THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA JUNE, 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: [Q. No. 1(a) – (d)]: (20 MARKS)

Q. No. 1.

(a) IFRS 8 Operating segments has adopted 'Management Approach' to identify reportable segment verses 'Risk and Return Approach' of the IAS 14 (superseded). However, the 'Management Approach' is subject to criticism as this approach has some disadvantages. Discuss the problems with regard to 'Management Approach' for identification of reportable segment.

(b) Bangladesh Securities and Exchange Commission (BSEC) guideline for corporate governance recommended that "at least one fifth (1/5) of the total number of directors in the company's board shall be independent directors". However, a particular company listed in Dhaka Stock Exchange (DSE) fails to appoint any independent director for last three years and to disclose the information in its annual report. Explain the implication of such type of disclosure to the present and potential investors of the company.

(c) The Global Reporting Initiative ("GRI") is an organization set up in 1997, to develop a sustainability reporting framework for businesses. To this end a number of versions of Sustainability Reporting Guidelines have been issued. The GRI Sustainability Reporting Guidelines gives guidance to entities on how to measure and report on managements' approach to the economic, environmental and social aspects that impact on their businesses.

(i) Discuss the benefits to investors of entities preparing disclosures that follow the GRI guidelines on reporting.

(ii) Explain the nature of the information that could be disclosed by entities in their external reports in respect of the economic, environmental and social aspects that impact on their businesses, in order to comply with the GRI guidelines.

(d) A student accountant within your organization is responsible for conducting initial reviews on entities that the management has identified as potential investments or takeover targets.

He was recently asked to review a set of financial statements for an organization that operates in a service industry. He commented that he was finding it difficult to understand how the entity was generating revenue. There were significant expenses in the statement of profit or loss for wages and there was a detailed section in the management report on the investment the entity had made in staff training and development; however the entity's statement of financial position had almost no assets. The student was questioning how he could make a realistic assessment of the likely future performance of the entity.

Required:

(i) Discuss why, despite an entity investing in staff training and development, the statement of financial position does not contain an asset relating to human resources.

(ii) Discuss why a potential investor might not wish to rely solely on the financial information within the financial statements of a service-based entity in order to make investment decisions.

[Marks: (4 x 5) = 20]

PART – B: [Q. No. 2 – 4] : (30 MARKS)

Q. No. 2.

On 1 January 2009 CSA, a listed entity, had 3,000,000 Tk.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 Tk.1 ordinary shares for Tk.3.20 each. The profit before tax of CSA for the year ended 31 December 2009 was Tk.1,040,000. Income tax expense for the year was Tk.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 Tk.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.

[Marks: (4+4+2) = 10]

Q. No. 3.

FNE is a retailer of fine furniture. On 19 October 20X5 FNE purchased 100 antique tables from a US supplier for a total of $3,600,000. FNE has a year end of 31 December 20X5 and uses sterling as its functional currency.

Exchange rates are as follows.

19 October 20X5	£1 = $1.8
15 December 20X5	£1 = $1.9
20 December 20X5	£1 = $1.95
31 December 20X5	£1 = $2.0
Average rate for 20X5	£1 = $1.6
3 February 20X6	£1 = $2.4

Required:

Determine, according to IAS 21: The Effects of Changes in Foreign Exchange Rates, the impact of the above transaction on the profits of FNE for the year ended 31 December 20X5 and on the statement of financial position at that date under each of the following alternative assumptions.

- Assumption 1: All the tables were sold on 20 December 20X5 and were paid for by FNE on 15 December 20X5.
- Assumption 2: All the tables were sold on 3 February 20X6 and were paid for by FNE on 15 December 20X5.
- Assumption 3: All the tables were sold on 15 December 20X5 and were paid for by FNE on 3 February 20X6.
- Assumption 4: 75 of the tables were sold on 15 December 20X5 with the remaining 25 tables being sold on 3 February 20X6. All the tables were paid for by FNE on 3 February 20X6.

[Marks: 10]

Q. No. 4.

Frost plc has the following share option scheme at 31 May 20X7:

Director's name	*Grant date*	*Options granted*	*Fair value of options at grant date (£)*	*Exercise price(£)*	*Vesting date*
Edmund	1 June 20X5	40,000	3.00	4.00	6/20X7
Houston					
Kieran Bullen	1 June 20X6	120,000	2.50	5.00	6/20X9

The price of the company's shares at 31 May 20X7 is £8 per share and at 31 May 20X6 was £8.50 per share.
The directors must be working for Frost on the vesting date in order for the options to vest.
No directors have left the company since the issue of the share options and none are expected to leave before June 20X9. The shares can be exercised on the first day of the month in which they vest.
In accordance with IFRS 2 an expense of £60,000 has been charged to profits in the year ended 31 May 20X6 in respect of the share option scheme. The cumulative expense for the two years ended 31 May 20X7 is £220,000.
Tax allowances arise when the options are exercised and the tax allowance is based on the option's intrinsic value at the exercise date.
Assume a tax rate of 30%.
Required: What are the deferred tax implications of the share option scheme? **[Marks: 10]**

PART – C: [Q. No. 5 – 6] : (50 MARKS)

Q. No. 5.

Statement of financial position as at 31 December 2012:

	ZX	**CV**
	$000	**$000**
ASSETS		
Non-current assets		
Property, plant and equipment	20,250	11,000
Investment in CV (held at cost)	11,750	-
	32,000	11,000
Current assets	16,000	5,000
Total assets	48,000	16,000
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital ($1.00 shares)	5,000	1,000
Retained earnings	28,200	10,200
Total equity	33,200	11,200
Total liabilities	14,800	4,800
Total equity and liabilities	48,000	16,000

Additional information

ZX acquired 60% of the 1 million $1.00 equity shares of CV on 1 January 2011 for $8,750,000 when CV's retained earnings were $9,280,000. The group policy is to measure non-controlling interest at the date of acquisition at its proportionate share of the fair value of the net assets.

ZX assessed the goodwill on the acquisition of CV to be impaired by 10% of its initial carrying amount on 31 December 2011 and charged this in arriving at the consolidated profit for that year.
ZX acquired an additional 20% of CV's equity share capital on 31 December 2012 for $3,000,000.

Required:
Prepare the consolidated statement of financial position for the ZX Group as at 31 December 2012.

[Marks: 25]

Q. No. 6.

A friend has approached you looking for some advice. He has been offered the position of Sales Direct within an entity , Mango Ltd., which supplies the building trade. He commented that he had reviewed the information on Mango Ltd.s website and there were lots of positive messages about the entitys future , including how it had secured a new supplier relationship in 2015 resulting in a significant improvment in margins.

He has been offered a lucrative remuneration packege to implement a new aggressive sales strategy , but has been with his current employer for six years and wants to ensure his future would be secure . He has provied you with the finalised financial statements for Mango Ltd. for the year ended 31 December 2015 , with comparatives.

The financial statements for Mango Ltd. are provided below:

Statement of Financial Position at 31 December	**2015**	**2014**
ASSETS	**Tk.ml**	**Tk. ml**
Non-current assets		
Property, plant and equipment	254	198
Investment in associate	24	-
	278	198
Current assets		
Inventories	106	89
Receivables	72	48
Cash and cash equivalents	-	6
	178	143
Total assets	456	341

EQUITY AND LIABILITIES		
Equity		
Share capital (Tk. 1 equity shares)	45	45
Retained earnings	146	139
Revaluation reserve	40	-
Total equity	231	184
Non-current liabilities		
Long term borrowings	91	91
	91	91
Current liabilities		
Trade and other payables	95	66
Short term borrowings	39	-
	134	66
Total liabilities	225	157
Total equity and liabilities	456	341

Statement of comprehensive income for the year ended 31 December	**2015**	**2014**
	Tk. ml	**Tk. ml**
Revenue	252	248
Cost of sales	(203)	(223)
Gross profit	49	25
Distribution cost	(18)	(13)
Administrative expenses	(16)	(11)
Share of profit of associate	7	-
Finance cost	(12)	(8)
Profit before tax	**10**	**(7)**

Q. No. 6.(cont'd…….)

Income tax expenses	(3)	2
Profit for the year	7	(5)
Other comprehensive income :		
Revaluation gain on PPE	40	-
Total other comprehensive income	40	0
Total comprehensive income	47	(5)

Additional information:

(1) Long term borrowings:

The long term borrowings are repayable in 2017

(2) Contingent liability:

The note to the financial statements include details of a contingent liability of Tk.30 million. A major customer , a house builder, is suing Mango Ltd. , claiming that it supplied faulty goods. The customer had to ratify some of its buildings work when investigations discovered that a building material, which had recently been supplied by Mango Ltd. , was found to contain a hazardous substance . The initial assessment from the lawyer is that Mango Ltd. is likely to lose the case although the amount of potential damages could not be measured with sufficient reliability at the year-end date.

(3) Revalution:

Mango Ltd. decided on a change of accounting policy in the year and now includes its land and buildings at their revalued amount. The valuation was performed by an employee of Mango Ltd. who is a qualified valuer.

Required:

(a) Analyse the financial performance of Mango Ltd. for the year to 31 December 2015 and its financial position at the date AND briefly discuss Mango Ltd.s suitability as a secure employer for your friend.

(b) Explain the potential limitations of using traditional ratio analysis as a means of decision making, using Mango Ltd.s stuation to illustrate your answer.

[Marks: 25]

= THE END =