CERTIFIED PUBLIC ACCOUNTANT

STRATEGIC LEVEL EXAMINATIONS

FR3.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 26, MAY 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

Company Zeta Ltd (Zeta) is a Rwandan-incorporated retail group listed on the Main Investment Market of the Rwanda Stock Exchange. The group sells fast moving consumer goods (FMCG) through a network of 42 supermarket outlets located in every major urban centre in Rwanda, including Kigali, Musanze, Rubavu, Huye, Nyagatare and Muhanga. Zeta 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.

On 1 July 2021, Zeta acquired 75% of the ordinary share capital of Company Theta Ltd (Theta), a soft drinks manufacturer with a production plant in the Kigali Special Economic Zone, for a cash consideration of FRW 900 million. On the acquisition date, the retained earnings of Theta stood at FRW 600 million. At that date, Theta's property, plant and equipment (PPE) had a carrying amount of FRW 125 million and a fair value of FRW 110 million, with a remaining useful life of 10 years on a straight-line basis and a nil residual value. The PPE is still in use at the reporting date. No other fair value adjustments were required on the identifiable assets or liabilities of Theta at the acquisition date.

On 1 July 2025, Zeta acquired 60% of the ordinary share capital of Company Rho Ltd (Rho), a logistics company operating a fleet of 28 delivery vehicles from its depot in the Gikondo industrial area of Kigali, for a cash consideration of FRW 220 million. Rho specialises in short-distance last-mile deliveries within the City of Kigali and between Kigali and the major border posts. On the acquisition date, the retained earnings of Rho stood at FRW 165 million, and the carrying amounts of its identifiable net assets were equal to their fair values.

On 1 January 2023, Theta acquired 20% of the ordinary share capital of Company Iota Ltd (Iota), a company operating a chain of 36 small neighbourhood retail stores in the regional capitals of Rwanda, for a cash consideration of FRW 250 million. On the acquisition date, the retained earnings of Iota stood at FRW 150 million, and there was no material difference between the carrying amounts and the fair values of Iota's identifiable net assets. This transaction gave Theta significant influence over Iota through representation on the board of directors and participation in policy-making decisions. Theta has accounted for the investment in Iota using the equity method in its own separate financial statements, and the carrying amount of the investment reflects Theta's share of Iota's post-acquisition profits up to 31 December 2024. During the year ended 31 December 2025, Iota generated a profit after tax of FRW 178 million.

There have been no impairment losses recognised on the goodwill arising from any of the above acquisitions in prior reporting periods, and the directors consider that no impairment indicators exist at the current reporting date. The group has elected, as an accounting policy, to measure non-controlling interests (NCI) at the proportionate share of the identifiable net assets of the acquiree at the acquisition date. Profits are assumed to accrue evenly over the year unless stated otherwise.

The individual statements of financial position of Zeta, Theta, Rho and Iota as at 31 December 2025 are set out in the Table below. All figures in the table are stated in FRW and in millions

	Zeta	Theta	Rho	Iota
ASSETS				
Non-current assets				
Property, plant and equipment	1,850	720	310	420
Investment in Theta	900	-	-	-
Investment in Rho	220	-	-	-
Investment in Iota	-	255	-	-
Total non-current assets	**2,970**	**975**	**310**	**420**
Current assets				
Inventories	380	210	45	95
Trade and other receivables	295	140	60	70
Cash and cash equivalents	155	75	20	35
Total current assets	**830**	**425**	**125**	**200**
Total assets	**3,800**	**1,400**	**435**	**620**
EQUITY AND LIABILITIES				
Equity				
Ordinary share capital	500	200	100	150
Retained earnings	2,150	820	200	315
Total equity	**2,650**	**1,020**	**300**	**465**
Non-current liabilities				
Long-term borrowings	780	220	80	100
Current liabilities				
Trade and other payables	310	130	45	45
Other current liabilities	60	30	10	10
Total liabilities	**1,150**	**380**	**135**	**155**
Total equity and liabilities	**3,800**	**1,400**	**435**	**620**

Additional information:

1. Included in Zeta's PPE are an office building and a storage unit that were used for administrative purposes in prior years. Following the completion of the new Zeta head office complex in Nyarutarama on 1 January 2025, all administrative operations were relocated. On 1 July 2025, Zeta entered into a 10-year lease with an unrelated local company, Amaru Traders Ltd, for the rental of the office building. The building had a carrying amount of FRW 240 million on 1 January 2025 and a remaining useful life of 12 years on that date, depreciated on a straight-line basis to a nil residual value. The lease agreement requires Amaru Traders Ltd to pay FRW 38 million p.a. in advance, and the first payment was received in cash and credited in P&L as revenues on the commencement date of the lease. Applying the interest rate implicit in the lease, the fair value of the leased asset on 1 July 2025 has been determined at FRW 275 million, and the lease payment receivable in 2026 includes a finance income component of FRW 22 million. Zeta has applied the

classification criteria in IFRS 16 Leases and concluded that the arrangement is a finance lease. No entries have yet been made in Zeta's separate financial statements to reflect the lease.

2. On 1 April 2025, Zeta leased out the storage unit to Theta under a five-year operating lease at an annual rental of FRW 12 million payable in arrears. The 2025 rental had not been paid at the reporting date but had been correctly accrued in the separate financial statements of both Zeta (as a receivable) and Theta (as a payable). The storage unit was recognised in Zeta's books at FRW 88 million on 1 January 2022 and had an estimated useful life of 20 years at that date, with depreciation charged on a straight-line basis to a nil residual value. Because Zeta intends to continue leasing the unit to Theta at a concessionary rate below market rent, Zeta has written down the carrying amount of the storage unit to a fair value of FRW 60 million as at 31 December 2025, recognising the write-down as an impairment loss in profit or loss, in order to reflect its expected future cash flows.

3. During the year, Zeta purchased soft drinks from Theta for a total invoiced amount of FRW 60 million, at a mark-up of 30% on cost. 20% of these goods remained in Zeta's inventory at the reporting date. All amounts owed in respect of these purchases had been settled by the reporting date, and the sales have been recorded in both Theta's revenue and Zeta's cost of sales.

4. Zeta provided management and treasury services to Rho throughout the post-acquisition period at a monthly fee of FRW 8 million payable in arrears. The services commenced on 1 July 2025 immediately following the acquisition of control. As at 31 December 2025, the invoices for November 2025 and December 2025 had not been settled but had been correctly recorded as a receivable in Zeta's separate financial statements and as a payable in Rho's separate financial statements. The management fee income has been recognised in Zeta's other operating income and the corresponding charge has been included in Rho's operating expenses.

5. During the negotiations for the acquisition of control over Rho, the board of Zeta originally proposed that part of the consideration should be made contingent on Rho's post-acquisition financial performance. The draft proposal, which was ultimately abandoned in favour of the FRW 220 million unconditional cash payment actually made, had suggested that Zeta would pay FRW 180 million in cash on 1 July 2025, plus two further payments of FRW 25 million at the end of 2026 and 2027 if Rho's return on capital employed (ROCE) exceeded 10% in each of those two subsequent years.

Required:

a) Prepare the consolidated statement of financial position of the Zeta Group as at 31 December 2025, *showing clearly all relevant workings* (35 Marks)

b) Explain the appropriate accounting treatment, under IFRS 16 Leases, of the office building leased to Amaru Traders Ltd on 1 July 2025, and show the journal entries required in Zeta's separate financial statements in respect of the lease for the year ended 31 December 2025. (7 Marks)

c) Discuss whether Zeta's accounting treatment of the storage unit leased to Theta is in accordance with IFRS, and advise the CFO on the correct treatment of the unit in both Zeta's separate financial statements and the consolidated financial statements of the Zeta Group. (5 Marks)

d) Explain how the originally proposed contingent consideration in the acquisition of Rho would have been accounted for on 1 July 2025 and at subsequent reporting dates under IFRS 3 Business Combinations, had the board adopted the original proposal, and state the classification of the contingent payment in the statement of financial position.

(3 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Tau Insurance Plc (hereinafter referred to as 'Tau' or 'the Company') is a composite insurer incorporated in Rwanda and listed on the Rwanda Stock Exchange (RSE). The Company underwrites general insurance business through a branch network covering each regional capital and prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2025.

During the financial year ended 31 December 2025, Tau issued two portfolios of insurance contracts which are within the scope of IFRS 17 Insurance Contracts. The salient terms of the contracts are summarised below:

- Commercial Property All-Risk Portfolio: 300 contracts providing cover against fire, natural catastrophe and accidental damage to commercial premises, each with a coverage period of four (4) years commencing on the date of issue.
- Commercial Motor Portfolio: 250 contracts providing cover for third-party bodily injury, third-party property damage and own physical damage to commercial vehicles, each with a coverage period of two (2) years commencing on the date of issue.

All premiums are received in full, in cash, on commencement of the respective contracts, and the Directors have assessed that no contracts are expected to lapse during the coverage period.

The expected future cash outflows relate to claims and directly attributable expenses and are assumed, for the purpose of this assessment, to arise evenly at the end of each year of the coverage period. All amounts are stated in Rwandan francs (FRW) millions unless otherwise indicated.

Portfolio data at initial recognition

Contract information	Property	Vehicles
Number of contracts	300	250
Premium per contract (FRW million)	15	8
Annual future cash outflows per contract (FRW million)	3	5
Discount rate (per annum)	8%	5%
Risk adjustment for non-financial risk (FRW million)	200	120

Applicable discount factors

Year	5%	8%
1	0.952	0.926
2	0.907	0.857
3	0.864	0.794
4	0.823	0.735

You are a recently qualified Certified Public Accountant (CPA) employed as a Financial Reporting Analyst in the Finance Department of Tau. In preparation for the Board Audit and Risk Committee meeting scheduled for 15 February 2026, the Director of Finance, Ms Mukamana, CPA, has delegated to you the task of preparing an analysis of the performance of insurance contracts issued during the year ended 31 December 2025, together with the related IFRS 17 measurement under the general measurement model.

On 2 February 2026, you submitted your draft report to Ms Mukamana. The report prominently disclosed that the Commercial Motor portfolio is expected to be onerous at initial recognition and recommended that the resulting loss component be presented transparently in the notes to the financial statements, together with a narrative explanation of the remedial actions proposed by management.

On 3 February 2026, Ms Mukamana summoned you to her office. She expressed her strong displeasure with the prominence given to the underperforming portfolio and instructed you, in the following terms, to amend the report: 'My annual performance bonus is directly linked to the underwriting result reported to the Board. If you cannot present these numbers in a more favourable light, you should update your curriculum vitae.' She further directed you to aggregate the Commercial Motor portfolio with the Commercial Property portfolio in the financial statement disclosures so that the loss is not separately identifiable.

Required:

a) Discuss, with supporting computations, the accounting treatment required under IFRS 17 *Insurance Contracts* for each of the two insurance contract types issued by Tau during the year, addressing:

i) The measurement of the fulfilment cash flows and the contractual service margin on initial recognition and subsequent to the receipt of all premiums (12 Marks)

ii) How Tau Insurance Plc will account for the contracts in its financial statements at initial recognition and subsequent to the collection of premiums, demonstrating your answer through the relevant journal entries. (7 Marks)

b) With reference to the conduct of the Director of Finance described above, **evaluate the ethical position in which you find yourself by reference to the IESBA International Code of Ethics for Professional Accountants, addressing:**

i) The fundamental principle(s) potentially under threat; (2 Marks)

ii) The specific category of threat to which you are exposed; (2 Marks)

iii) The safeguards, if any, available to you (2 Marks)

(Total: 25 Marks)

QUESTION THREE

Psi Building Materials Ltd ('Psi') is a construction materials wholesaler incorporated in Rwanda and headquartered on KN 3 Avenue, Nyarugenge District, Kigali. Founded in 2009, Psi distributes cement, reinforcement steel, roofing sheets, ceramic tiles and sanitary ware to contractors and retailers across Rwanda, with branch warehouses in Musanze, Rubavu, Huye and Rusizi. For the financial year ended 31 December 2024, Psi recorded revenue of FRW 42,800 million, total assets of FRW 31,500 million and employed 186 staff. Psi has historically prepared its financial statements in accordance with IFRS for SMEs, which was consistent with its classification as a private entity without public accountability.

On 1 July 2024, Psi was acquired in full by Thembekile Holdings Ltd ('Thembekile'), a diversified industrial group incorporated in South Africa and listed on the main board of the Johannesburg Stock Exchange. Thembekile prepares its consolidated financial statements under full International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and all entities within the Thembekile group are required to submit reporting packs applying full IFRS in order to facilitate timely group consolidation. Psi is therefore required to transition from IFRS for SMEs to full IFRS with effect from 1 January 2025, with comparatives restated to 1 January 2024 as the date of transition.

At a board meeting convened on 14 February 2025 and chaired by Mr Jean-Claude Rwagasore, the Chair of Psi, the Board of Directors expressed concern about the implications of this transition. The specific concerns raised included: the incremental cost of full compliance with IFRS, particularly in relation to fair value measurements, impairment testing and extensive disclosure requirements; the capacity of Psi's current Enterprise Resource Planning (ERP) system to capture and disaggregate the financial information required under full IFRS; the availability of in-house technical expertise on newer standards such as IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 9 Financial Instruments; and the timing of staff training to be completed before the group's first hard-close reporting deadline of 31 March 2025. The Director of Finance, Ms Diane Uwimana, CPA, has been tasked with leading the transition project.

A fellow subsidiary within the Thembekile group, Gamma Milling Ltd ('Gamma'), operates a flour milling plant in the Kigali Special Economic Zone, Masoro, and supplies wheat flour to bakeries and supermarkets in Rwanda and neighbouring markets. Gamma has a year end of 31 December and, like Psi, is now required to apply full IFRS. Gamma is exposed to significant commodity price risk because wheat is its principal raw material and is not produced domestically at industrial scale; imports are sourced predominantly from regional and international suppliers.

At the beginning of 2024, Gamma's Treasury Committee, following a review of international grain market outlooks, concluded that wheat prices were likely to rise over the following 12 months. To protect the entity against adverse price movements on its forecast inventory purchases, Gamma decided to hedge a planned purchase of 1,000 bushels of wheat scheduled for delivery on 15 January 2025. On 2 April 2024, Gamma paid a non-refundable transaction fee of FRW 5,000 to acquire a call option on 1,000 bushels of wheat at a strike price of FRW 450 per bushel, exercisable on 15 January 2025. The hedge has been formally documented in accordance with Gamma's risk management policy; the hedged item has been identified as the highly probable forecast purchase of 1,000 bushels of wheat; the hedging instrument is the purchased call option; and Gamma has designated only the intrinsic value of the option as the hedging instrument, in line with IFRS 9 Financial Instruments. All qualifying criteria for hedge accounting have been satisfied and the hedge has been designated as a cash flow hedge.

The following information has been provided by Gamma's treasury function in respect of the market price of a bushel of wheat over the life of the hedging instrument. All amounts are expressed in Rwandan francs (FRW) per bushel.

Date	Spot rate (FRW/bushel)	Future rate (FRW/bushel)
2 April 2024	445	450
31 December 2024	480	484
15 January 2025 (actual)	472	472

Additional information:

1. Gamma's documented risk management policies confirm that the hedge relationship meets, and is expected to continue to meet, the hedge effectiveness requirements of IFRS 9 throughout the life of the instrument. There is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes, and the hedge ratio is consistent with the quantity of wheat that Gamma actually hedges.
2. On 15 January 2025, Gamma exercised the call option and took physical delivery of the 1,000 bushels of wheat. The wheat was transferred directly into Gamma's raw materials inventory at Masoro. The wheat had not been consumed in production by the reporting date of 15 January 2025.

Psi's Director of Finance, Ms Diane Uwimana, has requested that you, a senior member of Psi's technical accounting team reporting to her, prepare a single technical memorandum that will be tabled at the next meeting of the Board of Directors. The memorandum will also be shared with Gamma's finance function, given that both entities are transitioning to full IFRS as part of the group-wide project. You may assume that materiality thresholds have been satisfied for all items described, that no tax effects need to be considered, and that the functional currency of both Psi and Gamma is the Rwandan franc (FRW).

Required:

a) In the context of Psi's transition from IFRS for SMEs to full IFRS:

i) Evaluate the differences in accounting treatment between full IFRS and IFRS for SMEs for the elements of the financial statements most significant to Psi, and advise the Board on their practical implications. (7 Marks)

ii) Critically examine the additional disclosures required under full IFRS and discuss their applicability to Psi's business. (8 Marks)

b) For Gamma's cash flow hedge under IFRS 9 *Financial Instruments*, **prepare the journal entries to be recognised over the life of the hedging instrument, distinguishing clearly between the intrinsic value and time value of the option, and showing supporting workings**. (10 Marks)

(Total: 25 Marks)

QUESTION FOUR

The Government of Rwanda, acting through the Ministry of Finance and Economic Planning (MINECOFIN), is in the final year of its transition from a modified cash basis of accounting to full accrual-based International Public Sector Accounting Standards (IPSAS). The transition is expected to provide a more complete understanding of the future financial implications of major public programmes, including the public service pension scheme and the Government's social protection programmes. Mr David Mugisha, Accountant General of Rwanda, has requested technical support from your firm in respect of the first accrual-based financial statements for the year ended 31 December 2025.

The Government operates the Rwanda Public Service Pension Scheme ('the Scheme'), a defined benefit arrangement for civil servants administered by the Rwanda Social Security Board (RSSB) on behalf of MINECOFIN. Assets of the Scheme are held separately from Government funds under the control of trustees appointed by RSSB. Contributions are made monthly by both the Government (as employer) and the participating civil servants, and benefits are paid to retired civil servants in accordance with a formula based on final salary and length of service. To prepare the Scheme for accrual recognition, consultants were engaged to value the main components of the Scheme as at 31 December 2025. The following information has been provided by the consultants:

	FRW Million
Present value of obligation on 1 January 2025	350,000
Present value of obligation on 31 December 2025	420,000
Fair value of plan assets on 1 January 2025	315,000
Fair value of plan assets on 31 December 2025	376,000
Current service cost	36,000
Pension benefits paid	31,800
Total contributions paid for the year to 31 December	28,620

The interest rates estimated by the consultants are as follows:

1 January 2025	9%
31 December 2025	11%

Alongside the Scheme, the Government administers the 'Ubudehe Support Programme', a cash-transfer scheme that provides monthly payments to citizens identified as belonging to the lowest economic categories and to unemployed heads of household registered with the sector authorities. Unlike the Scheme, the Ubudehe Support Programme is not linked to any contributions by beneficiaries, is funded directly from the Consolidated Fund, and is a significant component of total Government expenditure. MINECOFIN has asked for advice on the appropriate accounting treatment of this programme under IPSAS as part of the same accrual transition project.

Additional information:

1. Contributions to the Scheme were paid, and benefits were withdrawn from the Scheme, on 31 December 2025.
2. Remeasurement differences on the Scheme are recognised in accordance with IPSAS 39 *Employee Benefits*.
3. You may assume that all amounts are material, that there have been no past service costs or plan amendments in the year, and that the Scheme has no asset ceiling restrictions.

Required:

a) In relation to the Rwanda Public Service Pension Scheme, **prepare schedules, in accordance with IPSAS 39, showing:**

i) The movement in the present value of the defined benefit obligation (3.5 Marks)

ii) The movement in the fair value of plan assets (3.5 Marks)

iii) The amounts to be recognised in the statement of financial performance and the statement of financial position. (3 Marks)

b) **Explain the disclosure requirements of IPSAS 39 in the employer's financial statements in respect of defined contribution schemes, and describe the steps that should be taken by the Government to account for the defined benefit Scheme**. (7 Marks)

c) With reference to the Ubudehe Support Programme, **discuss the guidance provided by IPSAS 42 *Social Benefits* on accounting for social benefits expenditure. Your answer should define social benefits and social risks, and explain the specific recognition and measurement principles of the standard, together with the approaches permitted for accounting for social benefits.** (8 Marks)

(Total: 25 Marks)

End of question paper.

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