

FINANCIAL ACCOUNTING & REPORTING

March-April 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 |
|---|-------|
| 1. a) The process of setting IFRSs is an open dialogue involving co-operation between national and international standard setters - briefly outline the standard setting process. | 3 |
| b) Explain the circumstances in which non-compliance with the detailed provision of an accounting standard is justified. | 3 |
| c) Mint is a company that complies with the requirements of IAS 24 Related Party Disclosures. The following relationship have been identified: | |
| i) Toffee, which is a separate company, in which one of the Mint's junior managers own 10% of the share capital. | |
| ii) The daughter of the director of Mint. | |
| iii) A director Mint owns 60% of share capital of another company called Chocolate. | |
| iv) Ms. Butterscotch, owns 25% of the share capital of Mint. | |
| v) A director of Mint is also a director of Sugar (which is independent of Mint) but is not a shareholder in either company. | |
| vi) Cream is a company owned by the niece of the finance director of Mint. | |
| Requirement:
Identify and explain, which of the above are related party of Mint. | 6 |
| 2. The statement of financial position of BD Ltd as at 30 June 2023, including comparative figure, is given below: | |

	30-Jun-2023		30-Jun-2022	
	Tk.	Tk.	Tk.	Tk.
ASSETS				
Non-current assets				
Property, plant and equipment		333,000		311,000
Less: Depreciation		(70,000)		(69,000)
		<u>263,000</u>		<u>242,000</u>
Investment		50,000		-
		<u>313,000</u>		<u>242,000</u>
Current assets				
Inventories	12,000		11,000	
Trade and other receivables	29,000		27,000	
Cash and cash equivalents	<u>20,000</u>		<u>10,000</u>	
		<u>61,000</u>		<u>48,000</u>
Total assets		<u><u>374,000</u></u>		<u><u>290,000</u></u>
EQUITY AND LIABILITIES				
Equity				
Ordinary share capital (Tk. 1 per share)		95,000		50,000
Share premium		15,000		10,000
Revaluation surplus		12,000		12,000
Retained earnings		<u>149,000</u>		<u>115,000</u>
		<u>271,000</u>		<u>187,000</u>
Non-current liabilities				
Interest bearing borrowing (12% debenture)		50,000		60,000
Current liabilities				
Provisions	-		2,000	
Trade and other payables	27,000		19,000	
Tax liabilities	7,000		3,000	
Accruals	<u>19,000</u>		<u>19,000</u>	
		<u>53,000</u>		<u>43,000</u>
Total equity and liabilities		<u><u>374,000</u></u>		<u><u>290,000</u></u>

You are given the following information which is already reflected correctly in the accounts:

- i) During the year a bonus issue of 1 for 10 was made on the ordinary shares in issue at 30 June 2022, utilising available profit.
- ii) New shares were issued on 1 July 2022. Part of the proceeds was used to redeem Tk. 10,000 12% debentures at par.
- iii) During the year certain tangible non-current assets were disposed of for Tk. 20,000. The assets had originally cost Tk. 40,000 and had a net book value at the disposal date of Tk. 18,000.
- iv) Trade and other payables include Tk. 5,000 for 20Y relating to the non-current asset purchases.
- v) The income tax charge for the year is Tk. 7,000.

Requirement:

Prepare a statement of cash flows for the year ended 30 June 2023 and the note reconciling profit before tax with cash generated from operations.

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3. 100% share of Dhaka Trade Center Limited, owner of the building under the name of DTC situated at Baridhara area was sold to ABG Group by the Union Group at following terms:
 - a. ABG group has taken over the Bank liabilities on transaction date (date of share transfer) of Dhaka Trade Center with Mashrek Bank amounting to BDT 11000 Lac.
 - b. ABG Group has incurred BDT 125 lac as stamp duties, and RJSC fees etc. to execute the share transfer in its favour.
 - c. ABG group will complete the office decoration works on their own.
 - d. Building exterior uplift works also to be carried out by ABG in their own cost.
 - e. Entire shares (which paid up value is BDT 1000 lac & authorized capital is BDT 10000 lac) have been transferred to ABG Group. However, no consideration was paid to Union Group (except carrying over Bank Liabilities of BDT 11000 Lac)

The building area consists of 130,000 square feet of plinth area. There are two nos of underground parking. The building has been built with 12 floor of office space and a ground floor having reception and provision of Restaurants. The building is equipped with adequate fire safety arrangements. There are HVAC air-cooling system which costed above BDT 1840 Lac. There are 6 nos of Lift installed in the building. There are 24X7 generators back up which also cost BDT 3200 Lac. ABG Group turned 11th floor as Data Center for Fintech company (MFS), named POCKET with cost of BDT 11000 Lac. Further ABG group has decorated 12th Floor with exotic interiors & furniture for its MD and Chairman which costed BDT 1050 Lac. This BDT 1050 Lac was funded by EWLPD Ltd. EWLPD Ltd will use two floors each having 10,000 square feet. The prevailing rental rate in this area per square foot is BDT 100. However, Dhaka Trade Center agreed to charge them BDT 50 per square feet. Dhaka Trade Center Limited will allow other subsidiaries to use these buildings. They made a declaration among its sister-concerns that they will allow the users to set up their office at their own cost. And rental is to be charged at a rate of BDT 75 per square foot. Dhaka Trade Center Limited will use the 1st Floor for their own office.

ABG Group has calculated BDT 1000 lac as fair value of Net worth of Dhaka Trade Center Limited, the Balance Sheet of Dhaka Trade Center Limited state this as BDT – 130 lacs on transfer date.

While the Financial Statements of Dhaka Trade Centers Ltd was reviewed by the ABG Group Statutory Auditors, it reveals that there is intercompany loan (Z Gen Mobile Ltd) payable amounting to BDT 2700 Lac in the Books of Accounts and payable to other company owned by the previous owner (Union Group). While ABG Group discussed these with Union Group, the Owner of Union Group has made statement that no payments need to be paid off in this respect. And they will cooperate with ABG group on documentation needs (including No Claim Letter) in order to write off these liabilities in the Books of Accounts of Dhaka Trade Center.

Requirements:

- a) In reference to stated case above explain with example (i) Owner Occupied Properties (ii) Investment Property. 4
- b) Advise on method of accounting could be applied for each type of Properties (i) Owner Occupied Properties (ii) Investment Property with alternative methods, if there are any? 5
- c) Can a single building situated in the same land may be accounted separately based on usages or intention of owning of it, as explained in above case? 3
- d) Write down the journal entries to be passed in the Books of Union Group & ABG group to record the share transfer. 3
- e) Write down the journal entries to be passed in the Books of Z Gen Mobil Ltd & Dhaka Trade Center Ltd to write off the Intercompany Loan of BDT 2700 lac in all respects in the affected parties Books of Accounts with tax implications including Deferred Tax, if any 3

4. Following are the case referred to you by your supervisor for your expert professional advice/guidelines:

- a) Arrangements in the telecommunications industry, in which suppliers of network capacity enter contracts may or may not provide purchasers with rights to capacity. For example, Airtel Bangladesh Limited, a telecommunication company operating in Bangladesh under the Brand name of “Airtel” has arrangements with Huawei to setup base terminal station (BTS) network capacity to be dedicated for Airtel. Once built the network is integrated with others technical arrangements which among others include a Switch, Billing System, etc. to make it operative. However, Huawei will be required to maintain these networks under the Annual Maintenance Contract (AMC) against periodic payment though.

Requirement:

Please advise under which IFRS and IFRIC Guidelines, Airtel Bangladesh Limited requires to account for the financial consideration of above said arrangements? Further prepare short note of considerations in determining whether the aforesaid arrangements constitute “rights to capacity” for Airtel Bangladesh Limited

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- b) Macaroon has purchased a loan owing to GMac. The principal amount of the loan is BDT 100,000 and the interest rate charged is 15% p.a. The loan falls due on 31 December 2021. GMac had been struggling to recover the interest payments on the loan and therefore sold the loan to Macaroon (who is known for their effective debt collection strategies). Macaroon purchased this loan for its fair value of BDT 80,000 on 1 January 2023 (being the gross carrying amount of BDT100,000 less expected credit losses of BDT20,000). At 1 January 2018 Macaroon expected to recover BDT10,000 of the annual interest and 70% of the principal amount when it falls due. On 31 December, Macaroon did in fact receive an interest payment of BDT 10,000 on the loan. On 31 December 2018, Macaroon reassessed the credit risk of the loan and estimated that only BDT8,000 of interest would be received annually and only 65% of the principal will be recovered on due date.

Requirement:

You are required to: Prepare the journal entries required by Macaroon for the year ended 31 December 2018.

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- c) “IFRIC 1 contains guidance on accounting for changes in decommissioning, restoration and similar liabilities that have previously been recognised both as part of the cost of an item of property, plant and equipment under IAS 16 and as a provision (liability) under IAS 37” Please explain with example.

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5. Limra Industries wishes to prepare a pro forma balance sheet for December 31, 2023. The firm expects 2023 sales to total Tk. 3,000,000. The following information has been gathered:

- (1) A minimum cash balance of Tk. 50,000 is desired.
- (2) Marketable securities are expected to remain unchanged.
- (3) Accounts receivable represent 10% of sales.
- (4) Inventories represent 12% of sales.
- (5) A new machine costing Tk. 90,000 will be acquired during 2023. Total depreciation for the year will be Tk. 32,000.
- (6) Accounts payable represent 14% of sales.
- (7) Accruals, other current liabilities, long-term debt, and common stock are expected to remain unchanged.
- (8) The firm's net profit margin is 4%, and it expects to pay out Tk. 70,000 in cash dividends during 2023.
- (9) The December 31, 2022, balance sheet follows.

Limra Industries Balance Sheet December 31, 2022

Assets Tk		Liabilities and stockholders' equity Tk	
Cash	45,000	Accounts payable	395,000
Marketable securities	15,000	Accruals	60,000
Accounts receivable	255,000	Other current liabilities	<u>30,000</u>
Inventories	<u>340,000</u>	Total current liabilities	485,000
Total current assets	655,000	Long-term debt	<u>350,000</u>
Net fixed assets	<u>600,000</u>	Total liabilities	<u>835,000</u>
Total assets	<u>1,255,000</u>	Common stock	200,000
		Retained earnings	<u>220,000</u>
		Total liabilities and stockholders' equity	<u>Tk.1,255,000</u>

Requirements:

- a) Use the judgmental approach to prepare a pro forma balance sheet dated December 31, 2023, for Limra Industries. 10
- b) How much, if any, additional financing will Limra Industries require in 2023? Discuss. 2
- c) Could Limra Industries adjust its planned 2023 dividend to avoid the situation described in part (b)? Explain how. 3
6. X Ltd holds 80% of the ordinary shares of Y Ltd which it purchased five years ago, on 1 July 2018, for Tk. 175,000. On 1 July 2023 X Ltd sold all of these shares and used the proceeds (Tk. 212,000) to purchase 65% of the ordinary shares of Z Ltd on the same date. The share capitals of Y Ltd and Z Ltd have remained constant for many years at Tk. 100,000 and Tk. 200,000 respectively. Net assets of Y Ltd and Z Ltd were as follows.

	Y Ltd.		Z Ltd
	At acquisition	At 1 January 2023	At 1 January 2023
	Tk.	Tk.	Tk.
Net assets	187,000	150,000	280,000

Statements of profit or loss and extracts from the statements of changes in equity for all three companies for the year ended 31 December 2023 were as follows.

Statement of profit or loss

	X Ltd.	Y Ltd.	Z Ltd.
	Tk.	Tk.	Tk.
Revenue	1,926,500	521,600	792,400
Cost of sales	(1,207,200)	(386,200)	(405,900)
Gross profit	719,300	135,400	386,500
Distribution costs	(207,500)	(79,200)	(198,200)
Administrative expenses	(192,600)	(26,100)	(107,100)
Dividend received from Y Ltd.	8,000	-	-
Profit before tax	327,200	30,100	81,200
Income tax expense	(110,000)	(9,500)	(27,500)
Profit for the year	217,200	20,600	53,700

Statement of changes in equity

	Retained earnings		
	X Ltd.	Y Ltd.	Z Ltd.
	Tk.	Tk.	Tk.
Balance brought forward	671,300	50,000	80,000
Total comprehensive income for the year	217,200	20,600	53,700
	(50,000)	(10,000)	-
	838,500	60,600	133,700

No entries have been made in X Ltd's statement of profit or loss relating to the sale of Y Ltd. Y Ltd's dividends were paid prior to disposal.

In an earlier accounting period an impairment loss of Tk. 12,700 was recognised in relation to the goodwill arising on the acquisition of Y Ltd.

Note. You should assume that the disposal of Y Ltd constitutes a discontinued operation in accordance with IFRS 5 Non-current assets held for sale and discontinued operations.

Requirements:

- a) Prepare the consolidated statement of profit or loss and the retained earnings and non-controlling interest columns for the consolidated statement of changes in equity for X Ltd for the year ended 31 December 2023. 15
- b) Calculate the profit on disposal that would be shown in the individual accounts of X Ltd and explain how and why this differs from group profit on disposal. 5
- c) Briefly discuss the concepts of control and ownership in the context of this disposal. 5

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