

Model Solution

Solution to the Q. No. 1

(a)

IFRS-8 Requires the disclosure of the following:

- i) Factors used to identify the entity's reportable segments, including the basis of segmentation.
- ii) Types of products and services from which each segments derives its revenue.

For each reportable segment an entity should report

- i) Profit or loss.
 - ii) Revenues.
 - iii) Total Assets.
 - iv) Total Liabilities.
- (b) Research: - Research is original and planned investigation undertaken with the prospect of gaining new scientific knowledge & understanding.

Research expenditure is write off as incurred to the income statement.

Development: It is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Development Expenditure incurred after the recognition criteria have been met which should be recognized as an asset. Development expenditure recognized as an expense in profit or loss can not subsequently be reinstated as an asset.

(c)

- (i) This is not a related party. A junior manager is unlikely to be key management personnel of Mint and with only a 10 percent holding is unlikely to have significant influence.
- (ii) The daughter is a related party. The director is a related party as key management personnel. The daughter falls within the definition of close members of the family.
- (iii) Chocolate is a related party as it under the control of key management personnel.
- (iv) Miss Butterscotch is probably a related party as with 25 percent shareholding. She is likely to exert significant influence. This will depend however, on who owns the remaining 15 percent holdings.
- (v) If the director is only one director amongst many on the board of sugar and there are no other directors from Mint on the board of sugar, then it is unlikely that there is common influence or control. One common director is also given as an explain in BAS-24 of an instance where a related party relationship does not normally exist. Thus there is probably no related party relationship in this case.
- (vi) The niece is not a sufficiently close relative of Mint's finance director for cream to constitute a related party.

Solution to the Q. No. 2

(a)

R-1. In the Books of Bangladesh Handloom Co-Operative Ltd. (Head Office)

Khulna Branch

	Tk. '000' Invoice Price	Tk. '000' Cost Price		Tk. '000' Invoice Price	Tk. '000' Cost Price
1.1.2016			31.12.2016		
To balance c/d	24,000	18,000			
31.12.2016					
To goods sent branch	96,000	72,000	By good sent to branch A/C	4,000	4,000
To branch debtors A/C	4,000	4,000	By Bank A/C (cash sale)	20,000	20,000
To branch profit or loss		24,000	By branch debtors A/C	80,000	80,000
			By stock shortage (Note-2)	2,400	1,800
			By balance c/d	<u>17,600</u>	<u>13,200</u>
	<u>1,24,000</u>	<u>1,18,000</u>		<u>1,24,000</u>	<u>1,18,000</u>

R-2

Khulna Branch Account

(Branch Debtors Accounts)

Date	Particulars	Tk. '000'	Tk. '000'	Date	Particulars	Tk. '000'	Tk. '000'
4.1.16	To balance b/d		18,000	31.12.16	By branch stock A/C		4,000
					(goods returned)		
31.12.16	To branch stock A/C		80,000		By bank A/C (cash collection)		72,000
					By expense A/C:		
					By discount allowed		1,000
					By bad debts		1,400
					By balance c/d		<u>19,600</u>
			<u>98,000</u>				<u>98,000</u>

R-3. Khulna Branch Profit and Loss A/C for the year ended

December 31, 2013

Date	Particulars	Tk. '000'	Date	Particulars	Tk. '000'
31.12.2016	To branch expense A/C		31.12.2016	By branch stock A/C	24,000
	Discount allowed	1,000			
	Bad debts	1,400			
	Wages	2,000			
	Freight	2,500			
	Salary and other expenses	4,000			

Stock shortage (Note)	1,800	
General profit and loss A/C	<u>11,300</u>	_____
	<u>24,000</u>	<u>24,000</u>

Note-1: Goods are sent to branch at cost plus 33¹/₃%. Cost of goods sent to branch Tk.72,000,00. Therefore, invoice price of goods sent to branch = Tk.72,000,000 + (Tk.72,000,000 x ¹/₃) = 96,000,000.

Note-2: Calculation stock shortage

Opening stock (at invoice price)	Tk.24,000,000
Add goods sent to branch (at invoice price)	96,000,000
Less goods returned by branch	(4,000,000)
Add goods returned by customers	4,000,000
Less cash sale	(20,000,000)
Less credit sales	<u>(80,000,000)</u>
Balance to be in stock at branch	20,000,000
Actual stock at branch (at invoice price)	<u>17,600,000</u>
Shortage of stock at invoice price	<u>2,400,000</u>

Note-3: Cost price of stock shortage Tk.1,800,000 to be charges to branch Profit and Loss A/C because it is normal in nature. (2,400,000 – 2,400,000 x ¹/₄ = Tk. 1,800,000)

Note-4: Invoice price of closing stock = (Tk.13,200,000 x 133.33)/100 = Tk.17,600,000 (app).

(b)

EMIDA COMPANY

The tax base of assets is Tk.70,000 (Tk.100,000 – 30,000)

R-(I): Recovery through continued use:

Temporary difference of Tk.150,000 – Tk.80,000 is all taxed at 30% resulting in a differed tax liability Tk.24,000 (80,000 x 30%).

(If the entity expect to recover the carrying amount by using the asset it must generate taxable income of Tk.150,000 but will only be able to deduct depreciation of Tk.70,000).

R-(II): Recovery through sale:

If the entity expects to recover the carrying amount by selling the asset immediately for proceeds of Tk.150,000 the temporary difference is still Tk.80,000. Of this only the Tk.50,000 excess of proceeds over cost is taxable. Therefore, the deferred tax liability will be computed as follows:

	Taxable temporary difference (Tk.)	Tax rate	Deferred tax liability (Tk.)
Cumulative tax depreciation	30,000	30%	9,000
Proceeds in excess of Cost	<u>50,000</u>	Nil	_____ -
	<u>Tk.80,000</u>		<u>Tk.9,000</u>

Solution to the Q. No. 3

(a)

Basic earnings per share is calculated as follows:

	<u>Taka</u>	<u>Taka</u>
Profits attributable to equity holders of the parent co.		1,00,000
Less dividends paid:		
Preference share holders = (6000 x 5.5) =	33,000	
Ordinary share holders = (10,000 x 2.10) =	<u>21,000</u>	<u>54,000</u>
Undistributed earnings		<u>46,000</u>

Allocation of undistributed earnings:

Let A be the allocation of undistributed earnings per ordinary share and B the allocation per preference share. That is – $(A \times 10,000) + (B \times 6,000) = \text{Tk.}46,000$.

As B's entitlement is one quarter that of A's. We can eliminate B from the equation as follows:

$$(A \times 10,000) + (1/4A \times 6,000) = 46,000$$

$$10,000A + 1,500A = 46,000$$

$$\therefore A = 46,000/11,500 = \text{Tk.}4. \text{ Therefore } B = \text{Tk.}4/4 = \text{Tk.}1.00$$

Basic earnings per share:

	<u>Per preference share</u>	<u>Per ordinary share</u>
Distributed earnings	Tk.5.50	Tk.2.10
Undistributed earnings	<u>1.00</u>	<u>4.00</u>
Totals	<u>Tk.6.50</u>	<u>Tk.6.10</u>

(b)

If this loan stock was counted to shares the impact on Earnings would be as follows:

Basic Earnings		22,08,000
Add National Interest saved (23,00,000×10%)	2,30,000	
Less tax relief 2,30,000×30%	<u>(69,000)</u>	
Revised Earnings		<u>1,61,000</u> <u>23,69,000</u>
No of shares if converted		
Basic number of shares		82,80,000
Notional extra shares under the most		
Dilution possible $23,00,000 \times \frac{90}{100}$		<u>20,70,000</u>
Revised number of shares		<u>10,350,000</u>
DEPS	Tk. $23,69,000 \div 10,350,000 = \text{Tk. } 0.2288$	

Solution to the question No . 4.

Significant Influence

The power to participate in the financial and operating policy decisions of the investee but it is not control or joint control over those policies.

BAS 28 also states that significant influence can be shown by one or more of the following:

- Representation on the board of directors.
- Participation in policy making decisions.
- Material transactions between the investor and investee.
- Interchange of managerial personnel.
- Provision of essential technical information.

Consolidated Balance Sheet at 30 June 2016		
	Taka '000	Taka '000
Assets		
Non-current assets		
Property, plant and equipment (6,720+820+(200-80(W2))-		7,648

12(W8))		
Intangible (W3)		814
Investments		1,200
		9,662
Current assets		
Inventories (360+170-5(W5)+25(W7))	550	
Trade and other receivables (370+230)	600	
Cash and cash equivalents (15+10)	25	
		1,175
Total assets		10,837
Equity and Liabilities		
Capital and reserves		
Ordinary share capital		5,000
Revaluation reserve (W6)		209
Retained earnings (W5)		1,193
Attributable to equity holders of H Ltd		6,402
Minority interest (W4)		245
Equity		6,647
Non-current liabilities		
Borrowings (3,200+50)		3,250
Current Liabilities		
Trade and other payables (670+270)		940
Total equity and liabilities		10,837

Workings

W 1 Group Structure			
H Ltd to S Ltd (75%)			
W 2 Net assets			
S Ltd	At balance sheet date	Acquisition	Post acquisition
	Taka '000	Taka '000	Taka '000
Revaluation reserve	40	28	12
Share capital	600	600	-
Retained earnings	220	140	80
Fair value adjustment	200	200	-
Depreciation thereon (200*40%)	(80)	-	(80)
	940	940	-
	980	968	12
W-3 Intangibles- goodwill			Taka '000
Cost of investment			1,540
(-) Share of net assets acquired (75%*968(W2))			(726)
			814
W-4 Minority interest			Taka '000

25%*980(W2)			245
W -5 Retained earnings			Taka '000
H Ltd			1,210
Inventory PURP (25*(25/125))			(5)
PPE PURP			(12)
			1,193
W-6 Revaluation reserve			Taka '000
H Ltd			200
S Ltd (75%*12(W2))			9
			209
W-7 Inter-company balances			Taka '000
H Ltd receivable			75
Inventory in transit			(25)
S Ltd payable			50
W-8 PPE PURP			Taka '000
Carrying amount after transfer (96-(96*25%))			72
Carrying amount without transfer (100-(100*20%*2))			(60)
			12

Solution to the question No. 5.

Consolidated Cash Flow Statement for the year ended 31 December 20X7		
	Taka '000	Taka '000
Cash flows from operating activities		
Cash generated from operations (note 1)	1,116	
Interest paid (W-2)	(420)	
Income taxes paid (W-3)	(750)	
Net cash used in operating activities		(54)
Cash flows from investing activities		
Acquisition of subsidiary Garden Furniture Designs Ltd , net of cash acquired (W-4)	294	
Purchase of property, plant and equipment (W-5)	(3,255)	
Proceeds from sale of property, plant and equipment	1,500	
Dividends received	465	
Dividends received from associate (W-6)	750	
Net cash used in investing activities		(246)
Cash flows from financing activities		
Proceeds from issue of ordinary share capital (W-7)	7,359	
Proceeds from issue of loan notes (W-8)	2,880	
Payments under finance leases (W-10)	(810)	
Dividends paid (3,735+7,500-10,335)	(900)	

Dividends paid to minority interests (W-9)	(144)	
Net cash from financing activities		8,385
Net increase in cash and cash equivalents		8,085
Cash and cash equivalents at beginning of year		5,460
Cash and cash equivalents at end of year		13,545

Notes 1- Reconciliation of profit before tax to cash generated from operations		
		Taka '000
Profit before tax		5,520
Adjustment for:		
Depreciation (W-1)		975
Profit on sale of property, plant and equipment		(300)
Share of profits of associates		(1,050)
Investment income		(465)
Interest expense		450
		5,130
Increase in trade and other receivables (5,550-3,825-84)		(1,641)
Increase in inventories (5,925-3,000-96)		(2,829)
Increase in trade payables (1,500-840-204)		456
Cash generated from operations		1,116

Workings							
W-1 Accumulated Depreciation- Plant				W-2 Interest Payable			
	Taka '000		Taka '000		Taka '000		Taka '000
Disposal	300	b/f (Plant)	3,300	Cash paid (B.F.)	420	b/f	90
c/f (Plant)	3,600	Depreciation charge (B.F.)	600	c/f	120	CIS	450
	3,900		3,900		540		540
Total depreciation			Taka '000				
Freehold buildings (6,600-6,225)			375				
Plant			600				
			975				

W-3 Taxation				W-4 Purchase of Subsidiary		
	Taka '000		Taka '000			Taka '000
Cash paid (B.F)	750	b/f	690	Cash received on acquisition		336
c/f	1,476	CIS	1,485	(-) cash consideration		(42)
		On acquisition	51	Net cash inflow		294
	2,226		2,226			

W-5 Machinery				W-6 Investments in Associates			
	Taka '000		Taka '000		Taka '000		Taka '000
b/f	4,200	Disposal	1,500	b/f	3,000	Dividends received (B.F.)	750
On acquisition	495	c/f	9,000	Share of profit (CIS)	1,050	c/f	3,300
Leased	2,550				4,050		4,050
Additions (B.F.)	3,255						
	10,500		10,500				

W-7 Share Capital and Premium				W-8 Loan Notes			
	Taka '000		Taka '000		Taka '000		Taka '000
c/f (11,820+8,649)	20,469	b/f (6,000+6,285)	12,285	c/f	4,380	b/f	1,500
		Non cash consideration (660+165)	825			Proceeds from issue (B.F.)	2,880
		Proceeds from issue (B.F.)	7,359		4,380		4,380
	20,469		20,469				

W-9 Minority Interests				W-10 Obligations under finance Leases			
	Taka '000		Taka '000		Taka '000		Taka '000
Dividends to MI (B.F.)	144	b/f	-	Capital repayment(B.F.)	810	b/f	
c/f	345	Share of profits (CIS)	300	C/f		Current	600
		On acquisition	189	Current	720	Long term	510
	489		489	Long term	2,130	New lease commitment	2,550
					3,660		3,660

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