



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

Reading Time: 15 minutes

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 are the disclosures required in Joint Venture according to IAS 31?
- (b) United Leasing Company and Square Textiles Limited sign a lease agreement for Equipment on 01 May, 2011 with the following terms and provisions:
- The term of the lease is 5 (five) years and the lease agreement is non-cancellable.
 - Annual lease payment of Taka 84,910.60.
 - Economic life of the leased equipment is 10 (ten) years.
 - Bargain purchase option price of Taka 16,000.00 at the end of lease term.
 - Fair value of the leased equipment is Taka 3,64,000.00 at 01 May, 2011.
 - United Leasing Company pays executory costs directly to third parties for property taxes of Taka 5,000.00 per year which are not included in annual lease payment.
 - Cost of the leased equipment is Taka 2,60,000.00 to United Leasing Company.
 - Incremental borrowing rate is 10% to Square Textiles Limited.

The collectability of the lease payments is reasonably predictable and there are no important uncertainties surrounding the costs yet to be incurred by the United Leasing Company. It is assumed that annual lease payment is due at the inception of the lease agreement and implicit rate for United Leasing Company is also the same as assumed by Square Textiles Limited. [Present Value of Taka 1 for $n=5$, $i=10\%$ is 0.62092, Present Value of Annuity Due of Taka 1 for $n=5$, $i=10\%$ is 4.16986].

Required:

- (i) Discuss the nature of the lease to Square Textiles Limited and United Leasing Company.
- (ii) Prepare a lease amortization schedule for Square Textiles Limited for 5 years lease term.
- (iii) Prepare journal entries in the books of Square Textiles Limited to reflect the signing of the lease agreement and to record the payments and expenses related to lease for 2011 and 2012 assuming accounting year ends on 31 December.

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

Q. No. 2

Barnali Corporation has its Home Office in Dhaka and a Branch in Chittagong. The following information was available from the books of Home Office and the Branch as on 31 December 2016.

	<u>Home Office (Taka)</u>	<u>Branch (Taka)</u>
Inventories as on 1 January 2016	200,000	90,000
Purchases	2,300,000	-
Sales	4,100,000	3,100,000
Other Expenses	304,000	124,000
Inventories as on 31 December 2016	104,000	62,000

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

The Branch book show the Home Office Account at Taka 180,000 (Cr.) and the Home Office books show the Branch Account at Taka 600,000 (Dr.). The Branch receives all its supplies from the Home Office, which are invoiced at 25% over cost. During the year, the Home Office sent invoices to the Branch to the tune of Taka 2,090,000. The Home Office credits its sells account with the invoice price of the goods sent to the Branch. The Home Office billed the Branch for Taka 240,000 on 31 December 2016 representing the Branch's share of expenses incurred by the Home Office. The said expenses had not been recorded in the books of the Branch.

All cash collection made by the Branch is deposited in a local bank in the account of Home Office as follows:

<u>Amount (Taka)</u>	<u>Date of deposit by Branch</u>	<u>Date of Receipt by Home Office</u>
100,000	25 December 2016	31 December 2016
40,000	28 December 2016	02 January 2017
80,000	31 December 2016	03 January 2017

The expenses of the Branch are met by the Home Office from time to time for which amounts are sent in advance to the Branch. A sum of Taka 60,000 sent to the Branch by Home Office on 29 December 2016, which was received by the Branch on 3 January 2017.

Required:

Prepare the Income Statement, in columnar form after showing the reconciliation of Branch Account and Home Office Account Balance.

[Marks: 20]

Q. No. 3

Martha king company began operations at the beginning of 2015. The following information pertains to this company,

- (a) Pretax financial income for 2015 is Taka 100,000.
- (b) The tax rate enacted for 2015 and future years is 40%
- (c) Differences between the 2015 income statement and tax return are listed below:
 - (1) Warranty expense accrued for financial reporting purposes amounts to Taka 5000. Warranty deductions per tax return amount to Taka 2000.
 - (2) Gross profit on construction contracts using the percentage of completion method for books amounts to Taka 92,000. Gross profit on construction contracts for tax purpose amounts to Taka 62,000.
 - (3) Depreciation of property, plant, and equipment for financial reporting purposes amounts to Taka 60,000. Depreciation of these assets amounts to Taka 80,000 for the tax return.
 - (4) A Taka 3,500 fine paid for violation of pollution laws was deducted in computing pretax financial income.
 - (5) Interest revenue earned on an investment in tax exempt municipal bonds amounts to Taka 1,400.
(assume (1) is short term in nature; assume (2) & (3) are long term in nature.
- (d) Taxable income is expected for the next few years.

Required:

- (i) Compute taxable income for 2015
- (ii) Compute the deferred taxes at December 31, 2015, that relate to the temporary differences described above. Clearly level them as deferred tax asset or liability.
- (iii) Prepare the journal entry to record income tax expense, deferred taxes, and income taxes payable for 2015.
- (iv) Draft the income tax expense section of the income statement 'beginning with income before income taxes'.

[Marks: (5+5+7+3) = 20]

Q. No. 4

- (a) XYZ Gas Company Ltd. incurred an expenditure of Taka 2310,000 to rebuild a part of their works. The relevant part of the old works had originally cost Taka 900,000. A sum of Taka 180,000 is realized by the sale of old materials and old materials of the value of Taka 90,000 are further used in the construction of new works. The cost of materials and labor had gone up by 30% and 20% respectively since the old works were built. The cost was 3/5 for materials & the balance for labor.

Required:

Give the journal entries to record the above transaction. [Show the necessary workings]

- (b) From the years ended 31 December 2013 to 31 December 2015 M Ltd capitalized Taka 10,000 of finance costs in relation to self constructed plant. By 31 December 2015 these costs had been 50% depreciated. During 2016 M Ltd capitalized a further Taka 2,000 of such costs. On the last day of the year, just prior to calculating the annual depreciation charge, when the carrying amount of plant stood at Taka 250,000. M Ltd decided to change its accounting policy to write off such finance costs as incurred. Retained earnings at 1 January 2016 were Taka 350,000. Draft profit for 2016 was Taka 45,000 after charging the correct figure for depreciation of Taka 30,000.

In accordance with BAS -8 Accounting policies, changes in accounting estimates and errors, calculate the profit for the year, retained earnings brought forward and carrying amount of plant for the year ended 31 December 2016? [Show the necessary workings]

[Marks: (10+10) = 20]

Q. No. 5

The managing committee of the 'XYZ Club' is concerned about the club financial position following the sudden disappearance of the treasurer on 31 December 2016, the annual accounting date. At 31 December 2015, the club balance sheet had shown the following position:

Liabilities	Taka	Assets	Taka
Capital fund	120,490	Furniture and Equipments	
Creditors for provisions	20,600	Cost	60,000
Subscriptions in advance	1,000	(-)Accumulated Depreciation	30,000
			30,000
		Subscription due	2,000
		Stock of provisions	25,000
		Balance with bank	83,000
		Cash in hand	2,090
Total	142,090	Total	142,090

You also obtain the following information:

- (1) Members pay an annual subscriptions of Taka 100. An examination of duplicate receipt book showed that during the year ended 31 December 2016, 480 members had paid the current year's subscription, 5 members had paid of arrears of previous year and 10 members had paid in advance for 2017. 5 Members had resigned without paying the previous year's subscriptions and at the end of the year there were 500 members on the register.

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Q. No. 5 (cont'd.....)

- (2) The cash book has not been written up but an analysis of petty cash vouchers for the year showed the following expenditures:

Purchase of provisions-Taka 59,400; Salaries Taka 36,000; Stationery and postage Taka 2,000; Repairs Taka 3,600; Miscellaneous expenses Taka 3,400.

- (3) The Refreshment room in-charge had handed over the takings the daily to the treasure with till rolls which cannot be found. However he states that average gross profit on sales would be 40%. The stock of provisions at 31 December 2016 was Taka 28,400 and cash in hand Taka 4,360.
- (4) A summary of bank statement for the year had showed the following

Particulars	Taka	Particulars	Taka
Opening balance	83,000	Payments for provisions	260,000
Deposits	415,780	Salaries	106,500
		Rents and Rates	60,000
		Light and power	20,000
		Telephone	2,900
		Repairs	18,600
		Balance c/d	30,780
	498,780		498,780

- (5) A bundle of unpaid bills have been found in the treasure's desk which has been summarized as follows: Purchase of provisions Taka 64,600; Electric bills Taka 1,600; Printing and stationery Taka 2,100; Telephone Taka 600.
- (6) Depreciation is to be provided on furniture and equipments @ 20% on cost.

Required:

- (i) Cash account for the year ended 31 December 2016;
 (ii) An Income and Expenditure account for the year ended 31 December 2016 and
 (iii) Balance sheet on that date.

[Marks: 20]

= THE END =