

FINANCIAL ACCOUNTING & REPORTING

Nov-Dec 2023

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) Professional accountants are expected to follow the guidance contained in the fundamental principles in all of their professional and business activities - briefly explain all the five fundamental principles. | 5 |
| b) An entity supplies seasoned timber to furniture manufacturers. The operating cycle is clearly defined and timber is matured over a three to five year period.

State how the timber inventories would be classified in the statement of financial position and any additional disclosures which would be required. | 5 |
| 2. Listed below are selected items from the financial statements of G&H Pump Mfg. Co. for the year ended December 31, 2022. | |
| Note payable to Sonali Bank | 99,000 |
| Income taxes payable | 83,000 |
| Loss contingency relating to lawsuit | 20,000 |
| Accounts payable and accrued expenses | 163,230 |
| Mortgage note payable | 240,864 |
| Bonds payable | 2,200,000 |
| Premium on bonds payable | 1,408 |
| Accrued bond interest payable | 110,000 |
| Pension expense | 61,300 |
| Unearned revenue | 25,300 |

Other Information:

- i) The note payable owed to Sonali Bank is due in 30 days. G&H has arranged with this bank to renew the note for an additional two years.
- ii) G&H has been sued for Tk. 200,000 by someone claiming the company's pumps are excessively noisy. It is reasonably possible, but not probable, that a loss has been sustained.
- iii) The mortgage note is payable at Tk. 8,000 per month over the next three years. During the next 12 months, the principal amount of this note will be reduced to Tk. 169,994.
- iv) The bonds payable mature in seven months. A sinking fund has been accumulated to repay the full maturity of this bond issue.

Requirements:

- a) Using this information, prepare the current liabilities and long-term liabilities sections of a classified balance sheet at December 31, 2022. 7
- b) Explain briefly how the information in each of the four numbered paragraphs affected your presentation of the company's liabilities. 5
3. a) CPL, the 95% owner of SEL follows the revaluation method for PPE while SEL only follows the historical cost method since it's incorporated in 1995. SEL owns a residential floor in Gulshan, which is being used to house its corporate executives. The cost of apartments in the year 2000 was BDT 10 million and the carrying value was BDT 6 million. While CPL acquired SEL on July 1st, 2020, it has valued the proportionate land attributable to the apartment at BDT 30 million and the civil part of the apartment at BDT 0.5 million. CPL & SEL both are private limited companies.

Requirements:

- i) In preparing consolidated FS, whether CPL should use a carrying value of BDT 6 million. Explain the reason for your advice. 4

- ii) Advise the appropriate accounting treatments & notes for the accounting adjustments as required by applicable IAS/IFRS assuming CPL will warrant SEL to adopt the revaluation model. Further, assume that the SEL has not recorded the Land & Building (civil part) of the Apartment separately, thus were continuing the depreciating apartment, but CPL bifurcates Land & Building separately for the apartment. However, ignore the adjustments required in Accumulated Depreciation & Retained Earning. Estimated bifurcated value of Land & Building as of 1 July 2020: Land 4 million and Building BDT 2 million. Briefly mention the logic because CPL shall direct SEL to adopt revaluation model.

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- b) On 1st Jan 2018, CPDC sold its land of 7 acres situated at Madonpur, a suburb of Dhaka to Electricity Company Ltd, a state-owned commercial entity for BDT 300 crore carrying amounts were BDT 200 Crore. Under the bilateral agreement, CPDC 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 2019 of which land value is fixed to BDT 350 crore and Substation value of BDT 800 crore.

Requirements:

- i) Write down appropriate accounting treatments in the books of CPDC for the year 2018 to 2021. You can make an appropriate assumption.
- ii) Explain if CPDC 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?
- c) The evolution of IT emergence in 4th industrialization has resulted in wider acceptance of IFRS. Worldwide Convergence has played a major role as highlighted by the Group CFO of DBS, a leading Bank of Europe while she was presenting financials of Brown Bank Limited (BBL) acquisition which is being considered. She told that BBL made the declaration that it has prepared its FS following IFRS. She presented the financials of BBL and explained the difference in Net Worth derived from her calculation from that of Audited General Purpose Financial Statements prepared and published by BBL. She stated that the BRPD circular requires different recognition of Impairment of Loan & Advances than that of IFRS. She further stated that the BPRD circular also warrants a different treatment of Financial Instruments than that of IFRS.

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Requirements:

Explain (i) differences of treatment relating to Impairment of Loan & Advances in IFRS & related BRPD Circular & (ii) Treatment of Financial Instruments as per IFRS.

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4. The most recent financial statements for Moose Tours Ltd., appear below. Sales for 2023 are projected to grow by 20 percent. Interest expense will remain constant; the tax rate and the dividend payout rate will also remain constant. Costs, other expenses, current assets, fixed assets, and accounts payable increase spontaneously with sales.

MOOSE TOURS LTD

2022 Income Statement

Sales	Tk. 836,100
Costs	650,700
Other expenses	17,100
Earnings before interest and taxes	Tk. 168,300
Interest expense	12,600
Taxable Income	Tk. 155,700
Taxes	Tk. 54,495
Net income	Tk. 101,205
Dividends	Tk. 30,300
Addition to retained earnings	70,905

MOOSE TOURS, LTD.
Balance Sheet as of December 31, 2022

Assets		Liabilities and Owners' Equity	
Current assets		Current liabilities	
Cash	Tk.24,035	Accounts payable	Tk.64,600
Accounts receivable	38,665	Notes payable	<u>16,150</u>
Inventory	<u>82,555</u>	Total	<u>Tk.80,750</u>
Total	<u>Tk.145,255</u>	Long-term debt	<u>Tk.150,000</u>
		Owners' equity	
Fixed assets		Common stock and paid-in surplus	Tk.130,000
Net plant and equipment	<u>Tk.392,350</u>	Retained earnings	<u>176,855</u>
		Total	<u>Tk.306,855</u>
Total assets	<u>Tk.537,605</u>	Total liabilities & owners' equity	<u>Tk.537,605</u>

Requirements:

- a) If the firm is operating at full capacity and no new debt or equity is issued, what external financing is needed (EFN) to support the 20 percent growth rate in sales? 5
 - b) Suppose the firm was, operating at only 80 percent capacity in 2022. What is the External Financing Needed now? 5
 - c) Suppose the firm wishes to keep its debt-equity ratio constant. What is EFN now? 5
 - d) Using sales growth rates of 15 and 25 percent in addition to 20 percent. Illustrate graphically the relationship between EFN and the growth rate and use this graph to determine the relationship between them. 5
5. a) In mid-January 2022, there was widespread press coverage in respect of contamination of rivers and surrounding area which had occurred over the last eight months. The source of the press coverage was a lawsuits launched by a group of activists, claiming damages from a wide range of companies.
- An entity, which has a 31 December 2021 accounting year-end, manufactured some of the product which led to the contamination and has been named in the lawsuit as a defendant. The entity's legal advisers have reported that in their opinion there is only a small chance, in the 15%-20% range, of the suit against it succeeding, but that if it did, the amounts payable would be substantial.
- In February 2022, the same entity agreed to an out-of-court settlement of Tk. 30,000 with a former senior employee who on 1 November 2021 had started proceedings to sue for unfair dismissal. The entity's legal advisers had advised that the chances of the former employee winning were low but that the disruption likely to be caused would be substantial. The entity therefore agreed to settle to minimize nuisance value. The entity continued to assert that the dismissal had been fair. The settlement was final and on a 'no fault' basis.
- Requirement:**
Explain how these two matters will be reported in the financial statements for 31 December 2021. Assume the financial statements were authorized by the directors in April 2022. 5
- b) AB Limited operates in the pharmaceutical business. The following information relates to the company's activities in research and development for the year ended on 31 October 2021
- Commercial production started on 1 June 2018 for Formula A. By 31 October 2021 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.
- AB Limited has taken out a patent in respect of Formula A which will last for ten years. Legal and Administrative expenses in relation to this of Tk. 2,000 were incurred on 1 November 2021.
- In the current year, sales of Formula A amounted to Tk. 50,000. Sales are expected to be made over the next three years of Tk. 150,000, Tk. 200,000 and Tk. 100,000 respectively.

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 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 recognized in profit or loss in respect of the above in the year ended on 31 October 2022. 3
- ii) Draft the table showing the movement on intangible assets which should appear in the notes to the Financial Statements of AB Limited for the year ended 31 October 2022. 5

6. The draft statements of financial position of three companies as at 31 December 2022 are as follows:

	Dhaka Ltd. Tk.	Sylhet Ltd. Tk.	Khulna Ltd. Tk.
Non-current assets			
Property, plant and equipment	697,210	648,010	349,400
Investment:			
160,000 shares in Sylhet	562,000	-	-
80,000 shares in Khulna	184,000	-	-
	<u>1,443,210</u>	<u>648,010</u>	<u>349,400</u>
Current assets			
Inventories	495,165	388,619	286,925
Trade receivables	415,717	320,540	251,065
Cash and cash equivalents	101,274	95,010	80,331
Total assets	<u>2,455,366</u>	<u>1,452,179</u>	<u>967,721</u>
Equity			
Ordinary share capital	600,000	200,000	200,000
Retained earnings	1,015,000	820,000	463,000
Total equity	<u>1,615,000</u>	<u>1,020,000</u>	<u>663,000</u>
Non-current liabilities	400,000	150,000	100,000
Current liabilities:			
Trade payables	440,366	282,179	204,721
Total equity and liabilities	<u>2,455,366</u>	<u>1,452,179</u>	<u>967,721</u>

You are given the following additional information:

- i) Dhaka Ltd. purchased the shares in Sylhet Ltd. on 1 January 2017 when the retained earnings of Sylhet Ltd. was Tk. 500,000. The goodwill and non-controlling interest arising on the acquisition of Sylhet Ltd. should be measured using the proportionate method.
- ii) The shares in Khulna Ltd. were acquired on 1 January 2019 when its retained earnings was Tk. 242,000.
- iii) An item of inventory included in the inventory figure for Dhaka Ltd. is valued at Tk. 20,000 which had been purchased from Sylhet Ltd. at cost plus 25%.
- iv) An item of payable included in the trade payable figure for Dhaka Ltd. is Tk. 18,000 payable to Khulna Ltd, the amount receivable being recorded in the trade receivables figure of Khulna Ltd.
- v) Impairment reviews to date have revealed a total of Tk. 1,000 to be written off goodwill in respect of Sylhet Ltd and Tk. 2,000 written off in respect of Dhaka Ltd's investment in Khulna Ltd.

Requirements:

- a) Prepare the consolidated statement of financial position for Dhaka Ltd as at 31 December 2022. 15
- b) Identify the required accounting treatment for different levels of investment in undertaking for consolidated accounts purpose, explaining why these are appropriate. 5
- c) Set out a brief explanatory note of how subsidiaries and associates are accounted for in the consolidated statement of financial position. 5

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