

FINANCIAL ACCOUNTING & REPORTING

Time allowed- 3:30 hours
Total marks- 100

March-April 2025

[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 presentation and classification of items in the Financial Statements should be the same from one period to the next - what are the exceptions of this statement? | 3 |
| b) Determining whether or not an item is material is a very subjective exercise - explain? | 3 |
| c) IAS 1 ends by listing some specific disclosures which will always be required if they are not shown elsewhere in the financial statements - explain those specific disclosures? | 3 |
| d) Explain the accrual basis of accounting and the reasons for adjusting entries. Describe the nature and purpose of an adjusted trial balance. | 8 |
| 2. a) PBL has the following Loan & Advances as of 31 December 2023: | |

Customer	Total Outstanding	Overdue	Period of Overdue
A	BDT 20m	BDT 15m	181 Days
B	BDT 19.5m	-	-
C	BDT 200m	BDT 40m	170 Days
D	BDT 450m	BDT 450m	720 Days
E	BDT 75m	BDT 35m	360 Days

- i) Customer A is involved in importing from abroad & selling out locally. Customer A has goods in transit in a cargo flight from Russia which crashed by missile wrongly fired by Russian Air Force and LC Issuing Bank has made full payment for these goods. There was no enforceable insurance coverage for those goods in transit as the flight was originally a passenger flight but recently converted to Cargo Flight and Insurer was not informed. The cost of goods in transit is BDT 200m. As of 31st Dec 2023, A's net worth is BDT 150m.
- ii) Customer B has suffered a business loss due to prolong COVID effect and can pay only 50%.
- iii) Customer C will be able to make payment of 100% of the loan even if it's late.
- iv) Customer D can certainly make the payment of the entire outstanding.
- v) Customer E-business is suffering due to COVID and at maximum can make payment of BDT 20m.

Requirement:

Enumerate the provision against impairment of Loans & Advances as per BRDP circular (ignoring general amnesty & special allowances of provisioning) & IFRS.

- b) On 1st Jan 2023, DPDC sold its land of 7 acres situated at Madonpur, a suburb of Dhaka to Power Grid Company Ltd, a state-owned commercial entity for BDT 300 crore carrying amounts were BDT 200 Crore. Under the bilateral agreement, DPDC undertakes to repurchase the land along with substation to be installed there once built and ready for operation for amounting to BDT 1150 crore on 31 Dec 2024 of which land value is fixed to BDT 350 crore and Substation value of BDT 800 crore.

Requirement:

Explain if DPDC record, sale of land at BDT 300 crore which carrying value was BDT 200 crore and repurchased at BDT 350 crore, does it reflect faithful representation, if not why.

3. a) Explain whether each of the following arrangements contains a lease. If the arrangement contains a lease, determine whether the recognition exemptions in IFRS 16 can be applied.
 - i) Alpha Ltd enters into an agreement with IT BD Ltd for the use of a laptop computer for its financial controller. The agreement is for a three-year period. During the three-year period, the financial controller can use the laptop in the office or at other locations required for her work. IT BD Ltd cannot substitute the laptop for another during the three-year period.
 - ii) Beta Ltd enters into a contract with IT BD Ltd for the use of a photocopier for a four-year period. The photocopier will remain on Beta Ltd's site and will only be returned to IT BD Ltd in the event of a major repair being required, in which case a substitution will be provided.
 - iii) Gamma Ltd enters into a two-year contract with Dhaka Cars Ltd to obtain the use of cars for its team of sales representatives. The cars are required to be estate models, but from time to time, where it is economically advantageous to do so, the cars may be substituted by Dhaka Cars Ltd.

- iv) Delta Ltd enters into an agreement to use three architect's drawing desks (of a specified style and size) for a period of ten months in return for ten monthly payments. The desks cannot be substituted during the 10-month period. Delta Ltd already has four of these desks held under similar lease arrangements. Delta Ltd has not elected to apply the recognition exemption in IFRS 16 to the other desk leases.
- b) Fizz Ltd is preparing its financial statements for the year ended 30 June 2024. It has entered into the following arrangements:
- 1) "A lease which grants the right to use a delivery truck commencing on 1 July 2023. Fizz Ltd has assessed that the truck has a ten-year useful life. The interest rate implicit in the lease is 6%. The company will make lease payments of Tk. 180,000 annually in arrears for five years. The first payment was made on 30 June 2024. There is an option to purchase the truck at the end of the lease for Tk. 100,000 (the value discounted at 6% in five years is Tk. 74,700). Fizz Ltd is expected to take up the purchase option. The present value of the future lease payment, including the present value of the purchase option, is Tk. 832,860."
 - 2) "A lease which grants the right to use a crane for a three-year period commencing 1 July 2023. Fizz Ltd has determined that the useful life of the crane is also three years. Under the terms of the lease agreement, Fizz Ltd pays Tk. 270,000 annually in advance. The first instalment was paid on 1 July 2023 and the company received an incentive of Tk. 17,500 on commencement of the lease. The interest rate implicit in the lease is 8%. There is no option to buy the asset at the end of the lease term."
 - 3) A building which Fizz Ltd sold to a finance house on 1 July 2023 and then immediately leased back. The sale met the criteria for a sale under IFRS 15.
 - The carrying amount of the building at the date of sale was Tk. 2,800,000.
 - Sale proceeds were Tk. 4,000,000, which was equal to the estimated fair value.
 - The useful life of the building was 15 years as assessed by Fizz Ltd.
 - The present value of future lease payments at commencement was Tk. 3,504,680.
 Company policy is to apportion depreciation monthly.
 - 4) Fizz Ltd regularly leases laptop computers for its employees; the price of a laptop when new is Tk. 100,000. The financial controller of Fizz Ltd has said to you: "what a hassle, do we have to apply IFRS 16 accounting to all these laptops too?"

Requirements:

- i) Calculate the amounts which should be shown under non-current assets and non-current liabilities at 30 June 2024 in respect of the delivery truck. 3
 - ii) Calculate the carrying amount of the right-of-use asset in respect of the crane at 30 June 2024. 3
 - iii) What is the gain that will be recognised in profit or loss in respect of the sale and leaseback of the building? 2
 - iv) Write a brief note explaining the recognition exemption that Fizz Ltd may elect to use regarding the laptop leases. 2
4. a) Pharma Ltd operates in the pharmaceutical business. The following information relates to the company's activities in research and development for the year ended 31 October 2024.
- 1) Commercial production started on 1 June 2020 for Formula A. By 31 October 2023 Tk 43,000 had been capitalized in respect of development expenditure on this product. During the year a further Tk 10,000 was spent on development of this product. Pharma Ltd has taken out a patent in respect of Formula A which will last for ten years. Legal and administrative expenses in relation to this were Tk 2,000. In the current year, sales of Formula A amounted to Tk 50,000. Sales over the next three years are expected to be Tk 150,000, Tk 200,000 and Tk 100,000 respectively.
 - 2) The development of Formula B is at an earlier stage. Although the company believes it has a reasonable expectation of future benefits from this project it has not as yet been able to demonstrate this with sufficient certainty. Expenditure on this project in the current year was Tk 20,000.

Requirements:

- i) Calculate the total amount to be written off to the income statement in respect of the above in the year ended 31 October 2024. 3
- ii) Draft the table showing the movement on intangible assets which would appear in the notes to the financial statements of Pharma Ltd for the year ended 31 October 2024. 3

- b) On 1 January 2022 Dot Ltd originated a loan of Tk 500,000. It classified the financial asset as measured at amortized cost. The loan is fully repayable at the end of Year 5. The effective interest rate is 4% per annum (payable at the end of each year).

On initial recognition, the loan has a low credit risk and the probability of default in the next 12 months is 1% with lifetime credit losses estimated at Tk 125,000.

At 31 December 2022, there has been no significant deterioration in credit quality and the loan is considered to be low credit risk. The probability of default increases to 1.5% due to marginal increase in credit risk of the borrower. The lifetime credit losses are still estimated at Tk 125,000.

At 31 December 2023, there has been a significant deterioration of credit quality but there is no objective evidence of impairment loss. The expected credit losses over the remaining life of the loan are estimated at Tk 50,000.

At 31 December 2024, there is evidence of loss of event and the loan defaults. The actual impairment loss is estimated at Tk 125,000.

Requirements:

Explain how the loan should be accounted for under IFRS 9 including the following:

- i) Impairment loss allowance to be recognized on origination of the loan and at the end of each of the year ended 31 December 2022, 2023, and 2024 with relevant journal entries. 6
- ii) Amount of interest income to be recognized in each of the years ended 31 December 2022 to 2025. 4

5. a) An entity acquires a zero-coupon bond with a nominal value of Tk. 200,000 on 1 January 2023 for Tk. 189,000. The bond is quoted in an active market and broker's fees of Tk. 5,000 were incurred in relation to the purchase. The bond is redeemable on 31 December 2024 at a premium of 10%. The effective interest rate on the bond is 6.49%.

Requirement:

Prepare all the journal entries to show the accounting treatment for the bond until redemption. 5

- b) On 1 July 2023 Landmark Ltd issued 100,000 6% Tk. 10 preference shares at par that are redeemable on 30 June 2027 at a premium of 4%. The preference dividend is paid annually on 30 June. Issue cost were immaterial. The effective interest rate on the preference shares is 6.9%. The fair value of one preference share on 30 June 2024 is Tk. 9.5.

One quarter of the investments were subscribed for by HB Limited. HB Limited has previously not owned any share investments.

Requirements:

- i) Prepare extract from the financial statements of Landmark Ltd for the year ended 30 June 2024 in respect of the preference shares. 5
- ii) Prepare extract from the financial statements of HB Limited for the year ended 30 June 2024 for each of the potential different classification options for the investment in Landmark Ltd. 5

6. You have recently been appointed as an interim financial manager at HS Ltd, a company whose previous finance director left the company part way through he produced draft financial statements based on the notes prepared by him before he left HS this year. HS Ltd has decided always to measure any non-controlling interest in an acquiree at its proportionate share of net assets at the acquisition date.

The main transaction in the year was the acquisition of 49% of the ordinary share capital of SH Ltd on 1 June 2023. This has been accounted for using the equity method in accordance with BAS 28 Investments in Associates. Upon further investigation, you discover that on the same date, HS Ltd.'s professional advisors acquired 2% of SH Ltd, and signed a 'memorandum of understanding' in which the firm of advisers agreed to always vote in agreement with HS Ltd.'s wishes. You have been provided with the draft consolidated financial statements of the HS Ltd Group, along with the separate financial statements of SH Ltd.

Income statement for year ended 31 May 2024

	HS Ltd Group Tk'000	SH Ltd. Tk'000
Revenues	34,520	17,640
Expenses	(21,940)	(13,880)
Operating profit	12,580	3,760
Share of profit of associate	490	-
Finance costs	(1,460)	(1,720)
Profit before tax	11,610	2,040
Income tax	(3,270)	(1,040)
Profit for the year	8,340	1,000

Statement of financial position on 31 May 2024

	HS Ltd Group Tk'000	SH Ltd. Tk'000
ASSETS		
Property plant and equipment	34,880	20,000
Goodwill	9,540	-
Investment in associate	10,090	-
	<u>54,510</u>	<u>20,000</u>
Current assets (nil cash)	6,300	4,500
Total assets	<u><u>60,810</u></u>	<u><u>24,500</u></u>
EQUITY AND LIABILITIES		
Capital and reserves:		
Issued ordinary shares of Tk 1	1,500	1,000
Share premium account	23,060	-
Retained earnings	9,230	4,400
Equity	33,790	5,400
Non-current liabilities:		
Debt	17,310	16,300
Current liabilities	9,710	2,800
Total equity and liabilities	<u><u>60,810</u></u>	<u><u>24,500</u></u>

You are provided with the following information:

- i) The consideration for the investment in SH Ltd was satisfied by a cash payment of Tk 9.6 million on 1 June 2023. The share purchase agreement stated that if the profit after tax of SH Ltd, excluding intra group transactions, exceeded Tk 1.2 million in the year ended 31 May 2024 then HS Ltd would make a cash payment of Tk 2mn as further consideration in October 2024. HS Ltd.'s advisers estimated that the probability of SH Ltd achieving this earnings target was such that the fair value at the acquisition date of this possible cash payment was Tk 500,000. Despite this estimate HS Ltd has, on previous finance director advice, not accounted for this additional consideration, because the draft profit after tax is only Tk 1mn.
- ii) The carrying amount of SH Ltd.'s net assets at the acquisition date were the same as their fair value.
- iii) HS Ltd.'s bankers have a clause in their loan agreement that states that should the total debt in the consolidated financial statements of HS Ltd exceed Tk30mn, then a penalty charge of Tk 1mn arises. This penalty is allowable for tax purposes, and HS Ltd pays tax at the rate of 30%.
- iv) During the year ended 31 May 2024, SH Ltd sold goods to HS Ltd for Tk 500,000, at a markup of 25% on cost. One quarter of these goods were held as inventories by HS Ltd at 31 May 2024. HS Ltd owes SH Ltd Tk 140,000 in respect of these transactions at 31 May 2024. HS Ltd has not made any adjustments for these inventories in the equity accounting calculations for SH Ltd.
- v) HS Ltd charged SH Ltd Tk 250,000 as a management fee in November 2023, in accordance with an instruction from finance director. HS Ltd has included the full Tk 250,000 in revenue. SH Ltd paid the amount on 12 December 2023 and presented it in expenses.
- vi) SH Ltd has not paid any dividends in the year ended 31 May 2024.

Requirements:

Draft a memo to the HS Ltd board that includes:

- a) Advice to them about the treatment of the acquisition of SH Ltd and the other transactions listed above. 4
- b) A revised consolidated statement of financial position and income statement for HS Ltd, taking into account the advice you gave in part (a). 17
- c) Calculations of earnings per share, gearing and interest cover for both the draft financial statements and those you have prepared in part (b). Explain why there are differences (if any) between the two sets of figures. 4

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