial position as at 31 March 2023 in respect of the redundancy? (2 Marks)

c) Rovers Limited, a prominent company in Rwanda is currently reviewing its most recent draft financial statements. The directors have raised the following points for discussion:

Research and development

This year the company has begun a substantial programme of research and development of new database system. To spread the cost fairly over the years, the draft financial statements have been prepared on the basis that all such costs are to be capitalised and written off on the straight-line basis over three years, beginning in the year in which the expenditure is incurred.

Provision/Contingent liability

A former chief finance officer of the company has commenced an action against the company claiming substantial damages for wrongful dismissal. The company lawyers have advised that the ex-director is unlikely to succeed with his claim as all processes required by laws were complied with. The lawyers' potential liabilities are

At present there is no provision or note for this contingency.
– Legal costs (to be incurred whether the claim is successful or not) FRW 300,000
– Settlement of claim if successful FRW 8,000,000

Required:

State with reasons whether or not you consider the accounting treatments in draft financial statements the above scenarios. Include in your answer, where appropriate, an explanation of the relevant requirements of IAS or IFRS (4 Marks)

d) Nyamagabe, a Public listed company operates with its head office in the northern of Province of Rwanda and a branch in Kigali. Nyamagabe Plc has four business segments which are reported separately in its internal accounts. **The segments are as follows**

Name of segment	**Business of the segment**
Nyanza Ltd	Vehicle Leasing
Byumba Ltd	Vehicle Leasing
Gisenyi Ltd	Vehicle sales
Innocent Ltd	Vehicle sales
Twisungane Ltd	Insurance
XY Estate Ltd	Property letting

The results of these segments for the year ended 30 June 2023 before taking into account of the additional information below are as follows:

Segmental Information as at 30 June 2023 before the sale of Nyanza Ltd

	Revenue		**Segment profit or loss**	**Segment Assets**	**Segment Liability**
	External	**Internal**			
	FRW 000	**FRW 000**	**FRW 000**	**FRW 000**	**FRW 000**
Vehicle Leasing: Nyanza Ltd	720,000	36,000	162,000	351,000	153,000
Vehicle Leasing: Byumba Ltd	90,000	27,000	(18,000)	144,000	54,000
Vehicle sales: Gisenyi Ltd	540,000	90,000	(72,000)	315,000	108,000
Vehicle sales: Innocent Ltd	250,000	-	(72,000)	108,000	72,000
Property Letting: XY Estate Ltd	1,080,000	585,000	270,000	864,000	288,000
Insurance: Twisungane Ltd	720,000	72,000	(72,000)	522,000	423,000
	3,400,000	**810,000**	**198,000**	**2,304,000**	**1,098,000**

There were no significant inter-company balances in the segment assets and liabilities.

1. Nyanza Ltd and Byumba Ltd both public listed companies, formed the leasing segment where Nyamagabe Plc held 80% shareholding in Nyanza Ltd and 100% shareholding in Byumba Ltd.

2. Nyanza Ltd had been originally formed by Nyamagabe Plc. Nyamagabe Plc decided to sell all its shareholdings in Nyanza Ltd and the sale was completed on 30 June 2023.

3. On the same day, Nyamagabe Plc acquired a radio station. The fair values of the assets and liabilities of the radio station were FRW 270 million and FRW 117 million respectively. The purpose of the purchase of the radio station was to use it as a medium for advertising the group's services and products. The radio station is to be included within the "Insurance" segment as it is principally the insurance sales product that the radio station will advertise.

Required:

Using the computed quantitative threshold benchmarks after the sale of Nyanza Ltd and the purchase of the radio station, **evaluate whether each segment as of 30 June 2023 qualifies to be recognized as a reportable operating segment *under IFRS 8 - Operating Segments*.**

(9 Marks)

(Total: 25 Marks)

QUESTION THREE

Rwanda's rapid development as a financial hub has attracted significant investment over the past 30 years.
You are a senior financial analyst at a prominent company in Rwanda, the name of the company is KIGALI Ltd and you are tasked to prepare the annual financial statements for the fiscal year ending 30 June 2023.

The following balance is an extract from the trial balance of the company as at 30 June 2023

	Reference for note	**FRW "000"**	**FRW "000"**
Convertible loan notes	(note (4))		5,000
10% loan note	(note (5))		25,600
Account receivable	(note (6))	10,000	
Cost of sales		21,700	
Finance costs	(note (4)) and note (5)	1,240	
Investment income			120
Operating expenses	(notes (2) and (5))	13,520	
Provisions	(notes (2)		800
Retained earnings at 1 July 2022			35,400
Revenue	(note (1))		43,200
Equity shares capital (FRW 1 shares) at 1 July 2022	(note (7))		12,200
Suspense account	(note (7))		3,300
Tax	(note (3))		130

The following notes are relevant:

1. KIGALI Ltd entered into a contract where the performance obligation is satisfied over time. The total price on the contract is FRW 9 million, with total expected costs of FRW 5 million. The progress towards completion was measured at 50% as at 30 June 2022 and 80% on 30 June 2023.The correct entries were made in the year ended 30 June 2022, but no entries have been made for the year ended 30 June 2023.

2. On 1 January 2023, Kigali Ltd was notified that an ex-employee had started court proceedings against them for unfair dismissal. Legal advice was that there was an 80% chance that KIGALI Ltd would lose the case and would need to pay an estimated FRW 920 million on 1 January 2024.
Based on this advice, KIGALI Ltd recorded a provision of FRW 800 million on 1 January 2023, and has made no further adjustments. The provision was recorded in operating expenses.

3. The balance relating to tax in the trial balance relates to the under/over provision from the prior period. The tax estimate for the year ended 30 June 2023 is FRW 2.1 million. In addition to this, there has been a decrease in taxable temporary differences of FRW 2 million in the year. KIGALI Ltd pays tax at 25% and movements in deferred tax are to be taken to the statement of profit or loss.

4. KIGALI Ltd issued FRW 5 million 6% convertible loan notes on 1 July 2022. Interest is payable annually in arrears. Every FRW 2 bonds is converted into one share on 30 June 2024. Similar loan notes, without conversion rights, incur interest at 8%. KIGALI Ltd recorded the full amount in liabilities and has recorded the annual payment made on 30 June 2023 of FRW 0.3 million in finance costs.

Relevant discount rates are as follows:

Present value of FRW 1 in:	6%	8%
1 year	0.943	0.926
2 years	0.890	0.857

5. KIGALI Ltd began the construction of an item of property on 1 July 2022 which was completed on 31 March 2023. A cost of FRW 32 million was capitalized during the year. This included FRW 2.56 million, being a full 12 months' interest on a FRW 25.6 million 10% loan taken out specifically for this construction. On completion, the property has a useful life of 20 years.
KIGALI Ltd also recorded FRW 0.4 million in operating expenses, representing depreciation on the asset for the period from 31 March 2023 to 30 June 2023.

6. It has been discovered that the previous financial controller of KIGALI Ltd engaged in fraudulent financial reporting. Currently, FRW 2.5 million of trade receivables included in the trial balance has been deemed to not exist and requires to be written off. Of this, FRW 0.9 million relates to the year ended 30 June 2023, with FRW 1.6 million relating to earlier periods.

7. On 1 November 2022, KIGALI Ltd issued 1.5 million shares at their full market price of FRW 2.2. The proceeds were credited to a suspense account.

Required

a. **Prepare a statement of profit or loss of KIGALI Ltd for the year ended 30 June 2023** (12 Marks)

b. **Prepare a statement of changes in equity of KIGALI Ltd for the year ended 30 June 2023** (8 Marks)

c. **Calculate the basic earnings per share of KIGALI Ltd for the year ended 30 June 2023** (5 Marks)

Guidance: Notes
Show all workings, where workings are separated from the main answer, provide adequate references for the workings within the answer

QUESTION FOUR

a) Kahawa Coffee Company (KCC), a company based in Rwanda is in the process of restructuring and is also listing its shares in the Rwanda Stock Exchange (RSE). There were three situations presented to you to provide independent advice to the management.

1) Kahawa Coffee Company (KCC) granted share options to all of its 800 employees on 1 January 2019. Each employee will receive 200 share options provided they continue to be employed by Kahawa Coffee Company (KCC) for four years from the grant date. The fair value of an option at the grant date was FRW 100.

2) Kahawa Coffee Company (KCC) also granted 100 share appreciation rights (SARs), to its 800 employees on 1 January 2019. To be eligible, employees must remain employed for four years from the date of issue and the rights must be exercised in January 2023, with settlement due in cash.

3) Relevant to situation 1 and 2 above:

- In the year to 31 December 2019, 100 staff left and a further 200 were expected to leave over the following three years.
- In the year to 31 December 2020, 80 staff left and a further 150 were expected to leave in the following two years
- The fair value of each SAR was FRW15 at 31 December 2019 and FRW18 at 31 December 2020.

Required:

Prepare the accounting entries to record transactions associated with the share options in situation 1 and 2 above for each of the two years ended 31 December 2019 and 31 December 2020 in accordance with IFRS 2 Share-based Payments. (12 Marks)

b) White Rose Limited, located in Kigali, wants to have a new house, which will be included as part of its property, plant, and equipment. White Rose therefore commenced construction of the house on 1 September 2024, and construction continued until its completion, which was after the year-end of 31 December 2024. The direct costs were FRW 20,000,000 in September 2024, and the cost increased by FRW 10,000,000 each subsequent month until the year-end. White Rose has incurred finance costs on its general borrowings during the period, which could have been avoided if the house had not been constructed. White Rose has calculated that the weighted average cost of borrowings for the period from 1 September 2024 to 31 December 2024 on an annualized basis amounted to 9% per annum.

Required:

In accordance with IAS 23 borrowing costs, advise the directors of White Rose how the borrowing costs should be accounted for in the year ended 31 December 2024.

(5 Marks)

c) Amahoro Mining Ltd., a company operating in Rwanda, is engaged in large-scale mining activities. The company's 2024 annual report included the following disclosures:

- Carbon emissions decreased by 25% due to a partnership with local renewable energy providers.
- The company invested RWF 200 million in community projects, including rural infrastructure development and vocational training programs for youth in the regions where it operates.
- No information was disclosed about the company's water usage, despite operating in areas facing water scarcity.
- Employee turnover at mining sites increased by 40%, with no explanation provided in the report.
- The report mentioned Rwanda's Vision 2050 and the company's alignment with the National Strategy for Transformation (NST2) but did not include specific examples or measurable outcomes.

Required:

i) Evaluate the adequacy of Amahoro Mining Ltd.'s disclosures, considering Rwanda's environmental sustainability goals and corporate social responsibility (CSR) expectations.

(5 Marks)

ii) Recommend additional disclosures and practices Amahoro Mining Ltd. should adopt to enhance its sustainability reporting, aligning with frameworks such as the **Global Reporting Initiative (GRI)** and Rwanda's **Environmental and Social Impact Assessment (ESIA)** requirements.

(3 Marks)

(Total: 25 Marks)

End of question paper.