CMA JUNE-2020 EXAMINATION
PROFESSIONAL LEVEL-III
SUBJECT: 301: ADVANCED FINANCIAL ACCOUNTING-II

Solution

Solution of the Q. No. 3(a)

Consolidated Financial Statements: The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of asingle economic entity.

A parent need not present consolidated financial statements if and only if all of the following hold.

i. The parent is itself a wholly-owned subsidiary or it is a partially owned subsidiary of anotherentity and its other owners, including those not otherwise entitled to vote, have been informedabout, and do not object to, the parent not presenting consolidated financial statements.
ii. ii. Its securities are not publicly traded.
iii. It is not in the process of issuing securities in public securities markets.
iv. The ultimate or intermediate parent publishes consolidated financial statements that comply withInternational Financial Reporting Standards.

A parent that does not present consolidated financial statements must comply with the IAS 27 rules on separate financial statements.

(b) The following working notes are pertinent to the solution:

W#1Calculate goodwill

		Group
		Tk.
Consideration transferred (W#2)		38,734
Fair value of NCI		9,000
Net assets acquired as represented by:		
Ordinary share capital	25,000	
Revaluation surplus on acquisition	5,000	
Retained earnings on acquisition	6,000	
Intangible asset – brand name	5,000	
		(41,000)
Goodwill		6,734

This goodwill must be capitalised in the consolidated statement of financial position.

W#2 Consideration transferred

	Tk.	
Cash paid	30,000	
Fair value of deferred consideration (10,000 x 1 / (1.072*))	8,734	
		38,734

Note. The deferred consideration has been discounted at 7% for two years (1 July 2017 to 1 July2019).

However, at the date of the current financial statements, 30 June 2018, the discount for one year has unwound. The amount of the discount unwound is: Tk. (10,000 × 1 / 1.07) – 8,734 =Tk.612

So this amount will be charged to finance costs in the consolidated financial statements and the deferred consideration under liabilities will be shown as Tk.9,346i.e. (8,734 + 612).

W#3 Calculate consolidated reserves

	Tk.
Consolidated revaluation surplus	
Ping Co	12,000
Share of Pong Co's post acquisition revaluation surplus	–
Consolidated retained earnings	12,000

	Ping	*Pong*
	Tk.	Tk.
Retained earnings per question	26,000	28,000
Less pre-acquisition		(6,000)
Discount unwound – finance costs	(612)	22,000
Share of Pong: 80% ×Tk.22,000	17,600	
	42,988	

W#4 Calculate non-controlling interest at year end

	Tk.
Fair value of non-controlling interest	9,000
Share of post-acquisition retained earnings (22,000 x 20%)	4,400
	13,400

W#5 Agree current accounts

Pong Co has cash in transit of Tk.2,000 which should be added to cash and deducted from the amount owed by Ping Co.

Cancel common items: these are the current accounts between the two companies of Tk.8,000 each.

Req: Prepare the consolidated statement of financial position.

PING CO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Tk.	Tk.
Assets		
Non-current assets		
Property, plant and equipment (50,000 + 40,000)		90,000
Intangible assets: Goodwill (W1)		6,734
Brand name (W1)		5,000
Current assets		
Inventories (3,000 + 8,000)	11,000	
Receivables (16,000 + 7,000)	23,000	
Cash (2,000 + 2,000)	4,000	
		38,000
Total assets		139,734
Equity and liabilities		
Equity		
Ordinary shares of Tk.1 each	45,000	
Revaluation surplus (W3)	12,000	
Retained earnings (W3)	42,988	
		99,988
Non-controlling interest (W4)		13,400
		113,388
Current liabilities		
Trade payables (10,000 + 7,000)		
		17,000
Deferred consideration (W2)		
		9,346
		139,734

Solution of the Q. No. 4(a)

a) Goodwill on consolidation of Kono Co

	Tk. in million	Tk. in million
Consideration transferred (Tk.2.00 X 6m)		12.0
Non-controlling interest (Tk.2.00 X 2m)		4.0
Fair value of net assets acquired		
Share capital	8.0	
Pre-acquisition reserves	4.4	
Fair value adjustments		
Property, plant and equipment (16.6 – 16.0)	0.6	
Inventories (4.2 – 4.0)	0.2	
		(13.2)
Goodwill		2.8

Notes on treatment

i. Share capital and pre-acquisition profits represent the book value of the net assets of Kono Co at the date of acquisition. Adjustments are then required to this book value in order to give the fair value of the net assets at the date of acquisition. For short-term monetary items, fair value is their carrying value on acquisition.

ii. IFRS 3 states that the fair value of property, plant and equipment should be determined by market value or, if information on a market price is not available (as is the case here), then by reference to depreciated replacement cost, reflecting normal business practice. The net replacement cost (i.e. Tk.16.6m) represents the gross replacement cost less depreciation based on that amount, and so further adjustment for extra depreciation is unnecessary.

iii. IFRS 3 also states that raw materials should be valued at replacement cost. In this case that amount is Tk. 4.2m.

iv. The rationalisation costs cannot be reported in pre-acquisition results under IFRS 3 as they are not a liability of Kono Co at the acquisition date.

b) CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Tk.'000
Revenue (43,000 + (26,000 X 6/12) – 6,000 (W1))	50,000
Cost of sales (28,000 + (18,000 X 6/12) – 6,000 + 1,000 (W1))	(32,000)
Gross profit	18,000
Distribution costs (2,000 + (800 X 6/12))	(2,400)
Administrative expenses (4,000 + (2,200 X 6/12) + 25 (W2) + 500 impairment)	(5,625)
Finance costs (500 + (300 X 6/12))	(650)
Profit before tax	9,325
Income tax expense (1,400 + (900 X 6/12))	(1,850)
Profit for the year	7,475
Other comprehensive income:	
Gain on property revaluation (post-acquisition)	1,000
Investment in equity instrument	200
Total comprehensive income for the year	8,675
Profit attributable to:	
Owners of the parent	6,925
Non-controlling interest (W3)	550
	7,475
Total comprehensive income attributable to:	
Owners of the parent	7,725
Non-controlling interest (550 + (1,000 X 40%)	950
	8,675

Workings

1.*Unrealised profit*

Remove intercompany trading:

DR Revenue Tk.6m / CR Cost of sales Tk.6m

Unrealised profit = 6,000 X 20/120 = 1,000 – add to cost of sales

2. *Movement on fair value adjustment*

The fair value adjustment of Tk.1m will be depreciated over the remaining life of the building. The amount to be charged at 31 December is: 1,000,000 / 20 X 6/12 = 25,000. 40% of this (10,000) will be charged to the NCI.

3. *Non-controlling interest – share of profit for the year*

	Tk.'000
Share of post-acquisition profit (3,800 X 6/12 X 40%)	760
Movement on fair value adjustment (25 X 40%)	(10)
Share of goodwill impairment (500 X 40%)	(200)
	550

Solution of the Q. No. 5

(a) The tax bases and temporary differences are as follows:

i. The tax base of the accrued expenses is nil. The temporary difference is Tk.1,000.

ii. The tax base of the interest received in advance is nil. The temporary difference is Tk.10,000.

iii. The tax base of the accrued expenses is Tk.2,000. No temporary difference.

iv. The tax base of the accrued fines and penalties is Tk.100. No temporary difference.

v. The tax base of the loan is Tk.1m. No temporary difference.

(b) **(i) *Tax charge for the year***

	Tk.
(i) Tax on trading profits (30% of 1,200,000)	360,000
Tax on capital gain (30% of 60,000)	18,000
Deferred taxation	20,000
	398,000
Under provision of taxation in previous years Tk.(84,000 – 80,000)	4,000
Tax charge on profit for the period	402,000

(ii) **Note.** The statement of profit or loss will show the following.

	Tk.
Profit before tax (1,200,000 + 60,000)	1,260,000
Income tax expense	(402,000)
Profit for the year	**858,000**

(ii)

	Tk.
Deferred taxation	
Balance brought forward	100,000
Transferred from profit or loss	20,000
Deferred taxation in the statement of financial position	120,000

The tax liability is as follows.

	Tk.
Payable on 1 May 2018	
Tax on profits (30% of Tk.1,200,000)	360,000
Tax on capital gain (30% of Tk.60,000)	18,000
Due on 1 May 2018	378,000

Summary	Tk.
Current liabilities	
Tax, payable on 1 May 2018	378,000
Non-current liabilities	
Deferred taxation	120,000

Note. It may be helpful to show the journal entries for these items.

	Tk.	Tk.
DEBIT Tax charge (statement of profit or loss)	402,000	
CREDIT Tax payable		*382,000
Deferred tax		20,000

*This account will show a debit balance of Tk.4,000 until the under provision is recorded, since payment has already been made: (360,000 + 18,000 + 4,000). The closing balance will therefore be Tk.378.000.

(c) Basic EPS = $\frac{Tk.300,000}{100,000\ Shares}$ = Tk.3.000

Diluted EPS = $\frac{Tk.[300,000+64,000(1-0.40)]}{(100,000+16,000)}$ = Tk.2.917

= THE END=

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Solution

Answer to Question No.2

Westpac Corporation
Journel Entries
August, 2019

Home office Accounting Records ($)			Branch Accounting Records (S$)		
(1) Investment in Singapore			Cash	111111	
Branch	50000		Home Office		111111
Cash		50000			
(2) Investment in Singapore			Inventories	222222	
Branch	100000		Home Office		222222
Inventories		75000			
Allowance for					
Overvaluation of					
Inventories					
Singapore Branch		25000			
(3)			Rent Expenses	1000	
			Cash		1000
(4) Equipment Singapore			Home Office	5000	
Branch	2250		Cash		5000
Investment in Singapore					
Branch		2250			

Entry	Debit	Credit	Account	Debit	Credit
(5)			Trade Accounts Receivable	25000	
			Sales		25000
			Cost of Goods Sold	15000	
			Inventories		15000
(6)			Cash	20000	
			Trade Accounts Receivable		20000
(7)			Operating Expenses	5000	
			Cash		5000
(8) Cash	4400		Home Office	10000	
Investment in Singapore			Cash		10000
Branch		4400			
(9) Investment in Singapore	2000		Operating Expenses	4494	
Branch Operating Expenses		2000	Home Office		4494
(10)			Operating Expenses	1000	
			Trade Accounts Recevable		1000