

FINANCIAL ACCOUNTING & REPORTING

July-August 2025

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

1. a) Lotus Ltd. is a newly formed company, which uses a chemical process to manufacture a revolutionary new roof covering, which it sells at a markup of 25% on cost. Its inventories consist of raw material, work in progress and finished goods, and at the end of its first year of trading it is having problems valuing inventories.

You ascertain the following information.

1) Raw material

- (i) The process needs at least 100,000 kgs of clay to continue working, but a physical inventory count reveals that the machinery contains 108,000 kgs.
- (ii) The original cost of the initial 100,000 kgs to set up the process was 30p per kg and you find an invoice to show that the last consignment of 20,000 kgs cost 31p per kg. All other consignments in the year (a total of 200,000 kgs) cost 32p per kg.

2) Work in progress

- (i) The work in progress is currently all 60% complete and you discover that there are 50,000 units currently going through the process.
- (ii) The total number of complete units for the period was, as anticipated, 800,000.
- (iii) The costs for the process for the period were as follows.

	Tk'000
Raw materials	200
Direct labour	242
Factory overheads	191
Administrative expenses attributable to production	114
Distribution costs	90

3) Finished goods

- (i) There were 70,000 units in inventory.
- (ii) of (i) above, it was intended to sell 20,000 units at 75p per unit, a discount of one third on normal selling price, in a future promotional campaign (a further 10p per unit distribution cost is to be incurred).

Requirements:

- i) Explain how BAS 2 Inventories applies the accrual and the going concern bases of accounting. 3
- ii) For each of the above categories of inventory, suggest a method of valuation and show the value as it would appear in the balance sheet. 3
- iii) If the information regarding costs for the period were not available, suggest an alternative method of valuing finished goods. 3
- b) What is the PFM process? 3
- c) In Bangladesh Public Financial Management Systems – What are the Key Elements from a Financial Management Perspective 4

2. a) Rahman Ltd has constructed a power plant for a utility company. Under the terms of the contract Rahman Ltd must repair free of charge any faults that arise in the plant during its first five years of operation.

The best estimate of any repair is six days at Tk. 1,000,000, giving a total of Tk. 6,000,000. But there is a significant chance that the first repair attempt will not succeed and further repair attempts will need to be made.

Requirement:

Explain, in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets how should Rahman Ltd decide what amount should be accrued in the financial statements? 3

- b) Cosmo Ltd. is organized into several divisions. The following events relate to the year ended on 31 December 2024.
- i) The business technology division supplied a networked computer system to a customer during the year part of which exploded, causing a fire. Cosmo Ltd is being sued for damages. Lawyers have advised that there is a 30% chance of successfully defending the claim. Otherwise the damages are expected to cost Tk. 10 million (present value Tk. 9.5 million). The lawyers have investigated the cause of the problem with a team of accident consultants. They have concluded that parts supplied to the business technology division by Moon Ltd contributed to the fire. Lawyers have estimated that Moon Ltd.'s contributory negligence amounted to 40% of the total damages. Negotiations have started with Moon Ltd and the lawyers believe that a claim is likely to succeed.
 - ii) On 15 December 2024, the directors of Cosmo Ltd. minuted their decision to close the operations of the loss making medical technology division. The decision and an outline of a plan were immediately announced to employees and a press release was issued. The closure, which began on 4 January 2025, has an estimated date for completion, including the sale of the non-current assets of the division, of 30 June 2025. The costs associated with the closure include the following:

	Tk. '000
Employee redundancy costs	12,000
Lease termination costs	4,000
Relocating continuing staff to other divisions	3,000
Impairment losses	2,000
	<u>21,000</u>

- iii) Cosmo Ltd.'s retail division provides one-year standard warranties to its customers. Experience has shown that, on average, 10% of sales from this division result in a warranty claim. Revenue from this division in 2024 was Tk. 8 million. At January 1, 2024 Cosmo Ltd. had a warranty provision in place of Tk. 1 million. During the year claims of Tk. 600,000 were settled by the company.

Requirement:

Prepare the provisions and contingencies notes for the financial statements of Cosmo Ltd. for the year ended 31 December 2024.

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3. Paragon Company was formed on July 1, 2021. It was authorized to issue 300,000 shares of Tk 10 par value ordinary shares and 100,000 shares of 8% Tk. 25 par value, cumulative and non-participatory preference shares. Paragon Company has a July 1-June 30 fiscal year. The following information relates to the equity accounts of Paragon Company.

Ordinary Shares

Prior to the 2023-2024 fiscal year, Paragon Company had 110,000 ordinary shares outstanding issued as follows.

- a) 85,000 shares were issued for cash on July 1, 2021, at Tk. 31 per share.
- b) On July 24, 2021, 5,000 shares were exchanged for a plot of land which cost the seller Tk. 70,000 in 2015 and had an estimated fair value of Tk. 220,000 on July 24, 2021.
- c) 20,000 shares were issued on March 1, 2022, for Tk. 42 per share.

During the 2023-2024 fiscal year, the following transactions regarding ordinary shares took place.

November 30, 2023	Paragon purchased 2,000 of its own shares on the open market at Tk. 39 per share. Paragon uses the cost method for treasury shares.
December 5, 2023	Paragon declared a 5% share dividend for shareholders of record on January 15, 2023, to be issued on January 31, 2023. Paragon was having a liquidity problem and could not afford a cash dividend at the time. Paragon's ordinary shares were selling at Tk. 52 per share on December 15, 2023.
June 20, 2024	Paragon sold its own ordinary shares that it had purchased on November 30, 2023, for Tk. 21,000.

Preference Shares

Paragon issued 40,000 preference shares at Tk. 44 per share on July 1, 2022.

Cash Dividends

Paragon has followed a schedule of declaring cash dividends in December and June, with payment being made to shareholders of record in the following month. The cash dividends which have been declared since the inception of the company through June 30, 2024, are shown below.

Declaration Date	Ordinary Shares	Preference Shares
12/15/22	Tk. 0.30 per share	Tk. 1.00 per share
8/15/23	Tk. 0.30 per share	Tk. 1.00 per share
12/15/21	---	Tk. 1.00 per share

No cash dividends were declared during June 2024 due to the company's liquidity problems.

Retained Earnings

As of June 30, 2023, Paragon's retained earnings account had a balance of Tk. 690,000. For the fiscal year ending June 30, 2024, Paragon reported net income of Tk 40,000.

Requirement:

Prepare the equity section of the statement of financial position, including appropriate notes, for Paragon Company as of June 30, 2024, as it should appear in its annual report to the shareholders.

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4. A Company began operations at the beginning of 2024. The following information pertains to this company.

Pretax financial income for 2024 is Tk. 100,000.

The tax rates enacted for 2024 and future years is 40%.

Differences between the 2024 income statement and tax return are listed below:

- (i) Warranty expense accrued for financial reporting purposes amounts to Tk. 7,000. Warranty deductions per the tax return amount to Tk. 2,000.
- (ii) Income on construction contracts using the percentage-of-completion method per books amounts to Tk. 92,000. Income on construction contracts for tax purposes amounts to Tk. 67,000.
- (iii) Depreciation of property, plant, and equipment for financial reporting purposes amounts to Tk. 60,000. Depreciation of these assets amounts to Tk. 80,000 for the tax return.
- (iv) A Tk. 3,500 fine paid for violation of pollution laws was deducted in computing pretax financial income.
- (v) Interest revenue recognized on an investment in tax-exempt bonds amounts to Tk. 1,500. Taxable income is expected for the next few years.

Requirements:

- a) Compute taxable income for 2024. 5
 - b) Compute the deferred taxes at December 31, 2024, that relates to the temporary differences described above. Clearly label them as deferred tax asset or liability. 4
 - c) Prepare the journal entry to record income tax expense, deferred taxes, and income taxes payable for 2024. 3
 - d) Draft the income tax expense section of the income statement, beginning with "Income before income Taxes". 3
5. Pragati Limited has entered into the following transactions during the year ended 31 December 2024
- i) On 1 October 2024, Pragati Limited received Tk. 4,000,000 in advance subscription. The subscriptions are for 20 monthly issues of a magazine published by Pragati Limited. Three issues of the magazine had been dispatched by the year end. Each magazine is of the same value and cost approximately the same to produce.
 - ii) A batch of unseasoned timber, which had cost Tk. 2,500,000 was sold to BM Limited for Tk. 1,000,000 on 1 January 2024. Pragati Limited has an option to repurchase the timber in 10 years' time. The repurchase price will be Tk. 1,000,000 plus interest charges @ 8% per annum from January 2024 to the date of repurchase. The market value of the timber is expected to increase as it seasons.

- iii) Pragati Limited made a major sale on 1 January 2024 for a fee of Tk. 4,500,000 which related to a completed sale and after-sales support for three years. The cost of providing the after-sales support is estimated at Tk. 500,000 per annum, and the mark-up on similar after sales only contracts is 20% on cost.
- iv) The food division of Pragati Limited operates its retail outlets on a franchise basis. On 1 January 2024 a new outlet was opened, the franchisee paying a fee of Tk. 5,000,000 to cover the initial services. The franchise is for five years, and the franchisee will pay an additional fee of Tk. 600,000 commencing on 1 January 2024 to cover marketing, managerial and other support services provided by Pragati Limited during the franchise period. Pragati Limited has estimated that the cost of providing these services is Tk. 800,000 per annum, and has achieved a gross margin of 20% on providing similar services on other contracts.

Requirements:

- a) Prepare extracts from Pragati Limited's financial statements for the year ended 31 December 2024, clearly showing how each of the above would be reflected. Notes to the financial statements are not required. 10
- b) With reference to transaction (b) above explain the concept of 'substance over form'. 3
6. Dhaka Ltd bought 80% of the share capital of Khulna Ltd for Tk. 324,000 on 1 October 2021. At that date Khulna Ltd.'s retained earnings balance stood at Tk. 180,000. The statements of financial position at 30 September 2024 and the summarised statements of profit or loss for the year to that date are given below:

	Dhaka Ltd Tk.'000	Khulna Ltd. Tk.'000
Non-current assets	360	270
Investment in Khulna Ltd.	324	-
Current assets	370	370
	<u>1,054</u>	<u>640</u>
Equity		
Ordinary shares	540	180
Reserves	414	360
Current liabilities	100	100
	<u>1,054</u>	<u>640</u>
Profit before tax	153	126
Tax	(45)	(36)
Profit for the year	<u>108</u>	<u>90</u>

No entries have been made in the accounts for any of the following transactions. Assume that profits accrue evenly throughout the year.

It is the group's policy to value the non-controlling interests at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Requirements:

- a) Prepare the consolidated statement of financial position and statement of profit or loss at 30 September 2024 in each of the following circumstances:
- i) Dhaka Ltd sells its entire holding in Khulna Ltd for Tk. 650,000 on 30 September 2024 10
- ii) Dhaka Ltd sells one-quarter of its holding in Khulna Ltd for Tk. 160,000 on 30 September 2024. 8
- b) In the following circumstances you are required to calculate the gain on disposal, group retained earnings and carrying value of the retained investment at 30 September 2024:
- i) Dhaka Ltd sells one-half of its holding in Khulna Ltd for Tk. 340,000 on 30 June 2024, and the remaining holding (fair value Tk. 250,000) is to be dealt with as an associate. 3
- ii) Dhaka Ltd sells one-half of its holding in Khulna Ltd for Tk. 340,000 on 30 June 2024, and the remaining holding (fair value Tk. 250,000) is to be dealt with as a financial asset at fair value through other comprehensive income. 3

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