

FINANCIAL ACCOUNTING & REPORTING

Time allowed- 3:30 hours
Total marks- 100

November-December 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) Management has incurred significant research costs for a new product. Under IFRS, discuss whether these costs can be recognized as an asset. What conceptual framework principle guides your conclusion? | 3 |
| b) A company enters into a “sale-and-leaseback” transaction where the risks and rewards of ownership have not really transferred. According to accounting concepts, how should this be reported, and why? | 3 |
| c) Management wants to switch from the cost model to the revaluation model for its property assets to improve the balance sheet. Explain under what conditions IFRS allows such a change and which conceptual framework principles apply | 4 |
| d) A government plans to shift from a cash basis to an accrual basis for its central ministries. Explain the main conceptual changes this shift introduces and why the change improves the quality of public financial reporting. | 4 |
| e) A ministry reports actual expenditure of Tk. 850 million against an approved budget of Tk. 780 million. Discuss the accountability implications of this variance and outline the key disclosures needed under good public financial management practices. | 3 |
| 2. The abridged statements of financial position and income statements of Dhaka Limited and its foreign subsidiary Kathmandu Limited appear below: | |

Draft Statement of Financial Position as at 31 December 2024

	Dhaka Limited		Kathmandu Limited	
	Tk.	Tk.	Rs.	Rs.
ASSETS				
Non-current assets				
Plant at cost	750,000		650,000	
Depreciation	<u>(275,000)</u>		<u>(225,000)</u>	
		475,000		425,000
Investment in Kathmandu Limited (5,000 shares @ Tk. 15 per share)		<u>75,000</u>		<u>-</u>
		550,000		425,000
Current assets				
Inventories	245,000		225,000	
Receivables	<u>165,000</u>		<u>115,000</u>	
		<u>410,000</u>		<u>340,000</u>
		<u>960,000</u>		<u>765,000</u>
EQUITY AND LIABILITIES				
Equity				
Ordinary shares (Tk. 100/Rs. 100)	450,000		150,000	
Retained earnings	<u>325,000</u>		<u>190,000</u>	
		775,000		340,000
Long-term loans		65,000		250,000
Current liabilities		<u>120,000</u>		<u>175,000</u>
		<u>960,000</u>		<u>765,000</u>

Income statement for the year ended 31 December 2024

	Dhaka Limited	Kathmandu Limited
	Tk.	Rs.
Profit before tax	250,000	190,000
Tax	<u>(125,000)</u>	<u>(95,000)</u>
	<u>125,000</u>	<u>95,000</u>

The following further information is given

- (i) Dhaka Limited has had its interest in Kathmandu Limited since the incorporation of the company
- (ii) Depreciation is 8% per annum on cost
- (iii) The equity value of Kathmandu Limited at 31 December 2023 was Rs. 245,000
- (iv) There have been no loan repayments or movements in non-current assets during the year. The opening inventory of Kathmandu Limited was Rs. 125,000. Assume that inventory turnover times are very short.
- (v) Exchange rates:
 - Rs. 4.5 to Tk. 1 when Kathmandu Limited was incorporated
 - Rs. 3 to Tk. 1 when Kathmandu Limited acquired its long term assets
 - Rs. 2.25 to Tk. 1 on 31 December 2023
 - Rs. 1.8 to Tk. 1 average rate of exchange year ending 31 December 2024
 - Rs. 1.3 to Tk. 1 on 31 December 2024.

Requirements:

- a) Prepare the summarized consolidated income statement and statement of financial position of Dhaka Limited using the Tk. as the presentation currency. 10
 - b) Calculate the exchange difference and prepare a separate statement of comprehensive income showing other comprehensive income. 5
3. a) Nice Travel Limited (NTL), a private limited company with its registered office in Chittagong, entered into a contract during the year ended 30 June 2025 to purchase an electric vehicle (EV) from a Chinese supplier at an agreed price of USD 200,000.

Payment Terms:

- 30% of the contract value payable in advance on 1 December 2024
- 40% payable on 31 March 2025, at the time of shipment
- The remaining 30% payable on 31 July 2025, after successful completion of the test run

The shipment terms are FOB shipping point, and all transactions were carried out as scheduled, with payments made on time. The applicable exchange rates for the relevant dates are as follows:

<u>Date</u>	<u>Rate</u>
01 December 2024	\$1 = Tk. 120.50
31 March 2025	\$1 = Tk. 122.00
30 June 2025	\$1 = Tk. 122.30
31 July 2025	\$1 = Tk. 122.10

Requirement:

- Prepare journals to show how the above contract should be accounted for under IAS 21. 6
- b) Prepare correcting entries and Adjusting entries for Year 01 of the following transactions in accordance with IFRS 15 'Revenue from Contracts with Customers':
 - i) On 1 January 2025, Delta Machines Ltd sold an industrial press to a customer for Tk. 500,000, payable after three years. The press was delivered immediately, and control transferred on delivery. The company's incremental borrowing rate is 8%. The accountant recognised Tk. 500,000 as revenue on 1 January 2025. In addition, sales commission of Tk. 25,000 was paid to the salesperson at contract inception for obtaining the contract and expect to recover over the period. This was recorded as an expense by the accountant. (Financial Year ending 31 December 2025). 5

ii) On 01 October 2024, Ravi Engineering Ltd entered into a Tk. 40 million contract to design and construct a unique filtration system for a chemical plant. The contract meets the criteria for revenue recognition over time under IFRS 15. Estimated total cost: Tk. 28 million. Actual costs incurred to date (as of 30 June 2025): Tk. 18 million. Customer payments received to date: Tk. 10 million. The accountant recognised revenue equal to cash received and carried all costs to inventory. 4

4. a) Identify which of the following are financial instruments, financial assets, financial liabilities, equity instruments or derivatives and for which company. 6

- i) Omega Ltd sells Tk. 500,000 of inventory to Guardian Ltd on 30 day payment terms.
- ii) Akhi Ltd pays Tk. 200,000 for a twelve month insurance policy in advance.
- iii) Deepti Ltd a wholly owned subsidiary of Shakti Ltd, declares a dividend of Tk. 500,000 payable in three months' time.
- iv) Tally Ltd enters into a contract to sell US\$ 4.5 million in six months' time for Tk. 200,000
- v) Wellbeing Ltd issues 100,000 ordinary shares which are acquired by KM Ltd.
- vi) Brown Ltd borrows Tk. 2 million under a mortgage from Yellow Ltd.

b) Bold Ltd made an advance to Heroic Ltd of Tk. 1,000,000 on 1 June 2022. Bold Ltd incurred professional fees of Tk. 50,000 on agreeing the terms and the time cost of Bold Ltd's treasury team in negotiating the loan was estimated at Tk. 30,000. The key features of the loan agreement were as follows:

- (i) The term of the loan was four years
- (ii) Four repayment of capital and interest of Tk. 300,000 were due on 31 May 2023 and each year thereafter.
- (iii) The effective interest rate was calculated by the Bold Ltd treasury department at 7%

Heroic Ltd made the first repayment on 31 May 2023 but failed to make the repayment on 31 May 2024. Bold Ltd agreed to forgive the non-payment and to re-schedule the repayment by accepting two further repayment of Tk. 450,000 per annum on 31 May 2025 and 31 May 2026.

The following is an extract from the accounting policy of Bold Ltd:

"Advances made to third parties are classified under BAS-39 as loans and receivables"

Requirement:

Explain, using extracts from the financial statements, the financial reporting treatment for the loan in the financial statements of Bold Ltd for the year ended 31 May 2023 and subsequent years. 10

5. Dhaka Limited has a number of subsidiaries, one of which, Sylhet Limited, was sold in the current year. The draft accounts for the Dhaka Group (being Dhaka Limited and the subsidiaries it still owns) and Sylhet Limited at 30 June 2024 are as follows:

Statement of financial position

	Dhaka Limited Tk. in million	Sylhet Limited Tk. in million
Intangibles - goodwill	3,500	-
Investment in Sylhet Limited at cost	3,440	-
Sundry assets	39,450	8,500
	<u>46,390</u>	<u>8,500</u>
Equity attributable to owners of parent		
Share capital (Tk. 10 ordinary shares)	8,000	3,000
Retained earnings	11,000	3,500
	<u>19,000</u>	<u>6,500</u>
Non-controlling interest	12,000	-
Total equity	31,000	6,500
Liabilities	6,500	2,000
Sales proceeds account	8,890	-
	<u>46,390</u>	<u>8,500</u>

Statement of Profit or Loss	Dhaka Limited Tk. in million	Sylhet Limited Tk. in million
Profit before tax	12,950	3,800
Income tax expenses	(5,400)	(2,150)
	<u>7,550</u>	<u>1,650</u>
Profit attributable to:		
Owners of Dhaka Limited	5,050	
Non-controlling interest	2,500	
	<u>7,550</u>	

Statement of changes in equity

	Dhaka Limited			Non-controlling interest	
	Attributable to owners of Dhaka Limited			Non-controlling interest	Total
	Share capital	Retained earnings	Total		
	Tk. in million	Tk. in million	Tk. in million	Tk. in million	Tk. in million
Balance b/f	8,000	5,950	13,950	9,500	23,450
Total comprehensive income for the year	-	5,050	5,050	2,500	7,550
Balance c/f	<u>8,000</u>	<u>11,000</u>	<u>19,000</u>	<u>12,000</u>	<u>31,000</u>

	Sylhet Limited Retained earnings Tk. in million
Balance b/f	1,850
Total comprehensive income for the year	1,650
Balance c/f	<u>3,500</u>

Dhaka Limited acquired 90% of Sylhet Limited when the retained earnings of Sylhet Limited were Tk. 700 million. In an earlier accounting period an impairment loss of Tk. 20 million was recognized in relation to the goodwill acquired in the business combination with Sylhet Limited.

On 31 March 2024 Dhaka Limited sold all its shares in Sylhet Limited for Tk. 8,890 million. Dhaka Limited has debited cash and credited a sales proceeds account in the statement of financial position with this amount, as it is unsure what entries are needed.

Requirements:

- a) Prepare the Dhaka Group consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of changes in equity for the year ended on 30 June 2024 22
 - b) The definition of a discontinued operation is very important but applying that definition requires difficult judgement - explain with examples. 3
6. a) The following information was disclosed during the audit of Zaheen Ltd.
- 1)

	Amount Due Year per Tax Return
2024	Tk. 130,000,000
2025	104,000,000
 - 2) On January 1, 2024, equipment costing Tk 600,000,000 is purchased. For financial reporting purposes, the company uses straight-line depreciation over a 5-year life. For tax purposes, the company- uses the double-declining balance method over 5 years.

- 3) In January 2025, Tk 225,000,000 is collected in advance rental of a building for a 3-year period. The entire Tk 225,000,000 is reported as taxable income in 2025, but Tk 150,000,000 of the Tk 225,000,000 is reported as unearned revenue in 2025 for financial reporting purposes. The remaining amount of unearned revenue is to be recognized equally in 2026 and 2027.
- 4) The tax rate is 40% in 2024 and all subsequent periods. (To find taxable income in 2024 and 2025, the related income taxes payable amounts will have to be "grossed up.")
- 5) No temporary differences existed at the end of 2023. Zaheen expects to report taxable income in each of the next 5 years.

Requirements:

- i) Determine the amount to report for deferred income taxes at the end of 2024, and indicate how it should be classified on the statement of financial position.
 - ii) Prepare the journal entry to record income taxes for 2024.
 - iii) Draft the income tax section of the income statement for 2024, beginning with "Income before income taxes".
 - iv) Determine the deferred income taxes at the end of 2025 and indicate how they should be classified on the statement of financial position.
 - v) Prepare the journal entry to record income taxes for 2025.
 - vi) Draft the income tax section of the income statement for 2025, beginning with "Income before income taxes."
- b) Tulip Co. follows the practice of valuing its inventory at the Lower of Cost or NRV. The following information is available" from the company's inventory records as of December 31, 2024 (amounts in thousands).

		Unit	Estimated Selling	Completion & Selling
Item	Quantity	Cost	Price/Unit	Cost/Unit
A	1,100	Tk. 7.50	Tk. 10.50	Tk. 1.50
B	800	8.20	9.40	1.30
C	1,000	5.60	7.20	1.75
D	1,000	3.80	6.30	1.80
E	1,400	6.40	6.70	0.70

Requirements:

Jafor is an accounting clerk in the accounting department of Tulip Co., and he cannot understand how completion and selling costs affect the determination of net realizable value. Jafor is very confused, and he is the one who records inventory purchases and calculates ending inventory. You are the manager of the department and an accountant.

- i) Calculate the LCNRV using the "individual-item" approach.
- ii) Show the journal entry he will need to make in order to write down the ending inventory from cost to market.

---The End---