CERTIFIED PUBLIC ACCOUNTANT

OPERATIONAL LEVEL EXAMINATION

FR2.4 FINANCIAL REPORTING

DATE: TUESDAY 25, AUGUST 2026

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Question No	Correct Answer	Marks
1	C	2
2	D	2
3	B	2
4	A	2
5	B	2
6	A	2
7	D	2
8	C	2
9	B	2
10	A	2
11	D	2
12	D	2
13	B	2
14	C	2
15	C	2
Total		**30**

Section A

Question #	1	
Key (answer)	C	
Rationale	A.	Incorrect Correct element: Equity
	B.	Incorrect Correct element: Equity
	C.	Correct
	D.	Incorrect Correct element: Equity

Question #	2	
Key (answer)	D	
Rationale	A.	Incorrect Correct event: A prior period error
	B.	Incorrect Correct event: A prior period error
	C.	Incorrect Correct event: A prior period error
	D.	Correct

Question #	3	
Key (answer)	B	
Rationale	A.	Incorrect

		Correct item: A revaluation gain on property
	B.	Correct
	C.	Incorrect Correct item: A revaluation gain on property
	D.	Incorrect Correct item: A revaluation gain on property

Question #	4	
Key (answer)	A	
Rationale	A.	Correct
	B.	Incorrect Correct types: 1. Sector standards AND 3. Universal standards
	C.	Incorrect Correct types: 1. Sector standards AND 3. Universal standards
	D.	Incorrect Correct types: 1. Sector standards AND 3. Universal standards

Question #	5	
Key (answer)	B	
Rationale	A.	Incorrect Correct criteria: 1. It is probable that future economic benefits associated with the asset will flow to the entity 4. The cost of the asset can be measured reliably
	B.	Correct
	C.	Incorrect Correct criteria: 1. It is probable that future economic benefits associated with the asset will flow to the entity 4. The cost of the asset can be measured reliably

	D.	Incorrect Correct criteria: 1. It is probable that future economic benefits associated with the asset will flow to the entity 4. The cost of the asset can be measured reliably

Question #	6	
Key (answer)	A	
Rationale	A.	Correct
	B.	Incorrect Correct amount: FRW 240 million 360 – (360/3) = 240
	C.	Incorrect Correct amount: FRW 240 million 360 – (360/3) = 240
	D.	Incorrect Correct amount: FRW 240 million 360 – (360/3) = 240

Question #	7	
Question type (MC or CMC)	*MCQ*	
Key (answer)	D	
Rationale	A.	Incorrect Correct treatment: Recoverable amount: 120. Impairment: 180 – 120 = 60 Debit Expenses 60 Credit Equipment 60
	B.	Incorrect Correct treatment: Recoverable amount: 120. Impairment: 180 – 120 = 60 Debit Expenses 60 Credit Equipment 60
	C.	Incorrect Correct treatment: Recoverable amount: 120. Impairment: 180 – 120 = 60 Debit Expenses 60 Credit Equipment 60
	D.	Correct

Question #	8
Key (answer)	C

Rationale	A.	Incorrect Correct amounts: Total payments = 15 + (3 * 10) = 45 45/3 = 15 per annum Payment in 20X7 = 15 + 10 = 25 = 15 expense and 10 prepayment
	B.	Incorrect Correct amounts: Total payments = 15 + (3 * 10) = 45 45/3 = 15 per annum Payment in 20X7 = 15 + 10 = 25 = 15 expense and 10 prepayment
	C.	Correct
	D.	Incorrect Correct amounts: Total payments = 15 + (3 * 10) = 45 45/3 = 15 per annum Payment in 20X7 = 15 + 10 = 25 = 15 expense and 10 prepayment

Question #	9	
Key (answer)	B	
Rationale	A.	Incorrect Correct carrying amount: The government grant is deducted from the cost of the asset: 440 – 40 = 400. The net amount of FRW 400 million is depreciated over the useful life: 400/20 = 20. Carrying amount: 400 – (20 * 2) = FRW 360 million
	B.	Correct
	C.	Incorrect Correct carrying amount: The government grant is deducted from the cost of the asset: 440 – 40 = 400. The net amount of FRW 400 million is depreciated over the useful life: 400/20 = 20. Carrying amount: 400 – (20 * 2) = FRW 360 million
	D.	Incorrect Correct carrying amount: The government grant is deducted from the cost of the asset: 440 – 40 = 400. The net amount of FRW 400 million is depreciated over the useful life: 400/20 = 20. Carrying amount: 400 – (20 * 2) = FRW 360 million

Question #	10	
Key (answer)	A	
Rationale	A.	Correct
	B.	Incorrect Correct example: State retirement benefits
	C.	Incorrect Correct example: State retirement benefits
	D.	Incorrect Correct example: State retirement benefits

Question #	11	
Key (answer)	D	
Rationale	A.	Incorrect Correct amount of revenue: 63 * 4 = FRW 252 million
	B.	Incorrect Correct amount of revenue: 63 * 4 = FRW 252 million
	C.	Incorrect Correct amount of revenue: 63 * 4 = FRW 252 million
	D.	Correct

Question #	12	
Key (answer)	D	
Rationale	A.	Incorrect Correct debit party (Day, the seller) but fails to split the elimination between the parent's share and NCI's share.
	B.	Incorrect Incorrect on multiple counts: it charges Hols (the buyer, not the seller) and credits Goodwill instead of Inventory, which is conceptually wrong, this is an inventory/profit elimination issue, not a goodwill adjustment.
	C.	Incorrect Same error as B in identifying Hols (buyer) rather than Day (seller) as the party whose retained earnings should be adjusted, and does not split the amount with NC
	D.	Correct Since Day is the seller (the subsidiary), the unrealized profit of FRW 5 million sits in Day's own retained earnings and must be eliminated from the group's perspective because the goods are still in Hols' (the parent's) inventory at year-end, from the group's viewpoint, no sale has occurred outside the group, so the profit is unrealized.

Question #	13	
Key (answer)	B	
Rationale	A.	Incorrect Correct formula: Profit attributable to ordinary shareholders / ordinary dividends
	B.	Correct
	C.	Incorrect Correct formula: Profit attributable to ordinary shareholders / ordinary dividends
	D.	Incorrect Correct formula: Profit attributable to ordinary shareholders / ordinary dividends

Question #	14	
Key (answer)	C	
Rationale	A.	Incorrect Correct project type: Taxonomy projects
	B.	Incorrect Correct project type: Taxonomy projects
	C.	Correct
	D.	Incorrect Correct project type: Taxonomy projects

Question #	15	
Key (answer)	C	
Rationale	A.	Incorrect Correct term: Big data
	B.	Incorrect Correct term: Big data
	C.	Correct
	D.	Incorrect Correct term: Big data

SECTION B

Q16

Marking Guide

Qn	Description	Marks
a	i)All three IAS 41 criteria (control, probable future economic benefit, reliable measurement) identified and applied to Grow's facts to conclude the herd should be recognised	1
	ii)Herd measured at fair value less costs to sell at initial recognition and each reporting date, with no depreciation; gains/losses to P&L	1
	ii)Milk measured at fair value less costs to sell at point of harvest; becomes deemed cost under IAS 2 thereafter	1
	iii)Explains no lease exists (herd is owned, not leased) (0.5 marks) and the IFRS 16 scope exclusion for IAS 41 biological assets (0.5 marks),	1
	Sub total	**4**
b	Correct use of annuity factor and correct initial lease liability/ROU	0.5
	Correct closing lease liability at 31 Dec 20X7 (0.5 Marks), correctly split between current and non-current (0.5 marks) i.e table showing displaying them	1
	Correct identification of depreciation period as the shorter of lease term (4 yrs) and useful life (5 yrs), and correct annual depreciation = FRW 111,738 thousand	1
	Extract financial statements: Award 0.5 marks for each correct posting in extract financial statements	3.5
	Sub total	**6**
	Total	**10**

Model Answer

a) Briefing Notes

i) Recognition Criteria under IAS 41

IAS 41 Agriculture requires an entity to recognize a biological asset (or agricultural produce) only when all three of the following criteria are met:

1. Control as a result of past events (e.g., legal ownership of the herd).
2. Probable future economic benefits: it is probable that benefits (milk yield, offspring, eventual sale) will flow to the entity.
3. Reliable measurement: fair value or cost can be measured reliably.

Grow's herd is managed and controlled by the Group, milk production is ongoing, and an active market for dairy cattle exists, all three criteria are met, so the herd should be recognised as a biological asset.

ii) Measurement under IAS 41

Dairy herd (biological asset)

Measured at initial recognition and at each reporting date at fair value less costs to sell, with no depreciation. Gains/losses on remeasurement go to profit or loss (IAS 41)

Milk (agricultural produce)

Measured at the point of harvest at fair value less costs to sell. This becomes the deemed "cost" of the milk under IAS 2 Inventories thereafter.

iii) Why the Herd Falls Outside IFRS 16

The herd is owned outright by Grow: there is no lease contract and no consideration paid for the right to use another party's asset, so the core definition of a lease in IFRS 16 (para 9) is not met.

In any event, IFRS 16 explicitly excludes biological assets within the scope of IAS 41 (IFRS 16, para 3(e)). The herd is therefore correctly accounted for under IAS 41's fair value model, not IFRS 16's cost/depreciation model used for the leased processing equipment.

b) Lease of Processing Plant and Machinery (IFRS 16)

PV of Lease Payments

Annuity factor (4 years @ 10%) = $[1 - (1.10)^{-4}] / 0.10 = 3.1699$

Lease liability at 1 Jan 20X7 = FRW 141,000 × 3.1699 = FRW 446,951 thousand

This is also the initial measurement of the right-of-use (ROU) asset, in the absence of initial direct costs, lease incentives, or restoration obligations.

Lease Liability Amortisation Table (Effective Interest Method)

Year	Opening balance (FRW'000)	Interest @10% (FRW'000)	Payment (FRW'000)	Closing balance (FRW'000)
20X7	446,951	44,695	-141,000	350,646
20X8	350,646	35,065	-141,000	244,711
20X9	244,711	24,471	-141,000	128,182
20Y0	128,182	12,818	-141,000	0

Depreciation of the Right-of-Use Asset

Because there is no purchase option and no transfer of ownership, the ROU asset is depreciated over the shorter of the lease term (4 years) and useful life (5 years) = 4 years.

Annual depreciation = 446,951 ÷ 4 = FRW 111,738 thousand (FRW 111.738 million)

Financial Statement Extracts - Grow Company, Year Ended 31 December 20X7

STATEMENT OF PROFIT OR LOSS (EXTRACT)

FRW'000

Depreciation expense (ROU asset)	111,738
Finance cost (interest on lease liability)	44,695

STATEMENT OF FINANCIAL POSITION (EXTRACT) AS AT 31 DECEMBER 20X7

Non-current assets

	FRW'000
Right-of-use asset (446,951 − 111,738)	335,213

Non-current liabilities

	FRW'000
Lease liability	244,711

Current liabilities

	FRW'000
Lease liability (141,000 − (10% × 350,646) = 141,000 − 35,065 = 105,935)	105,935

STATEMENT OF CASH FLOWS (EXTRACT)

	FRW'000
Operating activities: interest paid*	-44,695
Financing activities: capital element of lease payments	-96,305

Q17

Marking Guide

Description	**Recognised in (OCI / P&L / SOFP)**	**Marks**
Working 1 - Revaluation of Floors 1-7 at 1 January 20X8 (Event 1)		
Correct cost of owner-occupied portion allocated (Floors 1-7)	Working figure	0.5
Correct annual depreciation under the cost model (Cost / Life)	Working figure	0.5
Correct accumulated depreciation, 20X5-20X7, and resulting carrying amount at 1 Jan 20X8	Working figure	0.5
Correct revaluation surplus recognised (Fair value less carrying amount)	OCI	0.5
Working 2 - Transfer of Floors 6-7 to Investment Property at 1 July 20X8 (Event 2)		
Correct revalued amount allocated to Floors 6-7	Working figure	0.5
Correct depreciation charged on Floors 6-7, 1 Jan - 1 Jul 20X8, up to the date of change of use	P&L	0.5
Correct carrying amount of Floors 6-7 at date of transfer (1 Jul 20X8)	Working figure	0.5
Correct gain on transfer,	OCI	0.5
Working 3 - Impairment of Floors 1-5 at 31 December 20X8 (Event 3)		

Correct revalued amount allocated to Floors 1-5	Working figure	0.5
Correct annual depreciation, Floors 1-5, full year	P&L	0.5
Correct carrying amount, Floors 1-5, 31 Dec 20X8, before impairment	Working figure	0.5
Correct fair value less costs to sell (Fair value gross less costs to sell)	Working figure	0.5
Correct recoverable amount	Working figure	0.5
Correct total impairment loss	Working figure	0.5
Correct revaluation surplus available for Floors 1-5 to absorb the loss	Working figure	0.5
Correct impairment loss allocated: FRW 32.0m charged against the revaluation surplus, with the FRW 4.0m remainder charged to profit or loss	OCI + P&L	1
Working 4 - Fair Value Movements on Investment Property (Event 4)		
Correct fair value gain on Floors 8-10,	P&L	0.5
Correct fair value gain on Floors 6-7 post-transfer	P&L	0.5
Financial Statement Extracts - Year Ended 31 December 20X8		
Correct investment property balance (Floors 6-10)	SOFP	0.5
Total		**10**

Model Answer

Working 1 - Revaluation of Floors 1-7 at 1 January 20X8

	FRW million
Cost, 1 Jan 20X5 (Floors 1-7, 70% of FRW 200m)	140
Annual depreciation (140 ÷ 25 years)	5.6
Accumulated depreciation, 20X5-20X7 (3 years × 5.6)	-16.8
Carrying amount, 1 Jan 20X8	123.2
Fair value, 1 Jan 20X8	168
Revaluation surplus (credited to OCI)	44.8

Working 2 - Transfer of Floors 6-7 to Investment Property at 1 July 20X8 (Event 2)

	Floors 6-7 (2/7)
Revalued amount, 1 Jan 20X8 (2/7 × 168.0)	48
Depreciation, 1 Jan - 1 Jul 20X8 (6 months × (2/7 × 8.4) ÷ 12)	-1.2
Carrying amount at date of transfer, 1 Jul 20X8	46.8
Fair value at date of transfer, 1 Jul 20X8	60
Gain on transfer	13.2

Working 3 - Impairment of Floors 1-5 at 31 December 20X8 (Event 3)

	FRW million
Revalued amount, 1 Jan 20X8 (5/7 × 168.0)	120
Depreciation for the year (5/7 × 8.4, full 12 months)	-6
Carrying amount, 31 Dec 20X8 (before impairment)	114
Fair value less costs to sell (88.0 − 10.0)	78
Value in use	70
Recoverable amount (higher of the two)	78

Impairment loss (114.0 − 78.0)	36

As Floors 1-5 are carried under the revaluation model, the impairment loss is first charged against the revaluation surplus attributable to those floors, with any excess taken to profit or loss (IAS 16 paras 60-65):

	FRW million
Impairment loss	36
Revaluation surplus available (5/7 × 44.8)	-32
Balance charged to profit or loss	4

Working 4 - Fair Value Movements on Investment Property (Event 4)

Component	Opening FV (FRW m)	Closing FV (FRW m)	Gain to P&L (FRW m)
Floors 8-10 (investment property since 20X5)	96.0 (1 Jan 20X8)	102	6
Floors 6-7 (investment property from 1 Jul 20X8)	60.0 (1 Jul 20X8)	66	6
Total fair value gain to profit or loss			12

SECTION C

QUESTION 18

Marking guide

Description	Marks
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20X8	

Goodwill	0.5
Other non-current assets: Tenn + Seesee + customer list	1
Investment in associate	0.5
Current assets: Tenn + Seesee, less intra-group balance	1
Share capital (Tenn only)	0.5
Retained earnings	0.5
Non-controlling interest	0.5
Current liabilities: Tenn + Seesee, less intra-group balance	1
W1 - Fair value of Seesee's identifiable net assets at acquisition (30 Nov 20X4)	
Share capital	0.5
Retained earnings at acquisition	0.5
Fair value adjustment - customer list (intangible asset)	0.5
Fair value adjustment - warehouse (FV below carrying amount)	0.5
Fair value adjustment - contingent liability (legal claim)	0.5
W2 - Goodwill on acquisition of Seesee	
Consideration transferred (investment in Seesee)	0.5
Fair value of NCI at acquisition	0.5
Less: fair value of identifiable net assets acquired (W2)	0.5
Goodwill at acquisition	0.5
Less: cumulative impairment to date	0.5
W3 - Adjusted post-acquisition retained earnings of Seesee	
Seesee retained earnings at 31 Dec 20X8	0.5
Less: retained earnings at acquisition	0.5
Additional amortisation-FV × months elapsed / (life × 12)	0.5
Additional gain on warehouse disposal-additional gain on disposal recognised	1
Reversal of overstated legal claim expense	1
Customer list - carrying amount at 31 Dec 20X8	0.5
Why dividend not adjusted	0.5
W4 - Non-controlling interest at 31 December 20X8 (fair value method)	
Fair value of NCI at acquisition	0.5
NCI share of adjusted post-acquisition earnings	0.5
Less: NCI share of cumulative goodwill impairment	0.5
W5 - Consolidated retained earnings at 31 December 20X8	
Tenn - retained earnings per SFP	0.5
Tenn's share of Seesee's adjusted post-acquisition earnings	0.5
Less: Tenn's share of cumulative goodwill impairment	0.5
Tenn's share of Deeco's post-acquisition earnings	0.5
W6 - Investment in associate (Deeco) - equity method	
Cost of investment	0.5
Share of post-acquisition retained earnings	0.5
W7 - Intra-group current account / cash in transit	
Amount eliminated on consolidation (matched balance)	0.5

Total **20**

Model Answer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20X8	**Amount "Million"**
Assets	
Goodwill (W2)	1,460.00
Other non-current assets: Tenn + Seesee + customer list (W4)	6,970.00
Investment in associate (W6)	370.00
Total non-current assets	**8,800.00**
Current assets: Tenn + Seesee, less intra-group balance (W7)	1,350.00
TOTAL ASSETS	**10,150.00**
Equity and liabilities	
Share capital (Tenn only)	2,400.00
Retained earnings (W5)	5,686.00
Equity attributable to owners of the parent	**8,086.00**
Non-controlling interest (W4)	934.00
Total equity	**9,020.00**
Current liabilities: Tenn + Seesee, less intra-group balance (W7)	1,130.00
TOTAL EQUITY AND LIABILITIES	**10,150.00**

WORKING

W1 - Fair value of Seesee's identifiable net assets at acquisition (30 Nov 20X4)	
Share capital	800.00
Retained earnings at acquisition	400.00
Fair value adjustment - customer list (intangible asset)	150.00
Fair value adjustment - warehouse (FV below carrying amount)	-90.00
Fair value adjustment - contingent liability (legal claim)	-40.00
Fair value of identifiable net assets at acquisition	**1,220.00**

Note: the customer list, warehouse and legal claim were not recognised in Seesee's own financial statements, but all three meet the IFRS 3 recognition criteria on consolidation and are included at acquisition-date fair value.

W2 - Goodwill on acquisition of Seesee	
Consideration transferred (investment in Seesee)	2,240.00
Fair value of NCI at acquisition	540.00
Total	**2,780.00**
Less: fair value of identifiable net assets acquired (W1)	-1,220.00

Goodwill at acquisition	**1,560.00**
Less: cumulative impairment to date	-100.00
Goodwill carried in the consolidated SFP at 31 Dec 20X8	**1,460.00**

W3 - Adjusted post-acquisition retained earnings of Seesee	
Seesee retained earnings at 31 Dec 20X8	2,400.00
Less: retained earnings at acquisition	-400.00
Post-acquisition movement per Seesee's own books	**2,000.00**
Additional amortisation-FV × months elapsed / (life × 12)	-60.00
Additional gain on warehouse disposal-additional gain on disposal recognised for the group (= FV adjustment)	90.00
Reversal of overstated legal claim expense - add-back of amount already provided for at acquisition	40.00
Adjusted post-acquisition retained earnings	**2,070.00**

- Customer list - carrying amount at 31 Dec 20X8 (150 - 60 (Amortization)) =90 Million
- Warehouse: Seesee recorded a gain of 10 on its unadjusted carrying amount; from the group's perspective the asset's cost basis was 90 lower, so the group's gain is 100, i.e. a +90 post-acquisition adjustment.
- Legal claim: Seesee expensed the full settlement of 45 (it had never recognised the provision); from the group's view only the incremental 5 (45-40) is a genuine post-acquisition loss, so 40 is added back.
- The FRW 100m dividend Seesee paid during the year is already reflected in its closing retained earnings of 2,400, so no separate adjustment is needed: Tenn's own retained earnings already include its 80% share as dividend income, which is exactly offset by the corresponding reduction embedded in this post-acquisition movement.

W4 - Non-controlling interest at 31 December 20X8 (fair value method)	
Fair value of NCI at acquisition	540.00
NCI share of adjusted post-acquisition earnings	414.00
Less: NCI share of cumulative goodwill impairment	-20.00
Non-controlling interest at 31 Dec 20X8	**934.00**

W5 - Consolidated retained earnings at 31 December 20X8	
Tenn - retained earnings per SFP	4,080.00

Tenn's share of Seesee's adjusted post-acquisition earnings	1,656.00
Less: Tenn's share of cumulative goodwill impairment	-80.00
Tenn's share of Deeco's post-acquisition earnings	30.00
Consolidated retained earnings	**5,686.00**

W6 - Investment in associate (Deeco) - equity method	
Cost of investment	340.00
Share of post-acquisition retained earnings	30.00
Carrying amount at 31 Dec 20X8	**370.00**

The equity method is applied directly to book values.

W7 - Intra-group current account / cash in transit	
Tenn - receivable from Seesee, per SFP	50.00
Seesee - payable to Tenn, per SFP	30.00
Cash in transit (paid by Seesee, not yet recorded by Tenn)	20.00
Amount eliminated on consolidation (matched balance)	**30.00**

QUESTION 19
Marking Guide

	Marks
STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 20X8	
Revenue	0.5
Cost of sales (W1)	0.5
Distribution costs	0.5
Administration costs (W1)	0.5
Investment income	0.5
Finance costs (5,950 x 5%)	0.5
Profit before tax	0.5
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20X8	
PPE (W2)	0.5
Intangible assets (1,260 - 260)	0.5
Investments	0.5
Inventories (520 - 40)	0.5
Trade receivables (1,540 - 120)	0.5

Bank	0.5
Share capital (7,000 + 1,500)	0.5
Share premium account	0.5
Revaluation reserve	0.5
Retained earnings (W4)	0.5
Provision (700 + 100)	0.5
Long-term borrowing	0.5
Trade and other payables (845 + 20 + 123) W3	0.5
WORKING 1 (W1) — Cost of sales / Distribution / Administration	
Opening inventory	0.5
Purchases	0.5
Closing inventory (520 - 40)	0.5
Production costs	0.5
Administration costs	0.5
Distribution costs	0.5
Research costs	0.5
Sale of equipment (70 - (500 - 320))	0.5
Increase in provision	0.5
Bad debt written off	0.5
Total	
WORKING 2 (W2) — Depreciation and property, plant and equipment	
Building depreciation (17,430 - 1,500) x 3% =	0.5
P&Eq depreciation ((11,270 - 500) - (2,345 - 320)) x 20% =	0.5
Vehicles depreciation 3,966 / 5 =	0.5
Buildings: (17,430 -1,500) - (8,295 + 478)	0.5
P&Eq: (11,270 - 500) - (2,345 - 320 + 1,749)	0.5
Vehicles: 3,966 - (1,120 + 793)	0.5
WORKING 3 (W3) — Accrued dividend and interest	
Preference dividend payable 1,500 x 6% =	
Accrued dividend 90 - 70 already paid = 20	0.5
Debenture interest payable 5,950 x 5% =	
Accrued interest 298 - 175 paid = 123	0.5
WORKING 4 (W4) — Retained earnings	
Retained earnings 1/1/X8	
Add profit for year	0.5
Less dividends (193 + 90)	0.5
Total	**20**

Model Answer

Kenst Company statement of profit or loss for the year ended 31 December 20X8

FRW million

Revenue	20,598
Cost of sales (W1)	(10,211)
Gross profit	10,387
Distribution costs	(1,715)
Administration costs (W1)	(3,410)
Profit from operating activities	5,262
Investment income	**154**
Finance costs (5,950 x 5%)	**(298)**
Profit before tax	**5,118**
Tax expense	0
Profit after tax	5,118

Presentation of statement

Marking guidance notes:

- *Items in bold within statements to be given specific marks as indicated*
- *Marks should be awarded for other acceptable ways of presenting, naming, or aggregating items where this is allowed under IFRS (eg charging inventory write-off to admin expenses)*
- *Some figures (eg depreciation charges) may require rounding to nearest FRW million, and marks should be given where differences are due to rounding up or down*

Kenst Company statement of financial position as at 31 December 20X8

Non-current assets	**FRW Million**	**FRW Million**
PPE (W2)	17,706	
Intangible assets (1,260 - 260)	**1,000**	
Investments	**2,520**	
Total non-current assets		21,226
Current assets		
Inventories (520 – 40)	**480**	
Trade receivables (1,540 – 120)	**1,420**	
Bank	**182**	
Total current assets		2,082
Total assets		23,308
Equity and liabilities		

Share capital (7,000 + 1,500)	**8,500**	
Share premium account	**350**	
Revaluation reserve	**490**	
Retained earnings (W4)	**6,230**	
Total equity		15,570
Provision (700 + 100)	**800**	
Long-term borrowing	**5,950**	
Total non-current liabilities		6,750
Current liabilities		
Trade and other payables (845 + 20 + 123) W3	988	
Total current liabilities		988
Total equity and liabilities		23,308

Working 1 (W1)

	Cost of sales	Distribution	Administration
	FRW Million	**FRW Million**	**FRW Million**
Opening inventory	**683**		
Purchases	**3,000**		
Closing inventory (520 – 40)	**(480)**		
Production costs	3,728		
Administration costs			3,080
Distribution costs		1,715	
Research costs	**260**		
Sale of equipment (70 – (500 – 320)			**110**
Depreciation – buildings (W2)	**478**		
Depreciation – plant and equipment (W2)	**1,749**		
Depreciation – vehicles (W2)	**793**		
Increase in provision			**100**
Bad debt written off			**120**
Total	**10,211**	**1,715**	**3,410**

W2:		**FRW Million**	**FRW Million**
Building depreciation	(17,430 – 1,500) x 3% =		**478**
P&Eq depreciation			
	((11,270 – 500) – (2,345- 320)) x 20% =		**1,749**
Vehicles depreciation	3,966 /5 =		**793**
Land:	1,500 – 0	1,500	
Buildings:	(17,430 -1,500) – (8,295 + 478)	7,157	

P&Eq	(11,270 – 500) – (2,345 - 320 + 1,749)	
		6,996
Vehicles	3,966 - (1,120 + 793)	2,053
Total		17,706

W3:

		FRW Million
Preference dividend payable	1,500 x 6%	90
Accrued dividend	90 – 70 already paid	20
Debenture interest payable	5,950 x 5%	298
Accrued interest	298 – 175 paid	123

W4:

	FRW Million
Retained earnings 1/1/X8	1,395
Add profit for year	5,118
Less dividends (193 + 90)	(283)
Retained earnings 31/12/X8	6,230

Working:

QUESTION 20
Marking Guide

Qn	Description	Marks
a	Award 1 mark for each ration calculated for both years	5
b	Award 1 mark for correct interpretation of each ration	5
Total		**10**

Model Answer

a) Ratio calculation

Ratio	20X8	20X7
ROCE = Operating profit / (Equity + Non-current borrowings)	**17.6%**	**26.0%**
Gearing ratio = Non-current borrowings / (Equity+ Non-current borrowings)	**41.18%**	**20.00%**
Interest cover = Operating profit / Finance costs	**4.0x**	**26.0x**
Inventory days = Inventory / Cost of sales x 365	**104 days**	**52 days**

Payables days (unadjusted) = Current liabilities / Cost of sales x 365	**78 days**	**49 days**
Payables days (adjusted for note 3) = (Current liabilities − customer advance) / Cost of sales x 365	**39 days**	**49 days**

b) Interpretation

ROCE (26.0% to 17.6%):
ROCE has fallen sharply. On its face this suggests the company is generating a lower return on the capital invested in the business. However, most of the increase in capital employed is due to a FRW 6,000 million upward revaluation of land and buildings (note 1) rather than new income-generating investment. The fall in ROCE is therefore significantly overstated by a non-cash accounting movement, and does not, on its own, indicate a genuine deterioration in operating performance.

q

Gearing ratio (20% to 41% unadjusted; 0% to 50% adjusted):
Gearing increased from 20.0% to 41.18%. Non-current borrowings increased from FRW4,000m to FRW14,000m, mainly due to the FRW10,000m bank borrowing used to fund the acquisition

Interest cover (26.0x to 4.0x):
Interest cover has fallen dramatically, reflecting the much higher finance costs following the new borrowings. This is a genuine and material decline in the margin of safety for meeting interest obligations. It is worth noting that the new debt has carried a full six months of interest while the acquisition it funded has had the same six months to contribute to operating profit, so cover may improve once the acquisition's earnings are reflected for a full year - but at 4.0x, cover is already low enough to warrant monitoring.

Inventory days (52 to 104 days):
Inventory days have doubled. Unlike the other ratios, no note in the question explains this increase, so it represents a genuine area of concern - for example, a build-up of slow-moving or obsolete stock, weakening demand, or poor stock control - and should be investigated further with management rather than explained away.

Payables days (49 to 78 days unadjusted; 49 to 39 days adjusted):
On an unadjusted basis, payables days appear to have increased sharply, which might suggest the company is taking longer to pay suppliers, possibly reflecting cash flow pressure following the acquisition. However, FRW 3,000 million of the current liabilities balance at 31 December 20X8 is an advance payment from a customer (note 3), not a trade payable. Once this is excluded, payables days actually rise only modestly, from 49 to 39 days - the opposite conclusion (a slight improvement, not a deterioration) from a mechanical, unadjusted calculation.

End of Marking guide and Model Answers