

**CMA JANUARY 2022 EXAMINATION
 INTERMEDIATE LEVEL I
 INTERMEDIATE FINANCIAL ACCOUNTING**

Course Code : FR222	Total Marks : 100
Reading Time : 15 minutes	Writing Time : 180 minutes

Instructions to Candidates

- You **MUST NOT** write anything during the reading time.
- You should attempt **ALL** questions.
- Answers should be properly structured and relevant.
- Carefully read **ALL** the requirements and sub-questions before attempting a specific question.
- **ALL** answers must be written in the answer book.
- **AVOID WRITING/MARKING** on the question paper at any time which may cause disciplinary action.
- Start answering each question from a fresh sheet.
- Answers should be clearly numbered with the sub-question number.

Allowable Materials

- Writing Stationaries
- Non-programmable Calculator

Assessment Structure

			<i>Sub-question</i>	<i>Marks</i>	<i>Expected Time Required</i>
Section A	Question 1	Multiple-choice questions	10	10	20 minutes
	Question 2	Modified True/False	5	5	10 minutes
	Question 3	Matching	5	5	10 minutes
Section B	Question 4	Essay/Computational/Case	2	20	32.50 minutes
	Question 5	Essay/Computational/Case	3	20	32.50 minutes
	Question 6	Essay/Computational/Case	3	20	32.50 minutes
	Question 7	Essay/Computational/Case	-	20	32.50 minutes
Revision					10 minutes
Total				100	180 minutes

RESTRICTED USE

This paper **MUST NOT BE REMOVED** from the examination venue

Do not turn the page until instructed

SECTION A [20 MARKS]

THERE ARE 3 (THREE) QUESTIONS IN THIS SECTION. ANSWER ALL THE QUESTIONS IN THE ANSWER SCRIPT FOLLOWING THE EXAMPLE PROVIDED FOR THE SPECIFIC QUESTION.

QUESTION 1

[10 × 1 = 10 MARKS]

There are ten (10) multiple-choice questions with five options. Pick the option that best explains the given question. Write your answer on the answer script [DO NOT PUT ANY MARK ON THE QUESTION PAPER]. Follow the example given below in providing your answer.

Example:

- (i) ICMAB stands for the –
- (a) Institute of Cost Management Accounting of Bangladesh
 - (b) Institute of Cost and Management Accountants of Bangladesh
 - (c) Institute for Cost Managers and Accounting of Bangladesh
 - (d) Institute of Cost Management Accountants of Bangladesh
 - (e) Industrial Cost Management Accountants of Bangladesh

Answer: (i) (b)

- (i) The underlying theme of the conceptual framework is
- (a) Decision usefulness.
 - (b) Understandability.
 - (c) Faithful representation.
 - (d) Comparability.
 - (e) Consistency.
- (ii) Expensing the cost of a wastebasket with an estimated useful life of 10 years when purchased is an example of the application of the
- (a) Consistency characteristic.
 - (b) Expense recognition principle.
 - (c) Materiality ingredient.
 - (d) Historical cost principle.
 - (e) Fair value principle.
- (iii) During the year ended 30 September 20X6, Kidderminster Ltd produced 10,000 widgets, compared to a normal production level of 12,000 widgets. 1,000 finished widgets were held at the year end. Production costs incurred for the year were as follows.

	CU
Raw materials	100,000
Direct labour	50,000
Variable overheads	40,000
Fixed overheads	120,000

In accordance with BAS 2 *Inventories*, what is the value of Kidderminster Ltd's finished goods at 30 September 20X6?

- (a) CU19,000
- (b) CU25,000
- (c) CU29,000
- (d) CU31,000
- (e) CU15,000

(iv) For a recent year a corporation's financial statements reported the following:

Net Income	Tk. 100,000
Depreciation expense	10,000
Increase in accounts receivable	30,000
Decrease in accounts payable	15,000

Based on the above information, what amount will the corporation report as Net Cash Provided by Operating Activities on the cash flow statement?

- (a) 65,000
 - (b) 75,000
 - (c) 125,000
 - (d) 155,000
 - (e) 165,000
- (v) Among the short-term obligations of Larsen Company as of December 31, the balance sheet date, are notes payable totaling Tk. 250,000 with the One Bank. These are 90-day notes, renewable for another 90-day period. These notes should be classified on the statement of financial position of Larsen Company as
- (a) Current liabilities.
 - (b) Deferred charges.
 - (c) Long-term liabilities.
 - (d) Intermediate debt.
 - (e) Current assets
- (vi) Mario Ltd purchased a machine for CU50,000 on 1 January 20X1. The machine was judged to have a five-year life with a residual value of CU5,000. On 31 December 20X2 CU15,000 was spent on an upgrade to the machine. This extended its remaining useful life to five years, with the same residual value. During 20X3, the market for the product declined and the machine was sold on 1 January 20X4 for CU7,000. According to BAS 16 *Property, Plant and Equipment*, what was the loss on disposal?
- (a) CU31,000
 - (b) CU35,000
 - (c) CU35,600
 - (d) CU31,600
 - (e) CU38,600
- (vii) On 1 June 20X5 Aretoo Ltd acquired a machine under a finance lease. The machine would have had a cash price of CU24,000 but Aretoo Ltd agreed to pay a deposit of CU6,000 and ten quarterly repayments of CU2,600 each, starting on 31 August 20X5. The charge for interest is to be spread over the period of the lease on the sum-of-digits basis. In accordance with BAS 17 *Leases* how much interest would be allocated to the fourth quarterly repayment?
- (a) CU1,067
 - (b) CU1,018
 - (c) CU800
 - (d) CU582
 - (e) CU8,000
- (viii) A non-current asset has a carrying amount of CU20,000. It could be sold for CU18,500 with selling costs of CU500. Its value in use is CU22,000 and its replacement cost CU50,000. According to BAS 36 *Impairment of Assets* what is the recoverable amount of this asset?
- (a) CU18,000
 - (b) CU20,000
 - (c) CU22,000
 - (d) CU50,000
 - (e) CU18,000

- (ix) During the year ended 30 June 20X3, Emily Ltd spent CU300,000 on the development of a new range of garden machinery. In order to carry out this work, Emily Ltd purchase some highly specialised equipment, on 1 July 20X2 at a cost of CU100,000. The equipment is expected to have a useful life of five years and is to be depreciated over that period by the straight-line method. According to BAS 38 *Intangible Assets*, what is the maximum amount that Emily Ltd can carry forward as development expenditure as at 30 June 20X3?
- (a) CU100,000
 (b) CU300,000
 (c) CU320,000
 (d) CU400,000
 (e) CU350,000
- (x) Which of the following is a temporary difference classified as a revenue or gain that is taxable after it is recognized in financial income?
- (a) Subscriptions received in advance.
 (b) Prepaid royalty received in advance.
 (c) An installment sale accounted for on the accrual basis for financial reporting purposes and on the installment (cash) basis for tax purposes.
 (d) Interest received on a municipal obligation.
 (e) None of these.

QUESTION 2

[5 × 1 = 5 MARKS]

There are five (5) statements given under the question. Identify the statements as True or False. If the statement is false, rewrite the statement on the answer script to make it 'True'. Reasoning is NOT required. Follow the example given below in providing your answer.

Example:

(a) ICMAB stands for the Industrial Cost Management and Accounting of Bangladesh.

Answer:

(a) False. ICMAB stands for the Institute of Cost and Management Accountants of Bangladesh.

Note:

- You will not get any mark if you simply rewrite as ICMAB *does not* stand for the Industrial Cost Management Accountants of Bangladesh.
- If the statement is true, you need NOT to rewrite the statement rather only mention that the statement is *True*.

- (a) The objective of financial reporting is to prepare a statement of financial position, a statement of comprehensive income, a statement of cash flows, and a statement of changes in equity.
- (b) Comparability pertains only to the reporting of information in a similar manner for different companies.
- (c) A short-term obligation can be excluded from current liabilities if the company intends to refinance it on a long-term basis and demonstrates the ability to consummate the refinancing.
- (d) A building owned by a corporation is ALWAYS classified as PPE.
- (e) Costs incurred internally to create intangibles are generally the basis for recording intangible assets, which are then amortized over the estimated life of the intangible asset.

QUESTION 3**[5 × 1 = 5 MARKS]**

Match the items of column A with the most suitable items of column B. Match only one item of column A with one item of column B. Write your answer on the answer script. Follow the example given below in providing your answer.

Example:	
Column A	Column B
1. ICMAB	(a) Professional accountancy body (b) University
Answer: 1 (a)	

Items	Assumptions, Principles, and Constraint
1. Fair value changes are not recognized in the accounting records.	(a) Monetary Unit assumption (b) Revenue and expense recognition
2. Intangible assets are capitalized and amortized over periods benefited.	(c) Going concern (d) Historical cost principle
3. The use of consolidated statements is justified.	(e) Accrual basis (f) Cost constraint
4. All payments out of petty cash are charged to Miscellaneous Expense.	(g) Full disclosure (h) Economic Entity assumption
5. Rationale for accrual accounting.	(i) Periodicity (j) Expense recognition

END OF SECTION A

SECTION B [80 MARKS]

THERE ARE 4 (FOUR) QUESTIONS IN THIS SECTION. ANSWER ALL THE QUESTIONS IN THE ANSWER SCRIPT. SHOW ALL RELEVANT COMPUTATION.

QUESTION 4**[3+5+ (8+4) = 20 MARKS]**

- (a) In a company's cash flow statement prepared in accordance with IAS 7 Cash Flow Statements, a revaluation of non-current assets during the year will be shown under cash flows from operating activities. Do you agree? Why or why not? Explain.
- (b) The following is a summary of all relevant transactions of Vicario Co. since it was organized in 2015.

In 2015, 15,000 shares were authorized and 7,000 ordinary share (Tk.50 par value) were issued at a price of Tk. 57. In 2016, 1,000 were issued as a share dividend when a share was selling for Tk. 60. Three hundred ordinary shares were brought in 2017 at a cost of Tk. 64 per share. These shares are still in the company treasury.

In 2016, 10,000 preference shares were authorized and the company issued 5,000 of them (Tk. 100 par value) at Tk. 113. Some of the preference shares were reacquired by the company and later reissued for Tk. 4,700 more than it cost the company.

The company has earned a total of Tk. 610,000 in net income and paid out a total Tk. 312,600 in cash dividends since incorporation.

Required:

Prepare the equity section of the statement of financial position in proper form for Vicario Co. as of December 31, 2017. Account for treasury shares using the cost method.

(c) Comparative balance sheet accounts of XYZ company is presented below:

Debit Accounts	December 31	
	2019	2020
Cash	51,000	70,000
Accounts Receivable	130,000	155,000
Merchandise Inventory	61,000	75,000
Investments	85,000	55,000
Equipment	48,000	70,000
Buildings	145,000	145,000
Land	25,000	40,000
	545,000	610,000
Credit Accounts		
Allowance for doubtful accounts	8,000	10,000
Accumulated depreciation- Equipment	14,000	21,000
Accumulated depreciation- Buildings	28,000	37,000
Accounts Payable	60,000	66,000
Income Tax Payable	10,000	12,000
Long term note payable	70,000	62,000
Common Stock	2,60,000	310,000
Retained Earnings	95,000	92,000
	545,000	610,000

Additional data:

1. Common stock was issued in exchange for land.
2. Equipment that cost Tk. 10,000 and was 60% depreciated was sold in 2020.
3. Cash dividends were declared and paid declared during the year.
4. Investment that cost Tk. 35,000 were sold during the year.
5. There were the no write offs of uncollectible accounts during the year.

XYZ's 2020 income statement is as follows:

	Tk.
Sales	9,50,000
Less: Cost of goods sold	6,00,000
Gross Margin	350,000
Less: Operating Expenses (includes depreciation and bad debts)	250,000
Income from Operations	1,00,000
Other: Gain on sale of investments	15,000
Loss on sale of machinery	(3000)
Income before taxes	1,12,000
Income Tax	45,000
Net Income	67,000

Required:

- (i) Prepare a statement of Cash Flows using the indirect method.
- (ii) Compute net cash flows from operating activities using the direct method.

QUESTION 5

[4+6+10 = 20 MARKS]

- (a) The Yau Enterprise Company signed a non-cancellable lease for a property, Hyde Court, on 1 January 2004. The lease was for a period of 10 years, at an annual rental of £480,000 payable in arrears.

On 31 December 2007, Yau Enterprise vacated Hyde Court to move to larger premises. Yau Enterprise has the choice of signing a contract to sub-lease Hyde Court at an annual rental of £120,000 for the remaining six years of the lease, payable in arrears, or immediately to pay compensation of £2.2 million to Hyde Court's landlord. 5% is the pre-tax rate that reflects the time value of money and the risk specific to these liabilities. The cumulative present value of £1 for 6 years at an interest rate of 5% is £5.076.

Required:

What provision should appear in the statement of financial position of Yau Enterprise at 31 December 2007 under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*?

- (b) To stimulate the sales of its Alladin breakfast cereal, Loptien Company places 1 coupon in each box. Five coupons are redeemable for a premium consisting of a children's hand puppet. In 2020, the company purchases 40,000 puppets at Tk. 1.5 each and sells 4,80,000 boxes of Alladin at Tk. 3.75 a box. From its experience with other similar premium offers, the company estimates that 40% of the coupons issued will be mailed back for redemption. During 2020, 1,15,000 coupons are presented for redemption.

Required:

Prepare the journal entries that should be recorded in 2020 relative to the premium plan.

- (c) Assume that on January 1, 2015, Peking Duck Co. sells a computer system to Liquidity Finance Co. for ¥510,000 and immediately leases the computer system back. The relevant information is as follows.

1. The computer system was carried on Peking's books at a value of ¥450,000.
2. The term of the non-cancelable lease is 10 years; title will transfer to Peking.
3. The lease agreement requires equal rental payments of ¥83,000.11 at the end of each year.
4. The incremental borrowing rate for Peking is 12%. Peking is aware that Liquidity Finance Co. set the annual rental to ensure a rate of return of 10%.
5. The computer system has a fair value of ¥510,000 on January 1, 2015, and an estimated economic life of 10 years.
6. Peking pays executory costs of ¥9,000 per year.

Instructions:

Prepare the journal entries for both the lessee and the lessor for 2015 to reflect the sale-leaseback agreement.

QUESTION 6

[4+10+6 = 20 MARKS]

- (a) Shinobi Inc. had a manufacturing plant in Darfur, which was destroyed in the civil war. It is not certain who will compensate Shinobi for this destruction, but Shinobi has been assured by governmental officials that it will receive a definite amount for this plant. The amount of the compensation will be less than the fair value of the plant but more than its book value. How should the compensation be reported in the financial statements of Shinobi Inc.?

- (b) The following information is related to Rommel Company.

1. On July 6, Rommel Company acquired the plant assets of Studebaker Company, which had discontinued operations. The appraised value of the property is:

Land	Tk. 400,000
Building	1,200,000
Machinery	800,000
Total	Tk. 2,400,000

Rommel Company gave 12,500 shares of its Tk. 100 par value ordinary shares in exchange. The shares had a market price of Tk. 180 per share on the date of the purchase of the property.

2. Rommel Company expended the following amounts in cash between July 6 and December 15, the date when it first occupied the building.

Repairs to building	Tk. 105,000
Construction of bases for machinery to be installed later	135,000
Driveways and parking lots	122,000
Remodeling of office space in building, including new partitions and walls	161,000
Special assessment by city on land	18,000

3. On December 20, the company paid cash for machinery, Tk. 280,000, subject to a 2% cash discount, and freight on machinery of Tk. 10,500.

Required:

Prepare entries on the books of Rommel Company for these transactions.

- (c) Determine the ending inventory under the conventional retail method for the furniture department of Mayron Department Stores from the following data (amounts in thousands). (Round to nearest percent.)

	Cost	Retail
Inventory, Jan. 1	Tk. 149,000	Tk. 283,500
Purchases	1,400,000	2,160,000
Freight-in	70,000	
Markups, net		92,000
Markdowns, net		48,000
Sales		2,175,000

If the results of a physical inventory indicated an inventory at retail of Tk. 295,000, what inferences would you draw?

QUESTION 7

[6+6+8 =20 MARKS]

- (a) On June 30, 2007, Mendenhal Company issued 8% bonds with a par value of Tk. 600,000 due in 20 years. They were issued at 82.8414 to yield 10% and were callable at 104 at any date after June 30, 2015. Because of lower interest rates and a significant change in the company's credit rating, it was decided to call the entire issue on June 30, 2016, and to issue new bonds. New 6% bonds were sold in the amount of Tk. 800,000 at 112.5513 to yield 5%; they mature in 20 years. Interest payment dates are December 31 and June 30 for both old and new bonds.

Required:

- (i) Prepare journal entries to record the retirement of the old issue and the sale of the new issue on June 30, 2016. Unamortized discount is Tk. 78,979.
 - (ii) Prepare the entry required on December 31, 2016, to record the payment of the first 6 months' interest and the amortization of premium on the bonds.
- (b) A company owns inventories of 40,000 gallons of oil which cost £800,000 on 1 December 20X3. In order to hedge the fluctuation in the market value of the oil, on 1 December 20X3 the company signs a futures contract to deliver 40,000 gallons of oil on 31 March 20X4 at the futures price of £22 per gallon. The market price of oil on 31 December 20X3 is £22.25 per gallon and the futures price at that date for delivery on 31 March 20X4 is £24 per gallon.

Required:

Explain how these transactions should be accounted for at 31 December 20X3:

- (i) Without hedge accounting
 - (ii) With hedge accounting.
- (c) The following information is available for Remmers Corporation for 2015.
1. Depreciation reported on the tax return exceeded depreciation reported on the income statement by \$160,000. This difference will reverse in equal amounts of \$40,000 over the years 2016–2019.
 2. Interest received on governmental bonds was \$10,000.
 3. Rent collected in advance on January 1, 2015, totaled \$90,000 for a 3-year period. Of this amount, \$60,000 was reported as unearned at December 31 for book purposes.
 4. The tax rates are 40% for 2015 and 30% for 2016 and subsequent years.
 5. Income taxes of \$320,000 are due per the tax return for 2015.
 6. No deferred taxes existed at the beginning of 2015.

Instructions:

- (i) Compute taxable income for 2015.
- (ii) Compute pretax financial income for 2015.
- (iii) Prepare the journal entries to record income tax expense, deferred income taxes, and income taxes payable for 2015 and 2016. Assume taxable income was \$980,000 in 2016.

END OF SECTION B
