CERTIFIED PUBLIC ACCOUNTANT

OPERATIONAL LEVEL EXAMINATIONS

FR2.4 FINANCIAL REPORTING

DATE: TUESDAY, 25 AUGUST 2026

INSTRUCTIONS:

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **THREE** sections; **A, B and C**
3. Section A has **15 Compulsory** questions, each worth 2 Marks.
4. Section B has **2 Compulsory** questions, each worth 10 marks.
5. Section C has **3 Compulsory** questions: one question is worth 10 marks, and two questions are worth 20 marks each.
6. In summary attempt **All Questions**
7. Show all your workings where applicable
8. Marks allocated to each question are shown at the end of the question
9. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Which one of the following is defined by the IASB Conceptual Framework as 'The residual interest in the assets of the entity after deducting all its liabilities'?

A Profit
B Capital
C Equity
D Reserves

(2 Marks)

QUESTION TWO

Which one of the following events will be shown in the Statement of Changes in Equity as a retrospective adjustment?

A A change in an accounting estimate
B A gain on revaluation of property
C The declaration of an ordinary dividend
D A prior period error

(2 Marks)

QUESTION THREE

Which one of the following, according to IAS 1 Presentation of Financial Statements, should be recognised in 'other comprehensive income'?

A Income from contracts with customers
B A gain on revaluation of property, plant and equipment
C A gain on revaluation of investment property
D The profit on the sale of a vehicle

(2 Marks)

QUESTION FOUR

Consider the following types of standards:
(i) Sector standards
(ii) Statutory standards
(iii) Universal standards
(iv) Discretionary standards

Which TWO of those listed above are types of standards issued by the Global Reporting Initiative?

A (i) and (iii)
B (iii) and (iv)
C (i) and (ii)
D (ii) and (iv)

(2 Marks)

QUESTION FIVE

Consider the following criteria:

(i) It is probable that future economic benefits associated with the asset will flow to the entity

(ii) The entity has has legal title to the asset

(iii)The fair value of the asset can be measured reliably

(iv)The cost of the asset can be measured reliably

Which of the criteria listed above must be met before an item of property, plant, and equipment can be recognised, according to IAS 16 Property, Plant, and Equipment?

A (i) and (ii)

B (i) and (iv)

C (ii) and (iii)

D (iii) and (iv)

(2 Marks)

QUESTION SIX

Company G incurred costs of FRW 120 million on developing product Bay, and FRW 360 million on developing product Lay. On 1 January 20X7, Company G commenced commercial production of product Lay, but the directors decided that there was insufficient demand for product Bay to take it to market. Product Lay has an estimated commercial life of 3 years.

What is the carrying amount of intangible assets in Company G's financial statements for the year to 31 December 20X7?

A FRW 240 million

B FRW 480 million

C FRW 360 million

D FRW 320 million

(2 Marks)

QUESTION SEVEN

On 31 December 20X6, Lerin Company had equipment with a carrying value of FRW 180 million. Changes in production processes indicate that the asset may be impaired.

The results of the impairment review showed the value in use is FRW 100 million and fair value less costs of sale is FRW 120 million. Lerin Company uses the cost model to account for non-current assets.

Which one of the following accounting entries is required to account for the asset?

A Debit Expenses 80 million and Credit Equipment 80 million

B Debit Revaluation reserve 120 million and Credit Equipment 120 million

C Debit Equipment 100 million and Credit Expenses 100 million

D Debit Expenses 60 million and Credit Equipment 60 million

(2 Marks)

QUESTION EIGHT

Guirm Company entered into a three-year lease on the 1 January 20X7 for a vehicle. Guirm are required to pay FRW 15 million on 1 January 20X7 and then three further payments of FRW 10 million on 31 December each year. Guirm have elected to apply the low value exemption to account for this lease under IFRS 16 Leases.

What are the expense and prepayment amounts for the lease of this equipment for the year to 31 December 20X7?

A Expense FRW 10 million and Prepayment FRW 15 million
B Expense FRW 25 million and Prepayment FRW 10 million
C Expense FRW 15 million and Prepayment FRW 10 million
D Expense FRW 15 million and Prepayment FRW 15 million

(2 Marks)

QUESTION NINE

On 1 January 20X5, Maths Company acquired an asset at a cost of FRW 440 million, and the asset is estimated to have a useful life of 20 years. The company received a government grant of FRW 40 million to purchase the asset. Maths company uses the reduced asset approach to account for government grants.

What is the carrying value of the asset on 31 December 20X6 (i.e. at the end of the asset's second year)?

A FRW 396 million
B FRW 360 million
C FRW 420 million
D FRW 400 million

(2 Marks)

QUESTION 10

Which one of the following is an example of a social benefit, according to IPSAS 42 Social Benefits?

A State retirement benefits
B Income tax allowances
C Discounted medicines for children
D Provision of parks and recreation facilities

(2 Marks)

QUESTION 11

Alby Company manufactures personal computers. On 1 November 20X8, Alby supplied the retailer ITT Company with 100 personal computers at a price of FRW 4 million each. Under the terms of the sale, ITT is able to return any unsold computers to Alby at any time during the 6 months from the date that the computers were delivered. On 31 December 20X8, ITT had sold 63 of the computers to customers at an average price of FRW 5 million, and the remaining 37 computers were still in ITT's inventory.

How much should Alby Company recognise as revenue from the sale of vehicles to ITT for the year to 31 December 20X8?

A FRW 315 million
B FRW 400 million
C FRW 148 million
D FRW 252 million

(2 Marks)

QUESTION 12

Hols Company owns 70% of the shares in Day Company. During 20X8, Day sold goods at a profit of FRW 5 million to Hols, the goods remain unsold in inventory of Hols at the 20X8 reporting date.

Which of the following is the correct journal entry for preparing consolidated statement of financial position for Hols Company for 20X8?

A Debit Day's retained earnings FRW 5 million and Credit Closing inventory FRW 5 million.
B Debit Hol's retained earnings FRW 5 million and Credit Goodwill FRW 5 million
C Debit Hol's retained earnings FRW 5 million and Credit Closing inventory FRW5 million.
D Debit Day's retained earnings FRW 3.5 million, Debit NCI FRW 1.5 million and Credit Closing inventory FRW 5 million.

(2 Marks)

QUESTION 13

Which one of the following is the formula used to calculate the ordinary dividend cover ratio?

A Ordinary share capital / profit before tax
B Profit attributable to ordinary shareholders / ordinary dividends
C Profit before tax / ordinary share capital
D Ordinary dividends / profit attributable to ordinary shareholders

(2 Marks)

QUESTION 14

The International Accounting Standards Board (IASB) 'work plan' sets out activities related to standards and other IASB documents. The work plan is divided into different types of project.

Which one of the following relates to work on new or amended IFRSs that affect presentation or disclosure requirements, and that may lead to updating of IFRS classifications, definitions, or terminology?

A Standard-setting projects
B Research projects
C Taxonomy projects
D Application question projects

(2 Marks)

QUESTION 15

Which one of the following is described as 'Large and diverse collections of data that continue to grow over time and are too large or complex to be dealt with by traditional data-processing application software'?

A Block chain
B XBRL
C Big data
D Financial Management Information System

(2 Marks)

SECTION B

QUESTION 16

Grow Company ("Grow") is a listed agribusiness group involved in dairy farming and food processing, with a reporting date of 31 December. The Board is meeting shortly to approve the financial statements for the year ended 31 December 20X7, and the Finance Director has circulated a briefing paper covering two matters: a recent lease of processing equipment, and the Group's accounting policy for its dairy herd.

Matter 1: Lease of processing plant and machinery

On 1 January 20X7, Grow entered into a lease for specialised plant and machinery to expand capacity at its main processing facility. The lease term is 4 years, with no option to extend, purchase, or transfer ownership of the asset at the end of the term. Grow is required to make annual lease payments of FRW 141 million, payable in arrears on 31 December each year for the duration of the lease. The interest rate implicit in the lease is 10% per annum. The underlying asset has an estimated useful life of 5 years, which is longer than the lease term. Grow's depreciation policy is to depreciate assets on a straight-line basis.

Matter 2: Accounting for the dairy herd

Grow maintains a herd of dairy cattle as part of its farming operations, which are managed and controlled by the Group and are central to its milk production activities. The herd has grown over recent years through both natural births and selective purchases, and the animals are held indefinitely for ongoing milk production rather than for resale.

At the recent audit committee meeting, one non-executive director questioned why the herd is not accounted for in the same way as the Group's leased processing equipment, and separately asked whether the Group's approach to valuing the herd is consistent with how other agricultural assets and produce, such as harvested milk, should be treated under IFRS.

The Finance Director has asked you, as the Group's newly appointed technical accountant, to prepare briefing notes addressing the Board's questions and to complete the required financial statement workings arising from Matter 1.

Required:

a) Prepare briefing notes for the Board explaining:

i) The criteria under IAS 41 that must be satisfied before Grow can recognise its dairy herd as a biological asset. (1 Marks)

ii) How the dairy herd, and any milk produced from it, should each be measured in accordance with IAS 41? (2 Marks)

iii) Why the dairy herd falls outside the scope of IFRS 16, addressing the non-executive director's question directly. (1 Marks)

b) In respect of the lease of processing plant and machinery, **calculate the finance cost, the depreciation charge, and the lease liability at 31 December 20X7 for the year ended 31 December 20X7, and using these figures, prepare extracts from Grow Company's financial statements for that year.** (6 Marks)

(10 Marks)

QUESTION 17

Company J is a listed real estate and manufacturing group with a reporting date of 31 December. In 20X5, Company J constructed the Kigali Convergence Tower, a 10-storey mixed-use building with equal size and value, at a total cost of FRW 200 million. The building was brought into use on 1 January 20X5 with an estimated useful life of 25 years and a nil residual value.

Each floor of the Tower holds an independent sectional title deed, allowing any floor to be sold or leased separately without affecting the others. Company J Owner-occupied Floors 1-7 (70% of total area) for its head office and operations using the cost model until 20X8, while Floors 8-10 (30% of total area) were let to third-party tenants under operating.

Event 1 - Revaluation of the Owner-Occupied Portion (1 January 20X8)

On 1 January 20X8, the Board resolved to adopt the revaluation model for the owner-occupied portion of the Tower (Floors 1-7). An independent valuer assessed the fair value of Floors 1-7 at FRW 168 million, and reassessed the remaining useful life at that date at 20 years (with no change to the nil residual value assumption). Immediately prior to revaluation, the owner-occupied portion had been depreciated on a straight-line basis.

Event 2 - Partial Change of Use (1 July 20X8)

On July 1, 20X8, Company J vacated Floors 6 and 7 as part of a hybrid-work restructuring and leased them to third-party tenants under operating leases, formally changing their use to investment property. Floors 1-5 remained owner-occupied. No major modifications were needed before letting, and the two reclassified floors had a combined fair value of FRW 60 million at the transfer date.

Event 3 - Impairment Indicator on the Remaining Owner-Occupied Floors (December 20X8)

In December 20X8, Floors 1-5 faced potential impairment after a new building code made their processing infrastructure technologically obsolete.:

Item	Amount (FRW million)
Fair value (gross)	88
Costs to sell	10
Value in use	70

Event 4 - Fair Value Movements on the Investment Property Portion

At 31 December 20X8, the following fair values were determined for the investment property portion of the Tower:

Component	Fair value at 1 Jan 20X8	Fair value at 31 Dec 20X8
Floors 8-10	FRW 96 million (1 Jan 20X8)	FRW 102 million
Floors 6-7	FRW 60 million (1 July 20X8)	FRW 66 million

Required

Prepare extracts from Company J's Statement of Profit or Loss and Other Comprehensive Income, and Statement of Financial Position, for the year ended 31 December 20X8, showing the combined effects of Events 1-4 on the Kigali Convergence Tower. (10 Marks)

SECTION C

QUESTION 18

Tenn Company acquired 80% of the share capital of Seesee Company on 30 December 20X4, when Seesee's retained earnings stood at FRW 400 million. Tenn's group policy is to measure non-controlling interest at fair value at the date of acquisition, and the fair value of the 20% non-controlling interest in Seesee at that date was FRW 540 million.

At the acquisition date, Seesee's identifiable net assets were carried at book value, except for the following, none of which have been reflected in Seesee's individual financial statements:

- Seesee held an internally developed customer list that did not qualify for recognition under its own accounting policies, but which met the recognition criteria as an identifiable intangible asset on consolidation. Its fair value at acquisition was FRW 150 million, and management estimated a useful life of 10 years from that date.
- A warehouse included in Seesee's non-current assets had a fair value FRW 90 million below its carrying amount at acquisition, reflecting subsidence identified during due diligence. This fair value adjustment is not subject to any further depreciation prior to disposal. The warehouse was sold in June 20X7 for a gain of FRW 10 million over its (unadjusted) carrying amount at the date of sale and recognized in its financial statements.
- Seesee was defending a legal claim at the acquisition date. Seesee did not recognise any provision in respect of the claim in its individual financial statements at any time before settlement, as the claim did not meet the recognition criteria under Seesee's own accounting policies. The claim nonetheless represented a present obligation of Seesee with a reliably measurable fair value of FRW 40 million at the acquisition date, and was recognised as a contingent liability assumed in the business combination for consolidation purposes. The claim was settled in 20X6 for FRW 45 million, which Seesee recognised in full as an expense in its individual financial statements at the date of settlement.

The statements of financial position of the three companies as at 31 December 20X8 are as follows:

	Tenn	Seesee	Deeco
	FRW million	**FRW million**	**FRW million**
Non-current assets	4,000	2,880	1,130
Investment - 640m shares in Seesee	2,240	-	
Investment - 30% of Deeco	340	-	
Current assets	620	760	390
Total assets	**7,200**	**3,640**	**1,520**
Share capital (FRW 1 shares)	2,400	800	400
Retained earnings	4,080	2,400	1,000
Current liabilities	720	440	120
Total equity and liabilities	**7,200**	**3,640**	**1,520**

Additional information:

1) Cumulative goodwill impairment of FRW 100 million has been recognised to date, of which FRW 40 million relates to the year ended 31 December 20X8.
2) Tenn's current assets of FRW 620 million include a receivable from Seesee of FRW 50 million. Seesee's current liabilities of FRW 440 million include a corresponding payable to Tenn of FRW 30 million. The FRW 20 million difference represents cash paid by Seesee to Tenn shortly before the year end, which had not been received or recorded by Tenn at 31 December 20X8 (cash in transit).
3) Seesee paid a dividend of FRW 100 million during the year. The retained earnings figures below are stated after this dividend, and after Tenn's recognition of its 80% share.
4) On 1 January 20X8, Tenn acquired 30% of the equity shares of Deeco Company for FRW 340 million, giving it significant influence. Deeco's retained earnings were FRW 900 million at acquisition. There are no fair value adjustments required on the acquisition of Deeco, and there is no indication that the investment in the associate is impaired.

Required:

Prepare the consolidated statement of financial position of the Tenn Group as at 31 December 20X8. (20 Marks)

QUESTION 19

The trial balance below is taken from the accounts of Kenst Company on 31 December 20X8, prior to the statement of profit or loss and statement of financial position being prepared.

	FRW million	FRW million
Trade receivables and payables	1,540	845
Inventory (1 January 20X8)	683	
Purchases	3,000	
Production costs	3,728	
Distribution costs	1,715	
Administrative expenses	3,080	
Dividends received		154
Research and development	1,260	
Share premium account		350
Revaluation reserve		490
Interim dividends paid:		
Ordinary	193	
Preference	70	
Debenture interest paid	175	
Sales revenue		20,598
Ordinary shares (FRW 1,000)		7,000
Preference shares (6%)		1,500
5% Debentures		5,950
Investments (non-current)	2,520	

Retained earnings (1 January 20X8)		1,395
Land and buildings (revalued)	17,430	
Plant and equipment (cost)	11,270	
Vehicles (cost)	3,966	
Accumulated depreciation:		
Land and buildings		8,295
Plant and equipment		2,345
Vehicles		1,120
Proceeds from sale of vehicle		70
Provision		700
Cash and bank	182	
Total	**50,812**	**50,812**

Additional information:

1. Closing inventory is valued at FRW 520 million.
2. During the year, Kenst sold equipment for FRW 70 million. The equipment was purchased in 20X6 for FRW 500 million, and had been depreciated by 320 million at the time of the sale. Kenst treats any gain or loss on disposal of equipment as an administrative expenses item. The asset and accumulated depreciation accounts have not been updated for this sale in the Trial Balance.
3. Kenst's policy in respect of depreciation of non-current assets is as follows:
   - Land, with a value of FRW 1,500 million, is not depreciated.
   - Buildings are depreciated at 3% per annum on revalued amount.
   - Plant and equipment are depreciated at 20% per annum on reducing balance.
   - Vehicles are depreciated at cost over a period of 5 years.
   - All depreciation is charged as an expense against Cost of Sales.
4. The research and development costs have been incurred on two projects. One project has incurred expenditure of FRW 1,000 million. It is to be implemented in the next year, and it will increase the effectiveness of the company's production processes. The other project cost FRW 260 million, but the company management has concluded that there is no market for the product. Kenst's policy is to write off any expenses from research and development activities (where these can not be capitalised) to Cost of Sales.
5. A bad debt of FRW 120 million is to be written off in full as the customer has gone into liquidation
6. The provision on the trial balance relates to a court case that is still ongoing. On 31 December 20X8, the company's legal advisers their estimate of the cost to be paid by Kenst if the case is lost to FRW 800 million.
7. The outstanding preference dividend was declared before the statement of financial position date and is therefore to be treated as a liability.
8. The following events occurred after 31 December 20X8: - Inventory that had cost FRW 120 million was sold for FRW 80 million on 6 January 20X9. - A fire in the company warehouse on 3 January 20X9 caused damage to machinery, which will require expenditure of FRW 13 million to repair.

Required:

Prepare Kenst Company's statement of profit or loss for the year ended 31 December 20X8 and a statement of financial position at that date. (20 Marks)

QUESTION 20

The following extracts are from Lein Company's draft financial statements for the year ended 31 December 20X8.

	20X8	20X7
	FRW million	FRW million
Revenue	40,000	32,000
Cost of sales	-28,000	-22,400
Operating profit	6,000	5,200
Finance costs	-1,500	-200
Equity	20,000	16,000
Non-current borrowings	14,000	4,000
Current liabilities	6,000	3,000
Inventory	8,000	3,200
Trade receivables	6,000	2,800

Additional information:

1) Non-current assets include a FRW 6,000 million upward revaluation of land and buildings recognised during 20X8 (credited to a revaluation reserve). No other major capital expenditure was undertaken in the year.
2) Of the FRW 14,000 million non-current borrowings at 31 December 20X8, FRW 4,000 million is an unsecured, interest-free loan from the company's founder, not repayable within five years (this is the same loan as the FRW 4,000 million borrowings shown at 31 December 20X7). The remaining FRW 10,000 million is new bank debt raised on 1 July 20X8 to fund an acquisition.
3) Current liabilities at 31 December 20X8 include a FRW 3,000 million advance payment received from a customer for goods to be delivered in 20X9. There was no equivalent balance at 31 December 20X7.

Required:

a) Please calculate ROCE, gearing ratio, interest cover, inventory days, and payables days for 20X8 and 20X7. (5 Marks)

b) Comment on Lein's performance and financial position as shown by these ratios, giving one reason for each notable result. (5 Marks)

(10 Marks)

End of question paper