

**CMA JUNE-2019 EXAMINATION  
BUSINESS LEVEL  
SUBJECT: GE 01. FUNDAMENTALS OF FINANCIAL ACCOUNTING**

Time Allocated: Three hours

Total Marks: 100

**Instructions to Candidates**

You are required to answer ALL questions.		
Answers should be properly structured, relevant and computations need to be shown.		
You are strongly advised to carefully read ALL the question requirements before attempting the question concerned (that is all parts and/or sub-questions).		
ALL answers must be written in the answer book. Answers written on the question paper will not be submitted for marking.		
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.		
No of questions	No of sub-questions	Marks allocation
8	Maximum 03	Question 1- 6 = 10 marks each Question 7- 8 = 20 marks each

**TURN OVER**

You are advised to spend 18 minutes on Question 1- 6 (10 marks per each) and 36 minutes on Question 7- 8 (20 marks per each).

**QUESTION No. 1**

- (a) What do you mean by 'Reporting Entity'? Is reporting entity necessarily a legal entity? Why or why not?
- (b) What do you mean by 'General Purpose' Financial Report? What is the primary objective of 'General Purpose' Financial Reporting as per IFRS Conceptual Framework-2018?
- (c) "To be useful, financial information must faithfully represent the substance of the phenomena that it purports to represent" - Explain, in terms of the IFRS Conceptual Framework-2018, how to ensure that a set of financial statements is faithfully represented.

**[Marks: (3+3+4) = 10]**

**QUESTION No. 2**

- (a) Shahriar Khan, a student of ICMAB, contends that the double-entry system means each transaction must be recorded twice. Is he correct? Explain.
- (b) Hasan Ahmed is president of Better Books. He has very little knowledge of accounting. He cannot understand why it is not possible to prepare financial statements directly from an unadjusted trial balance. Write an explanation to convince him.
- (c) What is a contra account? Why is it important?

**[Marks: (3+4+3)=10]**

**QUESTION No. 3**

- (a) "Depreciation is a valuation process that results in the reporting of the fair value of the asset" - Do you agree? Explain.
- (b) The following is a summary of all relevant transactions of Vicario Co. since it was organized in 2015.

In 2015, 15,000 shares were authorized and 7,000 ordinary share (Tk.50 par value) were issued at a price of Tk. 57. In 2016, 1,000 shares were issued as a share dividend when a share was selling for Tk. 60. Three hundred ordinary shares were brought in 2017 at a cost of Tk. 64 per share. These shares are still in the company treasury.

In 2016, 10,000 preference shares were authorized and the company issued 5,000 of them (Tk. 100 par value) at Tk. 113. Some of the preference shares were reacquired by the company and later reissued for Tk. 4,700 more than it cost the company.

The company has earned a total of Tk. 6,10,000 in net income and paid out a total Tk. 3,12,600 in cash dividends since incorporation.

**Required:**

Prepare the equity section of the statement of financial position in proper form for Vicario Co. as of December 31, 2017. Account for treasury shares using the cost method.

**[Marks: (2+8) = 10]**

**QUESTION No. 4**

- (a) Fraud experts often say that there are three primary factors that contribute to employee fraud. Identify the three factors and explain what is meant by each.

**TURN OVER**

- (b) Nova Company uses an imprest petty cash system. The fund was established on March 1 with a balance of Tk. 1,000. During March the following petty cash receipts were found in the petty cash box.

Date	Receipt No.	For	Amount
Mar 5	1	Stamp inventory	Tk. 390
7	2	Freight-out	210
9	3	Miscellaneous Expense	60
11	4	Travel Expense	240
14	5	Miscellaneous Expense	50

The fund was replenished on March 15 when the fund contained Tk. 30 in cash. On March 20, the amount in the fund was increased to Tk. 1,500.

**Required:**

Journalize the entries in March that pertain to the operation of the petty cash fund.

- (c) What are the purposes of audit checks and audit trails?

**[Marks: (3+5+2) = 10]**

**QUESTION No. 5**

- (a) Explain the needs for accounting codes.  
 (b) You are provided with the following information for PQ Inc. for the month ended October 31, 2018. PQ uses the perpetual method for inventory.

Date	Description	Unit	Unit Cost or Selling Price
Oct. 1	Beginning Inventory	60	Tk. 25
9	Purchase	120	26
11	Sale	100	35
17	Purchase	70	27
22	Sale	60	40
25	Purchase	80	28
29	Sale	110	40

**Required:**

Calculate (i) ending inventory, (ii) cost of goods sold, (iii) gross profit, and (iv) gross profit rate under the FIFO method.

**[Marks: (2+8) = 10]**

**QUESTION No. 6**

- (a) In 2018, RC Company had credit sales of Tk. 8,00,000. Sales return and allowances were Tk. 50,000. On January 1, 2018, allowances for doubtful accounts had a credit balance of Tk. 18,000. Past experience indicates that 3% of net credit sales become uncollectible. What should be the adjusted balance of allowance for doubtful accounts at December 31, 2018? During 2018, Tk. 30,000 of uncollectible accounts receivables was written off.
- (b) The cash in bank account for Motin Co. at December 31 of the current year indicates a balance of Tk.1,21,925 after both the cash receipts journal and the cheque register for December had been posted. The bank statement indicated a balance of Tk.1,99,556.50 on December 31. Comparison of the bank statement and the accompanying cancelled cheques and memorandums with the records revealed the following reconciling items.
- (1) A deposit of Tk. 40,152 representing receipts of December 31 had been made too late to appear on bank statement.

**TURN OVER**

- (2) Cheques outstanding totaled Tk. 90,907.50
- (3) The bank had collected for Motin Co. Tk. 30,450 on a note left for collection. The face value of the note was Tk. 30,000.
- (4) A cheque drawn for the Tk. 4,700 had been erroneously charged by the bank as Tk. 7,400.
- (5) A cheque for Tk. 725 had been recorded in cheque register as Tk. 72.50. The cheque was for the payment of an obligation to Satter Equipment Company for the purchases of office equipment on account.
- (6) Bank service charge for December amounted to Tk. 221.50.

**Required:**

- (i) Prepare a bank reconciliation statement (corrected balance).
- (ii) Prepare the adjusting entries based on the reconciliation.

**[Marks: 2+(6+2) = 10]**

**QUESTION No. 7**

- (a) R Company has the following internal control procedures over cash receipts. Identify the internal control principle that is applicable to each procedure.
  - (i) All over-the-counter receipts are entered in cash registers.
  - (ii) All cashiers are bonded.
  - (iii) Daily cash counts are made by cashier department supervisors.
  - (iv) The duties of receiving cash, recording cash, and custody of cash are assigned to different individuals.
  - (v) Only cashiers may operate cash registers.
- (b) The comparative statement of financial position for RP Company as of December 31 are presented in the following:

**RP COMPANY**  
**Comparative Statement of Financial Position**  
**December 31**

<b>Assets</b>	<b>2018 (Tk.)</b>	<b>2017 (Tk.)</b>
Cash	71,000	45,000
Accounts receivable	44,000	62,000
Inventory	1,51,450	1,42,000
Prepaid expenses	15,280	21,000
Land	1,05,000	1,30,000
Equipment	2,28,000	1,55,000
Accumulated depreciation—equipment	(45,000)	(35,000)
Building	2,00,000	2,00,000
Accumulated depreciation—building	(60,000)	(40,000)
<b>Total</b>	<b><u>Tk. 7,09,730</u></b>	<b><u>Tk. 6,80,000</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts Payable	47,730	40,000
Bonds payable	2,60,000	3,00,000
Common Stock, Tk.10 par	2,00,000	1,60,000
Retained Earnings	2,02,000	1,80,000
<b>Total</b>	<b><u>Tk. 7,09,730</u></b>	<b><u>Tk. 6,80,000</u></b>

**Additional Information:**

- (i) Operating expenses include depreciation expense of Tk. 42,000 and charges from prepaid expenses of Tk. 5,720.
- (ii) Land was sold for cash at book value.
- (iii) Cash dividends of Tk. 15,000 were paid.
- (iv) Net income for 2018 was Tk. 37,000.

**TURN OVER**

- (v) Equipment was purchased for Tk. 95,000 cash. In addition, equipment costing Tk. 22,000 with a book value of Tk. 10,000 was sold for Tk. 6,000 cash.
- (vi) Bonds were converted at face value by issuing 4,000 shares of Tk. 10 par value common stock.

**Required:**

Prepare a statement of cash flows for the year ended December 31, 2018, using the indirect method as per IAS 7.

[Marks: (5+15) = 20]

**QUESTION No. 8**

The Income Statements and Statements of Financial Position of the Target Corporation and Wal-Mart Incorporation for the year 31<sup>st</sup> December 2018 are given below:

(Amount in Tk.)		
Income Statement	Target	Wal-Mart
	Corp	Inc
Sales	62,000	3,75,000
Less: Sales returns and allowances	(529)	(474)
Net Sales	61,471	3,74,526
Less: Cost of goods sold	(41,895)	(2,86,515)
Gross Profit	19,576	88,011
Less: Selling and Administrative expenses	(16,200)	(70,847)
Less: Interest expense	(647)	(1,798)
Other Income	1,896	4,273
Less: Income Tax expense	(1,776)	(6,908)
<b>Net Income</b>	<b><u>2,849</u></b>	<b><u>12,731</u></b>

(Amount in Tk.)		
Balance Sheet	Target	Wal-Mart
	Corp	Inc
<b>Assets</b>		
Cash	5,000	10,000
Accounts Receivables	6,000	15,000
Inventories	5,000	20,000
Prepaid expense	2,906	2,585
<b>Total current assets</b>	<b><u>18,906</u></b>	<b><u>47,585</u></b>
Non Current Assets	25,654	1,15,929
<b>Total Assets</b>	<b><u>44,560</u></b>	<b><u>1,63,514</u></b>
<b>Liabilities and Equities</b>		
Accounts Payable	3,000	25,000
Notes payable	5,000	25,000
Accrued expenses	3,782	8,454
<b>Total current liabilities</b>	<b><u>11,782</u></b>	<b><u>58,454</u></b>
Long term debt	17,471	40,452
<b>Total Liabilities</b>	<b><u>29,253</u></b>	<b><u>98,906</u></b>
Share Capital	12,000	60,000
Retained Earnings	3,307	4,608
<b>Total equity</b>	<b><u>15,307</u></b>	<b><u>64,608</u></b>
<b>Total liabilities and equity</b>	<b><u>44,560</u></b>	<b><u>1,63,514</u></b>

**TURN OVER**

(Amount in Tk.)

	Target Corp	Wal-Mart Inc
	<b>Beginning of year balances</b>	
Total Assets	37,349	1,51,587
Total stockholder's equity	15,633	61,573
Current Liabilities	11,117	52,148
Total Liabilities	21,716	90,014
	<b>Other Data</b>	
Average net accounts receivables	7124	3,247
Average Inventory	6,517	34,433
Net cash provided by operating activities	4,125	20,354

**Required:**

- (i) What is the importance of financial statement analysis? What are the tools used in financial statement analysis?
- (ii) For each company, calculate the following ratios:  
Current ratio, Accounts receivables turnover, Average collection period, Inventory turnover, Days in inventory, Profit margin, Asset turnover, Return on assets, Return on common stockholders' equity, Debt to assets.
- (iii) Compare the liquidity, profitability and solvency of the two companies.

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

**\*END OF QUESTION PAPER\***