THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA DECEMBER, 2016 EXAMINATION
MANAGEMENT LEVEL
SUBJECT: F2. FINANCIAL MANAGEMENT

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.

PART – A [15 MARKS]

Question 1.1 [5 Marks]

FN is an entity that operates in the wholesale and retail clothing market sectors across several countries. It prepares its financial statements in accordance with IFRSs. The directors are considering listing FN on a local stock exchange within the next 12 months. One of the directors has raised concerns about the costs associated with being a listed entity, in particular the additional expense of producing operating segment information.

Required:

(i) Explain how the requirements of IFRS 8 Operating segments assist entities in minimising the costs of producing the operating segment disclosures required by the standard.

(ii) Discuss the benefits that could be gained by investors from reviewing the operating segment disclosures of FN when making decisions on investment.

(iii) Discuss the potential limitations faced by investors of using operating segment information when making investment decisions.

Question 1.2 [5 Marks]

Intellectual capital can be defined as "knowledge which can be used to create value". Currently, IFRS permit the recognition of only a limited range of internally generated intellectual assets including, for example, copyrights.

Required:

Explain the advantage that could be gained by entities and stakeholders if the scope of IFRS were expanded to permit the recognition in the statement of financial position of a wider range of intellectual assets, such as know-how, the value of the workforce & employee skills.

Question 1.3 [5 Marks]

According to BFRS 7, explain the nature and extent of exposure to risks arising from financial instruments

PART – B [25 MARKS]

Question 2.1 [10 Marks]

Baseline plc has a defined benefit pension scheme and wishes to recognize the full deficit in its statement of financial position.

Required:

Using the information below, prepare extracts from the statement of financial position and the statement of comprehensive income, together with a reconciliation of scheme movements for the year ended 31 January 2018. Ignore taxation.

(i) The opening scheme assets were Tk.3.6m on 1 February 2017 and scheme liabilities at this date were Tk.4.3m.

(ii) Company contributions to the scheme during the year amounted to Tk.550,000.

(iii) A risk-free rate of return for 2017 was steady at 5.2%.

(iv) Pensions paid to former employees amounted to Tk.330,000 in the year.

(v) Expected return on assets was 8%, and the actual return was Tk.295,000.

(vi) During the year, five staff were made redundant, and an extra Tk.58,000 in total was added to the value of their pensions.

(vii) Current service costs as provided by the actuary are Tk.275,000.

The actuary valued the plan liabilities at 31 January 2018 as Tk.4.54m.

Question 2.2 [10 Marks]

On 1 January 2009 CSA, a listed entity, had 3,000,000 $1 ordinary shares in issue. On 1 May 2009, CSA made a bonus issue of 1 for 3.
On 1 September 2009, CSA issued 2,000,000 $1 ordinary shares for $3.20 each. The profit before tax of CSA for the year ended 31 December 2009 was $1,040,000. Income tax expense for the year was $270,000.
The basic earnings per share for the year ended 31 December 2008 was 15.4 cents.
On 1 November 2009 CSA issued convertible loan stock. Assuming the conversion was fully subscribed there would be an increase of 2,400,000 ordinary shares in issue. The liability element of the loan stock is $4,000,000 and the effective interest rate is 7%.
CSA is subject to income tax at a rate of 30%.
Required:

(a) Calculate the basic earnings per share to be reported in the financial statements of CSA for the year ended 31 December 2009, including comparative, in accordance with the requirements of IAS 33 *Earnings Per Share*.
(b) Calculate the diluted earnings per share for the year ended 31 December 2009, in accordance with the requirements of IAS 33 *Earnings Per Share*.
(c) Briefly explain why the bonus issue and issue at full market value are treated differently in arriving at basic earnings per share.

Question 2.3 [5 Marks]

JK is a motor dealership which prepares its financial statements to 30 November. In the year to 30 November 2009, transactions included the following:

JK had motor vehicles on its premises that were supplied by a car manufacturer, SB. Trading between JK and SB was subject to a contractual agreement. This agreement stated that JK could hold up to 100 vehicles on its premises although the legal title of the vehicles remained with SB until they were sold by JK to a third party. JK was required to inform SB within 5 working days of any sale, at which time SB would raise an invoice at the price agreed at the original date of delivery. JK had the right to return any vehicle at any time without incurring a penalty. JK was responsible for insuring all the vehicles on its property.

JK granted 1,000 share appreciation rights (SARs) to its 120 employees on 1 December 2007. To be eligible, employees must remain employed for 3 years from the grant date. The rights must be exercised in December 2010. In the year to 30 November 2008, 12 staff left and a further 15 were expected to leave over the following two years. In the year to 30 November 2009 8 staff left and a further 10 were expected to leave in the following year. The fair value of each SAR was $15 at 30 November 2008 and $17 at 30 November 2009.

Required:

Prepare the accounting entries to record, for the year to 30 November 2009, the expense associated with the SARs.

PART – C [60 MARKS]

Question 3.1 [30 Marks]

You are Robert Gomes, a manager of Concord Group. Your client, Transcom Distribution, has for several years been a family-owned company selling telephones and answering machines through its own dealer network in the South of the country. In May 2014 the company was bought by two brothers, Peter and Charles Brown.

Shortly thereafter the company acquired the exclusive United Kingdom distribution rights to a revolutionary new video mobile phone, manufactured in South Korea, which sells for about half the price of competitive products and is fully compatible with all British mobile telephone networks.

Question 3.1 (cont'd……)

During the year ended 31 August 2015 expansion has been rapid under the new management. The following points should be noted.

(i) The distribution rights for the South Korean phone cost Tk.850,000. The rights were acquired for a period of ten years, and the directors of Transcom Distribution decided to capitalize the initial cost and amortize it over the ten-year period on a straight line basis. The current carrying amount is Tk.744,000.

(ii) The new phone received extensive media acclaim during October and November 2014, accompanied by regional television advertising campaigns. Since then monthly sales have increased from Tk.500,000 to Tk.1,600,000.

The advertising campaign cost the company Tk.1,000,000. The directors believe that it will have long-term benefits for the sales of the phone and, consequently, they decided to capitalize the advertising cost and amortize it over the same period as the distribution rights. The current carrying amount for the advertising expenditure is Tk.925,000.

(iii) Sales of the new phone now account for 75% of the company's revenue. The level of credit sales has remained constant at 30% of total sales.

(iv) The company has purchased dealer networks from three other companies and is negotiating to purchase two more, which will then complete its national coverage.

(v) Employee numbers have increased rapidly from 40 to 130. This includes administration staff at head office, where numbers have risen from 12 to 28.

(vi) In June 2015 the central distribution and servicing department moved from head office into larger premises in Milton Keynes. The total cost of the relocation was Tk.625,000, which has been included in administrative expenses.

The move was necessary to handle not only the increased inventory and pre-delivery checks, but also the rising level of after-sales warranty work caused by manufacturing defects in the new phone.

The company has maintained its warranty policy of providing for 1% of revenue each year.

The movements in the warranty provision for the current year are as follows.

	Tk.'000
At 31 August 2014	262
Provision for year	160
Provision utilized	(94)
At 31 August 2015	328

Draft accounts of Digicom Distributors Ltd as at 31 August 20X1 were as follows:

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST 20X1

	2015 Tk.'000	2014 Tk.000
Revenue	16,000	5,200
Cost of sales	(12,400)	(4,264)
Gross profit	3,600	936
Distribution costs	(837)	(425)
Administrative expenses	(2,253)	(609)
Operating profit/(loss)	510	(98)
Finance costs	(320)	(35)
Profit/(loss) on ordinary activities before tax	190	(133)
Tax on profit or loss on ordinary activities	(15)	(10)
Profit/(loss) for the period	175	(143)
Other comprehensive income		
Revaluation surplus	400	–
Total comprehensive income	575	(143)

Question 3.1 (cont'd……)

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2015

	2015		2014	
Non-current assets	Tk.'000	Tk.'000	Tk.'000	Tk.'000
Intangible assets		1,669		829
Property, Plant and Equipment		6,623		2,564
		8,292		3,393
Current assets				
Inventories	778		520	
Receivables	814		215	
Cash and cash equivalents	250		400	
	1,842		1,135	
Current liabilities				
Bank overdrafts	975		150	
Trade payables	2,734		678	
	3,709		828	
Net current assets/(liabilities)		(1,867)		307
Total assets less current liabilities		6,425		3,700
Non-current liabilities				
Bank loan		(2,084)		–
Provisions		(328)		(262)
		4,013		3,438
Capital and reserves				
Share capital		100		100
Revaluation reserve		900		500
Retained earnings		3,013		2,838
		4,013		3,438

Required:
Assess the profitability, liquidity and solvency of the company.

Question 3.2 [30 Marks]

The statement of comprehensive income and changes in equity for XY and its subsidiary, AZ for the year ended 31 December 2012 are shown below:

Statement of comprehensive income for the year ended 31 December 2012	**XY**	**AZ**
	Tk.000	**Tk.000**
Revenue	3,200	2,400
Cost of sales	(1,800)	(1400)
Gross profit	1,400	1,000
Administrative expenses	(350)	(250)
Distribution cost	(300)	(150)
	750	600
Investment income (note 5)	400	-
Finance cost	(140)	(110)
Profit before tax	1,010	490
Income tax expenses	(160)	(150)
Profit for the year	850	340
Other comprehensive income that will not be reclassified to profit or loss		
Revaluation of property, plant and equipment	40	30
Tax effect of other comprehensive income	(12)	(10)
Other comprehensive income for the year , net of tax	28	20
Total comprehensive income for the year	878	360

Question 3.2 (cont'd……)

Statement of changes in equity for the year ended 31 December 2012	**XY**	**AZ**
	Tk.000	**Tk.000**
Equity at 1 January 2012	12,000	8,200
Total comprehensive income	878	360
Dividends	(600)	(400)
Equity at 31 December 2012	**12,278**	**8,160**

Notes:

1. XY acquired 80% of the 1 million Tk.1 equity shares in AZ on 1 January 2009 when AZs retained earnings were Tk.5,000,000. The non-controlling interest was valued at its fair value of Tk.1,350,000 at the acquisition date . The consideration for the acquistion consisted of the following :
   - Case of Tk. 1593000 paid on 1 January 2009
   - Case of Tk. 1,000,000 paid on 1 January 2011 (a discount rate of 8% was applied to value the liability in the financial statements of XY) ; and
   - The transfer of 1,000,000 shares in XY with a nominal value of Tk. 1 each an agreed value on the date of acquisition of Tk. 3 each .
2. As at 1January 2009 the fair value of the net assets acquired was the same as the book value with the expectation of property, plant and equipment that had a fair value that was Tk. 60000 higher than its carrying value . The assets were assesses to have a remaining useful life of 6 years frome the date of acquisition. Depreciation is charged to cost of sales.
3. On 31 December 2012 the goodwill arising on the acquisition of AZ has been impaired by 20%. There have been no previous impairments and impairments are chared to administrative expenses.
4. In the year to 31 December 2012 , AZ sold goods to xy with a sales value of Tk.300,000. 20% of the items remain in XYs inventories at the year end. AZ earns 25% gross margin on all sales.
5. The investment income recorded in XYs financial statements relates 2to:
   - Dividend income frome AZ , which has been correctly treated in XYs individual financial statements .
   - Income frome a trade investment in another entity , LM XY has a 10% shareholding in LM.

Required:

(a) Prepare the consolidated statement of comrehensive income and the consolited statement of changes in equity for the XY Group for the year ended 31 December 2012

On 1 February 2013 , XY acquired a further investment in LM XY now holds a total of 60% of the equity share capital of LM

(b) Explain how this additional acquistion will impact on the preparation of the consolidated financial statements for the year to 31 December 2013.

= THE END =