



**FACULTY OF BUSINESS**

**FINAL EXAMINATION**

Student ID (in Figures) : 

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Student ID (in Words) : \_\_\_\_\_  
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Course Code & Name : **ACC2123 FINANCIAL REPORTING 1**  
Semester & Year : JANUARY – APRIL 2022  
Lecturer/Examiner : JAMES LIOW  
Duration : 3 Hours

**INSTRUCTIONS TO CANDIDATES**

1. This question paper consists of 2 parts:  
PART A (50 marks) : Answer ONE (1) compulsory question. Answers are to be written in the Answer Booklet provided.  
PART B (50 marks) : Answer TWO (2) out of THREE (3) problem solving questions. Answers are to be written in the Answer Booklet provided.
2. Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
3. This question paper must be submitted along with all used and/or unused rough papers and/or graph paper (if any). Candidates are NOT allowed to take any examination materials out of the examination hall.
4. Only ballpoint pens are allowed to be used in answering the questions, with the exception of multiple choice questions, where 2B pencils are to be used.

**WARNING:** The University Examination Board (UEB) of BERJAYA University College regards cheating as a most serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from BERJAYA University College.

**PART A : COMPULSORY QUESTION (50 MARKS)**

**INSTRUCTION (S)** : There is **ONE (1)** compulsory question in this section. Write your answers in the Answer Booklet(s) provided.

**QUESTION 1**

Nazreen Holdings Bhd (NHB) is a company involved in the manufacture of solar panels for the property industry. The following trial balance was extracted from their accounts as at 31 December 2021:

	Note	RM'000	RM'000
Land & building	(i)	37,500	
Accumulated depreciation - Building	(i)		7,500
Plant and equipment	(i)	6,250	
Accumulated depreciation - Plant & equipment	(i)		3,750
Motor vehicle	(i)	9,600	
Accumulated depreciation - Motor vehicle	(i)		5,000
Development costs	(ii)	2,000	
Accumulated amortisation of development costs	(ii)		280
Inventory as at 31 December 2021	(iii)	8,920	
Trade receivables	(v)	14,180	
Cash at bank		4,006	
Cash in hand		805	
Long-term loan repayable 2025	(vi)		3,600
Provisions	(iv)		2,970
Trade payables			6,800
Other payables			720
Allowance for doubtful debts			3,000
Revaluation reserve			4,500
Cost of sales		67,760	
Sales			100,400
Administration expenses		11,710	
Selling & distribution expenses		7,210	
Interest expenses		718	
Interim dividend paid		3,000	
Ordinary shares capital (700,000 ordinary shares)			7,000
Retained earnings as at 1 January 2021			28,139
		<b>173,659</b>	<b>173,659</b>

Additional information:

- (i) Land and buildings were last revalued on 1 January 2016, when the freehold land was valued at RM25 million and the buildings at RM12.5 million. A loss of RM5 million was charged to profit or loss in respect of the building as a result of previous years' revaluation. This amount is to be charged to other income if there is any revaluation upward.

A further revaluation exercise took place on 31 December 2021, resulting in a value of RM30 million for the freehold land and RM15 million for the buildings. The building has a remaining expected useful life of 25 years. Land and buildings are treated as a single asset for the purpose of revaluations. The depreciation for the building is to be charged to cost of sales.

Depreciation of the other property, plant and equipment (PPE) is to be charged as follows:

PPE	Depreciation Method	Depreciation Charges to
Plant & equipment	12% straight line	Cost of sales
Motor vehicle	20% reducing balance	Selling and distribution

During 2021 NHB sold plant and equipment for RM30,000. This plant and equipment had cost RM1.0 million in 2015. The disposal of the plant & equipment has not been recorded as at 31 December 2021. Any gains or loss is to be charged to cost of sales.

- (ii) The development cost figure in the trial balance comprises the following:

	RM'000	Note
Balance at 1 January 2021	1,400	(a)
Research into new products	200	(b)
Development costs for new products	50	(c)
Development costs for new products	350	(d)
<b>Total</b>	<b>2,000</b>	

- a) These development costs are being amortised on a straight-line basis over ten years.  
b) These are the research expenditures incurred for the year.  
c) These development costs relate to the development of a new product which the company believes will not be successful unless there is a change in current safety legalisation.  
d) On 31 December 2021, the management is confident that these costs relate to the development of a new product will be successful. It is envisaged that sales of this new product will only commence in July 2022. No amortisation is to be charged for these costs.

All research expenditures and unsuccessful development costs are to be charged to administrative expenses.

- (iii) Inventory was counted and valued at RM8.92 million at 31 December 2021. This figure excluded inventory costing RM1.2 million which had left NHB main manufacturing plant and was being stored in one of its warehouses before being sold on 10 January 2022.
- (iv) The provisions amount in the trial balance included the administrative expenses in respect of three employees who were injured during work and were suing the company. According to the legal advisor, RM900,000 is no longer required to be provided as the company would not be held fully liable for one of the employees' injury.
- (v) In March 2021, the directors of NHB discovered a fraud by one of the employees who had embezzled a total amount of RM1.0 million received from accounts receivable but not recorded in the book. RM400,000 of the amount is related to the year ended 31 December 2020 and the remaining balance to the current year.

The current year's loss of fraud should be charged to selling and distribution expenses. Then, the allowance for doubtful debts is to be set at 10% of the balance of trade receivables. The amount of increase or decrease in doubtful debts is to be charged to selling and distribution expenses.

- (vi) NHB took out an additional long-term loan of RM3.6 million on 3 July 2021. The loan is subject to an annual interest rate of 4%. NHB paid the interest accruing on the loan on 2 January 2022. The accrued amount is to be charged to administrative expenses.
- (vii) The corporation tax charge for the year has been estimated at RM850,000. Ignore the taxation effects of any adjustments you make.

*All workings are to be shown clearly.*

*All amounts are to be rounded to the nearest Ringgit*

**Required**

- a) Prepare the statement of profit or loss and other comprehensive income for Nazreen Holdings Bhd for the year ended 31 December 2021. (21 marks)
- b) Prepare the statement of changes in equity for Nazreen Holdings Bhd for the year ended 31 December 2021. (7 marks)
- c) Prepare the statement of financial position of Nazreen Holdings Bhd as at 31 December 2021. (22 marks)

**[Total 50 marks]**

**END OF PART A**

**PART B : PROBLEM SOLVING QUESTIONS (50 MARKS)**

**INSTRUCTION (S)** : There are **THREE (3)** questions in this section, answer only **TWO (2)** questions. Write your answers in the Answer Booklet(s) provided.

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**QUESTION 1**

- a) In relation to MFRS 116 *Property Plant & Equipment (PPE)*:
- (i) State the definition of PPE in accordance with MFRS 116 paragraph 6. (2 marks)
  - (ii) Outline **THREE (3)** initial measurements of PPE in accordance with MFRS 116 paragraph 16. (3 marks)
  - (iii) Provide **FOUR (4)** examples of direct attributable costs in accordance with MFRS 116 paragraph 17. (4 marks)
  - (iv) List **THREE (3)** items that should not be included in the costs for cash purchase PPE. (3 marks)
- b) On 1 April 2018, Alpha Bhd (Alpha) purchased a building for RM2,000,000. The building had an expected useful life of 40 years. On 31 March 2020, Alpha revalued the building to RM2,100,000 with no change in the original estimated useful life.

On 31 March 2021, following a sharp downturn in the economy the building was revalued to RM1,500,000 and the remaining useful life was assessed at 30 years.

**Required**

Prepare the following for the financial period ending 31 March 2020 and 31 March 2021 respectively:

- (i) Journal entries to record the transactions including the revaluation and depreciation charge for the year. (9 marks)
- (ii) Extract of the statement of profit or loss and other comprehensive income. (4 marks)

**[Total 25 marks]**

**QUESTION 2**

MFRS 138 *Intangible Assets* sets out the principles of accounting for the recognition and measurement of intangible assets. The standard differentiates between intangible assets acquired individually, those acquired as part of a business combination, and those which are internally generated.

**Required**

- a) Discuss the recognition the criteria of MFRS 138 *Intangible Assets* for initial recognition and subsequent expenditure. (5 marks)

Zeta Berhad (Zeta) has entered into the following transactions during the financial year ended 31 July 2021:

1. On 1 August 2020 Zeta acquired the exclusive distribution rights for a unique home entertainment digital set-top box. The cost of the rights to Zeta was RM2.1 million and the term of the deal was 3 years.
2. On 1 August 2020 Zeta commenced work on promoting the brand and developing sales of the product referred to in (i) above. This effort was hugely successful, and the “Zeta” brand became massively popular and well known. Zeta wishes to include the brand in its financial statements for year ended 31 July 2021 at its expected costs of RM12 million.
3. Zeta wishes to replicate its success in other countries by selling the product into other markets. The company has spent RM500,000 during the year researching the Indonesian market and wishes to capitalise this expenditure as an intangible asset.

**Required**

- b) In each of the scenarios (1) to (3) above:
- (i) Justify whether the expenditures could be recognised under MFRS 138. (12 marks)
  - (ii) Prepare the journal entries including the initial measurements and amortisation if any for year ended 31 July 2021. (8 marks)

**[Total 25 marks]**

**QUESTION 3**

MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* sets out the accounting treatment and disclosures for these transactions and events. The standard discusses general principles of recognition, measurement and disclosures as well as specific application guidance for certain issues. This guidance aims to assist preparers of financial statements in applying MFRS 137.

**Required**

- a) Discuss the accounting recognition in relation to provisions, contingent liabilities and contingent assets required by MFRS 137. (9 marks)
- b) In the following circumstances, indicate whether a provision should be recognised.
- (i) On 13 December 2021 the board of an entity decided to close down a division. The accounting date of the company is 31 December 2021. Before 31 December 2021 the decision was not communicated to any of those affected and no other steps were taken to implement the decision.
  - (ii) The board agreed a detailed closure plan on 20 December 2021 and details were given to customers and employees.
  - (iii) A company is obliged to incur clean-up costs for environmental damage (that has already been caused).
  - (iv) A company intends to carry out future expenditure to operate in a particular way in the future. (1 mark each = 4 marks)

- c) During 2020 Smack Corporation Bhd gives a guarantee of certain borrowings of Pony Bhd whose financial condition at that time is sound. During 2021, the financial condition of Pony Bhd deteriorates and at 30 June 2021. Pony Bhd files for protection from its creditors.

**Required**

Discuss the accounting treatments in respect of the financial year ending 2020 and 2021 respectively. Justify whether a provision should be recognised or contingent liabilities should be disclosed. (9 marks)

- d) Parker Bhd sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defect that becomes apparent within the first six months of purchase.

The company's past experience and future expectations indicate the following pattern of likely repairs:

<b>% of goods sold</b>	<b>Category of Defects</b>	<b>Cost of repairs if all items suffered from these defects (RM'000)</b>
75%	None	-
20%	Minor	1,500
5%	Major	3,000

**Required**

Calculate the expected amount of provisions to be recognised in the statement of financial position as at 31 December 2021. (3 marks)

**[Total 25 marks]**

**END OF QUESTION PAPER**