CMA DECEMBER, 2020 EXAMINATION
PROFESSIONAL LEVEL-I
SUBJECT: 101. INTERMEDIATE FINANCIAL ACCOUNTING

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) H Company uses an imprest petty cash system. The fund was established on March 1 with a balance of $100. During March, the following petty cash receipts were found in the petty cash box.

Date	Receipt No.	For	Amount
March 5	1	Stamp Inventory	$39
7	2	Freight-Out	21
9	3	Miscellaneous Expense	6
11	4	Travel Expense	24
14	5	Miscellaneous Expense	5

The fund was replenished on March 15 when the fund contained $2 in cash. On March 20, the amount in the fund was increased to $175.

Required:
Journalize the entries in March that pertain to the operation of the petty cash fund.

(b) AB Company has recorded the following items in its financial records.

Cash in bank	$ 42,000
Cash in plant expansion fund	100,000
Cash on hand	12,000
Highly liquid investments	34,000
Petty cash	500
Receivables from customers	89,000
Stock investments	61,000

The highly liquid investments had maturities of 3 months or less when they were purchased. The stock investments will be sold in the next 6 to 12 months. The plant expansion project will begin in 3 years.

Required:
What amount should AB report as "Cash and cash equivalents" on its balance sheet?

(c) The bank portion of the bank reconciliation for Phillips Company at October 31, 2014, was as follows.

PHILLIPS COMPANY
Bank Reconciliation
October 31, 2014

Cash balance per bank		$6,000
Add: Deposits in transit		842
		6,842
Less: Outstanding cheques		
Cheque Number	Cheque Amount	
2451	$700	
2470	396	
2471	464	
2472	270	
2474	578	2,408
Adjusted cash balance per bank		$4,434

Q. No. 1(cont'd...)

The adjusted cash balance per bank agreed with the cash balance per books at October 31. The November bank statement showed the following cheques and deposits:

Bank Statement

Cheques			Deposit	
Date	**Number**	**Amount**	**Date**	**Amount**
11-1	2470	$ 396	11-1	$ 842
11-2	2471	464	11-4	666
11-5	2474	578	11-8	545
11-4	2475	903	11-13	1,416
11-8	2476	1,556	11-18	810
11-10	2477	330	11-21	1,624
11-15	2479	980	11-25	1,412
11-18	2480	714	11-28	908
11-27	2481	382	11-30	652
11-30	2483	317		Total $8,875
11-29	2486	495		
		Total $7,115		

The cash records per books for November showed the following.

Cash Payments Journal

Date	Number	Amount	Date	Number	Amount
11-1	2475	$ 903	11-20	2483	$ 317
11-2	2476	1,556	11-22	2484	460
11-2	2477	330	11-23	2485	525
11-4	2478	300	11-24	2486	495
11-8	2479	890	11-29	2487	210
11-10	2480	714	11-30	2488	635
11-15	2481	382	11-18	2482	350
					Total $8,067

Cash Receipts Journal

Date	Amount
11-3	$ 666
11-7	545
11-12	1,416
11-17	810
11-20	1,642
11-24	1,412
11-27	908
11-29	652
11-30	2,541
Total	$10,592

The bank statement contained two bank memoranda:

(1) A credit of $2,375 for the collection of a $2,300 note for Phillips Company plus interest of $91 and less a collection fee of $16. Phillips Company has not accrued any interest on the note.

(2) A debit for the printing of additional company checks $34.

At November 30, the cash balance per books was $5,958, and the cash balance per the bank statement was $9,100. The bank did not make any errors, but two errors were made by Phillips Company.

Required

(i) Prepare a bank reconciliation statement at November 30.

(ii) Prepare the adjusting entries based on the reconciliation.

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

Q. No. 2

(a) During the year ended 30 September 2016, K Ltd produced 10,000 widgets, compared to a normal production level of 12,000 widgets. 1,000 finished widgets were held at the year end. Production costs incurred for the year were as follows.

	Taka
Raw materials	100,000
Direct labour	50,000
Variable overheads	40,000
Fixed overheads	120,000

In accordance with IAS 2 Inventories, what is the value of KLtd's finished goods at 30 September 2016?

(b) W Ltd commenced business on 1 June 2014 manufacturing a single type of widget, which had a selling price throughout that year of Taka 45. During the year the company made 10,000 widgets and incurred the following costs.

	Taka
Materials	150,000
Labour	75,000
Variable production overheads	50,000
Fixed production overheads	37,500
Administrative, selling and distribution costs	40,000

Towards the end of W Ltd's first year of trading, market conditions deteriorated and the company was left with 3,000 finished widgets in inventory at its year end. These widgets can be sold for Taka 35 each but only after incurring Taka 6 per unit selling costs. In accordance with IAS 2 Inventories, what was W Ltd's net profit for the year ended 30 June 2015?

(c) Newcastle Ltd has the following units in inventory at the end of 2015.

	Units	**Cost per unit**
Raw materials	7,000	20
Work in progress	2,500	25
Finished goods	1,000	30

Finished items usually sell for Taka 35 per unit. However, difficult trading conditions have meant that the company expects to have to discount its finished items by 20% and to incur selling costs of Taka 2 per item. A further Taka 2.50 per unit is still to be incurred to finish off the items of work in progress. In accordance with IAS 2 Inventories, at what amount should inventories be stated in the balance sheet of Newcastle Ltd as at the end of 2016?

(d) T Ltd commenced business on 1 October 2015. During its first year of trading the company produced 10,000 widgets, compared to an anticipated normal production level of 15,000 widgets. At 30 September 2016 there were 1,000 finished widgets in closing inventory. Production costs incurred for the year were as follows.

	Taka
Raw materials	100,000
Direct labour	50,000
Variable overheads	40,000
Fixed overheads	120,000

In accordance with IAS 2 Inventories, how much of the above costs will be carried forward in inventory at 30 September 2016 and how much will have been recognised in the income statement for the year ended 30 September 2016?

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

Q. No. 3

(a) B Company exchanged equipment used in its manufacturing operations plus Tk. 2,000 in cash for similar equipment used in the operations of N Company. The following information pertains to the exchange:

	B Company	N Company
Equipment (cost)	Tk. 28000	Tk. 28000
Accumulated depreciation	19000	10000
Fair value of equipment	13500	15500
Cash given up	2000	

Required:

(i) Prepare the journal entries to record the exchange on the books of both companies. Assume that the exchange has commercial substance.

(ii) Prepare the journal entries to record the exchange on the books of both companies. Assume that the exchange lacks commercial substance.

(b) ABC Furniture Company started construction of a combination office and warehouse building for its own use at an estimated cost of Tk. 5,000,000 on January 1, 2015. ABC expected to complete the building by December 31, 2016. ABC has the following debt obligations outstanding during the construction period:

Construction loan—12% interest payable semi-annually, issued December 31, 2014	Tk. 2,000,000
Short-term loan—10% interest, payable monthly, and principal payable at maturity on May 30, 2016	Tk. 1,600,000
Long-term loan—11% interest, payable on January 1 of each year. Principal payable on January 1, 2019	Tk. 1,000,000

Required:

(i) Assume that ABC completed the office and warehouse building on December 31, 2015, as planned at a total cost of Tk. 5,200,000, and the weighted average of accumulated expenditures was Tk. 3,800,000. Compute the avoidable interest on this project.

(ii) Compute the depreciation expense for the year ended December 31,2016. ABC elected to depreciate the buildings on a straight line basis and determined that the asset has a useful life of 30 years and a residual value of Taka 300,000.

(c) You purchase an automobile from H Auto for Taka 30,000 on January 2, 2014. H estimates the assurance-type warranty costs on the automobile to be Taka 700 (H will pay for repairs for the first 36,000 miles or three years, whichever comes first). You also purchase for Taka 900 a service-type warranty for an additional three years or 36,000 miles. H incurs warranty costs related to the assurance-type warranty of Taka 500 in 2014 and Taka 200 in 2015. H records revenue on the service-type warranty on a straight-line basis.

Required:

What entries should H make in 2014 and 2017?

[Marks: (10+6+4) = 20]

Q. No. 4

(a) What are the reasons that a company gives trade discounts? Why are trade discounts not recorded in the accounts like cash discounts?

(b) Yeasin Arafat conducts a wholesale merchandising business that sells approximately 5,000 items per month with a total monthly average sales value of Tk.250,000. Its annual bad debt rate has been approximately 1½% of sales. In recent discussions with his bookkeeper, Mr. Arafat has become confused by all the alternatives apparently available in handling the Allowance for Doubtful Accounts balance. The following information has been presented to Arafat.

Q. No. 4(cont'd...)

(1) An allowance can be set up (a) on the basis of a percentage of sales or (b) on the basis of a valuation of all past due or otherwise questionable accounts receivable. Those considered uncollectible can be charged to such allowance at the close of the accounting period, or specific items can be charged off directly against (1) Gross Sales or to (2) Bad Debt Expense in the year in which they are determined to be uncollectible.

(2) Collection agency and legal fees, and so on, incurred in connection with the attempted recovery of bad debts can be charged to (a) Bad Debt Expense, (b) Allowance for Doubtful Accounts, (c) Legal Expense, or (d) Administrative Expense.

(3) Debts previously written off in whole or in part but currently recovered can be credited to (a) Other Revenue, (b) Bad Debt Expense, or (c) Allowance for Doubtful Accounts.

Required:

Which of the foregoing methods would you recommend to Mr. Arafat in regard to (1) allowances and charge-offs, (2) collection expenses, and (3) recoveries? State briefly and clearly the reasons supporting your recommendations.

[Marks: (5+15) = 20]

Q. No. 5

On January 1, 20X7, AZN Holdings Ltd. (AZN) purchased 20% of the outstanding ordinary shares of MOON Developments Inc. (MOON) for Tk.400,000, of which Tk.100,000 was paid in cash and Tk.300,000 is payable without interest on December 31, 20X9. AZN's incremental borrowing rate at the time of the purchase was 8%. AZN also paid Tk.20,000 to a business broker who helped to find a suitable business and negotiated the purchase.
At the time of the acquisition, the fair values of MOON's identifiable assets and liabilities were equal to their carrying values except for an office building, which had a fair value in excess of book value of Tk.200,000 and an estimated remaining useful life of 20 years. MOON's shareholders' equity on January 1, 20X7, was Tk.1,300,000.

During 20X7, MOON reported a profit of Tk.250,000 and paid dividends of Tk.100,000.

Required:

(i) What factor(s) should be considered in determining whether AZN should classify the investment as an investment in an associate versus an available-for-sale investment? Assuming the investment is classified as an investment in an associate, what method of accounting should AZN use to report its investment in MOON?

(ii) Prepare the journal entry to record AZN's investment in MOON on January 1, 20X7, and any year-end journal entries related to the loan payable.

(iii) Prepare all other journal entries related to the investment in MOON for 20X7 under the:

(a) Cost Method (b) Equity Method

(iv) What is the balance in the Investment in MOON account at December 31, 20X7, under the:
(a) Cost Method (b) Equity Method

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

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