FINANCIAL ACCOUNTING & REPORTING

Nov-Dec 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) Financial statements cannot provide complete set of information required for assessing the stewardship of management - explain. 4

   b) 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? 4

   c) Certain pieces of information may be presented either in the statement of financial position or in the notes to the financial statements - what are those information? 4

2. a) Northern Ltd, a manufacturing company, sold a property with a carrying amount of Tk. 4.5 million for Tk. 5 million to Southern Finance Ltd on 1 January 2023. Northern Ltd retains the right to occupy the property and has an option to repurchase the property in two years' time for Tk. 6 million. Property prices are expected to rise and the current market value is Tk. 8 million. The annual rate of interest over two years is 9.5%.

   Requirement:
   In accordance with IFRS 15: Revenue from Contracts with Customers what should be recognised in the financial statements relating to this transaction for the year ended 31 December 2023? 5

   b) EcoJet is a Bangladesh - based airline which has traditionally operated in the low cost sector, which is trying to attract a greater proportion of business travelers.

   The airline sells tickets in different booking classes, each of which has a different set of booking conditions concerning changes, refunds, and so on.

   The further in advance flights are paid for and the more restrictive the booking conditions (such as not allowing changes or refunds in any circumstances), the less the flights cost.

   At the company's year end of 31 December 2023, there are a large number of passengers who have paid in advance for their flights. A sample of three passengers below illustrates some of the booking conditions:

   Mr. X booked flights to and from Bangkok for travel in August 2024 in booking class N. This is the most restrictive booking class and does not allow any refunds or changes whatever. If Mr. X misses his flight, EcoJet will not provide any refund or move his booking to another flight. On 1 November 2023, Mr. X booked a flight out to Bangkok and back a week later, each at a sales price of Tk. 40,000.

   On 1 December 2023, Mr. Y booked a one-way flight to Colombo in booking class Y, at a price of Tk. 55,000. This is the most flexible booking class and allows Mr. Y to take any flight operated by EcoJet to Colombo within six months of the booking being made. At the year-end, Mr. Y had not used his one-way ticket.

   On 7 August 2023, Mr. Z booked two flights for the new year holiday from Dhaka to Bali. The outward flight was on 28 December 2023 and the return flight was on 3 January 2024. His tickets are in booking class N (see above for restrictions). He paid Tk. 50,000 for the flight in each direction, so that EcoJet has received Tk. 100,000 from him by its year-end.

   Requirement:
   Applying IFRS 15, explain how each of the above transactions should be reported in the financial statements of EcoJet at 31 December 2023. State any criticisms you may have of the accounting treatment that IFRS 15 requires. 10

3. Safwan Aayan, CA, was retained by Info Cable Ltd. to prepare financial statements for April 2024. Safwan accumulated all the ledger balances per Info's records and found the following.

Info Cable Ltd
Trial Balance
April 30, 2024

	Debit Tk	Credit Tk
Cash	4,100	
Accounts Receivable	3,200	
Supplies	800	
Equipment	10,600	
Accumlated Depreciation – Equipment		1,250
Accounts payable		2,100
Salaries and wages payable		700
Unearned Service Revenue		890
Share Capital - Ordinary		10,000
Retained Earnings		2,880
Service Revenue		5,450
Salaries and wages Expense	3,300	
Advertising Expense	480	
Miscellaneous Expense	290	
Depreciation Expense	500	
	23,270	23,270

Safwan reviewed the records and found the following errors.

i) Cash received from a customer on account was recorded as Tk 950 instead of Tk 590.

ii) A payment of Tk 75 for advertising expenses was entered into as a debit to Miscellaneous Expense Tk 75 and a credit to cash Tk 75.

iii) The first salary payment this month was for Tk 1,850 which included TK 700 of salaries payable to March 31. The payment was recorded as a debit to salaries and wages expense Tk 1,850 and a credit to Cash Tk 1,850. (no reversing entries were made on April 1).

iv) The purchase on account of a printer costing Tk 310 was recorded as a debit to Supplies and a credit to Accounts Payable for Tk 310.

v) A cash payment of repair expense on equipment for Tk 125 was recorded as a debit to Equipment Tk 152 and a credit to Cash 152

Requirements:

a) Prepare an analysis of each error showing (i) the incorrect entry, (ii) the correct entry and (iii) the correcting entry. Items (iv) and (v) occurred on April 30,2024. 7

b) Prepare a correct trial balance. 5

4. You are working in a reputable CA firm provides assurances & advisory services. Following are the case referred to you by your Partner for your expert professional advice/guidelines:

One of the neighboring Multinational Trading 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 commencing business operation to Open Letter of Credit. They have reached out to your Partner to be apprised with country accounting policies and principles allowed for accounting & reporting of following unusual cost – which is very much non-existed in the country where Head Quarter established and operated from?

(i) LC Confirmation Charges against LC issued from Bangladesh which is almost **1% of Total Landed Cost.** These Confirmation Charges occurred as LC Accepting Bank won't accept the LC from Bangladesh unless the same is confirmed by another Bank.

(ii) Insurance Cost billed in actual by the LC accepting Bank and ultimately to bear by the Importer. This is also unique for LC issued & need confirmed for Bangladesh Importer.

Requirements:

a) How LC confirmation charges shall be recognized/accounted for? Provide Journal Entries, if any. 3

b) How Insurances Cost against these LC shall be recognized/accounted for? Provide Journal Entries, if any. 3

c) Whether these cost (LC confirmation charges & Insurances Cost) shall be recognized under normal cost or abnormal cost? If under abnormal cost, shall it be reported in Profit & Loss Statements separately. 3

d) When a change in liabilities does not affect the valuation of the PPE for accounting purposes under IFRIC 1 and how does it account for, illustrate with Journal Entries? 6

e) What is the guidance of IFRIC 10: Interim Financial Reporting and Impairment in regard to the impairment loss recognized in previous period against goodwill & other financial assets? 3

5. On 1 October 2023, ZX Limited bought 100% of a new subsidiary KD Limited.
At this date, the statement of financial position of KD Limited disclosed the following:

	1 October 2023
	Tk.
Property, plant and equipment	275,000
Inventory	14,000
Receivables	26,000
Pre-payments	8,000
Short-term investments	-
Cash	-
Capital and reserves	179,000
Trade payables	78,000
Provisions	21,000
Overdraft	45,000

The consolidated income statement of the ZX Group for the year ended 31 December 2023 included the following figures:

Profit before tax	Tk. 163,000
Depreciation on property, plant and equipment	Tk. 245,000

There was no issues non redemption of shares in the year.
Due to a government scheme to promote the activities the ZX Group is involved in, neither company pays any tax.

The statements of financial position of the ZX Group of companies at 31 December 2022 and 31 December 2023 included the following net assets:

	31 December 2023	**31 December 2022**
	Tk.	**Tk.**
ASSETS		
Goodwill	141,000	-
Property, plant and equipment	1,550,000	1,100,000
Inventory	172,000	170,000
Receivables	104,000	74,000
Pre-payments	22,000	16,000
Short-term investments	30,000	60,000
Cash	-	28,000
EQUITY AND LIABILITIES		
Capital and reserves	851,000	688,000
Trade payables	720,000	512,000
Provisions	208,000	178,000
Overdraft	240,000	70,000

ZX acquired its investment in KD Limited by paying cash of Tk. 320,000

The short term investments comprise government bonds approaching their maturity date (which the company considers to be subject to only an insignificant chance of change in value) and investments in shares in other companies. The split was:

	2023	2022
Government bonds	10	24
Shares	20	36
	30	60

Requirement:

Prepare the ZX Group statement of cash flows and supporting notes for the year ended on 31 December 2023. 18

6. The summarized statements of financial position of Khulna Ltd and Sylhet Ltd as at 31 December 2023 are as follows:

	Khulna Ltd		**Sylhet Ltd**	
	Tk.	**Tk.**	**Tk.**	**Tk.**
ASSETS				
Non-current assets				
Property, plant and equipment		80,000		58,200
Investment		84,000		-
		164,000		58,200
Current assets				
Inventories	18,000		12,000	
Trade and other receivables	62,700		21,100	
Investment	-		2,500	
Cash and cash equivalents	10,000		3,000	
Current account - BK Ltd	-		3,200	
		90,700		41,800
Total assets		254,700		100,000
EQUITY AND LIABILITIES				
Equity				
Ordinary share capital (Tk. 1 per share)		120,000		60,000
Share premium account		18,000		-
Revaluation surplus		23,000		16,000
Retained earnings		56,000		13,000
Total equity		217,000		89,000
Current liabilities				
Trade and other payables	35,000		11,000	
Current account - Sylhet Ltd	2,700		-	
		37,700		11,000
Total equity and liabilities		254,700		100,000

The following information is relevant:

i) On January1, 2021 Khulna Ltd acquired 48,000 shares in Sylhet Ltd for Tk. 84,000 cash when the retained earnings of Sylhet Ltd were Tk. 8,000 and the balance on the revaluation surplus was Tk. 16,000.

ii) The inventories of Khulna Ltd include Tk. 4,000 of goods from Sylhet Ltd invoiced to Khulna Ltd at cost plus 25%.

iii) A cheque for Tk. 500 from Khulna Ltd to Sylhet Ltd, sent before 31 December 2023, was not received by the latter company until January 2024.

iv) An impairment review at 31 December 2023 revealed that an impairment loss of Tk. 500 in respect of goodwill on the acquisition of Sylhet Ltd needs to be recognized. By 1 January 2023 this goodwill had already suffered impairments totaling Tk. 1,700.

v) The non-controlling interest and goodwill arising on the acquisition of Sylhet Ltd were both calculated using the proportionate method.

Requirements:

a) Prepare the consolidated statement of financial position of Khulna Ltd and its subsidiary Sylhet Ltd as at 31 December 2023. 20

b) Explain the adjustments necessary in respect of intra-group sales when preparing the consolidated statement of financial position of the Khulna Ltd group. 5

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