THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH

CMA JUNE-2019 EXAMINATION
PROFESSIONAL LEVEL –II
SUBJECT: 201. ADVANCED FINANCIAL ACCOUNTING

Model Solution

Solution to the question No. 1

(a)

Income before Income Taxes		Tk.195,000
Income Tax expense		
Current	Tk.48,000	
Deferred	Tk.30,000	Tk.78,000
Net Income		Tk.117,000

(b)

Year	Future Taxable amount	Tax Rate	Deferred Tax liability
2015	Tk.42,000	34%	Tk.14,280
2016	Tk.244,000	34%	Tk.82,960
2017	Tk.284,000	40%	Tk.113,600
			Tk.210,840

(c)

Required (i)

Schedule of PreTax Financial Income
and Taxable Income for 2015

Pre-Tax Financial Income	Tk.750,000
Permanent differences	
Bond interest revenue	(4,000)
Pollution fines	4,200
	750,200
Temporary differences	
Depreciation expense	(30,000)*
Installment sales (Tk.100,000 – Tk.75,000)	(25,000)
Warranty expense (Tk.50,000 – Tk.10,000)	40,000
Taxable Income	**Tk.735,200**

* Depreciation for books (Tk.300,000/5)	=	Tk.60,000
Depreciation Tax return (Tk.300,000 X 30%)	=	90,000
Difference		Tk.30,000

Required (ii)

Journal entry to record Income Taxes payable, Income Tax expense and deferred Income Taxes is as follows:

Income Tax Expense..	225,060*	
Deferred Tax Asset	12,000	
Deferred Tax Liability (Tk.9,000 + Tk.7,500)...........................		16,500
Income Taxes Payable...		220,560**

Working:

***Calculation of Income Tax Expenses**

Current Tax Expenses (Tk,735,000 x 30%)	= Tk,220,560
Deferred Tax Expenses	= Tk, 4,500***
	Tk,225,060

**Calculation of Income Taxes payable for 2015 :

Taxable Income	Tk.735,200
Tax rate	X 30%
Income Taxes payable	Tk.220,560

*****Computation of Deferred Taxe Expenses for 2015 is as follows:**

Temporary Differences:	
Depreciation expense	Tk.(30,000) X 30% = Tk.(9,000) DTL
Installment sales (Tk.100,000 – Tk.75,000)	(25,000) X 30% = (7,500) DTL
Warranty expense (Tk.50,000 – Tk.10,000)	40,000X 30% = 12,000 DTA
Net deferred Tax expense for 2015..	**= Tk, 4,500**

Solution to the question No. 2

(b) Lease Receivable (Tk.40,800x 5)…………………… Tk. 204,000
Sales Revenue (Tk.40,800x 4.0373)………………………… Tk.164,724
Unearned Interest Revenue …………………………………. Tk. 39,276

Cost of Goods Sold…………………………………………Tk.110,000
Inventory…………………………………………. Tk.110,000

Cash ………………………………………………. Tk.40,800
Lease Receivable ………………… Tk.40,800

Working: Calculation of PV of Minimum Lease Received:

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

$$Pvn = Tk,\ 40{,}800\ (\ Table\ IV\ \overline{4}|12\%\ +1\ )$$

$$Pvn = 40{,}800\ (3.16986+1)$$

$$Pvn = Tk,\ 164{,}724$$

Buzz Lightyear Corporation (Lessor)
Lease Amortization Schedule (Calculation of Interest Income)

Date	Annual Lease Receivable	Interest Income (12%)	Reduction of Minimum lease Receivable	PV of Minimum Lease Received
1/1/15				Tk, 164,724.00
1/1/15	Tk. 40,800		Tk. 40,800.00	123,924.00
1/1/16	40,800	14,870.88	25,929.12	97,994.88
1/1/17	40,800	11,759.39	29,040.61	68,954.27
1/1/18	40,800	8,274.51	32,525.49	36,428.78
1/1/19	40,800	4,371.45	36,428.78	0
Total	Tk, 204,000	Tk,39,276.23	Tk, 164,724	

(c) Cash ……………………………………….. Tk.15,000
Rent Revenue…………………….. Tk.15,000

Depreciation Expense…………………… Tk.10,000
Accumulated Depreciation – Equipment…. Tk.10,000
[Tk.80,000/8]

Solution to the question No. 3

Sadharan Bima Corporation
Fire Department
Revenue Account (Form D)
For the Year Ended on December 31, 2015

	Amount		Amount
Claims under policies, less Reinsurance:		Balance of Account at the beginning	
Paid during the year 56,000		of the year:	
Total estimated liability in respect of		Reserve for unexpired risks, being percent	
outstanding claims at the end of the year		of premium Income of the year 1,22,000	
whether due or intimated 300		Additional Reserve, if any 71,400	1,93,400
Less: Outstanding at the end of		Premiums less reinsurances	1,65,300
previous year 1,900	54,400		
Commission & Organizers' Remuneration	54,800		
Expenses of Management	36,600		
Reserve for Unexpired Risks-			
10% of net premium received	16,530		
Profit and Loss Account Transfer	1,96,370		
	3,58,700		**3,58,700**

Marine Department
Revenue Account (Form D)
For the Year Ended on December 31, 2015

	Amount		Amount
Claims under policies, less Reinsurance:		Balance of Account at the beginning	
Paid during the year 53,700		of the year:	
Total estimated liability in respect of		Reserve for unexpired risks, being percent	
outstanding claims at the end of the year		of premium Income of the year 65,100	
whether due or intimated 6,700		Additional Reserve, if any 7,500	72,600
Less: Outstanding at the end of		Premiums less reinsurances	1,11,800
previous year 100	60300		
Commission & Organizers' Remuneration	44,700		
Expenses of Management	14,200		
Reserve for Unexpired Risks-			
10% of net premium received	11,180		
Profit and Loss Account Transfer	54,020		
	1,84,400		**1,84,400**

Sadharan Bima Corporation
Profit and Loss Account (Form B)
For the Year Ended on December 31, 2015

	Amount		Amount
Income Tax on Investments	1,900	Interest on Investment	19,700
Directors' Sitting Fees & Travelling Expenses	5,800	Miscellaneous Receipts	100
Depreciation on Furniture	400	Profit transferred -	
Contribution to Staff Provident Fund	1,500	Fire Department	1,96,370
Provision for Taxation	10,000	Marine Department	54,020
Balance Carried to Profit and Loss			
Appropriation Account	2,50,590		
	2,70,190		**2,70,190**

Sadharan Bima Corporation
Balance Sheet (Form A)
As at December 31, 2015

Liabilities	**Amount**	**Assets**	**Amount**
Shareholder’s capital		**Loans:**	
Authorized:		Municipal Loans	52,000
…shares of [Taka]…each [Taka]			
Subscribed:		**Investments:**	
…shares of [Taka]…each[Taka]		Deposits with Bangladesh Bank in Treasury Bills	2,59,100
Called up:		Co-operative Land Mortgage Bank Debentures	2,93,500
35000 shares of [Taka] 10 each	3,50,000	National Savings Certificates	1,00,000
Reserve or Contingency Accounts:		Shares in Companies	30,000
Contingency Reserve	28,000	Sundry Debtors	7,300
General Reserve	1,27,800	Interest Accrued	3,600
Investment Fluctuation Reserve	6,000	Outstanding Premiums	1,30,000
Balances of Funds and Accounts:			
Fire Insurance Fund	16,530	**Cash & other assets:**	
Marine Insurance Fund	11,180	Fixed Deposit (Staff Security)	6,500
Staff Providend Fund	6,800	Fixed Deposit (Employees PF Investment)	6,800
Staff Security Deposit	6,500	In hand	65,400
Provision for Taxation	10,000	Furniture less Depreciation	3,200
Sundry Creditors	1,38,000	Library Books	1,000
Claims less reinsurances outstanding	7,000		
Profit and Loss Appropriation Account Balance	250,590		
Total Liabilities	**9,58,400**	**Total Assets**	**9,58,400**

Solution to the question No. 4 (b)

Required (i)

Calculation of Abnormal Loss:

Cost of 5,000 Kg @ 40 per Kg	= Tk,2,00,000
(+) Expenses prior to the loss (3000 + 2000)	= Tk, 5,000
Total Value of 5,000 Kg	= Tk, 205,000

Value of Abnormal Loss: 500 Kg = (205,000 / 5,000*500) = **Tk, 20,500/-**

Calculation of Closing Stock on Consignment:

Total Value of 5000 kg	= Tk, 2,05,000
(-) Abnormal loss of 500 kg	= Tk, 20,500
Value of the goods received by the consignee	= Tk,1,84,500
(+) Non recurring expense of the consignee (cartage)	= Tk,1,000
Total value of the goods sent to the consignee	**= Tk, 1,85,500**

Closing Stock Quantity:

Goods Sent on Consignment	= 5,000 Kg
Less: Abnormal loss	= 500 Kg
Less : Normal loss	= 25 Kg
The consignee received Goods	= 4,475 Kg
Goods Sold on Consignment	= 3,000 Kg
Closing Stock in hand	= 1,475 Kg

Value of Closing Stock: 1,475 Kg = (185500 / 4475* 1475) = **Tk, 61,142/-**

Required (ii)

In the Books of A

Consignment to B Account

Dr. Cr

Date	Particulars	Taka	Date	Particulars	Taka
	Goods sent on consignment	2,00,000		Abnormal loss A/c (Note 1)	20,500
	Bank A/c- expenses Freight 3,000 Insurance 2,000	5,000		B A/c (sale proceeds) (300*64)	192,000
	B A/c (expenses) Cartage 1,000 Selling 500 Godown Rent 500	2,000		Stock on consignment A/c	61,142
	B A/c – Commission (5% on 192,000)	9,600			
	Profit and Loss on Consignment A/c	57,042			
		2,73,642			**2,73,642**

B Account

Dr. Cr

Date	Particulars	Taka	Date	Particulars	Taka
	Consignment to B A/c	192,000		Consignment to B A/c- expenses	2,000
				Consignment to B A/c- Commission	9,600
				Balance c/d (amount due)	180,400
		192,000			**192,000**

Abnormal Loss Account

Dr. Cr

Date	Particulars	Taka	Date	Particulars	Taka
	Consignment to B A/c	20,500		Insurance company (claim admitted)	15,000
				Profit and Loss a/c	5,500
		20,500			**20,500**

Goods sent on Consignment Account

Dr. Cr

Date	Particulars	Taka	Date	Particulars	Taka
	Trading A/c- Transfer	2,00,000		Consignment to B A/c	2,00,000

In the Books of B

A Account

Dr. Cr

Date	Particulars	Taka	Date	Particulars	Taka
	Bank A/c- expenses Cartage Selling Godown Rent	 1,000 500 5,00		Bank A/c (sale proceeds) (300*64)	192,000
	Commission a/c	9,600			
	Balance c/d (Balance due)	1,80,400			
		192,000			192,000

Required (ii)

When the abnormal loss of 500 kg takes place in the consignee's Godown (other things remaining the same) the value of abnormal loss and stock on consignment will be different which are calculated as under:

Ascertainment of Abnormal Loss and Closing Stock:

Value of the goods received by the consignee	Tk, 205,000
(+) Proportionate expenses of the consignee (Cartage)	1,000
	Tk, 206,000
Goods Received on Consignment (5000 Kg -25 Kg Normal Loss)	4975 Kg
Therefore, Value of Abnormal Loss = (206,000/4975*500) =	Tk, 20,704
Value of Closing Stock = 206000/4975*1475 =	Tk, 61,075
Profit on Consignment will be	Tk, 57, 179

Solution to the question No. 5

(a) The IASB believes that the retrospective approach provides financial statement users the most useful information. Under this approach, the prior statements are changed on a basis consistent with the newly adopted standard; any cumulative effect of the change for prior periods is recorded as an adjustment to the beginning balance of retained earnings of the earliest period reported.

(b)

1. The change to a three-year remaining life for the purpose of computing depreciation on production equipment is a change in estimate due to a change in conditions.
2. Both FIFO, and average cost are generally accepted accounting policies; thus, this item is a change in accounting policy.
3. This oversight is a mistake that should be corrected. Such a correction is considered a change due to error.
4. Both the cost-recovery method and the percentage-of-completion method are generally accepted policies; thus, such a change is a change in accounting policy.

(c)

i.

Journal Entry

Depreciation Expense	Tk,14,500	
Accumulated Depreciation—Equipment ……………………….		Tk,14,500

Working:

Cost of Equipment	Tk.85,000
Less: Residual value..	5,000
Depreciable cost	Tk.80,000
Depreciation up to 2015	
2012 (Tk.80,000/10)..	Tk. 8,000
2013 (Tk.80,000/10)..	8,000
2014 (Tk.80,000/10)..	8,000
	Tk.24,000
Depreciation in 2015	
Cost of Equipment...	Tk.85,000
Less: Depreciation up to 2015..	24,000
Book value (January 1, 2015)	61,000
Less: Residual value	3,000
Depreciable cost	Tk.58,000

Depreciation for the Year 2015 = Tk.58,000/4 = Tk.14,500

ii.

Journal Entry

Depreciation Expense (Tk.120,000 – Tk.16,000) ÷ 8..................... 13,000

Accumulated Depreciation Machine... 13,000

Accumulated Depreciation—Machine.. 3,000

Retained Earnings 3,000

Working:

Depreciation recorded in 2013 .... =(Tk.120,000 ÷ 8) X $\frac{1}{2}$ = Tk.7,500

Depreciation that should be recorded in 2013:=([Tk.120,000 – Tk.16,000] ÷ 8) X $\frac{1}{2}$ = Tk, 6,500

Depreciation recorded in 2014 =(Tk.120,000 ÷ 8) = Tk.15,000

Depreciation that should be recorded in 2014=(Tk.120,000 – Tk.16,000) ÷ 8 = Tk.13,000

	Depreciation Taken	Depreciation should be Taken	Differences
2013	Tk. 7,500	Tk. 6,500	Tk.1,000
2014	15,000	13,000	2,000
	Tk.22,500	Tk.19,500	Tk.3,000

iii.

Journal Entry

Depreciation Expense………………………………………………………….. 20,250

Accumulated Depreciation- Building 20,250

Working:

Cost of Building Tk.300,000
Less: Depreciation up to 2015
2013 60,000
2014 48,000
Book value (January 1, 2015).. Tk.192,000
Less: Residual value 30,000
Depreciable Cost.. Tk.162,000

Depreciation for the Year 2015 = (Tk.162,000 / 8) = Tk.20,250

=THE END =