FINANCIAL & CORPORATE REPORTING

Time allowed – 3 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 way 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) All accounting professionals are responsible for acting in the public interest, and for promoting professional ethics. The directors of Angel feel that when managing the affairs of a company the profit motive could conflict with the public interest and accounting ethics. In their view, the profit motive is more important than ethical behaviour and codes of ethics are irrelevant and unimportant.

Required:
Discuss the above views of the directors that codes of ethics are irrelevant and unimportant. 6

(b) ABC Ltd. presented its statements of financial position (balance sheets) in its 2014 annual report as follows:

	31 December 2014 Tk.'000	31 December 2013 Tk.'000
Land	5,000	5,000
Building	5,000	5,000
Net current assets	3,000	1,000
Shareholders' equity	13,000	11,000

In 2015, ABC Ltd. discovered that the building, which was acquired in January 2007, has not been depreciated. ABC Ltd.'s accounting policy is to depreciate the cost of the building over 50 years on a straight line basis. The correction of error is to be recorded retrospectively in accordance with BAS 8.

Required:
Present the 2015 statement of financial position of ABC Ltd. in accordance with BAS 8. 6

(c) Biogenics is a listed pharmaceutical company. During the year to 31 December 2015 the following transactions took place:

(i) Tk. 6m was spent on developing a new obesity drug which received clinical approval on 1 July 2015 and is proving commercially successful. The directors expect the project to be in profit within 12 months of the approval date. The patent was registered on 1 July 2015. It cost Tk. 1.5m and remains in force for three years.

(ii) A research project was set up on 1 October 2015 which is expected to result in a new cancer drug. Tk. 200,000 was spent on computer equipment and Tk. 400,000 on staff salaries. The equipment has an expected life of four years.

(iii) On 1 September 2015 Biogenics acquired an up-to-date list of GPs at a cost of Tk.500,000 and has been visiting them to explain the new obesity drug. The list is expected to generate sales throughout the life-cycle of the drug.

Required:
Present the extracts from the statement of financial position of Biogenics at 31 December 2015 relating to the above items and summarise the costs to be included in the statement of profit or loss for that year. **7**

(d) The retirement defined benefit plan of XYZ Ltd. provides for a lump sum benefit payable on termination of service which is equal to 1% of the final-year salary for each year of service. An employee (Mr. A) commences work on 1 July 2011 and is expected to retire on 1 July 2016. His final-year salary is expected to be Tk.100,000 p.a. The discount rate is 10% p.a.

Required:

Compute the retirement benefit cost/obligation of XYZ Ltd. on account of Mr. A for the years 2011-12 to 2015-16. 6

2. (a) A statement showing the retained profit of Eastern for the year to March 31, 2015 is set out below:

	Tk.	Tk.
Profit before tax		2,530,000
Less: Income tax		1,127,000
		1,403,000
Transfer to reserve		230,000
Dividends:		
Interim dividend- preference	138,000	
Interim dividend- ordinary	414,000	
Final dividend- preference	138,000	690,000
		920,000
Retained		483,000

On April 1, 2014 the issued share capital of Eastern was 460,000 6% preference shares of Tk. 10 each and 412,000 ordinary shares of Tk. 10 each.

Required:

Calculate the earnings per share in respect of the year ended March 31, 2015 for each of the following mutually exclusive circumstances. 10

(i) There was no change in the issued share capital of the company during the year.

(ii) The company made a rights issue of Tk. 10 ordinary shares on January 1, 2015 in the proportion of 1 for every 5 shares held, at a price of Tk.12. The market price for the shares at close of trade on the last day of quotation cum rights was Tk.17.8 per share.

(iii) During the year ended on March 31, 2015, the company made no new issue except the issue of Tk.1,500,000 10% convertible bonds 2018-2021. This bond of Tk.1000 nominal value will be convertible into ordinary Tk.10 shares as follows:

2018	90 shares	2019	85 shares
2020	80 shares	2021	75 shares

(b) In August 2013, Ace Construction Ltd. (the Company) entered into a contract to build a condominium. The project is scheduled to be completed in June 2016. The contract price is Tk.150m.

As at 31 December 2013, the actual cost incurred on the project totaled Tk.10m, and the company expected to incur an additional Tk.90m to complete the contract.

As at 31 December 2014, the actual cost incurred on the project totaled Tk.20m, and the company expected to incur an additional Tk.80m to complete the contract.

As 31 December 2015, the actual cumulative cost incurred on the project totaled Tk.60m, and the company expected to incur an additional Tk.60m to complete the contract.

BAS 11 *Construction Contracts* mandates the use of the percentage of completion method and disallows the use of the completed contract method in accounting for construction contracts.

Unaware of the requirement of the accounting standard, the company had erroneously adopted, for the year ended 31 December 2014, the completed contract method under which no profit was recognized on construction contracts until they were completed. This error was subsequently discovered and the Company decided to account for the correction of error in its financial statements for the year ended 31 December 2015.

The company adopted the retrospective method under BAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to account for correction of error. The company also provided for deferred tax in compliance with the requirement of BAS 12 *Income Taxes.*

The relevant tax rules impose tax (assume a rate of 20%) on profits on construction contracts which are recognized when the constructions are substantially completed.

In early February 2016, the assistant accountant of the company, who was not aware of the correction, drafted the 2015 financial statements of the company as shown below (with 2014 published data as comparative figures).

Statements of profit or loss

	2015	2014
	Tk.'mil	Tk.'mil
Revenue	-	-
Less expenses	-	-
Profit before tax	-	-
Less tax	-	-
Profit after tax	-	-

Retained earnings (in statement of changes in equity)

	Tk.'mil
Balance as at 1 January 2014	30
Profit for the year 2014	-
Balance as at 31 December 2014	30
Profit for the year 2015	-
Balance as at 31 December 2015	30

Balance sheets

	2015	2014
	Tk.'mil	Tk.'mil
Fixed assets	100	100
Construction in progress	60	20
Other net current asset	20	40
	180	160
Share capital	100	100
Retained earnings	30	30
Bank loans	45	25
Deferred tax liability	5	5
	180	160

The 2015 financial statements of the Company were expected to be issued on 30 June 2016.

Required:

(i) Compute the cumulative effect of the correction of error up to 1 January 2015. 3

(ii) Pass the journal entry required to record the correction of error in 2015. 2

(iii) Present the extracts of 2015 statement of profit or loss, 2015 statement of changes in equity (retained earnings) and 2015 balance sheet alongwith disclosure note on correction of error. 10

3. Bay and River are two listed entities. Bay acquired 25% of River on 1 January 2013 for Tk. 4,040,000 allowing Bay significant influence over the financial and operating policy decisions of River. The fair value of River's identifiable assets and liabilities at that date was Tk.14,400,000 and reserves were at Tk.11,600,000. At 31 December 2013, the fair value of Bay's 25% stake in River was Tk.4,880,000.

At 30 September 2015, a further 35% stake in River was acquired at Tk. Tk.28.75 per share giving Bay control over River when the fair value of River's identifiable assets and liabilities was Tk. 18,800,000, and reserves stood at Tk.15,600,000.

For consistency with the measurement of other shares, Bay holds its investments in subsidiaries and associates at fair value through other comprehensive income in its own financial statements as permitted by BFRS 10 Consolidated financial statements.

At 31 December 2015, the fair value of Bay's 60% holding in River was Tk.14,040,000 and total gains recognised in other comprehensive income in Bay's own financial statements amounted to Tk.1,950,000.

The financial statements of two companies at 31 December 2015 are as under:

	Bay Tk.`000	River Tk.`000
Non-current assets:		
Property, plant and equipment	77,300	15,200
Investment in equity (River)	14,040	-
	91,340	15,200
Current assets	25,400	4,400
	116,740	19,600
Equity:		
Share capital (Tk. 2 shares)	20,400	1,600
Reserves	81,440	15,800
	101,840	17,400
Liabilities	14,900	2,200
	116,740	19,600

Summarised Statement of profit or loss and other comprehensive income
For the year to 31 December 2015

	Bay Tk.`000	River Tk.`000
Profit before interest and tax	2,560	840
Finance costs	(160)	(40)
Profit before tax	2,400	800
Income tax expense	(720)	(160)
Profit after tax	1,680	640
Other comprehensive income:		
Gain on property valuation, net of tax	480	160
Investment in equity instrument (River)	1,110	
Other comprehensive income for the year	1,590	160
Total comprehensive income	3,270	800

Additional information:

- The difference between the fair value of the identifiable assets and liabilities of River and their book value relates to the value of a plot of land which is still held by the company.
- Neither company paid dividends during the year.
- Bay decided to measure non-controlling interests at the date of acquisition at fair value. No impairment losses on recognised goodwill have been necessary to date.
- Income and expenses can be assumed to have arisen evenly throughout the year.

Required:

(a) Prepare the consolidated statement of profit or loss and other comprehensive income and statement of financial position of the Bay Group as at 31 December 2015. 20

(b) Recast the consolidated statement of profit or loss and other comprehensive income assuming that there would be no influence over the financial and operating policy decisions in the management of River. 5

4. (a) On 30 December 2013, DEF Ltd. sells goods invoiced at Tk.100,000 to LMN Ltd. It is agreed that the amount will be payable only after two years on 30 December 2015 with no interest. Assume LMN Ltd.'s incremental cost of borrowing is 6% p.a. Assume also that there is no collectivity problem.

Required:
Pass journal entries to record the transactions in 2013, 2014 and 2015. 4

(b) On 1 January 2013, P Ltd. is required by the bank to stand as a guarantor for a loan extended to its subsidiary, S Ltd. The loan is a three-year term loan with the principal amount of

Tk.10,000,000 repayable on 31 December 2015. The interest is 5% p.a., payable on 31 December each year.

The bank has indicated that, without the parent company's guarantee, the interest rate on the loan extended to S Ltd. would be 8% p.a.

Assume that P Ltd. has assessed that payment under the guarantee as not probable throughout the loan period.

Required:

(i) Pass journal entries in the books of P Ltd. and S Ltd. in the years 2013, 2014 and 2015. 8

(ii) State how the above transactions will be reflected in the consolidated financial statements. 3

(c) The following information are extracted from the 2014 Annual Report of a scheduled bank in Bangladesh:

	(BDT in million unless stated otherwise)		
	2014	2013	2012
Interest income	17,234.14	17,220.88	16,718.79
Investment income	5,987.81	4,899.69	2,034.60
Non-interest income	2,407.41	2,297.42	2,024.97
Total income	25,629.36	24,418.00	20,778.36
Interest expenses	12,200.11	11,821.24	9,267.83
Non-interest expenses	6,347.86	5,036.96	5,374.74
Total expenses	18,547.97	16,858.20	14,642.57
Net Interest margin (NIM)	5,034.03	5,399.64	7,450.96
Net non-interest margin	2,047.36	2,160.15	(1,315.17)
Operating profit	7,081.39	7,559.80	6,135.79
Earning before provision, depreciation and tax	7,327.09	7,805.50	6,331.48
Profit before provision & tax	7,081.39	7,559.80	6,135.79
Profit before tax	6,143.50	5,386.79	4,317.08
Net profit after tax	3,070.13	2,305.54	1,761.98
Capital adequacy ratio (CAR)	11.74%	11.73%	12.20%
Earnings per share (EPS) (in BDT)	3.49	2.62	2.10
Net asset value per share (NAVPS) (in BDT)	25.97	24.22	22.43

Required:

Comment on the performance of the bank over the 3-year period from 2012 to 2014. 10