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

Solution

Solution to the Question No. 1(b)

Statement of financial position for the AB Group as at 31 December 2013

	Tk000
ASSETS	
Non-current assets	
PPE (20,000 + 12,000 + 200 (W1))	32,200
Goodwill (W2)	480
Investment in associate (W3)	4.100
	36,780
Current assets (16,000 + 6,000 - 200 (W4))	21,800
Total assets	**58,580**
EQUITY AND LIABILITIES	
Share capital ($1 shares)	10,000
Retained earnings (W5)	29,624
Equity attributable to the parent	39,624
Non-controlling interest (W6)	2,956
Total equity	**42,580**
Total liabilities (12,000 + 4,000)	16,000
Total equity and liabilities	**58,580**

Workings

1. Fair value uplift	**On acquisition**	**Movement**	**Year end**
	Tk000	*Tk000*	*Tk000*
	800		*800*
		(600)	*(600)*
			200

2. Goodwill	*Tk000*	*Tk000*
Consideration transferred:		
Cash paid on 1 Jan 2008	643	
Cash paid on 31 Dec 2009 (1,000 x 0.857)	857	
Shares transferred 1,000,000 shares x Tk7	7,000	8,500
Non-controlling interest at FV		2,200
		10,700
Net assets acquired (1,000 + 8,300 + FV 800 (W1))		(10,100)
Goodwill on acquisition of CD		600
Impairment of goodwill at 31 December 2013 - 20%		(120)
Goodwill as at 31 December 2013		480

3. Investment in associate	*Tk000*
Cost of investment	2,500
40% of post acquisition earnings of EF (40% x (9,000 - 5,000))	1,600
Investment as at 31 December 2013	4,100

4. Unrealized profit on inventories transfer	*Tk000*
Inventories from CD as at 31 December 2013	1,000
20% margin representing unrealized profit	200

5. Group retained earnings	**Group**	**CD**	**EF**
	Tk000	*Tk000*	*Tk000*
Retained earnings as per SOFP	25,000	13,000	9,00
Less pre-acquisition earnings		(8,300)	(5,00)

Less impairment of goodwill (W2)		(120)	
Less unrealized profit (W4)		(200)	
Less movement on FV uplift (W1)		(600)	
		3,780	4,00

80% x 3,780	3,024
40% x 4,000	1,600
Consolidated retained earnings	29,624

6. Non-controlling interest	*Tk000*
At fair value on acquisition	2,200
Plus 20% of post acquisition RE (20% x 3,780 (W5))	756
Non-controlling interest as at 31 December 2013	2,956

Note: The gains (in other reserves) on the fair value measurements of the investments in CD and EF are only recorded in the individual financial statements of AB. These are eliminated when the investments are included in the consolidated financial statements.

Solution to the Question No. 2(b)

Home group: Consolidated income statement for the year ended 31 July 2015

	$. 000
Revenue [3,000 + (650/2.4) - 20.8] (W1)	3,250.0
Cost of sales [2,400 + (550/2.4) - 20.8] (W1)	(2.608.4)
Gross Profit	641.6
Distribution costs [32 + (41/2.4)]	(49.1)
Administrative expenses [168+(87/2.4)]	(204.3)
Goodwill impairment (W2)	(1.9)
Exchange gain (W3)	1.3
Finance costs [15+(10/2.4)]	(19.2)
Profit before tax	368.4
Income tax [102 + (10/2.4)]	(106.17)
Profit for the period	226.23

Workings

1. *Intra-group sales*
   Translate at average rate: 50/2.4 = $20.8
   Deduct from both revenue and cost of sales

2. *Goodwill on consolidation and impairment*

	Crowns'000
Cost of investment	204
Acquired	(181)
Goodwill	23

Impairment = 23,000 X 20% = 4,600Crowns
Translated at average rate:4.600/2.4 = 1.9(tone a rest$100)
Note: It would be quite acceptable to use closing rate for this calculation.

3. *Exchange difference on payable*

	$. 000
Payable recognized on 1 June 2015: 32,000/1.5	21.3
Payable translated at closing rate: 32,000/1.6	(20.0)
Exchange gain	1.3

Solution to the Question No. 2(c)

1. XYZ acquisition

	Tk
ABC's projected earnings	4,500,000
XYZ's projected earnings-6 months	
Tk625,000×110%×6/12	343,750
Projected group earnings for year ending 31 March 2016	4,843,750

Weighted average of shares in issue:	Shares
1.4.×7-30.9×7 6/12×8,000,000	4,000,000
1.10.×7-31.3×8 [(3/4 × 4,00,000)] + 80,00,000} × 6/12	4,150,000
	8,150,000

Projected group earnings per share if XYZ acquisition takes place:

Tk.48,43,750 / 81,50,000 = Tk.0.5943

2. PQR

Working 1: Theoretical ex-rights price

5 ×Tk5.36	26.80
1 ×Tk5.00	5.00
	31.80

TERP = Tk.31.80 / 6 = Tk.5.30
Bonus action = Tk.5.36 / 5.30

Working 2: number of ABC shares in issue after 1 October 2015

1/5 x 80,00,000 + 80,00,000 = 96,00,000

	Tk
ABC's projected earnings	4,500,000
PQR's projected earnings-group share	
for 6 months Tk.890,000×75% × 6/12	333,750
Projected group earnings for year ending 31 March 20×3	4,833,750

Weighted average of shares in issue:	Share
1.4.×7-30.9×7 6/12×8,000,000×5.36/5.30(W1)	4045283
1.10.×7-31.3×8 6/12 × 9,600,000 (W2)	4,800,000
	8845283

Projected group earnings per share if PQR acquisition rakes place:

Tk 4833750 / 8845283 = Tk.0.5465

Decision: Acquisition of XYZ will be preferable because it shows the highest EPS of Tk.0.5943 than that of PQR of Tk. 0.5465

<u>Solution</u>

<u>Solution to the question No. 3 (b)</u>

Enlightened Vibes Limited
Converted Branch Trial Balance

	Branch currency sin $		Rate	H.O Currency (Tk.)	
	Dr.	Cr.		Dr.	Cr.
Freehold Building at cost	63,000		7	9000	
Debtors	35,680		8	4460	
Creditors		1560	8		195
Sales		4,32,000	9		48,000
Head Office		5,03,940	Actual		60,100
Cost of Sales	3,47,400		9	38600	
Depreciation	12,600		7	1800	
Provision the Depreciation		56700	7		8100
Administration cost	18,000		9	2000	
Stock	11,520		8	1440	
Machinery	1,26,000		7	18,000	
Remittances (28,000+1990)	2,72,000		Actual	29,990	
Cash at bank	79,200		8	9,900	
Selling &Distribution	28,800		9	3200	
Differences in Exchange (Profit)					1995
	<u>9,94,200</u>	<u>9,94,200</u>		<u>1,18,390</u>	<u>1,18,390</u>

Profit & Loss Accounts

Dr.

Cr.

	H.O Tk.	Branch Tk.	Combined Tk.		H.O Tk.	Branch Tk.	Combined Tk.
Cost of sales	58,400	38,600	97,000	Sales Goods	1,04,000	48,000	1,52,000
Gross Profit	80,600	9,400	90,000	Sent to Branch	35,000	<u>--</u>	35,000
	<u>1,39,000</u>	<u>48,000</u>	<u>1,87,000</u>		<u>1,39,000</u>	<u>48,000</u>	<u>1,87,000</u>
Administration Cost	15,200	2000	17200	Gross Profit	80,600	9,400	90,000
Selling & Distribution	23,300	3200	26500				
Depreciation	600	1800	2400				
Commission	--	150	150				
Provision for unrealized Profit	300	--	300				
Net Profit	41,200	2250	43450				

Working Notes:

Commission sales Sin $ 4,32,000

Less: Cost at sales Sin $ 3,60,000
Adm. Cost 18,000
Selling & Distribution <u>28800</u> <u>4,06,800</u>

Profit before charging commission <u>25200</u>

Commission $^{5}/_{105}$X25200 =$Sin 1200

In BD Currency Sin $ 1200 ÷ 8 = Tk.150

Balance Sheet

Liabilities		Tk.	Assets		Tk.
Share Capital		40,000	Fixed Asset:		
Revenue & Surplus:			Freehold Building at cost		23,000
Opening Balance	2000		Machinery	24,000	
(+) Profit for the year	43450		(-) depreciation	9,600	14,400
		45,450			
Exchange Reserve		1,995			
Current liabilities:			Current Asset :		
Sundry Creditors		9695	Stock	30,340	
			(-) Provision for Unrealized Profit	300	
					30,040
Commission Due		150	Sundry Debtors		13,360
			Cash at Bank		16,490
		97,290			97,290

Solution to the Question No. 4(c)

M. Ltd. Group

Segmental Report Divisions	A	B	C	Inter Segment Eliminations	Tk. 000 Consolidated totals
Segment Revenue					
Sales:					
Domestic	180				180
Export	12,270	600	540		13,410
External Sales	12,450	600	540		13,590
Inter segment sales	9,150	90	-	9,240	---------
Total Revenue	21,600	690	540	9,240	13,590
Segment Result(given)	480	60	(24)	-	516
Head office expenses					(288)
Operating profit					228
Interest expense					(30)
Profit before tax					198
Other information					
Fixed assets	600	120	360		1080
Net current assets	360	120	270		750
Segment assets	960	240	630		1830
Unallocated corporate assts					294
Segment liabilities	60	30	360		450
Unallocated corporate liabilities					114

Sales Revenue by Geographical Market (Tk. 000)

	Home Sales	Export sales (by division A)	Export to Europe	Export to America	Consolidated Total
External sales	180	12270	600	540	13590

Solution to the question No. 5 (c)

IAS 38 Provides guidance on the recognition of internally generated Intangible assets, particularly the expenditure on research and development of products.

		SOFP	($ m)
	Profit or Loss	Intangible Asset	Tangible Asset
Research as to extent of market	3		
Prototype casing & deign		4	
Employee Cost		2	
Development work		5	
Production & launch:			3
Market Research	2		
Training cost	1		
	6	11	3

Intangible assets should be carried using either cost model of the revaluation model

In this case it would appear that the company would recognize $11 million. The project has advanced to a stage where it is probable that future economic benefits will arise.

= THE END =