



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3113 FINANCIAL REPORTING 2**
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.

Total Number of pages = 9 (Including the cover page)

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
SECTION A**

The following financial statements relate to Pearl Bhd (Pearl) and its investee company, Sapphire Bhd (Sapphire):

Statements of Financial Position for year ended 31 March 2022		
	Pearl Bhd RM'000	Sapphire Bhd RM'000
Non-current assets		
Property, plant & equipment	530,000	108,000
Investments	340,000	100,000
	870,000	208,000
Current assets		
Inventories	26,000	30,000
Trade receivables	71,000	50,000
Cash & bank	18,000	21,000
	115,000	101,000
Total assets	985,000	309,000
Equity		
Ordinary share capital @RM1.00	260,000	70,000
Retained earnings	554,000	136,000
	814,000	206,000
Non-current liabilities		
Term loan	100,000	60,000
Current liabilities		
Trade payables	21,000	33,000
Taxation	50,000	10,000
	71,000	43,000
Total equity & liabilities	985,000	309,000

The following information is relevant to the preparation of the group financial statements:

- (i) Pearl bought a 80% interest in the equity capital of Sapphire on 1 April 2020. The cost of the investment was paid in cash of RM161.6 million and the balance by mean of an immediate share exchange of two shares in Pearl for five shares in Sapphire. The fair value of Pearl and Sapphire's shares on 1 April 2020 was RM3.50 and RM2.00 respectively.

- (ii) At the date of acquisition:
- The retained earnings of Sapphire were RM55 million.
 - Sapphire had a factory building that was deemed to have a fair value of RM20 million in excess of its carrying value. This factory building had a remaining useful economic life of 10 years from its acquisition date. Depreciation is charged to cost of sales.
 - It was decided to apply the fair value method to calculate goodwill on acquisition.
 - For this purpose, Sapphire's share price at that date is representative of the fair value of the shares held by the non-controlling interest. Impairment losses of RM7.0 million have occurred since acquisition.
- (iii) As at 31 March 2022, the remaining investments in the books of Pearl and Sapphire consist of equity investments. These had a fair value of RM150 million and RM102 million respectively. As permitted by MFRS 9 *Financial Instruments*, any fair value gains and losses on all these equity investments through profit or loss.
- (iv) During December 2021, Pearl sold goods with an invoice value of RM6 million to Sapphire. Pearl has a policy of charging a mark-up of 25% on cost, to determine selling price. At 31 March 2022, 20% of these goods were still in the inventory of Sapphire.

At 31 March 2021, Pearl had a trade receivable balance of RM2.0 million owned by Sapphire. The amount differed to the balance in Sapphire due to cash in transit of RM1.0 million. This cheque was received by Pearl on 5 April 2022.

All calculations may be taken to the nearest RM0.1 million. Assume all expenses and gains accrue evenly throughout the year unless otherwise stated. No new equity capital was issued by any group company in the last two years.

Required:

Prepare the consolidated statement of financial position of Pearl Bhd as at 31 March 2022.

(Subtotal: 30 marks)

SECTION B

Petalite Bhd (Petalite) has one subsidiary, Sodalite Bhd (Sodalite). The draft statements of profit or loss for both entities for the year ended 31 March 2022 are given below:

Statement of Profit or Loss for year ended 31 March 2022		
	Petalite Bhd RM'000	Sodalite Bhd RM'000
Revenue	780,000	194,000
Cost of Sales	(300,000)	(70,000)
Gross profit	480,000	124,000
Administration expenses	(140,000)	(36,000)
Distribution costs	(45,000)	(25,000)
Finance costs	(10,000)	(6,000)
Other income	48,000	12,000
Profit before taxation	333,000	69,000
Taxation	(42,000)	(8,000)
Profit for the year	291,000	61,000

The following information is relevant to the preparation of the group financial statements:

Note: Investment in Sodalite Bhd

- (i) On 1 April 2020, Petalite acquired 75 million of Sodalite's 100 million issued equity shares for a cash payment of RM50 million and agreed to pay the owners of Sodalite a further RM25 million on 1 October 2023. The accountant has recorded the full amounts of both elements of the consideration in investments. Petalite has a cost of capital of 8%.

The present value interest factor is as follows:

Year 1: 0.9259

Year 2: 0.8573

Year 3: 0.7938

- (ii) The directors of Petalite measured the non-controlling interest in Sodalite using the proportionate share of the net assets of Sodalite at that date.
- (iii) The net assets of Sodalite as shown in the individual financial statements totalled RM55 million. The following matters emerged on the date of acquisition:
- Plant and equipment having a carrying amount of RM100 million had an estimated fair value of RM120 million. The estimated remaining useful life of this plant was four years.
 - A contingent liability of RM10 million relating to a pending legal case was disclosed in the notes to the financial statements of Sodalite at 1 April 2020. The contingency was settled during the year ended 31 March 2021.
 - All depreciation and amortisation of non-current assets is to be charged to cost of sales in the consolidated financial statements.

Note: Impairment review of goodwill on acquisition of Sodalite

- (iv) On 31 March 2022, Petalite carried out an impairment review which identified that the goodwill on the acquisition of Sodalite was impaired by RM2 million and to be charged to cost of sales.

Note: Intra-group trading

- (v) Sales of the product by Petalite to Sodalite for the year ended 31 March 2022 totalled RM15 million.
- (vi) On 31 March 2022, the inventories of Sodalite included RM5.5 million in respect of goods supplied by Petalite. On 31 March 2021, the amount in the inventories of Sodalite was RM2.0 million. All inventories were invoiced at cost plus mark-up of 25%.

All calculations may be taken to the nearest RM0.1 thousand.

Required:

- a) Calculate the consolidated goodwill as at 31 March 2022. (6 marks)
- b) Prepare the consolidated statement of profit or loss and other comprehensive income of Petalite Bhd for the year ended 31 March 2022. (*Show clearly the profits attributable to the parent and non-controlling interest*). (14 marks)

(Subtotal: 20 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.

QUESTION 1

Senoda Bhd (Senoda) prepares financial statements to 31 March 2022 each year. On 1 April 2021, Senoda entered into a contract to acquire a high technology machine, with an option to extend for a further five years of RM100,000 per year.

The agreement provided for 5 annual payments of RM80,000 payable in arrears and the first payment was made on 31 March 2022. The interest rate implicit in the lease is 6% per annum.

Senoda incurred the following costs in the course of arranging the machine:

Cost	RM
Legal fees of executing the lease	16,500
Commissioning the equipment	8,500
Cost of negotiating the terms and conditions	5,300

The board of directors of Senoda has unanimously agreed to exercise the purchase option at the end of the lease term. The agreement also provided that Senoda could exercise the purchase option at the end of the lease term. The machine has an economic useful life of 5 years with no residual value.

Assumptions:

- (i) Taxation implications are to be ignored.
- (ii) The present value factor for an ordinary annuity for RM1.00 at the interest rate of 6% is 4.2124.

Required

- a) List any **THREE (3)** definitions or series of test, at the inception of the contract to assess whether the assets are in accordance to Paragraph 9 of MFRS 16 *Leases*. (6 marks)
- b) Under the MFRS 16 *Leases*, there is only one lease accounting model for all leases. List **THREE (3)** exemptions if the entity is not applying the requirements of MFRS 16 and indicate the accounting treatments if the exemptions apply. (4 marks)
- c) Calculate the initial amount to be recognised as right of use asset in the statement of financial position at the commencement of the lease term. In the calculation, indicate which amount that should be excluded in the right of use asset. (4 marks)
- d) Prepare a lease liability schedule showing how the finance charges, liability at the beginning and the start of the period would be allocated to each of the 5 years. (5 marks)

- e) Show an extract of the statement of financial position for the first 2 years period in respect of the lease in the books of Senoda Bhd.
- (i) Non-current assets at carrying amount
 - (ii) Non-current liabilities
 - (iii) Current liabilities (3 marks)
- f) Discuss on the treatment of depreciation charges whether the right of use asset should be depreciated over the asset useful life or over the lease term period. (3 marks)
- [Total 25 marks]**

QUESTION 2

The following **FOUR** (4) cases are to be treated separately:

Case 1

On 1 January 2020, Cybex Bhd purchased a 20-storey building and the whole building is for owner occupied. The cost of the building was RM80 million with an expected useful life of 50 years and with no salvage value. Straight line method is used to depreciate its non-current assets.

Cybex Bhd chooses to measure using the cost model. The financial year end is 31 December. On 31 December 2021, Cybex Bhd recognised an impairment loss of RM35,000 for the building.

Required

- a) Calculate the carrying amount of the building as at 31 December 2021. (3 marks)

During the financial year to 2022, Cybex Bhd ceased using the property as an owner occupied and rented out the whole building and the management has decided to transfer the property at fair value to investment property at RM 70 million.

Required

- b) If the management has adopted the fair value model of reclassification, prepare the journal entries in accordance with MFRS 40 *Investment Property*. (3 marks)

Case 2

Intel Group Bhd acquired the following properties in Klang Valley:

- (i) A 25-storey building in Klang whereby three floors are used for office administration and business purposes and the balance is rented out to outsiders.
- (ii) The management has decided to provide ancillary services to the occupants of the building in Klang such as security, cleaning and maintenance services to the tenants. The services are considered to be insignificant to the arrangement as a whole.

- (iii) A piece of land in Pandan Indah was acquired with the intention of future development for building hostel to accommodate its workers.

Required

- c) In each of the scenario, advise the management whether the properties should be accounted for within the scope of MFRS 140 *Investment Properties* or MFRS 116 *Property, Plant and Equipment*.
(6 marks)

Case 3

Platinum Bhd owns a building and has decided to lease out to its subsidiary, Sapphire Bhd in return for rental payment. Sapphire Bhd uses the building as a retail outlet for its products.

Required

- d) Discuss how the property is accounted for in the book of Sapphire Bhd and its consolidated group account by reference to the relevant accounting standards.
(3 marks)

Case 4

Guthrie Bhd carries plantation activities at Peak Highland which include grows tea bushes, harvests the tea leaves, and produces and packs the tea in various packaging at its factory.

Required

- e) Explain the accounting treatments of the activities reported by Guthrie Bhd by reference to the relevant accounting standards.
(6 marks)

On 1 June 2021, Guthrie Bhd purchased 500 cattle at a cost of RM250,000. It is estimated that the fair value of cattle in the market on 31 December 2021 is RM265,000. The company estimates that commission to dealers is about RM2,500 if they decide to sell the cattle. The company's financial year end is 31 December 2021.

- f) Prepare the journal entries to record the transactions for the financial year ended 31 December 2021 including the purchase of the cattle and the fair value as at 31 December 2021. (4 marks)

[Total 25 marks]

QUESTION 3

The following events occurred for the financial period ending 31 December 2021 for E Pharma Bhd (EPB):

- (i) On 1 March 2021, EPB bought 100,000 shares in a public listed company, X Pharmaniaga Bhd. Each share costs RM5.00 to purchase and a fee of RM0.25 per share was paid as commission to a broker. EPB has no intention to keep the shares as long term investment and has decided to sell off in 2022 when the price of the shares go up by 20%. The fair value of each share at 31 December 2021 was RM3.50.

- (ii) On 1 May 2021, EPB bought 200,000 shares in a public listed company, A Plus Bhd for RM400,000 and incurred transaction costs of RM20,000. EPB acquired the shares as part of a long term strategy and intend to keep the shares for its dividends and also for capital gain in the future.

On 30 September 2021, A Plus Bhd declared and paid the final dividend of RM0.15 per share. The fair value of the shares was RM550,000 at 31 December 2021.

- (iii) On 1 January 2021, EPB loaned RM50 million to another entity. Interest of RM2.5 million is payable annually in arrears. EPB incurred direct costs of RM320,000 in arranging this loan. The annual rate of interest implicit in this arrangement is at 10%. EPB has no intention of assigning this loan to a third party at any time.

Required

In each of the above three events:

- a) Indicate the business model used. (6 marks)
- b) Prepare the journal entries to record the transactions in the financial statements of E Pharma Bhd for the year ended 31 December 2021. (The journal entries must include the initial measurement and amount to be charged to profit or loss or to other comprehensive income). (13 marks)
- c) Calculate the carrying amount of the financial assets as at 31 March 2021. (6 marks)

[Total 25 marks]

END OF QUESTION PAPER