CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 24, FEBRUARY 2026

MODEL ANSWER AND MARKING GUIDE

QUESTION ONE

MARKING GUIDE

	Marks
Part (a)(i): Implications of the partial disposal of shareholding in KAMBA to the RIDBA Consolidated financial statements	
Generally award 1 mark for each correct reference to the accepatable accounting principles in reference to the impact of the disposdal of KAMBA (with a loss of control) in the RIDBA consolidated financial statements as below:	
- Accounting principles applicable to IFRS 3 and IFRS 10 (for consequences of loss of control) using the model answer as guidance - maximum of 6 marks	6
- Accounting principles applicable to IAS 28 (for remaining 30% interest held in KAMBA after disposal) using the model answer as guidance (with up to 1 mark for a correct calculation of the adjusted balance for the "investment in Associate" at 31 Dec 2025 - maximum of 2 marks	2
Do Not Award:	
- Any generic references to the accounting principles without any reference and/or application to the specific information provided in the sceanrio	
- Any explanation or reference of the impact and/or accounting treatment for the disposal of KAMBA in the "individual" financial statements of the parent (the question is restricted to the impact on the consolidated financial statements)	
- Any calculation(s) related to the financial impact of the disposal of KAMBA (other than an adjusted carrying amount of the investment in associate) - as the question has strictly indicated that such calculations should be ignored	
Total marks for (a)(i)	**8**
Part (a)(ii): Computation of the gain or loss on disposal of KAMBA in consolidated financial statements – based on information in Note 2	
Generally award 0.5 marks per correct monetary figure used in the answer (including any additional / separate working for the Goodwill balance on date of disposal of KAMBA) using the model answer as guidance - Maximum 3 marks except for **(i.e., Do Not Award)**:	4
- Sub-total for disposal proceeds (as the 0.5 mark is awarded separately for items making up the total proceeds)	

- The computed amount for the Loss on disposal (as this will separately be awarded later in the "consolidated statement of cash flows"). This is to avoid double-marking the same figure later in part (c). However, this should be awarded the 0.5 mark here if it is correctly computed and it is not later presented in the student's answer for the consolidated statement of cash flows	
Generally award 0.5 marks per correct accounting journal presented alongside (or separately) each relevant line item used in computing the loss on disposal. NOTE: This mark can be awarded to the student even where the student has presented such a relevant accounting journal anywhere in the whole answer to Question One (supporting the details related to computing the loss on disposal of KAMBA). The 0.5 mark is only awarded if both the DR and CR entries are correct - maximum of 3 marks	3
Total marks for (a)(ii)	**7**
Part (b): Justification for classifying the RIDBA Group's debt instruments (loan assets) as financial assets carried at Fair Value Through Other Comprehensive Income (FVTOCI)	
Generally award 1 mark for each correct reference and application to the accepatable accounting principles in reference to the:	
- Justification for the classification of the investment in the debt instruments as a financial asset carried at FVTOCI (using the model answer as guidance) - maximum of 2 marks	2
- The accounting treatment applicable to the investment in the debt instruments (aa correct reference of the impact of the debt instruments in KAMBA due to the disposal of KAMBA shall be awarded 1 mark) - a maximum of 3 marks	3
Do Not Award:	
- Any generic references to the accounting principles without any reference and/or application to the specific information provided in the sceanrio	
- Any calculation(s) related to adjusted carrying amount of the investment in the debt instruments as this is not required in this part of the question	
Total marks for (b)	**5**
Part (c): RIDBA Consolidated statement of cash flows for the year ended 31 December 2025	

Generally award 0.5 marks per correct monetary figure used in the answer (including figures picked directly from the question as long as these figures are correctly presented in either a separate working or in the final answer of the consolidated statement of cash flows) except for **(i.e., Do Not Award)**:	
- Totals (including sub-totals)	
- Figures used in a double-entry presentation (if not recognised directly in the correct line-item within the consolidated financial statements)	
Specific marks to be awarded (awarded as 0.5 marks for each correct figure used) in the working of the cash flows impacts whether used in a separate working or in the final answer of the consolidated statement of cash flows arising from the changes in the balances for:	
- Investment in Associate (1 mark ONLY if this was not awarded as a calculation mark in (a)(i) above	
- Deferred tax assets	1
- Property, plant and equipment	2.5
- Financial assets	3
- Goodwill	1.5
- Trade & other receivables	2
- Long-term borrowings	1.5
- Trade payables	1.5
- Finance cost payable	2
- Income taxes payable	2
- Other intangible assets	1
- Government Grant	1
Note: The marks allocated to the above reconciliations / workings exclude the "balancing figures" and/or direct cash flow figures that are also reported or presented on the face of the consolidated statement of cash flows	
In addition award 0.5 marks for each correct figure posted in the consolidated statement of cash flows (either directly from the question and developed from the separate workings) - using the model answer as guidance (maximum of 11 marks)	11
Do Not Award: Any separate workings for items that make up the statement of changes in equity as these are fully reconciled in the provided statement of changes in equity (but award 0.5 marks as guided above for the correct presentation of the cash flow items emerging from the separate figures used in the detailed statement of changes in equity e.g., dividends paid to parent shareholders, dividends paid to NCIs)	
Total marks for (c)	**30**
TOTAL MARKS FOR QUESTION ONE	**50**

MODEL ANSWER TO QUESTION ONE

Part (a)(i): Implications of the partial disposal of shareholding in KAMBA to the RIDBA Consolidated financial statements

The following accounting principles will apply in the consolidated accounts following the disposal of KAMBA on 1 October 2025 to the reporting date:

The disposal of 60% shareholding in KAMBA on 1 October 2025 implies the RIDBA Group has lost control over KAMBA which implies that KAMBA has ceased to be a subsidiary for consolidation purposes to RIDBA Group.

Consequently, on the basis of the disposal with a loss of control over KAMBA on 1 October 2025 (the date of disposal), the RIDBA Group should:

- De-recognise the assets and liabilities (net assets) of KAMBA of FRW 153,270 million from the RIDBA consolidated statement of financial position.
- De-recognise the non-controlling interests in KAMBA of FRW 25,800 million from the Group equity as these are disposed after the disposal of the subsidiary.
- De-recognise the Goodwill balance of FRW 14,400 million attributable to KAMBA from the consolidated statement of financial position.
- Compute and recognize a "Gain or loss on disposal of KAMBA" in the consolidated profit or loss.

The remaining shareholding of 30% in KAMBA which constitutes significant influence implies that:

- KAMBA becomes an investment in associate to the RIDBA Group from 1 October 2025 where the "equity method" under IAS 28 *Investment in Associate* shall apply moving forward.
- Under the Equity method, the initial measure of the investment in Kamba as an Associate on 1 October 2025 is FRW 15,600 million which is the fair value of 30% remaining interest on that date.
- Subsequently, at the reporting date (31 December 2025), the investment in Kamba (as an associate) is adjusted by RIDBA's share of the post-acquisition profits / losses which in this case is given as FRW is a "loss share" given as FRW 1,380 million and hence the closing balance of the investment in associate is FRW 14,220 million (15,600m – 1,380m)

Specifically, the impact of the disposal of the shareholding in KAMBA with a loss of control implies that in the consolidated financial statements of RIDBA for the year ended 31 December 2025:

- In the RIDBA's consolidated profit or loss and other comprehensive income, KAMBA will have been consolidated on a line-by-line basis for the respective line items of incomes and expenses for the nine (9) months running from 1 January 2025 to 30 September 2025. The last three months will only be reported for RIDBA share of the loss in KAMBA as an associate.;
- In the RIDBA's consolidated statement of financial position, KAMBA's assets and liabilities will not have been consolidated on the basis that control in KAMBA will have been lost before the reporting date (31 December 2025). An investment in KAMBA as an associate will be recognized and presented as a one-line item in the non-current assets.

Part (a)(ii): Computation of the gain or loss on disposal of KAMBA in consolidated financial statements – based on information in Note 2

			Accounting journals
Disposal proceeds:			
Proceeds received in cash on 1 October 2025	80,000		*DR Cash / CR Profit or Loss on disposal*
Plus: Proceeds receivable on 1 April 2026	43,000		*DR Other receivables / CR Profit or Loss on disposal*
Total disposal proceeds (80,000 + 43,000)		123,000	
Plus: Fair value of residual interest (30% in KAMBA)		15,600	*DR Investment in Associate / CR Profit or Loss on disposal*
Plus: Carrying value of NCIs in KAMBA on disposal date		25,800	*DR NCIs (Equity) / CR Profit or Loss on disposal*
Less: Fair value of net assets on date of disposal (Note 2)		(153,270)	DR Profit or Loss on disposal / CR Net assets (per respective line item of KAMBA's net assets on disposal date in Note 2)
Less: Goodwill balance on date of disposal *(See Working below)*		(14,400)	*DR Profit or Loss on disposal / CR Goodwill*
Loss on Disposal of KAMBA - in Group P&L		**(3,270)**	

Working for Goodwill - attributable to KAMBA in FRW millions (Based on information in Note 2)

Purchase consideration - 1 January 2021	190,000
Plus: Fair value of NCIs on 1 January 2021	30,000
Less: Fair value of net assets in KAMBA on 1 January 2021	(202,000)
Goodwill on acquisition of KAMBA - 1 January 2021	**18,000**
Less: Impairment loss (in prior years up to 31 Dec 2024): 20% x FRW 18,000m	(3,600)
Goodwill balance (by date of disposal of KAMBA)	**14,400**

Part (b): Justification for classifying the RIDBA Group's debt instruments (loan assets) as financial assets carried at Fair Value Through Other Comprehensive Income (FVTOCI)

In accordance with IFRS 9 Financial instruments, the RIDBA Group can classify a financial asset as subsequently measured at FVTOCI where the following two (2) conditions both apply to the group's investment in the debt instruments:

- RIDBA Group must have held the debt instruments (financial assets) within a business model whose objective is achieved through both **"collecting" the contractual cash flows and "selling"** the financial assets; and
- The contractual terms will give rise to cash flows flowing to RIDBA Group on specified dates that are **solely payments of principal and interest**

In the case given, RIDBA Group has no contractual commitment to hold these debt instruments / financial assets up to their maturity date as the Group can realize cash at any time.

The following have been taken into consideration as accounting principles from IFRS 9 to account for the investment in debt instruments in the consolidated financial statements of the RIDBA Group:

- The annual interest income earned on the debt instruments recognized as part of "other income" in the Group profit or loss has been computed based on the effective interest rate of 15% applied on the opening balance of the debt instruments after adjusting for the de-recognition of the debt instruments held in KAMBA on the disposal of KAMBA; and
- A further adjustment has been applied to the carrying amount of the investment in the debt instruments to their market fair value at the reporting date (31 December 2025) with any emerging fair value changes (gains or losses) recognized in the Other Comprehensive Income (OCI).
- The final adjustment to fair value at the end of each reporting date is on the basis that RIDBA Group has correctly classified the investment as a financial asset carried at FVTOCI which should be assessed to fair value at each reporting date in accordance with both IFRS 9 and IFRS 13 Fair Value measurements.

- The RIDBA Group is allowed through IFRS 9 to subsequently reclassify the cumulative fair value changes (gains or losses) to the profit or loss when the Group derecognises the financial asset by disposing it.

Part (c): RIDBA Consolidated statement of cash flows for the year ended 31 December 2025 (in FRW millions)

Cash flows generated from operating activities	
Profit before income taxes	55,041
Adjustments for:	
Finance cost	8,320
Loss share from Associate (KAMBA)	1,380
Annual PPE depreciation charges this year (Note 3)	283,400
Impairment loss to Goodwill (W5)	2,600
Amortisation charge for other intangible assets in the year (W11)	7,050
Interest income on financial assets (4)	(168,429)
Realized grant income released to Group P&L - other income (W12)	(168,470)
Loss on Disposal of KAMBA - in (b)(ii)	3,270
Operating activities before changes in working capital	**24,162**
Decrease in Trade & other receivables (W6)	152,860
Decrease in Trade payables (W8)	(17,830)
Cash generated from operations	**159,192**
Interest paid (W9)	(4,380)
Income taxes paid (W10)	(61,840)
Other operating cash flows - Additional Government Grant received in Cash (Note 1)	445,559
Net cash from operating activities	**538,531**
Cash flows generated from investing activities	
Purchase of PPE (W3)	(438,351)
Purchased of intangible assets in the year - Note 5	(60,000)
Cash Proceeds - Disposal of KAMBA (Note 2)	80,000
Net cash from investing activities	**(418,351)**
Cash flows generated from financing activities	
Dividends paid to parent company shareholders (Note 6)	(50,000)
Dividends paid to non-controlling interest shareholders (Note 6)	(4,500)
Payment of long-term borrowings in the year (W7)	(60,000)
Net cash from financing activities	**(114,500)**

Net change in cash and cash equivalents - this period	**5,680**
Plus: Cash and cash equivalents from prior period	19,820
Cash and cash equivalents at year end (31 December 2025)	**25,500**

WORKINGS (all in FRW millions)

W1: Investment in Associate (KAMBA)

Opening balance - 1 January 2025	-
Plus: Residual interest (30%) in KAMBA after partial disposal (Note 2)	15,600
Less: Loss share from Associate (KAMBA)	(1,380)
Closing balance - 31 December 2025	**14,220**

W2: Deferred tax asset

Opening balance - 1 January 2025	36,000
Less: Deferred tax asset in disposed subsidiary KAMBA (Note 2)	(36,000)
Closing balance - 31 December 2025	**-**

W3: Property, plant and equipment

Opening balance - 1 January 2025	2,791,710
Add: Prior year adjustment	216,629
Less: Annual depreciation charges this year (Note 3)	(283,400)
Less: PPE in disposed subsidiary KAMBA (Note 2)	(268,600)
Balancing figure: Additional PPE purchased (for cash) in the year	438,351
Closing balance - 31 December 2025	**2,894,690**

W4: Financial assets

Opening balance - 1 January 2025	1,210,400
Less: Financial assets in disposed subsidiary KAMBA (Note 2)	(87,540)
Balance prior to amortization of financial assets (1,210,400 - 87,540)	**1,122,860**
Plus: Interest income (15% x FRW 1,122,860) - Note 4	**168,429**
Less: Fair value loss on financial assets in Group OCI	(40,989)
Closing balance - 31 December 2025	**1,250,300**

W5: Goodwill

Opening balance - 1 January 2025	229,000

Less: Goodwill balance in disposed subsidiary KAMBA - answer to (b)(ii)	(14,400)
Balancing figure: Other impairment loss of Goodwill in the year	(2,600)
Closing balance - 31 December 2025	**212,000**

W6: Trade & other receivables

Opening balance - 1 January 2025	238,800
Plus: Proceeds receivable on disposal of KAMBA (Note 2)	43,000
Less: Trade receivables in disposed subsidiary KAMBA (Note 2)	(23,340)
Balancing figure: Other decrease in Trade & other receivables	(152,860)
Closing balance - 31 December 2025	**105,600**

W7: Long-term borrowings

Opening balance - 1 January 2025	1,900,000
Less: Carrying value of Long-term borrowings in KAMBA on disposal date (Note 2)	(240,000)
Balancing figure: Payment of long-term borrowings in the year	(60,000)
Closing balance - 31 December 2025	**1,600,000**

W8: Trade payables

Opening balance - 1 January 2025	195,000
Less: Carrying value of Trade payables in KAMBA on disposal date (Note 2)	(17,170)
Balancing figure: Decrease in Trade payables	(17,830)
Closing balance - 31 December 2025	**160,000**

W9: Finance cost payable

Opening balance - 1 January 2025	2,630
Plus: Finance cost this period (in Group P&L)	8,320
Less: Carrying value of Finance cost payable in KAMBA on disposal date (Note 2)	(860)
Balancing figure: Decrease in Finance cost payable	(4,380)
Closing balance - 31 December 2025	**5,710**

W10: Income taxes payable

Opening balance - 1 January 2025	41,250
Plus: Income tax expenses this period (in Group P&L)	52,600
Less: Carrying value of Income taxes payable in KAMBA on disposal date (Note 2)	(4,180)
Balancing figure: Decrease in Income taxes payable	(61,840)
Closing balance - 31 December 2025	**27,830**

W11: Other intangible assets

Opening balance - 1 January 2025	171,700
Plus: Purchased intangible assets in the year - Note 5	60,000
Balancing figure: Amortisation charge for other intangible assets in the year	(7,050)
Closing balance - 31 December 2025	**224,650**

W12: Government Grant

Opening balance - 1 January 2025 (620,500 in non-current liabilities + 168,470 in current liabilities)	788,970
Plus: New Grant received in the year in cash - Note 1	445,559
Balancing figure: Realized grant income released to Group P&L - other income	(168,470)
Closing balance - 31 December 2025 (746,340 in non-current liabilities + 319,719 in current liabilities)	**1,066,059**

SECTION B

QUESTION TWO

Marking Guide

a	Award 1 mark for correct figure of Revenues	1	
	Award 4.5 marks for Cost of sales (including 0.5 for extracted figure in TB, 1 mark for depreciation and 3 marks for inventory written down)	4.5	
	Award 0.5 marks for distribution expenses	0.5	
	Award 1 marks for administrative expenses	1	
	Award 3 marks for Gain on biological assets (0.5 for each figure in the workings)	3	
	Award 1.5 marks for Finance costs including (0.5 for figure extracted from TB and 1 mark for interest calculated)	1.5	
	Award 0.5 for presentation of Other comprehensive income	0.5	**12**
b	Award 1 mark for Farm buildings	1	
	Award 2 marks for Farm equipment (0.5 for figure extracted in TB, 0.5 for Acc depr and 1 for changes of inspection capitalized	2	
	Award 1 marks for biological assets	1	
	Award 1 marks for Inventories	1.5	
	Award 1 marks for Trade receivables	1	
	Award 0.5 marks for Cash and bank	0.5	
	Award 0.5 marks for Share capital	0.5	
	Award 1.5 marks for Retained earnings	1.5	
	Award 0.5 marks Trade payables	0.5	
	Award 1 marks for Contract liability	1	
	Award 1 marks for Interest payable	1	
	Award 1 marks for Long-term bank loan	1.5	**13**

Model Answer

a) Statement of profit or loss and other comprehensive income for the year ended 30 June 2025

	FRW "000"
Revenue W4 (420,000-15,000)	405,000
Cost of sales (260,000 + 14,000 + 3,500)	(277,500)
Gross profit	**127,500**
Distribution expenses (40,000)	(40,000)
Administrative expenses (55,000-21,000)	(34,000)
Gain on biological assets (W3)	22,000

Finance costs W5 (20,000+16,667)	(36,667)
Profit for the year	**38,833**
Other comprehensive income	–
Total comprehensive income	**38,833**

b) Statement of financial position as at 30 June 2025

	FRW "000"
ASSETS	
Non-current assets	
Land	420,000
Farm buildings (300,000 – 75,000)	225,000
Farm equipment (240,000 – 60,000 + 17,500)	197,500
Biological assets (W3)	182,000
Total non-current assets	**1,024,500**
Current assets	
Inventories (W1)	96,000
Trade receivables (88,000 + 15,000)	103,000
Cash and bank	52,000
Total current assets	**251,000**
TOTAL ASSETS	**1,275,500**
EQUITY AND LIABILITIES	
Equity	
Share capital	500,000
Retained earnings (110,000 + 38,833)	148,833
Total equity	**648,833**
Current liabilities	
Trade payables	95,000
Contract liability (W4)	15,000
Interest payable (W5)	16,667
Total current liabilities	**126,667**
Non-current liabilities	
Long-term bank loan	500,000
Total liabilities	**626,667**

TOTAL EQUITY AND LIABILITIES	1,275,500

Working 1: Inventory – Maize Produce

Under IAS 41 Agriculture, agricultural produce is measured at Fair value less costs to sell at the point of harvest.

After harvest, the produce becomes inventory and is accounted for under **IAS 2 Inventories**, which requires inventory to be measured at Lower of cost and net realisable value (NRV)

Therefore, once maize is harvested, any damage or decline in selling price must be tested under IAS 2.

Item	Computation	FRW "000"
Carrying value at year-end	96 + 14	110,000
Damaged portion (25%)	110 × 25%	27,500
Expected sales proceeds	Given	18,000
Less: selling costs	Given	(4,500)
Net realisable value (NRV)	18.0 – 4.5	13,500
Write-down required	27.5 – 13.5	14,000
Adjusted closing inventory	110 – 14	96,000

Dr Cost of sales ………………… 14,000
Cr Inventory ………………………… 14,000

Working 2: Farm Equipment

IAS 16 requires that Major inspections necessary to continue operating an asset must be capitalised if they provide future economic benefits. Inspection costs are treated as a separate component of the asset and depreciated over the period until the next inspection

Therefore, the FRW 21m inspection cost should not be expensed immediately

Item	Computation	FRW "000"
Inspection cost incurred (1 Jan 2025)	Given	21,000
Useful life until next inspection	3 years	—
Depreciation for 6 months	21/3 × 6/12	3,500
Net increase in equipment NBV	21 – 3.5	17,500

Dr PPE ……………………………… 21,000
Cr Admin expenses …………… 21,000

Dr Cost of sales (Depn) …… 3,500
Cr Accum depn ………………… 3,500

Working 3: Biological Assets – Dairy Herd

IAS 41 requires biological assets (livestock) to be measured at Fair value less costs to sell. Biological assets are not depreciated, because fair value already reflects consumption and changes in value

Any change in fair value is recognised immediately in profit or loss

Item	**Computation**	**FRW**
Fair value per animal	Given	950,000
Less selling costs per animal	Given	(40,000)
FV less CTS per animal	950,000 – 40,000	910,000
Total FV less CTS (200 cattle)	910,000 × 200	182,000,000
Carrying amount in TB	Given	160,000,000
Gain in profit or loss	182,000 – 160,000	22,000,000

Dr Biological assets …………… 22,000
Cr Gain on FV adjustment …… 22,000

Working 4: Revenue Recognition Contract

IFRS 15 requires revenue to be recognised when Control of goods or services transfers to the customer his contract has two performance obligations:

1. Supply of maize (goods)
2. Transportation service (service)

Revenue must be allocated and recognised separately.

Performance obligation	**Recognition timing**	**FRW "000"**
Supply of maize	Delivered June 2025 → recognise now	150,000
Transport service	Provided July 2025 → defer	15,000
Total contract price		165,000

Dr Revenue ………………………… 15,000
Cr Contract liability ………… 15,000

Working 5: Suspense Account – Loan + Interest

A bank loan must be recognised as a financial liability when funds are received.

IAS 1 also requires liabilities and finance costs to be accrued when incurred.

Interest must be accrued even if unpaid.

Issue	Correction	FRW '000
Supplier paid directly by bank	Dr Suspense; Cr Loan	485,000
Cash wrongly credited to customer	Dr Receivables; Cr Loan	15,000
Loan principal recognised	Total liability	500,000
Interest accrual (4 months)	500 × 10% × 4/12	16,667

Dr Finance costs ……………… 16,667
Cr Interest payable ……….. 16,667

QUESTION THREE

MARKING GUIDE

	Description	Marks
a	**ASSET CEILING IMPACT AT 31/12/2024**	**Marks**
	Award 0.5 Mark for each correct figure used to compute asset ceiling at opening balance (Maximum 2 Marks)	2
	Amount to be recognized in the income statement (profit or loss) for 2025	
	Award 0.5 for each element shown in the profit or loss account	1.5
	Movement in the pension obligation	
	Award 0.5 mark for each correct figure shown in the movement of pension obligation	3
	Movement in the fair value of plan assets	
	Award 0.5 mark for each correct figure shown in the movement of fair value of plan assets	3
	Movement of the recognised assets in the statement of financial position from 2024 to 2025	
	For net plan asset after ceiling adjustments award marks as below Opening Balance-Net 0.5 mark Net interest at 4%-Net 0.5 Mark Cash Contribution-Net 0.5 Mark Current service costs-0.5 Mark Gain on curtailment-0.5 Mark	2.5
	Award 1 mark for Journal entries to record net gain recorded in the OCI	1
	Sub-total	**13**
b	- Award 1 mark for correctly stating the lease liabilities with explanations 1 - Award 1 mark for correctly explaining how right of use asset will be initially recognized 1 - Award 1 mark for correctly explaining the rose of present obligation and its recognition in accordance with IAS 37 1	**12**

	- Award 1 mark for calculation of present value of the future expected cost to determine the provisional liability 1 - Award 1.5 marks for showing or explaining the double entry for the initial recognition of land (0.5 for the debit side and 1for the credit side) 1.5 - Award 1 mark for showing or explaining the discount on the provision for the liability (demolition and restoration costs) at the end of the reporting period and its impact on interest and provisional liability 1 - Award 1.5 mark for showing or explaining the treatment of right of use asset at the end of reporting period including the calculation of depreciation and the carrying amount of the right of use asset 1.5 - Award 1 mark for showing or explaining that an impairment test should be conducted in accordance with IAS 36 1 - Award 1 mark for explaining the impact of damage in accordance with IAS 8 Accounting policies, changes in estimates and errors 1 - Award 1 mark for explaining that the decision made by the board is a non-adjusting event in accordance with IAS 10 Events after the end of the reporting period and another one marks for explanation about the disclosure that may be required about the intended relocation's decision 2 ***Award 1 mark for any correct point mentioned by the students that is relevant to the given scenario and in accordance with IFRS 16, IAS 8, IAS 10, and IAS 37***	

MODEL ANSWER

a) Defined contribution plan

At 31 December 2024:

the surplus on the defined benefit plan was FRW 150 million *(assets of 1,370m less liabilities of 1,220m)*.

However, as the asset ceiling was FRW 40 million on 31 December 2024, this implies the closing balance of the "net plan asset" at 31 December 2024 was restricted to FRW 40 million which is also considered as the opening balance on 1 January 2025.

The difference due to the asset ceiling adjustment of FRW 110 million (150m – 40m) was recognised in the Other Comprehensive Income (OCI) in the year to 31 December 2024

DR OCI (with the asset ceiling adjustment) FRW 110m

CR Net plan assets (with asset ceiling adjustment) FRW 110m

In the year to 31 December 2025:

The following changes on the defined benefit scheme are explained:

- Interest income on the plan asset is based on the discount rate of 4% and carrying amount of the plan assets of FRW 1,370 million both at the start of the year (1 January 2025). This amounts to FRW 54.8 million (4% x FRW 1,370m) which is reduced by the asset ceiling adjustment of FRW 4.4 million (4% x FRW 110m) to FRW 50.4 million.
- Interest expense on the plan obligations is based on the discount rate of 4% and carrying amount of the plan obligations of FRW 1,220 million both at the start of the year (1 January 2025). This amounts to FRW 48.8 million (4% x FRW 1,220m).
- Therefore, the net interest income based on the adjusted net plan asset on 1 January 2025 (after the asset ceiling adjustment) of FRW 1.6m (FRW 50.4m – FRW 48.8m) has been recognised in the profit or loss

  DR Net Plan Assets FRW 1.6m

  CR Profit or loss FRW 1.6m
- The cash contributions paid into the plan of FRW 70 million is added to increase the plan assets in the year.

  DR Plan assets FRW 70m

  CR Cash and bank FRW 70m
- The current service cost for the year of FRW 50 million is added to increase the plan obligations in the year and classified as an operating expense in the statement of profit or loss.

  DR Profit or loss (operating expenses) FRW 50m

  CR Plan obligations FRW 50m
- The benefits paid of FRW 60m to the former employees reduce both the plan assets and obligations and will therefore have a nil effect on the net plan assets.

  DR Plan obligations FRW 60m

  CR Plan assets FRW 60m
- Since any past service cost (including a "reduced" past service cost in form of a "curtailment") does not consider the effect on the asset ceiling, the gain on settlement / curtailment of plan obligation of FRW 30 million should therefore be recognised as a reduction of both the plan obligations and operating expenses in the statement of profit or loss.

  DR Plan obligations FRW 30m

  CR Profit or loss (operating expenses) FRW 30m

The net surplus on the plan at 31 December 2025 is summarised in the schedule below:

	Movement in plan Assets	**Movement in plan Liabilities**	**Net plan asset before ceiling adjustment**	**Ceiling adjustment**	**Net plan asset after ceiling adjustment**
	FRW million	**FRW million**	**FRW million**	**FRW million**	**FRW million**

Opening balance - 1 January 2025	1,370	1,220	150	(110)	40
Changes in the year:					
Net interest at 4% (on 1 Jan 2025) - working below	54.8	48.8	6	(4.4)	1.6
Working for net interest:	*(4% ×1,370)*	*(4% × 1,220)*	*(54.8 - 48.8)*	*(4% × 110)*	*(6 - 4.4)*
Cash contributions paid into the plan	70		70		70
Benefits paid to former employees	(60)	(60)	-		-
Current service cost for year to 31 December 2025		50	(50)		(50)
Gain on curtailment and settlement		(30)	30		30
Expected Closing balance at 31-Dec-25	**1,435**	**1,229**	**206**	**(114.4)**	**91.6**
Actuarial gain	**45**	**131**	**-86**		**18.4**
Closing balance as at 31-Dec-25	**1,480**	**1,360**	**120**		**110**

At the reporting date (31 December 2025), the plan will be valued at the lower of the:

- Surplus of FRW 120 million (carrying amount of plan assets of FRW 1,480m less carrying amount of plan obligations of FRW 1,360m); and
- The asset ceiling of FRW 110 million which is based on either present value of the economic benefits in the form of refunds from the plan managers or reductions in the future contributions.
- This implies that there is an asset ceiling adjustment of a "net gain" of FRW 18.4 million being the difference between the net asset plan (FRW 91.6m) and the asset ceiling (FRW 110m) and this net gain is recognised in the OCI
  DR Net plan assets FRW 18.4m
  CR OCI (net gain – asset ceiling adjustment)FRW 18.4m

If the effect of the asset ceiling had not been taken into account, there would have been a remeasurement loss of FRW 86 million (Carrying amount of net plan asset FRW 206m less carrying amount of the net pension assets of FRW 120m i.e., being the carrying amount of plan assets of FRW 1,480m less carrying amount of plan obligations of FRW 1,360m) at 31 December 2025 which would have been recognised in the OCI

b) IFRS 16 Lease, IAS 8 Accounting policies, changes in estimates and errors and IAS 10 Events after the end of the reporting period

On the basis of the information provided in the scenario:

- The land hosting the pole stands is a leased asset which qualify as a right-of-use asset to MITA in accordance with IFRS 16 Leases;
- The pole stands and mobile customer care centre buildings are tangible non-current assets owned by MITA which qualify as items of property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment (PPE)

Accounting principles and their applications to MITA's case:

- The land on which the pole stands are erected is leased for a 20-year term and therefore a right-of-use asset and corresponding lease liability should be recognised in the financial statements of MITA.
- The lease liability has been measured at FRW 184 million in accordance with IFRS 16 (i.e. at the present value of future lease payments).
- The right-of-use asset is initially measured at an amount equal to the lease liability of FRW 184m, adjusted for items such as any payments before the commencement of the lease and dilapidation provisions (i.e. provisions for the cost of restoring the leased asset to its condition at the start of the lease).
- MITA is required to restore the land at the end of the lease term as required by the lease contract. MITA therefore has a present obligation that satisfies the recognition criteria in IAS 37 and so a "provision for the liability" to demolish the pole stands and restore the land will be recognised.
- On initial recognition (1 January 2025), the initial amount for the provision is measured at the present value of the future expected cost i.e. FRW 124.72 million (FRW 400m × 0.312).
- The land is initially recognised by :

Debit	Right-of-use asset (1,840m + 124.72m)	FRW 1,964.72m	
Credit	Lease liability		FRW 1,840m
Credit	Provision for the liability *(demolition and restoration costs)*		FRW 124.72m

- The discount on the provision for the liability *(demolition and restoration costs)* at the end of the reporting period (on 31 December 2025) by one year, giving rise to an interest expense of FRW 7.48 million (FRW 124.72m × 6%). This amount is added to the provision giving a carrying amount of FRW 132.21 million (FRW 124.72m + FRW 7.48m).

- The right-of-use land asset is depreciated over the 20-year lease term, giving a depreciation charge of FRW 98.24 million (FRW 1,964m / 20 years), and a year end carrying amount / balance for the right-of-use land asset of FRW 1,866.49 million (FRW 1,964.72m – FRW 98.24m).
- It appears that the pole stands have suffered a significant damage late in the year as confirmed in the technical report dated 31 December 2025. In accordance with IAS 36 *Impairment of assets*, this is an indicator that the turbines are impaired and an impairment test should be conducted in accordance with IAS 36.
- In addition, the damage may mean that their useful life of the pole stands and the mobile customer centre building have decreased. Any change in the useful life of these tangible assets (PPE) should be accounted for prospectively in accordance with IAS 8 *Accounting policies, changes in estimates and errors* - with the carrying amount at the date of change spread over the remaining useful life.
- At the year end (31 December 2025), on the basis that MITA has plans to relocate the customer centre building to a new site, means that the leased land will become redundant. This is an indicator of impairment and the right-of-use asset should be tested for impairment in accordance with IAS 36. The resulting impairment loss should be recognised immediately in profit or loss.
- Since the relocation has not been announced, at the year end there is no obligation to pay the costs to transport of the mobile customer care centre. In addition, there is no obligation to pay the dismantling and restoration costs other than at the end of the lease period.
- In accordance with IAS 10 *Events after the end of the reporting period*, the Board approval of the decision to relocate to another site and the announcement of the Board decision to the Gikondo landowner on 15 January 2026 is **a non-adjusting event** as it does not affect conditions at the reporting date (31 December 2025). Therefore, a provision for the transport costs is not recognised and the unwinding of the recognised provision for liability (demolition and restoration costs) cannot be not accelerated (cannot be de-recognised).
- In accordance with IAS 10, the **disclosure** of the intended relocation should be made if the financial effect is material and non-disclosure could reasonably be expected to influence the decisions of users of the financial statements.

QUESTION FOUR

MARKING GUIDE

	Description		Marks
a	- Award 1 mark for correctly explaining accounting treatment for the Investment property (Cinema Building) at 31 December 2024	1	
	- Award 1 mark for correctly explaining accounting treatment for borrowing cost at 31 December 2024	1	**15**

	- Award 1.5 mark for showing amount to be capitalised as investment property as at 31 December 2024 1.5 - Award 1.5 mark for showing journal entries to be passed at 31 December 2024 1.5 - Award 2 marks for correctly explaining the accounting treatment of the cost incurred up to 31 march 2025 including 1 mark for calculation of borrowing cost up to date 2 - Award 2 mark for correct amounts calculated as the total capitalized cost up to 31 march 2025 2 - Award 2 mark for explaining the measurement after the valuation of investment property on 31 march 2025 2 - Award 2 mark for explaining the measurement of investment property on 31 December 2025 after the valuation 2 - Award 2 mark for explaining the accounting treatment of borrowing cost of 9-months additional months to 31 December 2025 2	
b	- Award 2 marks for mentioning that engineering division is major and separate line of business that is clearly distinguishable from the other business activities and explaining that separate disclose are needed 2 - Award 1 mark for each well stated and explained disclosure up to 4 marks 4 - Ward 1 mark for each well stated and explained point on damage up to four marks 4	**10**

MODEL ANSWER

a) IAS 40 Investment property

Accounting treatment for the Investment property (Cinema Building) at 31 December 2024:

- In accordance with IAS 40 *Investment Properties*, the construction costs incurred that include the cost of materials, labour, sub-contractors and the directly attributable overheads will be capitalised as part of the initial measure for the investment property.
- Further, in accordance with IAS 23 *Borrowing costs*, the borrowing costs incurred up to 31 December 2024 will be capitalised as part of the initial measure of the investment property. This is because the investment property is a qualifying asset with the construction period of 18 months in total supporting the basis for the property as a qualifying asset and the borrowing costs directly related to the borrowed funds used in the construction of the property required to be capitalised under IAS 23.
- In total, the total capitalised costs as at 31 December 2024 is FRW 18,600 million as computed below:

	FRW million
Materials, labour and sub-contractors	14,800
Other directly attributable overheads	2,500
Interest on borrowings	1,300
Investment property (capitalized at cost on 31 December 2024)	**18,600**

Accounting journal for the construction and borrowing costs at 31 December 2024:

		FRW million	FRW million
Debit	Investment property	18,600	
Credit	Cash		18,600

- On the basis that a fair value for the investment property at 31 December 2024 cannot reliably be established, EPM shall carry the investment property at its cost of FRW 18,600 million in the financial statements.

Accounting treatment for the Investment property (Cinema Building) at 31 December 2025:

- In accordance with both IAS 40 and IAS 23, the additional costs incurred in the construction of the Investment property (the Cinema building) will continue to be capitalised to increase the capitalised initial measure of the investment property.

Accounting journals for the costs incurred in the 3 months to 31 March 2025:

		FRW million	FRW million
Debit	Investment property	1,700	
Credit	Cash		1,700
Debit	Investment property	30	
Credit	Cash		30
Debit	Investment property	42.75	
Credit	Cash paid for Interest expense (***working below***)		42.75

Working: Capitalized borrowing cost (3 months to 31 March 2025)

Interest expense = FRW 1,800m (borrowed loan) x 3/12 months x 9.5% = FRW 42.75 million

Therefore, the c**umulative capitalised costs at the date of transfer into Investment Properties (31 March 2025) will be computed as FRW 20,372.75 million (as computed below)**

	FRW million

Costs to 31 December 2024 (14,800m + 2,500m + 1,300m)	18,600
Costs to 31 March 2025 (1,700m + 30m + 42.75m)	1,772.75
Investment property (capitalized at cost on 31 March 2025)	**20,372.75**

In accordance with IAS 40 based on the fair value model for investment properties:

- The investment property will reliably be assessed to its fair value of FRW 24,000 on 31 March 2025 as determined by the professional valuer and hence a fair value gain of FRW 3,627.25 million (FRW 24,000m – FRW 20,372m) shall be recognised in the profit or loss
- EPM will not depreciate the Investment property in the year ended 31 December 2025 as depreciation is not applicable to investment properties carried using the fair value model in accordance with IAS 40
- At the reporting date (31 December 2025), the Investment property will be carried at its remeasured fair value of FRW 28,000 million resulting in a further fair value gain of FRW 4,000 million (FRW 28,000m – FRW 24,000m) in the profit or loss.

In accordance with IAS 23, the additional borrowing costs incurred on the borrowed loan for the 9-months period (1 April 2025 – 31 December 2025) amounting to FRW will be expensed as a finance cost of FRW 128.25 million (FRW 1,800m x 9/12 months x 9.5%) will be charged to the profit or loss.

b) IFRS 5, Non-Current Assets

In accordance with IFRS 5, Non-Current Assets held for sale and Discontinued operations, the engineering division appears to be a major and separate line of business that is clearly distinguishable from the other business activities of DAME. Therefore, the sale of the engineering division requires separate disclosure usually in the notes to the financial statements as a discontinued operation.

The following disclosures are required by IFRS 5:

- In the profit or loss, a single amount made up of:
  - The post-tax loss on discontinued operation of FRW 4.5 million; and
  - The post-tax loss on disposal of discontinued operations of FRW 18m {(FRW 30m – FRW 2m) – FRW 46m)
- An analysis of the amount above (either in profit or loss or in the notes) into:
  - Revenue (of FRW 22m), expenses and pre-tax profit or loss on discontinued operations;

    - o Related income tax of the above;
    - o Gain or loss on disposal of discontinued operations;
    - o Related income tax of above.
- Net cash flow attributable to operating, investing and financing activities of discontinued operations.
- Comparative figures should be restated so that comparisons can be made.

The directors appear to be mistaken in their views of the damages claim. If the engineering division had been a separate legal entity, say a subsidiary, it may be that its liabilities would be sold with it. In this instance, DAME is selling some of its net assets to PIKE Ltd and the liability for the claim will remain with DAME.

Pending legal actions are examples of contingencies; however, payment of damages is probable according to legal advisers. Therefore, DAME must provide FRW 5m in the current year's accounts to comply with IAS 37 Provisions, Contingent liabilities and assets.

The fact that DAME believes it will reclaim 40% of the damages from HOLME Ltd complicates the issue. This is a contingent asset and its treatment is not necessarily a "mirror image" of the liability.

An assessment of the likelihood of the success of the counter-claim must be made. The most appropriate treatment in such circumstances would probably be to disclose it as a note in the financial statements giving details of the circumstances.

A separate asset should not be recognised unless it is virtually certain that DAME will recover 40% of the dames from HOLME Ltd.

End of Marking Guide and Model Answer