CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 25, FEBRUARY 2025

MARKING GUIDE & MODEL ANSWERS

SECTION A

QUESTION ONE

MARKING GUIDE

a)	**Award marks according to the workings presented as follows:**	
	Elaboration of Group structure	1 Mark
	Net assets working (0.5 mark on each correct element shown)	2.5 Marks
	Goodwill working (0.5 Marks on each correct element shown)	3.5 Marks
	Retained earnings working (0.5 Marks on each correct element shown)	3.5 Marks
	Provision for unrealised profits (0.5 marks on each correct element shown)	1.5 Mark
	Associate working (0.5 marks on each correct element)	1.5 Mark
	Statement of financial position content award 0.5 mark each for a total of 13 items to give a total 6.5 marks. Do not award any mark for sub totals or totals in the statement	6.5 Marks
b)	**Award marks according to the workings as follows:**	
	Intra-group sales and Provision for unrealised profit PURP (1 mark each element shown correctly)	2 Marks
	Gain on disposal (0.5 marks on each correct element shown)	4 Marks
	Goodwill – Bugesera (0.5 marks on each correct element shown)	3.5 Marks
	Goodwill – Gakenke (0.5 marks 0n each correct element shown)	3.5 Marks
	Intra-group loan (2 mark on correct element shown)	2 Marks
	NCI (1 mark on each correct element shown)	2 Marks
	Statement of profit or loss content award 1 mark each for each item in SOPL excluding sub-total and totals. Max 10 marks.	3 Marks 10 Marks
	Total Marks	**50 Marks**

MODEL ANSWERS:

QUESTION ONE

a) Consolidated statement of financial position for Rusumo group as at 31st December 2023

NON-CURRENT ASSETS	**Rusumo**	**NYANZA**	**ADJUSTMENTS**		**TOTAL**
Property plant and equipment	6,650	3,000	1,500	(50)	11,100
Goodwill					2,415
Investment in associate					2,350
CURRENT ASSETS					
Inventories	1,100	650	(900)		850
Receivables	900	700			1,600
Cash and cash equivalent	325	500			825
TOTAL ASSETS					**19,140**
EQUITY AND LIAIBILITY					
EQUITY					
Equity shares	2,000	1,125			3,125
Retained earning					6,945
NCI					623.38
NON-CURRENT LIABILLITY					
Long term borrowings	4,000	300			4,300
Contingent liability					300
CURRENT LIABILITIES					
Trade payables	1,025	550			1,575
Deferred consideration	2,065,000	10%*2065000	206,500		2,271.50
					19,140

Workings:

W1: Group structure

Rusumo

75% (Subsidiary) ↙ ↘ **40% (Associate)**

Nyanza **Muhima**

WORKING 1				
Acquisition of Nyanza Ltd				
Purchase Consideration				
Rusumo Ltd acquired 75% of Nyanza Ltd on 1 January 2023.				
Consideration:				
Shares Issued: 1 share in Rusumo for every 3 shares in Nyanza.				
Nyanza's share capital = FRW 1,500,000.	Assume each share has a nominal value			**FRW 1**
Number of shares in Nyanza = 75%	75%*1,500,000		1,125,000	shares
		1125000/3		
Shares issued by Rusumo shares.		375,000		
Value of shares issued = 375000× 3				1,125,000
Cash Payment:				
Immediate payment				3,500,000
Deferred payment (discounted) = FRW 2,500,000 × 0.826				2,065,000
Total Purchase Consideration				**6,690,000**

Fair value of NCI at acquisition	25%*1,500,000*1.8	675,000
Fair Value of Net Assets Acquired		
COST OF INVESTMENT		7,365,000
Carrying Amount of Net Assets:		
Equity Shares		1,500,000
Retained Earnings.		1,950,000
Fair value adjustments - building		1,500,000
Contingent liability		(500,000)
		4,450,000
Goodwill at acquisition		**2,915,000**
Impairment of the goodwill		(500,000)
Goodwill to SOFP		**2,415,000**

WORKING 2	
Unrealized Profit on Inventory	
Rusumo sold goods to Nyanza for FRW 9,000,000 at a markup of 25%.	
Cost Price = 9,000,000 / 1.25	7,200,000
Profit = 9,000,000 - 7,200,000	1,800,000
Unrealized Profit (50% unsold) = 1,800,000 × 50%.	900,000
This amount must be eliminated from consolidated retained earnings and inventory.	

WORKING 3		
subsidiary retained earning		
as the balance sheet		2,500,000
pre acquired retained earning		(1,950,000)
excess depreciation on fair value adjust	1,500,000/30	(50,000)
impairment		(500,000)
finance cost on deferred consideration		(206,500)
	adjusted post acquired retained earnings to be shared	**(206,500)**

WORKING 4		
NCI AT REPORTING DATE		
NCI at acquisition		675,000
Share of the post acquired loss 25%*(293500)		(51,625.00)
		623,375

WORKING 5		
GROUP RETAINED EARNING		
Parent retained earning		7,100,000
add share of post acquired retained earnings in subsidiary	75%*(-206,500)	(154,875)
Associate Post-acquisition profit (40%*4500*6/12)		900,000
less unrealized profit		(900,000)
		6,945,125

WORKING 6	
INVESTMENT IN ASSOCIATE	
Cost of Muhima	1,500
Post-acquisition profit (40%*4500*6/12)	900
Impairment	(50)
	2,350

WORKING 7	
FINANCE COST	
Deferred cash	(2,065,000)
interest 10%*2,065,000	(206,500)

b) consolidated statement of profit or loss for Rwamagana Ltd for the year ended 31st December 2023:

ss	rwamagana	bugesera		gakenke			TOTAL
Revenue	120,360	70800*6/12	35,400	92,000	(2,800)		244,960
cost of sales	(91,920)	(51600*6/12)	25,800	(67,500)	2,800	(156)	(130,820)
Gross profit							**114,140**
Negative goodwill							11,960
Total income							126,100
Distribution costs	(3,560)	(3980*6/12)	(1,990)	(3,402)			(8,952)
Administrative expenses	(6,000)	(4740*6/12	(2,370)	(5,010)	(370)		(13,750)
gain on disposal							82,095
Investment income	850			100	(146)		804
Finance cost	(700)			(440)	(146)		(1,286)
Profit before tax							185,011
Income tax expense	(5,580)	(3560*6/12)	(1,780)	(4,760)			(12,120)
Profit for the year							**172,891**
Profit attributable to							
Owner of the parent company							149,103
NCI		**WK 8**					23,789
							172,891

WORKING 1	
Acquisition of Bugesera Ltd	
Date of Acquisition: 1 October 2019.	
Percentage Acquired: 60%.	
Consideration:	
Shares Issued: 2 shares in Rwamagana for every 3 shares in Bugesera.	
Bugesera's shares = 1,000,000 × 60%	600,000
Rwamagana shares issued = (600,000 / 3) × 2	400,000

Value of shares issued = 400,000 × 4.60		1,840,000
Cash Payment:		15,000,000
Fair value of NCI at acquisition	40%*48000000	19,200,000
TOTAL PURCHASE CONSIDERATION		**36,040,000**
Fair Value of Net Assets Acquired:		
Equity Shares = 1,000,000 × 5		5,000,000
Retained Earnings		35,000,000
Land Fair Value Adjustment = 13,000,000 - 5,000,000		8,000,000
		48,000,000
	GOODWILL	(11,960,000)

WORKING 2		
Acquisition of Gakenke Ltd		
Date of Acquisition: 1 February 2020.		
Percentage Acquired: 95%.		
Purchase Consideration		55,000,000
NCI at the acquisition	5%*54000000	2,700,000
Cost of investment		**57,700,000**
Fair Value of Net Assets Acquired:		
Equity Shares = 1,000,000 × 10		10,000,000
Retained Earnings.		40,000,000
Customer List Fair Value		4,000,000
Total Net Asset.		54,000,000
	GOODWILL	3,700,000
	Impaired 10%	370,000

WORKING 3
Intercompany Transactions
Unrealized Profit on Inventory

Sales from Rwamagana to Bugesera		2,800,000
Mark-up = 20%.		
Cost Price	2,800,000 / 1.20	(2,333,333)
Profit		466,667
Unrealized Profit (1/3 unsold) = 466,667 × 1/3		155,556
This amount must be eliminated from consolidated retained earnings and inventory.		

WORKING 4	
Interest Income from Gakenke	
Loan Amount = FRW 2,500,000.	
Interest Rate = 7% per annum.	
Interest Income = 2,500,000 × 7% × (10/12)	145,833
This amount must be eliminated from consolidated investment income.	

WORKING 5			
Gain on disposal of bugesera			
PROCEEDS			72,000,000
Less CARRYING AMOUNT at disposal			
Net assets at disposal		48,000,000	
Add good will (it was negative good will)			
Add post acquired profit for 9 months	9/12*4620000	3,465,000	
Less unrealized profit	2800000*20/120*1/3	(155,556)	
		51,309,444	
Less NCI Share of net asset at disposal	40%*51309444	(20,523,778)	
Profit or loss on disposal		82,095,111	

WORKING 6	
net assets at disposal	
Equity Shares = 1,000,000 × 5	**5,000,000**
Retained Earnings	**35,000,000**
Land Fair Value Adjustment = 13,000,000 - 5,000,000	**8,000,000**
	48,000,000

WORKING 7		
value of NCI		
NCI in bugesera		
NC1 at acquisition		
Fair value of NCI at acquisition	**40%*48000000**	**19,200,000**
Add post acquired profit for 9 months	**9/12*(4620000-155556)*40%**	**1,339,333**
		20,539,333

WORKING 8		
NCI in gakenge		
NCI at the acquisition	**5%*54000000**	**2,700,000**
Share of post acquired profit (10988000*5%)		**549,400**
Amortization of customer list	**4000/10*5%**	**(20)**
		3,249,380
Total value of NCI		**23,788,713**

SECTION B

QUESTION TWO

A) (i)	Marks
Award 1 mark for a total of stand-alone price	1
Award 2 for allocation of price to sale of equipment and service plan	2
Award 2 marks for correct revenue recognition	2
Award 1 mark for double entry	1
Sub-total	**6**
A) (ii)	
Award 1 mark for correctly identifying that total cost of FRW 60 million will be expensed	1
Award 1 mark for explaining why selling price is not to be recognized	1
Sub-total	**2**
A) (iii)	
Award 1 mark for identifying that repurchase goods wis a finance arrangement and 1 mark for accounting treatment of FRW 200 million	2
Sub-total	**2**
B)	
Award 1 mark for computing redundancy provision and 1 mark for treatment of training costs	2
C) Award 2 marks for well explained treatment of research and development and 2 marks for Provision/Contingent liability	4
D) • Award 0.5 Marks for the correct figure of Total combined revenue • Award 0.5 Marks for the correct figure of Absolute measure of reported profits and losses • Award 0.5 Marks for the correct figure of Total combined assets (including assets in Radio station)	1.5
Award 0.5 mark for each quantitative threshold prepared for Vehicle Leasing: Byumba Ltd, Vehicle sales: Gisenyi Ltd, Vehicle sales: Innocent Ltd, Property Letting and Insurance. Maximum to 8 quantitative thresholds	4
Award 0.5 Mark for each correct decision made on the recognition of each operating segment maximum to 3.5 Marks	3.5

MODEL ANSWER

A)

	Millions
1 October 2023: Sale with a Service Plan	
Total Sales Price: FRW 1.8 billion	1,800
Standalone Selling Prices:	
Technical equipment: FRW 1.75 billion	1,750
Three-year service plan: FRW 165 million	165
Allocation of Sales Price	
The total sales price of FRW 1.8 billion should be allocated based on the standalone selling prices.	
Calculation	
Total standalone selling price 1.75+0.165	1,915
Allocated price for equipment 1.75/1.915*1.8	1,645
Allocated price for service plan 0.165/1.915*1.8	155
Revenue Recognition for 2023:	
Technical equipment: The entire allocated price of FRW 1.645 billion is recognized immediately as the equipment was delivered	1,645
Service plan: Revenue should be recognized over the three-year period. For 2023, only the portion related to the current year should be recognized.	
Annual revenue from service plan (155/3) *3/12	12.9
Total revenue	1,658
Dr: Bank 1,800 Cr: Revenue 1,658 Cr: Deferred income for service plan 142	

A (ii)

18 November 2023: Warranty Replacement

Replacement Parts Value:

Selling price: FRW 80 million

Cost to Bargi Co: FRW 60 million

Accounting Treatment:

The cost of the replacement parts (FRW 60 million) should be recognized as an expense in 2023

The selling price (FRW 80 million) is not relevant for this treatment as it represents the warranty fulfilment cost.

Expense to be recognized: FRW 60 million

A (iii)

Since Bargi Co has the right to repurchase the goods, this transaction should be accounted for as a financing arrangement rather than a sale.

The FRW 200 million received should be recognized as a liability, not as revenue.
Dr: Bank FRW 200 million
Cr: Liability FRW 200 million

B)
Provision required

Redundancy provision (200 employees × FRW 5million)	1 billion

Retraining costs are a cost of the ongoing business and are not provided for in advance.

C

Research and development

The company's accounting policy for research and development is contrary to the requirements of IAS 38. All research expenditure should be written off to profit or loss as it is incurred. The only exception is expenditure on research facilities which would be recognized as non-current assets (IAS 16 Property, Plant and Equipment).
All development expenditure should also be written off immediately unless the intangible asset recognition criteria (IAS 38) can all be demonstrated:

- Technical feasibility;
- Intention to complete the product;
- Ability to use or sell the product;
- Confidence that the product will make a profit if sold (or otherwise used);
- Availability of technical, financial and other resources needed to complete it;
- Measurable expenditure.

If all of these conditions are met, the company must recognize the development costs as an intangible asset. This will then be written off systematically in the periods during which the product is used or sold. As the "substantial program" has only commenced this year, all these conditions may have still to be met. Even if the conditions for asset recognition are met, it is too soon to amortize the costs (before there is a product to use of sell).

In order to recognize any intangible assets, Rover must have a costing system that distinguishes development expenditure from research.

Provision/Contingent liability

IAS 37 defines a provision as a liability of uncertain timing or amount and a contingent liability as either a possible obligation which will be confirmed only by the occurrence or non-occurrence of a future event or a present obligation that is not recognized because it is unlikely that there will be an outflow of future economic benefits or the amount of the obligation cannot be measured reliably.

As it is felt that the claim is unlikely to succeed this would seem to fall into the definition of a contingent liability and IAS 37 requires the estimated amount of damages to be disclosed by note. However, as the legal costs are to be incurred whatever the outcome of the case, IAS 37 requires that a provision should be made for them in the company's financial statements.

D)

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments
Reportable segments are operating segments that meet specified quantitative threshold criteria:

- The reported revenue, from both external customers and inter-segment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or

- The absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount of (i) the combined reported profit of all operating segments that did not report a loss, and (ii) the combined reported loss of all operating segments that reported a loss; or

- Its assets are 10% or more of the combined assets of all operating segments. If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments must be identified as reportable segments even if they do not meet the quantitative thresholds until at least 75% of the entity's revenue is included in reportable segments.

Quantitative threshold benchmarks "after the sale of NYANZA Ltd" as picked from the figures provided:

Descriptions	**FRW "000"**	**%**
(1) Total combined revenue (external & inter-segmental revenue)	3,454,000	
(2) Absolute measure of reported profits and losses		
(i) Total reported profit - segments that did not report a loss	270,000	
(ii) Total reported loss - segments that reported a loss	(234,000)	
(3) Total combined assets (including assets in Radio station)	2,223,000	
Assessment of the reportable segments including Amount %		
Vehicle Leasing: Byumba Ltd		
Segment revenue (external & internal)	117,000	3%

- Absolute measure of segment-reported loss	(18,000)	7.7%
- Segment assets	144,000	6%
Vehicle sales: Gisenyi Ltd		
- Segment revenue (external & internal)	630,000	18%

Vehicle sales: Innocent Ltd		
- Segment revenue (external & internal)	250,000	7%
- Absolute measure of segment reported loss	(72,000)	31%
Property Letting: XY Estate Ltd		
- Segment revenue (external & internal)	1,665,000	48%
Insurance: Twisungane Ltd		
- Segment revenue (external & internal)	792,000	23%

Conclusion

- **Vehicle Leasing: Byumba Ltd is not reportable segment based on all quantitative thresholds**
- **Vehicle sales: Gisenyi Ltd** is reportable segment based on its revenue which exceeded 10% of combined sales
- **Vehicle sales: Innocent Ltd:** Its revenue does not put the segment among reportable segment as it less than 10% of combined revenue. However, the fact that its loss exceeded the 10% of the absolute measure of segments that reported loss, this will make them to be reportable segment
- Property letting will be reported because its revenue position
- Insurance segment will be reportable based on revenue criteria

QUESTION THREE
MODEL ANSWER

QN	Description	Marks
PART A	Statement of Profit or Loss	
	Revenue Adjustments	
	identification of total contract prices and contract cost	0.5
	Revenue recognition (50% to 80%)	1
	Calculation of revenue for the year	1
	Cost of Sales Adjustments	
	Calculation of cost for the year	1
	Adjustment for the court case provision	
	Initial provision adjustment	1
	Adjustment for capitalised interest	0.5
	Correct allocation of capitalised interest	1
	Fraudulent trade receivables adjustment for current year	1
	Finance Costs Adjustments	
	correct adjustment for convertible loan notes	

QN	Description	Marks
	Identification of interest payable	0.5
	Calculation of present value and equity component	1
	Adjustment for capitalised interest	0.5
	Income Tax Adjustments	
	Calculation of current tax expense	1
	Adjustment for decrease in deferred tax	1
	Adjustment for prior year overprovision	1
	Maximum marks awarded for part a	**12**
PART B	**STATEMENT OF CHANGE IN EQUITY FOR THE YEAR**	
	Adjustments for Prior Year Error	
	Identification of prior year fraud error	1
	Calculation of adjustment amount	1
	Share Capital Adjustments	
	Identification of share capital changes	1
	Calculation of share capital changes	1
	profit for the Year	
	Transfer of profit	1
	Convertible Option Reserve:	
	Transfer of n equity component	1
	Opening balances	2
	Maximum marks awarded for part b	**8**
	Calculate Net Profit (1 mark)	
	Correctly identify and use the net profit after tax from the statement of profit or loss	1
PART C	**Determine Weighted Average Number of Shares**	
	Identification of the number of shares at the beginning of the year	0.5
	Adjustments for share issues/conversions	1
	Calculation of the weighted average	1
	Basic Earnings Per Share Formula Application	
	Apply the correct formula: Basic EPS = Net Profit / Weighted Average Number of Shares: 1 mark	1
	Ensure accuracy in the final calculation and result	0.5
	Maximum marks awarded for part C	**5**
	TOTAL FOR THE QUESTION	**25**

MODEL ANSWER

Question three (a)

KIGALI LTD STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2023

	FRW "000"
Revenue (43,200 + 2,700 (W1))	45,900
Cost of sale (21,700 + 1,500 (W1))	(23,200)
Gross profit	**22,700**
Operating expenses 13,520 + 120 (W2) −8 (W5) + 900 (W6))	(14,532)
Profit from operations	**8,168**
Finance costs (1,240 + 86 (W4) + 640 (W5))	(2,012)
Investment income	120
Profit before tax	**6,322**
Income tax expenses (2,100 − 500 − 130 (W3))	(1,470)
Profit for the year	**4,852**

Question three (b)

KIGALI LTD STATEMENT OF CHANGE IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

	SHARE CAPITAL	**SHARE PREMIUM**	**RETAINED EARNING**	**CONVERTIBLE OPTION**
	FRW "000"	**FRW "000"**	**FRW "000"**	**FRW "000"**
Balance at 1 July 2022	12,200		35,400	
Prior year error Adjustment			(1,600)	
Restated balance			**33,800**	
Share issues	1,500	1,800		
Profit for the year			4,852	
Convertible issue				180
Balance at 30 June 2023	**13,700**	**1,800**	**38,652**	**180**

Question three (c)

KIGALI LTD EARNING PER SHARE

DATE	**NO OF SHARES**	**FRACTION OF THE YEAR**	**WEIGHTED AVERAGE NUMBER OF SHARES**
	"000"		
7/1/2022	12,200	12/12	12,200
11/1/2022	1,500	8/12	1,000
			13,200
BASIC EPS	4,852/13,200=0.37		

Workings

W1 CONTRACT	"000"
Revenue ((80% − 50%) × FRW 9m)	2,700
Cost of sales ((80% − 50%) × FRW 5m)	(1,500)
Contract profit	**1,200**

W2 Court case

Required provision	920
Amount recorded	**800**
Adjustment	120

W 3 tax

Current estimate	2,100
Decrease in deferred tax 2,000*25%	(500)
Prior year over provision	(130)
	1,470

WK 4 COVERTIBLE ISSUE			
	PAYMENT	DISCOUNT	PRESENT VALUE
	"000"	"000"	"000"
Year ended 30 June 2023	300	0.926	278
Year ended 30 June 2024	300	0.857	257
Year ended 30 June 2024	5,000	0.857	4,285
Liability element			4,820
Equity element-Balancing figure			180
			5,000
Interest on liability element	4,820	8%	386
Amount recorded			300
Adjustment required 386-300			**86**

W 5 CAPITALISED INTEREST

Interest capitalised	2,560
After completing construction of assets, capitalization cease and interest are expensed, then 3/12 should be expensed	640
Reduction in depreciation for the year 640/20*3/12	8

W 6 fraud

Adjustment required on prior year retained earning Dr: Retained earning FRW 1,600 Cr: Account receivable FRW 1,600	1,600
Remaining to be taken to operating expenses	900

Dr: Operating expense FRW 900
Cr: Account receivable FRW 900

**2,5
00**

W 7 SHARE ISSUE

3,3
00

Dr: Suspense account 1,5
Cr: Share capital account 1,500*1 00
1,8
Cr: Share premium account 1,500*1.2 00

QUESTION FOUR

MARKING GUIDE

		Marks
Q3) (a)	Award 1 mark for each correct accounting entries for both share option and SAR	8
	Award 1 mark for each working for each year	4
	Sub-total	**12**
Q3) b	2 Mark for the Total direct cost for the period and 1 mark for the average direct cost for the period	3
	Identification of capitalization rate per month	1
	Identification of finance cost	1
	Sub-total	**5**
Q3) C (i&ii)	2 Marks for identifying the strengths of the company's disclosures (1 each)	2
	3 Marks for highlighting weaknesses and gaps (1 each)	3
	1 Mark for each correct recommendation proposed (3 Maximum)	3
	Sub-total	**8**

QUESTION FOUR

DETAILED ANSWER
Scenario 1: SHARE OPTIONS
Double entries

31/12/2019	**Dr: Expense**	2,500,000
	Cr: Equity	2,500,000
31/12/2020		
	Dr: Expense 4,700,000-2,500,000	2,200,000
	Cr: Equity	2,200,000

Share Appreciation Right

Date	Total staff	Left and anticipated to leave	Remaining staff	No of Share options	Total share options	Fair value	Value of options	Charge for the year
	A	B	C=A-B	D	E=C*D	F	G=E*F	
31/12/2019	800	300	500	200	100,000	100	10,000,000	2,500,000
31/12/2020	800	330	470	200	94,000	100	9,400,000	=4,700,000 -2,500,00

Scenario 2: SHARE APPRECIATION RIGHTS

31/12/2019	Dr: Expense	FRW 375,000
	Cr: Liability	FRW 375,000
31/12/2020		
	Dr: Expense 846,000-375,000	FRW 471,000
	Cr: Liability	FRW 471,000

Share Appreciation Right

Date	**Total staff**	**Staff who left and anticipated to leave**	**Remaining staff**	**No of SAR**	**Total SAR**	**Fair value**	**Value of SAR**	**Charge for the year**
						FRW	**FRW**	**FRW**
31/12/2019	800	300	500	200	100,000	15	1,500,000	375,000
31/12/2020	800	330	470	200	94,000	18	1,692,000	=846,000-375,000

c) The direct costs for the period are as follows:

- **September 2024: FRW 20,000,000**
- **October 2024: FRW 30,000,000** (increased by **FRW 10,000,000** from the previous month)
- **November 2024: FRW 40,000,000** (increased by **FRW 10,000,000** from the previous month)
- **December 2024: FRW 50,000,000** (increased by **FRW 10,000,000** from the previous month)

The total direct costs over the 4 months (1 September to 31 December 2024) =
FRW 20,000,000 + FRW 30,000,000 + FRW 40,000,000 + FRW 50,000,000 = FRW 140,000,000

To find the average direct costs over the 4 months, we divide the total direct costs by the number of months (4 months):

Average Direct Costs = 140,000,000/4 = 35,000,000

So, the **average direct costs** over the period from 1 September to 31 December 2024 are **FRW 35,000,000**.

The **weighted average borrowing cost** is **9% per annum**, which is equivalent to **0.75% per month**.

Now, we can calculate the **finance costs** to be capitalized:

Finance Costs = Average Direct Costs × Monthly Interest Rate

Finance Costs = 35,000,000×0.75%=**262,500**

Conclusion:

The finance costs to be capitalized as part of the property, plant, and equipment for the period from 1 September 2024 to 31 December 2024, using the **average method**, are **FRW 262,500**.

d) **i. Evaluation of disclosures**

Strengths:

1. **Carbon emission reduction**: Reporting a 25% reduction in carbon emissions aligns with Rwanda's focus on reducing greenhouse gases and promoting clean energy. This is a positive disclosure, supporting the company's environmental responsibility.

2. **Community investment**: Allocating RWF 200 million to community projects in infrastructure and vocational training shows commitment to CSR and aligns with Rwanda's focus on rural development and poverty reduction.

Weaknesses

1. **Water usage**: The failure to disclose water usage, especially in water-scarce regions, is a significant gap in the report. Given the mining industry's potential environmental impact on water resources, this omission limits transparency and raises concerns about the company's sustainability practices.

2. **Employee turnover**: A 40% increase in employee turnover without any explanation is concerning. High turnover may indicate dissatisfaction among workers or poor working conditions, which should be addressed for long-term sustainability and to meet labor welfare expectations.

3. **National goal alignment**: Although the company mentions alignment with Vision 2050 and NST2, it fails to provide measurable outcomes or specific initiatives. Without clear targets or performance metrics, the claim of alignment lacks credibility and does not demonstrate real progress.

ii. Recommendations

To enhance its sustainability reporting, Amahoro Mining Ltd. should:

1. **Disclose water usage**: Include detailed information about water consumption, conservation measures, and impact on local water resources. This is critical for transparency and aligns with Rwanda's focus on water management and environmental sustainability.

2. **Address employee turnover**: Provide an explanation for the high turnover rate and outline the actions being taken to improve working conditions and employee satisfaction. This could include initiatives such as health and safety improvements, employee engagement programs, or better benefits.

3. **Adopt internationally recognized frameworks**: Implement frameworks like the **Global Reporting Initiative (GRI)** for standardized environmental and social reporting. This would ensure that the company's disclosures are comprehensive, transparent, and comparable to global best practices.

4. **Set measurable outcomes**: For alignment with Rwanda's national goals, Amahoro Mining Ltd. should set specific, measurable targets related to Vision 2050 and NST2 (e.g., a specific reduction in emissions, job creation, or infrastructure development) and report progress annually.

End of Marking Guide and Model answers.