



THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH  
CMA DECEMBER, 2017 EXAMINATION  
PROFESSIONAL LEVEL-II  
SUBJECT : 201. ADVANCED FINANCIAL ACCOUNTING-I.

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**

The following information was disclosed during the audit of Zheng Inc.

1.

| Year | Amount Due per Tax Return |
|------|---------------------------|
| 2014 | 130,000,000               |
| 2015 | 104,000,000               |

2. On January 1, 2014, equipment costing Tk. 600,000,000 is purchased. For financial reporting purposes, the company uses straight-line depreciation over a 5 year life. For tax purposes, the company uses the double-declining balance method over 5 years.
3. In January 2015, Tk. 225,000,000 is collected in advance rental of a building for a 3 year period. The entire Tk. 225,000,000 is reported as taxable income in 2015, but Tk. 150,000,000 of the Tk. 225,000,000 is reported as unearned revenue in 2015 for financial reporting purposes. The remaining amount of unearned revenue is to be recognized equally in 2016 and 2017.
4. The tax rate is 40% in 2014 and all subsequent periods (Hint: To find taxable income in 2014 and 2015, the related income taxes payable amounts will have to be "grossed up.")
5. No temporary differences existed at the end of 2013. Zheng expects to report taxable income in each of the next 5 years.

**Instructions:**

- (i) Determine the amount to report for deferred income taxes at the end of 2014, and indicate how it should be classified on the statement of financial position.
- (ii) Prepare the journal entry to record income taxes for 2014.
- (iii) Draft the income tax section of the income statement for 2014, beginning with "Income before income taxes." (Hint: You must compute taxable income and then combine that with changes in cumulative temporary differences to arrive at pretax financial income.)
- (iv) Determine the deferred income taxes at the end of 2015, and indicate how they should be classified on the statement of financial position.
- (v) Prepare the journal entry to record income taxes for 2015.
- (vi) Draft the income tax section of the income statement for 2015, beginning with "Income before income taxes."

**[Marks: (2+3+4+4+3+4) = 20]**

**Q. No. 2**

- (a) How should changes in the estimated unguaranteed residual value be handled by lessor?
- (b) Identify the two recognized lease accounting methods for leases and distinguish between them.
- (c) Chemical Financial Corporation signs an agreement on January 1, 2014, to lease equipment to Chells, Inc. The following information relates to this agreement.
  - (1) The term of the non-cancelable lease is 6 years with no renewal option. The equipment has an estimated economic life of 7 years.
  - (2) The fair value of the asset at January 1, 2014, is Tk. 460,000.

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

- (3) The asset will revert to the lessor at the end of the lease term, at which time the asset is expected to have a residual value of Tk. 20,000, none of which is guaranteed.
- (4) Chells assumes direct responsibility for all executor costs, which include Tk. 2,000 for insurance and Tk. 850 for property taxes.
- (5) The agreement requires equal annual rental payments of Tk. 91,637.36 to the lessor, beginning on January 1, 2014.
- (6) The lessee's incremental borrowing rate is 10%. The lessor's implicit rate is 9% and is known to the lessee.
- (7) Chells uses the straight-line depreciation method for all equipment.
- (8) Chells uses reversing entries when appropriate.

**Required:**

(Round all numbers to two decimal places)

- (i) Prepare an amortization schedule that would be suitable for the lessee for the lease term.
- (ii) Prepare the entire journal entries for the lessee for 2014 and 2015 to record the lease agreement, the lease payments, and all expenses related to this lease. Assume the lessee's annual accounting period ends on December 31.

**[Marks: (4+4+12) = 20]**

**Q. No. 3**

- (a) Compare the accounts of a non-trading concern with those of a trading concern. Why do the two sets differ?
- (b) AB LTD is an entity engages in construction business & prepares its financial records to 31 December every year. In the current year ended 31 December 2013 the company started two contracts expected to take more than one year. Following are the extracts relating to each contract at 31 December 2013:

| <b>Contract</b>                                 | <b>1</b> | <b>2</b> |
|---|----------|----------|
|   | Tk'000   | Tk'000   |
| Total contract price                            | 11,000   | 2,400    |
| Estimated total cost of contract at 01 Jan 2013 | 8,000    | 1,800    |
| Estimated total cost at 31 Dec 2013             | 8,000    | 2,500    |
| Agreed work completed at 31 Dec 2013            | 6,600    | 1,680    |
| Progress billings invoiced 31 Dec 2013          | 6,000    | 1,760    |
| Costs incurred to 31 December 2013              | 7,800    | 1,440    |

The entity calculates the percentage of completion as the agreed value of work completed to date, to the total contract price.

**Required:**

Prepare extracts of financial statements for the year ended 31 December 2013.

- (c) AB LTD is an entity engages in construction business. It started a contract for the construction of a school building for one of its client, spanning 2 years. The price of the contract was agreed to be Tk. 4 million. The contract was started on 01 January 2013 but unfortunately construction material prices started increasing materially from last few months after the start of the contract, due to unforeseen reason.

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

AB LTD has intimated the customer for the increase in material price and requested for compensation of additional costs, but yet, the entity is unsure about the compensation of the additional costs. Therefore, outcome of the contract is not reliably measurable at the end of the first accounting period 31-12-2013, as to whether the contract will be profitable or not.

Following extracts are available from the records of AB LTD related to this contract at the first year ended 31-12-2013:

|                               | Tk'000 |
|-------------------------------|--------|
| Contract Price                | 4,000  |
| Cost incurred to Date         | 2,400  |
| Cost likely to be recoverable | 2,000  |
| Progress billings to customer | 1,800  |

**Required:**

Prepare extracts of financial statements for the year ended 31-12-2013.

[Marks: (5+8+7) = 20]

**Q. No. 4**

- What are the salient features of bankruptcy act 1997? Explain.
- What is winding up? What are the different methods of winding up? Explain.
- The Following information was extracted from the books of X limited company on 31-12-2016 on which a winding up order was made:

| Particulars   | Taka     |
|---|----------|
| Ordinary Share Capital (2000 shares of Tk. 100 each)  | 2,00,000 |
| 6% Preference Share Capital (3000 shares of Tk. 100 each)   | 3,00,000 |
| Calls in arrear (Estimated to realize Tk. 2,000)  | 4,000    |
| Creditors having a mortgage on the freehold land and building   | 85,000   |
| Creditors having a second charge on freehold land and building  | 90,000   |
| Trade Creditors   | 2,70,000 |
| 5% mortgage debenture, secured by a floating charge on the whole of the assets of the company (interest paid to date) | 2,00,000 |
| Debtors: Good Tk. 60,000; Doubtful Tk. 15,000 (estimated to realize Tk. 5,000) and Bad : remaining portion            | 90,000   |
| Unclaimed Dividend  | 6,000    |
| Bills Payable   | 10,000   |
| Income Tax due  | 25,000   |
| Salaries and wages (20 workers)   | 40,000   |
| Bill discounted (Tk. 15,000 expected to be dishonored)  | 40,000   |
| Bank Overdraft, secured by a second charge on the whole assets of the company   | 20,000   |
| Cash in hand  | 2,000    |
| Bills of exchange (considered good)   | 35,000   |
| Freehold land and Buildings (estimated to realize Tk. 1,65,000)   | 2,10,000 |
| Plant and machinery (estimated to produce Tk. 90,000)   | 1,20,000 |
| Fixture and Fittings (estimated to produce Tk. 8000)  | 12,000   |
| Stock in trade ( estimated to produce Tk. 25% less)   | 80,000   |
| Patents (estimated to produce Tk. 45,000)   | 70,000   |
| Profit and loss (debit)   | 6,23,000 |

**Required:**

Prepare the Statement of affairs and Deficiency Account following the bankruptcy act 1997.

[Marks: {4+4+(8+4)} = 20]

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**Q. No. 5**

- (a) What do you mean by surrender value in case of insurance company? How is it accounted for?
- (b) The following are the balances in the books of Sonar Bangla Insurance Co. Ltd. as on 31<sup>st</sup> December, 2014, in respect of Fire Insurance business carried on by them:

|   |           |  |           |
|---|-----------|--|-----------|
| Premium less reinsurance  | 37,50,000 | Amount due to other persons carrying on insurance business   | 6,00,000  |
| Reserve for unexpired risks as on 31-12-2013                            | 15,00,000 |  |           |
| Claims less reinsurance   | 20,62,500 | Amount due from other persons carrying on insurance business | 30,00,000 |
| Claims outstanding as on 31-12-2013                                     | 5,62,500  |  |           |
| Commission on direct business   | 2,25,000  | Cash in hand   | 19,500    |
| Commission on re-insurance ceded  | 1,50,000  | Cash at bank   | 9,10,500  |
| Commission on re-insurance accepted                                     | 75,000    | Deposit with Bangladesh Bank                                 | 15,00,000 |
| Bad debts   | 11,250    | Investment in Govt. securities                               | 18,75,000 |
| Foreign taxes   | 7,500     | Investment in shares of companies                            | 7,50,000  |
| Rent, rates and taxes   | 90,000    | Interest and dividend received (net)                         | 1,12,500  |
| Establishment charges   | 3,75,000  | Directors fees   | 15,000    |
| Audit fees  | 15,000    | Minimum remuneration of MD                                   | 1,35,000  |
| Postage and telegram  | 11,250    | Sundry debtors   | 3,75,000  |
| Printing and stationary   | 18,750    | Sundry creditors   | 1,50,000  |
| Depreciation  | 30,000    | Investment reserve as on 31-12-2013                          | 4,50,000  |
| Policy stamps   | 3,750     | Motor car furniture etc                                      | 4,20,000  |
| Share capital(equity shares of \$100) each                              | 37,50,000 | General reserve  | 7,50,000  |
| Profit and loss appropriation account balance as on 31-12-2013 (credit) | 1,50,000  |  |           |

**Other Information:**

- (1) Outstanding claims as on 31-12-2014 were Tk. 3,75,000.
- (2) Reserve for unexpired risks to be kept at 50% of the premium income.
- (3) Market value of investments as on 31-12-2014 were Tk. 21,00,000.
- (4) Provision for taxation is required to be made of Tk. 2,92,500.

**Required:**

Prepare the Revenue Account, Profit and Loss Account and Profit and Loss Appropriation Account for the year ended on 31-12-2014 and the Balance Sheet on that date.

**[Marks: (5+15) = 20]**

**= THE END =**