CMA DECEMBER, 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) Differentiate between "loss carry back" and "loss carry forward". Which can be accounted for with the greater certainty when it arises? Why? Explain.

(b) Listed below the items that are commonly accounted for differently for financial reporting purposes than they are for tax purposes.

Requirements:

For each item below, indicate whether it involves:

(1) A temporary difference that will result in future deductible amounts and therefore will usually give rise to a deferred income tax asset.

(2) A temporary difference that will result in future taxable amounts and therefore will usually give rise to a deferred income tax liability.

(3) A permanent difference.

Use the appropriate number to indicate your answer for each.

(i) An accelerated depreciation system is used for tax purposes, and the straight-line depreciation method is used for financial reporting purposes for some plant assets.

(ii) A landlord collects some rents in advance. Rents received are taxable in the period when they are received.

(iii) Expenses are incurred in obtaining tax-exempt income.

(iv) Costs of guarantees and warranties are estimated and accrued for financial reporting purposes.

(c) The following information is available for Remmers Corporation for 2015.

(1) Depreciation reported on the tax return exceeded depreciation reported on the income statement by $120,000. This difference will reverse in equal amounts of $30,000 over the years 2016–2019.

(2) Interest received on governmental bonds was $10,000.

(3) Rent collected in advance on January 1, 2015, totaled $60,000 for a 3-year period. Of this amount, $40,000 was reported as unearned at December 31 for book purposes.

(4) The tax rates are 40% for 2015 and 35% for 2016 and subsequent years.

(5) Income taxes of $320,000 are due per the tax return for 2015.

(6) No deferred taxes existed at the beginning of 2015.

Requirements:

(i) Compute taxable income for 2015.

(ii) Compute pretax financial income for 2015.

(iii) Prepare the journal entries to record income tax expense, deferred income taxes, and income taxes payable for 2015 and 2016. Assume taxable income was $980,000 in 2016.

(iv) Prepare the income tax expense section of the income statement for 2015, beginning with "Income before income taxes."

[Marks: 4+2+(2+3+6+3) = 20]

Q. No. 2

(a) Explain the distinction between a direct-financing lease and a sales-type lease for a lessor.

(b) What disclosures should be made by lessees and lessors related to future lease payments?

(c) The following facts pertain to a non-cancelable lease agreement between K Leasing Company and Sreepur Company, a lessee.

Inception date	January 1, 2015
Annual lease payment due at the beginning of each year, beginning with January 1, 2015	€124,798
Residual value of equipment at end of lease term, guaranteed by the lessee	€50,000
Lease term	6 years
Economic life of leased equipment	6 years
Fair value of asset at January 1, 2015	€600,000
Lessor's implicit rate	12%
Lessee's incremental borrowing rate	12%

The lessee assumes responsibility for all executory costs, which are expected to amount to €5,000 per year. The asset will revert to the lessor at the end of the lease term. The lessee has guaranteed the lessor a residual value of €50,000. The lessee uses the straight-line depreciation method for all equipment.

Requirements:

(i) Discuss the nature of lease for the lessee.

(ii) Compute the present value of minimum lease payments.

(iii) Prepare an amortization schedule that would be suitable for the lessee for the lease term.

(iv) Prepare all journal entries for the lessee for the years 2015 and 2016. Assumes the lessee's annual accounting period ends on December 31.

[Marks: 3+3+(2+3+4+5) = 20]

Q. No. 3

(a) Discuss the rules regarding receiver's fees and priority of debts for distribution as per Bankruptcy Act 1997.

(b) Define Jointly Controlled operation. What are the disclosures required in Joint Venture according to IAS 31? (4)

(c) An office building is being constructed by A Ltd and B Ltd under a contractual agreement which results in the activity being classified as a jointly controlled operation. Each party is to record its own transactions and to be entitled to a half share in the profits.

At the end of the accounting period, the following information is recorded in accounting records of the two companies.

	A Ltd (Taka)	B Ltd (Taka)
Amount invoiced to and cash received from customers	300,000	500,000
Costs incurred and paid	280,000	420,000

Requirement:

How should A Ltd account for this joint venture?

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

Q. No. 4

(a) On May 3, 2015, Eisler Company consigned 80 freezers, costing Tk.500 each, to Remmers Company. The cost of shipping the freezers amounted to Tk.840 and was paid by Eisler Company. On December 30, 2015, a report was received from the consignee, indicating that 40 freezers had been sold for Tk.750 each. Remittance was made by the consignee for the amount due after deducting a commission of 60%, advertising of Tk.200, and total installation costs of Tk.320 on the freezers sold.

Requirements:

(i) Compute the inventory value of the units unsold in the hands of the consignee.

(ii) Compute the profit for the consignor for the units sold.

(iii) Compute the amount of cash that will be remitted by the consignee.

(b) The Following information was extracted from the books of X limited company on 31-12-2016 on which a winding up order was made:

Particulars	**Taka**
Ordinary Share Capital (2000 shares of Tk. 100 each)	2,00,000
6% Preference Share Capital (3000 share of Tk. 100 each)	3,00,000
Calls in arrear (Estimated to realize Tk. 2,000)	4,000
Creditors having a mortgage on the freehold land and building	85,000
Creditors having a second charge on a freehold land and building	90,000
Trade Creditors	2,70,000
5% mortgage debenture, secured by a floating charge on the whole of the assets of the company (interest paid to date)	2,00,000
Debtors: Good tk. 60,000; Doubtful Tk. 15,000 (estimated to realize Tk. 5,000) and Bad: remaining portion	90,000
Unclaimed Dividend	6,000
Bills Payable	10,000
Income Tax due	25,000
Salaries and wages (20 Workers)	40,000
Bills discounted (Tk. 15,000 expected to be dishonored)	40,000
Bank overdraft, secured by a second charge on the whole assets of the company	20,000
Cash in hand	2,000
Bill of exchange (considered good)	35,000
Freehold land buildings (estimated to realize Tk. 1,65,000)	2,10,000
Plant and machinery (estimated to produce Tk.90,000)	1,20,000
Fixture and Fittings (estimated to produce Tk. 8,000)	12,000
Stock in trade (estimated to produce Tk. 25% less)	80,000
Patents (estimate to produce Tk. 45,000)	70,000
Profit and loss (debit)	6,23,000

Requirements:

Prepare the Statement of affairs and Deficiency Account following the bankruptcy act 1997.

[Marks: {(3+3+3)+(7+4)} = 20]

Q. No. 5

(a) In recent years, the financial press indicated that many companies have changed their accounting policies. What are the major reasons why companies change accounting policies?

(b) Discuss briefly the three approaches that have been suggested for reporting changes in accounting policy.

(c) EEE Corporation failed to record accrued salaries for 2015, Tk.2,000; 2016, Tk.2,100 and 2017, Tk.3,900. What is the amount of the overstatement or understatement of Retained Earnings at December 31, 2018?

(d) In January 2017, installation costs of Tk.6,000 on new equipment were charged to Maintenance and Repair Expenses. Other costs of this equipment of Tk.30,000 were correctly recorded and have been depreciated using the straight-line method with an estimated life of 10 years and no residual value. At December 31, 2018, it is decided that the equipment has a remaining useful life of 20 years, starting with January 1, 2018. What entry(ies) should be made in 2018 to correctly record transactions related to equipment assuming the equipment has no residual value? The books have not been closed for 2018 and depreciation expense has not yet been recorded for 2018.

(e) FFF Industries changed from the double–declining balance to the straight-line method in 2015 on all its plant assets. There was no change in the assets' residual values or useful lives. Plant assets, acquired on January 2, 2012, had an original cost of Tk.2,400,000, with a Tk.100,000 residual value and an 8 year estimated useful life. Income before depreciation expense was Tk.370,000 in 2014 and Tk.300,000 in 2015.

Requirements:

(i) Prepare the journal entry (ies) to reflect the change in depreciation method in 2015.

(ii) Starting with income before depreciation expense, prepare the remaining portion of the income statement for 2014 and 2015.

[Marks: (3+3+3+6+5) = 20]

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