

CMA APRIL 2019 SPECIAL EXAMINATION
 PROFESSIONAL LEVEL- II
 SUBJECT: 201 ADVANCED FINANCIAL ACCOUNTING-I

Model Solution

Solution to the question No. 1 (b)

Required (i)

AXY Company (Lessee)
 Lease Amortization Schedule

| Date | Annual Lease Payment | Interest (10%) on Liability | Reduction of lease liability | Lease Liability |
|--------|----------------------|-----------------------------|------------------------------|-----------------|
| 1/1/15 | | | | Tk.85,653.55 |
| 1/1/15 | Tk.20,541.11 | | Tk.20,541.11 | 65,112.44 |
| 1/1/16 | 20,541.11 | Tk.6,511.24 | 14,029.87 | 51,082.57 |
| 1/1/17 | 20,541.11 | 5,108.26 | 15,432.85 | 35,649.72 |
| 1/1/18 | 20,541.11 | 3,564.97 | 16,976.14 | 18,673.58 |
| 1/1/19 | 20,541.11 | 1,867.53 | 18,673.58 | 0 |

Working: Calculation of PV of Minimum Lease Payment:

$$Pvn = R (PVAF \overline{n-1}|i + 1)$$

$$Pvn = Tk, 20,541.11 (Table IV \overline{4}|10\% + 1)$$

$$Pvn = 20,541.11 (3.16986+1)$$

$$Pvn = Tk, 85,653.55$$

Required (ii)

| | | | |
|--------|---|--------------|--------------|
| 1/1/15 | Leased Equipment under Capital Lease..... | Tk.85,653.55 | |
| | Lease Liability/ Obligation Under Capital Lease..... | | Tk.85,653.55 |
| 1/1/15 | Lease Liability/ Obligation Under Capital Lease | Tk.20,541.11 | |
| | Cash..... | | Tk.20,541.11 |

During 2015 (at the time of payment of executory cost)

| | | | |
|----------|---|--------------|--------------|
| | Insurance Expense..... | Tk.900.00 | |
| | Cash..... | | Tk.900.00 |
| | Property Tax Expense..... | Tk.1,600.00 | |
| | Cash..... | | Tk.1,600.00 |
| 12/31/15 | Interest Expense..... | Tk.6,511.24 | |
| | Interest Payable | | Tk.6,511.24 |
| | Depreciation Expense..... | Tk.17,130.71 | |
| | Accumulated Depreciation- Leased Equipment..... | | Tk.17,130.71 |

| | | | |
|---|---|--------------|--------------|
| 1/1/16 | Interest Payable | Tk.6,511.24 | |
| | Interest Expense..... | | Tk.6,511.24 |
| 1/1/16 | Interest Expense..... | Tk.6,511.24 | |
| | Lease Liability/ Obligation Under Capital Lease | Tk.14,029.87 | |
| | Cash..... | | Tk.20,541.11 |
| During 2016 (at the time of payment of executory cost) | | | |
| | Insurance Expense..... | Tk.900.00 | |
| | Cash..... | | Tk.900.00 |
| | Property Tax Expense..... | Tk.1,600.00 | |
| | Cash..... | | Tk.1,600.00 |
| 12/31/16 | Interest Expense..... | Tk.5,108.26 | |
| | Interest Payable | | Tk.5,108.26 |
| | Depreciation Expense..... | Tk.17,130.71 | |
| | Accumulated Depreciation- Leased Equipment..... | | Tk.17,130.71 |

Solution to the question No. 2

| | | | |
|-----|--|----------|----------|
| (1) | Accumulated Depreciation – Machinery | \$25,500 | |
| | Depreciation Expense..... | | \$8,500 |
| | Retained Earnings | | \$17,000 |

Working:

| | <u>2013-2014</u> | <u>2015</u> |
|------------------------|------------------|-----------------|
| Depreciation taken | \$170,000* | \$85,000 |
| Depreciation (Correct) | <u>\$153,000</u> | <u>\$76,500</u> |
| | <u>\$17,000</u> | <u>\$8,500</u> |

*(\$510,000 x 1/6 x 2)

| | | | |
|-----|---------------------------------------|----------|----------|
| (2) | Retained Earnings..... | \$45,000 | |
| | Sales Salaries Expense..... | | \$45,000 |
| (3) | No entry necessary | | |
| (4) | Amortization Expense – copyright..... | \$2250* | |
| | Retained Earnings..... | \$4500** | |
| | Copyright..... | | \$6750 |

*(\$45000 / 20 = \$2250)

**(\$2250 X 2 = \$4500)

| | | | |
|-----|--|---------|---------|
| (5) | Inventory | \$71000 | |
| | Retained Earnings..... | | \$71000 |
| (6) | Loss on write down of inventories..... | \$87000 | |
| | Retained Earnings..... | | \$87000 |

Solution to the question No. 3 (c)

Required (i)

The net Income to be reported in 2015, using the retrospective approach, would be computed as follows:

| | |
|--------------------------------------|-------------------|
| Income before Income Tax | Tk.900,000 |
| Income Tax (40% \times Tk.900,000) | 360,000 |
| Net Income | <u>Tk.540,000</u> |

Required (ii)

| | | |
|---|------------|-------------|
| Construction in Process..... | Tk,250,000 | |
| Deferred Tax Liability (40% \times Tk.250,000)..... | | Tk,100,000 |
| Retained Earnings..... | | Tk,150,000* |

***(Tk.250,000 x 60%= Tk.150,000)**

Solution to the question No. 4

Contract profit recognized for the year ending December 31, 2010, is as follows:

| Particulars | Option 1 | Option2 |
|--|-------------------|-------------------|
| Contract revenue (Calculation d) | Tk.3,107,000 | Tk.3,285,000 |
| Contract costs to date (Calculation a) | (2,530,000) | (2530,000) |
| Profit | <u>Tk.577,000</u> | <u>Tk.755,000</u> |

| Calculations | Taka | Taka |
|--|----------------------|-----------------|
| a. Contract costs to date | | |
| Materials | Tk.1,400,000 | |
| Labor | 800,000 | |
| Operating overhead | 150,000 | |
| Subcontractors | 180,000 | |
| Totals | <u>Tk.2,530,000</u> | |
| b. Contract costs (revised estimated total costs) | | |
| Original estimates | Tk.9,500,000 | |
| Materials | 180,000 | |
| Labor | 300,000 | |
| Operating overhead | (30,000) | |
| Variation | 750,000 | |
| Totals | <u>Tk.10,700,000</u> | |
| C. Contract revenue (revised estimate) | | |
| Original amount | Tk.12,000,000 | |
| Labor (wage increases added to contract price) | 240,000 | |
| Variation | 900,000 | |
| | <u>Tk.13,140,000</u> | |
| d. Stage of completion | Option 1 | Option 2 |
| Based on contract costs in proportion to estimated total contract costs: | | |
| 2,530,000/10,700,000 \times 13,140,000 (rounded off) | Tk.3,107,000 | |
| Based on work certified: 25% \times 1,31,40,000 | | Tk. 3,285,000 |

Solution to the question No. 5

Required (i)

$X (.40) = \$360000$ Taxes due for 2013

$X = \$360000 / .40$

$X = \$ 900000$ Taxable Income for 2013

Required (ii)

| | |
|-----------------------------------|------------------|
| Taxable Income [from part (i)] | \$900,000 |
| Excess depreciation | 100,000 |
| Municipal Interest | 10,000 |
| Unearned rent | (40,000) |
| | <u>\$970,000</u> |
| Pre-Tax financial Income for 2013 | |

Required (iii)

2013

| | |
|---|------------|
| Income Tax expense..... | \$381,000* |
| Deferred Tax asset (\$40,000 X .35)..... | \$14,000 |
| Income Tax Payable (\$900,000 X .40)..... | \$360,000 |
| Deferred Tax liability (\$100,000 X .35)..... | \$35,000 |

***Calculation of Income Tax Expenses**

| | |
|--|-------------------|
| Current Tax Expenses (\$900,000 x 40%) | = \$360,000 |
| Deferred Tax Expenses (\$100,000x35%-\$40,000x35%) | = \$ 21,000 |
| | <u>\$ 381,000</u> |

2014

| | |
|---|--------------|
| Income Tax Expense..... | \$ 341,250** |
| Deferred Tax Liability [(\$100,000 / 4) X .35]..... | \$ 8,750 |
| Income Tax Payable (\$980,000 X .35)..... | \$ 343,000 |
| Deferred Tax Asset [(\$40,000 / 2) X .35]..... | \$ 7,000 |

****Calculation of Income Tax Expenses**

| | |
|---|-------------------|
| Current Tax Expenses (\$980,000 x 35%) | = \$343,000 |
| Deferred Tax Expenses (\$40,000/2x35% -\$100,000/4x35%) | = (\$ 1,750) |
| | <u>\$ 341,250</u> |

Required (iv)

| | | |
|------------------------------|------------------|--------------------------|
| Income Before Income Taxes | | \$ 970,000 |
| Less: Income Tax Expenses | | |
| Current (\$900,000 x 40%) | \$ 360,000 | |
| Deferred (\$35000 - \$14000) | <u>\$ 21,000</u> | |
| | | <u>\$ 381,000</u> |
| Net Income | | <u>\$ 589,000</u> |