THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA DECEMBER, 2018 EXAMINATION
PROFESSIONAL LEVEL-I
SUBJECT: 101. INTERMEDIATE FINANCIAL ACCOUNTING

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) What is conceptual framework? Why is a conceptual framework necessary in financial accounting?

(b) What is the basic accounting problem created by the monetary unit assumption when there is significant inflation? What appears to be the IASB's position on a stable monetary unit?

(c) Briefly describe the relationship between the "moment in time" and "period of time" elements.MMY operates a catering service specializing in business luncheons for large corporations. MMY requires customers to place their orders 2 weeks in advance of the scheduled events. MMY bills its customers on the tenth day of the month following the date of service and requires that payment be made within 30 days of the billing date. Conceptually, when should MMY recognize revenue related to its catering service?

(d) Select the assumption, principle, or constraint that most appropriately justifies these procedures and practices.

(i) Fair value changes are not recognized in the accounting records.
(ii) Intangible assets are capitalized and amortized over periods benefited.
(iii) The use of consolidated statements is justified.
(iv) All payments out of petty cash are charged to Miscellaneous Expense.
(v) Rationale for accrual accounting.

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

Q. No. 2

(a) An enterprise failed to record deprecation on a piece of equipment for two years. The oversight was discovered in the current period. How should the company account for the depreciation expense for the two missed years?

(b) On February 2, 20X5, Petry Enterprises paid Tk.76,000 cash for a piece of equipment to be used in its blast furnace facility. The equipment has an estimated useful life of seven years and an estimated residual value of Tk.6,000. The company's policy is to record a full year of depreciation in the year of purchase and no depreciation in the year of disposal. The equipment is expected to provide 33,600 hours of service over its useful life with estimated service hours of 4,200 in 20X5, 4,300 in 20X6, and 4,600 in 20X7. The company's accountant has looked at several methods of depreciation that could be used for the equipment and has prepared the following schedule for the three most likely alternatives:

	Alternative 1	**Alternative 2**	**Alternative 3**
Estimated depreciation expense — 20X5	Tk.179,500	Tk.8,750	Tk.10,000

After consideration of the alternatives, the company chose to use the straight-line method of depreciation. In 20X6 an accident occurred which caused damage to the equipment. The equipment was repaired in 20X6, at a cost of Tk.5,000, but it was determined in early 20X7 that an impairment loss may have occurred. An analysis performed in early 20X7 concluded that the equipment had a value in use of Tk.40,000, a net selling price of Tk.36,000 and a remaining useful life of two years with no residual value.

Q. No. 2 (cont'd...)

Required:

(a) Identify the depreciation method being used in each of alternatives 1, 2, and 3.

(b) Prepare the journal entries to record depreciation expense and the Tk.5,000 expenditure in 20X6.

(c) Prepare the journal entries to record the impairment loss and depreciation expense for 20X7.

(d) Assuming Petry Enterprises uses the indirect method of presenting cash flows from operating activities, prepare the cash flow statement disclosures with respect to the equipment for the years 20X5, 20X6, and 20X7.

[Marks: (5+15) = 20]

Q. No. 3

Bajaj Company, a major producer of Motorbike and accessories, operates several stores and is a listed company. The comparative statement of financial position and income statement for Bajaj as on 31 May, 2017, are as follows. The company is preparing its statement of cash flows.

Bajaj Company
Comparative Statement of Financial Position
As of May 31, 2017

Particulars	**2017**	**2016**
Plant Assets:		
Plant Assets:	Tk.6,00,000	Tk.5,02,000
Less: Accumulated depreciation- Plant Assets	1,50,000	1,25,000
	4,50,000	3,77,000
Current Assets:		
Inventory	2,20,000	2,50,000
Prepaid expenses	9,000	7,000
Accounts Receivable	75,000	58,000
Cash	28,250	20,000
Total Current assets	3,32,250	3,35,000
Total Assets	**7,82,250**	**7,12,000**
Equity:		
Share Capital-Ordinary, Tk.10 par	3,70,000	2,80,000
Retained earnings	1,45,000	1,20,000
Total equity	5,15,000	4,00,000
Non-Current Liabilities:		
Bonds payable	70,000	1,00,000
Current Liabilities:		
Accounts payable	1,23,000	1,15,000
Salaries and wages payable	47,250	72,000
Interest payable	27,000	25,000
Total current liabilities	1,97,250	2,12,000
Total liabilities	2,67,250	3,12,000
Total equity and liabilities	**7,82,250**	**7,12,000**

Q. No. 3(cont'd...)

Bajaj Company
Income Statement
For the year ended May 31, 2017

Sales revenue	Tk.12,55,250
Less: Cost of merchandise sold	7,22,000
Gross profit	5,33,250
Less: Expenses	
Salaries and wages expenses	2,52,100
Interest expense	75,000
Other expenses	8,150
Depreciation expense	25,000
Total expenses	3,60,250
Operating Income	1,73,000
Less: Income tax expense	43,000
Net Income	1,30,000

The following is additional information concerning Bajaj's transactions during the year ended May 31, 2017.

(a) All sales during the year were made on account.
(b) All merchandise was purchased on account, comprising the total accounts payable account.
(c) Plant assets costing Tk.98,000 were purchased by paying Tk.28,000 in cash and issuing 7,000 ordinary shares.
(d) The "other expenses" are related to prepaid items.
(e) All income taxes incurred during the year were paid during the year.
(f) In order to supplement its cash, Bajaj issued 2,000 ordinary shares at par value.
(g) There were no penalties assessed for the retirement of bonds.
(h) Cash dividends of Tk.1,05,000 were declared and paid at the end of the fiscal year.

Required:

(a) Compare and contrast the direct method and indirect method for reporting cash flows from operating activities.
(b) Prepare a statement of cash flows for Bajaj Company for the year ended May 31, 2017, using the direct method. Be sure to support the statement with appropriate calculations.
(c) Using the indirect method, calculate only the cash flow from operating activities for Bajaj Company for the year ended May 31, 2017.

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

Q. No. 4

(a) Presented below are three isolated situations involving equity securities.

Situation 1: An equity security, whose fair value is currently less than cost, is classified as available-for-sale but is to be reclassified as trading.

Situation 2: A noncurrent portfolio with an aggregate fair value in excess of cost includes one particular security whose fair value has declined to less than one-half of the original cost. The decline in value is considered to be other than temporary.

Situation 3: The portfolio of trading securities has a cost in excess of fair value of Tk.13,500. The available-for-sale portfolio has a fair value in excess of cost of Tk.28,600.

Q. No. 4(cont'd...)

Required:

What is the effect upon carrying value and earnings for each of the situations above?

(b) **Orbit** Company was formed on July 1, 2013. It was authorized to issue 300,000 shares of Tk.10 par value common stock and 100,000 shares of 8% Tk.25 par value, cumulative and non-participating preferred stock. **Orbit** Company has a July 1–June 30 fiscal year. The following information relates to the stockholders' equity accounts of **Orbit** Company.

Common Stock

Prior to the 2015–2016 fiscal year, **Orbit** Company had 110,000 shares of outstanding common stock issued as follows.

(1) 85,000 shares were issued for cash on July 1, 2013, at Tk.31 per share.

(2) On July 24, 2013, 5,000 shares were exchanged for a plot of land which cost the seller Tk.70,000 in 2007 and had an estimated fair value of Tk.220,000 on July 24, 2013.

(3) 20,000 shares were issued on March 1, 2014, for Tk.42 per share.

During the 2015–2016 fiscal year, the following transactions regarding common stock took place.

November 30, 2015	**Orbit** purchased 2,000 shares of its own stock on the open market at Tk.39 per share. **Orbit** uses the cost method for treasury stock.
December 15, 2015	**Orbit** declared a 5% stock dividend for stockholders of record on January 15, 2016, to be issued on January 31, 2015. **Orbit** was having a liquidity problem and could not afford a cash dividend at the time. **Orbit**'s common stock was selling at Tk.52 per share on December 15, 2015.
June 20, 2016	**Orbit** sold 500 shares of its own common stock that it had purchased on November 30, 2015, for Tk.21,000.

Preferred Stock

Penn issued 40,000 shares of preferred stock at Tk.44 per share on July 1, 2014.

Cash Dividends

Orbit has followed a schedule of declaring cash dividends in December and June, with payment being made to stockholders of record in the following month. The cash dividends which have been declared since inception of the company through June 30, 2016, are shown below.

Declaration Date	Common Stock	Preferred stock
12/15/14	Tk. 0.30 per share	Tk. 1.00 per share
6/15/15	Tk. 0.30 per share	Tk. 1.00 per share
12/15/15	-	Tk. 1.00 per share

No cash dividends were declared during June 2016 due to the company's liquidity problems.

Retained Earnings

As of June 30, 2015, **Orbit**'s retained earnings account had a balance of Tk.690,000. For the fiscal year ending June 30, 2016, **Orbit** reported net income of Tk.40,000.

Required:

Prepare the stockholders' equity section of the balance sheet, including appropriate notes, for **Orbit** Company as of June 30, 2016, as it should appear in its annual report to the shareholders. Support your calculation with necessary Journals & Ledger.

[Marks: (5+15) = 20]

Q. No. 5

(a) Identify the criteria used to account for contingent liabilities according to IAS 37. What is off-balance-sheet financing? Why might a company be interested in using off-balance-sheet financing? What are the reasons of issuing treasury stock? Explain.

(b) You purchase an automobile from H Auto for Taka 30,000 on January 2, 2014. H estimates the assurance-type warranty costs on the automobile to be Taka 700 (H will pay for repairs for the first 36,000 miles or three years, whichever comes first). You also purchase for Taka 900 a service-type warranty for an additional three years or 36,000 miles. H incurs warranty costs related to the assurance-type warranty of Taka 500 in 2014 and Taka 200 in 2015. H records revenue on the service-type warranty on a straight-line basis.

Required:

What entries should H make in 2014 and 2017?

(c) S Corporation's charter authorized issuance of 100,000 ordinary shares of Taka 10 par value and 50,000 shares of Taka 50 preference shares. The following transactions involving the issuance of shares were completed. Each transaction is independent of the others.

(i) Issued a Taka 10,000, 9% bond payable at par and gave as a bonus one preference share, which at that time was selling for Taka 106 a share.

(ii) Issued 500 ordinary shares for machinery. The machinery had been appraised at Taka 7,100; the seller's book value was Taka 6,200. The most recent market price of the ordinary shares is Taka 16 a share.

(iii) Issued 375 ordinary shares and 100 preference shares for a lump sum amounting to Taka 10,800. The ordinary had been selling at Taka 14 and the preference at Taka 65.

(iv) Issued 200 shares of ordinary and 50 shares of preference for furniture and fixtures. The ordinary shares had a fair value of Taka 16 per share; the furniture and fixtures have a fair value of Taka 6,500.

Required:

Record the transactions listed above in journal entry form.

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

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