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CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATION

FR3.3: ADVANCED 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 **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

Ubutare Mining Ltd (Ubutare) is a tin mining group incorporated in Rwanda. It operates a single large mine outside Kigali, together with several subsidiaries engaged in related fields, some of which are partly owned by outside shareholders. Ubutare prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and has a reporting date of 31 December. All amounts are stated in millions of Rwandan francs (FRW million).

Ubutare: Consolidated Statement of Financial Position at 31 December 2015

	2015	**2014**
	FRW million	**FRW million**
Non-current assets		
Property, plant and equipment	2,360	2,685
Intangible assets, including goodwill	282	384
Current assets		
Inventories	167	196
Trade receivables	355	295
Cash and cash equivalents	1,348	259
Total assets	**4,512**	**3,819**
Equity and liabilities		
Share capital	1,000	1,000
Share premium	150	150
Retained earnings	1,003	627
Revaluation reserve	250	90
Non-controlling interest	282	120
Non-current liabilities		
Long-term borrowings	540	599
Provisions	57	-
Lease liability	159	119
Current liabilities		
Trade payables	395	340
Employee payables	150	136
Tax payable	229	339
Interest payable	166	180
Dividends payable	131	119
Total equity and liabilities	**4,512**	**3,819**

Ubutare: Consolidated statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	FRW Million
Revenue	5,882
Direct operational expenses	(3,948)
Administrative expenses	(599)
Depreciation and amortisation	(255)
Operating profit	**1,080**
Interest income	17
Finance costs	(110)
Loss on disposal of property, plant and equipment	(15)
Gain on disposal of subsidiary	100
Profit before tax	**1,072**
Income tax	(322)
Profit for the year	**750**
Other comprehensive income	
Revaluation surplus	160
Total comprehensive income for the year	**910**
Total comprehensive income attributable to:	
Owners of the parent	648
Non-controlling interest	262
	910

Additional information:

1. The group includes a subsidiary, Umusozi Ltd (Umusozi), which Ubutare acquired several years ago by purchasing 60% of the ordinary shares for a cash consideration of FRW 200 million. The net assets of Umusozi were FRW 50 million at the acquisition date. The group measures non-controlling interests at the proportionate share of the identifiable net assets of the acquiree. Goodwill arising on the acquisition was not impaired at any reporting date.
2. Umusozi was disposed of during 2015 at a gain of FRW 100 million. The following balances were included in the net assets of Umusozi at the date of disposal:

	FRW million
Property, plant and equipment	200
Inventories	45
Trade receivables	70
Trade payables	(40)
Current tax payable	(25)
Net assets	**250**

3. Property held by the group was revalued upwards during the year, with the increase recognised in the revaluation reserve.

4. During the year Ubutare disposed of property, plant and equipment with a carrying amount of FRW 250 million, at a loss of FRW 15 million.
5. The group acquired new property, plant and equipment during 2015, in part funded by a right-of-use lease with an initial value at inception of FRW 120 million. The remaining acquisitions were funded by cash.
6. Ubutare declared dividends totalling FRW 112 million during the year. The dividends have been recognised in the financial statements but were not paid in full at the year end. The amounts shown in the dividend account relate solely to the shareholders of Ubutare.
7. The provision of FRW 57 million recognised for the first time in 2015 relates to the environmental rehabilitation of the existing mine. It is unrelated to Shaft 3 and no amounts were paid against it during the year.
8. **Shaft 3 development (relevant to parts (b), (c) and (d) only)**

Ubutare's statement of financial position includes exploration and evaluation expenditure on a new shaft, incurred during 2015 and capitalised in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources. The directors treat each shaft as a separate operating unit and have on that basis classified Shaft 3 as a cash-generating unit. In addition to expenditure recognised in profit or loss, the following amounts have been capitalised:

Shaft 3 development asset components	**FRW million**
Geological studies	70
Exploratory drilling	90
Property, plant and equipment allocated to the CGU	100
Depreciation on CGU property, plant and equipment	(20)
Total	**240**

The total of FRW 240 million has been included within property, plant and equipment as a single line item, "Shaft 3 development asset". The directors carried out an impairment review under IFRS 6 and concluded that the asset is not impaired.

Shaft 3 is expected to be completed in December 2016 and to become productive during 2017. It will have a useful life of 20 years from the date it becomes productive, after which Ubutare will incur significant costs in safely closing the shaft and restoring the site. The Board has approved the establishment of a decommissioning provision to be recognised on completion of the shaft. Ubutare's technical experts have estimated the decommissioning costs over the five-year closure programme as follows. The estimates are stated at prices prevailing on completion of the shaft, and the years shown are measured from that date:

Year from completion	**FRW million**	**Discount factor at 8%**
20	150	0.2145
21	180	0.1987
22	200	0.1839
23	170	0.1703
24	60	0.1577

Applicable inflation rate per year	5%
Discount rate to be applied	8%

Required:

a) Prepare the consolidated statement of cash flows for Ubutare Mining Ltd for the year ended 31 December 2015, using the indirect method. (28 Marks)

b) The Chief Finance Officer has asked you to prepare a briefing note. **Prepare the section of that note dealing with the Shaft 3 development asset, showing:**

i) The journal entries required to state the asset in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources and IAS 16 Property, Plant and Equipment; (4 Marks)

ii) An explanation of the presentation and disclosure requirements of IFRS 6 that apply to the asset. (4 Marks)

c) Prepare the section of the briefing note dealing with the decommissioning provision, showing:

i) The present value of the provision at the date Shaft 3 is completed, together with the journal entry required to recognise it, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 16 Property, Plant and Equipment; (5 Marks)

ii) The adjustment required in the year immediately following completion, assuming no change in the estimated inflation rate or discount rate. (3 Marks)

d) The directors treat each shaft as a separate cash-generating unit and have concluded on that basis that Shaft 3 is not impaired. **Evaluate whether that treatment can be sustained under IFRS 6 Exploration for and Evaluation of Mineral Resources and IAS 36 Impairment of Assets, and advise the Chief Finance Officer of the consequences for the group if it cannot.** (6 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Ikigega Petroleum Ltd (Ikigega) is listed on the Rwanda Stock Exchange. Rwanda produces no petroleum and has no refining capacity, and the entire national requirement for refined products is imported overland through the ports of Mombasa in Kenya and Dar es Salaam in Tanzania. Ikigega imports, stores and distributes petrol, diesel and jet fuel through a network of depots in Rwanda, and re-exports a significant volume into eastern Democratic Republic of Congo. Ikigega prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), reports in Rwandan francs and has a reporting date of 31 December.

The principal risk to Ikigega's business is interruption of supply along the Northern Corridor between Mombasa and the Rwandan border, over which the group holds no storage or haulage capacity of its own. To secure that capacity, on 1 January 2016 Ikigega acquired the entire issued share capital of Ghala Logistics Limited (Ghala), a Kenyan company operating fuel storage depots and a fleet of road tankers along the corridor, for a cash consideration of FRW 1,400 million.

The identifiable assets and liabilities of Ghala at the date of acquisition were as follows. The amounts have been translated into Rwandan francs at the exchange rate ruling on that date:

	Carrying amount	Tax base	Fair value
	FRW million	**FRW million**	**FRW million**
Assets			
Property, plant and equipment	800	1,250	1,010
Financial assets	110	160	125
Inventories	52	52	50
Trade receivables	22	30	22
Cash and cash equivalents	34	34	34
Total assets	1,018	1,526	1,241
Liabilities			
Long term borrowings	135	135	135
Trade payables	56	56	56
Total liabilities	191	191	191

The rate of corporation tax in Kenya is 30%. Ghala has reported continuous growth in both revenues and profits in recent years and the directors expect that trend to continue.

Share appreciation rights granted by Ikigega

The corridor strategy depended on retaining the senior depot managers who would plan and then integrate the acquisition. To secure them, on 1 January 2015 Ikigega granted 400 share appreciation rights (SARs) to each of its 15 senior depot managers. The rights vest after two years' service and may be exercised during the following two years, up to 31 December 2018.

The fair value of each right at the grant date was FRW 15,000. It was estimated that 2 managers would leave over the initial two-year period, and this proved correct. The fair value of each right was as follows:

Date	Fair value per right (FRW)
31 December 2015	17,000
31 December 2016	20,000

On 31 December 2016, eight of the remaining managers exercised their rights, when the intrinsic value of each right was FRW 19,000. The rights of the managers who had not exercised remained outstanding at that date.

Share-based payment scheme established by Ghala

Following its acquisition, Ghala established its own share-based payment scheme on 1 January 2016 in order to improve employee motivation and retention. Ghala granted share options to its employees with a fair value at the grant date of FRW 35 million. The options vest after three years.

Kenyan tax law allows a company a tax deduction equal to the intrinsic value of share options at the date they are exercised. No deduction is available until exercise. At 31 December 2016 the intrinsic value of the options granted by Ghala was FRW 45 million.

Required:

a) Calculate the deferred tax arising on the acquisition of Ghala, and the goodwill to be recognised in the consolidated financial statements of Ikigega at 1 January 2016. (8 Marks)

b) Calculate Ikigega's liability and expense arising from the share appreciation rights, and present the share appreciation rights liability account and the related expense account for the two years ended 31 December 2016. *Your answer should be rounded to the nearest FRW thousand.* (7 Marks)

c) You are a senior accountant at Ghala. The Board of Ghala does not understand why a tax deduction that will not arise for another two years affects the current financial statements.

Write a memorandum to the Board covering:

i) What a deferred tax asset is, and the conditions that must be met before one may be recognised; (2 Marks)

ii) How IAS 12 Income Taxes measures the deferred tax arising on a share-based payment, and why that measurement differs from the expense recognised under IFRS 2 Share-based Payment; and (4 Marks)

iii) The deferred tax asset to be recognised in Ghala's financial statements at 31 December 2016, and how that amount is allocated between profit or loss and equity. (4Marks)

(Total: 25 Marks)

QUESTION THREE

Ruguriro Retail Ltd (Ruguriro) began as a single supermarket in Huye and has since expanded across Rwanda to become one of the largest and most profitable retail groups in the country. It operates supermarkets in every province, supplied from three regional warehouses, and sources a substantial part of its fresh produce directly from smallholder farmers. The founders believe the business model can be exported across the region and, in order to raise the capital to do so, the board has decided to pursue a listing on the Rwanda Stock Exchange during 2017.

Ruguriro prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), reports in Rwandan francs and has a reporting date of 31 December.

The eligibility criteria of the Rwanda Stock Exchange require a listed company to publish half-yearly interim reports. Following the listing, the first such report will cover the six months ending 30 June 2017. The finance director is unfamiliar with interim reporting and has asked for advice on the following matters, each of which she expects to arise in that first interim period:

1. Ruguriro's trade is highly seasonal. Approximately 40% of annual revenue arises in the six weeks around the festive season in December. The finance director proposes to include a proportion of the expected December uplift in the results for the six months to 30 June, so that the interim figures are, in her words, "representative of a normal half year".

2. Ruguriro pays an annual bonus to all store staff each December. The bonus is provided for in the employment contracts and is contingent on the group achieving its full-year profit target. The group has met that target in each of the last six years, and at 30 June 2017 management expects it to be met again.

3. The board has approved a major refurbishment of the three regional warehouses, budgeted at FRW 180 million and scheduled to take place between September and November 2017. No contracts had been signed at 30 June 2017. The finance director proposes to provide for half of the budgeted cost in the interim report so that the charge is spread evenly across the year.

4. The finance director is unsure how to measure the income tax charge for the interim period, given that the group's effective tax rate varies from year to year.

5. In April 2017 Ruguriro wrote down a quantity of slow-moving imported goods to net realisable value, recognising a loss of FRW 42 million. Management expects prices to recover before December 2017, so that the write-down will reverse before the year end.

In December 2011 Ruguriro entered into a seven-year lease with a local equipment supplier for machinery to be used in its regional warehouses. The lease commences on 1 January 2012, and annual payments of FRW 60 million are made in advance on 1 January of each year, the first falling due on the commencement date. The interest rate implicit in the lease is 12%. Ruguriro incurred legal and commission costs of FRW 25 million in arranging the lease and received an incentive of FRW 8 million from the lessor, both settled on the commencement date. The machinery has an estimated useful life of seven years and a nil residual value, and Ruguriro depreciates such assets on a straight-line basis. Ruguriro does not apply the recognition exemptions available under IFRS 16 Leases. The following discount factors at 12% may be used:

Year	**1**	**2**	**3**	**4**	**5**	**6**
Discount factor at 12%	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066

During preliminary meetings with prospective institutional investors, several have asked what non-financial information Ruguriro intends to publish alongside its financial statements. One investor commented that the audited financial statements on their own tell an investor very little about the matters that will determine whether the regional expansion succeeds: the security of the supply chain, the water and energy consumed by the warehouses and stores, the skills and turnover of the workforce, the strength of the Ruguriro brand, or the durability of the relationships with the smallholder farmers who supply the fresh produce.

The board has not previously published information of this kind and is unfamiliar with the guidance available. It has asked for a briefing before the listing prospectus is prepared.

Required:

a) In relation to the interim report for the six months ending 30 June 2017:

i) Advise the finance director how each of the five matters set out above should be dealt with in accordance with IAS 34 Interim Financial Reporting, giving reasons. (7 Marks)

ii) State the current and comparative periods that Ruguriro must present for each of the primary financial statements in its interim report. (2 Marks)

b) In relation to the lease of the warehouse equipment, and in accordance with IFRS 16 Leases, calculate:

i) The lease liability to be recognised at the commencement of the lease on 1 January 2012; (2 Marks)

ii) The initial carrying amount of the right-of-use asset at that date; and (2 Marks)

iii) The carrying amount of the lease liability and of the right-of-use asset at the end of each of the seven years of the lease. (4 Marks)

c) Prepare a briefing for the board of Ruguriro which:

i) Explains why prospective investors seek non-financial information alongside the financial statements, and the shortcomings of traditional financial reporting that such information addresses; (3 Marks)

ii) Outlines the guidance available on management commentary, sustainability reporting and integrated reporting, and the content of an integrated report; and (3 Marks)

iii) Identifies which of the six capitals of integrated reporting are likely to be most significant to Ruguriro, explaining your choice by reference to its business. (2 Marks)

(Total: 25 Marks)

QUESTION FOUR

Umuhanda Maintenance Agency

Umuhanda Maintenance Agency (Umuhanda) is a public sector entity established by law to maintain and develop the national road network of Rwanda. It owns the network itself — the roads, bridges and associated structures — none of which is tolled or otherwise generates cash inflows. Umuhanda is funded principally by a levy imposed by law on fuel imported into Rwanda, and is accountable to Parliament.

Umuhanda has historically reported on the cash basis. It is now preparing its first financial statements under accrual-based International Public Sector Accounting Standards (IPSAS) for the year ended 31 December 2017. All amounts are stated in millions of Rwandan francs (FRW million).

Three sources of revenue have arisen during the year, and the Director of Finance is uncertain how each should be dealt with:

1. Fuel levy. The levy is imposed by law on every litre of fuel imported into Rwanda, and the taxable event is the importation of the fuel. Importers are required to remit the levy to Umuhanda by the fifteenth day of the month following importation. The levy arising on fuel imported during 2017 amounted to FRW 68,400 million, of which FRW 5,700 million related to December imports and was received in January 2018. Separately, one importer paid FRW 4,200 million to Umuhanda in December 2017 in respect of fuel it expected to import during January 2018.
2. Capital transfer. In March 2017 a development partner transferred FRW 12,000 million to Umuhanda towards the construction of a bypass. The transfer agreement requires the funds to be applied solely to that project and requires any amount not so applied to be returned to the development partner if construction is not complete by 31 December 2019. By 31 December 2017, FRW 4,500 million had been spent on the bypass.
3. Services in kind. A local engineering firm carried out the design work for the bypass free of charge. Had Umuhanda procured the work commercially it would have cost approximately FRW 800 million. Umuhanda has not previously recognised services received in kind.

A section of national road at Nyabihu was completed in 2008 at a cost of FRW 4,800 million. It was assessed as having a useful life of 40 years and a nil residual value, and is depreciated on a straight-line basis. In November 2017 a landslide destroyed part of the embankment. The section remains open but carries traffic at substantially reduced capacity. Umuhanda's engineers estimate that constructing an equivalent new road section today would cost FRW 6,000 million, and that restoring the damaged section to its pre-landslide condition would cost FRW 1,200 million. The section is not tolled and generates no cash inflows.

The Director of Finance is aware that moving from cash to accrual reporting will change more than the format of the financial statements, and has asked for a note setting out what the transition will mean for Umuhanda in practice.

Required:

a) Explain, with supporting calculations, how each of the three sources of revenue should be recognised and measured in the financial statements of Umuhanda for the year ended 31 December 2017, in accordance with IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). (10 Marks)

b) In relation to the Nyabihu road section:

i) **Explain the principal differences between IPSAS 21 Impairment of Non-Cash Generating Assets and IAS 36 Impairment of Assets, and state why the recoverable amount used in IAS 36 is not an appropriate measure for an asset of this kind.** (4 Marks)

ii) **Calculate the impairment loss to be recognised at 31 December 2017, identifying and applying the approach to measuring the remaining service potential which is most appropriate in the circumstances, and prepare the journal entry required.** (6 Marks)

c) Discuss the financial reporting and practical implications for Umuhanda of adopting accrual-based IPSAS for the first time. (5 Marks)

(Total: 25 Marks)

End of question paper

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