CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: FEBRUARY 2025

MARKING GUIDE & MODEL ANSWERS

QUESTION ONE

MARKING GUIDE

	Marks
Initial cost of acquired cargo truck Invoice price included in the computation award 0.5 mark VAT deducted from invoice price-award 0.5 Award 0.5 for each of import duties and 0.5 transport costs	2
Journal entries to record acquired truck	
Award 0.25 for each of correct debit accounts debited (truck and VAT) 0.5 mark for credited bank amount	1
Disposal account Award 1 for gain on disposal recorded in the disposal account and 1 for accumulated depreciation	2
Treatment of cost of engine of boat Award 1 mark if it is mentioned that overhaul costs will recur on every four years and 1 mark for a point stating that depreciation will be computed separately from boat	2
Treatment of building classified under IFRS 5 Well stated accounting treatment-award 1 mark Award 1 mark if it is stated that the building under IFRS 5 will be accounted for separately	2
Property, plant and equipment schedule	
Initial cost Initial of Motor vehicle and Building- award 0.5 for each	1
Additions Computed addition costs of motor vehicle and KGV electric engine award 0.5 each Award 0.5 mark for each addition costs of boat and revaluation surplus shown in the schedule	2
Disposal of motor vehicle deducted from schedule award 1 mark	1
Transfer of building to IFRS 5 deducted from schedule award 1 mark	1
Accumulated depreciation Well posted initial accumulated depreciation of Motor vehicle and building award 1 mark for each	2
Depreciation charge for the year Award 0.5 mark for each depreciation charge for the year	2
Accumulated depreciation on disposed asset recorded in the schedule attract 1 mark	1
Accumulated depreciation on transferred building to IFRS 5 deducted from deprecations in the schedule attract 1 mark	1
Total	**20**

MODEL ANSWERS

a) Initial costs of truck

	Million FRW
Invoice price	820
Less-Recoverable tax (VAT)	(100)
Add: Import duties	12
Add: Transport costs	40
Total initial costs	**772**

b) Journal entries

Dr: Cargo truck, motor vehicle	772	
Dr: VAT Recoverable	100	
Cr: Bank		872

c) Motor vehicle disposal account

	FRW in millions		**FRW in millions**
Asset	600	Bank	210
Profit or loss account	60	Acc depr	450
	660		**660**

Depreciation of disposed asset		
Acquisition		31-Dec-19
Disposal		1-Jan-23
No of years the assets have been in use	3 years	
Acc depreciation 600*25%*3		450
NBV of disposed vehicle		150
Proceed from disposal		210
Gain on disposal		60

Depreciation for the year of motor vehicles

Charge for the year Existing MV	(45,000-600) *25%	11,100
New motor vehicle	772*25%*4/12	64
Total charge		**11,164**

d) Boat

The company will require an overhaul cost for the boat every four years, from 1 July 2023. Therefore, the company will need to mobilize funds of FRW 6 billion for every four years to assure the smooth replacement of engine. The engine will be depreciated over its useful life which is four years.

The depreciation of the engine will be computed separately from the depreciation of the boat. Since the acquisition of the boat was completed on 1 July 2023, then the depreciation charge for the year to 31 December 2023 will be apportioned to six months

Depreciation for the year of KGV boat engine boat electric engine	FRW 6,000/4*6/12	750

Value of the boat

Cost	26,000	
Value of engine	(6,000)	
Value of boat	**20,000**	
Charge for the year of the boat	(20,000-4,000)/20 yrs*6/12	400

e) Building

Headquarters offices	
Cost	920
Accumulated depreciation Jan 2023	(320)
NBV Jan 2023	600
Charge for the year	60
NBV at 31 Dec 2023	540
Revalued amount	662
Revaluation surplus	122

		FRW Million
Building at Kenya office		
Cost 1 Jan 2021		350
Depreciation 2021	350*10%	(35)
NBV Dec 2021		**315**
Depreciation 2022	315*10%	(31.5)
NBV Dec 2022		**283.5**
Depreciation 2023	284*10%	(28.35)
NBV before transfer to IFRS 5		**255.15**
Fair value as at 31 Dec 2023		215
Impairment	255.15-215	**40.15**

The Kenya office has accumulated depreciation of FRW 66.5 million as at 31 December 2022 and FRW 94.85 million as at 31 December 2023.
Since, the building is held for sell as per IFRS 5, it no longer meets the criteria to be recognized under IAS 16. Instead, the asset will be accounted for under IFRS 5 as a non-current assets held for sale.

On initial recognition under IFRS 5, the building will be recognized at the lower of carrying amount and fair value less costs to sell. If the fair value less costs to sell lower than carrying amount, the difference is an impairment loss to be charged to profit or loss account

The impairment loss of FRW 40.15 million will be charged to profit or loss account.
The building held for sell will be presented separately from the other assets and no depreciation to be charged after 31 December 2023.

f) Property, plant and equipment schedule as at 31 December 2023

	Motor vehicles and cargo Truck	**Boat**	**KGV electric engine**	**Building**
	FRW	**FRW**	**FRW**	
	Million	**Million**	**Million**	
Cost -1 Jan 2023	45,000	-		1,270
Addition – new cargo truck	772	20,000	6,000	
Disposal	(600)			
Transfer to IFRS 5	-	-	-	(350)
Revaluation surplus	-	-	-	122
Total costs-31 Dec 2023	**45,172**	**20,000**	**6,000**	**920**
Depreciation				1,042
Ac depreciation 1-Jan-2023	18,200			386.5
Charge for the year (W1)	11,164	400	750	88.35
Disposal	(450)			
Transfer				(94.85)
Total Depreciation-31 Dec 2023	**28,914**	**400**	**750**	**380**
Carrying amount-31-Dec 2023	**16,258**	**19,600**	**5,250**	**662**

Working

Charge for the year

Building

Depreciation for head office building		600*10% = 60
Depreciation for building located in Kenya before reclassification	283.5*10%	28.35
		88.35
BOAT		
Charge for the year of the boat		(20,000-4,000)/20 years*6/12=400

Depreciation for the year of motor vehicles

Charge for the year Existing MV	(45,000-600) *25%	11,100
New motor vehicle	772*25%*4/12	64
Total charge		**11,164**

KGV Electric engine

The company will require an overhaul cost for the boat every four years, from 1 July 2023. Therefore, the company will need to mobilize funds of FRW 6 billion for every four years to assure the smooth replacement of engine. The engine will be depreciated over its useful life which is four years.

QUESTION TWO

MARKING GUIDE

QN	Description	Marks
a	**Preparation of revenue account**	
	Net earned premium (0.5 mark * 2)	1
	Unearned premium b/d (0.5 mark * 2)	1
	Provisions for unexpired risk (1 mark * 2)	2
	Net premium result (1 mark * 2)	2
	Total net claims (0.5 marks * 6)	3
	Total expenses (1 mark * 2)	2
	Loss (0.5 mark * 2)	1
	Maximum marks for part a	12
b	**Statement of profit or loss**	
	Loss from revenue account	1
	Investment income	0.5
	Other income	0.5
	Total income	1.0
	Management expense	0.5
	Depreciation of motor vehicle	1
	Depreciation of equipment	1
	Bad debts	0.5
	Total expenses	0.5
	Loss for the year	0.5
	Retained earnings b/d	0.5
	Retained loss c/d	0.5
	Maximum marks for part b	8
c	**Statement of financial position**	
	Asset motor vehicle	1
	Asset equipment	1
	All the remaining 4 assets (0.5 marks * 4)	2
	Total assets	0.5
	Each equity item plus total (0.5 marks * 4)	2
	Provision for unearned premium (0.5 mark * 2)	1
	Claims outstanding (0.5 mark * 2)	1

	Bank overdraft	0.5
	Amount due to other insurers	0.5
	Total equity and liabilities	0.5
	Maximum marks for part c	10
	Total	**30 Marks**

MODEL ANSWERS

a) Prepare revenue account for the year ended 31st December, 2023

KIVU Ltd

Revenue account for the year ended 31st December, 2023

		Accident		**Burglary**
	FRW '000'	**FRW '000'**	**FRW '000'**	**FRW '000'**
Revenue (Premiums):				
Net Earned premium		3,142,530		5,837,760
Add: Unearned premium b/d	900,000		2,250,000	
Less: Provision for unexpired risks:				
Accidents (50% * 3,142,530)	1,571,265			
Burglary (80% * 5,837,760)		(671,265)	4,670,208	(2,420,208)
Net premiums		2,471,265		3,417,552
Net Claims:				
Claims paid	1,255,140		2,510,145	
Less: Claims b/d	1,620,810		3,241,665	
Add: Claims c/d	2,025,000		3,555,000	
Total net claims		1,659,330		2,823,480
Expenses (specific to accidents & burglary)				
Management expenses (3,939,930 - 450,000)				
Accident (3,142,530/8,980,290)*3,489,930 =	1,221,253			
Burglary (5,837,760/8,980,290)*3,489930 =			2,268,677	
Net commissions paid	77,985		156,105	
Total expenses		1,299,238		2,424,782
Loss		(487,303)		(1,830,710)

b) Prepare statement of profit or loss for the year ended 31st December, 2023

KIVU Ltd

Statement of Profit or Loss for the year ended 31st December, 2023

	FRW '000'	FRW '000'
Incomes:		
Loss from the revenue account (-487,303 + - 1,830,710)		(2,318,013)
Investment income		1,620,000
Other incomes		395,190
Total income		(302,823)
Less: General expenses:		
Management expenses	450,000	
Depreciation		
Motor vehicle (20% * 22,500)	4,500	
Equipment (10% * 324,315)	32,431.5	
Bad debts	112,500	
Total expenses		599,431.5
Loss for the year		(902,254.5)
Add: Retained earnings b/f		675,000
Retained loss c/f		**(227,254.5)**

c) Prepare statement of financial position for the year ended 31st December, 2023

KIVU Ltd

Statement of Financial Position as at 31st December, 2023

Assets	**FRW '000'**	**FRW '000'**
Motor vehicle (22,500 - 4,500)		18,000
Equipment (324,315 - 32,431.5)		291,883.5
Treasury bonds		256,185
Treasury bills		4,479,750
Deposits in banks		10,667,250
Amount due from other insurers		156,150
Total assets		**15,869,218.5**
Equity and liabilities		
Equity		
Ordinary share capital		2,700,000
Share premium		-
Revaluation reserve		1,125,000
Retained loss		(227,254.5)
Total equity		3,597,745.5
Liabilities		
Provision for unearned premium		
Accidents (50% * 3,142,530)	1,571,265	
Burglary (80% * 5,837,760)	4,670,208	
Claims outstanding		
Accidents	2,025,000	
Burglary	3,555,000	
Bank overdraft	360,000	
Amount due to other insurers	90,000	
Total liabilities		12,271,473
Total equity and liabilities		**15,869,218.5**

QUESTION THREE

Marking Guide

	Marks
Q3)A) Add line by line for both asset and liability including associated adjustment attract 0.5 mark for each except subtotals and Totals	**16**
Working: Goodwill	
Purchase consideration shown in the goodwill award 1 mark	**3**
Non-controlling interest in the goodwill attract 0.5	
Fair value adjustment shown in the goodwill attract 0.5	
Goodwill balance before impairment-award 0.5 mark	
Computed impairment-award 0.5	
Group retained earning working	
Award 0.5 for each posting and adjustment shown in the group retained earning	**4.5**
Non-controlling interest working	
NCI at acquisition has 1 mark	**1.5**
Post-acquisition share of retained earnings and other reserve attract 0.5 mark each	
Subtotal	**25**
Q3) B Computation of investment in associate-Award 1 mark for each adjustment	**3**
Award 1 mark for each of condition that evidence significant influence	**2**
Sub-Total	**5**
Total	**30**

Model answers

Rwanda Cement

$\frac{15}{25} * 100 = 60\%$

Brick Ltd

3)A)

Rwanda Cement Ltd consolidate statement of financial position as 31 December 2022

		FRW
	Sub-workings	**Million**
Non-current assets		
Property, plant and equipment	2,550+2,520+40-16-25+5	5,074
Financial assets	1270+120-850	540
Goodwill (w1)		18
		5,632
Current assets		

Bank and cash in hand	660+648	1,308
Inventory	120+100-15	205
Trade and Account receivable	1200+1320-120	2,400
Interest receivable	92-85	7
		3930
Total assets		**9,552**
Equity		
Share capital of FRW 100 each		4,000
Retained earnings-W2		1,500
Other reserves-W4		155
Owners' funds		**5,655**
Non-controlling interest-W3		1,377
		7,032
Non-current liability		
10% Loan note	1340+1040-850	1,530
		1530
Current liability		
Trade and account payable	757+350-120	987
Interest payable	88+0-85	3
		990
Total equity and liability		**9,552**

W1

Goodwill	**Million FRW**
Purchase consideration 15*110	1,650
Fair value of non-controlling interest	1,100
	2,750
Net assets	
Share capital	2,500
Retained earning	150
Other reserves	30
Fair value adjustment on plant	40
Total net asset	**2,720**
Goodwill at acquisition	30
Impairment @40% i.e 30*40%	12
Goodwill balance	18

W2 Group retained earning

	Rwanda Cement Ltd	**Brick Ltd**
	Million FRW	**Million FRW**
As per question	1,140	830

Balance at acquisition date		(150)
Impairment of goodwill		(12)
Depreciation on fair value adjustment of plant 40/5*2 years		(16)
Unrealized profit on stock 180*20/120*1/2		(15)
Unrealized profit on machinery transferred to Brick Ltd (280*10%)	(25)	
Over charged Depreciation on machinery 25*20%		5
		-
		642
Rwanda Cement's earning share 642*60%	385	
Bal c/d	**1,500**	

W3 **Non-controlling interest**

	Million FRW
NCI at acquisition	**1,100**
Brick's share of Post-acquisition profit	**257**
Brick's share of Post-acquisition other reserve	**20**
Bal c/d	**1,377**

W4

Other reserve		
	Rwanda Cement Ltd	**Brick Ltd**
	Million Frw	**Million FRW**
As per question	125	80
Balance at acquisition date		(30)
		50
Brick's post-acquisition share of reserves	30	
Bal c/d	155	

W5 The loan note acquired by Rwanda cement from Brick Ltd is intercompany debt, it must be eliminated from financial assets and from financial liability i.e loan note. The part acquired by foreign investment bank should remain in the group account

The interest of 10% on FRW 850 million accounted for note yet received should be eliminated from receivable and interest payable

W6 Unrealized profit on sale of asset 280*10/110 25

Over charged Depreciation on machinery 5

Q3 B) Investment in Century Engineers Ltd

	Million FRW

Cost of investment	210
Post-acquisition profit 40*6/12*30%	6
Impairment 50*30%	(15)
Investment in associate bal c/d	**201**

Impairment test

	Million in FRW
Net asset at 30 June 2022	320
Profit from 1 July to 21 Dec 2022 40*6/12	20
Net asset at 31 December 2022	**340**
Recoverable amount	290
Impairment of Century Engineers 340-290	**50**

ii) Two conditions that confirm the existence of significant influence of Bwiza Apartment over Century Engineers:

- Representation on the board of directors of the Century Engineers Ltd.
- If Bwiza Apartment Ltd Participate in the policy making decision of Century engineers Ltd.
- Material transactions between Bwiza and Century Engineers .
- Interchange of managerial personnel.
- Provisional of essential technical information Accounting for the investment in Associate.

SECTION B

QUESTION FOUR

Marking guide

	Marks
Q4) a) Conditions necessary to classify asset as held for sale Award 1 mark for each condition mentioned	5
Q4) b) i) Award 1 mark for each item shown in the computation of impairment- 3 Marks ii) Explanation for recoverable amount attract 2 marks	5
Q4C) award marks as follows	
Profitability Ratio: 1 mark for each correct ratio calculated and 2 mark for correct analysis provided	5
Liquidity Ratio:1 mark for each correct ratio calculated and 1 mark for correct analysis provided	3
2 marks for Correct Key Area of Improvements	2
Total	**20**

Model Answer

a) Conditions necessary to classify asset as held for sale

a) The asset must be available for sale in its present condition: The coaches held for sale should be available for immediate sale as stated in the question that the coaches are available in the parking compound.

b) Management is committed to a plan to sell the assets: The management approved to sell these motor vehicles on 28 February 2024.

c) There is an active plan to locate buyer: Before classifying the motor vehicles under disposal group of assets held for sale, TSINDA Ltd should start the process of searching for a potential buyer.

d) The asset is being actively marketed: The advertisement to auction the asset should be in place.

e) The sale is expected to be completed with 12 months of its classification as held for sale. TSINDA Ltd should be able to prove that the vehicles can be sold within 12 months.

f) It is highly unlikely that the plan will be significantly changed or withdrawn.

b)

i) Impairment loss

	Million
Carrying amount	340
Recoverable amount	160
Impairment loss	140

The recoverable amount is the higher of the value in use of FRW 150 million and fair value less cost to sale of FRW 160 million. Therefore, the recoverable amount is FRW 160 Million.
Note: Journal entries
Dr: impairment-P/L FRW 140 million
Cr: Motor vehicles FRW 140 million

ii) Recoverable amount

IAS 36 state that the entity should assess the impairment for all class of assets before year end if there is an indication of impairment.
The recoverable amount is the higher of the value in use and fair value less cost to sale of an asset. The value in use is the present value of future cash flows from use of the asset.

c. ii)

1. **Profitability Ratios**

Ratio	Formula	2024	2023
Gross profit margin:	(Gross Profit/ Revenue) ×100	(80,000,000/240,000,000)×100= 33.3%	(60,000,000/200,000,000) ×100 =30%
Operating Profit Margin	(Profit Before Tax /Revenue)×100	(50,000,000/240,000,000)×100 = 20.83%	(40,000,000/200,000,000) ×100 = 20 %
Return on Equity (ROE)	(Profit Before Tax/ Equity)×100	(50,000,000/90,000,000)×100=55.56%	(40,000,000/70,000,000)× 100= 57.14%

Analysis:

- The gross profit margin has improved, indicating better cost management or increased efficiency in production.
- The slight increase in OPM suggests improved efficiency after considering operating expenses.
- A marginal decline in ROE could reflect the increase in equity outpacing the growth in profits.

2. **Liquidity Ratios**

Ratio	Formula	2024	2023
Current Ratio	Current Assets / Current Liabilities	(60,000,000 / 30,000,000) = 2 times	(50,000,000/30,000,000) = 1.67 times

Quick ratio	(Current Assets – Inventory) /Current Liabilities	(60,000,000−20,000,000)/30,000,000) =(40,000,000/30,000,000) = 1.33 times	(50,000,000−15,000,000)/30,000,000 =(35,000,000/30,000,000)= 1.17 times

The quick ratio has improved, reflecting enhanced liquidity even after excluding inventory.

ii) Key Area of Improvement

One key area of improvement for Muhabura Ltd is **cost management**, particularly in controlling **operating expenses**. While gross profit has improved significantly, operating expenses grew by 50% (from FRW 20 million in 2023 to FRW 30 million in 2024). Implementing cost-saving measures or streamlining operations could enhance operating profit margins and overall profitability.

QUESTION FIVE

Marking guide

QN	Description	Marks
a	Award 0.5 for every realization value of assets included in the order of payment for debt	3
	Award 1 mark for every preferential creditor considered as first payment option	3
	Award 0.5 mark for computed net fund balance available to secured debt after preferential creditors	0.5
	Award 1 mark for considering secured creditors	1
	Award 0.5 mark for each unsecured debt and 0.5 mark for total of unsecured debt	1.5
	Award 1 mark for computed balance available to equity holders	1
b	Evidence of existence of significant influence	
	1 mark awarded for each point (1 mark * 5)	5
c	Benefits of adopting IPSAS	
	1 mark awarded for each point (1 mark * 5)	5
	Total	**20 arks**

a)

Liquidation is 'the process of law whereby a company is wound up to terminate its corporate life. It is also referred to (either alternatively or concurrently) in some jurisdictions as winding up and/or dissolution

Procedure for cash distribution

The liquidator will realize assets of the company and distributes the proceeds from realisation among the various claimants in the following order:

1. Legal charges
2. Liquidator's remuneration
3. Cost or expenses of winding up
4. Workmen's dues
5. Preferential creditors
6. Full secured creditors, creditors secured by floating charges, and partially secured creditors
7. Unsecured creditors
8. Owners of the company

Tsinda Ltd cash distribution will be completed as follows

		Available funds
	Million	**Million**
	FRW	**FRW**
Vehicle caught by Fire		160
Other Motor vehicles		520
Inventory		25
Receivables		170
Total funds realized from assets not secured against any creditor		**875**
Building subject to secure loan	820	
Bank-subject to payment of taxes	80	
Preferential creditors		
• Wages	(150)	
• Government taxes	(470)	
• Liquidator's fee	(50)	
Balance available to secured debt 820+80-150-470-50	**230**	
Bank loan and interest	(395)	
Loan not full paid by collateral securities 230-395	(165)	
Unsecured creditors	(620)	
Total unsecured creditors 165+620		**(785)**
Balance available to equity holders		**90**

b) Explain five ways in which existence of significant influence is evidenced as per IPSAS 7

The existence of significant influence is evidenced in one or more of the following ways.

1) Representation on the board of directors (or equivalent) of the investee
2) Participation in the policy making process
3) Material transactions between investor and investee
4) Interchange of management personnel
5) Provision of essential technical information

c) Five benefits of full IPSAS compliant by the Government of Rwanda:

1) Enhanced on the quality and comparability of the financial statements being prepared. The financial statements of the Government of Rwanda can therefore be compared to any other country in the world which had adopted IPSAS.
2) Consistency. Adoption of IPSAS makes the preparers of financial statements adopting the same accounting policies over time.
3) Transparency. Adoption of IPSAS has led to transparency in management of public funds.
4) Enhances accountability on how financial resources of the public sector are managed.
5) Improves on Governance: full adoption of IPSAS has led to improvement on the systems by which the public sector is directed and controlled.

End of Marking guide and Model answers