

FINANCIAL ACCOUNTING & REPORTING

July-August 2024

Time allowed- 3:30 hours

Total marks- 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

- | | Marks |
|---|-------|
| <p>1. a) Your supervisor has put you in charge of a project which when you considered it carefully requires expertise that you do not have. You are uneasy about doing the job given that you do not have the necessary expertise and are uncertain about what to say to your supervisor.</p> <p>Requirement:
Being a professional accountant, what could be the possible course of action in dealing this situation?</p> | 6 |
| <p>b) Recently, ISSB issued first two IFRS Sustainability Disclosure Standards:</p> <ul style="list-style-type: none"> • IFRS S1: General Requirements for Disclosure of Sustainability related financial information. • IFRS S2: Climate related disclosure. <p>Requirement:
Identify with example a user group of financial statements and explain why sustainability related disclosures can be useful to them.</p> | 6 |
| <p>2. BD Power Limited which manufactures portable power generators has just finished its year end at 30 June 2024. The finance manager is preparing draft financial statements – separate and consolidated for the upcoming audit. There are still few outstanding accounting issues which need to be resolved before finalisation of the financial statements. As per draft financial statements - Profit for the year was BDT 15,72,400 and Non-current assets BDT was 19,690,000</p> <p><u>Financial reporting issues:</u></p> <p>a) BD Power sold a generator, which was manufactured to the customer's specification, for BDT 1.6 million on an interest-free credit basis. The battery was delivered to the customer on 1 July 2023 and the customer initially paid a deposit of BDT 400,000 on that date. The remaining balance will be paid on 30 June 2025. The discount rate has been assessed as 7% pa. The finance manager recognised the full amount of BDT 1.6 million, payable by the customer, as revenue for the year-ended 30 June 2024. The deposit of BDT 400,000 was debited to cash and the remaining balance of BDT 1.2 million was recognised as a trade receivable.</p> <p>b) BD Power Limited and two other unrelated companies entered into an agreement on 1 July 2023 to each subscribe for 40,000 ordinary shares of BDT 10 per share at par in Alpha Engineering Limited, a newly- incorporated company with 120,000 ordinary shares of BDT 10 per share. The three investing entities in Alpha Engineering are entitled to an equal share of its profits and losses. A contractual agreement was set up at the time of subscribing for the shares which includes a statement that unanimous consent is required by all three investors for all key operational decisions.</p> <p>For the year ended 30 June 2024, Alpha Engineering reported a profit for the year of BDT 480,000 and paid a dividend of BDT 1.5 per share on 1 June 2024.</p> <p>BD Power recognised the cash investment in current assets. The dividend income received from Alpha Engineering was recognised in cash and as part of profit for the year.</p> <p>c) BD Power purchased a large solar energy storage plant for BDT 8.4 million in cash (including land with a carrying amount of BDT 2.4 million) on 1 October 2023. The solar storage plant has an estimated useful life of 25 years and is being depreciated on a straight-line basis.</p> <p>BD Power subsequently applied for a government grant of BDT 2 million towards the cost of the solar storage plant and this cash was received on 1 January 2024. As there are no conditions attached to the grant, the finance manager credited the full BDT 2 million to other income. Depreciation was recognised during the period based on the full cost of the solar storage plant. However, from reading the accounting manual of BD Power, it is noted that BD Power's accounting policy, in relation to government grants, is to use the netting-off method.</p> <p>Requirements:
Explain the required IFRS financial reporting treatment of the issues (a) to (c) above in the financial statements for the year ended 30 June 2024 preparing relevant calculations.</p> | |

5x3=15

3. The abridged statements of financial position and income statements of Dhaka Limited and its foreign subsidiary Lanka Limited appear below:

Draft Statement of Financial Position as at 31 December 2023

	Dhaka Limited		Lanka Limited	
	Tk.	Tk.	Rs.	Rs.
ASSETS				
Non-current assets				
Plant at cost	600,000		500,000	
Depreciation	<u>(250,000)</u>		<u>(200,000)</u>	
		350,000		300,000
Investment in Lanka Limited (1000 shares @ Tk. 25 per share)		<u>25,000</u>		<u>-</u>
		375,000		300,000
Current assets				
Inventories	225,000		200,000	
Receivables	<u>150,000</u>		<u>100,000</u>	
		375,000		300,000
		<u>750,000</u>		<u>600,000</u>
EQUITY AND LIABILITIES				
Equity				
Ordinary shares (Tk. 100/Rs. 100)	300,000		100,000	
Retained earnings	<u>300,000</u>		<u>280,000</u>	
		600,000		380,000
Long-term loans		50,000		110,000
Current liabilities		<u>100,000</u>		<u>110,000</u>
		<u>750,000</u>		<u>600,000</u>
Income statement for the year ended 31 December 2023		Dhaka Limited	Lanka Limited	
		Tk.	Rs.	
Profit before tax		200,000	160,000	
Tax		<u>(100,000)</u>	<u>(80,000)</u>	
		<u>100,000</u>	<u>80,000</u>	

The following further information is given:

- Dhaka Limited has had its interest in Lanka Limited since the incorporation of the company
- Depreciation is 8% per annum on cost
- The equity value of Lanka Limited at 31 December 2022 was Rs. 300,000
- There have been no loan repayments or movements in non-current assets during the year. The opening inventory of Lanka Limited was Rs. 120,000. Assume that inventory turnover times are very short.
- Exchange rates:
 - Rs. 4 to Tk. 1 when Lanka Limited was incorporated
 - Rs. 2.5 to Tk. 1 when Lanka Limited acquired its long term assets
 - Rs. 2 to Tk. 1 on 31 December 2022
 - Rs. 1.6 to Tk. 1 average rate of exchange year ending 31 December 2023
 - Rs. 1 to Tk. 1 on 31 December 2023.

Requirements:

- Prepare the summarized consolidated income statement and statement of financial position of Dhaka Limited using the Tk. as the presentation currency. 12
- Calculate the exchange difference and prepare a separate statement of comprehensive income showing other comprehensive income. 6

4. a) Proma Ltd has the following non-current assets at 1 January 2023.

	Cost Tk'000	Accumulated depreciation Tk'000	Carrying amount Tk'000
Freehold factory	1,440	144	1,296
Plant and equipment	1,968	257	1,711
Motor vehicles	449	194	255
Office equipment and fixtures	888	583	305
	<u>4,745</u>	<u>1,178</u>	<u>3,567</u>

You are given the following information for the year ended 31 December 2023.

- (1) The factory was acquired on 1 January 2018 and is being depreciated over 50 years.
- (2) Depreciation is provided on cost on a straight-line basis. The rates used are 20% for fixtures and fittings, 25% for cars and 10% for equipment.
- (3) On 1 January 2023 the factory was revalued to an open market value of Tk 2.2mn and an extension costing Tk 500,000 became available for use.
- (4) The directors decided to change the method of depreciating motor vehicles to 30% reducing balance to give a more relevant presentation of the results and of the financial position.
- (5) Two cars costing Tk 17,500 each were bought on 1 January 2023. Plant and fittings for the factory extension cost Tk 75,000 and Tk 22,000 respectively.
- (6) When reviewing the expected lives of its non-current assets, the directors felt that it was necessary to reduce the remaining life of a two year old grinding machine to four years when it is expected to be sold for Tk 8,000 as scrap. The machine originally cost Tk 298,000 and at 1 January 2023 had related accumulated depreciation of Tk 58,000.

Requirements:

- i) Prepare the disclosure notes for property, plant and equipment for the year ended 31 December 2023 required by the IFRSs. 5
 - ii) Briefly explain the qualitative characteristics of financial information contained in IFRS Framework illustrating your answer with references to the provisions of BAS 16 Property, Plant and Equipment. 5
- b) A production line results in two outputs, Product 1 and Product 2. Parts of the production process give rise to indirect costs specifically identifiable with only one of these products, although other costs are not separately identifiable.

	Product 1 Tk.	Product 2 Tk.	Total Tk.
Direct costs	140,000	160,000	300,000
Indirect product overheads			
Identifiable	37,000	45,000	82,000
Others			50,000
Budgeted output in units	690	900	1,590

The entity has a policy which allocates indirect costs which are not specifically identifiable to an individual product by reference to relative selling prices. This results in 60% being allocated to Product 1 and 40% to Product 2.

During the month, costs were incurred in line with the budget, but due to a temporary defects in the manufacturing process, only 675 units of Product 2 could be taken into inventory. The remaining had to be scrapped, for zero proceeds.

Requirement:

Calculate the amount to be recognized as inventory and the amount to be recognized as an expense in profit or loss for Product 1 and Product 2. 8

5. You are working in a reputable CA firm provide assurances & advisory services. Following are the case referred to you by your Partner for your expert professional advice/guidelines:
- One of the Multinational Companies wish to set up operation in Bangladesh under separate legal entity to be formed with the Bangladesh Regulator/Registration Body. Given their business plan, the entity will be SME. They have reached out to your Partner to be apprised with reporting requirement applicable for SME. FRC have recently issued circular requiring SME to follow the IFRS for SMEs Accounting Standard. SMEs Accounting Standard reflects five types of simplifications/exemption from full IFRS Accounting Standards. What are those five types of exemption/simplifications?
 - The source of production of renewable electricity is nature-dependent so that supply cannot be guaranteed at specified times or for specified volumes. Examples of such sources of production include wind, sun and water. Further that contract exposes the purchaser to substantially all the volume risk under the contract through 'pay-as-produced' features. Volume risk is the risk that the volume of electricity produced does not align with the purchaser's demand for electricity at the time of production. A reporting entity that is a party to contracts for renewable electricity (that have the characteristics as mentioned in foregoing sentences shall disclose information that enables users of financial statements to understand how these contracts affect the amount, timing and uncertainty of the entity's future cash flows. What are those disclosure?
6. Pharma Life Plc had several insignificant equity investments on 1 January 2023 that do not have a quoted price and are therefore carried at cost. During this financial year, Pharma Life purchased a subsidiary company, Pure Chemicals Limited and also made a significant investment in Minerals Limited during the year which has become an associate of the Pharma Life.

The financial position of Pharma Life and Pure Chemicals are shown below at 31 December 2023:

[All BDT amounts in the financial position and additional information below are in '000]

	Pharma Life BDT	Pure Chemicals BDT
ASSETS		
Non-current assets		
- Property, plant and equipment	2,325,600	642,780
- Investments	1,549,000	-
	<u>3,874,600</u>	<u>642,780</u>
Current assets		
- Inventories	1,047,200	797,000
- Trade and other receivables	803,720	407,300
- Cash and cash equivalents	105,200	2,200
	<u>1,956,120</u>	<u>1,206,500</u>
Total assets	<u>5,830,720</u>	<u>1,849,280</u>
EQUITY AND LIABILITIES		
Equity		
- Ordinary share capital (BDT 10 per share)	1,200,000	400,000
- Share premium account	200,000	100,000
- Retained earnings	3,552,520	1,005,080
	<u>4,952,520</u>	<u>1,505,080</u>
Current Liabilities		
- Trade and other payables	770,400	297,000
- Tax payable	107,800	47,200
	<u>878,200</u>	<u>344,200</u>
Total equity and liability	<u>5,830,720</u>	<u>1,849,280</u>

Additional information [all BDT amounts are in '000]

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- (1) Pharma Life purchased 80% of the ordinary shares of Pure Chemicals on 1 July 2023 when the retained earnings of Pure Chemicals were BDT 808,000. The consideration was made up of cash of BDT 1,300,000 paid on 1 July 2023 and a further cash payment of BDT 294,000, deferred until 1 July 2024. No accounting entries were made in respect of the deferred cash payment. An appropriate discount rate is 5% per annum. Pharma Life has chosen to measure the non-controlling interest in Pure Chemicals using the fair value (market value) method.

The fair values of the identifiable assets acquired and liabilities assumed at 1 July 2023 were equal to their carrying amounts, with the exception of a plant which had a fair value BDT 120,000 in excess of its carrying amount. This plant had a six-year remaining useful life on 1 July 2023.

The fair value (market value) of the non-controlling interests on 1 July 2023 was estimated at BDT 300,000.

- (2) In December 2023, Pure Chemicals sold goods to Pharma Life for BDT 32,000. Pharma Life still held half of these goods in its inventories on 31 December 2023. Pure Chemicals marks up all goods by 25%. On 31 December 2023, Pure Chemicals' trade receivables still included the BDT 32,000 due from Pharma Life. However, Pharma Life's trade payables only included BDT 22,000 in respect of this transaction, as it had made payment of BDT 10,000 to Pure Chemicals on 31 December 2023.

- (3) On 1 January 2023, Pharma Life purchased 30% of the ordinary shares in Minerals Limited for cash of BDT 241,000, which gave Pharma Life significant influence over Minerals Limited. At that date, a property owned by Minerals Limited had a fair value BDT 100,000 in excess of its carrying amount. This property had a remaining useful life of 20 years on 1 January 2023.

Minerals Limited made a profit of BDT 113,600 in the year ended 31 December 2023 and paid an interim dividend of BDT 40,000 on 1 November 2023 to its shareholders. Pharma Life debited its share of dividend received to cash and credit it to investments.

Requirements:

- | | |
|--|----|
| a) Draft the consolidated statement of financial position of Pharma Life Plc as at 31 December 2023. (Figures would be in BDT'000) | 20 |
| b) Calculate Pharma Life's distributable profit at 31 December 2023 with explanation based on the information given above. (Figures would be in BDT'000) | 5 |

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