ICMAB
THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH

CMA DECEMBER, 2018 EXAMINATION
PROFESSIONAL LEVEL-II
SUBJECT: 201. ADVANCED FINANCIAL ACCOUNTING-I

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

The following Trial Balance was extracted from the books of Popular Life Assurance Company as on December 31, 2017:

Accounts Titles	Dr. (Tk.)	Cr. (Tk.)
Issued and Subscribed Capital: 10,000 shares of Tk.15 each, Tk.10 called		1,00,000
Life Assurance Fund on 01.01.2017		29,00,300
Dividend Paid	16,000	
Bonus to policy-holders	30,500	
Premium received		2,33,500
Claims paid	1,97,000	
Commission paid	9,300	
Management expenses	32,300	
Mortgage in Bangladesh	4,92,200	
Interest and Dividend received		1,12,700
Agent's Balances	9,300	
Freehold premises	40,000	
Investments	23,00,000	
Loan on company's policies	1,78,600	
Cash Deposits	27,000	
Cash in hand	7,300	
Surrenders	7,000	……
Total	**33,46,500**	**33,46,500**

Adjustments:

(1) Claims admitted but not paid Tk. 10,000;

(2) Management expenses due Tk. 1,200;

(3) Interest accrued Tk. 21,300;

(4) Premiums outstanding Tk. 10,000;

(5) Bonus utilized in reduction of premium Tk. 6,000; and

(6) Claims covered under re-insurance Tk. 2,300.

Required:

(i) Revenue Account; and

(ii) Balance Sheet.

[Marks: (10+10) = 20]

Q. No. 2

(a) In the context of accounting for deferred tax what are:
  (i) Permanent differences;
  (ii) Timing Differences;
  (iii) Short-term differences; and
  (iv) Long-term differences.

(b) A Ltd. maintains deferred taxation account under liability method since 2016 and at the year end the account shows a balance of Tk. 20 million.
Accounts for the year to 31 December 2017 have now been prepared and the following taxation information compiled:

  (i) Tax rates applicable to the company are:

2016	35.00%
2017	35.00%

  (ii) Accounting depreciation charged in 2017 has been Tk.60 million but taxation laws would allow Tk.100 million as depreciation for the year.

  (iii) Besides, non-admissible items have been charged in accounts amounting to Tk. 2.50 million.

  (iv) Accounts show a profit of Tk. 90 million for the year 2017.

Tax liability of 2016 has been recently settled at an excess of Tk.0.50 million provided in the year.

Required:

Prepare the current and deferred taxation accounts of the company for the year ended 31 December 2017.

[Marks: (8+12) = 20]

Q. No. 3

(a) Holder-Webb Company began operations on January 1, 2002 and uses the average cost method of pricing inventory. Management is contemplating a change in inventory methods for 2005. The following information is available for the years 2002-2004:

Net income computed using

	Average Cost Method	FIFO Method	LIFO Method
2002	15,000	19,000	12,000
2003	18,000	23,000	14,000
2004	20,000	25,000	17,000

Required:

(i) Prepare the journal entry necessary to record a change from the average cost method to the FIFO method in 2005.

(ii) Show the comparative income statements for 2004 and 2005 starting with income before the cumulative effect of change in accounting principle. Assume net income for 2005 was 32,000.

(iii) Assume Holder-Webb Company used the LIFO method instead of the average cost method during the years 2002-2004. In 2005, Holder-Webb changed to the FIFO method. Prepare the journal entry necessary to record the change in accounting principle.

Q. No. 3 (cont'd...)

(b) At the end of fiscal 2005, management of Carol Dilbeck Manufacturing Company has decided to charge its depreciation method from the double-declining balance method to straight-line method for financial reporting purposes. For federal income taxes the company will continue to use the MACRS method. The income tax rate for all year is 30%. At the end of fiscal 2005, the company has 200,000 common shares issued and outstanding. Information regarding depreciation expense and income after income taxes are as follows.

Depreciation expense to date under:

	MACRS	Straight-line	Double-Declining Balance
Pre 2004	Tk. 1,000,000	Tk. 400,000	Tk. 950,000
2004	300,000	150,000	260,000
2005	280,000	140,000	250,000

Reported income after income taxes:

2004	Tk. 1,200,000
2005	1,400,000

Instructions:

(i) Prepare the journal entries to record the change in accounting method in 2005 and indicate how the change in depreciation method would be reported in the income statement of 2005. Also indicate how earnings per share would be disclosed. (Hints: Adjust Deferred tax liability Account.)

(ii) Show the amount of depreciation expense to be reported in 2005.

[Marks: (10+10) = 20]

Q. No. 4

(a) "The substance rather than the legal form of the lease contract is indicative of the classification of lease as finance or operating." Do you agree? Why?

(b) SMX Leasing Company agrees to lease machinery to PMX Corporation on January 1, 2010. The following information relates to the lease agreement.

(1) The term of the lease is 7 years with no renewal option, and the machinery has an estimated economic life of 9 years.
(2) The cost of the machinery is Tk. 420,000, and the fair value of the asset on January 1, 2010, is Tk.560,000.
(3) At the end of the lease term the asset reverts to the lessor. At the end to the lease term the asset is expected to have a guaranteed residual value of Tk. 80,000. PMX depreciates all of its equipment on a straight-line basis.
(4) The lease agreement requires equal annual rental payments, beginning on January 1, 2010.
(5) The collectability of the lease payments is reasonably predictable, and there are no important uncertainties surrounding the amounts of costs yet to be incurred by the lessor.
(6) SMX desires a 10% rate of return on its investments. PMX's incremental borrowing rate is 11%.

* Present value of Tk.1 at 10% for 7 years is 0.51316 and 11% for 7 years is 0.48166
* Present value of an annuity due at 10% for 7 years is 5.35526 and 11% for 7years is 5.23054.

Q. No. 4 (cont'd...)

Instructions:

(i) Discuss the nature of this lease for both the lessee and the lessor, according to IAS-17 Leases.
(ii) Calculate the amount of the annual rental payment required.
(iii) Compute the present value of the minimum lease payments.
(iv) Prepare the journal entries PMX would make in 2010 and 2011 related to the lease arrangement.

[Marks: 5+(4+3+3+5) = 20]

Q. No. 5

(a) The OMX Company signs a contract on March 1, 2010 with the MXY Company to share control over the process of jointly constructing a new bridge. Each company is responsible for providing its own assets and employees in relation to the project.

The contract is for an agreed fee of Tk. 3,600,000, with revenues to be shared in 60:40 ratios in favor of OMX. Each company is to be responsible for certain expenses ('own expenses'), while expenses incurred in common are to be shared in 50:50 ratios. Work on the projects is to be completed on 31 December, 2010.

At 31 December 2010 the income received and expenses incurred by the two companies are as follows:

Items	OMX (Taka)	MXY (Taka)
Revenues received from customer	2,600,000	1,000,000
Own expenses	300,000	400,000
Common expenses	800,000	500,000

Required:

Under IAS 31 Interest in Joint Ventures, what is the sum owing between the two ventures at 31 December 2010.

(b) The TMX Company is organized into a number of divisions operating in different sectors. The accounting policies applied in two of its divisions prior to the introduction of IFRS 4 Insurance Contracts are as follows:

Accounting policy (1)	In its car breakdown division, TMX offers unlimited amounts of roadside assistance in exchange for an annual subscription. Although it has always accepted that this activity is in the nature of offering insurance against breakdown, it accounts for these subscriptions by using the stage of completion method under IAS 18 Revenue, and making relevant provisions for fulfillment costs under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
Accounting policy (2)	In its property structures insurance division, TMX makes a detailed estimate for the cost of each outstanding claim but adopts the practice of adding another 20% to the total on a 'just in case' basis.

Required:

Which of these accounting policies is TMX permitted to continue to use under IFRS 4 Insurance contracts?

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

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