

**Dhamrai Govt. College**  
Department of Accounting  
Honours 3<sup>rd</sup> year Pre-test examination-2022  
Advanced Accounting-1

(Answer all questions and each question carry equal marks)

1. Star Ltd. reported the following amounts in the stockholders equity section of its December 31, 2020 balance sheet :

	<b>Taka</b>
Common stock, Tk. 10 Per (1,00,000 shares authorized, 30,000 shares issued)	3,00,000
Additional paid-in capital (Common stock)	2,00,000
Additional paid-in capital from treasury stock	20,000
Retain earnings	<u>3,80,000</u>
	<u>9,00,000</u>

During 2021, Star Ltd. took part in the following transactions concerning stockholders equity :

- Jan 01 Purchased 3,000 shares of its outstanding common stock for Tk. 60 per share. Star Ltd. uses cost method.  
Apr 10 Re-issued 1,000 treasury shares at Tk.48 per share.  
Aug 15 Declared the annual 2021, Tk.3 per share cash dividend on common stock.  
Sep. 30 Paid the cash dividend.  
Nov. 20 Re-issued 1,5000 treasury shares at Tk.50 per share.  
Dec. 31 Net income during 2021 was Tk. 4,00,000.

Required:

- (a) Prepare journal entries to record the transactions described above.  
(b) Prepare the December 31, 2021 stockholders equity section.

2. ক) আর্থিক বিবরণীর বৈশিষ্ট্য বর্ণনা কর।

খ) নগদ প্রবাহ বিবরণী কি? নগদ প্রবাহ বিবরণীর উদ্দেশ্য বর্ণনা কর।

৩. Following is the balance sheet of Padma Ltd. December 31, 2020 and 2021 :

Accounts title	2021 Taka	2020 Taka
<b>Assets :</b>		
Cash	30,000	22,500
Accounts receivable	45,000	40,000
Inventory	20,000	16,000
Long term investment	15,000	25,000
Equipment	20,000	12,500
Building	45,000	37,500
Land	<u>10,000</u>	<u>10,000</u>
	<u>1,85,000</u>	<u>1,63,500</u>
<b>Liabilities and shareholders equity :</b>		
Accumulated depreciation (Equipment)	3,750	1,500
Accumulated depreciation (Building)	9,000	6,000
Allowance for doubtful debts	1,500	1,000
Accounts payable	20,000	16,500
Outstanding expenses	2,250	1,750
Mortgage loan	22,500	25,000
Share capital	1,00,000	1,00,000
Retained earnings	<u>26,000</u>	<u>11,750</u>
	<u>1,85,000</u>	<u>1,63,500</u>

Additional information :

1. Net profit for the year 2021 Tk. 27,500.
2. Equipment costing Tk. 2,500 on which depreciation of Tk. 500 has accumulated, was sold for Tk. 3,000. The gain is included in the net profit.
3. Investment costing Tk. 10,000 were sold during the year for Tk. 12,000.
4. Cash dividend paid Tk. 13,250.

Required : Prepare a cash flow statement under indirect method.

4. On February 1, 2019 Sky Construction Company obtained a contract to build an athletic stadium. The stadium was to built a total cost of Tk. 54,00,000 and was scheduled for completion by September 1, 2021. One clause of the contract was stated that Sky was to deduct Tk. 15,000 from the Tk. 66,00,000 billing price for each week that completion was delayed. Completion was delayed 6 weeks which resulted in a Tk. 90,000 penalty. Below are the data pertaining to the construction period :

	2019 Taka	2020 Taka	2021 Taka
Cost to date	17,82,000	38,50,000	55,00,000
Estimated cost to complete	36,18,000	16,50,000	0
Billing to date	12,00,000	31,00,000	65,10,000
Cash collection to date	10,00,000	28,00,000	65,10,000

Required :

- a) Compute the estimated gross profit recognized in the years using the percentage of completion method.
  - b) Prepare a partial balance sheet on December 31, 2020 showing the balances in the receivable and inventory accounts.
5. ক) ইজারা চুক্তির বৈশিষ্ট্য আলোচনা কর।
  - খ) ইজারা এবং ক্রয় এর মধ্যে পার্থক্য আলোচনা কর।

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1. Uttara Leasing Company leases a new machine that as a fair value of Tk.75000 to Kabir Corporation on a 3 year non cancelable contract. Kabir Corporation agrees to assume all risk of normal ownership. The machine has a 3 year useful life and no residual value. The lease was signed on 1<sup>st</sup> January, 2019. Uttara Leasing Company expects to earn 9% return on its investments. The annual rentals are payable on 31<sup>st</sup> December each year. Prepare an amortization schedule and comment on the nature of the lease.
2. Below is the net income of Moon Ltd. computed under the inventory valuation methods using a periodic system :-

Year	FIFO	Average cost	LIFO
2013	Tk. 26000	Tk. 23000	Tk. 20000
2014	Tk. 30000	Tk. 25000	Tk. 21000
2015	Tk. 29000	Tk. 27000	Tk. 24000
2016	Tk. 34000	Tk. 30000	Tk. 26000

**Instructions :-** ( Ignore tax)

- a) Assume that in 2013, Moon Ltd. decided to change from the FIFO method to the average cost method of pricing inventories. Prepare the journal entry necessary for the change that took place during 2016 and show the net income reported for 2013, 2014, 2015, 2016.
  - b) Assume that in 2016 Moon Ltd. which had using the LIFO method since incorporation in 2013 change to the FIFO method of pricing inventories. Prepare the journal entry necessary to record the change in 2016 and show the net income for 2013, 2014, 2015 and 2016
3. Lemo corp. sign a 10 years non-cancelable lease agreement to lease an equipment form IDLC. The information pertain to this lease are as follows :-
    - i) Equal annual rental payment of Tk. 90000 beginning on January 01, 2013.
    - ii) The fair value of the equipment on January 01, 2013 is Tk. 550000.
    - iii) The estimated economic life of the equipment is 10 years, with ungaranted residual value of Tk. 10000.
    - iv) Lemo's borrowing rate is 12% per year.

**Requirement :-**

    - a) Prepare the amortization schedule for the 1<sup>st</sup> three in the books of Lemo.
    - b) Show the journal entries for the year 2013 in the books of both parties.
  4. X Ltd. sold an equipment to Y Ltd . for Tk. 25000 on January 1, 2011. Terms required a down payment of Tk. 5000 and Tk. 2000 at the end of each month for 10 month. Starting on January 31, 2011. The equipment cost is Tk. 15000. Y Ltd. paid 4 installments and then were unable to pay the installment. Subsequently X Ltd. repossessed the equipment which fair value was Tk. 8000.

**Requirement :-** Give journal entries for above events in the books of X Ltd.
  5. The stock holders equity of Tulip Dairy Ltd. as at 31<sup>st</sup> December, 2015 as follows :-

Common stock (Tk. 100 per value authorized share 8000)	Tk. 480000
Retain earnings	<u>Tk. 294000</u>
Total	Tk. 774000

**Requirement :-**

a) Show the journal entries for the following transaction occurred in 2016.

- 1) 280 shares were re-purchase at 97 per share (recorded as cost price method)
- 2) Cash dividend was declared at Tk. 20 per share.
- 3) The proposed dividend was paid.
- 4) The re-purchase treasury stock was sold at Tk. 102 each.

b) Net income earned in 2015 was Tk. 94000. Prepare the stock holders equity statement as on 31<sup>st</sup> December, 2016.

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 Financial Management

(Answer all questions and each question carry equal marks)

1. A) Discuss the principles of business finance.  
 B) Discuss the importance of financial management.
2. A) What is the importance of capital budgeting.  
 B) Discuss about the techniques of capital budgeting.
3. BD food Ltd. is considering an investment project with expected life of 4 years. The project requires an initial investment of Tk. 5,00,000. The expected cash inflows and certainty equivalent co-efficient are as follows :

Year	After tax cash flows (Taka)	Certainty equivalent co-efficient (Taka)
1	1,00,000	0.95
2	3,00,000	0.80
3	2,00,000	0.70
4	1,50,000	0.60

The risk free rate of return is 10%.

Instruction :

- a) Compute the NPV.
- b) Compute the IRR.
- c) Should the project be accepted?
4. A) What do you mean by capital structure?  
 B) Describe the arbitrage Process of levered firm.
5. The following information given to you :

Details	Firm U	Firm L
EBIT	Tk. 2,50,000	Tk. 2,50,000
10% Debt		Tk. 7,50,000
Cost of equity	15%	
Corporate tax rate	40%	40%
Personal tax rate	10%	10%

Required :

- a) Value of unlevered firm.
- b) Value of levered firm
- c) Gain from leverage
- d) Cost of equity of unlevered firm
- e) Cost of equity of levered firm.

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1. What is dividend policy? Discuss different types of dividend policies.
2. ABC company is planning to acquire an equipment that's value is Tk. 1500000. IDLC is willing to lease the equipment to ABC for 4 years period at Tk. 520000 periodic rental payment at the end of each year. ABC can borrow TK. 1500000 from Sonali Bank Ltd. @ 14% for 4 years period. The corporate tax rate is 40%. The company uses SLD method with no salvage value. Value evaluate their two alternative and comment about decisions.
3. (a) What is preemptive right? Discuss regulation in the secondary market.  
(b) Discuss the various types of secured bond.
4. Black leopard Ltd. has the following capital structure :

Particular	Amount (Tk.)
Equity (Tk. 100 per share)	10,00,000
12% Debt	5,00,000
Total capital	15,00,000

The company wishes to raise Tk. 5,00,000 for expansion programs. The following alternative are available :-

- (i) 100% equity
- (ii) 50% equity and 50% debt at 10%.
- (iii) 100% debt at 10%.

The expected EBIT is Tk. 20,00,000 the Tax rate is 35%. Calculate the EPS and which one would you prefer. Also calculate the indifference EBIT between alternative (ii) and (iii) .

5. a) Define working capital management.  
b) Describe the factors affecting the level of working capital.