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CERTIFIED PUBLIC ACCOUNTANT

ADVANCED LEVEL 1 EXAMINATION

A1.3: ADVANCED FINANCIAL REPORTING

DATE: TUESDAY 24, FEBRUARY 2026

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

You are the Group CFO of Rwanda Inzovu Development Bank (RIDBA), a fast-growing local bank in Rwanda operating with multiple branches across the country. RIDBA obtained stock listing in 2015 where an initial public offer was successfully subscribed to by both individuals and corporates. Over the past ten (10) years, RIDBA has acquired five (5) subsidiaries, most of which are financial institutions. In addition, the Group incorporated an insurance company during the year ended 31 December 2025.

Though the financial performance of the RIDBA Group is stable, one of the subsidiaries, Kigali Amahoro Micro-Finance Bank (KAMBA) has been operating with a financial loss for the last three (3) consecutive years leading to the Board's approval and implementation of its disposal in the year 2025.

Below are the RIDBA consolidated financial statements for RIDBA for the year ended 31 December 2025 and the accounting notes from which you are expected to prepare the consolidated statement of cash flows for the year ended 31 December 2025 for presentation to the Board of Directors.

RIDBA Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2025 (in FRW millions)

Revenue	867,229
Cost of sales	(768,979)
Gross profit	**98,250**
Administration costs	(96,730)
Loss share from Associate (KAMBA) - *Note 2*	(1,380)
Other expenses	(12,690)
Other incomes	75,911
Finance costs	(8,320)
Profit before tax	**55,041**
Income tax expense	(52,600)
Profit for the period	**2,441**
Other comprehensive income:	
Loss on financial assets - *Note 1*	(40,989)
Total comprehensive income	**(38,548)**
Profit for the period attributed to:	
Parent shareholders	(9,269)
Non-controlling interests	11,710
	2,441
Total comprehensive income for the period attributed to:	
Parent shareholders	(50,258)
Non-controlling interests	11,710

	(38,548)

RIDBA Consolidated statement of changes in equity for the year ended 31 December 2025 (in FRW millions)

	Share capital	**Share premium**	**Other Equity reserves**	**Retained earnings**	**NCI**	**Total**
Opening balance (1 January 2025)	800,000	200,000	79,100	530,160	160,320	1,769,580
Prior year adjustment - Correction of prior period error (Note 7)				216,629		216,629
Issued share capital *(Note 6)*	100,000	250,000		(350,000)		-
NCIs balance in KAMBA on date of disposal (Note 2)					(25,800)	(25,800)
Total comprehensive income			(40,989)	(9,269)	11,710	(38,548)
Dividends paid *(Note 6)*				(50,000)	(4,500)	(54,500)
Closing balance (31 December 2025)	**900,000**	**450,000**	**38,111**	**337,520**	**141,730**	**1,867,361**

RIDBA Consolidated statement of financial position (in FRW millions) as at 31 December:

	2025	**2024**
Assets		
Non-current assets		
Property, plant and equipment *(Notes 2, 3 & 6)*	2,894,690	2,791,710
Goodwill *(Note 2)*	212,000	229,000
Other intangible assets *(Note 5)*	224,650	171,700
Investment in Associate (KAMBA) - *Note 2*	14,220	-
Financial assets *(Notes 2 & 4)*	1,250,300	1,210,400
Sub-total non-current assets	**4,595,860**	**4,402,810**
Current assets		
Trade and other receivables	105,600	238,800
Deferred tax asset	-	36,000
Cash and bank	25,500	19,820
Sub-total current assets	**131,100**	**294,620**

Total assets	**4,726,960**	**4,697,430**
Equity and Liabilities		
Equity:		
Ordinary share capital *(Note 6)*	900,000	800,000
Share premium *(Note 6)*	450,000	200,000
Other equity reserves	38,111	79,100
Retained earnings *(Note 7)*	337,520	530,160
Non-controlling interests	141,730	160,320
Sub-total equity	**1,867,361**	**1,769,580**
Non-current Liabilities		
Long-term borrowings	1,600,000	1,900,000
Government Grant	746,340	620,500
Sub-total non-current Liabilities	**2,346,340**	**2,520,500**
Current Liabilities		
Trade payables	160,000	195,000
Government Grant	319,719	168,470
Finance cost payable	5,710	2,630
Income taxes payable	27,830	41,250
Sub-total current Liabilities	**513,259**	**407,350**
Total Equity and Liabilities	**4,726,960**	**4,697,430**

Additional Information:

1. In 2022, as part of the Group's diversification strategy, the RIDBA Group opened up an insurance company and named it "Manzi Insurance Company" (MICO). One critical role for MICO has been to "increase awareness of the local population in Rwanda on the benefit of Insurance packages". In January 2022, the RIDBA Group received a 5-year grant from the Government of Rwanda to fund the mass-media publicity expenses incurred on MICO's insurance products. In the year to 31 December 2025, the RIDBA Group received an additional 3-year grant of FRW 445,559 million in cash for the same purpose and this has been correctly recognised in the consolidated financial statements. The RIDBA Group applies the "deferred income" method to account for the Government Grant in accordance to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Any amortised government grant is released to the "other income" in the consolidated profit or loss on a straight-line basis over the period to which the related publicity costs are incurred

   The financial performance and position of MICO have been appropriately consolidated in the RIDBA Group financial statements.

2. After a continued period of loss-making by Kigali Amahoro Micro-Finance Bank (KAMBA), the RIDBA Group disposed 60% of its entire shareholding held in KAMBA on 1 October 2025. The disposal proceeds of FRW 123,000 million includes:
   - FRW 80,000 million received in cash immediately on 1 October 2025; and
   - Balance of FRW 43,000 million receivable on 1 April 2026 (as recognised in the "trade and other receivables" balance in the current assets)

   Initially, on 1 January 2021, RIDBA acquired 90% of the ordinary share capital of KAMBA for a purchase consideration of FRW 190,000 million and gained control over KAMBA as a subsidiary. On acquisition, the fair value of the net assets of KAMBA was FRW 202,000 million and the fair value of the non-controlling interests was FRW 30,000 million. In total, an impairment loss of 20% on Goodwill attributable to KAMBA was recognised in the prior years to 31 December 2024.

   The fair value of the net assets in KAMBA on the date of disposal (1 October 2025) was assessed as FRW 153,270 million and comprised of the following:

Property, plant and equipment	268,600
Financial assets	87,540
Trade receivables	23,340
Deferred tax asset	36,000
Long-term borrowings	(240,000)
Trade payables	(17,170)
Finance cost payable	(860)
Income taxes payable	(4,180)
Net Assets	**153,270**

   The fair value of the remaining 30% interest held in KAMBA by RIDBA Group on the date of disposal was FRW 15,600 million and this constituted significant influence.

   The profit or loss on disposal of KAMBA has been recognised in the consolidated profit or loss. The "Loss share from the Associate (KAMBA)" in the consolidated profit or loss is relates to the period 1 October 2025 to 31 December 2025.

3. The opening balance of property, plant and equipment has been adjusted with a reversal of an error made in the impairment loss recognised in the prior years (details in Note 7 below). In addition to the property, plant and equipment that was part of the disposal of KAMBA (in Note 2 above), the following explains the change in the RIDBA Group's PPE balance:
   - An annual depreciation charge of FRW 283,400 million reported in the administration costs in the consolidated profit or loss.
   - Additional PPE purchased by the RIDBA Group for cash in the year.

4. Since initial recognition on 1 January 2024, the RIDBA Group has held a large portfolio of an investment in debt instruments as loan assets on a "collect and sale basis" as the group is contractually allowed to sell these debt instruments before their maturity date. The debt instruments are held in wholly owned subsidiaries. On your advice as the Group CFO, the investment is classified as a financial asset carried at fair value through other comprehensive income (FVTOCI) in accordance with IFRS 9 *Financial Instruments*. This investment has an effective interest rate of 15% per annum (to be applied on opening balance less carrying amount of financial assets in KAMBA on date of disposal in Note 2

above) with the interest income correctly recognised as "Revenue ". The debt instruments had a fair value of FRW 1,250,300 million on 31 December 2025 and have been appropriately accounted for in the consolidated financial statements.

5. The other intangible assets include licenses from regulators and purchased brands. In the year to 31 December 2025, RIDBA Group purchased more intangible assets for FRW 60,000 million for cash. An amortisation charge for other intangible assets for the year has been recognised in "administration costs" within the Group profit or loss

6. The Board of Directors of the RIDBA Group approved a capital reserve restructuring and a payment of dividends to the parent shareholders which was implemented as below:
   - a bonus issue of ordinary shares to the existing ordinary shareholders at a stock market value of FRW 350,000 million (par value of FRW 100,000 million and a share premium of FRW 250,000 million); and
   - a dividend payment of FRW 50,000 million paid in cash to the ordinary shareholders of the parent company.

   In addition, dividends paid to the non-controlling interests during the year amounted to FRW 4,500 million.

7. The prior year adjustment on the opening balance for retained earnings relates to reversal of an impairment loss on "property, plant and equipment" made in the prior years and this has been correctly adjusted in the PPE account.

Required:

a) In reference to Note 2

i) Briefly explain the implications of the disposal of the shareholding in Kigali Amahoro Micro-Finance Bank (KAMBA) to the consolidated financial statements of the RIDBA Group in the year ended 31 December 2025 *(ignore the calculation for the gain or loss on disposal of KAMBA as this is addressed later)* (8 Marks)

ii) Compute the amount of the profit or loss on disposal of KAMBA showing the accounting journals that has been applied in the consolidated profit or loss (7 Marks)

b) In reference to Note 4 and in accordance with IFRS 9 *Financial Instruments, b*riefly justify why RIDBA Group's investment in the debt instruments should be classified at fair value through other comprehensive income and how these should be accounted for in the Group financial statements (*Ignore any calculations as these are separately addressed later)* (5 Marks)

c) Using the "indirect method", prepare the consolidated statement of cash flows for the RIDBA Group for the year ended 31 December 2025 (30 Marks)

(Total: 50 Marks)

SECTION B

QUESTION TWO

Nyagatare Agro Farms Ltd (NAF) is a listed company operating in Rwanda's agriculture sector. The company is involved in large-scale maize farming as well as dairy livestock breeding. NAF supplies agricultural produce to food processing companies and prepares its financial statements in accordance with International Financial Reporting Standards.

The following is the trial balance of Nyagatare Agro Farms Ltd for the year ended 30 June 2025

Account	**Debit FRW "Million"**	**Credit FRW "Million"**
Land (cost)	420	–
Farm buildings (cost)	300	–
Accumulated depreciation – buildings	–	75
Farm equipment (cost)	240	–
Accumulated depreciation – equipment	–	60
Biological assets – dairy herd	160	–
Inventories – maize produce at 30 June 2025	110	–
Trade receivables	88	–
Cash and bank	52	–
Trade payables	–	95
Share capital	–	500
Retained earnings (1 July 2024)	–	110
Revenue – sale of produce	–	420
Cost of sales	260	–
Distribution expenses	40	–
Administrative expenses	55	–
Finance costs	20	–
Suspense		485
Totals	**1,745**	**1,745**

Additional Information:

1. During June 2025, the company harvested maize produce which is included in the inventory balance in the trial balance. The maize harvested was initially measured at FRW 96 million, in accordance with IAS 41 Agriculture. Subsequent processing costs incurred after harvest amounting to FRW 14 million were also included in the inventory valuation. However, due to poor storage conditions, approximately 25% of the maize held at year-end was damaged. The damaged maize is expected to generate sales proceeds of only FRW 18 million, and further selling costs of FRW 4.5 million will be incurred before disposal. No adjustment has yet been made in the draft financial statements in respect of this decline in value

2. Farm equipment included in the trial balance contains a dairy processing machine purchased on 1 July 2023 at a cost of FRW 90 million. The machine requires a major inspection every three years in order to continue operating. On 1 January 2025, Nyagatare Agro Farms Ltd incurred inspection expenditure of FRW 21 million, which was charged in full to administrative expenses. The inspection restores future economic benefits of the machine. The company depreciates equipment on a straight-line basis at 10% per annum, with no residual value

3. The company's dairy herd consists of 200 breeding cattle recognised as biological assets under IAS 41 Agriculture. The carrying amount included in the trial balance is FRW 160 million, based on the previous year's valuation. At 30 June 2025, the fair value of each animal is estimated at FRW 950,000, while estimated selling costs are FRW 40,000 per animal.

4. On 1 April 2025, Nyagatare Agro Farms Ltd entered into a contract with NutriFoods Ltd to supply 500 tonnes of maize at a price of FRW 300,000 per tonne, together with transportation services for additional consideration of FRW 15 million. The total contract price is therefore FRW 165 million, of which the customer paid a deposit equal to 60% upon signing. Control of the maize transferred to the customer on 15 June 2025, but transportation services will only be provided in July 2025. The company has recognised the full contract price as revenue in the year ended 30 June 2025

5. The balance in suspense account arose because on 1 March 2025 Nyagatare Agro Farms Ltd obtained a long-term bank loan of FRW 500 million. The bank settled FRW 485 million directly to a supplier on behalf of the company, while the remaining FRW 15 million was received in cash. The payment to the supplier was correctly recorded by debiting trade payables, but the corresponding credit entry was not posted. In addition, the cash receipt of FRW 15 million was correctly recorded in the bank account but was wrongly credited to a customer account. The loan carries interest at 10% per annum, payable annually in arrears, and no interest accrual has been recognised at 30 June 2025.

Required:

a) **Prepare a statement of profit or loss and other comprehensive income for the year ended 30 June 2025** (12 Marks)

b) **Prepare a statement of financial position as at 30 June 2025** (13 Marks)

(Total: 25 Marks)

QUESTION THREE

Mugabo Apple Travel Enterprises (MATE) is a travel agency company listed on the Rwanda Stock Exchange. MATE operates with a professional team of employees who are well motivated with special remuneration in addition to normal salaries. In addition, MATE has continued to increase its customer base through the provision of friendly customer care by investing in attractive customer care reception spaces.

The following events in the year ended 31 December 2025 need your professional advise as a CPA student:

a) Since January 2020, MATE has been operating a defined benefit plan for its employees where in the past two years, the plan has been in surplus. At 31 December 2024, the fair value of the plan assets was estimated to be FRW 1,370 million and the present value of the plan liabilities was FRW 1,220 million. The asset ceiling was calculated as FRW 40 million on 31 December 2024.

The discount rate based on high quality corporate bonds is 4% on 31 December 2024 while it increased to 5% on 31 December 2025.

The details of the plan for the year to 31 December 2025 are as follows:

	FRW million
Cash contributions paid into the plan	70
Benefits paid to former employees	60
Current service cost for year to 31 December 2025	50

At 31 December 2025, the asset ceiling has been calculated at FRW 110 million. During the year, there was a plan curtailment arising from a reduced past service cost which resulted in a gain on settlement of FRW 30 million. Immediately after the curtailment, the actuary valued the plan assets and liabilities at FRW 1,480 million and FRW 1,360 million, respectively.

Required:

In accordance with IAS 19 Employee Benefits, explain (with suitable calculations) the amounts related to the defined benefit plan to be recognised in profit or loss and other comprehensive income, including the impact of the "asset ceiling" on the plan at 31 December 2024 and in the year ended 31 December 2025. Support your explanation with a summary schedule that reconciles the movement in the plan from 31 December 2024 to 31 December 2025 (13 Marks)

b) On 1 January 2025, MATE leased a large area of land in Gikondo on which it erected "pole stands" to hold a large mobile customer care centre office. In the lease contract, the erected pole stands which are material in material value qualify as a tangible asset owned by MATE. The lease term is 20 years which is equal to the average life of the pole stands and the lease liability in respect of the land, measured in accordance with IFRS 16 *Leases*, was FRW 1,840 million. At the end of the lease term, the lease contract requires MATE to demolish the pole stands and restore the land to its original status. The cost to MATE for the contractual obligation to demolish the pole stands and restore the land is estimated to be FRW 400 million.

During the year ended 31 December 2025 and as planned, the customer care centre generated the budgeted revenue income as it attracted a good number of customers. However, towards the end of the year it became apparent that the land surface that hold the pole stands was weak and exposed the persons using the customer care centre to accidents and unhealthy to host the customers. In addition, a technical report dated 31 December 2025 confirmed the status of the pole stands as being damaged and could not operate until repaired and land surfaced reconstructed. Accordingly, MATE has made plans to relocate the customer care centre to an alternative site where the land surface is strong enough to hold the mobile building. Moving to the new site will incur a significant transport cost in addition to the cost of land restoration and the remaining payments on the lease, which is non-cancellable. The relocation plans and related expenses were approved at the MATE's board meeting on 15 January 2026 and immediately the termination of the lease contract was announced to the Gikondo landowner.

An appropriate discount factor relevant to the cost of meeting the contractual requirement is 6% with the 6% discount factor for 20 years on 1 January 2025 is 0.312.

Required:

Discuss the appropriate accounting treatment for the leased land and the impact of the lease cancellation in the financial statements of MATE for the year ended 31 December 2025. (12 Marks)

(**Total: 25 Marks)**

QUESTION FOUR

a) Eric Property Masters (EPM), is one of the largest real estate management companies in Rwanda that owns several properties locally based in urban towns across Rwanda. Most of these properties are self-constructed by EPM and let out as investment properties. EPM's financial year date is 31 December.

EPM owns a large building that was constructed for a period of 18 months as high-tech cinema building located in Kigali town centre. At 31 December 2024, the cinema building was nearing completion, and the costs incurred (and paid in cash) to that date were:

	FRW million
Materials, labour and sub-contractors	14,800
Other directly attributable overheads	2,500
Interest on borrowings	1,300

The building is deemed to be a qualifying asset and therefore any borrowing costs are capitalised as part of the cost of the building. A specific loan of FRW 1,800 million was obtained to fund this project and the annual rate of interest rate is 9.5%.

During the three months to 31 March 2025 the construction of the cinema building was completed, with the following additional costs (and paid in cash) incurred in the three months (1 January 2025 to 31 March 2025):

	FRW million
Materials, labour and sub-contractors	1,700
Other directly attributable overheads	30

EPM was not able to determine the fair value of the property reliably during the construction period and so correctly applied the allowance within IAS 40 *Investment Property* to measure the property at cost until construction was complete.
On 31 March 2025, EPM obtained a professional valuation of the cinema's fair value, and the valuer concluded that it was worth FRW 24,000 million.

The cinema building was rented by a national multiplex chain on an operating lease basis from 1 April 2025, and large capacity crowds immediately turned up to watch films in the building. The lease agreement allows for annual revisions, and it was therefore clear that the market value for the cinema building was worth even more than the valuation at 31 March 2025. Following a complete valuation of the company's investment properties at 31 December 2025, the fair value of the cinema building was established at FRW 28,000 million.

EPM applies the fair value model for the subsequent measurement of investment properties in accordance with IAS 40.

Required:

As a CPA student, explain the accounting treatment in respect of the construction and borrowing costs incurred on the cinema building at 31 December 2024 and 31 March 2025. In addition, explain the treatment for the value of the investment property and borrowing costs incurred in the year ended 31 December 2025. (15 Marks)

You are required to provide calculations where relevant

b) The following problem and issues have arisen during the preparation of the draft financial statements of DAME, a local company based in Rwanda and listed company on the stock market, for the year to 30 September 2025:

On 20 September 2025 DAME sold its loss-making engineering operation to PIKE Ltd. DAME accounts for its operations on a divisional basis, but they are not separate legal entities. The sale was completed at an agreed value of FRW 30m. Associated disposal costs were FRW 2 million. The carrying amount of the division's net assets at the date of sale was FRW 46 million. The revenues and post-tax losses for the period 1 October 2025 to the date of sale were FRW 22 million and FRW 4.5 million respectively.

The engineering division is currently being sued for damages relating to a faulty product. Independent engineering consultants have prepared a report which confirms that the product was faulty, but this was partly due to a component that was manufactured by Holroyd. The damages are estimated at FRW 5 million and legal advisers have indicated that DAME will probably have to pay this amount to the claimant. DAME believes that it can recover 40% of this amount from Holroyd. The directors of DAME believe that, as the division has been sold, there is no need to provide for the claim damages. DAME operates in a country where a company and its shareholders are separate legal persons.

The above amounts are material in the context of the financial statements of DAME.

Required:

Using appropriate calculations, advise the directors of DAME on the correct accounting treatment of the disposal of the engineering division and the claim for damages.

(10 Marks)

(Total: 25 Marks)

End of question paper.