CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.3: ADVANCED FINANCIAL REPORTING

MODEL ANSWER AND MARKING GUIDE

DATE: MONDAY 24, AUGUST 2026

SECTION A

MARKING GUIDE

	Marks
Part (a): Related party disclosures under IAS 24 (5 marks)	
(i) Why disclosure is required even though the fee charged was below the amount that would be charged to an unrelated party - 1 mark per reason applied to the scenario, max 2 marks	2
(ii) THREE disclosures required in UCB's separate financial statements - 1 mark each, max 2 marks; plus 1 mark for explaining that IAS 24.4 exempts intra-group transactions from disclosure in the consolidated financial statements because they are eliminated on consolidation	3
Parts (b) to (d): Preparation of the UCB consolidated financial statements	
Generally, award 0.5 marks per correct monetary figure used in the answer (including figures picked from the separate financial statements and used correctly in the consolidated financial statements and/or workings) except for **(i.e., Do Not Award**):	
- Totals (including sub-totals)	
- Figures used in a double-entry presentation (if not recognised directly in the correct line-item within the consolidated financial statements). However, the figures used in a double entry are only marked if they have been correctly posted in the consolidated financial statements (and in this case, only mark these figures once either in the double entry presentation or in the posted line items on the consolidated financial statements)	
- Any narratives whether correctly referencing to the double entry presentations or explanations justifying any accounting treatment (the question here is asking for the preparation of consolidated financial statements NOT explanations / justifications)	
Specific marks to be awarded (awarded as 0.5 marks for each correct figure used) include:	
Part (b): Goodwill and consolidated retained earnings (8 marks) - accepted either as separate workings or on the face of the relevant line item	
(i) Goodwill in IML at acquisition and at the reporting date (W1)	2.5
- Follow-up calculation of the finance cost at reporting date - remeasurement of the deferred consideration (acquisition of IML)	0.5
(ii) Consolidated retained earnings at 31 December 2025 (W3) - 0.5 marks per correct figure, max 5 marks	5

Part (c): Consolidated statement of profit or loss and other comprehensive income (16 marks), including the workings that support it	
Operating income	1.5
Direct operating expenses (including the IML accrual and its elimination)	1
Other operating income	1.5
Other operating expenses	1
Credit impairment losses	1
Profit share from ZIC (an associate)	0.5
General and administration expenses	1.5
Other finance costs	1.5
Income tax expense	1
- Calculation of "profit share from ZIC (an associate) for year ended 31 Dec 2025 - 0.5 marks for each correct figure used up to a max of 1.5 marks	1.5
- Follow-up calculation for the extra depreciation re FV increase of PPE in IML	0.5
- NCI in the profit or loss and in the total comprehensive income for the year (W2) - 0.5 marks per correct figure, max 1.5 marks	1.5
Fair value gain / (loss) on financial investments carried at FVTOCI	1
Profit for the year or TCI for the year attributed to parent shareholders (marked once - with a maximum of 0.5 marks) - This mark is not necessary for a correct figure but for applying the principle of a "presentation of this amount at the bottom of this group financial statement" and as a "balance figure computation"	0.5
Profit for the year or TCI for the year attributed to NCIs (marked once - with a maximum of 0.5 marks) - This mark is not necessary for a correct figure but for applying the principle of a "presentation of this amount at the bottom of this group financial statement" and picked from a separate working or working directly applied on the face of the Group P&L and OCI	0.5
Part (d): Consolidated statement of financial position (21 marks), including the workings that support it	
Property, plant and equipment	2
Goodwill	0.5
Other intangible assets	1
Loans and advances to customers	0.5
Investment in ZIC (an associate)	0.5
Other Investments	1.5
Derivative financial assets	1
Short-term receivables and prepayments	1.5
Cash and deposits held in other financial institutions	1
- Calculation of "investment in associate (ZIC)" at 31 Dec 2025	0.5
- Consolidated other reserves - 0.5 marks for each correct figure used up to a max of 1.5 marks	1.5

- NCI in equity at 31 December 2025 (W2) - 0.5 marks per correct figure, max 1.5 marks	1.5
Share capital	0.5
Retained earnings	0.5
Other reserves	0.5
Non-controlling interests	0.5
Long-term borrowings	1
Deferred tax liabilities	1.5
Deposits from customers	1
Current income tax	1
Deferred consideration	0.5
Other current liabilities	1
Total marks for Question One	**50**

MODEL ANSWER: QUESTION ONE (UCB GROUP)

Part (a) Related party guidance and application to UCB's financial statements

(i) Reasons why UCB should disclose the management fees charged to IML as a related party transaction in its financial statements

A related party relationship involving UCB and IML as a subsidiary could have an effect on the financial position and operating results of UCB for the following reasons:

- As a related party to UCB, its subsidiary IML may have engaged in a transaction(s) that unrelated parties would not be able to engage with UCB for the "other services" from which UCB has charged fees to IML.
- A transaction(s) between UCB and IML (as its subsidiary) may be on different terms (e.g., significantly discounted fees) from transactions with unrelated parties.
- The mere existence of the relationship between UCB and IML (where UCB controls IML as its subsidiary) may be sufficient to affect the transactions between the two companies. For example, after being acquired by UCB (i.e., on 1 January 2025 or after), IML may have terminated business relations with another entity such as having closed its bank account(s) held in another commercial bank(s) due to an instruction from UCB to IML to close business relationships with the commercial bank(s) which are direct competitors with UCB.

(ii) **The nature of disclosures required for the above transactions in the financial statements of UCB**

Transaction: UCB's acquisition of IML on 1 January 2025 (UCB gaining control over IML)

- **Accounting requirement**: IAS 24 requires UCB to disclose the fact that it controls the operating and financial policies of IML through its investment in or ownership over IML where UCB holding 75% voting ordinary share capital is the major shareholder in IML.
- **Nature of the disclosure required**: UCB is required to disclose in its separate financial statements, the monetary value of the transaction (FRW 20,000 million), terms of transaction (deferred consideration payable on 1 January 2026) and any outstanding balance (the full amount of FRW 20,000 million) and such a disclosure is required regardless of whether it is on normal market terms.

Transaction: UCB's management fees charged to IML (an intra-group trading between UCB and its subsidiary)

- **Accounting requirement**: IAS 24 requires UCB to disclose the management fees charged to IML (its subsidiary) as a related party transaction including the nature of and monetary value of the transaction and the related terms of the transaction.
- **Nature of disclosure required**: UCB will have to disclose the management fees charged to IML as*:*
    - an intra-group transaction (which is a transaction involving a management fee charged to IML a subsidiary that UCB controls);
    - the total monetary value of the intra group transaction in the year amounting to FRW 800 million regardless of whether this is less than the normal market value of FRW 1,700 million;
    - the favorable terms of such transaction for example the significant reduction of the fee charge from FRW 1,700 million to FRW 800 million and a possibility that the amount being deferred to be settled in the following year may not have been the same terms for a non-related customer who may have been required to have settled the fees before a stipulated timeframe.

(b)

Workings (all in FRW millions)

i) W1: Goodwill - acquisition of IML

Purchase consideration - at present value {20,000 / (1 + 10%) ^1}	18,182	*CR Deferred consideration (current liabilities)*
Plus: Fair value of NCIs	4,000	*CR NCIs (Equity)*
Less: Fair value of identifiable net assets per Note 1 (before deferred tax)	-19,605	*DR PPE (FV uplift of FRW 5,000m)*

Add back: Deferred tax liability on the fair value uplift (FRW 5,000m x 30%), giving identifiable net assets of FRW 18,105m	1,500	*CR Deferred tax liability*
Goodwill on acquisition (1 Jan 2025)	**4,077**	
Less: Impairment loss of Goodwill at 31 Dec 2025	- 520	*DR P&L (Admin. expense) - 25% to NCIs*
Goodwill balance at 31 Dec 2025	**3,557**	

Finance cost - deferred consideration (year to 31 Dec 2025):
10% x FRW 18,182m 1,818

DR P&L Other Finance costs 1,818

CR Deferred consideration (current liabilities) 1,818

Note: Finance cost is NOT allocated to NCIs as this is a finance cost incurred by UCB (parent)since this is the parent's deferred consideration liability

Fair value increase - IML Building

Accounting treatment - on 1 Jan 2025

DR PPE	5,000	
CR Net assets acquired (goodwill working W1)		5,000

Extra depreciation at 31 Dec 2025 (Fair value adjustment - building of IML): FRW 5,000 / 10 years (Note 1) = FRW 500m

Accounting treatment

DR P&L Administration costs	500	
CR PPE		500

Note: Allocate 25% to the NCIs (in W2)

Deferred tax liability - related to FV uplift in IML's building

Computed: 30% tax rate x FRW 5,000m = FRW 1,500m

Accounting treatment

DR Net assets acquired (goodwill working W1) 1,500

CR Deferred tax liability (non-current liabilities)		1,500

Impairment loss on Goodwill in IML (at 31 Dec 2025)

Accounting treatment

DR P&L Administration costs	520	
CR Goodwill		520

Note: Allocate 25% to the NCIs (in W2)

ii. W2: Consolidated retained earnings

	UCB (parent)	**IML (subsidiary - 75%)**
	100%	**75%**
Given in question (before consolidation adjustments)	18,891	10,974
Less: Pre-acquisition retained earnings at 1 Jan 2025 (Note 1)		(8,123)
Less: Extra depreciation (FV uplift on IML's building) W1		(500)
Less: Impairment loss on Goodwill in IML (W1 / Note 3)		(520)
Finance cost - deferred consideration (year to 31 Dec 2025): 10% x FRW 18,182m (W1)	(1,818)	
Plus: Share of post-acquisition retained earnings in ZIC {30% x (11,252 - 1,800)} - W5	2,836	
Less: Management fee payable to UCB not recorded by IML (Note 5)		(800)
Sub totals	**19,909**	**1,031**
Group share of adjusted retained earnings in IML (75% x FRW 1,031m)	773	
Total - consolidated retained earnings at 31 Dec 2025	**20,682**	

W3: Non-controlling interests (25% holding in IML)

NCIs in P&L and OCI

	Profit for the year	**TCI**
Given in question (before consolidation adjustments)	2,851	2,293
Less: Extra depreciation (FV uplift on IML's building) W1	(500)	(500)

Less: Impairment loss on Goodwill in IML (W1 / Note 3)	(520)	(520)
Less: Management fee payable to UCB not recorded by IML (Note 5)	(800)	(800)
Totals	**1,031**	**473**
NCI's share (25%)	**258**	**118**

NCIs (in Group equity)

FV of NCIs on acquisition (in Goodwill / Note 1)	4,000
Plus: NCIs share of total comprehensive income (see above)	118
NCI at 31 Dec 2025	**4,118**

W4: Consolidated Other reserves at 31 Dec 2025

	UCB (parent)	**IML (subsidiary - 75%)**
	100%	**75%**
Given in question (before consolidation adjustments)	6,520	2,362
Less: Pre-acquisition other reserves at 1 Jan 2025 (Note 1)		(2,920)
Sub totals	**6,520**	**(558)**
Group share of adjusted other reserves in IML (75%)	(419)	
Total - consolidated other reserves at 31 Dec 2025	**6,102**	

W5: Investment in ZIC (an associate)

In the profit or loss - year ended 31 Dec 2025

Profit share from Associate (30% x FRW 3,589m "ZIC's profit for the year")	1,077

Investment in Associate at 31 Dec 2025

Initial cost of investment	12,000
Plus: Share of post-acquisition retained earnings in ZIC {30% x (11,252 - 1,800)}	2,836
	14,836

Note: No further deduction is made for the FRW 600 million dividend received. ZIC's closing retained earnings of FRW 11,252 million are already stated after payment of the FRW 2,000 million dividend, so the share of post-acquisition retained earnings of FRW 2,836 million is itself net of the distribution. Deducting the dividend a second time would understate both the investment in the associate and consolidated retained earnings. Candidates who instead compute 30% x (11,252 + 2,000 – 1,800) = FRW 3,436 million and then deduct the FRW 600 million dividend arrive at the same figure and should be given full credit.

Part (c): Consolidated statement of profit or loss and other comprehensive income

UCB's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2025 (in FRW millions)

Operating income (21,853 + 17,247 - 800 mgt fees charged to IML in Note 5)	38,300
Direct operating expenses (3,618 + 4,335 + 800 fee accrued by IML – 800 intra-group elimination)	(7,953)
Other operating income (4,642 + 2,691 - 600 dividends received from ZIC W5)	6,733
Other operating expenses (2,031 + 1,514)	(3,545)
Operating profit / (loss)	**33,535**
Credit impairment losses (12,261 + 9,254)	(21,515)
Profit share from ZIC (an associate - W5)	1,077
Net operating income	**13,097**
General and administration expenses (1,067 + 923 + 520 Impairment loss Goodwill W1 + 500 extra depreciation W1)	(3,010)
Other finance costs (1,500 + 478 + 1,818 finance cost on deferred consideration W1)	(3,796)
Profit before income tax	**6,291**
Income tax expense (1,171 + 583)	(1,754)
Profit / (loss) for the year	**4,537**
Other comprehensive items:	
Fair value gain / (loss) on financial investments carried at FVTOCI (3,194 - 558)	2,636
Total comprehensive income	**7,173**
Profit / (loss) attributable to:	
Owners of the parent company	4,279
Non-controlling interest (W2)	258
Profit / (loss) for the year	**4,537**
Total comprehensive income attributable to:	
Owners of the parent company	7,055
Non-controlling interest (W2)	118
Total comprehensive income	**7,173**

Note: IML must first accrue the FRW 800m management fee (Note 5) as an expense of the year; the intra-group income and expense are then eliminated in full, so there is no net effect on group profit. The expense does, however, reduce IML's profit and therefore the NCI share (W2).

Part (d): Consolidated statement of financial position

UCB's consolidated statement of financial position as at 31 December 2025 (in FRW millions)

Assets	
Non-current assets	
Property, plant and equipment (32,138 + 18,610 + 5,000 FV increase in IML Note 1 - 500 extra depreciation W1)	55,248
Goodwill (W1)	3,557
Other intangible assets (19,168 + 18,646)	37,814
Loans and advances to customers (91,236 + 87,380)	178,616
Investment in ZIC (an associate - W5)	14,836
Other Investments (51,982 + 50,542 - 12,000 Investment in ZIC at cost in Note 4)	90,524
Total non-current assets	**380,595**
Current assets	
Derivative financial assets (7,337 + 2790)	10,127
Short-term receivables and prepayments (2,949 + 1,088 - 800 mgt fees charged to IML in Note 5)	3,237
Cash and deposits held in other financial institutions (44,609 + 29,253)	73,862
Total current assets	**87,226**
Total assets	**467,821**
Equity and Liabilities	
Equity:	
Share capital	17,275
Retained earnings (W3)	20,682
Other reserves (W4)	6,102
Non-controlling interests (W2)	4,118
Total Equity	**48,177**
Non-current liabilities	
Long-term borrowings (82,533 + 72,700)	155,233
Deferred tax liabilities (5,458 + 5,090 + 1,500 W1)	12,048
Total non-current liabilities	**167,281**
Current Liabilities	
Deposits from customers (101,387 + 95,228)	196,615
Current income tax (619 + 536)	1,155
Deferred consideration (W1 / Note 1) (18,182 + 1,818)	20,000
Other current liabilities (16,736 + 17,857 + 800 fee accrued by IML – 800 intra-group elimination)	34,593
Total Current Liabilities	**252,363**
Total Equity and Liabilities	**467,821**

SECTION B

QUESTION TWO

MARKING GUIDE

	Marks
Generally, award 0.5 marks per correct monetary figure used in the answer except for **(i.e., Do Not Award**):	
- Totals (including sub-totals)	
- Any figure picked from the trial balance (whether correctly used in the answers)	
- Figures used in a double-entry presentation (if not recognised directly in the correct line-item within the consolidated financial statements)	
Specific marks to be awarded (awarded as 0.5 marks for each correct figure used) include:	
Presentation on the FACE of the Statement of Profit or Loss and Other Comprehensive Income	
Cost of Sales	
Cost of sales: the total provision for the special one-year warranty (440)	0.5
Adjustment for administration costs - correct presented figure for:	
Depreciation of the building for the year, using the revalued amount (800)	0.5
Depreciation of the plant and machinery for the year, on the reducing balance basis (525)	0.5
The impairment loss on the assets of the Musanze sales depot as a cash-generating unit (500)	0.5
Restructuring expense, being the compensation for terminated contracts only and excluding the relocation costs (900)	0.5
Income tax expense, after releasing the deferred tax on the realised revaluation surplus (200 - 24 = 176)	0.5
Revaluation surplus / gain on L&B in the OCI section	
Correct presentation in other comprehensive income of the revaluation gain of 1,000 and the related deferred tax of 300 (or the net figure of 700): 0.5 marks per correct figure, maximum 1 mark	1
Presentation of the Statement of financial position	
Adjustment on PPE: presentation of the correct figure for:	
Land & building after all adjustments (as picked from the working similar to W1 in the model answer for L&B)	0.5
Plant & machinery after all adjustments (as picked from the working similar to W1 in the model answer for P&M)	0.5
Impairment loss allocation to the PPE in Musanze sales depot (as picked from the working similar to W2 in the model answer for impairment loss allocation in a CGU)	0.5

Adjustment on intangible assets for:	
Correct presentation of the impairment loss allocation to the intangible assets in Musanze sales depot (as picked from the working similar to W2 in the model answer for impairment loss allocation in a CGU)	0.5
Adjustment on revaluation reserves for:	
Revaluation reserve: the transfer of the realised surplus on the building only, net of deferred tax (56), giving a closing reserve of 644. No further mark is given for the net-of-tax revaluation gain itself, which is already rewarded in the OCI section	0.5
Adjustment on retained earnings for:	
Retained earnings: the transfer of the realised surplus on the building only, net of deferred tax (56). No further mark is given for the profit for the year taken from the statement of profit or loss	0.5
Adjustment on deferred tax liability for:	
Deferred tax liability after the revaluation and the release of 24 on the realised surplus (800 + 300 - 24 = 1,076)	0.5
Provision for the liability	
Correct presentation for the figures supporting the provision for the liability (award 0.5 marks for each of the correct figures presented including the "restructuring program provision" and "provision for the special 1-year warranty") - to a maximum of 1 mark	1
Figures used in the Workings (or alternatively were applied on the face of the financial statements) and should NOT include figures directly picked from the trial balance (even where such figures are correctly used in the working) - these include:	
Land and buildings: 0.5 marks per correct figure, including the split of cost between land and buildings, the carrying amounts before and after revaluation, the revaluation surplus and its split, the deferred tax of 300, the depreciation charge of 800, the excess depreciation of 80, the deferred tax released of 24 and the net transfer of 56 - maximum 5 marks	5
Plant and machinery: 0.5 marks per correct figure, being the depreciation charge of 525 and the closing carrying amount of 2,975 - maximum 1 mark	1
Impairment loss on the assets of the Musanze sales depot: 0.5 marks per correct figure - fair value less costs to sell (10,200), identification of value in use (10,300) as the recoverable amount, the impairment loss (500), the allocation to PPE (268) and to intangible assets (232) and the revised carrying amounts (1,232 and 1,068), maximum 3.5 marks; plus up to 1.5 marks for correctly restricting the allocation to PPE and intangible assets and explaining why the financial assets, inventories and trade receivables cannot absorb the loss - maximum 5 marks	5

Restructuring provision: 0.5 marks for the provision of 900, and 0.5 marks for correctly excluding the relocation costs of 300 as costs relating to the ongoing conduct of the business - maximum 1 mark	1
Sales with a 1-year special warranty: Award 0.5 mark for correct calculated figure (including relevant calculation made for the cost of warranty attributed to major customers claim, minor customers claim and the total expected cost) - to a maximum of 1.5 marks	1.5
Total marks for Part (a):	**22**
Part (b):	
(i) Award 1 mark for a correct justification (based on / using the information provided in the scenario) that the disposal of the non-performing assets at Musanze sales depot is a "non-adjusting event" - a maximum of 1 mark	1
(ii) Award 1 mark for each correct disclosure required for the disposal of the non-performing assets at Musanze sales depot as required by IAS 10 for non-adjusting events (referring correctly and relevantly to the information provided in the scenario) - to a maximum of 2 marks	2
Do Not Award: Generic information provided in part (b) where no relevant / correct reference is made to the information provided in the scenario	
Total marks for Part (b):	**3**
Total marks	**25**

MODEL ANSWER: FOR QUESTION TWO (RCE)

Part (a) RCE's statement of profit or loss and other comprehensive income for the year ended 31 December 2025 and statement of financial position as at 31 December 2025:

RCE's statement of profit or loss and other comprehensive income for the year ended 31 December 2025 (in FRW millions)

Revenue	92,500
Cost of sales (76,675 TB + 440 W4)	(77,115)
Gross profit	**15,385**
Distribution costs	(4,025)
Administration costs (6,725 TB + 800 W1 + 525 W1 + 500 W2 + 900 W3)	(9,450)
Interest expense	(75)
Profit before income taxes	**1,835**
Income tax expense (200 TB - 24 deferred tax released on the realised revaluation surplus, W1)	(176)
Profit / (loss) for the year	**1,659**
Other comprehensive income - items that will not be reclassified to profit or loss:	

Revaluation gain on land and buildings, net of tax (1,000 revaluation gain - 300 deferred tax) (W1)	700
Total comprehensive income	**2,359**

RCE's statement of financial position as at 31 December 2025 (in FRW millions)

Assets	
Non-current assets	
Property, plant and equipment (8,200 L&B W1 + 2,975 P&M W1 - 268 W2)	10,907
Intangible assets (9,500 TB - 2,850 TB - 232 W2)	6,418
Financial assets	8,560
Total non-current assets	**25,885**
Current assets	
Inventories	6,300
Trade receivables	7,125
Total current assets	**13,425**
Total assets	**39,310**
Equity and liabilities	
Equity	
Share capital	12,500
Revaluation reserve (700 from OCI - 56 realised transfer, net of tax, W1)	644
Retained earnings (14,860 TB + 1,659 profit for the year + 56 realised transfer, net of tax, W1)	16,575
Total equity	**29,719**
Non-current liabilities	
Deferred tax (800 TB + 300 on revaluation - 24 released on the realised surplus, W1)	1,076
Total non-current liabilities	**1,076**
Current liabilities	
Trade payables	6,825
Bank overdraft	350
Provisions (900 restructuring W3 + 440 warranty W4)	1,340
Total current liabilities	**8,515**
Total equity and liabilities	**39,310**

Workings (monetary figures rounded to FRW millions)

W1: Land and buildings (based on Note 1)

	Land	**Buildings**	**Total**

Cost - in the TB	800	11,200	**12,000**
Less: Accumulated depreciation at 1 January 2025 (in TB)	-	(4,000)	**(4,000)**
Carrying amount at 1 January 2025	800	7,200	**8,000**
Revaluation at 1 January 2025 (Note 1)	1,000	8,000	**9,000**
Revaluation surplus at 1 January 2025 (Note 1)	**200**	**800**	**1,000**
Less: Depreciation charge for the year to 31 Dec 2025 (8,000 revalued building / 10 years)	-	(800)	(800)
Carrying amount at 31 Dec 2025	**1,000**	**7,200**	**8,200**

Accounting treatment: Revaluation surplus (on 1 Jan 2025)

DR PPE (200 for Land + 800 for Buildings)	1,000	
CR OCI (Revaluation gain on PPE)		1,000

Deferred tax liability (arising on the revaluation surplus) on 1 Jan 2025

Computed as: FRW 1,000m revaluation surplus x 30% tax rate	300

Accounting treatment: Deferred tax liability (on 1 Jan 2025)

DR Other comprehensive income - tax on the revaluation gain (NOT profit or loss: IAS 12.61A)	300	
CR Deferred tax liability		300

Accounting treatment: Depreciation charge for the building for the year ended 31 Dec 2025

DR P&L Administration costs	800	
CR PPE		800

Transfer of the realised revaluation surplus to retained earnings at 31 Dec 2025 (applies **only** to buildings as being a depreciating asset, its revaluation gain is realised systematically over the building useful life of 10 years):

Gross realised surplus: depreciation on the revalued building (800) less depreciation on the pre-revaluation carrying amount (7,200 / 10 = 720)	80
Less: deferred tax released on the realised surplus (80 x 30%)	(24)
Net transfer from the revaluation reserve to retained earnings	56

Accounting treatment: transfer of the realised revaluation surplus (on 31 Dec 2025)

DR Revaluation reserve (directly in equity - as per IAS 16 and IAS 1)	56	
CR Retained earnings (directly in equity - as per IAS 16 and IAS 1)		56

DR Deferred tax liability / CR Income tax expense - release of the deferred tax on the surplus realised in the year		24

Depreciation charge for the plant and machinery for the year ended 31 Dec 2025

Computed based on 15% using a reducing balance method: 15% x (11,875 cost - 8,375 accumulated depreciation by 1 Jan 2025)	525

Accounting treatment for depreciation charge for the plant and machinery

DR P&L Administration costs	525	
CR PPE		525

Plant and machinery

Cost - trial balance	11,875
Less: Accumulated depreciation at 1 Jan 2025 (in trial balance)	(8,375)
Less: Depreciation charge for the year to 31 Dec 2025 (see working above)	(525)
Closing balance at 31 Dec 2025	**2,975**

W2: Impairment loss assessment for Musanze sales depot at 31 Dec 2025

Item	Carrying amount	Impairment loss *(see *mini working below)*	Recoverable amount
Property, plant and equipment	1,500	(268)	1,232
Intangible assets	1,300	(232)	1,068
Financial assets (carried at their fair value)	1,650		1,650
Inventories	1,120		1,120
Trade receivables	5,230		5,230
	10,800	**(500)**	**10,300**

**Mini working*:

Recoverable amount is "higher of":	
Fair value less costs to sell (10,400 fair value - 200 costs to sell)	10,200
Value-in-use (to be taken as the higher amount – hence becomes the recoverable amount)	**10,300**

Impairment loss (10,800 carrying amount - 10,300 recoverable amount):	500

Allocation of the impairment loss will only apply to PPE and intangible assets (note: impairment loss cannot be allocated to current assets like inventories and trade receivables; and cannot be allocated to financial assets as these are carried at their fair values and in addition, the impairment of financial assets is dealt with by IFRS 9 Financial Instruments) as follows:

- To PPE (500 impairment loss x 1,500 / (1,500 + 1,300))	268
- To intangible assets (500 impairment loss x 1,300 / (1,500 + 1,300))	232
Total impairment loss	**500**

Accounting treatment for impairment loss:

DR P&L (Administration costs)	500	
CR PPE		268
CR Intangible assets		232

W3: Restructuring program at Musanze sales depot

A provision for the restructuring plan is recognised for:

- Compensation of the staff terminated contracts	900

Accounting treatment for the provision of the restructuring program:

DR P&L (administration costs)	900	
CR Provision for restructuring (current liabilities)		900

Note: Costs of staff relocation to other sales depots do not qualify for recognition as a provision for a liability under IAS 37 because such costs relate to the future conduct of the business rather than a present obligation arising from a past event at the reporting date (31 Dec 2025)

W4: Sales with a special 1-year warranty

Provision for cost related to the special 1-year warranty (using the "expected value" approach) is:

Major customer sales claim (60% x FRW 500m)	300
Minor customer sales claim (70% x FRW 200m)	140
Total Expected Cost	**440**

Accounting treatment for the provision for the sales with a special 1-year warranty:

DR P&L (Cost of sales)	440	
CR Provision for the liability (current liabilities)		440

Part (b) Justification of the disposal of the assets at Musanze sales depot being a "non-adjusting event" and the required disclosures in the notes to RCE's financial statements:

(i) The disposal of the non-performing assets approved on 15 January 2026 is a "non-adjusting event" rather than an adjusting event in RCE's case on the basis that the decision to dispose of the assets was taken after the end of the reporting period (i.e., after 31 December 2025) and therefore this will not require an adjustment to be made on the amounts presented in the financial statements.

(ii) On the basis that the approved disposal of RCE's non-performing assets at Musanze sales depot is a non-adjusting event, then the following disclosures shall be required in the notes to the financial statements of RCE for the year ended 31 December 2025:
- The nature of the event which includes a description of the rationale and details of the decision taken by RCE's Board of Directors to dispose of the assets that were identified to be "non-performing assets" at the Musanze sales depot and the fact that the Board's approval was made after the end of the year; and
- The financial effect which should include an estimated loss of FRW 150 million which is expected from the disposal of the assets which will have a financial impact on RCE's financial position and performance in the subsequent financial year.

QUESTION THREE

MARKING GUIDE
Q3) a)

Initial lease liability at 1 January 2023 - present value of six payments of 20,000 at 10%	0.5
Right-of-use asset at commencement, including the directly attributable professional fees	0.5
Journal entry recognising the lease at commencement	0.5
Revised lease liability at 1 January 2025 - four payments of 30,000 at 12%	1
Increase in the lease liability arising on the modification	0.5
Journal entry recording the modification	0.5
Revised carrying amount of the right-of-use asset at the modification date	0.5
Depreciation charge in profit or loss for each of the three years - 0.5 marks each	1.5
Finance cost on the lease liability in profit or loss for each of the three years - 0.5 marks each	1.5
Carrying amount of the right-of-use asset in the statement of financial position, all three years	1

Lease liability presented as non-current, all three years	1
Lease liability presented as current, all three years	1
	10

b)

Feasibility and research costs of 160 expensed, with the reason that the recognition criteria were not met	1
Development costs of 160 capitalised from 1 January 2024, by reference to the Board's confirmation	1
Costs expensed before the criteria were met cannot subsequently be capitalised (IAS 38.71)	1
Regulatory fine of 10 expensed and not capitalised (IAS 38.67)	1
Amortisation of 20 for 2025 and carrying amount of 140 before impairment	1
Recoverable amount taken as value in use of 110, and impairment loss of 30	1
Journal entries for amortisation and impairment	1
	7

c)

Cost allocation and carrying amounts at 31 December 2024 - Block A 126 and Block B 189	1
	1
Block B remeasured to fair value of 228 on the change of use, with the surplus of 39 recognised in other comprehensive income under IAS 40.62(b)	1.5
Journal entries for the revaluation and the transfer to investment property	1
Fair value loss of 12 on Block B at 31 December 2025 recognised in profit or loss (IAS 40.35)	1
Block A depreciation of 18 for 2025 on the cost model - Block A is NOT revalued	1
Block A carrying amount of 108 at 31 December 2025	1
Statement that the revaluation surplus on Block B remains in equity and is not recycled to profit or loss	0.5
	8
Total	**25**

MODELANSWERS
a) LEASE

Lease commencement	1-Jan-23
Lease period	6 years
Interest rate	10%

Initial lease rentals Lease rental 20,000

The modification takes effect on 1 January 2025 and is accounted for from that date.

For 2023 and 2024 the lease is accounted for

based on the terms agreed at commencement of the lease

Present value of the lease payment

	Cash flow	**Discount factor**	**Present value**
31-Dec-23	20,000	0.909	18,182
31-Dec-24	20,000	0.826	16,529
31-Dec-25	20,000	0.751	15,026
31-Dec-26	20,000	0.683	13,660
31-Dec-27	20,000	0.621	12,418
31-Dec-28	20,000	0.564	11,289
			87,105

Right of use asset

Present value of lease rentals	87,105
Professional fees	2,895
Total right of use asset	**90,000**

Dr: Right of use asset	90,000		
Cr: Lease obligation		87,105	
Cr: Bank		2,895	

Being recognition of lease

The leased equipment will be depreciated over the period of lease

Annual depreciation 90,000/6 years =15,000

	2023	2024	2025
Dr: Depreciation expense	15,000	15,000	21,931
Cr: Accumulated depreciation	15,000	15,000	21,931

Lease liability schedule on the original terms (the 2025 line is shown only in order to split the liability at 31 December 2024)

	Opening balance	**Interest @10%**	**Payment**	**Closing balance**
31-Dec-23	87,105	8,711	20,000	75,816
31-Dec-24	75,816	7,582	20,000	63,397
31-Dec-25	63,397	6,340	20,000	49,737

With effect from 1 January 2025 the lease payment was revised to FRW 30 million p.a while interest rate was set at 12%
The lease modification shall trigger computation of revised lease liability
The difference between carrying amount of lease liability and liability based on the revised terms is posted in the lease liability and right of use asset account
The present value of remaining lease rentals from modification date to end of lease term are

	Cash flow	**Discount factor @12%**	**Present value**
31-Dec-25	30,000	0.893	26,786
31-Dec-26	30,000	0.797	23,916
31-Dec-27	30,000	0.712	21,353
31-Dec-28	30,000	0.636	19,066
			91,120

The lease liability based on modification is	FRW 91,120
The carrying amount of liability before modification	FRW 63,397
Increase in lease liability	**27,723**

The carrying amount of Right of use asset on 1 January 2025 is frw 90,000-FRW 90,000/6yrs*2=FRW 60,000

Journal entries on lease modification

Dr: Right of use asset	27,723		
Cr: Lease obligation		27,723	
Being adjustment on lease modification			
Right of use asset after lease modification FRW 60,000+FRW		27,723	87,723

Annual depreciation from 2025 = 87,723 / 4 years	21,931

Lease liability schedule after the modification

	Opening balance FRW 000	**Interest @12% FRW 000**	**Payment FRW 000**	**Closing balance FRW 000**
31-Dec-25	91,120	10,934	30,000	72,055
31-Dec-26	72,055	8,647	30,000	50,702
31-Dec-27	50,702	6,084	30,000	26,786
31-Dec-28	26,786	3,214	30,000	-

Extract statement of profit or loss

Expense	**31-Dec-23 FRW 000**	**31-Dec-24 FRW 000**	**31-Dec-25 FRW 000**
Depreciation	15,000	15,000	21,931
Finance cost on the lease liability	8,711	7,582	10,934

Statement of financial position

Right of use asset			
Cost/revalued amount	90,000	90,000	87,723
Accumulated depreciation	(15,000)	(30,000)	(21,931)
Net book value	**75,000**	**60,000**	**65,792**
Liability			
Non-current liability			
Lease obligation	63,397	49,737	50,702
Current liability			
Lease obligation	12,419	13,660	21,353
Total lease liability	**75,816**	**63,397**	**72,055**

1. Feasibility Study Costs (1 January 2023 – 30 November 2023)

Amount FRW 40 million

Feasibility studies are part of the **research phase** because the entity is investigating whether the project is technically and commercially viable.

Under IAS 38, research costs cannot be recognised as an intangible asset because future economic benefits cannot yet be demonstrated.

Accounting Treatment:

Expense immediately in profit or loss.

Journal Entry

Dr Research Expense	40	
Cr Cash / Payables		40

2. Research costs of FRW 120 million (1 December 2023 – 31 December 2023)

These costs were incurred before 1 January 2024, the date on which the Board confirmed that the criteria in IAS 38.57 were met. Expenditure incurred before that date is research expenditure and, under IAS 38.71, cannot subsequently be capitalised.

At this stage, there is insufficient evidence that:

- the project is technically feasible,
- future economic benefits are probable,
- the product can be commercially produced.

Therefore, the expenditure should be expensed.

Accounting Treatment:

Recognise as expense in profit or loss.

Journal Entry

Dr Research & Development Expense	120	
Cr Cash / Payables		120

3. Development costs of FRW 160 million (1 January 2024 – 31 December 2024)

This stage relates to actual system development.
Under IAS 38, development expenditure is capitalised when the entity can demonstrate:

1. Technical feasibility,
2. Intention to complete,
3. Ability to use or sell,
4. Probable future economic benefits,
5. Availability of resources,
6. Ability to measure costs reliably.

The Board of UDL confirmed on 1 January 2024, following a technical and commercial review, that all six conditions were met. Costs incurred from that date therefore qualify for capitalisation.
Therefore, the expenditure qualifies for capitalisation as an intangible asset.
Journal Entry
Dr Intangible Asset – Virus System 160
Cr Cash / Payables 160

4. Regulatory Fine (2 November 2024)

Amount FRW 10 million
The fine was imposed due to unauthorised access to patient health data.
IAS 38.67 states that the following are not components of the cost of an internally generated intangible asset:

- administrative inefficiencies,
- penalties,
- illegal or abnormal costs.

Therefore, the fine cannot form part of the cost of the intangible asset.
Accounting Treatment:
Expense immediately in profit or loss.
Journal Entry
Dr Regulatory Fine Expense 10
Cr Cash / Payables 10

5. Amortisation of the system (year ended 31 December 2025)

The system became available for use on 1 January 2025.
Capitalized Cost FRW 160 million
Useful Life 8 years
Annual Amortisation:
160 / 8 = 20
Annual amortisation = FRW 20 million
Under IAS 38.97, amortisation begins when the asset is available for use.
Journal Entry for Amortisation

Dr Amortisation expense 20
Cr Accumulated amortisation 20
Carrying amount at 31 December 2025 = 160 - 20 = FRW 140 million.

6. Impairment Review at 31 December 2025

A competitor introduced a superior product, resulting in reduced demand for UDL's system. This is an indicator of impairment under IAS 36 *Impairment of Assets*.

Carrying Amount before Impairment

Capitalised development cost = FRW 160 million
Less amortisation for 2025:
160 - 20 = FRW 140 million

Recoverable Amount

Value in use = FRW 110 million. Fair value less costs of disposal cannot be measured reliably, so the recoverable amount is the value in use.
The recoverable amount of FRW 110 million is below the carrying amount of FRW 140 million, so an impairment loss of FRW 30 million is recognised in profit or loss. The carrying amount after impairment is FRW 110 million, to be amortised over the remaining seven years.
Dr Impairment loss FRW 30 million
Cr Intangible asset FRW 30 million

c) UDL acquired a building on 1 January 2022 for FRW 450 million with an estimated useful life of 10 years. The building is divided into:

- **Block A** = 40%
- **Block B** = 60%

On 1 January 2025, Block B was leased to a pharmaceutical company and therefore qualifies as an **investment property** under IAS 40 because it is held to earn rentals.

Step 1: Initial Cost Allocation (1 January 2022)

Total building cost = FRW 450 million

Allocation:

- Block A = 40% × 450 = **FRW 180 million**
- Block B = 60% × 450 = **FRW 270 million**

Step 2: Depreciation up to 1 January 2025

Useful life = 10 years

Carrying amount on 1 January 2025

Block A	180 - (180 / 10 x 3) = FRW 126 million
Block B	270 - (270 / 10 x 3) = FRW 189 million
Total carrying amount	126 + 189 = FRW 315 million

Revaluation on 1 January 2025

	NBV on 1 January 2025	**Revalued amount on 1 January 2025**	**Revaluation surplus**
	FRW Million	FRW Million	FRW Million
Block A	126	Not revalued	-
Block B	189	380 x 60% = 228	39
Total	**315**	**228**	**39**

Only Block B is remeasured. IAS 40.61 requires the property to be accounted for under IAS 16 up to the date of the change in use, and IAS 40.62(b) requires the difference between its carrying amount at that date and its fair value to be treated as a revaluation under IAS 16. Block A remains in owner-occupation and is measured under the cost model, so it is not revalued.
The revaluation surplus of FRW 39 million on Block B is recognised in other comprehensive income and accumulated in the revaluation surplus within equity. It is not recycled to profit or loss.

Dr Property, plant and equipment - Block B FRW 39 million
Cr Revaluation surplus (other comprehensive income) FRW 39 million

Transfer of Block B to Investment Property

Block B is transferred to investment property at its fair value on the date of the change in use, being 60% x FRW 380 million = FRW 228 million.

Dr Investment Property 228
Cr Property, Plant & Equipment – Block B 228

(Being transfer of Block B from PPE to investment property at fair value)

Fair Value Adjustment at 31 December 2025

The fair value of the entire building at 31 December 2025 is FRW 360 million.

Allocation:

- Block A (40%) = 144 million (not required, as Block A remains on the cost model)
- Block B (60%) = 216 million

Re-measurement of fair value on 31 December 2025

Transferred amount on 1 January 2025 = FRW 228 million
Fair value at 31 December 2025 = FRW 216 million
Loss: 228 - 216 = FRW 12 million
Under IAS 40 fair value model, changes in fair value are recognised in profit or loss.

Journal Entry for Fair Value Loss

Dr Fair Value Loss (P&L) 12
Cr Investment Property 12

Treatment of Block A on 31 December 2025

Block A remains PPE under the **cost model**.
It is not revalued and continues to be depreciated on its original cost of FRW 180 million over the ten-year useful life.
Annual depreciation charge:
180 / 10 = FRW 18 million

Carrying amount at 31 December 2025, after four years of depreciation:
180 - (4 x 18) = FRW 108 million
Accumulated depreciation at that date is FRW 72 million.

No fair value adjustment is recognised for Block A, because it continues to be measured under the cost model.

Journal Entry for Depreciation of Block A

Dr Depreciation expense FRW 18 million
Cr Accumulated depreciation FRW 18 million

QUESTION FOUR

MARKING GUIDE

(a) Five-step model - award up to 2 marks per step, given only where the step is applied to the facts of the RIE contract rather than stated in the abstract: step 1 the contract; step 2 three distinct performance obligations; step 3 the transaction price, including the royalty as a usage-based royalty under IFRS 15.B63 and the termination right measured at the most likely amount; step 4 the basis of allocation, being relative standalone selling prices with the discount of 40 spread pro rata; step 5 the timing of each obligation. Award 1 further mark for identifying that the 40 discount arises because the transaction price of 560 is below the standalone total of 600. The allocation ARITHMETIC is credited in part (b), not here.	11
(b) Revenue for 2025: allocation of 289.33, 112.00 and 158.67 - 0.5 marks each; support services for one of three years, 52.89 - 0.5 marks; royalty of 4% x 450 = 18.00 - 1 mark; recognising that no refund liability arises, with the reason - 1 mark; total of 472.22 - 0.5 marks; journal entry recording the revenue - 1.5 marks	6
(c) Warranty: IAS 37 recognition criteria applied to the facts - 1 mark; identifying the omission as a prior-period error under IAS 8 rather than a change in estimate - 1 mark; restatement journal Dr Retained earnings 10 / Cr Provision 10 - 1.5 marks; payment journal Dr Provision 3 / Cr Cash 3 - 1 mark; closing provision of 7 and the point that an assurance-type warranty is not a separate performance obligation under IFRS 15 - 0.5 marks	5
(d) Audit query: prior-period error requiring retrospective restatement of comparatives and of opening retained earnings - 1 mark; 2024 comparative revenue reduced by 40 with a contract liability of 40 at 1 January 2025 - 1 mark; 2025 revenue increased by 55, being the 40 reversal and the 15 understatement - 1 mark	3
Total	**25**

MODEL ANSWERS

a) Application of the five-step model in IFRS 15 to the contract between TSG and the Rwanda Institute of Engineers (RIE)

Step 1 – Identify the Contract with the Customer

A valid contract exists between TSG and RIE because the criteria in IFRS 15.9 are met.
Both parties have approved the contract and are committed to performing under it; the rights of each party and the payment terms are identified; the contract has commercial substance, since TSG's cash flows will change as a result of it; and collection of the consideration is probable, as evidenced by the FRW 200 million received on signature.

Step 2 – Identify the Performance Obligations

Under IFRS 15, a performance obligation is a distinct promised good or service.
TSG makes three promises that are each capable of being distinct and are distinct within the context of the contract: the licence of the SMIS software, the system testing and launch, and the support services. RIE can benefit from each on its own and each is separately identifiable, so there are three performance obligations.

Step 3 – Determine the Transaction Price

The contract entitles TSG to fixed consideration of FRW 560 million, receivable in three instalments. It also entitles TSG to a variable amount of 4% of the student registration fees processed through the SMIS platform, and gives RIE a right of termination that would trigger a partial refund. Both variable elements must be considered.
The 4% fee is a usage-based royalty promised in exchange for a licence of intellectual property. IFRS 15.B63 applies notwithstanding the general requirements of IFRS 15.56 to 59: such a royalty is recognised only when the later of the subsequent usage occurring and the satisfaction of the related performance obligation has taken place. The licence was transferred on 1 January 2025, so the royalty is recognised as the registrations occur. The estimates made at inception for 2025, 2026 and 2027 are therefore NOT used to determine the transaction price.
Student registration fees processed through the SMIS during 2025 were FRW 450 million.
The royalty recognised for 2025 is based on the actual registrations:
Royalty for 2025 = **4% x FRW 450 million = FRW 18 million**
The right of termination is also variable consideration. This is a single contract with two possible outcomes, so under IFRS 15.53(b) the most likely amount is the better predictor. The most likely outcome, at 95%, is that RIE does not terminate. It is therefore highly probable that no significant reversal of revenue will occur, no refund liability is recognised, and the fixed transaction price remains FRW 560 million.

Step 4 – Allocate the Transaction Price

The transaction price of FRW 560 million is below the total of the standalone selling prices of FRW 600 million, so the contract contains a discount of FRW 40 million. There is no evidence

that the discount relates to any one obligation, so under IFRS 15.81 it is allocated to all three in proportion to their standalone selling prices.

Service	Standalone Price	Allocation Ratio	Allocated Revenue
	FRW Million	**FRW Million**	**FRW Million**
Software licence	310	$310 * \frac{560}{600}$	289.33
Testing & launch	120	$120 * \frac{560}{600}$	112
Support services - one of three years (158.67 / 3)	170	$170 * \frac{560}{600}$	158.67
Total	**600**		**560**

Step 5 – Recognise Revenue When or As Performance Obligations Are Satisfied

(i) Software licence

The licence gives RIE the right to use the software as it existed on 1 January 2025 and TSG has no obligation to update or enhance it. It is a right-to-use licence, so the performance obligation is satisfied at a point in time on that date (IFRS 15.B58 and B61).

Revenue recognised in 2025 is FRW 289.33 million.

(ii) Testing and Launch

The testing and launch were completed during 2025, so that performance obligation is satisfied in the year and revenue of FRW 112 million is recognised.

(iii) Support Services

The support services are provided evenly over three years, so RIE simultaneously receives and consumes the benefits as TSG performs. The obligation is satisfied over time (IFRS 15.35(a)) and revenue is recognised on a straight-line basis: FRW 158.67 million / 3 = FRW 52.89 million a year.

Revenue recognised in 2025 is FRW 52.89 million

b) Revenue to be Recognised in Profit or Loss for Year Ended 31 December 2025

Component	FRW million
Software licence - point in time, 1 January 2025	289.33
System testing and launch - during 2025	112
Support services - one of three years (158.67 / 3)	52.89
Royalty on student registrations (4% x 450) - IFRS 15.B63	18.00
Revenue for the year ended 31 December 2025	**472.22**

Right of termination – no refund liability recognized

RIE may terminate within two years if the SMIS fails the minimum testing requirements, in which case 40% of the amount allocated to the software licence would be refunded. This is variable consideration and must be measured under IFRS 15.53.

- Amount refundable on termination = 40% x FRW 289.33 million = FRW 115.73 million
- Probability that RIE terminates = 5%; probability that it does not = 95%

IFRS 15.53(b) requires the most likely amount where a contract has only two possible outcomes. This is a single contract with a binary outcome, so the expected-value method, which suits a large population of similar contracts, is not appropriate.
The most likely amount is that RIE does not terminate and that no refund arises. At a 5% probability of termination it is also highly probable that no significant reversal of cumulative revenue will occur (IFRS 15.56).

Therefore:

- Refund liability at 31 December 2025 = nil
- No reduction in revenue; the right of termination is disclosed in the notes

The journal entry in 2025

Dr Bank - instalments received (200 + 250)	450	
Dr Contract asset - fixed revenue of 454.22 earned, less 450 received	4.22	
Dr Royalty receivable - 4% x 450, receivable annually in arrears	18.00	
Cr Revenue		472.22

(Being recognition of revenue on the RIE contract for the year ended 31 December 2025)

c) Warranty Obligation under IAS 37

IAS 37 requires a provision to be recognised when the following are met:

1. There is a present obligation from a past event
2. Outflow of resources is probable
3. Amount can be reliably estimated

TSG sold software during 2024 under a two-year warranty, so the obligating event - the sale - had occurred by 31 December 2024 and the warranties were still running at that date.
The legal department estimated warranty costs at FRW 10 million.
This indicates a present obligation existed at 31 December 2024.
Therefore, a provision should have been recognised in 2024.

Because a reliable estimate could have been made at 31 December 2024, the omission is a prior-period error under IAS 8.5, not a change in estimate. It is corrected retrospectively: the

2024 comparatives are restated and the opening balance of retained earnings at 1 January 2025 is adjusted.

Required provision:

Dr Retained Earnings ..... FRW 10 million
Cr Provision for Warranty ..... FRW 10 million
(Being recognition of omitted warranty provision relating to 2024)
Dr Provision for Warranty ..... FRW 3 million
Cr Cash/Bank ..... FRW 3 million
(Being payment of warranty claims)

The provision carried at 31 December 2025 is therefore FRW 10 million less the FRW 3 million settled, that is FRW 7 million. The two-year warranty on the 2024 sales runs to the end of 2026, so the balance remains a liability at the reporting date and no release is made.

A warranty that cannot be purchased separately is not treated as a separate performance obligation under IFRS 15.
Instead, it is accounted for under IAS 37 as a provision because it represents expected repair or replacement costs.
Revenue from the original software sale remains recognised at the time of sale, while expected warranty costs are recognised as an expense and liability.

d) Effect of Audit Query on Financial Statements for 2025

The auditors identified incorrect revenue recognition.
TSG recognised revenue when invoices were issued rather than as the performance obligations were satisfied. This resulted in:

- 2024 revenue overstated by FRW 40 million
- 2025 revenue understated by FRW 15 million

Accounting Treatment under IAS 8
This is a prior period error and IAS 8 requires:

- Retrospective correction
- Restatement of comparative figures
- Adjustment through opening retained earnings

Effect on 2025 Financial Statements

Increase in 2025 revenue
Revenue for 2025 is understated by FRW 15 million for services performed but not yet invoiced, and a further FRW 40 million falls into 2025 because the services underlying the 2024 overstatement were in fact performed during the year. The total increase in 2025 revenue is FRW 55 million.

Therefore:
Dr Contract liability FRW 40 million / Cr Revenue FRW 40 million (services performed in 2025)
Dr Contract asset FRW 15 million / Cr Revenue FRW 15 million (performed, not yet invoiced)

Reduction in Opening Retained Earnings

2024 revenue overstated by FRW 40 million.
The 2024 comparative revenue is reduced by FRW 40 million and the opening balance of retained earnings at 1 January 2025 is reduced by the same amount, with a contract liability of FRW 40 million recognised at that date. IAS 8.49 also requires disclosure of the nature of the error and of the correction to each line item affected.

Journal:
Dr Retained earnings brought forward FRW 40 million
Cr Contract liability FRW 40 million

Overall Financial Statement Impact

Effect	**Impact**
2025 profit	Increase by FRW 55 million
2024 comparative revenue	Decrease by FRW 40 million
Opening retained earnings	Decrease by FRW 40 million

End of Marking guide and Model answers