CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATIONS

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 25, NOVEMBER 2025

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

Pascal Investments Ltd (PIL) is a parent company to the PIL Group which is one of the largest investment groups in Rwanda in terms of capital. The group has strategically invested across a diverse range of sectors, including engineering, fast-moving consumer goods, construction materials, security services and others.

The following is the PIL consolidated trial balance for the year ended 30 June 2025:

	Debit	**Credit**
	FRW million	**FRW million**
Ordinary share capital		100,000
Share premium		40,000
Retained earnings at 30 June 2024		103,740
Property, plant and equipment	235,500	
Inventories at 30 June 2025	43,700	
Trade & other receivables	42,200	
Cash and bank	36,800	
Trade payables		35,100
Defined benefit liability		3,900
Investment in GTC	20,000	
Goodwill	58,500	
Non-controlling interests		45,000
Other intangible assets	18,000	
Long-term borrowings		50,000
Deferred tax liability		19,350
Other current liabilities		11,200
Revenue		176,500
Cost of sales	68,950	
Administration and distribution costs	28,230	
Finance costs	14,860	
Income tax expense	12,300	
Other operating costs	12,000	
Other incomes		6,250
	591,040	**591,040**

Additional Information:

1. On 1 July 2024, PIL acquired 80% of the ordinary share capital of Micah Construction Ltd (MCL), a company specialized in construction, mechanical, electrical engineering, and infrastructure services. The Goodwill recognised in the consolidated financial statements for this investment did not take into consideration the fair value increase of FRW 8,000 million in the properties of Micah Construction Ltd on the date of acquisition. These

properties were assessed to have a useful life of ten (10) years on the date of acquisition (depreciation charges are presented in "cost of sales"). In addition, a related deferred tax implication arising on the fair value adjustment for these properties have not been recognized (ignore the deferred tax allocation to NCIs). The tax rate applicable to PIL is 30%. Non-controlling interests (NCIs) in Micah Construction Ltd (MCL) have been recognised based on their fair value. The initial measure of the NCIs in MCL was correctly recognized on the date of acquisition.

2. PIL holds a total of 90% ordinary share capital in Lead Masters Co (LMC), a company located in Nyagatare, Rwanda. LMC is the largest granite processing plant in East Africa with the company's products highly demanded in the East African countries. PIL acquired the 90% shareholding in steps as follows:
   - On 1 July 2024, PIL acquired 15% shareholding in LMC at cost of FRW 20,000 million and this qualified as a financial asset.
   - On 1 April 2025, PIL acquired an additional 75% shareholding in LMC at a cost of FRW 80,000 million.

On 1April 2025, the fair value of the non-controlling interests in LMC was FRW 15,200 million; the fair value of the previous 15% shareholding was FRW 25,800 million and the fair value of the identifiable net assets in LMC was FRW 83,250 million.

Though computed correctly, the fair value adjustment on the remeasurement of the 15% shareholding in LMC has incorrectly been recognized in the "revenue" account rather than in "other incomes".

On 30 June 2025, the goodwill relating to the investment in LMC was impaired by 20%. Though, the initial goodwill was correctly recognized in the consolidated financial statements, the impairment loss on Goodwill has not been recognized. Impairment loss on Goodwill should be presented in the "administration costs".

3. In diversifying its investments by holding interests in a foreign operation, on 1 July 2024, PIL acquired 60% ordinary share capital of ACE Ltd which is a fast-growing company based in the Republic of Congo. ACE Ltd is involved in agriculture and livestock operations. The functional currency of ACE Co is the Central African Franc ("XAF").

PIL's cost of investment on the acquisition of ACE Ltd on 1 July 2024 was XAF 57,500 million which will be settled on 1 August 2025 *(ignore any effects of time value in money)*. The deferred consideration has not been recognised in the financial statements of PIL. Any exchange differences should be recognised in the administration expenses.

The fair value of the net assets in ACE Ltd on the date of acquisition was XAF 53,200 million while the retained earnings on that date were XAF 15,350 million. The non-controlling interests in ACE Ltd are carried at their proportionate share of the identifiable net assets.

The Group Finance Director is ignorant of the accounting principles applied in the consolidation of a foreign operation. As a consequence, Goodwill related to the acquisition of

ACE Ltd and the financial statements of ACE Ltd have not been reported in the consolidated Trial Balance of PIL Group.

ACE's statement of profit or loss for the year ended 30 June 2025

	XAF million
Revenue	9,046
Cost of sales	(4,827)
Gross profit	**4,219**
Administration and distribution costs	(1,976)
Other operating costs	(840)
Other incomes	438
Finance costs	(750)
Profit before tax	**1,091**
Income tax	(861)
Profit for the year	**230**

ACE's statement of financial position as at 30 June 2025

	XAF million	**XAF million**
Assets		
Non-current assets		
Property, plant and equipment	20,800	
Biological assets	28,700	
Other intangible assets	3,780	
		53,280
Current assets		
Inventories	9,177	
Trade receivables	8,862	
Cash and bank	7,728	
		25,767
Total assets		**79,047**
Equity and Liabilities		
Equity		
Ordinary share capital	28,500	
Share premium	9,350	
Retained earnings	17,302	
Total equity		**55,152**
Non-current liabilities		
Long-term borrowings	10,500	
Deferred tax liability	3,672	
		14,172
Current liabilities		
Trade payables	7,371	
Other current liabilities	2,352	
		9,723

Total equity and liabilities		**79,047**

The purchased goodwill in ACE is assessed to be impaired by 20% for the year ended 30 June 2025 (impairment losses are recognized in the administration costs).

Fair value of biological assets of ACE Ltd

ACE Ltd measures its biological assets at "fair value less estimated point-of-sale costs" in accordance with IAS 41 *Agriculture*. At 30 June 2025, ACE Ltd's livestock was measured with a fair value gain of XAF 150 million which has not been recognized in ACE Ltd.'s own company's financial statements.

The applicable exchange rates from XAF currency to FRW currency were as follows:

	1 XAF to FRW
01-Jul-24	2.52
30-Jun-25	2.6
01-Aug-25	2.7
Average rate for the year	2.55

4. The balance for the non-controlling interests (NCIs) reported in the Group trial balance is the carrying amount under the Group equity but does not include the NCIs in ACE Ltd (see Note 3 above). The NCI balance in the Group trial balance has omitted the "NCI's share of the profits for the year" and the NCI's share of the "total comprehensive income for the year" both amounting to FRW 6,170 million (though this amount is before further adjustments arising from the additional information in the notes).

5. In the year ended 30 June 2025, PIL made sales of goods to its subsidiaries as follows:

	MCL	**LMC**
Selling price of goods sold (in FRW million)	15,800	9,500
Value of un-sold goods at 30 June 2025 (in FRW million)	5,300	2,000
Profit element in Goods sold (profit margin)	20%	30%

There are no balances outstanding (receivables and payables) within each of the entities in the group.
The above transactions are recognized in the financial statements of the individual entities but no adjustments have been made in the consolidated financial statements.

6. On 1 April 2025, PIL acquired 25% shareholding in Gisenyi Tours Co (GTC), a fast-growing company operating in the tourism sector. PIL gained significant influence over GTC as a result of its investment. The investment cost of FRW 20,000 million is the only amount recognised in the PIL consolidated financial statements at 30 June 2025. The financial statements of GTC for the year to 30 June 2025 reported a profit of FRW 90,000 million from which a dividend of FRW 10,000 million has been declared and this will be settled on 31 July 2025.

Required:

a) **Prepare a consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2025** (20 Marks)

b) **Prepare a consolidated statement of financial as at 30 June 2025** (30 Marks)

Notes:

1. *You are required to support your answer with "workings" and these should be well referenced in the preparation of the financial statements.*
2. *All monetary figures should be rounded to the nearest millions (no decimals)*

(Total: 50 Marks)

SECTION B

QUESTION TWO

After years of operating as a supporters-run association, Inyambo Sports Football Association resolved to professionalize its football operations in line with new governance requirements for top-flight clubs. On 1 July 2024, the Association transferred the whole football business into a new company, Inyambo Sports Ltd, which owns the professional team named Inyambo FC. A company with 100,000,000 ordinary shares of FRW 20 each was formed and all shares were issued on incorporation: 51,000,000 shares were issued to the Supporters' Trust (51%), and 49,000,000 shares were subscribed for cash at FRW 50 per share by an external investor (49%). The only reliable records available at the transfer date were an assets and liabilities listing, and a players' registration listing compiled by the Secretary of the association

Assets and Liabilities Listing as at 1 July 2024

Item	Carrying amount (Million)	Fair value (Million)	Remaining useful life from 1 July 2024
Training & gym equipment	120	150	5 years
Team bus	40	60	4 years
Training Pitch (Land)	250	250	
Cash at bank	60	60	
Trade receivables	30	30	
Trade payables	(180)	(180)	

Players' registration listing as at 1 July 2024

Player code	Fair value (Million)	Contract end date	Remaining term at 1 July 2024
D1	180	30 June 2028	4 years
D2	120	30 June 2027	3 years
D3	110	30 June 2029	5 years
D4	60	30 June 2028	4 years
D5	30	30 June 2028	4 years
Y	150	30 June 2026	2 years

During its first months after incorporation, Inyambo Sports Ltd did not appoint finance personnel. However, the following summary of receipts and payments was prepared by the CEO's administrative assistant on 31 December 2024 and is the primary cash record for the period

Date	Receipts (Dr)	FRW (Million)	Date	Payments (Cr)	FRW (Million)
1 Jul	**Balance b/f**	**60**	1 Jul	Incorporation cost	25
1 Jul	External investor subscription	2,450	1 Aug	Training & gym upgrade	90
1 Aug	Sponsorship fees	900	1 Aug	Stadium lease	220

Date	Receipts (Dr)	FRW (Million)	Date	Payments (Cr)	FRW (Million)
1 Aug	Broadcasting rights	1,300	1 Sep	Player A acquisition	150
	Sales of tickets (Aggregated)	1,220		Administration & other costs (aggregated)	260
30 Sep	Player **Y** – sale proceeds	50	10 Oct	Bus maintenance	15
			1 Nov	Player B acquisition	120
				Players & staff wages (aggregated)	1,250
			31 Dec	**Balance c/d**	**3,850**
		5,980	**Totals**		**5,980**

Additional Information:

1) On 1 August 2024, the Company received FRW 1.3 billion in cash for live league broadcasting rights covering 38 matches scheduled from August 2024 to May 2025. By 31 December 2024, 17 matches had been played and broadcast.
2) The season-ticket fees are included within the Sales of tickets. Specifically, on 1 August 2024 Inyambo Sports Ltd sold 190,000 season tickets at FRW 3,000 each. Each season ticket entitles the holder to attend every home league match in the 2024/25 season, which comprises 19 home league matches scheduled from August 2024 to May 2025. By 31 December 2024, 9 home matches had been played. Any additional ticket receipts in the cashbook represent walk-up gate fees from individual matchday sales.
3) On 1 August 2024, Inyambo Sports Ltd signed a three-season sponsorship with Nyundo Beverages Ltd with a contract total of FRW 2.7 billion. For the season in progress, the full FRW 900 million for one season was received on 1 August 2024 and appears in the secretary's cashbook under sponsorship fees. In the agreement the sponsor receives kit branding on the first-team match shirts and training kit for every home and away league match, stadium LED/perimeter board advertising at each home league match, and a programme of branded posts on the Club's official digital channels regularly across the season; the season fee is apportioned in the contract as FRW 675 million to kit branding, FRW 135 million to stadium LEDs/boards, and FRW 90 million to digital media. By 31 December 2024, 17 of 38 league matches had been played, 9 at home, the team wore the sponsored kit in those matches, and the planned digital output ran regularly from August 2024.
4) On 1 August 2024, the Company entered into a non-cancellable 5-season lease of the national stadium, covering all home fixtures each season through 31 July 2029. The fixed fee is FRW 220 million per season, payable at the start of each season (1 August). The first payment of FRW 220 million was paid on 1 August 2024. There are no purchase or termination options, no residual value guarantees, no initial direct costs, and no non-lease components. The Company's incremental borrowing rate is 8% per annum and PVIFA is 4.312
5) On 1 September 2024, the Company signed Player A on a four-year contract for a transfer fee of FRW 150 million, and the full FRW 150 million was paid on 1 September 2024; an agent's fee of FRW 5 million was also paid at signing. On 1 November 2024, Player B was

signed on a three-year contract for FRW 120 million, with an agent's fee of FRW 4 million paid at signing; a knee injury was confirmed on 10 December 2024, and at 31 December 2024 the recoverable amount of Player B's registration is FRW 82 million. Player Y was transferred out on 31 October 2024 for FRW 80 million, of which FRW 30 million remained receivable at 31 December 2024; the sale agreement includes a sell-on of 20% of any profit payable to the player's previous club, and the carrying amount immediately before disposal was FRW 110 million.

6) On 1 August 2024 the Company acquired training and medical equipment costing FRW 90 million. The asset has a useful life of five years from the acquisition date. The Company's policy is to depreciate all tangible assets within the scope of IAS 16 on a straight-line basis over their respective useful lives, unless stated otherwise

7) At 31 December 2024 the Company's trade receivables include FRW 30 million relating to the transfer of Player Y, for which management estimates a lifetime expected credit loss of FRW 5 million, and FRW 48 million arising from ticketing and retail activities during the period, for which a lifetime expected credit loss of 2% is estimated.

8) At 31 December 2024 unpaid amounts comprise players' and staff wages of FRW 85 million, utilities of FRW 12 million, and coaching bonuses of FRW 18 million linked to performance targets met in December

9) The season runs for 10 months (August–May each year). Disregard any taxes applicable in Rwanda

10) Agent fees are included in administration & other costs

You have been appointed as Accounting & Reporting Analyst on 5 January 2025. The CEO asks you to prepare an extract of the financial report for Inyambo Sports Ltd (for the first reporting period, 1 July–31 December 2024) including the followings:

Required:

a) **Prepare Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 31 December 2024 as per IAS 1.** (11 Marks)

b) **Prepare Statement of Financial Position as at 31 December 2024 as per IAS 1.** (14 Marks)

Notes: You are required to support your answer with "workings" and these should be well referenced in the preparation of the financial statements.

(Total: 25 Marks)

QUESTION THREE

Bridge for Future Academy Ltd (BFA) is a private day school in Kigali with a long-standing policy of feeding all enrolled students. On 1 July 2024, the Ministry of Education and Culture (MoE) launched the School Nutrition Initiative (SNI), comprising two in-kind components: (i) School Feeding (dry foods: maize, beans and cooking oil), and (ii) Milk Cup for Every Child (UHT milk cups). Under SNI, no cash is provided; MoE supplies goods in kind conditional on ongoing compliance (kitchen facilities, hygiene logs, attendance reporting and termly usage returns). Goods must be used solely for enrolled students. Unused or expired goods are not reimbursed; repeated non-compliance may lead to suspension of future allocations

BFA applied and was approved. Its chairperson, Mr. Aimé Kamanzi sits, in a personal capacity, on the SNI National Steering Committee and, for Quarter 2 of the year, served on the Procurement Sub-Committee that recommends winning suppliers to MoE.

BFA's year-end is 30 June 2025. The following summarized records relate to consumable inventories used for meals in the year (FRW "million", unless noted).

Opening balances at 1 July 2024

Description	Amounts (FRW Million)
Dry foods (maize/beans/oil)	-
UHT milk cups	-
Other purchased food items (bread, vegetables, spices, etc)	2
Total	**2**

Inventories delivered by MoE during the year

Description	Quantity	Fair value (FRW Million)
Maize	10 tonnes	6
Beans	8 tonnes	5
Cooking oil	1,000 litres	1.5
UHT milk cups	50,000	20

Additional Information:

1. During the year ended 30 June 2025, BFA purchased food items totalling FRW 7 million. In April 2025, the school also purchased 8,000 UHT milk cups from Dairy Co Ltd at FRW 380 per cup (total cost FRW 3.04 million), payable at year-end. The market price at that time was FRW 400 per cup. Mr. Kamanzi holds no direct interest in Dairy Co Ltd; however, his brother owns 25%. Separately, Dairy Co Ltd also supplies the Ministry of Education and Culture (MoE) under national supply lots awarded by MoE
2. BFA issued the following quantities to students over the year:

Description	Quantity	Origin
Maize	8 tonnes	MoE stock
Beans	7.5 tonnes	MoE stock
Oil	900 Litres	MoE stock
Milk cups	42,000	MoE stock

Milk cups	3,000	Dairy Co stock

Other purchased food items consumed during the year amounted to FRW 8 million; apply the weighted-average method for valuation where applicable

3. Due to a refrigeration outage in May 2025, 3,000 milk cups (from MoE stock) expired and were written off
4. Physical stock count at 30 June 2025 revealed the followings

Descriptions	**Quantity**	**Net realizable value (FRW Million)**
Maize	2 tonnes	1
Beans	500 kg	0.3
Oil	100 litres	0.1
Other purchased food items	800 kg	0.8
UHT milk cups (MoE stock)	5,000	1.5
UHT milk cups (Dairy Co stock)	5,000	1.85

5. BFA met all MoE usage/reporting conditions for the year; the term-3 compliance certificate is pending routine review. If a school fails conditions, MoE may suspend future allocations; there is no repayment of goods already consumed. Unused goods on hand at year-end remain tagged for the programme

Required:

a) **Applying IAS 20, explain the recognition and measurement of in-kind assistance from MoE for the year ended 30 June 2025, including principal journal entries and the necessary disclosures.** (10 Marks)

b) **Prepare extracts of the financial statements of BFA for the year ended 30 June 2025** (8 Marks)

c) Using IAS 24, **identify and explain any related-party relationships, transactions and year-end balances** (7 Marks)

(Total: 25 Marks)

QUESTION FOUR

a) Inyenyeri Devices Ltd (IDL) is a Kigali-based assembler of point-of-sale terminals used by supermarkets and fuel stations across Rwanda and the wider EAC. The company operates from Gahanga Industrial Park and employs 386 people. After a sharp cost-reduction programme in 2024, the Financial Year (FY)2025 profit margin climbed from 7.5% to 10.4%. Management now plans the company's first Integrated Report for the year ending 31 December 2026 and must decide how to tell the value-creation story and how to sustain it.

But the higher profit also caused problems. Throughout 2025, technicians left faster than HR could replace them. By December, annual turnover had reached 22% (up from 11% the year before), with 85 departures in total. Each replacement cost roughly FRW 6 million in recruitment and onboarding, and new hires needed four months to reach expected productivity. Supervisors noticed more rework on complex installations and longer queues for field support in Musanze, Huye and Rubavu.

The company's training budget had been cut by 40% to protect near-term earnings. Average training hours per employee fell from 24 to 10. The engagement survey slipped from 76% to 61%, and customer complaints about response times rose by 35%. Two large retailers delayed their usual Quarter 4 re-orders, citing unsettled service levels. IDL threw away fewer spare parts, but those savings were cancelled by the costs of people leaving and new staff learning slowly.

In Quarter 1 of 2026 the Board commissioned a review. One path is to invest FRW 2.5 billion in a new ERP and shop-floor automation. Management argues this would cut the defect rate by 25% and cycle time by 18% within a year, modernise planning and reduce administrative headcount. The finance team cautions that, at this level of spend, there would be little room for people initiatives beyond mandatory training, at least for the next budget cycle.

Another option is the HR director's plan called "Human Capital Renewal." The company would spend FRW 0.6 billion to keep staff: clear career paths, coaching for supervisors, and a simple recognition programme. It would also spend FRW 0.3 billion on technical training and recording know-how in checklists and guides. The goals are clear: cut staff turnover to 14% or less, raise engagement to 70% or more, and reduce the time a new hire needs to perform well to three months. The plan also builds a skills map that covers at least 85% of roles and pairs new technicians with experienced mentors on field jobs.

Required:

i) **Analyse the hidden costs of FY2025 decisions and their effects on financial, manufactured, intellectual, human and social & relationship capitals.** (8 Marks)

ii) **Compare the two investment options in terms of expected value creation across the capitals and key execution risks.** (5 Marks)

iii) **Explain why employees are not recognised as assets under traditional accounting** (2 Marks)

b) The following is the capital structure of SHEMA ltd as at 1 January 2025.

- Issued and paid-up ordinary share capital is FRW 100,000,000 (Par value is FRW 1,000)
- 8% Convertible preference share capital is FRW 50,000,000 (Par value is FRW 500)
- Profit after tax for the year ended 31 December 2025 was FRW 60,000,000

Additional information:

1. The company declared and paid preference dividends during the year
2. Preference shares are convertible at the holders' option into ordinary shares at any time. On 1 April 2025 the holders of FRW 40,000,000 converted them into ordinary shares. Two preferences shares of FRW 500 each are convertible to three fully paid ordinary shares. Preference dividends computation is affected by this conversion.
3. On 1 October 2025 the company invited shareholders to subscribe to a rights issue on the basis of 3 new ordinary shares for every 5 ordinary shares held as at this date. The rights issue was issued at FRW 220 per share when the actual cum right price was 225 per share.
4. At the start of the year, the company had in issue a 6% convertible bond of FRW 50,000,000 which was convertible at the holder's option to 30 ordinary shares for every FRW 10,000 of the bond. On 1 July 2025, holders of FRW 30,000,000 bond converted them into ordinary shares.
5. The application corporate tax rate is 30%

Required:

Compute the basic EPS for the year ended 31st December 2025 (10 Marks)

(Total: 25 Marks)

End of question paper