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CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.3: ADVANCED FINANCIAL REPORTING

DATE: MONDAY 24, AUGUST 2026

INSTRUCTIONS:

1. Time Allowed: **3 hours 45 minutes** (15 minutes reading and 3 hours 30 minutes writing).
2. This examination has **two** sections: **A & B.**
3. Section **A** has **one Compulsory Question** while section **B** has **three optional questions** to choose any **two.**
4. In summary attempt **three questions.**
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings where necessary.
7. The question paper should not be taken out of the examination room

SECTION A

QUESTION ONE

Umuryango Commercial Bank ("UCB") is a stock-listed commercial bank with a license to operate in Rwanda. Its headquarters are located in Kigali and has various branches, ATMs and bank agents across the country.

In the recent years, as part of its diversification strategy, UCB has held financial investments in two companies namely Inshuti Microfinance Ltd ("IML") operating in the micro-finance sector and Zera Insurance Company ("ZIC") operating in the insurance sector.

The following financial statements for the year ended 31 December 2025 relate to all the three companies:

Statement of profit or loss and other comprehensive income for the year ended 31 December 2025 (in FRW millions) for:

	UCB	**IML**	**ZIC**
Operating income (Interest Income, Insurance revenue & fees)	21,853	17,247	12,893
Direct operating expenses (Interest expense, insurance service expense etc)	(3,618)	(4,335)	(2,135)
Other operating income	4,642	2,691	2,738
Other operating expenses	(2,031)	(1,514)	(1,198)
Operating profit / (loss)	**20,846**	**14,089**	**12,298**
Credit impairment losses	(12,261)	(9,254)	(7,234)
Net operating income	**8,585**	**4,835**	**5,064**
General and administration expenses	(1,067)	(923)	(630)
Other finance costs	(1,500)	(478)	(154)
Profit before income tax	**6,018**	**3,434**	**4,280**
Income tax expense	(1,171)	(583)	(691)
Profit / (loss) for the year	**4,847**	**2,851**	**3,589**
Other comprehensive items:			
Fair value gain / (loss) on financial investments carried at FVTOCI	3,194	(558)	-
Total comprehensive income	**8,041**	**2,293**	**3,589**

Statement of financial position as at 31 December 2025 (in FRW millions) for:

	UCB	**IML**	**ZIC**
Assets			
Non-current assets			
Property, plant and equipment	32,138	18,610	15,114
Other intangible assets	19,168	18,646	11,309
Loans and advances to customers	91,236	87,380	53,830
Other Investments	51,982	50,542	30,700

Total non-current assets	**194,524**	**175,178**	**110,953**
Current assets			
Derivative financial assets	7,337	2,790	4,329
Short-term receivables and prepayments	2,949	1,088	1,740
Cash and deposits held in other financial institutions	44,609	29,253	26,319
Total current assets	**54,895**	**33,131**	**32,388**
Total assets	**249,419**	**208,309**	**143,341**
Equity and Liabilities			
Equity:			
Share capital	17,275	3,562	10,193
Retained earnings	18,891	10,974	11,252
Other reserves	6,520	2,362	-
Total Equity	**42,686**	**16,898**	**21,445**
Non-current liabilities			
Long-term borrowings	82,533	72,700	52,174
Deferred tax liabilities	5,458	5,090	3,220
Total non-current liabilities	**87,991**	**77,790**	**55,394**
Current Liabilities			
Deposits from customers	101,387	95,228	56,263
Current income tax	619	536	365
Other current liabilities	16,736	17,857	9,874
Total Current Liabilities	**118,742**	**113,621**	**66,502**
Total Equity and Liabilities	**249,419**	**208,309**	**143,341**

The following additional information is relevant in the preparation of the consolidated financial statements:

1. On 1 January 2025, UCB acquired 75% voting ordinary share capital of Inshuti Microfinance Ltd ("IML") for FRW 20,000 million payable on 1 January 2026. IML is a licensed deposit-taking MFI that also provides small business loans to support small businesses operating in the Western and Southern provinces. The purchase consideration has not been recognised in UCB's financial statements. The applicable discount rate is 10% per annum.

   On that date, the fair value of the non-controlling interests in IML was measured at FRW 4,000 million and the fair value of the identifiable net assets of IML was FRW 19,605 million. This amount is inclusive of the fair value uplift on a building (details below) but is stated before recognising the related deferred tax liability referred to in Note 2. The retained earnings in IML were FRW 8,123 million and the other reserves were FRW 2,920 million.
2. On 1 January 2025, the fair value adjustment to the net assets of IML related to its headquarters building in Kigali, on which a fair value uplift of FRW 5,000 million was

identified by reference to recent increases in market prices for similar properties in the area. This building had an estimated economic useful life of ten (10) years on 1 January 2025. Neither the fair value increase on the building nor the related deferred tax liability (tax rate of 30%) has been adjusted in the financial statements of IML. Ignore any change in the deferred tax liability arising on this fair value uplift after 1 January 2025.

3. An impairment review carried out at 31 December 2025 established that the goodwill arising on the acquisition of IML had suffered an impairment loss of FRW 520 million. Depreciation charges and impairment losses on goodwill are recognised in "General and administration expenses".

4. UCB acquired 30% ordinary share capital of Zera Insurance Company ("ZIC") several years ago. UCB's investment in ZIC was a business strategy approved by the Board of Directors aimed at diversifying into the insurance sector. ZIC is one of the largest insurance companies in country and is regulated as a licensed insurer. The cost of investment in ZIC was FRW 12,000 million and this is held at cost within the "other investments" of UCB. On acquisition date, the retained earnings in ZIC were FRW 1,800 million.

   On 31 December 2025, ZIC paid a dividend of FRW 2,000 million, of which UCB has recognised its share in "other operating income" in the profit or loss. ZIC had not paid any dividends prior to 2025. There have been no changes in the share capital of either IML or ZIC since their respective acquisition dates.

5. In the year ended 31 December 2025, UCB charged a management fee to IML of FRW 800 million (payable in 6 months from the date of the invoice). The management fee is a formal fee charged by UCB to IML for the maintenance of IML's bank account in UCB and fees for other contractual services provided to IML. The fee had not yet been received at the end of the reporting period. The Board of UCB reduced the fee from the FRW 1,700 million originally invoiced to FRW 800 million; a fee of FRW 1,700 million would have been charged to an unrelated party for the same services.

   Though UCB has recognised the invoiced fee correctly in its operating income and receivables, IML has not yet recorded this transaction in its financial statements on the basis that the invoice was received after 31 December 2025. It is IML's policy to recognise such management fees in the "direct operating expenses" in the profit or loss.

Required:

a) In accordance with IAS 24 *Related Party Disclosures*, and with reference to Note 1 and Note 5:

i) Explain why UCB is required to disclose its transactions with IML even though the fee charged was below the amount that would have been charged to an unrelated party; and (2 Marks)

ii) Describe THREE disclosures that UCB is required to make in its separate financial statements in respect of those transactions, and explain why no equivalent disclosure is required in the consolidated financial statements of the UCB Group. (3 Marks)

b) Calculate the following for the UCB Group:

i) The goodwill arising on the acquisition of IML at 1 January 2025 and the carrying amount of that goodwill at 31 December 2025; and (3 Marks)

ii) The consolidated retained earnings at 31 December 2025. (5 Marks)

c) Prepare the consolidated statement of profit or loss and other comprehensive income for the UCB Group for the year ended 31 December 2025. (16 Marks)

d) Prepare the consolidated statement of financial position for the UCB Group as at 31 December 2025. (21 Marks)

Show all workings and all monetary figures should be rounded to the nearest FRW million (no decimal places). **(Total: 50 Marks)**

SECTION B

QUESTION TWO

Rwanda Cement Enterprises (RCE) is a large cement producing company that sells cement to both wholesalers and retailers in Rwanda. RCE operates with four (4) main sales depots across the country.

Below is the trial balance for RCE for the year ended 31 December 2025 (all amounts are in FRW millions):

	Debit	Credit
Share capital		12,500
Retained earnings at 1 January 2025		14,860
Land and buildings – at cost (including land at a cost of FRW 800 million)	12,000	
Plant and machinery - at cost	11,875	
Intangible assets	9,500	
Accumulated depreciation – buildings at 1 January 2025		4,000
Accumulated depreciation – plant and machinery at 1 January 2025		8,375
Accumulated amortisation – intangible assets at 1 January 2025		2,850
Financial assets	8,560	
Inventories at 31 December 2025	6,300	
Trade receivables	7,125	
Bank		350
Deferred tax		800
Trade payables		6,825
Revenue		92,500
Cost of sales	76,675	
Distribution costs	4,025	
Administration costs	6,725	
Interest expense	75	
Income tax expense	200	
	143,060	**143,060**

Additional Information:

1. On 1 January 2025, RCE revalued its land and buildings to FRW 9,000 million, of which the land has a fair value of FRW 1,000 million. The building was assessed on that date to have a remaining economic useful life of 10 years. The revaluation gives rise to a deferred tax liability at a tax rate of 30%. RCE has not yet recorded the revaluation of the property, plant and equipment or the related deferred tax in its financial statements. It is RCE's policy to transfer annually to retained earnings the portion of the revaluation surplus realised through depreciation, net of the related deferred tax, and to release the related deferred tax liability to income tax expense as that surplus is realised.

2. RCE's plant and machinery is depreciated at 15% per annum on a reducing balance basis. RCE has not yet recognised depreciation on any of its property, plant and equipment for the year ended 31 December 2025. Depreciation is recognised in administration expenses. No amortisation of intangible assets and no remeasurement of financial assets is required for the year ended 31 December 2025.

3. RCE has a sales depot in Musanze ("the Musanze sales depot") which distributes cement to customers in the Northern Province. The sales departmental report shows that the depot suffered a significant decline in sales during the year following the entry of a new competitor which has taken a large share of the regional market. Cash flows attributable to the Musanze sales depot can be reliably separated from those of the other three depots, and the depot therefore qualifies as a cash-generating unit in its own right. The assets of the depot, which are included at their carrying amounts within the corresponding lines of RCE's assets at 31 December 2025, are set out below. The property, plant and equipment of the depot comprises plant and machinery only; none of the land and buildings revalued in Note 1 is located at the depot. The carrying amounts below are stated after the depreciation charge referred to in Note 2.

	FRW millions
Property, plant and equipment	1,500
Intangible assets	1,300
Financial assets (carried at their fair value)	1,650
Inventories	1,120
Trade receivables	5,230
Total	**10,800**

The directors of RCE are concerned that the assets of the Musanze sales depot may have suffered an impairment loss under IAS 36 *Impairment of Assets*. On 31 December 2025 RCE received an independent professional valuation report on those assets, which states that the assets of the depot have, in total, a fair value of FRW 10,400 million, costs to sell of FRW 200 million and a value in use of FRW 10,300 million. The directors have nevertheless left the assets of the depot at the carrying amounts included in the respective lines of the trial balance. Any impairment loss is recognised in administration expenses.

4. In order to improve the financial performance of the depot, the management of RCE formally communicated to those affected, and began to implement, a restructuring plan approved by the Board of Directors. On 31 December 2025, RCE began implementing that plan, which involves terminating the contracts of, and relocating, some middle-level and low-level employees. The total cost of the plan of FRW 1,200 million comprises FRW 900 million of compensation payable to staff whose contracts are terminated and FRW 300 million of costs of relocating other staff from the Musanze sales depot to the remaining depots, where they will continue to be employed. No cash had been paid by the reporting date and none of these amounts has been recognised in the financial statements. Any amount recognised is charged to administration expenses.

5. In December 2025, RCE issued a special one-year warranty on sales of cement to customers of the Musanze sales depot. The warranty is provided free of charge and is not sold separately. If every customer in a category were to claim under the warranty, the cost of meeting it would be FRW 500 million in respect of sales to major customers and FRW 200 million in respect of sales to minor customers. Based on historical experience of similar warranties granted in the past, it is estimated that 60% of major customers and 70% of minor customers will claim. RCE has not recognised any cost in respect of the warranty. Any amount recognised is charged to cost of sales. Ignore the time value of money.

6. The income tax expense of FRW 200 million shown in the trial balance is the full current tax charge for the year ended 31 December 2025. No further adjustment to current tax is required, and the only deferred tax adjustments required are those referred to in Note 1.

Required:

a) Prepare for RCE the statement of profit or loss and other comprehensive income for the year ended 31 December 2025 and the statement of financial position as at 31 December 2025. (22 Marks)

Note: show all workings. All monetary figures should be presented in FRW millions and rounded to the nearest FRW million (no decimal places).

Additional information for part (b) only – this information is not to be taken into account in answering part (a).

On 15 January 2026, as part of its continuing review of the financial performance of the Musanze sales depot, the Board of Directors approved the disposal of all the non-performing property, plant and equipment based at the depot. The disposal is planned to take place on that same date, 15 January 2026, to an interested buyer, and is expected to result in a loss on disposal of FRW 150 million. The financial statements of RCE for the year ended 31 December 2025 will be authorised for issue after 15 January 2026.

Required:

b) In accordance with IAS 10 Events after the Reporting Period:

i) Justify whether the planned disposal of the assets qualifies as an adjusting event or as a non-adjusting event. (1 Mark)

ii) Recommend any TWO disclosures specific to RCE's planned and approved disposal of the assets that will be required in RCE's financial statements for the year ended 31 December 2025. (2 Marks)

(Total: 25 Marks)

QUESTION THREE

Ubuzima Diagnostics Ltd ("UDL" or "the company") is a medical diagnostics company incorporated in Rwanda. UDL operates a laboratory network that collects and tests samples from health centres across the country and, in recent years, has extended its activities into the development of digital health products. The company prepares its financial statements in accordance with International Financial Reporting Standards and its reporting date is 31 December.

Premises at Kamonyi

On 1 January 2022, UDL acquired a building in Kamonyi District at a cost of FRW 450 million, with an estimated useful life of 10 years and no residual value. The building comprises two blocks, Block A and Block B, which can be sold separately. The cost is allocated 40% to Block A, which houses the laboratory, and 60% to Block B, which housed the research and development team. UDL measures property, plant and equipment using the cost model and depreciates buildings on a straight-line basis.

Leased mobile laboratory equipment

On 1 January 2023, UDL entered into a contract with Sanotech Equipment Ltd to lease mobile laboratory equipment used to collect and test samples for a newly identified virus in rural districts. The samples and the results are passed to the company's medical production division, which is developing treatments for the virus. The lease term is six years and the annual lease payment is FRW 20 million, payable in arrears on 31 December each year. UDL's incremental borrowing rate at 1 January 2023 was 10%. UDL incurred professional fees of FRW 2,895,000 that were directly attributable to negotiating and arranging the lease. Ownership of the equipment does not pass to UDL at the end of the lease term and there is no purchase option.

Following a sustained increase in the lessor's servicing and import costs, the two parties renegotiated the contract. With effect from 1 January 2025, the annual lease payment was increased to FRW 30 million for the remainder of the lease term. Neither the underlying asset nor the lease term was changed, and the renegotiated payment was not provided for in the original contract. UDL's incremental borrowing rate at 1 January 2025 was 12%.

Development of the virus management system

In 2023, UDL began a two-year project to develop a virus management system, together with a micro-chip designed to track people who have been exposed to infection. The company expects to sell the system to specialist hospitals and to government. The costs incurred were as follows.

Period	FRW Million	Activity
1 January 2023 to 30 November 2023	40	Feasibility study
1 December 2023 to 31 December 2023	120	Research – laboratory testing of alternative technical approaches
1 January 2024 to 31 December 2024	160	Development – directly attributable costs of building the system

On 1 January 2024, the Board of UDL confirmed, following a technical and commercial review, that the system was technically feasible, that the company intended to complete it and had the technical and financial resources to do so, and that it would generate probable future economic benefits. No such confirmation had been possible before that date.

The system was completed and available for use on 1 January 2025 and was assessed at that date to have a useful life of eight years with no residual value.

On 31 December 2025, a competitor launched a comparable system which gained wider international acceptance. Usage of UDL's system declined and its value in use at that date was assessed at FRW 110 million. The fair value less costs of disposal of the system cannot be measured reliably.

The fine of FRW 10 million was imposed by the Ministry of Health in November 2024 after it emerged that members of the development team had accessed patient records held at a data centre without authorisation.

Change of use of Block B

Following the launch of the system, the research and development team was relocated to Block A and Block B became surplus to UDL's operating requirements. On 1 January 2025, UDL signed a commercial lease with a pharmaceutical company under which Block B is let to that company, and from that date Block B is held to earn rentals rather than for use in UDL's own operations.

The fair value of the building as a whole was FRW 380 million on 1 January 2025 and FRW 360 million on 31 December 2025. The allocation of 40% to Block A and 60% to Block B applies to fair value as it does to cost. UDL measures investment property using the fair value model.

Required

a) In accordance with IFRS 16 *Leases*, **prepare extracts from the statement of profit or loss and the statement of financial position of UDL for each of the years ended 31 December 2023, 2024 and 2025 in respect of the leased mobile laboratory equipment, and show the journal entry recording the lease modification on 1 January 2025.** (10 Marks)

b) In accordance with IAS 38 *Intangible Assets* and IAS 36 *Impairment of Assets*, **explain, with supporting computations, how UDL should account for the costs of the virus management system from 2023 to 31 December 2025.** (7 Marks)

c) In accordance with IAS 40 *Investment Property* and IAS 16 *Property, Plant and Equipment*, **explain, with supporting computations, how UDL should account for the building for the year ended 31 December 2025, including the change of use of Block B on 1 January 2025.** (8 Marks)

(Total: 25 Marks)

QUESTION FOUR

Taiga Soft Giant Ltd ("TSG" or "the company") is a Rwandan software solutions provider specialising in enterprise management systems. TSG licenses its software products to customers and also contracts with customers to develop systems tailored to their own requirements. The company prepares its financial statements in accordance with International Financial Reporting Standards and its reporting date is 31 December.

Contract with the Rwanda Institute of Engineers

On 1 January 2025, TSG entered into a three-year contract with the Rwanda Institute of Engineers ("RIE"), a professional body which examines and licenses engineers in Rwanda, for the supply of a Student Management Information System ("the SMIS"). The contract price is FRW 560 million, exclusive of VAT, payable in three instalments: FRW 200 million on signature of the contract, FRW 250 million at the end of year one and FRW 110 million at the end of year three. The contract does not contain a significant financing component.

The contract covers the following services, whose standalone selling prices are:

Service	Standalone selling price (FRW million)
Software licence	310
System testing and launch	120
Support services	170
	600

The software was ready at the date of the contract and the licence was transferred to RIE on 1 January 2025, from which date RIE has the right to use the software as it then existed. TSG has no obligation to update or enhance it. The system testing and launch were carried out during 2025. The support services, which train RIE's staff and configure the system to RIE's requirements, are provided evenly over the three-year contract period.

Variable fee based on student registrations

Under the contract TSG is also entitled to a fee of 4% of the student registration fees processed through the SMIS platform. The fee is payable annually in arrears. At the inception of the contract, management estimated the fee as follows:

Year	Estimated variable fee (FRW million)
2025	15
2026	30
2027	28

Student registration fees processed through the SMIS during the year ended 31 December 2025 amounted to FRW 450 million.

Right of termination

RIE may terminate the contract within two years if the SMIS fails to meet the minimum testing requirements specified in the contract. If RIE terminates, it is entitled to a refund of 40% of the amount allocated to the software licence; the amounts allocated to system testing and launch, to support services and to the variable fee are not refundable. This is a single contract with two possible outcomes: either RIE terminates or it does not.

Based on its experience of similar systems, TSG assesses the probability that the system fails and that RIE terminates the contract at 5%.

Warranty claims on 2024 sales

The Chief Finance Officer has established that the accountant did not recognise any provision for warranty obligations in respect of software sold to other customers during 2024. TSG's software carries a two-year warranty from the date of sale.

The legal department has confirmed that a reliable estimate of the warranty costs relating to those 2024 sales could have been made at 31 December 2024, and that the amount was FRW 10 million.

The omission came to light when customer claims were received. Claims of FRW 3 million were paid during 2025. The balance remains outstanding and no revision to the estimate is required at 31 December 2025.

Audit query on revenue recognition

Until 2024, TSG recognised revenue from support services when invoices were issued to customers, rather than as the services were performed.

The interim audit for 2025 identified that this treatment does not comply with IFRS 15. As a result, revenue for 2024 was overstated by FRW 40 million; the support services concerned were in fact performed during 2025. Revenue for 2025 is separately understated by FRW 15 million in respect of services performed but not yet invoiced. Ignore the taxation effects of any restatement.

You are the Financial Reporting Manager of TSG. The Chief Finance Officer has asked you to advise on the following matters before the financial statements for the year ended 31 December 2025 are finalised.

Required

a) Apply the five-step model in IFRS 15 *Revenue from Contracts with Customers* to the contract with RIE and explain how revenue from that contract should be recognised. (11 Marks)

b) Calculate the revenue that TSG should recognise in respect of the RIE contract in its statement of profit or loss for the year ended 31 December 2025. (6 Marks)

c) Explain, with supporting calculations, how the warranty obligation should be accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and prepare the journal entries required in 2025. (5 Marks)

d) Discuss how the audit query in the scenario will affect the financial statements of TSG for the year ended 31 December 2025 (3 Marks)

(Total: 25 Marks)

End of question paper