



THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA JUNE, 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

- (a) Define deferred tax asset (DTA) and deferred tax liability (DTL) with suitable example.
- (b) Why modern corporate houses are interested in leasing asset than buying?
- (c) Explain lease capitalization criteria.
- (d) Peter M. Dell Co. purchased equipment for BDT 510,000 which was estimated to have a useful life of 10 years with a salvage value of BDT 10,000 at the end of that time. Depreciation has been entered for 7 years on a straight-line basis. In 2005, it is determined that the total estimated life should be 15 years with a salvage value of BDT 5,000 at the end of that time.

Required:

- (i) Prepare the entry (if any) to correct the prior years' depreciation.
- (ii) Prepare the entry to record depreciation for 2005.
- (iii) Compute the carrying value of the equipment to be shown in the statement of financial position as at December 31, 2005.

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

Q. No. 2.

- (a) Define and distinguish the following:
- (i) Principal and Agent in consignment business, and
- (ii) Consignment and Joint Venture.
- (b) Hannan and Mannan are involved in a consignment business where Hannan sends goods as consignor from Narayangonj to Mannan of Barishal for retail sale. The goods are sent by barge.

Following are the transactions relating to consignment business:

| | |
|--|------------|
| 500 units were sent @ Tk.1,000 each | Tk.500,000 |
| Fright charge paid by consignor | Tk.150,000 |
| Loading charge paid by consignor | Tk. 50,000 |
| Unloading charge paid by consignee | Tk. 24,000 |
| Insurance charge paid by consignor | Tk. 10,000 |
| Carrying charge to warehouse paid by consignee | Tk. 16,000 |
| Warehouse rent paid by consignee | Tk. 20,000 |

100 units were lost by fire in transit by barge and remaining goods were unloaded from barge. Insurance claim received Tk.120,000. They arranged for remaining 400 units to carry from barge to warehouse and paid carrying charges. But 350 units were received at the warehouse in good condition with no trace of the remaining. 300 units were sold (@ Tk.2,000) at Tk.600,000 and 50 units were left in warehouse.

10% of good units received at warehouse are considered normal loss.

Due to decrease in market price, sales price of stock estimated to be @ Tk.1,400. Commission is paid to the consignee @ 5% on sales.

Required:

Draw a consignment account in the books of Hannan.

[Marks: (6+14) = 20]

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Q. No. 3

- (a) What are the provisions with regard to “Loan Loss Provision” and “Interest Suspense” of a banking company as per IAS/BAS-30?
 (b) From the following details of Western Bank Ltd prepare Profit and Loss Account for the year ended 31st December, 2017:

| | <u>Taka</u> |
|--|-------------|
| Interest paid on Deposits, Borrowings etc. | 1,30,00,000 |
| Interest and Discount Income | 3,10,00,000 |
| Rent Received | 1,20,000 |
| Net profit on sale of Investments | 1,000 |
| Salaries, Allowances and Provident Fund | 1,25,00,000 |
| Commission, Exchange and Brokerage | 18,00,000 |
| Law charges | 20,000 |
| Rent & Taxes | 3,00,000 |
| Postage and Telegrams | 1,10,000 |
| Auditors' Fees | 50,000 |
| Directors' Fees | 25,000 |
| Printing and Stationery | 2,20,000 |
| Depreciation on Property | 1,90,000 |
| Miscellaneous Receipts | 85,000 |
| Miscellaneous Expenditure | 2,60,000 |
| Repairs to Property | 40,000 |
| Telephone and Stamps | 1,50,000 |
| Advertisement | 35,000 |
| Bad Debts | 50,000 |
| Insurance and Lighting | 2,00,000 |

The Chairman is paid salary @Tk.4,000 p.m. and allowances at Tk.1,000 per month. 8% is contributed to Provident Fund on the basis of basic salary. No sitting fees nor any bonus has been paid to him. Perquisite for free quarters and motor car is valued at Tk.6,000.

Opening balances of Unexpired Discount, Reserve for Bad Debts and Reserve for taxation were Tk.10,00,000, Tk.6,00,000 and Tk.30,00,000 respectively. Closing balance required in Unexpired Discount Account and Bad Debts Reserve Account are Tk.8,60,000 and Tk.7,50,000 respectively. Tk.25,00,000 Income Tax has been adjusted against Advance Payment of tax amounting to Tk.30,00,000 and Tk.35,00,000 provision at the end of the year is required.

[Marks: (5+15) = 20]

Q. No. 4

- (a) Under what general conditions is the installment sales method of accounting preferred to the full accrual method?
 (b) What special recognition problems arise in accounting for franchise fees?
 (c) On January 1, 2015 Bapa Company Ltd. sold property for Tk.4,00,000. The note will be collected as follows:

| | |
|-----------|--------------|
| Year 2015 | Tk. 2,00,000 |
| Year 2016 | Tk. 1,20,000 |
| Year 2017 | Tk. 80,000 |

The property had cost Bapa Co. Ltd. Tk. 3,00,000 when it was purchased in 2014.

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

Required:

- (i) Compute the amount of gross profit realized in each year, assuming Bapa Company uses the Cost Recovery method.
- (ii) Compute the amount of gross profit realized in each year, assuming Bapa Company uses the Installment Sales method.
- (iii) Show the journal entries for the year 2015 under both the methods inscribed above.

[Marks: {2+3+(5X3)} = 20]

Q. No. 5

Hilary Brennan Steel Company as lessee signed a lease agreement for equipment for 5 years, beginning December 31, 2004. Annual rental payments of \$32,000 are to be made at the beginning of each lease year (December 31). The taxes, insurances and the maintenance costs are the obligation of the lessee. The interest rate used by the lessor in setting the payment schedule is 10%; Brennan's incremental borrowing rate is 12% Brennan is unaware of the rate being used by the lessor. At the end of the lease, Brennan has the option to buy the equipment for \$1, considerably below its estimated fair value at that time. The equipment has an estimated useful life of 7 years, with no salvage value. Brennan uses the straight line method of depreciation on similar owned equipment.

Required:

- (i) Prepare the journal entry or entries, with explanations, that should be recorded on December 31, 2004, By Brennan. (Assume no residual value)
- (ii) Prepare the journal entry or entries, with explanations, that should be recorded on December 31, 2005, By Brennan. (Prepare the lease amortization schedule for all five payments.)
- (iii) Prepare the journal entry or entries, with explanations, that should be recorded on December 31, 2006, By Brennan.
- (iv) What amounts would appear on Brennan's December 31, 2006, balance sheet relative to the lease arrangement?

[Marks: 20]

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