THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA DECEMBER, 2017 EXAMINATION
PROFESSIONAL LEVEL-III
SUBJECT: 301. ADVANCED FINANCIAL ACCOUNTING-II

Time: Three hours | Full Marks: 100

- ❖ All questions are to be attempted.
- ❖ Show computations, where necessary.
- ❖ Answer must be brief, relevant, neat and clean.
- ❖ Start answering each question from a fresh sheet.

Q. No. 1

(a) What is substance over form? Substance over form is associated with group financial statements? Do you agree? Why or not? Explain.

(b) The statement of AB, CD, EF are given below:

Particulars	**AB**	**CD**	**EF**
Assets	**Tk'000**	**Tk'000**	**Tk'000**
Non-Current Assets			
Property, plant and equipment	20,000	12,000	8,000
Investment	15,000	-	-
Total	35,000	12,000	8,000
Current assets	16,000	6,000	4,000
Total assets	**51,000**	**18,000**	**12,000**
Equity and Liabilities			
Share capital(Tk 1 share)	10,000	1,000	1,000
Retained earnings	25,000	13,000	9,000
Other reserves	4,000	-	-
Total equity	39,000	14,000	10,000
Total liabilities	**12,000**	**4,000**	**2,000**
Total equity & total liabilities	**51,000**	**18,000**	**12,000**

Additional Information:

(1) AB acquired 80% of the 1 million Tk 1 equity shares of CD on 1 January 2008 when CD's retained earnings were Tk 8,300,000. The consideration for the acquisition consisted of the following:

- Tk 643,000 cash paid on the acquisition date
- Tk 1,000,000 cash paid on 31 December 2009 (a discount rate of 8% was used to value the liability in the financial statements of AB)
- The transfer of 1,000,000 Tk 1 equity shares in AB with a deemed value Tk 7 at the date of acquisition

The non-controlling interest in CD was measured at its fair value of Tk 2,200,000 at the date of acquisition. The fair value of CD's net asset was the same as book value on 1 January 2008, with one exception, property, plant, and equipment. Property with a carrying value of Tk1,200,000 had a fair value of Tk2,000,000 on that date. The assets were estimated to have a remaining useful life of 8 years from the date of acquisition and AB depreciates property on a straight line basis. An impairment review performed on 31 December 2013 indicated that goodwill arising on the acquisition had been impaired by 20%. There have been no previous impairments.

(2) AB acquired 40% of the 1 million Tk 1 equity shares of EF in 2010 for Tk 2,500,000 when EF's retained earnings were Tk 5,000,000. AB was able to exert significant influence over EF.

Q. No. 1(cont'd……)

(3) CD sold goods to AB in the year to 31 December 2013 for Tk 3,000,000. Goods with a sales value of Tk 1,000,000 remain in AB's inventories at 31 December 2013. CD makes 20% margin on all sales.

(4) AB classifies the investments in both CD and EF as available for sale and subsequently measures these investments in accordance with IAS 39 Financial Instruments: Recognition and instrument. The balance on AB's other reserves relates solely to the movements on these investments.

Required:

Prepare the consolidated statement of financial position for the AB Group (Association) as on 31st December 2013.

[Marks: (5+15) = 20]

Q. No. 2

(a) What are the differences between spot currency and functional currency?

(b) The income statement for the Home and its wholly owned subsidiary Foreign for the year ended 31 July 2015 are shown below:

A/c Titles	Home $ '000	Foreign Crowns '000
Revenue	3,000	650
Cost of sales	2400	550
Gross profit	600	100
Distribution cost	32	41
Administrative cost	168	87
Finance cost	15	10
Profit before tax	385	38
Income tax	102	10
Profit for the period	283	28

Additional Information:

(i) The presentation currency of group is the $ and foreign functional currency is crown.

(ii) Home acquired 100% of the ordinary share capital of foreign on 1st August 2013 for 204000 crowns. Foreign share capital at that date comprised 1000 ordinary share of 1 crown each and its reserves were 180,000 crowns. In view of its subsidiary's losses, home's directors conducted an impairment review of goodwill at 31 July 2015.They concluded that the goodwill had lost 20% of its original value during the year. The impairment should be reflected in the consolidated financial statement for the year ended July 2015. It is the group policy to value the non-controlling interest at acquisition at the proportionate share of the identifiable net asset of the subsidiary.

(iii) On 1st June 2015, Home purchased an item of plant for 32000 florins. At the year end the payable amount had not yet been settled. No exchange gain or loss in respect of this item is reflected in Home's income statement.

(iv) Exchanger rate given below:

On 1st August 2013, 1.7 crown = $1
On 1st July 2015, 2.2 crown = $1
Average rate 2.4 crown = $1
On 1st June 2015, 1.5 florins = $1
On 31stJuly, 2015, 1.6 florins = $1

(v) During the year foreign made sales of 50000 crown to home. None of the items remained in inventory at the year end.

Required:

Prepare the consolidated income statement for the Home group for the year ended 2015.

Q. No. 2(cont'd……)

(c) ABC is a listed entity with a financial year end of March 31. At 31 March 2015, it had 8,000,000 ordinary shares in issue.
The directors of ABC wish to expand the business's operations by acquiring competitor entities. They intend to make no more than one acquisition of one financial year. The directors are about to meet to discuss two possible acquisitions. Their principal criterion for the decision is the likely effect of the acquisition on group earnings per share.
Details are given below:
Acquisition of XYZ: 100% share capital of XYZ could be acquired on 1October 2015 for a new issue of shares in ABC.XYZ has 400,000 ordinary shares. Four XYZ shares would be exchanged for three new shares in ABC. XYZ profit after tax for the year ended 31 March 2015 was Tk 625,000 and entity's directors are projecting a 10% increase in this figure for the year ending 31 March 2016.
Acquisition of PQR: 75% of the share capital of POR could be acquired on 1October 2015 for a cash payment of Tk 10 per share. PQR has 100,000 ordinary share capitals. The cash would be raised by a right issue to ABC existing shareholder. For the purpose of evaluation, it can be assumed that the right issue would take place on 1 October 2015, that it would be fully taken up, that the terms of the right issue would be one share for every five ABC shares held at right price of Tk 5.00, that the share market price is Tk 5.36. PQR profit after tax for the year ending 31 March 2016 is Tk 890,000.
ABC profit after tax for the year ended 31 March 2016 is projected Tk 4.5 million.

Required:
Calculate the group EPS and select which one is preferable and why? Explain.

[Marks: (4+8+8) = 20]

Q. No. 3

(a) Distinguish between Branch Trading and Departmental Trading.

(b) Enlightened Vibes Ltd exports a portion of its products through its Branch in Singapore. The trial balance of the Head office and the Branch as on June 30, 2017 were as follows.

	Head office		Branch	
	Dr (Tk)	Cr (Tk)	Dr (Sin$)	Cr (Sin$)
Building (Cost)	14,000	---	63,000	---
Debtors & Creditors	8,900	9,500	36,000	1,560
Sales	---	1,04,000	---	4,32,000
Issued Capital	---	40,000	---	---
Merchandise sent to Branch	---	35,000	---	---
Head office/ Branch	60,100	---	---	5,04,260
Cost of Sales (Branch)	---	---	3,60,000	---
Depreciation Provision	---	1,500	---	56,700
Cost of sales (Head office)	59,000	---	---	----
Administration Cost	15,200	---	18,000	---
Stock	28,900	---	11,520	---
P/L Account	---	2,000	---	---
Machinery at cost	6,000	---	1,26,000	---
Remittances	---	28,000	2,72,000	---
Bank	4,600	---	79,200	---
Selling & Distribution	23,300	---	28,800	---
	2,20,000	**2,20,000**	**9,94,520**	**9,94,520**

Q. No. 3(cont'd……)

Additional information:

(1) Head office cost of sales includes goods sent to Branch.

(2) Cost of sales figure includes a depreciation charge of 10% per annum on of the cost of Machinery.

(3) A provision of Tk 300 for unrealised profit in Branch stock is to be made.

(4) On 15th June 2017 the Branch remitted 16,000 Sin $. This amount was received by the Head office on 5th of July 2017 and realised Tk 1990.

(5) During May 2017 a Branch customer, paid in error, the Head office for goods supplied. The amount due was 320 Sin $ which realised for Tk 36. It has been properly recorded by the Head office but not yet entered in the Branch Accounts.

(6) A provision has to be made for a commission of 5% of the net profit of the Branch after changing such commission, which is due to the Branch Manager.

Exchange rate of related currencies :	
As on July 01, 2016	1 Taka = 10 Sin $
June 30, 2017	1 Taka = 8 Sin $
Average for the year	1 Taka = 9 Sin $
Date of purchase of Building & Machinery	1 Taka = 7 Sin $

You are required to prepare:

(i) Branch trial balance in H.0. Currency.

(ii) P/L Account of H.0 and Branch for the year ending June 30, 2017.

(iii) Combined Balance sheet of the Head office and that of the Branch as at June 30, 2017.

[Marks: (4+16) = 20]

Q. No. 4

(a) State the five disclosure requirements of interest in other entities as describes in IFRS-12.

(b) What are the three quantitative thresholds that plays an important role in segment reporting according to IFRS-8?

(c) M. Ltd. Group has three divisions A, B and C. Details of their turnover, results and net assets are given below:

	Tk. (000)
Division A	
Sales to B.	9,150
Other sales (Homes)	180
Export sales	12,270
	21,600
Division B	
Sales to C	90
Export sales to Europe	600
	690
Division C	
Export sales to America	540

Q. No. 4(cont'd……)

	Head Office (Tk. 000)	A (Tk. 000)	B (Tk. 000)	C (Tk. 000)
Operating profit before tax		480	60	(24)
Reallocated cost from H.O.		144	72	72
Interest cost		12	15	3
Fixed assets	150	600	120	360
Net current assets	140	360	120	270
Long term liabilities	114	60	30	360

Required:

Prepare Segmental Report for publication in M Ltd. Group.

[Marks: (5+5+10) = 20]

Q. No. 5

(a) What do you mean by Human Resource Accounting? Explain with example. Why are human resources not recognized in financial statements? How can an entity report its human resources in financial statements?

(b) Elaborately explain the three components of ethical conduct for professional accountants.

(i) Competence;

(ii) Integrity and

(iii) Confidentiality.

(c) After the acquisition of Moni Ltd, Arnob Ltd Started developing its Cell phone brand 'XX8'. The expenditure in the period to May, 2017 was as follows:

Period	Expenditure	$m
June 01, 2016–August 31, 2016	Research as to the extent of the market	3
September 01, 2016	Prototype Casing & design	4
December 01, 2016–January 31, 2016	Employee Cost in refinement of Products	2
February 01, 2017–April 30, 2017	Development Work undertaken to finalize design	5
May 01, 2017–May 31, 2017	Production & Launch of Products	6

The Cost of the Production and Launch of the Products include the cost of upgrading the existing machinery ($ 3 m), Market research cost ($ 2 m) and Staff training cost ($ 1 m).

Intangible Asset amount for the year ended May 31, 2017 was $ 20 million.

Required:

Discuss how the above information should be treated in the financial Statements as per relevant IAS/IFRS for the year ended May 31, 2017

[Marks: (6+4+10) = 20]

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