FINANCIAL ACCOUNTING & REPORTING

Suggested Answers
July-August 2024

Answer to the Question# 1(a):

Possible course of action -
Discuss your lack of expertise with your supervisor and suggest clearly defining the scope of the project and a course of action for addressing this issue, for example employing a person with the necessary expertise.
During the discussion focus on the potential consequences to the business, and you personally of undertaking this project.
Explain that employing a person with the necessary expertise does not remove your obligation to ensure that the work is conducted in accordance with accounting standards, laws and regulations.
If your supervisor does not agree to the suggested course of action, it may be appropriate to discuss the matter with the next level of management.
If the response from management is not satisfactory it may be necessary to involve human resources, internal audit or the Board.
During the resolution process it may be helpful to document your involvement, the substance of the discussions held, who else was involved, what decisions were made and why.

Answer to the Question# 1(b):

User of IFRS Sustainability Disclosure Standards
An **investor/banks/lenders** will/can look at the financial statements to consider whether to invest in an entity. Whilst profitability will be important, investors are likely to consider whether the company has strong sustainability credentials. An investor might want to know the following information:

Environment - whether the entity has identified pollution risks, such as water contamination from waste or the risk of toxic chemical spills. Consideration of the entity's use of natural resources and its recycling policies.

Society - whether products are made in ethical working conditions from reputable sources to avoid the exploitation of vulnerable workers to drive down cost and improve margins In addition, the depletion of natural resources on certain geographical areas and the impact it may have on local societies, for example health issues from pollution, depletion of natural water supplies and deforestation.
Customers/consumers of the companies can be interested about sustainability initiatives of the companies while buying their products and services.

Answer to the Question# 2:

(a) Revenue
On 1 July 2023, BD Power satisfied its performance obligation, as control of the generator was passed to the customer; therefore, revenue should be recognised.

The transaction contains a significant financing component, as the customer receives a financing benefit due to not having to pay the remaining BDT 1,200,000 balance until 2 years after BD Power has supplied the generator. In such cases, IFRS 15 requires the consideration to be adjusted to reflect the effect of the time value of money and revenue to be recognised at an amount equal to the cash price that a customer would pay if payment were made at the point of delivery.

In this case, the BDT 1,20,000 deferred payment is discounted using the 7% discount rate and in the subsequent two years to payment the discount is unwound and recognised as finance income. There is no financing associated with the initial BDT 400,000 deposit; therefore, this amount should be recognised as revenue on 1 July 2023. BD Power should also recognise revenue of BDT 1,048,126 [BDT 1,200,000/(1.07x1.07) = BDT 1,048,126], being the remaining BDT 1,200,000 balance discounted at 7%. A receivable for the same amount BDT 1,048,126 should also be recognised.

Total revenue recognised immediately should be BDT 1,448,126 (BDT 1,048,126 + BDT 400,000). Therefore, BDT 151,874 (BDT 1,600,000 - BDT 1,448,126) should be reversed from revenue and receivables.

In the year to 30 June 2024, BD Power should recognise BDT 73,369 (BDT 1,048,126 X 7%) as finance income and an increase to the receivables balance, being the unwinding of the discount for one year.

(b) Joint venture

BD Powder should recognise its investment in Alpha as a joint venture. The three entities have joint control over Alpha and there is a contractual agreement in place to share profits and losses equally with unanimous consent required.

IFRS 11, Joint Arrangements requires the use of the equity method for accounting for joint ventures. The investment should initially be recognised at its cost, BDT 400,000 in the consolidated statement of financial position as part of non-current assets. At the end of each reporting period, it should be adjusted for the Investor's share of the post-acquisition change in net assets Essentially, this is the change in retained earnings, the profit for the period less any dividends paid, so BDT 100,000 (480,000 - (120,000 x 1.5))/3).

The investment should therefore be reclassified from current to non-current assets and the additional BDT 100,000 should be included to show a carrying amount of BDT 500,000 (BDT 400,000 + BDT 100,000).

The dividend of BDT 60,000 (40,000 x 1.5) should not be recognised in the consolidated financial statements of BD Power, as equity accounting is used; hence, the dividend income of BDT 60,000 should be removed from consolidated profit or loss for the period. This should instead be replaced with share of profit for the period of BDT 480,000 x 1/3 = BDT 160,000 resulting in an increase to consolidated profit of BDT 100,000. The adjustment is required to avoid double counting.

(c) Government grant

Per IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, grants should be recognised when there is reasonable assurance that:

- the entity will comply with the relevant conditions; and
- the entity will receive the grant.

In respect of this grant, there are no specific conditions, and the grant has been received in full by BD Power. As both requirements have been met, the government grant should be recognised. IAS 20 requires government grants which relate to assets to be either.

- recognised as deferred income; or
- recognised as a reduction to the carrying amount of the asset.

It is not appropriate to recognise the grant on a cash receipt basis as accounted for by the finance manager.

BD Power's stated accounted policy is to recognise a government grant by offsetting it against the carrying amount of the related asset. The grant will then be recognised over the life of the related asset ie, solar storage plant, by way of a reduced depreciation charge.

Depreciable portion of the solar storage plant is BDT 6 million (BDT 8.4 million less BDT 2.4 million land). As no conditions were attached to the grant, it would seem appropriate to net the full BDT 2 million off the solar storage plant carrying amount and depreciate the remaining net figure of BDT 4 million (BDT 6 million less BDT 2 million grant) over the solar storage plan's useful life 25 years. Land is assumed to have an indefinite life and therefore the grant would not be released to profit and loss if any of it was apportioned to the land.

The grant should be removed from profit or loss (by debiting other income by BDT 2,000,000) and should be credited to non-current assets, specifically the solar storage plant.

As depreciation has already been charged for the year on the full cost of BDT 6,000,000, an adjustment will need to be made for this. BDT 180,000 (6,000,000/25 years x 9/12) was recognised by the finance manager, although only 120,000 (BDT 4,000,000/25 years x 9/12) should have been recognised. BDT 60,000 (BDT 180,000 – BDT 120,000) should be credited to profit for the period and debited to non-current assets to adjust for this.

At 30 June 2023 the carrying amount of the solar storage plant should be BDT 6,380,000 (BDT 8,500,000 – BDT 2,000,000 grant – BDT 120,000 depreciation)

Answer to the Question# 3(a):

Income statement of Lamka Limited for the year ended on 31 December 2023 translated using the average exchange rate (Rs. 1.6 = Tk.1)

	Tk.
Profit before tax	100,000
Tax	(50,000)
	50,000

Consolidated income statement for the year ended 31 December 2023

		Tk.
Profit before tax	Tk. [200,000 + 100,000]	300,000
Tax	Tk. [100,000 + 50,000]	(150,000)
		150,000

The statement of financial position of Lanka Limited at 31 December 2023, other than share capital and reserves, should be translated at the closing rate of Rs. 1= Tk. 1

Summarized statement of financial position of Lanka Limited in Tk. at 31 December 2023

	Tk.	Tk.
Non-current assets (carrying amount)		300,000
Current assets		
Inventories	200,000	
Receivables	100,000	
		300,000
		600,000
Non-current liabilities		110,000
Current liabilities		110,000
Equity [600,000 - 110,000 - 110,000]		380,000
		600,000

Since Dhaka Limited acquired the whole of the issued share capital on incorporation, the post-acquisition reserves including exchange differeces will be the value of shareholders' fund arrived at above, less the original cost to Dhaka Limited of Tk. 25,000 (i.e., Rs. 100,000 at the historic exchange rate of Tk. 1 = Rs. 4). Post-acquisition increase in equity = Tk. 380,000 - Tk. 25,000 = Tk. 355,000

Summarized consolidated statement of financial position as at 31 December 2023

		Tk.	Tk.
ASSETS			
Non-current assets (NBV)	Tk. [350,000 + 300,000]		650,000
Current assets			
Inventories	Tk. [225,000 + 200,000]	425,000	
Receivables	Tk. [150,000 + 100,000]	250,000	
			675,000
TOTAL ASSETS			1,325,000
EQUITY AND LIABILITIES			
Equity			
Ordinary share of Tk. 100			300,000
Retained earnings	Tk. [300,000 + 355,000]		655,000
			955,000
Non-current liabilities: Loan	Tk. [50,000 + 110,000]		160,000
Current liabilities	Tk. [100,000 + 110,000]		210,000
TOTAL EQUITY AND LIABILITIES			1,325,000

Answer to the Question# 3(b):

Calculation of exchange differences

	Tk.
Lanka Limited's equity interest at 31 December 2023	380,000
Equity at interest at 1 January 2023 [Rs. 300 /2]	(150,000)
	230,000
Less: retained profit	(50,000)
	180,000

Statement of comprehensive income for the year ended 31 December 2023

	Tk.
Profit after tax	150,000
Exchange difference on translation of foreign operations	180,000
Total comprehensive income for the year	330,000

Note:
The post-acquisition reserves of Lanka Limited at the beginning of the year must have been Tk. 150,000 - Tk. 25,000 = Tk. 125,000 and the post-acquisition reserves of Dhaka Limited must have been Tk. 300,000 - Tk. 100,000 = Tk. 200,000.
The consolidated post-acquisition reserves must therefore have been Tk. 325,000

Answer to the Question# 4(a) (i):

Notes to the financial statements for the year ended 31 December 2023 (extracts)

1. **Accounting policies**

Property, plant and equipment

Freehold land and buildings are stated at a valuation. Other tangible non-current assets are stated at cost, together with any incidental expenses of acquisition. Depreciation is calculated so as to write off the net cost or valuation of tangible non- current assets over their expected useful lives. Depreciation charges commence when an asset becomes available for use. The rates and bases used are as follows.

Asset	% pa	Basis
Freehold land and buildings	2%	Straight-line
Plant and equipment	10%	Straight-line
Office equipment and fixtures	20%	Straight-line
Motor vehicles	30%	Reducing balance

2. Profit from operations is stated after charging

	Tk
Depreciation of property, plant and equipment	562,000

3. **Property, plant and equipment**

	Freehold land and buildings	Plant and equipment	Motor vehicles	Office equipment and fixture	Total
Cost or valuation	Tk'000	Tk 000	Tk 000	Tk 000	Tk 000
At 1 January 2023	1,440	1,968	449	888	4,745
Additions	500	75	35	22	632
Revaluation (W1)	760	-	-	-	760
At 31 Dec. 2018	2,700	2,043	484	910	6,137
Depreciation					
At 1 January 2023	144	257	194	583	1,178
Revaluation Adjustment (W1)	(144)	-	-	-	(144)
Charge for year	60 (W2)	233	87 (W3)	182 (W4)	562
At 31 Dec. 2018	60	490	281	765	1,596
Carrying amount					
At 31 Dec. 2023	2,640	1,553	203	145	4,541
At 1 January 2023	1,296	1,711	255	305	3,567

(i) Freehold land and buildings were valued for the purposes of the 2023 accounts at open market value, with subsequent additions at cost. Their historical cost is Tk 1,940,000 (W6) and the related accumulated depreciation is Tk 183,000 (W6).
(ii) The company's depreciation policy on motor vehicles has been changed from a rate of 25% per annum on cost to a rate of 30% per annum on reducing balance in order to give a more relevant presentation of the results and of the financial position. The effect of this change has been to reduce the depreciation charge for the year by Tk 34,000 (Tk 121,000 – Tk 87,000).

Answer to the Question# 4(a) (ii):

Qualitative characteristics and IAS 16
Understandability
Information must be readily understandable to users so that they can perceive its significance. This is dependent on how information is presented and how it is categorized.
For example, IAS 16 requires disclosures to be given by each class of property, plant and equipment so it will be clear what type of assets have been purchased during the year and what' types of assets have been sold. If this information were merged over one class it would be less understandable.
Relevance
Information is relevant if it influences the economic decisions of users.
The choice of the revaluation model as a measurement model in IAS 16 provides relevant information by showing up-to-date values. This will help give an indication as to what the entity's underlying assets are worth.
Reliability
Information is reliable if it is free from error or bias, complete and portrays events in a way that reflects their reality.
Although the revaluation model gives relevant information this information is generally seen to be less reliable than the cost model - the other measurement model allowed by IAS 16. The cost model is based on historic costs, which are not the most relevant costs on which to base future decisions. However, historic cost is reliable being based on fact.
Comparability
Users must be able to compare information with that of previous periods or with that of another entity. Comparability is achieved via consistency and disclosure.
BAS 16 allows comparability between the cost and the revaluation model (for example, to facilitate comparisons between two companies who have adopted different models) by requiring equivalent cost information to be disclosed under the revaluation model. It also requires disclosures (in accordance with IAS 8) of the effect of a change in an accounting estimate such as useful lives or depreciation rates. This facilitates comparison between different periods.

WORKINGS

(1) **Freehold land and buildings revaluation**

	Tk'000	Tk'000
DR Freehold land and buildings (B)	760	
DR Accumulated depreciation (1,440 × 5÷ 50)	144	
Cr Revaluation reserve (2,200 - 1,296)		904

(2) **Freehold land and buildings depreciation charge**

	Tk
Valuation/cost at I January 2023	2,700,000
Remaining useful life	45 years
Annual depreciation charge = (2,700,000/45years)	Tk 60,000

(3) **Motor vehicles depreciation charge**

	Tk'00
Carrying amount at I January 2023	255
Additions	35
Depreciation reducing balance method @ 30%	290

(4) **Fixtures and fittings depreciation charge**

	Tk'000
Cost at 31 December 2023	910
Depreciation - straight-line method @ 20%	182

(5) **Plant and equipment depreciation charge**

	Tk'000
Cost at January 2023	1,968
Less Grinding machine	(298)
Add Purchases for factory extension	75
	1,745
	175
Depreciation - straight-line method @ 10%	
Grinding machine - cost less residual value (298 - 8)	290
Accumulated depreciation at I January 2023	(58)
Carrying amount	232

The carrying amount must be written off over the machine's remaining useful life of four years.

	Tk
Depreciation charge (232,000/4years)	58,000
Total depreciation charge for plant	Tk'000
Grinding machine	58
Other plant	175
	233

(6) **Historical cost depreciation on freehold land and buildings**

	Tk'000
Cost at I January 2023	1,440
Addition – extension	500
Cost at 31 December 2023	1,940
Accumulated depreciation at I January 2023	1,940
Depreciation charge at 2%	144
Accumulated depreciation at 31 December 2023	39
	183

Answer to the Question# 4(b):

The cost of 690 units of product 1 is calculated as:

	Tk.
Direct costs	140,000
Identifiable indirect production overhead	37,000
Other indirect overheads	30,000
Total costs	207,000
Units produced	690
The cost per unit of Product 1	Tk. 300

Total costs attributable to Product 2:

	Tk.
Direct costs	160,000
Identifiable indirect production overhead	45,000
Other indirect overheads	20,000
Total costs	225,000
Budgeted Units to be produced	900
The budgeted cost per unit of Product 2	Tk. 250

The allocation of costs for Product 2 is therefore:
Tk. 250 x 675 units
= Tk. 168,750 as inventories
Tk. 250 x 225 units [900-675]
= Tk. 56,250 as an expense recognized in Profit or Loss.

The indirect costs nor specifically identifiable with either product which are allocated tp the scrapped product 2 cannot be recovered into the cost of Product 1.

Answer to the Question# 5(a):

1) Some topics in full IFRS Accounting Standards are omitted/exempted because they are not relevant to typical SMEs.
2) Some accounting policy options in full IFRS Accounting Standards are not allowed because a more simplified method is available to SMEs.
3) Many of the recognition and measurement principles that are in full IFRS Accounting Standards have been simplified.
4) Substantially fewer disclosures are required. and
5) The text of full IFRS Accounting Standards has been redrafted in 'plain English' for easier understandability and translation.

Answer to the Question# 5(b):

An entity shall disclose:

(a) the terms and conditions of the contracts. Examples of terms and conditions include the remaining contract duration, the type of pricing (including the reference market and whether the contracts include price adjustment clauses), minimum or maximum volume, cancellation clauses and whether the contracts include renewable energy certificates (or similar attributes).

(b) for contracts for renewable electricity that are not measured at fair value through profit or loss, either:

(i) the fair value of the contracts at the reporting date, accompanied by the information required

(ii) the volume of renewable electricity a seller under the contracts expects to sell or a purchaser under the contracts expects to purchase over the remaining duration of the contracts.

An entity is permitted to provide this information as a range for each of these periods: not later than one year; later than one year and not later than five years; and later than five years.

An entity shall also disclose the methods and assumptions the entity used in preparing the information, any changes in those methods and assumptions since the previous reporting period, and the reasons for such changes.

If an entity is a seller under contracts for renewable electricity, the entity shall disclose information that enables users of financial statements to understand how these contracts affect the entity's financial performance for the reporting period. Specifically, an entity shall disclose the proportion of renewable electricity covered by the contracts to the total electricity sold for the reporting period.

If an entity is a purchaser under contracts for renewable electricity, the entity shall disclose information that enables users of financial statements to understand how these contracts affect the entity's financial performance for the reporting period. Specifically, an entity shall disclose for the reporting period:

(a) the proportion of renewable electricity covered by the contracts to the total net volume of electricity purchased.

(b) the total net volume of electricity purchased—irrespective of the source of production.

(c) the average market price per unit of electricity in the markets in which the entity purchased electricity; and

(d) if (b) multiplied by (c) differs substantially from the actual total cost incurred by the entity to purchase the volume of electricity in (b), a qualitative explanation of the key reasons for this difference.

An entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information the entity has disclosed. For example, an entity need not disclose information for each contract separately.

However, an entity also need not duplicate information that is already disclosed in accordance with other IFRS Accounting Standards.

Answer to the Question# 6(a):

1. **Pharma Life Plc - Consolidated statement of financial position as at 31 December 2023**

		BDT'000
ASSETS		
Non-current assets		
- Property, plant, and equipment (2,325,600 + 642,780 + 120,000 - 10,000 (W1))		3,078,380
- Intangible assets (W2)		452,000
- Investments (1,549,000 – 1,300,000 – 241,000 _+ 12,000 (W6))		20,000
- Investment in associate (W6)		261,580
		3,811,960
Current assets		
- Inventories (1,047,200 + 797,000 – 3,200 (W5))	1,841,000	
- Trade and other receivables (803,720 + 407,300 - 32,000)	1,179,020	
- Cash and cash equivalents (105,200 + 2,200 + 10,000)	117,400	
		3,137,420
Total assets		**6,949,380**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of Pharma Life		
- Ordinary share capital		1,200,000
- Share premium account		200,000
- Retained earnings (W4)		3,725,204
		5,125,204
Non-controlling interests (W3)		336,776
Total equity		5,461,980
Current liabilities		
- Trade and other payables (770,400 + 297,000 - 22,000)	1,045,400	
- Deferred consideration (280,000 (W2) + 7,000 (W4))	287,000	
- Tax payable (107,800 + 47,200)	155,000	
		1,487,400
Total equity and liabilities		**6,949,380**

WORKINGS

(1) Fair value of identifiable assets acquired and liabilities assumes – Pure Chemicals

	Year-end BDT'000	Acquisition BDT'000	Post acq. BDT'000
Share capital	400,000	400,000	
Share premium	100,000	100,000	
Retained earnings			
- Per question	1,005,080808,000		
- Less PURP (W5)	(3,200)	-	
- Fair value adjustment	120,000	120,000	
- Depreciation thereon ((120,000 / 6) x 6/12))	(10,000)	-	
	1,611,880	1,428,000	183,880

(2) Goodwill – Pure Chemicals

	BDT'000
Consideration transferred [1,300,000 + 280,000 (294,000/1.05)]	1,580,000
Non-controlling interests at acquisition – FV/market value	300,000
Fair value of identifiable assets acquired and liabilities assumed (W1)	(1,428,000)
	452,000

(3) Non-controlling interests – Pure Chemicals

	BDT'000
NCI at acquisition date - FV	300,000
Share of post acquisition reserves (183,880 (W1) x 20%	36,776
	336,776

(4) Retained earnings

	BDT'000
Pharma Life	3,552,520
Deferred consideration - unwinding (280,000 x 5% x 6/12)	(7,000)
Pure Chemicals Ltd (183,880 (W1) x 80%)	147,104
Minerals Limited (W6)	20,580
Min Ltd's dividend (40,000 x 30%)	12,000
	3,725,204

(5) Inventory PURP

	%	BDT'000
Selling price	125	32,000
Cost	(100)	(25,600)
Gross profit	25	6,400
x 0.5 (half inventories)		3,200

(6) Investment in associate Minerals Limited

	BDT'000	BDT'000
Cost		241,000
Add: Share of post-acquisition profits (113,600 x 30%)	34,080	
Less: Dividend received (40,000 x 30%)	(12,000)	
Less: FV depreciation ((100,000/20) x 30%))	(1,500)	
		20,580
		261,580

Answer to the Question# 6(b):

Distributable profits of Pharma Life Plc

(Figures are in BDT'000)

For entities with a group, distributable profits must be made for each individual entity, rather than the consolidated group. Therefore, Pharma Life's distributable profits are those profits distributable by the parent company only.

The basic rule is that distributable profits are measured as accumulated realized profits less accumulated realized losses; this is usually retained earnings of the individual company. In the case of public companies, the number of distributable profits is further reduced by any excess of unrealized losses over unrealized profits. No information is available in this question to determine this.

Pharma Life distributable profits are therefore calculated as:

- The 30% share of the associate only affects the consolidated retained earnings, but Pharma Life's own financial statements would include the dividend from Mineral Limited of BDT 12,000 (W6 above). This should have been recognised in Pharma life's own statement of profit or loss. However, this was incorrectly deducted from investments, so retained earnings need to increase by BDT 12,000.
- The finance cost arising on the declared consideration will be payable by Pharma Life and therefore reduces retained earnings by BDT 7,000 (W4 above).

Pharma Life's distributable profits are therefore (3,552,520 + 12,000 – 7,000) = BDT 3,557,520

---The End---