

CMA JUNE, 2019 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) MM Corporation had income before income taxes of Tk.195,000 in 2015. MM's current income tax expense is Tk.48,000, and deferred income tax expense is Tk.30,000. Prepare MM's 2015 income statement, beginning with income before income taxes.
- (b) CCC Corporation has a cumulative temporary difference related to depreciation of Tk.580,000 at December 31, 2014. This difference will reverse as follows: 2015, Tk.42,000; 2016, Tk.244,000; and 2017, Tk.284,000. Enacted tax rates are 34% for 2015 and 2016, and 40% for 2017. Compute the amount CCC should report as a deferred tax liability at December 31, 2014.
- (c) The accounting records of Shinault Inc. show the following data for 2015.
1. Equipment was acquired in early January for Tk.300,000. Straight-line depreciation over a 5 year life is used, with no residual value. For tax purposes, Shinault used a 30% rate to calculate depreciation.
 2. Interest revenue on governmental bonds totaled Tk.4,000.
 3. Product warranties were estimated to be Tk.50,000 in 2015. Actual repair and labor costs related to the warranties in 2015 were Tk.10,000. The remainder is estimated to be paid evenly in 2016 and 2017.
 4. Sales on an accrual basis were Tk.100,000. For tax purposes, Tk.75,000 was recorded on the installment sales method.
 5. Fines incurred for pollution violations were Tk.4,200.
 6. Pretax financial income was Tk.750,000. The tax rate is 30%.

Required:

- (i) Prepare a schedule starting with pretax financial income in 2015 and ending with taxable income in 2015.
- (ii) Prepare the journal entry for 2015 to record income taxes payable, income tax expense, and deferred income taxes.

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

Q. No. 2

- (a) BBB Co. is expanding its operations and is in the process of selecting the method of financing this program. After some investigation, the company determines that it may (1) issue bonds and with the proceeds purchase the needed assets or (2) lease the assets on a long-term basis. Without knowing the comparative costs involved, answer these questions:
- (i) What might be the advantages of leasing the assets instead of owning them?
 - (ii) What might be the disadvantages of leasing the assets instead of owning them?
 - (iii) In what way will the statement of financial position be differently affected by leasing the assets as opposed to issuing bonds and purchasing the assets?
- (b) Buzz Lightyear Corporation manufactures replicators. On January 1, 2015, it leased to BoPeep Company a replicator that had cost Tk.110,000 to manufacture. The lease agreement covers the 5 year useful life of the replicator and requires 5 equal annual rentals of Tk.40,800 payable each January 1, beginning January 1, 2015. An interest rate of 12% is implicit in the lease agreement. Prepare Lightyear's January 1, 2015, journal entries.

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Q. No. 2(cont'd)

- (c) Jennifer Brent Corporation owns equipment that cost Tk.80,000 and has a useful life of 8 years with no residual value. On January 1, 2015, Jennifer Brent leases the equipment to Lopez Inc. for one year with one rental payment of Tk.15,000 on January 1. Prepare Jennifer Brent Corporation's 2015 Journal entries.

[Marks: (8+7+5) = 20]

Q. No. 3

The following are the balances extracted from the books of the Sadharan Bima Corporation:

Accounts Title	Debit (Tk.)	Credit (Tk.)
Claims Paid (F)	56,000	
Claims Paid (M)	53,700	
Commission and Organizer's Remuneration (F)	54,800	
Commission and Organizer's Remuneration (M)	44,700	
Expenses of Management (F)	36,600	
Expenses of Management (M)	14,200	
Income Tax on Investment	1,900	
Directors' Sitting Fees and Traveling Expenses	5,800	
Depreciation on Furniture	400	
Contribution to Staff Provident Fund	1,500	
Deposit with Bangladesh Bank in Treasury Bills	2,59,100	
Co-Operative Land Mortgage Bank Debentures	2,93,500	
Municipal Loans	52,000	
National Savings Certificates	1,00,000	
Shares in Companies	30,000	
Outstanding Premiums (F)	70,400	
Outstanding Premiums (M)	59,600	
Interest Accrued	3,600	
Sundry Debtors	7,300	
Fixed Deposit (Staff Security)	6,500	
Fixed Deposit (Employees Provident Fund Investment)	6,800	
Cash and Bank Balances	65,400	
Furniture less depreciation	3,200	
Library Books	1,000	
Reserve for Unexpired Risk (F)		1,22,000
Reserve for Unexpired Risk (M)		65,100
Additional Reserve (F)		71,400
Additional Reserve (M)		7,500
Premiums less Reinsurance (F)		1,65,300
Premiums less Reinsurance (M)		1,11,800
Claims Outstanding, 1 st January, 2015 (F)		1,900
Claims Outstanding, 1 st January, 2015 (M)		100
Interest on Investments		19,700
Miscellaneous Receipts		100
Share Capital, 35000 shares of Tk. 10 each		3,50,000
General Reserve		1,27,800
Staff Security Deposit		6,500
Staff Provident Fund		6,800
Sundry Creditors		1,38,000
Contingency Reserve		28,000
Investment Fluctuation Reserve		6,000
Total	12,28,000	12,28,000

CMA JUNE, 2019 EXAMINATION
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Q. No. 3(cont'd)

- (a) Estimated liability in respect of claims outstanding at 31st December, 2015 was fire – Tk. 300 and Marine – Tk. 6,700.
- (b) Provide Tk. 10,000 for reserve for taxes.
- (c) Provide for additional reserve for unexpired risks at 10% of the Net Premium in addition to the Opening Balance.

Prepare Fire and Marine Revenue Account, Profit and Loss Account and the Balance Sheet.

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

Q. No. 4

- (a) What is the nature of a sale on consignment? When is revenue recognized from a consignment sale?
- (b) A consigned to B 5,000 kg of tea costing Tk. 40 per Kg. A incurred Tk. 3,000 on freight and Tk. 2,000 on insurance. 500 kg of tea were lost in transit. The insurance company admitted the claim for Tk. 15,000. After receiving the goods, B spent Tk. 1,000 on carriage, Tk. 500 on selling and Tk. 500 on godown rent. B was allowed a commission of 5% on sales. 3,000 kg of tea were sold at Tk. 64 per Kg. 25Kg of tea were lost due to breakage of a chest which was considered to be normal.

Required:

- (i) Compute the abnormal loss and closing stock.
- (ii) Compute the necessary ledger account in the books of the consignor.
- (iii) Compute the abnormal loss and closing stock (assume abnormal loss of 500 kg took place in the consignee's godown by theft other things remaining the same)

[Marks: (5+15) = 20]

Q. No. 5

- (a) Identify and describe the approach the IASB requires for reporting changes in accounting policies.
- (b) PPP Co. is evaluating the appropriate accounting for the following items.
 - (1) The vice president of sales had indicated that one product line has lost its customer appeal and will be phased out over the next 3 years. Therefore, a decision has been made to lower the estimated lives on related production equipment from the remaining 5 years to 3 years.
 - (2) Management has decided to switch from the FIFO inventory valuation method to the average-cost inventory valuation method for all inventories.
 - (3) When the year-end physical inventory adjustment was made for the current year, the controller discovered that the prior year's physical inventory sheets for an entire warehouse were mislaid and excluded from last year's count.
 - (4) PPP's Custom Division manufactures large-scale, custom-designed machinery on a contract basis. Management decided to switch from the cost-recovery method to the percentage-completion method of accounting for long-term contracts.

Required: Identify and explain whether each of the above times is change in accounting policy, a change in estimate, or an error.

- (c) Holtzman Company is in the process of preparing its financial statements for 2015. Assume that no entries for depreciation have been recorded in 2015. The following information related to depreciation of fixed assets is provided to you.
 - (i) Holtzman purchased equipment on January 2, 2012, for Tk.85,000. At that time, the equipment had an estimated useful life of 10 years with a Tk.5,000 residual value. The equipment is depreciated on a straight-line basis. On January 2, 2015, as a result of additional information, the company determined that the equipment has a remaining useful life of 4 years with a Tk.3,000 residual value.

CMA JUNE, 2019 EXAMINATION
PROFESSIONAL LEVEL-II
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Q. No. 5(cont'd)

- (ii) Holtzman purchased a machine on July 1, 2013, at a cost of Tk.120,000. The machine has a residual value of Tk.16,000 and a useful life of 8 years. Holtzman's bookkeeper recorded straight-line depreciation in 2013 and 2014 but failed to consider the residual value.
- (iii) During 2015, Holtzman changed from the double-declining-balance method for its building to the straight-line method. The building originally cost Tk.300,000. It had a useful life of 10 years and a residual value of Tk.30,000. The following computations present depreciation on both bases for 2013 and 2014.

	2014(Tk.)	2013(Tk.)
Straight-line	27,000	27,000
Declining-balance	48,000	60,000

Required:

Prepare the journal entries to record depreciation expense for 2015 and correct any errors made to date related to the information provided.

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

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