CMA JANUARY-2022 EXAMINATION
ADVANCED LEVEL I
FR342: ADVANCED FINANCIAL REPORTING

MODEL SOLUTION

Solution of the Q. No. 1

(a) Concern exists about fraudulent financial reporting because it can undermine the entire financial reporting process. Failure to provide information to users that is accurate can lead to inappropriate allocations of resources in our economy. In addition, failure to detect massive fraud can lead to additional governmental oversight of the accounting profession.

(b) Some major challenges facing the accounting profession relate to the following items:

Nonfinancial measurement—how to report significant key performance measurements such as customer satisfaction indexes, backlog information and reject rates on goods purchased.

Forward-looking information—how to report more future oriented information.

Soft assets—how to report on intangible assets, such as market know-how, market dominance, and well-trained employees.

Timeliness—how to report more real-time information.

(c)

Consolidated statement of changes in equity
For the year ended on 31/12/21

Particulars	***Parents shareholdings***	***NCI holding***
Equity b/d (w4 & w5)	168,000	26,000
Comprehensive income (w3 & w2)	34,585	2,415
Less: Divided		
Parents dividend	(10,000)	
NCI% ×sub. Dividend		(200)
Transfer between owners (w6)	3,935	13,935
Equity c/d (w7 & w8)	196,520	14,280

W1:
At 1/1/20 hold 80% share
At 30/9/21 held 10% share
Total holding is 90%

W-2: NCI share of comprehensive income

Upto 30/9/21	13,800×9/12×20%	= 2070
From 1 October	13,800×3/12×10%	= 345
Total		= 2415

W-3: Parent share of comprehensive income

P***articulars***	***Amount in Tk***
Parent com. Income	24,000
Less: inter –company dividend (80%×1000)	(600)
Parent share of sub. Com. Income [13,800 – 2415 (w-2)]	11385
Total parent share of comprehensive income	34,585

W-4: Parents's share of equity b/d

Parents equity b/d	156,000
Subsidiry's equity [80% × (80,000-65,000)]	12,000
Total Parents's share of equity	168,000

W-5: NCI share of equity b/d	
Acquisition of NCi at fair value	23,000
NCI% × Post acquisition reserve	3,000
[20% × (80,000-65,000)]	
Total NCI share of equity	26,000

W-6: Transfer between owners	
NCI b/d (w-5)	26,000
NCI share of comprehensive income to 30/9/21(w-2)	2070
NCI dividend paid 30 June	(200)
Carrying value of NCI prior to transfer	27,870
Proportion transferred to parent [(10/20) × 27870]	13,935
Decrease in NCI at date of transfer	13,935
Cash paid by parent	(10,000)
Increase in equity attributable to parent	3935

W-7 Post-Acquisition reserves of Lutful & Company	
Net assets (equity b/d)	80,000
Comprehensive income to 30/9/21[(9/12) ×13,800]	10,350
Dividends paid 30/6/21	(1,000)
Net Assets at 30/9/21	89,350
Less: Net assets at acquisition	(65,000)
Post-acquisition reserves to 30/9/21	24,350
Post-acquisition reserves from Oct 1 to Dec. 31 [(3/12) × 13,800]	3450

W-8: Parents share of equity b/d:

Parents equity c/d	170,000
Sub. P% ×post-acquisition reserve	
[80%× 24,350 (w-7)]	19,480
Adjustment repurchase of additional 10% (w-6)	3,935
Proportionate post acq. reserve.[90%× 3450(w-7)]	3,105
	196,520

W-9: NCI share of equity c/d:

NCI acquisition at fair value	23,000
NCI% ×post-acquisition reserve	
[20%× 24,350 (w-7)]	4,870
Adjustment repurchase of additional 10% (w-6)	(13,935)
Proportionate post acq. reserve.[10%× 3450(w-7)]	345
	14,280

Solution of the Q. No. 2

(a) Open Ended

(b)

	2017	**2016**
Current ratio	1.05	1.02
Quick ratio	0.97	0.90
Accounts receivable collection period	49.5 days	52.2 days
Inventory turnover period	9.4 days	16.4 days
Accounts payable payment period	42.0 days	39.7 days

The company's current ratio is a little lower than average, but its quick ratio is better than average and very little less than the current ratio. This suggests that inventory levels are strictly controlled, which is reinforced by the low inventory turnover period. It would seem that working capital is tightly managed, to avoid the poor liquidity which could be caused by a long receivables collection period and comparatively high payables.

(c)

Particulars	***Amount***	***Particulars***	***Amount***
Cash	32,720	Accounts payable	120,000
Marketable securities	25,000	Notes payable	180,000
Accounts receivable	197,280	Accruals	20,000
Inventories	225,000	Total current liabilities	300,000
Total current assets	480,000	Long term debt	600,000
Net fixed assets	1,020,000	Stockholders' Equity	600,000
Total assets	1,500,000	Total liabilities & stockholder's equity	1,500,000

Solution of the Q. No. 3

(a) Open Ended

(b) (i)

Debt Investments.. 162,000*
Equity Investments... 37,400
Interest Revenue (Tk.50,000 X .12 X 4/12) 2,000
Investments.. 201,400

*[Tk.110,000 + (Tk.50,000 X 1.04)]
(Note to examiner: Some students may debit Interest Receivable at date of purchase instead of Interest Revenue. This procedure is correct, assuming that when the cash is received for the interest, an appropriate credit to Interest Receivable is recorded.

(ii) **December 31, 2019**

Interest Receivable... 8,025
Debt Investments... 51
Interest Revenue... 7,974

[Accrued interest
Tk.50,000 X .12 X 10/12 = Tk.5,000
Premium amortization
6/236 X Tk.2,000 = (51)
Accrued interest
Tk.110,000 X .11 X 3/12 = 3,025
Tk.7,974]

(iii)

December 31, 2019
Available-for-Sale Debt Portfolio

Securities	Cost	Fair Value	Unrealized Gain (Loss)
Government bonds	110,000	124,700	14,700
McGrath Company bonds	51,949*	58,600	6,651
Total	Tk.161,949	Tk.183,300	21,351
Previous fair value adjustment balance			0
Fair value adjustment—Dr.			Tk.21,351*

(Tk.50,000 X 1.04) – Tk.51

Fair Value Adjustment.. 21,351
Unrealized Holding Gain or Loss—Equity.... 21,351
Unrealized Holding Gain Loss – Income .... Tk. 5,600
Fair Value Adjustment (Tk.37,400 – Tk.31,800) . . . Tk. 5,600

(iv)
July 1, 2020
Cash (Tk.119,200 + Tk.3,025)............................. 122,225
Debt Investments.. 110,000
Interest Revenue (Tk.110,000 X .11 X 3/12)...... 3,025
Gain on Sale of Investments......................... 9,200

Solution of the Q. No. 4

(a) Open Ended

(b) Open Ended

(c)

Journal entries recorded by Belal Company Limited:

Equity Method Entries on Belal Company's Books:

Investment in Khalil Company Limited	120,000	
Preferred Stock		50,000
Additional Paid-in Capital		70,000

Record the initial investment in Khalil Company Limited

Investment in Khalil Company Limited	12,000	
Income from Khalil Company Limited		12,000

Record Belal Company's 30% share of Khalil Company's 2021 income

Cash	3,000	
Investment in Khalil Company		3,000

Record Belal Company's 30% share of Khalil Company's 2021 dividend

Income from Khalil Company	3,161	
Investment in Khalil Company		3,161

Record amortization and depreciation expense of excess acquisition price (amortization Tk. 1,875+ proportion of revaluation reserve1,286)

Solution of the Q. No. 5

Consolidated Statement of Financial Position
as at 30/06/21

Particulars	Amount in thousand Tk.
Property, Plant & Equipment [18,600+7,200+8,500+ 500(w2) – 100 (w2])	34,700
Goodwill (w3)	5,660
Investments (20,000+8,000-12,000-8,000-2,000)	6,000
Current assets:	
Inventory [3,500+1400+800-120 (w-4)]	5,580
Receivables (2100+1100+840)	4,040
Cash & cash equivalent (3,100+2,020+660)	5,780
	61,760
Equity	
Share capital	30,000
Retained Earnings (w-5)	8,372
Non-controlling Interest [3744+5324] (w-6)	9,068
Non-current Liability Long term borrowings[4,000+1,500+500]	6,000
Current Liability Payable [5,000+2,760+560]	8320
	61,760

Working 1: Group structure

ABC will be consolidated 60% from 1/7/2020

PQS will be consolidated as a 46%* from 1/7/20

*XYZ's indirect ownership (60%×60%) =36% and direct ownership 10%

Working 2: Post acquisition reserve

Net Assets of ABC limited:

Particulars	***1/7/20***	***30/6/21***
Share capital	14,000	14,000
Retained Earnings	1,000	1,460
Fair value adjustment	500	500
Depreciation adj. (500*1/5)		(100)
	15,500	15,860

Post-acquisition profits from ABC = 15860-15500= 360

Net Assets of PQS limited:

Particulars	***1/7/20***	***30/6/21***
Share capital	8,000	8,000
Retained earnings	1140	1740
	9140	9740

Post-acquisition profits from PQS = 9740-9140= 600

Working 3: Goodwill

ABC Limited:		
Fair value of parents investment		12,000,000
NCI at fair value		7,000,000
Less: Fair value of net asset at acquisition		(15,500,000)
Goodwill at acquisition		3,500,000
Impairment		(500,000)
Goodwill at reporting date_ABC		3,000,000
PQS Limited:		
Parents investment _ direct		2,000,000
Consideration paid by sub.	8,000	
Indirect Holding adj. (40%*8000)	(3,200)	
Parent's investment _indirect		4,800,000
NCI at fair value		5,000,000
Fair value at acquisition (w2)		(9,140,000)
Goodwill at reporting date_PQS		2,660,000

Goodwill = 3,000,000+ 2,660,000 = 5,660,000

Working 4: Profit in inventory [720* (20/120)] =120

Working 5: Retained Earning

Particulars	***Amounts in Thousand BDT***
Parents reserves	8,300
Less: Profit in inventory (w-4)	(120)
Add: Proportionate post acquisition reserve	
ABC Limited - 60%× 360	216
PQS Limited – 46% × 600	276
Less: Impairment loss(60%× 500)	(300)
	8372

Working 6: Non-controlling Interest

NCI – ABC:

NCI at acquisition (w-3)	7,000
NCI % × post acquisition reserves [40%× 360 (w-2)]	144
NCI % × Impairment loss [40% ×500]	(200)
Indirect Holding Adj. (w-3)	(3200)
	3,744

NCI – PQS:

NCI at acquisition (w-3)	5,000
NCI % × post acquisition reserves [54%× 600 (w-2)]	324
	5,324

= THE END =