

**CMA JANUARY 2022 EXAMINATION
 ADVANCED LEVEL I
 ADVANCED FINANCIAL REPORTING**

Course Code	: FR342	Total Marks	: 100
Reading Time	: 15 minutes	Writing Time	: 180 minutes

Instructions to Candidates

- You **MUST NOT** write anything during the reading time.
- There are 5 (five) questions.
- You should attempt ALL questions.
- Answers should be properly structured and relevant.
- Show all relevant computation.
- 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>
Question 1	Essay/Computational/Case	3	20	35 minutes
Question 2	Essay/Computational/Case	3	20	35 minutes
Question 3	Essay/Computational/Case	2	20	35 minutes
Question 4	Essay/Computational/Case	3	20	35 minutes
Question 5	Essay/Computational/Case	-	20	35 minutes
	Revision			5 minutes
	Total		100	180 minutes

RESTRICTED USE

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

Do not turn the page until instructed

QUESTION 1

- (a) From an empirical study based on listed companies in Bangladesh (concerning to the compliance of accounting standards), it was found that almost all the companies prepare financial statements in accordance with the conceptual framework of accounting. But in practice most of the stakeholders has doubt in the information of financial reporting. Explain, why there arises such concern about the fraudulent financial reporting in the context of Bangladesh?
- (b) Now-a-days accounting reports include both financial and non-financial elements in their performance report. To include these diversified components in financial reporting, how are financial accountants challenged in their work to make ethical decisions? Do you think that the technical mastery of Generally Accepted Accounting Principles not sufficient to the practice of financial accounting? Explain your arguments.
- (c) On 1/1/2020 Talha Company Limited acquired 80% of the equity share capital of Lutful & Company when the net assets of Lutful & Company were Tk. 65,000. Talha Company Limited further acquired a 10% of the equity share capital of Lutful & Company on 30/9/2021 for Tk. 10,000. The statements of changes in equity for the year ended 31/21/21 are given below:

Particulars	Talha Company (Tk.)	Lutful & Company (Tk.)
Equity b/d	156,000	80,000
Comprehensive Income	24,000	13,800
Dividends	<u>(10,000)</u>	<u>(1,000)</u>
Equity c/d	<u>170,000</u>	<u>92,800</u>

- At the date of acquisition, the fair value of Lutful & Company's net assets was deemed to equal their book value.
- Talha Company Limited's policy is to record the non-controlling interest at fair value at acquisition. The fair value of the NCI holding in Lutful & Company was Tk. 23,000 at acquisition.
- Both Talha Company Limited and Lutful & Company paid their dividends on 30/6/21.

Required:

Prepare the consolidated statement of changes in equity for the Talha Group for the year ended on 31/12/21.

[MARKS: (3+3+14) = 20]

QUESTION 2

- (a) Justify the need for an integrated reporting. What are the six forms of capital that a firm has to consider for integrated reporting?
- (b) Calculate liquidity and working capital ratios from the accounts of TEB Co, a business which provides service support (cleaning etc) to customers worldwide. Comment on the results of your calculations.

	2017	2016
	Tk.m	Tk.m
Sales revenue	2,176.2	2,344.8
Cost of sales	<u>1,659.0</u>	<u>1,731.5</u>
Gross profit	<u>517.2</u>	<u>613.3</u>
Current assets		
Inventories	42.7	78.0
Receivables (Note 1)	378.9	431.4
Short-term deposits and cash	<u>205.2</u>	<u>145.0</u>
	<u>626.8</u>	<u>654.4</u>

TURN OVER

Current liabilities

Loans and overdrafts	32.4	81.1
Tax on profits	67.8	76.7
Accruals	11.7	17.2
Payables (Note 2)	<u>487.2</u>	<u>467.2</u>

Net current assets

Notes	<u>27.7</u>	<u>12.2</u>
1 Trade receivables	295.2	335.5
2 Trade payables	190.8	188.1

- (c) Muaj & Company operates in Bangladesh since 2001. Complete the 2021 balance sheet for Muaj & Company on the basis of the following missing balance sheet:

Particulars	Amount(Tk.)	Particulars	Amount(Tk.)
Cash	32,720	Accounts payable	120,000
Marketable securities	25,000	Notes payable	
Accounts receivable		Accruals	20,000
Inventories		Total current liabilities	
Total current assets		Long term debt	
Net fixed assets		Stockholders' Equity	600,000
Total assets		Total liabilities & stockholder's equity	

The following financial data for 2021 are also available:

- Sales totaled Tk. 1,800,000
- The gross profit was 25%
- Inventory turnover was 6.0
- There are 365 days in the year
- The average collection period was 40 days
- The current ratio was 1.60
- The total asset turnover ratio was 1.20
- The debt ratio was 60%

[MARKS: (6+7+7) = 20]

QUESTION 3

- (a) What is financial instrument? Briefly discuss three alternative accounting treatments for financial instruments.
- (b) Cardinal Paz Corp. carries an account in its general ledger called investments, which contained debits for investment purchases, and no credits, with the following descriptions.
- Feb. 1, 2019 Sharapova Company ordinary shares, Tk.100 par, 200 shares Tk.37,400
- April 1 Government bonds, 11% due April 1, 2025, interest payable
April 1 and October 1, 110 bonds of Tk.1,000 each Tk.110,000
- July 1 McGrath Company 12% bonds, par Tk.50,000, dated March 1, 2019 purchased at 104, plus accrued interest payable
Annually on March 1, due March 1, 2039 Tk.54,000

Required:

- (i) Prepare entries necessary to classify the amounts into proper accounts if Paz plans to actively manage these investments.
- (ii) Prepare the entry to record the accrued interest on December 31, 2019.
- (iii) The fair values of the investment on December 31, 2019, were:
- | | |
|--------------------------|------------|
| Sharapova Company shares | Tk.31,800 |
| Government bonds | Tk.124,700 |
| McGrath Company bonds | Tk.58,600 |
- What entry or entries, if any, would you recommend be made?
- (iv) The government bonds were sold on July 1, 2020, for Tk.119,200 plus accrued interest. Give the proper entry.

[MARKS: (6+14) = 20]

QUESTION 4

- (a) Define Fair Value. Explain the Fair value hierarchy.
- (b) What is an operating segment? Describe how to account for operating segments.
- (c) Belal Corporation Limited purchased 30 percent of Khalil Company's common stock on January 1, 2021, by issuing preferred stock with a par value of BDT 50,000 and a market price of BDT 120,000. The following amounts relate to Khalil Company's balance sheet items at that date:

<i>Particulars</i>	<i>Book value (Amount in BDT)</i>	<i>Fair value (Amount in BDT)</i>
Cash & Receivables	200,000	200,000
Building & Equipment	400,000	360,000
Less: Accumulated Depreciation	(100,000)	
Total Assets	<u>500,000</u>	
Account Payable	50,000	50,000
Bonds Payable	200,000	200,000
Common Stock	100,000	
Retained Earnings	150,000	
Total Liabilities & Equity	<u>500,000</u>	

Khalil Company Limited purchased buildings and equipment on January 1, 2015, with an expected economic life of 20 years. No change in overall expected economic life occurred as a result of the acquisition of Belal Company's stock. The amount paid in excess of the fair value of Khalil Company's reported net assets is attributed to unrecorded copyrights with a remaining useful life of eight years. During 2021, Khalil Company's reported net income of BDT 40,000 and paid dividends of BDT 10,000.

Required: Give all journal entries to be recorded on Belal Company's books during 2021, assuming it uses the equity method in accounting for its ownership of Khalil Company.

[MARKS: (5+7+8) = 20]

QUESTION 5

The statements of financial statements of three entities at 30/06/2021 are given below:

**Statements of Financial Position
As at 30/06/2021**

<i>Particulars</i>	<i>XYZ Company (Tk. in thousand)</i>	<i>ABC Company (Tk. In thousand)</i>	<i>PQS Company (Tk. in thousand)</i>
<u>Assets</u>			
<i>Current Assets:</i>			
Inventory	3,500	1,400	800
Accounts Receivable	2,100	1,100	840
Cash and cash Equivalent	3,100	2,020	660
<i>Non-current assets:</i>			
Property, Plant & Equipment	18,600	7,200	8,500
Investment at cost	20,000	8,000	-
Total	<u>47,300</u>	<u>19,720</u>	<u>10,800</u>
<u>Equity & Liabilities</u>			
<i>Current Liability:</i>			
Payables	5,000	2,760	560
<i>Noncurrent Liability:</i>			
Long term Borrowings	4,000	1,500	500
<i>Equity:</i>			
Share capital	30,000	14,000	8,000
Retained Earnings	8,300	1,460	1,740
Total	<u>47,300</u>	<u>19,720</u>	<u>10,800</u>

TURN OVER

Additional Information:

- On 01/07/2020 XYZ Company acquired two shareholdings. The first was 60% of the equity share capital of ABC Company for Tk. 12,000,000 cash. The retained earnings of ABC Company was Tk. 1,000,000. The fair value of the non-controlling interest (NCI) at the date of acquisition was Tk. 7,000,000. The second was 10% of the equity share capital of PQS Company for Tk. 2,000,000 cash.
- On the same date, ABC Company acquired 60% of the equity share capital of PQS Company for Tk. 8,000,000 cash. The retained earnings of PQS Company were Tk. 1,140,000 and the fair value of the NCI holding was Tk. 5,000,000.
- At 1/7/2020, the fair value of property plant & equipment in the books of ABC Company Limited was Tk. 500,000 higher in excess of its carrying value. These assets had an estimated useful life of 5 years at this time.
- At 30 June 2021, ABC Company Limited and PQS Company Limited held goods in inventory which had been purchased from XYZ Company Limited for total of Tk. 720,000. XYZ Limited sold the goods a mark-up of 20%.
- At 30 June, 2021, goodwill arising on the acquisition of ABC Company Limited had been impaired by Tk. 500,000. There was no impairment to goodwill arising on the acquisition of PQS Company. It is the group policy to measure the NCI at fair market acquisition.

Required:

Prepare the consolidated statement of financial position at June 30, 2021.

[MARKS: 20]

END OF QUESTION
