CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 27, MAY 2025

MAKING GUIDE AND MODEL ANSWES

SECTION A

QUESTION 1

Marking guide

Description	Marks
a(i) Depreciation (machinery lease)	1
Finance cost (lease interest)	1
Lease expense (equipment)	1
Right-of-use asset (machinery)	1
Lease liability (due in 2024)	1
Lease liability (due after 2024)	1
Total	**6**
a(ii) Lease in short term	1
Low value assets	1
Award 1 mark for each Other exemptions. Max 2 marks	2
Total	**4**
b(i) Award 1 mark for each factor. One should be internal factor: Max 3 marks	**3**
b(ii) Total of opening balance	1
Total impairment	1
Award 0.5 marks on impairment of each asset. Max 1.5 marks	1.5
Award 0.5 marks on closing balance of each asset. Max 2.5 marks	2.5
Total closing	1
Total	**7**
Grand total	**20**

Model Answer

a)

i) Corrected Financial Statement Extracts for Hyper Mart Limited (Year Ended 31 Dec 2023)

1. Machinery Lease (Finance Lease)

Lease commencement (1 Jan 2023):

- Present Value (PV) of lease liability = **Frw 34,000,000**
- **First payment (made on 1 Jan 2023) = Frw 9,000,000**
  - Since payment is made **immediately**, the lease liability is reduced **before** interest accrues:

34,000,000−9,000,000= Frw25,000,000(Outstanding liability after payment)

Interest for 2023 (10% × Outstanding Liability):25,000,000×10%= Frw2,500,000

- Added to the liability:

25,000,000+2,500,000= Frw27,500,000(Liability at 31 Dec 2023)

Current vs. Non-Current Breakdown (31 Dec 2023):

- **Next payment (1 Jan 2024):** Frw 9,000,000
  - **Interest portion (2024):** 27,500,000×10%= Frw 2,750,000
  - **Principal repayment (current liability):** 9,000,000−2,750,000= Frw 6,250,000
  - **Non-current portion:** 27,500,000−6,250,000= Frw 21,250,000

Right-of-Use Asset Depreciation (Straight-Line, 5 Years):

34,000,000/5= Frw6,800,000(Annual depreciation)

2. Equipment Lease (Operating Lease, 1-Year Term)

- **Lease payment (1 Apr 2023):** Frw 1,800,000
- **Expense for 2023 (9 months):** 1,800,000×9/12=1,350,000

EXTRACT INCOME STATEMENT

Expense	**Amount (Frw)**
Depreciation (machinery lease)	6,800,000
Finance cost (lease interest)	2,500,000
Lease expense (equipment)	1,350,000

EXTRACT STATEMENT OF FINANCIAL POSITION

Items	**Amount (Frw)**
Non-current assets	
Right-of-use asset (machinery)	27,200,000
Current liabilities	
Lease liability (due in 2024)	6,250,000
Non-current liabilities	
Lease liability (due after 2024)	21,250,000

ii) IFRS 16 allows certain assets to be exempt from recognition treatment for right of use asset. **This is when a lease is short term with a duration of 12 months or less at the inception** of the lease or where the **lease is for a low value asset**. An asset to be classified as low value is not based on amount but specific examples are given by the standard as including tablets, small personal computers and small items of furniture. In this case, the lessee can choose to recognize the lease payments in the statement of profit or loss on a straight line basis and no lease liability or right of use asset will be recognized.

Other exemption:

- Leases to explore for or use minerals, oil, natural gas and similar nonregenerative resources;
- Leases of biological assets within the scope of IAS 41 Agriculture held by a lessee;
- Service concession arrangements within the scope of IFRIC 12 Service Concession Arrangements
- Licences of intellectual property granted by a lessor within the scope of IFRS 15 Revenue from Contracts with Customers; and
- Rights held by a lessee under licensing agreements within the scope of IAS 38 Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
  A lessee may, but is not required to, apply this Standard to leases of intangible asset

b) i) **Indicators of impairment**

External factors

- The asset's market value declining more than expected
- Changes in technology, market conditions or economic and legal conditions that affect the entity
- Increase in interest rates which lead to an increase in the discount rate that was used to calculate the value in use of the asset

Internal factors

- Evidence of an asset becoming obsolete or damaged
- Changes in the way the asset is used indicating less efficiency in terms of economic performance of the asset
- Loss of key employee
- Operating losses or net cash outflows for the asset

ii) The carrying amount of the cash generating unit = Frw 3,269,300,000

Recoverable amount = Frw 3,000,000,000

This means impairment = Frw 269,300,000

The impairment is to be allocated to the assets in the cash generating unit as follows:

	Opening carrying amount	Impairment	Closing carrying amount
Goodwill	7,000,000	(7,000,000)	-
Plant and machinery	950,000,000	(260,109,603)	689,890,397
Building	2,300,000,000	-	2,300,000,000
Intangible assets	8,000,000	(2,190,396)	5,809,604
Other net assets	4,300,000	-	4,300,000
Total	3,269,300,000	(269,300,000)	3,000,000,000

QUESTION 2

Marking guide

Description	**Marks**
a)	
Award 0.5 marks for each posting in Cash frow except the one with working. Max 5.5 marks	5.5
Award 0.5 marks for each total. Max 3 marks	3
Award 0.5 marks for each figure total in W1. Max 3 marks	3
Award 0.5 marks for each figure total in W2. Max 1.5 marks	1.5
Award 0.5 marks for each figure total in W3. Max 2 marks	2
Award 0.5 marks for each figure total in W4. Max 2 marks	2
Award 0.5 marks for each figure total in W5. Max 1.5 marks	1.5
Award 0.5 marks for each figure total in W6. Max 4 marks	4
Award 0.5 marks for each figure total in W7. Max 2.5 marks	2.5
Total	**25**
B	
Clear explanation of Retrospective application	2
Clear explanation of Retrospective restatement	2
Effects on opening balances	1
Total	**5**
Grand total	**30**

Model Answer

Description		31-Dec-24 Frw'000
Cash generated from operations		
Profit/ Loss of the period		(1,564,122)
Adjustments for:		
Depreciation of property, plant and equipment		2,716,665
Depreciation on Intangible & other assets		2,500
Finance cost		914,011
Increase in provision		(4,191)
Loss on disposal		84,266
Change in working Capital		
Trade and other receivables		421,735
Trade and other payables	W4	856,757
Inventory		(92,686)
Cash generated from operations		**3,334,937**
Tax paid	W5	(24,449)
Interest paid	W3	(697,675)
Net cash from operating activities		**2,612,814**
Cash flows from investing activities		
Purchase of PPE	W1	(7,611,659)
Proceeds on disposal of PPE	W2	132,200
Net cash (used in)/from investing activities		**(7,479,459)**
Cash flows from financing activities		
Dividend paid		(73,786)
New loan (both long and short term)	W6	5,775,825
Repayment of shareholders loan		(270,387)
Net cash from financing activities		**5,431,653**
Increase/(Decrease) in cash and cash equivalents		**565,007**
Cash and cash equivalents		298,486
Cash and cash equivalents at December		**863,493**

Workings

W1-Property, plant and equipment

PPE (FRW)			
Bal b/d	4,260,141	Depreciation	2,716,665
Revaluation surplus	3,764,000	Bal c/d	12,919,134
Addition	7,611,659		
	15,635,799		**15,635,799**

W2-Proceed on sale

	FRW
Net book value of disposed assets	216,466
Loss on disposal	(84,266)
Cash received on disposed	**132,200**

W3-Interest Paid

	FRW
Opening balance	38,173
Interest expense for year	914,011
Bal c/d	(254,509)
Interest paid in 2024	697,675

W4: Trade and other payable

Account Payable balance c/d	2,166,450
Opening account payable	(1,066,123)
Less final dividend-Non adjusting events per IAS 10	(243,570)
Increase in trade and other payable	**856,757**

W5: Tax paid

Opening tax payable	268,018
Tax credit	(243,570)
Tax paid	**24,449**

W6

Loan repayment

	31-Dec-24	Amount repaid/Received (Balancing figure)	31-Dec-23
	FRW		FRW
Long term loan	887,247	887,247	-
Short term loan	5,056,143	4,888,578	167,564
	5,943,390	**5,775,825**	**167,564**

W7: Retained earning

Opening retained earning	1,518,728
Loss for year	(1,564,122)
Dividend	(73,786)
Final dividend	(243,570)
	(362,750)

The final dividend approved after year end are non-adjusting events and this should be added back to retained earnings as part of post-audit adjustments before financial statements are signed by board of directors.

b) IPSAS 3, Accounting Policies, Changes in Estimates and Errors explain the following terms as

(i) **Retrospective application** is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

(ii) **Retrospective restatement** is correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

(iii)Effects on opening balances when there is change in counting policy and applied retrospectively

IPSA 3 requires that when a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

QUESTION THREE

Marking guide

Description	**Marks**
A) Award 0.5 mark for each transaction in the consolidated profit or loss Award 1 Mark for computed profit attributable to parent Award 0.5 mark for well shown profit attributable to NCI in the face of P/L	12
Computed percentage of acquisition one (1)	1
Pre-acquisition profit attracts one (1) mark	1
Award 0.5 Mark for computation of fair value adjustments	0.5
Award one mark for computed deprecation one (1) FV adjustment	1
Award 4.5 mark for computation of non-controlling interest for year 2024	4.5
DNA-Do not award marks on totals and sub-totals	**20**
b) Award marks on goodwill computation as follows	**5**

Goodwill			
Fair value of consideration	1		
Fair value of non-controlling interest	1		
Share capital	0.5		
Retained earnings	0.5		
Fair value adjustment	1		
Impairment	1		
c) Award 1 mark for correct point mentioned that may justify non consolidation of subsidiary			**5**
			30

Model Answer

A) Goodwill computation

Goodwill		**FRW"000"**
Fair value of consideration		18,000,000
Fair value of non-controlling interest 12,000*2,000*25%		6,000,000
		24,000,000
Net Asset		
Share capital	20,000,000	
Retained earnings	1,583,142	
Fair value adjustment	916,858.33	
		22,500,000
Good will at acquisition		1,500,000
Impairment		(150,000)
Goodwill balance		**1,350,000**

B) Elon Holding Ltd consolidated statement of profit or loss for the year ended 31 DECEMBER 2024

		FRW"000"
Revenue	10,689,931+4,316,860*5/12-200,000	12,288,623
Direct costs	8,838,678+2,759,666*5/12-200,000+20,000-38,202	9,770,337
Gross Profit		**2,518,286**
Other income	8787+96,800*5/12-23,500	25,620
Expenses		
Administration costs	69,152+662,501*5/12-23,500+321,300	642,994
Distribution costs	380,809+194,327*5/12	461,779
Impairment	150,000	150,000

Operating profit/(loss)			**1,289,134**
Finance costs	1,235+36,261*5/12		16,344
Profit/(loss) before tax			1,234,588
Tax expense/credit	394,476+158,846*5/12		460,662
Profit for the year			**812,128**
Profit attributable to			
Non-controlling interest			**4,789**
Parent		**812,128-4,789**	**807,339**

Workings

W1

Percentage acquired

Share capital of the Bill	FRW"000"	20,000,000
Share capital acquired	FRW"000"	15,000,000
% Acquired		75%

W2

Share capital acquired	FRW"000"	15,000,000
Par Value of share		10,000
No of shares acquired		1,500
Cash paid on acquisition FRW 12,000*1,500		18,000,000

W3		**FRW"000"**
Profit at reporting date		1,834,000
Less profit from 1 Aug to 31 Dec	**602,060*5/12**	(250,858)
Pre-acquisition profit		1,583,142

W4

Fair value of net assets	22,500,000
Book value of net assets at acquisition	21,583,142
Fair value adjustment	916,858

W5

Unrealized profit

Good sold	200,000
Portion kept in stock by year end 1/4	50,000
Unrealized profit on these goods 50,000*40%	20,000

W6

Depreciation of Fair value adjustment		
Fair value adjustment		916,858
Depreciation policy-10 years since acquisition, straight line	916,858/10*5/12	38,202

W7

Non-controlling interest for the year		**NCI 25% FRW"000"**
Profit after tax	602,060*5/12*25%	62,715
Impairment	150,000*25%	(37,500)
Unrealized profit	20,000*25%	(5,000)
Depreciation on fair value adjustment	38,202*25%	(9,551)
Management fees	23,500*25%	(5,875)
Total		4,789

C)

Based on IFRS 10: Par.4) A parent need not present consolidated financial statements if it meets all the following conditions:

(i) It is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(ii) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(iii) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(iv) Its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS.

(v) A parent that is an investment entity shall not present consolidated financial statements

SECTION B

QUESTION FOUR

Marking guide

	Marks
Q5)a)	
Award 1 mark for well-stated and 1 mark for explanation of difference between IAS 1 and IPSAS 1-Maximum 10 marks	**10**
Q5)b)	
Award 0.5 mark for each budget performance except for categories that require adjustment For budget categories that require adjustment award 1 mark for each	**10**
Total	**20**

Model Answer

(a) Differences between IAS 1 and IPSA 1 Presentation of financial statements

- ✓ IPSAS 1 is applicable to public entities other than government business enterprises that uses IFRSs while IAS 1 is applied to private entities including government business enterprises presenting general purpose financial statements in accordance with International Financial Reporting Standards (IFRSs).
- ✓ IAS 1 allows the presentation of either a statement showing all changes in net assets/ equity, or a statement showing changes in net assets/equity, other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- ✓ IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms "statement of financial performance," and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are "income statement," and "equity".
- ✓ IPSAS 1 does not use the term "income," which in IAS 1 has a broader meaning than the term "revenue."
- ✓ IAS 1 requires to show profit or loss and computing the income tax expense arising thereon while IPSAS 1 income tax expense is not compulsory for public sector except government business enterprises.

(b) Budget Performance report of IPAD international for the period ended 31 March 2023

Activity	BUDGET CATEGORIES	Budget for the period	Actual cash payment	Adjustments	Total Actual expense	Difference / Variance	Performance in %
		FRW'000	**FRW'000**	**FRW'000**	**FRW'000**	**FRW'000**	**FRW'000**
		A	**B**	**C**	**D=B+C**	**E=A-D**	**D/A*100**
		Expense per activity based on budget categories					
Activity 1	Staff Cost	43,000	53,264	22,000	75,264	(32,264.00)	175%
	Training, workshops, and conference	10,752	8,064		8,064	2,688.00	75%
	Travel costs	40,101	30,308	7,419	37,727	2,373.67	94%
Subtotal-Activity 1		**93,853**	**91,636**		**121,055**	(27,202.33)	129%
Activity 2	Staff Cost	110,664	90,498	5,230	95,728	14,936.00	87%
	Training, workshops, and conference	33,821	55,366	34,100	89,466	(55,644.67)	265%
	Travel costs	25,765	21,574		21,574	4,191.33	84%
	Social assistance	29,443	37,082		37,082	(7,639.33)	126%
	Grants to selected beneficiaries' projects	15,200	33,900		33,900	(18,700.00)	223%
	Professional/ Contractual Services	22,955	19,466		19,466	3,488.67	85%
Subtotal-Activity 2		**237,848**	**257,886**		**297,216**	(59,368.00)	125%
Activity 3	Professional/ Contractual Services	65,581	46,936		46,936	18,645.33	72%
	Training, workshops, and conference	4,848	3,186		3,186	1,662.00	66%
	Travel costs	9,924	7,218	12,400	19,618	(9,694.00)	198%
	Staff Cost	1,035	776	2,350	3,126	(2,091)	302%
	Grants to selected beneficiaries' projects	78,333	55,000		55,000	23.333	7%
Subtotal-Activity 3		**159,721**	**113,116**		**127,866**	31,855.33	80%

QUESTION FIVE

Marking guide

Description	**Marks**
a(i) Balance at start of year	1
New issue at full market price in April	1
Bonus issue (1 for 5) August	1
New issue at full market price in October	1
Weighted average number of shares	1
Total	**5**
a(ii) Formula	1
Calculation of basic earnings per share	1
Total	**2**
b(i)	
Award 0.5 marks for each cash flow. Max 1.5 marks	1.5
Award 0.5 marks for each pv. Max 1.5 marks	1.5
Debt component	0.5
Equity component	0.5
Total equity and debt	0.5
Double entry	0.5
Total	**5**
b(ii)	
Award 0.5 marks for each interest. Max 1.5 marks	1.5
Award 0.5 marks for cash paid 2.2%. Max 0.5 marks	0.5
Award 0.5 marks on each closing balance. Max 1.5 marks	1.5
Award 0.5 marks on each post in profit or loss account. Max 1.5 marks	1.5
Award 0.5 marks on each post in statement of financial position. Max 3 marks	3
Total	**8**
Grand total	**20**

Model Answer

a) i) Average number of shares

	no. of shares	Bonus fraction	Fraction of year	Total
Balance at start of year	1,000,000	5-Jun	3 months (3/12)	300,000
New issue at full market price in April	200,000			
	1,200,000	6 /5	4 months (4/12)	480,000
Bonus issue (1 for 5) August	240,000			
	1,440,000		2 months (2/12)	240,000
New issue at full market price in October	300,000			
	1,740,000		3 months (3/12)	435,000
Weighted average number of shares				**1,455,000**

ii) The basic earnings per share = Profit attributable to ordinary shareholders/weighted number of ordinary shares =220,000,000/1,455,000 =Frw 151 per share

b) i)

Compound financial instruments must be split between the equity element of the instrument and the debt element so that they are accounted for separately.

Year	Cash flow	Discount factor	Present value
1	720,000	0.92	662,400
2	720,000	0.84	604,800
3	36,720,000	0.77	28,274,400
	Total debt component		29,541,600
	Equity component (β)		6,458,400
	Total value of instrument		36,000,000

In year 1 the instrument will be accounted for as:

DR: Bank	Frw 36,000,000
CR: Financial liability	Frw 29,541,600
CR: Equity	Frw 6,458,400

ii)

From year 1 to 3 the bond will be accounted for as follows:

Year	Opening balance	Interest (9.1%)	Cash paid (2%)	Closing Balance
1	29,541,600	2,688,286	-720,000	31,509,886
2	31,509,886	2,867,400	-720,000	33,657,285
3	33,657,285	3,062,813	-720,000	36,000,098

Statement of Profit or loss			
	Year 1	Year 2	Year 3
Finance cost	2,688,286	2,867,400	3,062,813

Statement of financial position			
Equity	6,458,400	6,458,400	6,458,400
Non-current liabilities	31,509,886	31,509,886	33,657,285
Current liabilities		2,147,399	2,342,813

End of Marking Guide and Model Answer