

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

Model Solution

Solution to the Q. No. 1

(a) Disclosure

A venturer is required to disclose:

1. Information about contingent liabilities relating to its interest in a joint venture. [IAS 31.54]
2. Information about commitments relating to its interests in joint ventures. [IAS 31.55]
3. A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income, and expenses related to its interests in joint ventures. [IAS 31.56]
4. The method it uses to recognise its interests in jointly controlled entities. [IAS 31.57]

(b)

- (i) The lease agreement has bargain purchase option and meets the criteria to be classified as a capital type lease to Square Textiles Limited. The present value of the minimum lease payment also exceeds 90% of the fair value of the leased equipment.

Along with the option of bargain purchase option in the lease agreement, the collectability of the lease payments is reasonably predictable and there are no important uncertainties surrounding the costs yet to be incurred by United Leasing Company. As such, the lease qualifies as a capital type lease to United Leasing Company.

- (ii) Computation of the lease liability

Tk. 84,910.60	[Annual lease payment]
*4.16986	[PV of annuity due of Tk. 1 for n = 5, I = 10%]
Tk. 3,54,065.30	[Present value of Lease payments]
Tk. 16,000.00	[bargain purchase option price]
*0.62092	[PV of Tk. 1 for n = 5, I = 10%]
Tk. 9,934.70	[Present value of bargain purchase option]
Tk. 3,54,065.30	[Present value of Lease payments]
Tk. 9,934.70	[Present value of bargain purchase option]
Tk. 3,64,000.00	[Present value of Lease liability]

Square Textiles Limited [Lease]
Lease Amortization Schedule

Date	Annual Lease Payment	Interest (10%) on Liability	Reduction of Lease Liability	Lease Liability
01/05/2011				TK. 3,64,000.00
01/05/2011	Tk. 84,910.60		Tk. 84,910.60	Tk. 2,79,089.40
01/05/2012	Tk. 84,910.60	Tk. 27,908.94	Tk. 57,001.66	Tk. 2,22,087.74
01/05/2013	Tk. 84,910.60	Tk. 22,208.77	Tk. 62,710.83	Tk. 1,59,385.91
01/05/2014	Tk. 84,910.60	Tk. 15,938.59	Tk. 68,972.01	Tk. 90,413.90
01/05/2015	Tk. 84,910.60	Tk. 9,041.39	Tk. 75,869.21	Tk. 14,544.69
01/05/2016	Tk. 16,000.60	Tk. 1,454.47	Tk. 14,545.53	-0.84* (rounding)

(iii) On 01/05/2011			
Leased Equipment under Capital Lease	Dr.	3,64,000.00	
Lease Liability	Cr.		3,64,000.00
Lease Liability	Dr.	84,910.60	
Cash	Cr.		84,910.60
On 31/12/2011			
Interest Expense	Dr.	18,605.96	
Interest Payable	Cr.		18,605.96
[Tk. $27,908.94 \times 8/12 = 18,605.96$]			
Depreciation Expense	Dr.	24,266.68	
Accumulated Depreciation-Capital Lease	Cr.		24,266.68
[Tk. $3,64,000.00/10 = 36,400.00$, $36,400.00 \times 8/12 = 24,266.68$]			
On 01/05/2012			
Lease Liability	Dr.	57,001.66	
Interest Payable	Dr.	18,605.96	
Interest Expense	Dr.	9,302.98	
Cash	Cr.		84,910.60
On 31/12/2012			
Interest Expense	Dr.	14,805.85	
Interest Payable	Cr.		14,805.85
[Tk. $22,208.77 \times 8/12 = 14,805.85$]			
Depreciation Expense	Dr.	36,400.00	
Accumulated Depreciation-Capital Lease	Cr.		36,400.00
[Tk. $3,64,000.00/10 = 36,400.00$]			

Solution to the Q. No. 2

3	Workings:	Taka	Taka
(i)	Combined inventories at cost on 1 January 2016		
	Home Office		200,000
	Branch	90,000	
	Less: Provision for unrealized profit (25/125x90,000)	(18,000)	72,000
			272,000
(ii)	Combined inventories at cost on 31 December 2016		
	Home Office		104,000
	Branch	62,000	
	Less: Provision for unrealized profit (25/125x62,000)	(12,400)	49,600
			153,600
	Reconciliation of Branch A/C and Home Office A/C balance		
	Balance of Branch A/C as per Home Office books		600,000
	Less: Branch's share of Home Office expenses not entered in Branch Books	240,000	
	Remittance in transit from bank	120,000	
	Remittance in transit from Home Office	60,000	420,000
	Balance of Home Office A/C as per Branch Books		180,000

**Barnali Corporation
Income Statement**

	Home Office(Tk.)	Branch (Tk.)	Combines (Tk.)
Sales	2,010,000	3,100,000	5,110,000
Shipment to Branch	2,090,000	-	-
	4,100,000	3,100,000	5,110,000
Less: Cost of Goods sold			-
Inventories on January 1, 2016	200,000	90,000	272,000
Purchase	2,300,000	-	2,300,000
Shipment from Home Office	-	2,090,000	-
	2,500,000	2,180,000	2,572,000
Inventories on December 31, 2016	(104,000)	(62,000)	(153,600)
	2,396,000	2,118,000	2,418,400
Gross Profit	1,704,000	982,000	2,691,600
Less: Expenses	304,000	124,000	428,000
Share of Home Office Expenses	-	240,000	240,000
	304,000	364,000	668,000
Net Profit	1,400,000	618,000	2,023,600
			-

Solution to the Q. No. 3

(i)

Pretax financial income	Taka 100,000
Permanent differences:	
Fine for pollution	3,500
Tax exempt interest	(1,400)
Originating temporary differences:	
Excess warranty expense per books (Tk. 5,000- Tk. 2,000)	3,000
Excess construction profit per books (Tk. 92,000- Tk. 62,000)	(30,000)
Excess depreciation per tax (Tk. 80,000- Tk. 60,000)	(20,000)
Taxable income	<u>55,100</u>

(ii)

Temporary Difference	Future taxable (Deductible) Amount	Tax Rate	deferred Tax	
			Asset	Liability
Warranty Costs	Taka (3,000)	40%	Taka (1,200)	
Construction profits	30,000	40%		12,000
Depreciation	20,000	40%		8,000
Totals	Taka 47,000		Taka (1,200)	20,000

Because of a flat tax rate, these totals can be reconciled:

$$\text{Taka } 47,000 \times 40\% = \text{Taka } (1,200) + \text{Taka } 20,000 = \text{Taka } 18,800.$$

(iii)

Income Tax Expense	40,840	Taka	Taka
Deferred Tax Asset	1,200		
Deferred Tax Liability			20,000
Income Tax payable			22,040
Taxable income for 2015 [Answer part (a)]			55,100
Tax Rate			<u>40%</u>
Income tax payable for 2015			<u>22,040</u>
Deferred tax liability at the end of 2015 [Part (b)]			20,000
Deferred tax liability at the beginning of 2015			<u>0</u>
Deferred tax expense for 2015			20,000

Deferred tax asset at the end of 2015	1,200	
Deferred tax asset at the beginning of 2015	<u>0</u>	(1,200)
Deferred tax expense for 2015	20,000	
Deferred tax benefit for 2015	<u>(1,200)</u>	
Net deferred tax expense for 2015		18,800
Current tax expense for 2015 (Income tax payable)	22,040	
Deferred tax expense for 2015	<u>18,800</u>	
Income tax expense for 2015		40840
 (iv)		
Income before income taxes		100,000
Income tax expense		
Current	22,040	
Deferred	<u>18,800</u>	<u>40,840</u>
Net income		<u>59,160</u>

Solution to the question No. 4:

(a)

XYZ Gas Co. Ltd. Journal Entry					
Date	Particulars		Ref.	Debit	Credit
	New Works	Dr.	W-1	1176,000	
	Replacement	Dr.	W-2	1134,000	
	Bank	Cr.			2310,000
	New Work	Dr.	W-2	90,000	
	Replacement	Cr.			90,000
	Bank	Dr.	W-3	180,000	
	Replacement	Cr.			180,000
	Revenue (W-3)	Dr.	W-3	864,000	
	Replacement	Cr.			864,000

Workings 1: Calculation of estimated current of replacing old plant

Elements of Cost	Ratio	Cost of Existing Plant	Increased Percentage of Cost	Current Cost
Materials	3/5	540,000	30%	702,000
Labor	2/5	360,000	20%	432,000
Total		900,000		1134,000

Workings 2: Amount to be capitalized

Cost of building new plant (cash)	2310,000
(+) Value of materials used from old plant	90,000
	2400,000
(-) Estimated current cost of replacing old plant (W-1)	1134,000
Total	1266,000
Out of Taka 1266,000, cash expenditure is Taka 1266,000 - 90,000	1176,000

Workings 3: Amount chargeable to revenue account

Estimated current cost of replacing old plant (W-1)	1134,000
(-) Sale of old materials	(180,000)
(-) Value of materials used in the plant	(90,000)
Total	864,000

(b)

Profit for the year = 45,000- 2,000 = Taka 43,000

Retained earnings brought forward = 350,000-5,000 = Taka 3, 45,000

Plant at NBV = 250,000-30,000-5,000-2,000= Taka 213,000

Solution to the question No. 5:

**XYZ Club
Cash Book**

Date	Particulars	Taka	Date	Particulars	Taka
	Balance b/f	2,090		Purchase of provisions	59,400
	Subscriptions			Salaries	36,000
	2015 (5*100)	500		Stationary and postage	2,000
	2016 (480*100)	48,000		Repairs	3,600
	2017 (10*100)	1,000		Miscellaneous expenses	3,400
	Sales (W-2)	600,000		Bank (deposit)	415,780
				Defalcation	127,050
				Balance c/d	4,360
		651,590			651,590

**Social Club
Income and Expenditure Account
For the Year Ended 31.12.2016**

Particulars	Taka	Particulars	Taka
Opening stock of provision	25,000	Sale of provisions (W-2)	600,000
Purchase of provisions (W-1)	363,400	Closing stock of provisions	28,400
Salaries (W-3)	142500	Subscription (500*100) (W-6)	50,000
Stationary, postage and printing (W-4)	4,100		
Repairs (W-5)	22,200		
Rent and rates	60,000		
Light and power including outstanding(1600)	21,600		
Telephone including outstanding(600)	3,500		
Bad debts (5*100)	500		
Miscellaneous expenses	3,400		
Depreciation (60,000@20%)	12,000		
Excess of income over expenditure	20,200		
	678,400		678,400

**Social Club
Balance Sheet
As at 31.12.2016**

Particulars	Taka	Particulars	Taka
Capital fund		Furniture and equipment	
Opening balance	120,490	At cost	60,000
(+) Excess of income over expenditure	20,200	(-) A/D	42,000
	140,690		18,000
		Closing stock of provisions	28,400
Sundry Creditors		Subscription due	
For provisions	64,600	2015- (2000-500-500)	1,000

For others (W-7)	4,300		2016-(W-6)	1,000
		68,900	Defalcation	127,050
			Balance at Bank	30,780
Subscription in advance (10*100)	1,000		Cash in hand	4,360
	210,590			210,590

Workings:

Workings 1: Creditors for Provisions Account

Date	Particulars	Taka	Date	Particulars	Taka
	Bank	260,000		Balance b/f	20,600
	Balance c/d (unpaid bills)	64,600		Purchase (balancing figure)	304,000
		324,600			324,600
Total purchases of provisions :					
	Cash purchase				59,400
	Credit purchases				304,000
					363,400

Workings 2: Sales		Taka	Workings 3: Salaries		Taka
	Opening stock of provision	25,000		Cash	36,000
	(+) Purchase	363,400		Bank	106,500
		388,400			142,500
	(-) Closing stock of provision	28,400			
	Cost of goods sold	360,000			
	Sales (360,000*(100/60))	600,000			
Workings 4: Stationary, postage and printing			Workings 5 : Repairs		
	Cash	2,000		Cash	3,600
	Outstanding	2,100		Bank	18,600
		4,100			22,200
Workings 7 : Outstanding expenses (Others)					
	Electric Bills	1,600			
	Printing and stationary	2,100			
	Telephone	600			
		4,300			

Workings 6: Subscriptions account							
Date	Particulars	No	Taka		Particulars	No	Taka
	Balance b/f	20	2,000		Balance b/d	10	1,000
	Income and Expenditure	500	50,000		Cash (current)	480	48,000
	Balance c/d (advance)	10	1,000		Cash (2015)	5	500
					Cash (2017)	10	1,000
					Income & Expenditure	5	500
					Balance c/d		
					2015	10	1,000
					2016	10	1,000
		530	53,000			530	53,000

= THE END =