CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE EXAMINATIONS

I1.2: FINANCIAL REPORTING

DATE: TUESDAY 25, NOVEMBER 2025

MARKING GUIDE AND MODEL ANSWERS

SECTION A

QUESTION ONE

Marking Guide:

Qn	Description	Marks
A	Return on capital employed	1
	Net assets turnover	1
	Gross profit margin	1
	Operating profit margin	Provided
	Current ratio	1
	Inventory days	1
	Payables days	1
	Sub-Total	**6**
B	Award 1 mark for each well explained ratio Max 7 marks	7
	Award 2 mark for final conclusion.	2
	Sub-Total	**9**
C	Award 1 mark for each well explained point	**5**
	Total	**20**

Model Answer:

a)

Description	**Computation**
Gross Profit Margin = Gross Profit / Revenue × 100	16,000 / 84,000 × 100 = 19.05%
Return on Capital Employed (ROCE) = PBIT / Capital Employed × 100	(4,800+500(Finance cost)) / 33,500 × 100 = 15.82%
Net Asset Turnover = Revenue / Capital Employed	84,000 / 33,500 = 2.51 times
Current Ratio = Current Assets / Current Liabilities	12,500 / 7,000 = 1.79: 1
Inventory Days = Inventory/Cost of Sales×365	9,000/68,000× 365 = 48 days
Payables Days = Trade Payables / Cost of Sales × 365	6,000 / 68,000 × 365 = 32 days

b)

Ratio	**Remera Ltd**	**Musanze Ltd**	**Interpretation**
Return on Capital Employed (ROCE)	18.5%	14.3%	Remera Ltd is more efficient in generating returns from capital.
Net Asset Turnover	2.2×	2.51×	Musanze uses its assets more efficiently to generate sales revenue, indicating higher operational asset productivity.
Gross Profit Margin	28.5%	19.1%	Remera Ltd controls costs and pricing better.

Operating Profit Margin	8.4%	10.2%	Musanze Ltd manages its operating expenses more efficiently than Musanze Ltd
Current Ratio	1.1:1	1.79:1	Musanze Ltd maintains stronger liquidity and is in a better position to meet short-term obligations compared to Remera Ltd.
Inventory Days	74days	48days	Musanze Ltd sells inventory faster, so it has better inventory management.
Payables Days	60days	32days	Remera Ltd takes longer to pay suppliers, which supports its cash flow in the short term, whereas Musanze Ltd's quicker payments may build better supplier relations.

Recommendation:

Based on the analysis, Remera Ltd emerges as the more attractive option for Nyanza Ltd to acquire, primarily because of its stronger profitability indicators such as a higher return on capital employed and superior profit margins. While Musanze Ltd shows better liquidity and operational efficiency, making it a lower-risk company in the short term, Remera's stronger capacity to generate long-term returns makes it the better strategic investment. Therefore, Nyanza Ltd should proceed with the acquisition of Remera Ltd but implement measures to enhance its liquidity and working capital management after the takeover to ensure sustainable growth and financial stability.

c)

Limitations of ratio analysis:

i) Ratio analysis relies on past data and information to make decisions that are essentially forward looking. This makes the analysis weak as it does not consider likely future circumstances and changes that may impact the company and its performance.

ii) Different companies have different accounting policies and this greatly limits the effectiveness of ratio analysis in evaluating performance. This can be seen where companies calculate depreciation differently or classify expenses differently therefore making comparison difficult.

iii) From the information provided, it is clear that Musanze Limited uses revaluation as evidenced by the revaluation surplus and this can make it difficult to compare with Remera if Remera does not use revaluation as well,

iv) The acquisition of assets for companies differs as some assets will purchase them while others will lease but still show a right of use asset. This makes it difficult to achieve a fair comparison of financial performance between the entities.

v) Ratios that are calculated from the statement of financial position can be distorting of performance as they indicate the performance only at a specific point in time and will not indicate how the company performed on average over the year. This is because the company may have acquired assets or liabilities only towards the end of the year but this ignores the fact that during the year these were not there.

QUESTION TWO

Marking Guide:

Qn	**Description**	**Marks**
	Cash flows from operating activities	
	Loss before tax	0.5
	Adjustments for non-cash/non-operating items:	
	Depreciation – PPE	1
	Amortization - Intangible assets	1
	Gain on disposal	0.5
	Loss on disposal of asset held for sale	0.5
	Interest expenses	0.5
	Changes in working capital:	
	Increase in inventories	1
	Decrease in trade & other receivables	1
	Increase in trade & other payables	1
	Decrease in provisions	1
	Cash generated from operations (before interest & tax)	
	Interest paid	1
a)	Income tax paid	1
	Net cash from operating activities	
	Cash flows from investing activities	
	Purchase of property, plant & equipment	2
	Proceeds from disposal of property, plant & equipment	1.5
	Proceeds from sale of asset held for sale	1
	Net cash used in investing activities	
	Cash flows from financing activities	
	Proceeds from long-term bank loan	1
	Repayment of directors' loan	1
	Dividends paid	0.5
	Increase in short-term bank borrowing	1
	Net cash from financing activities	
	Net increase in cash and cash equivalents	1
	Cash and cash equivalents at beginning of year	0.5
	Cash and cash equivalents at end of year	0.5
	Award 0.5 marks for each working and 0.5 marks for posting	
	Sub – total	**20**
	Award 2 marks for each difference. Max 10 mark	10
b)	**Sub – total**	**10**
	Total	**30**

Model Answer:

Description	Amount RWF ’000
Cash flows from operating activities	
Loss before tax	- 1,411,200
Adjustments for non-cash/non-operating items:	
Depreciation - PPE	145,283
Amortization - Intangible assets (9,500-6,750)	2,750
Loss gain on disposal	- 100,000
Loss on disposal of asset held for sale	62,300
Interest expenses	782,300
Changes in working capital:	
Increase in inventories 305,400 - 372,900	- 67,500
Decrease in trade & other receivables 1185700+2,000,000-835,250	2,350,450
Increase in trade & other payables (1,745,500 - 920,600)	824,900
Decrease in provisions	- 2,060
Cash generated from operations (before interest & tax)	**2,587,223**
Interest paid (33,200+782,300-220,400)	- 595,100
Income tax paid (287,000+0-0)	- 287,000
Net cash from operating activities	**1,705,123**
Cash flows from investing activities	
Purchase of property, plant & equipment	- 5,165,373
Proceed from disposal of property, plant & equipment	500,000
Proceeds from sale of asset held for sale	105,050
Net cash used in investing activities	**- 4,560,323**
Cash flows from financing activities	
Proceeds from long-term bank loan	- 180,000
Repayment of directors’ loan	645,000
Dividends paid	- 210,120
Increase in short-term bank borrowing (5,082,500 - 2,000,000 - 101,830)	2,980,670
Net cash from financing activities	**3,235,550**
Net increase in cash and cash equivalents	**380,350**
Cash and cash equivalents at beginning of year	**240,990**
Cash and cash equivalents at end of year	**621,340**

Workings:

W1: PPE

Description	RWF ’000	Explanation
Opening balance (at 1 January 2023)	3,305,660	
Less: Disposal of PPE		
Cost	3,500,000	
Less: Accumulated depreciation	-3,100,000	
Net book value (NBV) of asset sold	**400,000**	
Add: Profit on disposal	100,000	
Proceeds from disposal (cash inflow)	**500,000**	
PPE Net Book Value after disposal	**2,905,660**	(3,305,660 – 400,000)
Less: Depreciation (5% reducing balance)	-145,283	
Closing balance before revaluation	**2,760,377**	
Add: Revaluation gain (year-end)	1,895,000	Non-cash OCI item
Closing balance after revaluation	**4,655,377**	
Add: Additions during the year (balancing figure)	5,165,373	(9,820,750 - 4,655,377)
Closing balance of PPE (31 Dec 2023)	**9,820,750**	

W2: Non-current asset held for sale

	RWF ’000
Opening balance	179,800
Closing balance	- 12,450
NBV of asset sold	**167,350**
Less loss on disposal	- 62,300
Proceed from disposal	**105,050**

b) Difference between IPSAS 1 and IAS 1

IPSAS 1	IAS 1
Includes extra guidance to make the Standard relevant to *public sector entities.* For example, it expands on how the **going concern concept** applies to government and non-profit organizations.	Does not include such additional commentary, as it mainly targets *profit-oriented entities.*
Requires presentation of a statement showing **all changes** in net assets/equity — including both owner-related and non-owner-related changes.	**Allows a choice:** either present all changes, or exclude owner-related transactions and distributions.

Uses public sector–oriented terms such as: - **“Statement of Financial Performance”** (instead of Income Statement) - **“Net Assets/Equity”** (instead of Equity)	Uses private sector terminology such as: - **“Income Statement”** - **“Equity”**
Does **not** use the term “income.” IPSAS 1 uses “revenue” and “expenses” to describe performance elements.	Uses **“income”** as a broad term that includes both **revenue** and **gains.**
Contains extra commentary emphasizing the **timely preparation** and issue of financial statements — important because IPSAS originally lacked a full conceptual framework.	Does **not** have a separate section on timeliness, since this is already addressed in the IASB Conceptual Framework.
Includes an **authoritative summary** of qualitative characteristics (like relevance, reliability, comparability, and understandability) in **Appendix A.** This section may be updated after the IPSAS Conceptual Framework is finalized.	Refers users directly to the **IASB Conceptual Framework** for qualitative characteristics — no separate summary is included.

QUESTION THREE

Marking guide

Qn	Description	Marks
a)	Property, plant and equipment	1.5
	Investment	1.5
	Goodwill	5.5
	Inventory	0.5
	Contract asset	0.5
	Trade and other receivable	0.5
	Cash and bank	0.5
	Share capital	1
	Share premium	1
	Revaluation reserves	2.5
	Retained earning	4
	Non-controlling interest	2
	10% loan note	0.5
	Trade and other payable	0.5
	For all the above allocations, award 0.5 marks for each adjustment posting in the workings and 0.5 marks for each corresponding posting in the consolidated balance sheet, whether made through the workings or by direct posting.	
	Sub - total	**22**
b)	Award 2 mark for each well explained circumstance	8
	Sub - total	**8**

	Total	30

Model answer

		FRW"million"
Non-current assets		
Property, plant and equipment	2,945+1,900+100-20	4,925
Investment in associate		249
Goodwill		104
		5,278
Current assets		
Inventory	1,825+910	2,735
Contract asset		536
Trade and other receivable	2140+213	2,353
Cash and bank	899+131	1,030
Total Assets		**11,932**
Equity and Liability		
Equity		
Share capital of Frw 2,000 per share	1,000+128	1,128
Share premium	420+129	612
Revaluation reserves	W6	492
Retained earning	W4	**4,233**
		6,460
Non-controlling interest	W5	713
		7,178
Non-current liability		
10% loan note	820+290	1,110
		1,110
Current Liability		
Trade and other payable	2,544+1,100	3,644
		3,644
Total equity and Liability		**11,932**

Workings

Working one: Goodwill

		FRW"Million"
Purchase consideration		720
Non-controlling interest		450
Net assets at acquisition		**1,170**
Share capital	400	
Share premium	100	
Retained earning	380	

Other reserves	60	
Fair value adjustment-PPE	100	
Net assets		1,040
Good will at acquisition		130
Impairment 130*20%		(26)
Goodwill at reporting date		**104**

Working two: Purchase consideration

Cash payment	400
Share exchange 2/5*400/2000*80%*5000	320
	720
Share capital 2/5*400/2000*80%*2000	128
Share premium 2/5*400/2000*80%*3000	192
	320

Working three: Fair value difference

Net assets at acquisition	1,040
Carrying amount of assets	(940)
Fair value adjustments	100

Working four: Retained earning

	Oman Ltd FRW"Million"	**Mumbai Ltd Frw"Million**
Balance per SOFP	3,430	1,400
Balance at acquisition		(380)
Depreciation of fair value adjustment 100/100*2 years		**(20)**
Impairment of goodwill		(26)
Share of profit from associate company-Global Logistic Ltd	24	
		974
Share of profit in Mumbai 974*80%	779	
Bal c/d	**4,233**	

Working five

Non-controlling interest	
As at acquisition	450
Share of profit in Mumbai 974*20%	195
Share of NCI on post revaluation	68
Bal c/d	**713**

Working six: Revaluation Reserve

	Oman Ltd FRW"Million"	Mumbai Ltd Frw"Million
Balance per SOFP	220	400
Balance at acquisition		(60)
		340
Share of profit in Mumbai 340*80%	272	
Bal c/d	**492**	

Working seven

Investment in Global Logistic Company	
Cost of investment	225
Post acquisition profit 120*6/12*40%	24
	249

b) Even if a parent company owns half or less of another company's voting rights, IFRS 10 states that control may still exist in certain situations. Control is considered to exist when the parent has:

- Power over more than half of the voting rights through an agreement with other investors;
- Power to direct the financial and operating policies of the entity, either through legislation or a contractual arrangement;
- The right to appoint or remove the majority of the board members (or an equivalent governing body) where that board controls the entity's operations; or
- The ability to cast the majority of votes at board meetings (or equivalent governance meetings) where that board has control over the entity.

A parent company is considered to lose control when it no longer has the power to direct the financial and operating policies of the subsidiary. This loss of control can happen with or without a change in ownership, such as when the subsidiary enters administration or liquidation.

SECTION B

QUESTION FOUR

Marking guide:

Qn	Description	Marks
a)	i)	
	Mentioning cost to be capitalized in December 2023	1
	Well mentioned if costs incurred prior to 1 December 2023 would be expensed	1
	Impairment test at 31 December 2023	1

	Well mentioned additional cost to be capitalized in 2024	1
	Well computed impairment	1
	Award one mark if indicated that recoverable amount of FRW 8.1. Million would be reported in balance sheet	1
	Sub – total	**6**
b)	Award 1 mark for each step stated	5
	Award 1 marks for explanation relating to the Macye – Macye scheme	2.5
	Award 1 mark for each double entry	4
	Sub – total	**114**
	Total	**20**
	Total	**20**

Model answer:

a)

(i) IAS 38 define intangible asset as: identifiable assets without physical subsistence

The production process being developed by BNP Brewery Ltd meet the condition to be classified as intangible assets and the costs incurred shall be measured as below:

The FRW 7.3 expenditure incurred before 1 December 2023 is recognized as an expense in the profit or loss account because the recognition criteria were not met until 1 December 2023. This expenditure does not form part of the cost of the production process recognized in the statement of financial position.

At the end of 2023, the production process is recognized as an intangible asset at a cost of FRW 2.7 million in the balance sheet as non-current asset (expenditure incurred since the date when the recognition criteria were met, ie 1 December 2023).

Impairment test at 31 December 2023, as of 31 December 2023, the intangible asset's carrying amount (FRW 2.7 million) was lower than its recoverable amount (FRW 4.2 million); therefore, no impairment loss was recognized for the year.

At the end of 2024, the cost of the production process is FRW 8.9 million which is non-current assets in the statement of financial position (FRW 2.7 million expenditure recognized at the end of 2023 plus FRW 6.2 million expenditure recognized in 2024).

By year end on 31 December 2023, BNP Brewery Ltd recognizes an impairment loss of FRW 0.8 million in the profit or loss account to adjust the carrying amount of the process before impairment loss (8.9 million) to its recoverable amount (FRW 8.1 million). This impairment loss will be reversed in a subsequent period if the requirements for the reversal of an impairment loss in IAS 36 are met.

b)

IFRS 15, requires an entity to recognize revenue after assessing five step model.

Vladimir Electronic Ltd recognize revenue from Macyemacye scheme if the following criteria are all met.

1) Identifying the contract

The Vladimir electronic Ltd sign a contract with Mobiphone to deliver telephone to citizens through Macyemacye scheme. This contract evidence that the step one per IFRS 15 is satisfied.

2) Identifying performance obligations

An entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer. The obligation of the Vladimir electronic Ltd is to deliver telephone to citizens across the country and sign delivery note.

3) Determine the transaction price:

The transaction price is Frw 200,000 per telephone and total transaction price will depend on the telephone delivered. In 2024, the total transaction price is FRW 160,000,000 (exclude rejected telephones)

4) Allocate the transaction price to performance obligations

In the contract, there is one performance obligation which is to supply telephone and unity price of each device is Frw 200,000

5) Recognize revenue

IFRS 15, requires entity to recognize revenue when the performance obligation is performed. Vladimir Electronics Ltd will recognize revenue based on delivery notes signed by customers.

The revenue will be recognized when telephone is made not when payment is received from Mobiphone Ltd.

Double entries to record transactions made in 2024

Dr: Cost of sales 1,000*150,000	150,000,000	
Cr: Stock		150,000,000
Being record of cost of inventory issued		

Dr: Trade receivables 800*200,000	160,000,000	
Cr: Sales `		160,000,000
Credit sales for telephone. Note rejected telephone are not recorded as sales		

Dr: Stock 200*150,000	30,000,000	
Cr: Cost of sales		30,000,000

Recording smartphone rejected after inspection

Dr: Bank account	80,000,000	
Cr: Trade receivables `		80,000,000

Payment from Mobiphone Ltd in 2024

QUESTION FIVE

Marking Guide

Qn	Description	Marks
a)	**Translated trial balance** Award 0.5 for each correct translation in the trial balance and 0.5 for exchange gain. Max 6.5	6.5
	Branch account Award 0.5 mark for correct posting and adjustment made in the branch account: Note: Marks are awarded to combined figure not to head office or branch separately. Max 4.5	4.5
	Sub - total	**11**
	Award 1 mark for each stated component. Max 5 marks	5
	Award 1 mark for each well explained period or example. Max 4 marks	4
	Sub – total	**9**
	Total	**20**

Model answer

a)

(i) Translated trial balance

	Nairobi Branch		**Exchange rate**	**Translated Trial Balance**	
	ksh"000"			**Frw"000"**	
	Dr	**Cr**		**Dr**	**Cr**
Building offices (Carrying amount)					
Inventory on 31 December 2023	4,200		9	37,800	
Rent	2,450		9	22,050	
Computers (Carrying amount)	15,900		10	159,000	
Salaries and Wages	12,900		9	116,100	
Inventory on 31 December 2024	4,000		10	40,000	

Sales from Supermarket	18,000+ 1,200	19,200	9		172,800
Goods Transferred to Branch from by Head office to Nairobi branch					
Good received by Branch from Head office	12,000		12	144,000	
Cash and bank	8,350		10	83,500	
Other operation expenses	2500		9	22,500	
Trade and other payable		5,200	10		52,000
Loan			10		
Receivables	1,200		10	12,000	
Depreciation expense	840		9	7,560	
Branch Office Current Account					
Head Office Current Account		39,940	10		399,400
Translation gain	24,510				20,310
	64,340	**64,340**		**644,510**	**644,510**

(ii) Statement of profit or loss account

Head office-Kigali		**Nairobi Branch**	**Combined**
Profit or loss account	**FRW"000"**	**FRW"000"**	**FRW"000"**
Sales	945,685	172,800	1,118,485
Good transferred	150,000		
	1,095,685	**172,800**	**1,118,485**
Cost of sales			
Opening stock	40,200	37,800	78,000
Purchase	726,049	0	726,049
Good received		144,000	
Stock in Transit	-5,455		(5,455)
Closing stock	-62,300	-40,000	(102,300)
Cost of sales	**698,494**	**146,000**	**696,294**
Gross profit	**397,191**	**26,800**	**422,191**
Translation gain	24,510		20,310
Total income	**421,701**	**26,800**	**442,501**
Expense			
Rent		22,050	22,050
Salaries and Wages	65,420	116,100	181,520
Depreciation expense	35,401	7,560	42,961
Other operating expenses	7,300	22,500	29,800
Total expense	**108,121**	**168,210**	**276,331**
Net profit	**313,580**	**(141,410)**	**166,170**

b) According to IAS 34 – Interim Financial Reporting, an interim financial report must contain at least a set of condensed financial statements and selected explanatory notes. **The minimum components are:**

- **Condensed Statement of Financial Position** at the end of the current interim period and the immediately preceding financial year. Example:
    - As at 30 June 2025 (current interim period)
    - Comparative: 31 December 2024 (end of previous financial year)

- **Condensed Statement of Profit or Loss and Other Comprehensive Income** for the current interim period and cumulatively for the current financial year, with comparative information for the comparable interim periods of the previous financial year. Example:
    - For the six months ended 30 June 2025 (current period)
    - Comparative: six months ended 30 June 2024

- **Condensed Statement of Changes in Equity** showing movements during the current financial year to date, with comparatives for the previous year. Example:
    - For the six months ended 30 June 2025 (current period)
    - Comparative: six months ended 30 June 2024

- **Condensed Statement of Cash Flows** for the current financial year to date, with comparative information for the same period in the previous financial year. Example:
    - For the six months ended 30 June 2025 (current period)
    - Comparative: six months ended 30 June 2024

- **Selected Explanatory Notes**, providing significant information and updates since the last annual financial statements, such as changes in accounting policies, seasonal effects, and significant events or transactions.

End of Marking guide and Model Answers