



**CERTIFIED PUBLIC ACCOUNTANT
INTERMEDIATE LEVEL EXAMINATIONS**

I.2: FINANCIAL REPORTING

DATE: TUESDAY 25, FEBRUARY 2025

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **two** sections: **A & B**.
3. Section **A** has **three compulsory questions** while Section **B** has **two questions, one question** to be attempted.
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 where applicable.
7. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

YYUNG Logistic Ltd (YLL) is company that facilitate importation and exportation of commodities from China to Africa. The company is headquartered in Rwanda with some regional offices in East and Western parts of Africa. The company's year-end is on 31 December.

The information relating to company's fleet and other non-current assets are shown below:

Fleet of large trucks

On 1 January 2023, the carrying values of large trucks were as flows:

	Million
	FRW
Cost	45,000
Accumulated Depreciation	(18,200)
Net book value	26,800

On 1 January 2023, the cargo container truck acquired on 31 December 2019 at FRW 600 million was disposed off at FRW 210 million. To maintain the capacity of the existing fleet, on 20 August 2023 YYL imported a brand-new PNG cargo truck from Turkey at a contract amount of FRW 820 million including Value Added Tax of FRW 100 million, shipment costs of the truck from supplier to Magerwa, Kigali was FRW 40 million and the company paid import duties of FRW 12 million. The truck was put in use on 1 September 2023 and the input tax paid on acquisition was included in the VAT declaration submitted on 15 September 2023. All motor vehicles under company fleets are depreciated at 25% straight line. All transactions are paid through bank.

Evergreen shipment boat

YYL acquired a new shipment boat on 1 July 2023. The costs of the boat were FRW 26 billion with an estimated scrap value of FRW 4 billion. The boat has KGV electric engine which will require a replacement for every four years. Included in the boat's costs is the initial engine valued at FRW 6 billion. On acquisition date, it was estimated that the boat will have 20 years useful life. The acquisition was recorded but depreciation for the year was not yet recorded

Buildings

On 1 January 2023, YYL has a building used as its headquarters with the cost of FRW 920 million. This building had accumulated depreciation of FRW 320 million as at 1 January 2023. Due to significant change in the price of the assets, on 31 December 2023 the external property valuer expert reported that the fair value of the building was FRW 662 million.

In addition, YYL has regional offices in Kenya where the company owns a building acquired on 1 January 2021 at a cost of FRW 350 million. On 31 December 2023, the company decided to close the Kenya offices and classify the building as held for sell in accordance with IFRS 5

Non-current assets held for sale and discontinued operations. The fair value of this building on 31 December 2023 was FRW 215 million.

The building is depreciated on a reducing balance basis at 10% per annum.

Required:

- a) **Compute initial cost of acquisition for the PNG Cargo truck** (2 Marks)
 - b) **Journal entries to record new acquired PNG cargo truck** (1 Mark)
 - c) **Prepare disposal account for Motor vehicle** (2 Marks)
 - d) **Using calculations, show how the cost of engine will affect the measurement of boat** (2 Marks)
 - e) **Explain how the regional office building located in Kenya held for sell will be accounted for on 31 December 2023 as per IFRS 5** (2 Marks)
 - f) **Prepare, property, plant and equipment schedule to be included in the financial statements for the year ended 31 December 2023** (11 Marks)
- (Total: 20 Marks)**

QUESTION TWO

KIVU Ltd is a company that operates in **the Insurance industry** in Rwanda and is located in Rubavu. The Insurance company has two major policies which are Accident Insurance and Burglary Insurance.

The directors of KIVU Ltd have provided you with the following trial balance:

	FRW '000'	FRW '000'
Management expenses	3,939,930	
Bad debts written off	112,500	
Treasury bills	4,479,750	
Treasury bonds	256,185	
Deposits in banks	10,667,250	
Motor vehicle at net present value (1 st January, 2023)	22,500	
Equipment at net present value (1 st January, 2023)	324,315	
Ordinary share capital		2,700,000
Revaluation reserve		1,125,000
Retained earnings (1 st January, 2023)		675,000
Amount due to other insurers		90,000
Amount due from other insurers	156,150	
Bank overdraft		360,000
Investment income		1,620,000
Other income		395,190
Unearned premium reserves (1 st January, 2023):		
Accident		900,000
Burglary		2,250,000
Net earned premiums:		
Accident		3,142,530
Burglary		5,837,760

Net commissions paid		
Accident	77,985	
Burglary	156,105	
Net claims paid		
Accident	1,255,140	
Burglary	2,510,145	
Net claims outstanding (1 st January, 2023)		
Accident		1,620,810
Burglary		<u>3,241,665</u>
	<u>23,957,955</u>	<u>23,957,955</u>

Additional information

1. Depreciation of motor vehicles is 20% per annum and equipment 10% per annum. All assets are depreciated on a reducing balance basis.
2. Management expenses are to be allocated to accidents and burglary businesses on the basis of the net earned premiums, however an amount of FRW 450 million of the management expenses is to be charged to the profit or loss account for the year ended 31st December 2023
3. Provisions for unexpired risks as at 31st December 2023 are to be maintained at 50% and 80% of the respective net earned premiums for the accident and burglary business units respectively.
4. Net claims outstanding as at 31st December 2023 were FRW 2,025 million for accidents and FRW 3,555 million for Burglary.

Required:

- a) Prepare revenue account for the year ended 31st December 2023 (12 Marks)
 - b) Prepare statement of profit or loss for the year ended 31st December 2023 (8 Marks)
 - c) Prepare a statement of financial position as at 31st December 2023 (10 Marks)
- (Total: 30 Marks)**

QUESTION THREE

a) Rwanda Cement Ltd, a public limited company that operates in the manufacturing sector has investment in Brick Ltd, a company that produces bricks for construction of buildings. The separate statements of financial position as at 31 December 2022 are as follows:

	Rwanda Cement Ltd	Brick Ltd
	FRW	FRW
	Million	Million
Non-current assets		
Property, plant and equipment	2,550	2,520
Investment	1,650	
Financial assets	1270	120
	5,470	2,640
Current assets		
Bank and cash in hand	660	648
Inventory	120	100
Trade and Account receivable	1200	1320
Interest receivable	-	92
	1,980	2,160
Total assets	7,450	4,800
Equity		
Share capital of FRW 100 each	4,000	2,500
Retained earnings	1,140	830
Other reserves	125	80
Total equity	5,265	3,410
Non-current liability		
10% Loan note	1340	1040
	1340	1040
Current liability		
Trade and account payable	757	350
Interest payable	88	0
	845	350
Total equity and liability	7,450	4,800

Additional Information:

- On 31 December 2020, Rwanda Cement Ltd acquired 15 million of the ordinary shares of Brick Ltd for a cash consideration of FRW 110 per each ordinary share acquired when the fair value of Brick's identifiable net assets was FRW 2,720 million. Included in the net assets was retained earning valued at FRW 150 million and other reserves valued at FRW 30 million. The excess on fair value of net asset was plant which had a remaining useful life of 5 years from acquisition date.

2. On 1 January 2022, Brick Ltd issued 10% loan notes on public market of which Rwanda Cement Ltd acquired some of these loan notes which were valued at FRW 850 million and the remaining loan notes in the Brick Ltd are held by foreign investment bank. The loan issue and associated interest has been accounted for by both companies. However, the interest was not paid until after the year end and it was accounted for.
3. It is the group's policy to measure the non-controlling interests at acquisition at fair value and for the purpose of acquisition of Brick Ltd, the non-controlling interest was valued at FRW 1,100 million on the date of acquisition.
4. The goodwill in Brick has impaired by 40% as at 31 December 2022.
5. Brick Ltd has sold inventory to Rwanda Cement in October 2022 for cash. The sale price of the inventory was FRW 180 million and was sold at cost plus 20%. At the year end, half of the inventory sold to Rwanda Cement remained unsold.
6. In December 2021, Rwanda Cement agreed with its subsidiary to boost the production capacity of Bricks and the group's Board meeting resolved that Bricks Ltd shall buy a new clay-mixture machinery. This machine was imported by the parent company and transferred to the subsidiary on credit on 1 January 2022 at cost plus 10%, transfer value was FRW 280 million. The necessary transaction to account for this transaction was made and only FRW 160 million of the credit was cleared by Brick Ltd and balance was not yet paid until after year end. The machinery is depreciated at 20% per annum.

Required:

Prepare Consolidated statements of financial position of Rwanda Cement group as at 31 December 2022 (25 Marks)

b) Bwiza Apartment Ltd is a real estate company that develop residential houses in Kigali. On 30 June 2022, Bwiza Apartment acquired 30% of the ordinary shares of Century engineers Ltd for a cash consideration of FRW 210 million when the fair value of Century Engineers' identifiable net assets was FRW320 million. Part of the net assets included retained earnings valued at FRW 130 million. The profit for the year ended 31 December 2022 of Century Engineers Ltd was FRW 40 million.

As required by IAS 36 *Impairment of assets*, on 31 December 2022, the expert's assessment advised that the recoverable amount of the Century Engineers Ltd to be FRW 290 million.

Required

- i) **Using computation, Advise Bwiza Apartment on how the investment held in Century Engineers Ltd will be incorporated in the financial statements for the year ended 31 December 2022.** (3 Marks)
- ii) **Outline two conditions that may confirm if Bwiza Apartment Ltd exercises significant influence over Century Engineers Ltd.** (3 Marks)

SECTION B

QUESTION FOUR

On the 1 January 2024, TSINDA Ltd acquired the 80% of Cargo Logistic Ltd a company that operates transport business.

- a) On 1 February 2024, the Steam engine of one of the vehicles(coaches) caught fire, and completely destroyed the whole coaches and other three coaches that were parked in the same compound. Fortunately, no one was injured, but the coaches were beyond repair. Due to its age, a replacement could not be obtained. The management approved to sell all the coaches in the same class on 28 February 2024.

The Chief Finance Officer has suggested to account for these coaches as per IFRS 5 *Non-current assets held for sale and discontinued operations* but they were not sure if they met the conditions required by the accounting standards.

Required:

In reference to information provided, **explain five conditions that must be satisfied by TSINDA Ltd to account for the coaches approved for sell as per IFRS 5 non-current assets held for sale.** (5 Marks)

- b) The vehicles classified as held for sale had a carrying amount of FRW 340 million before the accident. After the fire incidence, the passenger capacity reduced and the estimated value in use of the vehicles after the accident was assessed at RWF150 million while the fair value less costs to sell was FRW 160 million.

Required:

- i. **Compute the impairment loss if any arising on the vehicles** (3 Marks)
- ii. **Explain in details the meaning of recoverable amount as per IAS 36 Impairment of assets** (2 Marks)
- c) Muhabura Ltd operates in the manufacturing industry in Rwanda. Below are extracts from its financial statements for the year ended 31 December 2024:

Statement of Financial Position (Extract)

Item	31 Dec 2024 (FRW)	31 Dec 2023 (FRW)
Non-current assets	120,000,000	100,000,000
Current assets	60,000,000	50,000,000
Total assets	180,000,000	150,000,000
Equity	90,000,000	70,000,000
Non-current liabilities	60,000,000	50,000,000
Current liabilities	30,000,000	30,000,000
Total equity and liabilities	180,000,000	150,000,000

Statement of Profit or Loss (Extract)

Item	2024 (FRW)	2023 (FRW)
Revenue	240,000,000	200,000,000
Cost of sales	160,000,000	140,000,000
Gross profit	80,000,000	60,000,000
Operating expenses	30,000,000	20,000,000
Profit before tax	50,000,000	40,000,000

Note that the opening and closing inventories were FRW 15,000,000 and FRW 20,000,000 respectively.

Required:

Using the financial information provided:

i) **Analyze the profitability and liquidity position of Muhabura Ltd for the year ended 31 December 2024, supporting your analysis with relevant ratios** (8 marks)

ii) **Based on your analysis in part (i), discuss one key area of improvement for Muhabura Ltd** (2 marks)

(Total: 20 Marks)

QUESTION FIVE

a) TSINDA Ltd had traded profitably until the accident occurred which damaged its reputation and the number of passengers reduced and their market share was shifted to the competitor who has acquired brand new electric buses. The emerging competitor and damaged reputation caused TSINDA Ltd to suffer continuous losses since March 2024 and resulted in a negative balance on the company's retained earnings for subsequent quarters up to June 2024.

The company failed to pay creditors and was unable to raise funds since the banks were not confident about the financial suitability and recovery of the company.

A voluntary liquidation for the company was called by the meeting of creditors and this was also approved by the annual general meeting that took place on 10 July 2024.

On 20 July 2024, the company appointed a liquidator to proceed with the company's operations until the liquidation process is completed.

The financial position of the company as of 21 July 2024 approved by liquidator and external auditor are as follows:

	Carrying amount	Fair/realization value approved by professional valuers
	21-Jul-24	21-Jul-24
	Million	Million
	FRW	FRW
Vehicle caught by Fire	340	160
Machinery and IT equipment	400	0
Building- UPI/No 001/400/1993	920	820
Other Motor vehicles	285	5 20
Inventory	100	25
Bank	80	80
Receivables	210	170
Total assets	2,335	1,775
Equity		
Equity share capital	910	910
Accumulated loss	(210)	0
Liabilities		
Bank loan	380	380
Unpaid interest	15	15
Creditors	620	620
Wages	150	150
Tax due	470	470
Total	2,335	2,545

Additional information

1. The company has not paid wages since February 2024 and this is taken as preferential creditors.
2. The tax authority took a decision to freeze the bank account balance amounting to FRW 80 million until the principal tax and tax penalties are paid. The penalties and interest on unpaid taxes was FRW 400 million and this was preferential debt
3. The loan is secured by a building with UPI/No 001/400/1993
4. The company agreed to pay professional fees of FRW 50 million to the liquidator and this was not included in the statement of financial position as at 21 July 2024.

Required:

- a) If the liabilities are to be paid in the order of their priority, **compute the amount that will be distributed to the owners of TSINDA Ltd after liquidation process.** (10 Marks)
- b) Under IPSAS 7 investment in associates, **explain five ways in which existence of significant influence is evidenced.** (5 Marks)
- c) The Government of Rwanda took the initiative to fully adopt the international public sector accounting standards. As a result, there was a shift from cash basis accounting to accruals basis accounting.

Required:

Explain any five benefits of full IPSAS Compliant by the Government of Rwanda

(5 Marks)

(Total: 20 Marks)

End of Question paper