

FINANCIAL ACCOUNTING AND REPORTING

July-August 2022

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) An entity sells an equipment to a customer on 1 January 2021 for Tk. 1.5 million. Due to the specialized nature of the equipment the entity has agreed to provide free support services for the next two years, despite the cost to the entity of that support being estimated at Tk. 120,000 in total. The entity usually earns gross margin of 20% on such contracts.

Requirement:

How much revenue should the entity recognize for the year ended on 31 December 2021?

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- b) BC Ltd. absorbs its production overheads on the basis of units produced. Cost data relating to units of production for the year to 31 December 2021 are as follows:

Material (for 10,000 units actually produced)	Tk. 10,000
Sub-contract labour	Tk. 20,000
Fixed production overheads	Tk. 50,000

There are 1,000 units in inventories at the year end. Production was half the normal activity level.

Requirement:

What should be the inventory value to be reported in the statement of financial position as on 31 December 2021?

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2. The following are five independent short cases:

- a) Marry Company completes the construction of a building. The following independent items are the costs and other aspects relevant to the purchase of the lot and cost of construction:

Cash payments to contractor	Tk. 100,000
Total turnover tax on materials used in construction in addition to payments made to contractor	3,000
Cost of land (building site)	50,000
Gross cost to raze old building on land	20,000
Proceeds from old building salvage	5,000
Power bill for electricity used in construction	2,000
Interest on purchase of materials	1,000
Capitalized interest on construction	3,000

Requirement: What is the final recorded value of the land and building respectively?

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- b) Accounting for debt incurred on acquisition:

The Round Wheel Barn Company purchases a tractor by making a down payment of Tk. 10,000. In addition, Round Wheel Barn signs a note requiring monthly payments of Tk. 2,000, starting one month after purchase and continuing for a total of 20 months. The contract calls for no interest, yet the prevailing interest rate is 24 percent on similar debts. What is the correct recorded value of the asset at purchase? What is the interest expense recognized one month after purchase?

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- c) Interest capitalization:

Bengal Company spent a total of Tk. 300,000 cash on a construction project during 2019 and 2020. During 2021, Bengal spends an additional Tk. 200,000 evenly during the year on the project and completes it at the end of 2021. Debt outstanding during 2021 is:

Accounts payable average balance..... Tk. 5,000
 10% bonds payable 700,000
 12% construction loan 200,000

Requirements:

- i) What is average accumulated expenditures for 2021? 2
- ii) Assume that average accumulated expenditures for 2021 is Tk. 600,000, without prejudice to your answer in (i). Using the specific method of capitalization of interest, compute amount of interest capitalized in 2021. 2
- iii) Again, assume that average accumulated expenditures for 2021 is Tk. 600,000. Using the weighted-average method of capitalization of interest, compute the interest capitalized in 2021. 2

d) Accounting for exchange of plant asset:

Ocular Company trades an electron microscope with an original cost of Tk. 200,000 and accumulated depreciation of Tk. 80,000 for new cal equipment (a similar asset). The old equipment has a fair market value of \$ trade-in time, and Ocular receives Tk. 30,000 on the trade-in. Give the entry to record exchange.

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e) Post-acquisition costs:

After one-fourth of the useful life had expired on microscope with an original cost of Tk. 300,000 and no salvage value, a major component of the equipment is unexpectedly replaced. The old component was expected to last as long as the equipment itself, and the company records on the component indicates it originally cost Tk. 20,000 and had no expected salvage value. The replacement component cost Tk.30,000 and had no usefulness beyond that of the equipment. Give the entry(ies) to record the company replacement assuming straight-line depreciation.

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3. Your firm has been engaged to examine the financial statements of Alma Corporation for the year 2021. The bookkeeper who maintains the financial records has prepared all the financial statements for the corporation since its inception on January 2, 2016. The client provides you with the following information.

ALMA CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

Assets (Tk.)		Liabilities (Tk.)	
		Equity	4,650,600
Other assets	5,171,400	Non-current liabilities	1,439,500
Current assets	1,881,100	Current liabilities	962,400
	<u>7,052,500</u>		<u>7,052,500</u>

Current assets include:

	<u>Tk.</u>
Cash (The total amount includes Tk. 300,000 reserved for plant expansion)	571,000
Investments in land	185,000
Accounts receivable less allowance of Tk. 30,000	480,000
Inventories (weighted average)	<u>645,100</u>
	<u>1,881,100</u>

Other assets include:

Prepaid expenses	62,400
Plant and equipment less accumulated depreciation Tk. 1,430,000	4,130,000
Notes receivable (short-term)	162,300
Goodwill	252,000
Land	<u>564,700</u>
	<u>5,171,400</u>

Current liabilities include:

Accounts payable	510,000
Notes payable (due 2024)	157,400
Estimated income taxes payable	145,000
Share premium—ordinary	<u>150,000</u>
	<u>962,400</u>

Non-current liabilities include:

Unearned revenue	489,500
Dividends payable (cash)	200,000
8% bonds payable (due May 1, 2026)	<u>750,000</u>
	<u>1,439,500</u>

Equity includes:

Retained earnings	2,810,600
Share capital- ordinary, par value Tk. 10: authorized 200,000 share, 184,000 shares issued	<u>1,840,000</u>
	<u>4,650,600</u>

The supplementary information are provided below:

- 1) On May 1, 2021, the corporation issued at par Tk. 750,000 of bonds to finance plant expansion. The long-term bond agreement provided for the annual payment of interest every May 1. The existing plant was pledged as security for the loan.
- 2) The bookkeeper made the following mistakes.
 - (a) In 2019, the ending inventory was overstated by Tk. 183,000. The ending inventories for 2020 and 2021 were correctly computed.
 - (b) In 2021, accrued wages in the amount of Tk. 225,000 were omitted from the statement of financial position, and these expenses were not charged on the income statement.
 - (c) In 2021 a gain of Tk. 175,000 (net of tax) on the sale of certain plant assets was credited directly to retained earnings.
- 3) A major competitor has introduced a line of products that will compete directly with Alma's primary line, now being produced in a specially designed new plant. Because of manufacturing innovations, the competitor's line will be of comparable quality but priced 50% below Alma's line. The competitor announced its new line on January 14, 2022. Alma indicates that the company will meet the lower prices that are high enough to cover variable manufacturing and selling expenses but permit recovery of only a portion of fixed costs.
 You learned on January 28, 2022, prior to completion of the audit, of heavy damage because of a recent fire in one of Alma's two plants; the loss will not be reimbursed by insurance. The newspapers described the event in detail.

Requirement:

Analyze the preceding information to prepare a corrected statement of financial position for Alma in accordance with IFRS. Prepare a description of any notes that might need to be prepared. The books are closed, and adjustments to income are to be made through retained earnings.

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4. On 1st July 2019 EGCB entered into an agreement with WARTSILA to supply electric generation equipment. The consideration is USD 500 Per kilowatt (KW) which will include all relevant costs (incurred by WARTSILA and/or EGCB) up to installation and testing for 40000 KW to be deployed over 4 years on turnkey basis. However, recoverable costs incurred by Purchasers/Customer to facilitate the execution of the contract to be borne by the purchaser.

Following events took place:

- i. EGCB issued PO on 05 July 2019, for 20000 KW.
- ii. WARTSILA commenced manufacturing of equipment on 10 July 2019 for 20000 KW.
- iii. As required by Bangladesh Foreign Exchange Regulations, EGCB issued LC on 15th July 2019 to WARTSILA Germany for \$10 m from HSBC Bangladesh and EGCB paid 10% as cash margin and LC commission of 0.125% per quarter.
- iv. WARTSILA completed manufacturing of 20000 KW plant on 31 March 2020.
- v. On 1st April 2020, WARTSILA signed a contract with DHL to carry the plant to Bangladesh for \$700,000 and deliver it to the Charfassion site of EGCB. WARTSILA made a payment of \$100,000 in advance.
- vi. On 15 April 2020 DHL picked up the plant from the WARTSILA facility.
- vii. On 16 April 2020 EGCB arranged a marine insurance cover note costing BDT 5,500,000.
- viii. The vessel carrying said equipment sailed on 22 April 2020.
- ix. The vessel anchored at Payra Port on 21 May 2020.
- x. The custom document was handed over to the EGCB C&F agent on 22 May 2020.
- xi. The demurrage charge of BDT 3,500,000 was imposed on EGCB by Payra Port.
- xii. On 23 May 2020 EGCB paid BDT 35,000,000 of which (a) AIT BDT 1,500,000 (b) VAT on C&F fees BDT 270,000 (c) Custom Duty BDT 33,000,000 (d) Other charges BDT 230,000.
- xiii. While DHL was carrying the cargo to Charfassion, the plant tools box which cost BDT 2,500,000 slipped off on 29 May 2020 to the river and this could not be recovered.
- xiv. There was 3 days delay in the unloading of the plant at Charfassion and the cargo vessel will charge an extra BDT 1,000,000 per day.
- xv. Unloading cost of BDT 2,500,000 was incurred and invoice was raised by SICHO, project logistics partner of DHL on 2nd June 2020. Payment was made in a week time.

- xvi. Insurance companies pay claim amount to BDT BDT 2,500,000 on June 10, 2020
- xvii. Upon request by WARTSILA, EGCB deployed site security starting from the 5th of June 2019 which will cost BDT 450,000 per month and payment is to be made quarterly in arrear.
- xviii. Plant installation completed on 15 Sep 2020.
- xix. Test run with rented generator carried on 15 Sept 2020 and certified that the plant capacity is 18,750 KW;
- xx. EGCB has applied for contract variation on 15 Sept 2020 for the shortage of 1250 KW;
- xxi. WARTSILA confirmed variation of contract by \$ 625,000 on 17 Sept 2020;
- xxii. Payment was made on 18 Sept 2020;
- xxiii. WARTSILA sent tool box through DHL under door to door delivery on 1 December 2020
- xxiv. EGCB which are to source power for running said plant failed to arrange the same by June 30, 2021 thus the electric generation couldn't be commenced.
- xxv. The plant was fully operational on 1st January 2022;
- xxvi. The Exchange Rates are:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019								82			83.5	
2020		83		83.5	83	83.75		84			84	
2021		84	84.5	85	85	85.25		84			83.75	
2022	84	86		86.25	85.5	86				86.25		

Requirement:

Pass necessary Journal entries in the books of EGCB & write down workings:

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5. PQR Limited (PQR) reported the following activities and results at the time of finalizing its financial statements for the year ended 31 December 2021:
 - i) Advertising cost incurred BDT 15 million. This cost is to be allowed as tax deduction over 5 years from 2021 to 2025.
 - ii) Trade and other payables amounted to BDT 40 million as on 31 December 2021 which includes unearned commission of BDT 10 million. Commission is taxable when it is earned by the company. Tax base of remaining trade and other payables is BDT 25 million.
 - iii) Other receivables amounted to BDT 17 million as on 31 December 2021 which includes dividend receivable of BDT 8 million. Dividend income was taxable on receipt basis at 20% in 2021. Tax base of remaining other receivables is BDT 6 million.
 - iv) On 1 April 2021, PQR invested BDT 40 million in a fixed deposit account for one year at 10% per annum. Interest will be received on maturity. Interest was taxable on receipt basis at 10%.
 - v) On 1 January 2020, a machine was acquired on lease for a period of 4 years at annual lease rental of BDT 28 million, payable in advance. Interest rate implicit in the lease is 10%. Under the tax laws, payments are allowed on cash basis in the year of payment.
 - vi) Details of fixed assets are as follows:
 - On 1 January 2017 PQR acquired a plant at a cost of BDT 250 million. It has been depreciated on straight line basis over a useful life of six years. PQR is also obliged to incur decommissioning cost of BDT 50 million at the end of useful life of the plant. Applicable discount rate is 8%.
 - On 1 July 2021 PQR sold one of its four buildings for BDT 60 million. These buildings were acquired on 1 January 2017 at a cost of BDT 100 million each having useful life of 30 years.

The dismantling costs will be allowed for tax purposes when paid. Tax depreciation rate for all owned fixed assets is 10% on reducing balance method. Further, full year's tax depreciation is allowed in year of purchase while no depreciation is allowed in year of disposal. Applicable tax rate is 30%.

Requirement:

Compute the deferred tax liability/asset to be recognised in PQR Limited's statement of financial position as on 31 December 2021. Show detail calculation.

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6. The summarized statements of financial position of BK Ltd and CK Ltd as at 31 December 2021 are as follows:

	BK Ltd.		CK Ltd.	
	Amount in Tk.	Amount in Tk.	Amount in Tk.	Amount in Tk.
ASSETS				
Non-current assets				
Property, plant and equipment		80,000		58,200
Investment		<u>84,000</u>		<u>-</u>
		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	<u>-</u>		<u>3,200</u>	
		90,700		41,800
Total assets		<u>254,700</u>		<u>100,000</u>
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		<u>56,000</u>		<u>13,000</u>
Total equity		217,000		89,000
Current liabilities				
Trade and other payables	35,000		11,000	
Current account - CK Ltd	<u>2,700</u>		<u>-</u>	
		37,700		11,000
Total equity and liabilities		<u>254,700</u>		<u>100,000</u>

The following information is relevant:

- On January 1, 2019 BK Ltd acquired 48,000 shares in CK Ltd for Tk. 84,000 cash when the retained earnings of CK Ltd were Tk. 8,000 and the balance on the revaluation surplus was Tk. 16,000.
- The inventories of BK Ltd include Tk. 4,000 of goods from CK Ltd invoiced to BK Ltd at cost plus 25%.
- A cheque for Tk. 500 from BK Ltd to CK Ltd, sent before 31 December 2021, was not received by the latter company until January 2022.
- An impairment review at 31 December 2021 revealed that an impairment loss of Tk. 500 in respect of goodwill on the acquisition of CK Ltd needs to be recognized. By 1 January 2021 this goodwill had already suffered impairments totalling Tk. 1,700.
- The non-controlling interest and goodwill arising on the acquisition of CK Ltd were both calculated using the proportionate method.

Requirements:

- Prepare the consolidated statement of financial position of BK Ltd and its subsidiary CK Ltd as at 31 December 2021. 15
- Explain the adjustments necessary in respect of intra-group sales when preparing the consolidated statement of financial position of the BK Ltd group. 5

---The End---