ICMAB
THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH

CMA DECEMBER-2018 EXAMINATION
OPERATIONAL LEVEL
SUBJECT: F1. FINANCIAL OPERATIONS

Time Allocated: Three hours | Total Marks: 100

Instructions to Candidates

There are three sections (that is A, B & C) in this paper. You are required to answer ALL questions.
Answers should be properly structured, relevant and computations need to be shown wherever necessary.
Math tables and formulae are provided on pages 9 to 10.
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).
Start answering each question from a fresh sheet. Your answers should be clearly numbered with the sub-question number then ruled off, so that the markers know which sub-question you are answering.

Section	No of questions in the Section	No of sub-questions in the Section	Marks allocation
A	01	08	20%
B	01	05	30%
C	02		50%

TURN OVER

SECTION A – 20 MARKS
This section consists of 1 question and 8 sub-questions.
You are advised to spend no longer than 36 minutes on this section. Section will carry 20 marks and one sub-question will carry 2.5 marks each.

Question 01

(a) The Conceptual Framework of IASB provides a list of the purposes of the Framework. One of the purposes of the Framework is to assist users of financial statements in interpreting the information contained in financial statements. List down the users of the financial statements.

(2 ½ Marks)

(b) Define what is meant by control and explain how this is determined according to IAS - 27, *Consolidated and Separate Financial Statements*.

(2 ½ Marks)

(c) Accounting depreciation is usually disallowed when calculating tax due by an entity and a deduction for tax depreciation is given instead. Explain ONE reason why accounting depreciation is replaced with tax depreciation in a tax computation?

(2 ½ Marks)

(d) 3M has an asset that was classified as held for sale at 31 December 2017. The asset had a carrying value of Tk.900 and a fair value of Tk.800. The cost of disposal was estimated to be Tk.50.
According to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, what value should be used for the asset in 3M's statement of financial position as at 31 December 2017?

(2 ½ Marks)

(e) What are the components to be included in a complete set of financial statements as per BAS 1?

(2 ½ Marks)

(f) Describe the concept of "substance over form" and its application to the preparation of financials statement under *BAS 32 Financial Instruments: Presentation.*

(2 ½ Marks)

(g) Define the "Impairment of Assets" as per IAS - 36.

(2 ½ Marks)

(h) Define "Cash Equivalents" and "Non-cash Transactions" as per IAS - 7.

(2 ½ Marks)

END OF SECTION A

SECTION B Starts on page 3

SECTION B

This section consists of 1 question and 5 sub-questions.

You are advised to spend no longer than 9 minutes on each sub-question in this section. Section will carry 30 marks and one sub-question will carry 6 marks each.

QUESTION 02

(a) At 1 February 2017, the beginning of its financial year, Arif has in issue 5,700,000 ordinary shares of Tk.1 each. On 30 September 2017, the entity raises a further Tk. 1,200,000 in capital by the issue of further ordinary shares at par.

Extract from Arif's consolidated income statement and statement of changes in equity at 31 January 2018 shows the following:

Consolidated profit before taxation Tk.	2,500,000
Tax	(750,000)
	1,750,000
Preference dividend	(200,000)
Ordinary dividend	(690,000)

Required: Calculate Arif's EPS for the year ending 31 January 2018.

(6 Marks)

(b) Data in respect of Mr. Kamal, employee of a private organization and lives in Dhaka City, for the year ended 30 June 2018 is as under:

Salary Income Tk.	2,60,000
Other Income	10,000
Total Income	2,70,000
Investment in Shares of listed companies	30,000

Required: Calculate the amount of tax payable by Mr. Kamal.

(6 Marks)

(c) Mannan Traders, an importer, imported 200 of AC at CIF price @ Tk.100,000 per piece. The clearing and other incidental charges amounted to Tk.100,000 for the total consignment. He sold 80 pieces of AC to a whole seller at a markup of 10% (exclusive of VAT). The whole seller charged 10% markup to sell it to retailer. The retailer incurred a cost @ Tk.2,000 for maintenance and other expenses and added 10% markup to the price.

Required: Compute VAT assuming that the retailer sold 60 pieces of AC in a trade fair among various customers in the month of June, 2018.

(6 Marks)

(d) PNL's profits have suffered due to a slow-down in the economy of the country in which it operates. PNL's draft financial statements show revenue of Tk.35 million and profit before tax of Tk.4 million for the year ended 30 June 2018.

PNL's external auditors have identified a significant quantity of inventory that is either obsolete or seriously impaired in value. The audit senior has calculated the inventory write-down of Tk.1 million. PNL's directors have been asked by the audit senior to record this in the financial statements for the year ended 30 June 2018.

PNL's directors are refusing to write-down the inventory at 30 June 2018, claiming that they were not aware of any problems at that date and furthermore do not agree with the auditor that there is a problem now. The directors are proposing to carry out a stock-take at 30 November 2018 and to calculate their own inventory adjustment, if required. If necessary, the newly calculated figure will be used to adjust inventory values in the year to 30 June 2019.

SECTION B Continues on page 4

Required:

(i) Explain the objective of an external audit.
(ii) Assuming that PNL's directors continue to refuse to amend the financial statements, explain the type of audit report that would be appropriate for the auditors to issue.

(6 Marks)

(e) P&O operate five factories in different locations in a country. Each factory produces a different product line and each product line is treated as a separate segment under IFRS 8 *Operating Segments*.

One factory, producing a range of shoes, had an increased annual loss of an estimated Tk.2,000,000 for the year to 30 September 2018. On 1 September 2018 P&O's management decided to close the factory and cease the sale of its range of shoes. Closure costs, net of any gains on disposal of the assets, are estimated as Tk.150,000.

On 30 September 2018P&O's management is still negotiating payment terms with the shoe factory workforce and has not agreed an actual closure date. P&O has not yet attempted to find a buyer for the factory or its assets.

P&O's management wants to completely exclude the shoe factory results from P&O's financial statements for the year ended 30 September 2018. They argue that as the shoe factory is about to be closed or sold, it would mislead investors to include the results of the shoe factory in the results for the year.

Required:

Assume that you are a trainee accountant with P&O, P&O's finance director has asked you to draft a briefing note that she can use to prepare a response to P&O's management. Your briefing note should explain how P&O should treat the shoe factory in its financial statements for the year ended 30 September 2018.You should make reference to any relevant International Financial Reporting Standards and to CMA's Code of Ethics for Professional Accountants.

(6 Marks)

END OF SECTION B

SECTION C Starts on page 5

SECTION C

This section consists of 2 questions.

You are advised to spend no longer than 45 minutes on each question in this section. Section will carry 50 marks and allocation of marks for each sub-question is indicated next to the sub-question.

QUESTION 03

ABC Ltd is a company which publishes a single textbook and provides tuition courses relating to the text. An extract from ABC Ltd's nominal ledger at 31 March 2018 is as follows:

Particulars	Taka
Manufacturing costs	4,450,000
Administrative Salaries	410,500
Selling and distribution costs	375,000
Inventories at 1 April 2017	113,400
Freehold Land and buildings:	
Cost (land Tk.1,750,000)	2,550,000
Accumulated depreciation at 1 April 2017	480,000
Plant and machinery:	
Cost	620,000
Accumulated depreciation at 1 April 2017	337,000
Borrowings	200,000
Trade and other receivables	37,500
Trade and other payables	25,400
Retained earnings at 1 April 2017	212,500
Ordinary share capital - Tk.5 nominal value	500,000
Preference share – 5% irredeemable Tk.10 shares	200,000
Cash and cash equivalents	63,500
Revenue	6,700,000
Finance costs	35,000

The following additional information is relevant:

(a) The borrowings are repayable in ten installments, commencing on 1 April 2018.

(b) Revenue is made up of the following:

	Taka
Tuition fees	1,500,000
Book Sales	5,100,000
Advances	100,000
	6,700,000

The tuition fees all relate to courses held during the year except for fees of Tk.300,000 which relate to a ten-week course. Five weeks of this course had already been held by the year end. The remainder is to be held in June 2018. The advances relate to a new publication which ABC Ltd. has commissioned and advertised heavily but which is not yet in production.

SECTION C Continues on page 6

(c) There were no movements of non-current assets during the year. However, on 28 February 2018, ABC Ltd. decided to sell a major item of plant for which it no longer has any use. This plant cost Tk.120,000 on 1 April 2013 and was advertised for sale on 1 March 2018 at a price of Tk.5,000. In April 2018 a buyer was identified at the advertised price. The sale is expected to be completed in May 2018.

Plant is depreciated on a 10% straight line basis, taking into account the month of sale or purchase. Freehold buildings are depreciated over their useful life of 40 years. Depreciation on plant is charged to cost of sales. Depreciation on freehold land and buildings is charged to administrative expenses.

(d) At the year end the company was in the process of legal action by one of its competitors which claims that ABC's textbook has breached copyright. The case is not due to be decided until June 2018 but ABC Ltd's legal advisors think that the company has a 60% chance of losing the case and estimates that this would cost ABC Ltd Tk. 100,000.

(e) One of ABC Ltd's customers who owed Tk.10,000 at the year-end was declared bankrupt on 1 May 2018.

(f) Closing inventories at cost amounted to Tk.120,000. Within this valuation is an amount of Tk.50,000 relating to fixed overheads, being a share of total fixed overheads of Tk. 1 million. ABC Ltd had expected to produce one million books during the year but, due to production difficulties only 800,000 were produced. Overheads have been allocated on the basis of Tk.1.25 per book.

(g) The following should be provided for at the year-end:

- Income tax of Tk.350,000
- An ordinary dividend of Tk.2.00 per share
- The preference dividend

Required:

(i) An Income Statement for ABC Ltd. for the year ended 31 March 2018 and a Balance Sheet as at that date in a form suitable for publication. You should classify expenses by function.

(ii) Explain the considerations underlying the accounting requirements for not-for-profit entities, including the possible relevance of BFRSs and IPSASs.

[Marks: (18+7) = 25]

SECTION C Continues on page 7

QUESTION 04

(a) Extracts of MNC's financial statements for the year ended 30 June 2018 are as follows:

(Amount in Taka.)

	30 June 2018		*30 June 2017*	
	(000)	*(000)*	*(000)*	*(000)*
Non-current Assets				
Property, plant and equipment	977		663	
Development expenditure	60		65	
Brand name	30	1,067	40	768
Current Assets				
Inventory	446		450	
Trade receivables	380		310	
Cash and cash equivalents	69	895	35	795
Total Assets		1,962		1,563
Equity and Liabilities				
Equity shares of $1 each	400		200	
Share premium	200		100	
Revaluation reserve	30		95	
Retained earnings	652	1,282	423	818
Non-current liabilities				
Long term borrowings	100		250	
Deferred tax	130	230	120	370
Current liabilities				
Trade payables	150		95	
Current tax	250		260	
Accrued interest	10		20	
Other provisions	40	450	0	375
Total Equity and Liabilities		1,962		1,563

MNC Statement of Comprehensive Income for the year ended 30 June 2018

	Tk. (000)	*Tk. (000)*
Revenue		10,400
Cost of sales		(4,896)
		5,504
Administrative expenses	(2,510)	
Distribution costs	(1,890)	(4,400)
		1,104
Finance cost		(15)
		1,089
Taxation		(280)
Profit for the year		809
Other Comprehensive Income		
Loss on revaluation of property		(65)
Total comprehensive income		744

SECTION C Continues on page 8

Additional information:

(i) Property, plant and equipment comprises:

	Cost at 30 June 2018 Tk. (000)	*Cost at 30 June 2017 Tk. (000)*	*Depreciation to 30 June 2017 Tk. (000)*
Land	426	320	0
Buildings	840	610	366
Plant and equipment	166	180	81
	1,432	1,110	447

(ii) Depreciation for the year ended 30 June 2018 was:

	Tk. (000)
Buildings	17
Plant and equipment	25

(iii) Plant and equipment disposed of during the year had a net book value of Tk.11,000 (cost Tk.45,000). The loss on disposal of Tk.6,000 is included in cost of sales.

(iv) All land was revalued on 30 June 2018; the decrease in value of Tk.65,000 was deducted from the revaluation reserve.

(v) Cost of sales includes Tk.15,000 for development expenditure amortized during the year and Tk.10,000 for impairment of the purchased brand name.

(vi) On 1 February 2017, MNC issued Tk.1 equity shares at a premium. No other finance was raised during the year.

(vii) MNC paid a dividend during the year.

(viii) Other provisions relate to legal claims made against MNC during the year ended 30 June 2018. The amount provided is based on legal opinion at 30 June 2018 and is included in cost of sales.

Prepare a statement of cash flows, using the indirect method, for MNC for the year ended 30 June 2018, in accordance with IAS 7 *Statement of Cash Flows.*

(20 Marks)

(b) MNC's directors acquired equipment on 1 July 2018 on a finance lease. The finance lease terms are:

- Lease for a ten-year period
- Rentals paid annually in arrears on 30 June
- Each annual rental is Tk.44,000
- Original cost of the equipment was Tk.248,610
- The interest rate implicit in the lease is 12% per year

Calculate the amounts in respect of this finance lease that would be included in MNC's;

Statement of comprehensive income for the year ended 30 June 2019

(i) Statement of financial position as at 30 June 2019
(ii) Statement of cash flows for the year ended 30 June 2019

(5 Marks)

End of the Exam Paper

MATHS TABLES AND FORMULAE

Present value table

Present value of \$1, that is $(1 + r)^{-n}$ where r = interest rate; n = number of periods until payment or receipt.

Periods	Interest rates (r)									
(n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods	Interest rates (r)									
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026

Cumulative present value of $1 per annum,

Receivable or Payable at the end of each year for n years $\frac{1-(1+r)^{-n}}{r}$

Periods (n)	Interest rates (r) 1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201
19	17.226	15.679	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365
20	18.046	16.351	14.878	13.590	12.462	11.470	10.594	9.818	9.129	8.514

Periods (n)	Interest rates (r) 11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	7.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675
16	7.379	6.974	6.604	6.265	5.954	5.668	5.405	5.162	4.938	4.730
17	7.549	7.120	6.729	6.373	6.047	5.749	5.475	5.222	4.990	4.775
18	7.702	7.250	6.840	6.467	6.128	5.818	5.534	5.273	5.033	4.812
19	7.839	7.366	6.938	6.550	6.198	5.877	5.584	5.316	5.070	4.843
20	7.963	7.469	7.025	6.623	6.259	5.929	5.628	5.353	5.101	4.870

FORMULAE

Annuity

Present value of an annuity of $1 per annum, receivable or payable for n years, commencing in one year, discounted at r% per annum:

$$PV = \frac{1}{r}\left[1 - \frac{1}{[1+r]^n}\right]$$

Perpetuity

Present value of $1 per annum, payable or receivable in perpetuity, commencing in one year, discounted at r% per annum:

$$PV = \frac{1}{r}$$