CMA June-2020 Examination
Operational Level
Subject: F1. Financial Operations

MODEL SOLUTION

Solution of the Q. No. 1(f)

"economic activity" means any activity carried on regularly or continuously for making supply of any good, services or immovable property, and

(a) also includes the following activities, namely-

(i) any business, profession, vocation, means of earning livelihood, manufacture or undertaking of any kind, whether or not for profit;

(ii) Supply of any good, service or property made under any lease, licence, or a similar arrangement,

(iii) any one-off initiative in the nature of a commercial activity or enterprise; or

(iv) any activity carried out at the beginning or at the end of such an activity;

(g)

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

(h)

An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost model: After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model: After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Solution of the Q. No. 2 (a)

Ms. Samira
Income Year: 2019-2020
Assessment Year: 2020-2021
Calculation of Tax Liability

Particulars	Amount (Tk.)
Basic Pay (30,000X12)	360,000
House rent (216,000 -180,000)	36,000
Transport Allowance 36,000-30,000)	6,000
Festival Bonus	160,000
Employer's Contribution to CPF	36,000
Total Taxable Income	**598,000**
Tax on First 350,000	0
Tax on next 100,000 @ 5%	5,000
Tax on remaining (598,000-450,00) 148,000 @10%	14,800

Total Tax Liability	**19,800**
Less: Rebate on CPF Contribution (72,000X15%)	10,800
Net tax Liability	**9,000**
Tax deducted from July 2019 to May 2020	5,500
Tax to be deducted from Salary for the month of June 2020	**3,500**

(b)

Required- Finance income and lease charges are as follows:

	Tk
Finance income is	243,469
Lease charges is	2,250,281
	2,493,750

W-1.Trial into 14% interest

Year		**Minimum lease**	**PV factor**	**PV of minimum**
		Payment	14%	**lease payment**
2020		1,312,500	1	1,312,500
2021		600,000	0.877	526,200
2022		300,000	0.769	230,700
2023	(start)	168,750	0.675	113,906
	(end)	112,500	0.592	66,600
				2,249,906

Total PV is tk. 2,249,906 which is almost equal to cost of tk. 2,250,000.the rate of interest may be taken at 14% annually.

(c)

i) A taxable person making a taxable supply needs VAT registration.

ii) Amount of total VAT on this sale is tk 24,375, Jahangir brothers paid VAT.tk 3,750.

iii) Consumers are sufferer here, they cannot claim back VAT as they are not registered with VAT authorities.

W-1.Workings to calculate output and input taxon this sale

Details	**Total sale**	Tax	**Tax**	**Vat collected**	
		Output	**input**		
New era sold to Jahangir Bros					
(500 units @ 200)	100,000	15,000	-	15,000	New Era paid
Jahangir bros sold to retailers					
(500 units@ 250)	125,000	18,750			
Purchased from New era					
(100000*15%)			15,000	3,750	Jahangir bros paid
Retailers sold to consumers					
(500 units@ 325)	162,500	24,375			
Purchased from Jahangir bros			18,750	5,625	Retailers paid
(125000*15%)					

(d)

Non controlling interest:

Non controlling interest is also known as a minority interest. Minority interest is an ownership position whereby a shareholder owns less than 50% of outstanding shares.

X Ltd
Consolidated statement of financial position as at 31 March, 2020

ASSETS	**Tk. 000**
Non current assets :	
Property, plant and equipment	1,575
Goodwill arising from consolidation(W-1)	35
	1,610
Current assets:	700
Total assets	**2,310**
EQUITY AND LIABILITIES:	
Share capital of tk 1 per share	525
General reserve	140
Retained earnings(W.2)	717
	1,382
Non controlling interest	158
	1,540
Non current liabilities:	
15% debentures	350
Current liabilities	420
Total equity & liabilities	**2,310**

Working Notes

W.1 **Calculation of good will**

Cost of investment		350
Nominal value of share acquired	210	
Share of reserves pre-acquisition	105	
(75% of tk 140,000)		(315)
	Good will	**35**

W.2	**Share of post-acquisition reserve**
Reserve as per financial statement	350
Less pre-acquisition reserves	(105)
Less minority interest(25% of 350)	(88)
	157

(e)
Calculation of net borrowing costs which is to be capitalized

	Asset-1	Asset-2
Borrowing cost from 1 July 2019 to 30 June 2020	1,620,000	2,880,000
Less Investment income (Tk. 8,000,000/Tk. 12,000,000X6%)X6/12	240,000	360,000
Net borrowing cost be capitalized	1,380,000	2,520,000

Calculation of the cost of each asset as at 30 June 2020.

	Asset-1	Asset-2
Expenditure incurred	18,000,000	32,000,000
Add: borrowing cost	1,380,000	2,520,000
Total cost	19,380,000	34,520,000

Solution of the Q. No. 3 (i)

P Ltd
Consolidated Statement of financial position
as at 30 June 2020

Amount in Tk. 000

Assets:	
Non-current assets	
Property, Plant and Equipment (52,000+30,000+5,000)	87,000
Goodwill(working 3)	1,600
Total non-current assets	**88,600**
Current Assets	
Inventory (1,000+800-100)	1,700
Trade receivable (2,000+1,200)	3,200
Cash and cash equivalent (2,000+1,500)	3,500
Total current Assets	**8,400**
Total Assets	**97,000**
Equity and Liabilities	
Equity	
Ordinary share capital	35,000
Share premium	5,000
Retained earnings(working 5)	8,900
Revaluation surplus	2,000
Non-controlling interest(working 4)	5,600
Total equity	**56,500**
Non-current liabilities (32,500+3,500)	**36,000**
Current liabilities	
Trade payables (2,500+2,000)	4,500
Total current liabilities	**4,500**
Total equity and liabilities	**97,000**

Workings:

1. Establish group structure.
   P Ltd acquired 80% of S Ltd (12,000X100/15,000)
2. Set out net assets of S Ltd.

Amount in Tk. 000

Particulars	At year end	At acquisition	Post-acquisition
Share capital	15,000	15,000	0
Retained earnings	8,000	3,000	5,000
Fair value uplift	5,000	5,000	
	28,000	23,000	5,000

3. Calculation of goodwill

Particulars	Tk.000
Consideration transferred	25,000
Non-controlling interest at acquisition (23,000X20%)	4,600
Total	29,600
Less: Net assets at acquisition	23,000
Goodwill at acquisition	6,600
Impairment of goodwill	5,000
Goodwill at year end	1,600

4. Non-controlling interest

Particulars	Tk.000
Non-controlling interest at acquisition	4,600
Share of post-acquisition profit (5,000X20%)	1,000
Total	5,600

5. Retained earnings

Particulars	Tk.000
P Ltd	10,000
S Ltd (5,000X80%)	4,000
Less: Goodwill impairment	(5,000)
Less: Unrealized intra-group profit (500X25/125)	(100)
Retained earnings at year end	8,900

Solution of the Q. No. 3 (i)

At the time of preparation of consolidated financial statements, two separate adjustments are required. The adjustments are:

1. Elimination of unrealized profits:

If one company holds inventories at the yearend which have been acquired from another company, this may include a profit element that is unrealized from group perspective.

Here P Ltd. Sold goods to S Ltd at a cost plus 25%. During the year the company sold Tk. 1,000,000. At 30 June 2020, 50% of the goods i.e. Tk. 500,000 remain unsold. In this case unrealized profit is (500,000X25/125) Tk. 100,000 which requires an adjustment.

Adjustment entry would be:
P Ltd's retained earnings Tk.100,000 Dr.
Consolidated inventory Tk. 100,000 Cr.

2. Eliminate intra-group balances

Group Company sometimes incurs intra-company transactions to support each other. Here, Intra-group accounts have balance of TK. 5,000,000. In consolidation the balance is required to eliminate.

Adjustment entry would be:

Current Account- S Ltd Tk.500,000 Dr.

Current Account- P Ltd Tk. 500,000 Cr.

Solution of the Q. No. 4 (i)

As a CMA my justifications for issuing redeemable shares of a company with view of trading projects are as follows:

i) A company may be justified in issuing redeemable shares, if it has a positive view of its trading prospects because the funds generated by its future operations may be used to replace the finance provided by shares.

ii) Shares issued to finance expansion of the business dilute the capital because they are entitled to share in the dividends.

iii) If they can be repaid when the effects of business expansion begin to be felt, the additional profits can be enjoyed exclusively by the original share holders.

(ii)

ABC Limited

Statement of comprehensive income statement for the year ended 30 June, 2020

		Tk.
Revenue:	**Tk.**	2,642,000
Less Cost of sales		(2,050,010)
Gross profit on sales……		**591,990**
Less expenses :		
Selling & distribution (W-6.a)	96,640	
Administrative (W-6.b)	340,403	
Total expenses		**(437,043)**
Operating profit		**154,947**
Other income and expenses :		
Gain on disposal of delivery vehicles(W.3)		2,500
		157,447
Finance cost :		
Interest on loan stock(W.7)	52,000	
Interest on bank loan	8,200	
		(60,200)
Profit before tax…….		**97,247**
Less tax provision 25%		(24,312)
Profit after tax provision		72,935
Transferred to general reserve		(5,000)
Preference dividend provided		(40,000)
Retained profit for the year		**27,935**
Retained profit on 1 July 2019		(125,100)
Retained profit carried forward on 30/6/2020		**(97,165)**

(iii)

Statement of financial position as at 30 June, 2020

Non current assets :	**Tk.**	**Tk.**
Delivery van(W.3)	26,200	
Fixtures & fittings	39,500	
Freehold premises	780,000	
		845,700
Current assets :		
Cash in hand	55,406	
Cash at bank	50,000	
Inventory	556,244	
Prepaid insurance	600	
Trade debtors	635,897	
Receivable from Ryan traders	17,500	
Call on preference share unpaid	1,000	
		1,316,647
Total assets:		**2,162,347**

Equity and liabilities :		
Equity :		
880,000 ordinary shares of tk 1 fully paid	880,000	
200,000 preference shares of tk 2 paid tk 1.5	300,000	
General reserve	105,000	
Retained earnings	(97,165)	
Total equity:		**1,187,835**
Non-current liabilities :		
Bank loan		
13% loan stock unsecured	90,000	
Total non-current liabilities	400,000	**490,000**
Current liabilities :		
Bank loan	30,000	
Trade creditors	362,400	
Accrued salaries and wages	1,800	
Income tax payable	24,312	
Interest on loan stock	26,000	
Dividend on preference shares	40,000	
Total current liabilities		**484,512**
Total equity and liabilities:		**2,162,347**

ABC Limited
Statement of change in equity for the year ended June 30, 2020

	Equity Shares	Retained earnings	General reserve	Total
Balance on 1 July 2019		(125,100)	100,000	(25,100)
Ordinary shares	880,000			880,000
Preference shares	300,000			300,000
General reserve			5,000	5,000
Profit for the period		27,935		27,935
Balance on 30 June 2020	**1,180,000**	**(97,165)**	**105,000**	**1,187,835**

Working notes

W-1 Dep. on delivery vehicle		
Delivery vehicle at cost	102,000	
Less purchased on 1.1.2019	(16,000)	
	86,000	
Dep.@20% on 86,000 for one year		17,200
add. Dep. On new purchased on 1.1.2020		
Dep.@20% on tk 16,000 for 6 months		1,600
Total……		18,800
(Charged on selling & distribution costs)		
W-2. Dep on fixtures & fittings :		
Fixtures & fittings at cost	86,200	
Dep. @ 10% on tk 86,200 per annum		8,620
(charged on administrative expenses)		
W-3.Gain on disposal of delivery vehicle:		
Disposal of old delivery vehicle		17,500
Cost of delivery vehicle sold	25,500	
Less accumulated depreciation to date	(10,500)	
Book value		15,000
Gain on disposal of delivery vehicle		**2,500**

Accumulated depreciation on delivery vehicles are:		
(42,000+18,800-10,500)		**50,300**
Book value on 30/6/2020	(102,000-25,500-50,300)	**26,200**

W-4. Provision for doubtful debts :		
Trade debtors	644,320	
Less Sunil traders debts write off	(2,000)	
	642,320	
Additional provision (642,320*1%)	**6,423**	
Add. Sunil trades debts	2,000	
Total bad debts to be provided	**8,423**	
(Charges to administrative expenses)		

W-5. Apportionment of expenses :			**Selling & distri.**	**Administration**
Director's fees	66,600			66,600
			-	
Wages & salaries	204,000	1/4	51,000	
		3/4		153,000
Management	125,200	1/5	25,040	
		4/5		100,160
Insurance	5,400	1/3	1,800	
		2/3		3,600
			(a)	**(b)**

W-6. Distribution of expenses :	**Selling & Dist.**	**Administration**
Director's fees	**-**	66,600
Wages & salaries	51,000	153,000
Management	25,040	100,160
Insurance	1,800	3,600
Bad debts		8,423
Dep. on delivery van	18,800	-
Dep. on fixtures & fittings	-	8,620
Total …….	**96,640**	**340,403**

W.7. Interest on 13% loan stock :	
13% of tk 400,000……	52,000
out of which paid 6 months	26,000
outstanding for 6 months	**26,000**

End of model solution