



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3123 CORPORATE REPORTING**
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

Passion Bhd (Passion) was incorporated in Malaysia and was listed on the Main Board of Bursa Malaysia. It has shareholdings in two other companies, Scott Bhd (Scott) and SS Bhd (SS). Statement of Financial Position is shown below for all three companies as at 31 March 2021:

	Passion Bhd RM'000	Scott Bhd RM'000	SS Bhd RM'000
Non-current assets:			
Property, plant & equipment	750,000	223,000	80,000
Investments	460,000	76,000	-
	1,210,000	299,000	80,000
Current assets:			
Inventories	310,000	42,000	13,000
Trade receivables	122,000	75,000	17,000
Cash & bank	64,000	15,000	8,000
	496,000	132,000	38,000
Total assets	1,706,000	431,000	118,000
Equity:			
Equity share capital issued at RM1.00 each	400,000	100,000	50,000
Revaluation reserve	100,000	60,000	5,000
Retained earnings	887,000	164,000	35,000
	1,387,000	324,000	90,000
Non-current liabilities:			
10% debenture notes	200,000	60,000	-
Current liabilities:			
Trade payables	87,000	36,000	18,000
Dividend payable	11,000	4,000	-
Tax payable	21,000	7,000	10,000
Total liabilities	319,000	107,000	28,000
Total equity & liabilities	1,706,000	431,000	118,000

The following additional information is relevant:

- (i) Passion bought an 80% holding in the equity shares in Scott on 1 April 2019, when the retained earnings of Scott were RM120 million and revaluation reserve was zero. The consideration was agreed at RM3.125 per share. This amount was paid in cash. The “fair value” method is used by the group for calculating goodwill on all acquisitions. On 1 April 2019, the fair value of the non-controlling interest in Scott was independently assessed at RM88 million.

At the date of acquisition, the net assets of Scott were equal to their carrying amounts except for certain items of property, plant and equipment (PPE), which had a fair value RM40 million in excess of their carrying amount. Passion has had a policy of carrying PPE at fair values. This policy is implemented across all group companies from the date of acquisition.

- (ii) Passion bought 15 million in the equity shares of SS on 1 April 2020, when the retained earnings balance in SS 's books stood at RM31.2 million and revaluation reserve was RM2 million. The consideration consisted of an immediate cash payment of RM5.60 per share. SS operates as an autonomous entity, although subject to managerial control by the directors of Passion. The fair value of the non-controlling interest in SS at 1 April 2020 was RM9 million.

SS controls a famous brand name, not recognised in its books, which had a fair value of RM4 million on 1 April 2020. This brand was estimated to have a useful economic life of 20 years from that date.

- (iii) On the same date, Scott acquired 30 million shares in SS with a cash consideration of RM76 million.
- (iv) Goodwill was reviewed for impairment at each reporting date, and RM1 million should be provided for on investment of Passion.
- (v) At 31 March 2021, the fair values of the financial asset equity investments of Patrick were RM160 million and as permitted by MFRS 9 Financial Instruments, any fair value gains and losses on all these equity investments through profit or loss.
- (vi) During the financial year ended 31 March 2021, Passion had sold goods to Scott amounting to RM60 million. The purchase price included a mark-up of 20% on cost. Passion's normal mark-up on goods sold is 60%. Of these goods, one-quarter remained in the closing inventory of Scott at the reporting date.
- (vii) Recorded in the books of Passion was an intra-group accounts payable of RM20 million owed to Scott at year-end. However, the books of Scott showed a balance of RM22 million owed by Passion. The difference was due to a cheque in transit from Passion Bhd to Scott Bhd which was received by Scott Bhd only on 5 April 2021.

- (viii) All workings and solutions should be completed to the nearest RM million.

Required:

- a) Calculate the effective interest of the group structure of the three companies mentioned above.
(5 marks)
 - b) Prepare the Consolidated Statement of Financial Position of Passion Bhd and its group of companies as at 31 March 2021 in accordance with the Malaysian Financial Reporting Standards.
(45 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

The following information relates to the defined benefit employee compensation scheme of Anson Tech Bhd:

	RM'000
Present value of obligation at start of 2020	20,000
Market value of plan assets at start of 2020	20,000

	2020 RM'000	2021 RM'000
Current service cost	1,250	1,430
Benefits paid out	987	1,100
Contributions paid by entity	1,000	1,100
Present value of obligation at end of the year	23,000	20,400
Market value of plan assets at end of the year	21,500	17,840
Yield on corporate bonds at end of year	8%	9%

During 2020, the benefits available under the plan were improved. The resulting increase in the present value of the defined benefit obligation was RM1 million. This amount represents the past service cost which must be recognised immediately.

On the final day of 2021, Amada Bhd divested of part of its business, and as part of the sale agreement, transferred the relevant part of its pension fund to the buyer. The present value of the defined benefit obligation transferred was RM5.7 million and the fair value of plan assets transferred was RM5.4 million.

Assume that all transactions occur at the end of the year.

Required:

- a) Calculate the net defined benefit obligation and plan assets as at the start and end of 2020 and 2021 showing clearly any remeasurement gain or loss on the plan each year. (12 marks)
- b) Prepare the following extract of financial statements in each of the year 2020 and 2021:
 - (i) Statement of profit or loss
 - (ii) Statement of other comprehensive income
 - (iii) Statement of financial position (5 marks)
- c) The asset ceiling test (ACT) is applied when the net balance in the statement of financial position is a surplus, describe how MFRS 119 *Employee Benefits* limits the measurement of the net defined benefit asset? (4 marks)

- d) Describe the accounting recognition of the gain or loss on a curtailment and settlement and in which account that this gain or loss should be charged it to. (4 marks)

[Total 25 marks]

QUESTION 2

Scenario 1

MFRS 2 *Share-based Payment* defines a share-based payment transaction as one in which an entity receives goods or services from a third party (including an employee) in a share-based payment arrangement. A share-based payment arrangement is an agreement between an entity and a third party which entitles the third party to receive either:

- Equity instruments of the entity (equity-settled share-based payments); or
- Cash or other assets based on the price of equity instruments of the entity (cash-settled share-based payments).

Share-based payment arrangements are often subject to vesting conditions which must be satisfied over a vesting period.

Required:

Explain the following for both cash-settled and equity-settled share-based payment arrangements:

- a) The basis on which the arrangements should be measured for an employee and third party. (4 marks)
- b) The conditions which must be fulfilled for an employee to exercise their right in a share-based payment arrangement. (2 marks)
- c) The accounting entries (debit and credit) required during the vesting period. (3 marks)

Scenario 2

JB Group Bhd (JB) prepares financial statements to 31 December each year. The following are the details of the share-based payment arrangements:

On 1 January 2019, JB granted options to 800 employees to subscribe for 200 share options on its ordinary shares. Each grant is conditional upon the employee being employed by JB until 31 December 2021.

JB estimated at 1 January 2019 the fair value of each option was RM4.00 (before adjustment for the possibility of forfeiture).

The following events take place during the following financial periods:

Financial period	Event
31 December 2019	40 of these employees left the entity and expected that 55 more would leave during this period.
31 December 2020	20 of the employees left the entity and expected that 20 would leave during this period
31 December 2021	None of the employees left the entity.

The departures of the employees were expected to be evenly spread within each year.

The share options would be exercised on 31 December 2021 for those employees who remain employed by the entity until that date.

Required

- a) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit or loss of JB Bhd as at 31 December 2019, 2020 and 2021 in respect of the share options. (6 marks)
- b) Record the journal entries for the charge to profit or loss for employee services over the three years, including when the options are exercised on 31 December 2021. (4 marks)

Scenario 3

On 1 January 2019, JB granted share appreciation rights to 50 senior employees. The number of rights to which each employee becomes entitled depends on the cumulative profit of Kappa for the three years ended 31 December 2021:

- 1,000 rights per employee are awarded if the cumulative profit for the three-year period is below RM500,000.
- 1,500 rights per employee are awarded if the cumulative profit for the three-year period is between RM500,000 and RM1 million.
- 2,000 rights per employee are awarded if the cumulative profit for the three-year period exceeds RM1 million.

On 1 April 2019, JB expected that the cumulative profits for the three-year period would be RM800,000. After the disappointing financial results for the year ended 31 December 2020, this estimate was revised at that time to RM450,000. However, given the improvement in results for the year ended 31 December 2021, the estimate was revised again at 31 December 2021 to RM1,100,000.

The fair value of one share appreciation right was RM0.90 at 31 December 2020 and to RM1.20 at 31 December 2021. All the senior employees are expected to remain employed by JB for the relevant three-year period. The rights are exercisable on 31 March 2022.

Required

- a) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit or loss of JB Bhd as at 31 December 2020 and 2021 in respect of the share appreciation right. (4 marks)
- b) Record the journal entries for the charge to profit or loss for employee services over the two years. (2 marks)

[Total 25 marks]

QUESTION 3

MFRS 121 *The Effects of Changes in Foreign Exchange Rates* prescribes the accounting treatment for foreign currency transactions.

- a) Under MFRS 121, describe any **TWO** (2) primary indicators to be considered when determining a functional currency. (4 marks)
- b) Explain the accounting treatment for monetary and non-monetary items under MFRS 121. Provide an example of accounts of monetary and non-monetary item. (4 marks)
- c) Cargo Bhd's (Cargo) functional currency is Ringgit Malaysia (RM). On 16 February 2021, Cargo purchased goods on credit for US\$175,000. On 23 March 2021, Cargo paid half of the balance outstanding, and the remainder was paid on 15 April 2021. Cargo has a year end of 31 March.

The following are the prevailing exchange rates of USD\$1.00:

Date	RM
16 February 2021	4.19
23 March 2021	4.25
31 March 2021	4.15
15 April 2021	4.22

Required

Prepare journal entries to record the above transactions including the realised and unrealised gain or loss arising from the transactions as at the dates mentioned above. (5 marks)

- d) On 1 April 2020, Cargo Bhd acquired 100% equity of Freight Ltd, a public listed company in Bermuda. In accordance with the MFRS 121 *The Effects of Changes in Foreign Exchange Rates*, Cargo Bhd is required to present its financial statements in its functional currency, the Malaysian Ringgit (RM) for the purposes of consolidation.

Given below are the financial statements of Freight Ltd for the year ended 31 March 2021:

Statement of Comprehensive Income for the Year Ended 31 March 2021	
	USD '000
Revenue	146,114
Cost of sales	(113,969)
Gross profit	32,145
Distribution costs	(150)
Administrative expenses	(9,000)
Other expenses	(1,000)
Finance costs	(3,000)
Profit before tax	18,995
Income tax expense	(4,495)
Profit for the year	14,500

Extract from the statement of changes in equity	
	USD '000
Retained earnings at the beginning of year	18,000
Profit for the year	14,500
Dividend	(3,000)

The statements of financial position at 31 March 2021	
	USD '000
Property, plant and equipment	85,000
Inventory	8,000
Accounts receivable	12,000
Cash	5,000
Total assets	110,000

Accounts payable	5,500
Overdraft	5,000
Loan	50,000
Total liabilities	60,500
Ordinary share capital	20,000
Retained earnings	29,500
Total equity	49,500
Total liabilities and equity	110,000

The applicable exchange rates of USD1.00:

	RM
1 April 2020	4.54
31 March 2021	4.15
Average in 2020	4.12
Average in 2021	4.09

Required

Translate the following financial statements of the Freight Ltd subsidiary at 31 March 2021 in the presentation currency of Ringgit Malaysia for the purposes of consolidation:

- (i) Statement of comprehensive income (2 marks)
- (ii) Extract of statement of changes in equity (2 marks)
- (iii) Statement of financial position (8 marks)

[Total 25 marks]

END OF QUESTION PAPER