



**FACULTY OF BUSINESS**

**FINAL EXAMINATION**

Student ID (in Figures) : 

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Student ID (in Words) : \_\_\_\_\_  
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Course Code & Name : **ACC3113 FINANCIAL REPORTING 2**  
Semester & Year : JANUARY – APRIL 2023  
Lecturer/Examiner : JAMES LIOW  
Duration : 3 Hours

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**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  
SECTION A**

The statement of financial position relating to Paramount Bhd (PB) and its subsidiary Saga Bhd (SB) for the year ended 31 March 2023 was as set out below:

<b>Statement of Financial Position as at 31 March 2023</b>			
	<b>Note</b>	<b>Paramount Bhd RM'000</b>	<b>Saga Bhd RM'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		5,300	5,050
Investments	(i) & (iv)	4,500	800
		9,800	5,850
<b>Current assets</b>			
Inventory	(v)	2,840	1,560
Trade receivables	(vi)	2,480	1,860
Cash at bank	(vi)	2,680	1,030
		8,000	4,450
<b>Total assets</b>		<b>17,800</b>	<b>10,300</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital issued at RM1.00	(i)	6,000	3,000
Revaluation reserve	(ii)	1,550	700
Retained earnings	(ii)	4,170	2,530
		11,720	6,230
<b>Non-current liabilities</b>			
Term loan		2,440	1,620
<b>Current liabilities</b>			
Trade payables	(vi)	2,340	2,100
Other payables		400	350
Deferred consideration	(i)	900	-
		3,640	2,450
<b>Total equity and liabilities</b>		<b>17,800</b>	<b>10,300</b>

#### Additional information

(i) PB has owned 70% of SB's equity share capital since 1 April 2022.

The acquisition consideration at the date of acquisition consists of the following:

- Cash amounting to RM1.44 million paid on 1 April 2022.
- A share exchange of one new share in PB for every two acquired shares in SB. The market value of PB's shares was RM1.20 each.
- In addition, PB will pay a further RM1.05 million to the owner of SB on 1 April 2024. PB has a cost of capital of 8%. The appropriate discount rate is 0.857.

(ii) At the date of acquisition:

- The retained earnings balance of SB at the date of acquisition stood to be RM230,000.
- The revaluation reserves of SB were RM500,000.
- A fair value exercise carried out on 1 April 2022 concluded that the carrying amount of SB's net assets approximated their fair value with the exception of an item of plant and equipment which had a carrying amount of RM1.0 million below its fair value. At 1 April 2022, the plant and equipment had a remaining economic useful life of ten years. Depreciation is charged to cost of sales.
- It is the groups' policy to measure the non-controlling interest at fair value of SB at the date of acquisition. The fair value of SB's shares was RM1.50 per share.

(iii) PB adopted revaluation model to measure its property, plant and equipment in accordance with MFRS 116 *Property, Plant and Equipment*.

(iv) As at 31 March 2023, the remaining investments in the books of PB and SB consist of equity investments. These had a fair value of RM1.2 million and RM950,000 respectively. As permitted by MFRS 9 *Financial Instruments*, any fair value gains and losses on all these equity investments through profit or loss.

(v) During the year ended 31 March 2023, SB sold goods worth RM2.4 million to PB, SB reported a gross profit markup of 25% of all its sales. PB still had 30% of these goods in its inventory as at 31 March 2023.

(vi) At 31 March 2023, PB had a trade receivable balance of RM2.0 million owned by SB. The amount differed to the balance in SB due to cash in transit of RM1.0 million. This cheque was received by PB on 5 April 2023.

(vii) An impairment review conducted on 31 March 2023 revealed that goodwill arising on acquisition of SB was impaired 10%. No impairment loss had been reported in prior years.

All calculations may be taken to the nearest RM0.1 million. No new equity capital was issued by any group company in the last two years.

**Required:**

Prepare the consolidated statement of financial position of Paramount Bhd as at 31 March 2023.

(Subtotal: 30 marks)

**SECTION B**

Pagoda Bhd (Pagoda) has one subsidiary, Sigma Bhd (Sigma). The draft statements of profit or loss for both entities for the year ended 31 March 2023 are given below:

	<b>Pagoda Bhd RM'000</b>	<b>Sigma Bhd RM'000</b>
Revenue	8,100	5,920
Cost of sales	(4,050)	(1,110)
Gross profit	4,050	4,810
Distribution expenses	(240)	(210)
Administrative expenses	(480)	(230)
Operating profit	3,330	4,370
Investment income	160	-
Finance costs	(85)	(125)
Profit before tax	3,405	4,245
Income tax expenses	(175)	(125)
<b>Net profit</b>	<b>3,230</b>	<b>4,120</b>
Other comprehensive income:		
Gain on property revaluation	180	100
<b>Total comprehensive income</b>	<b>3,410</b>	<b>4,220</b>

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

**Note: Investment in Sigma**

- (i) On 1 April 2021, Pagoda acquired 96 million of Sigma's 120 million issued equity shares for a cash payment of RM60 million and agreed to pay the owners of Sigma a further RM3.0 million on 1 April 2024. The accountant has recorded the full amounts of both elements of the consideration in investments. Pagoda 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 Pagoda measured the non-controlling interest in Sigma using the proportionate share of the net assets of Sigma at that date.

- (iii) The net assets of Sigma as shown in the individual financial statements totalled RM60 million. The following matters emerged on the date of acquisition:
- Plant and equipment having a carrying amount of RM120 million had an estimated fair value of RM122 million. The estimated remaining useful life of this plant was four years.
  - A contingent liability of RM1.2 million relating to a pending legal case was disclosed in the notes to the financial statements of Sigma at 1 April 2021. The contingency was settled during the year ended 31 March 2022.
  - 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 Sigma**

- (iv) On 31 March 2023, Pagoda carried out an impairment review which identified that the goodwill on the acquisition of Sigma was impaired by RM1.0 million and to be charged to cost of sales.

**Note: Intra-group trading**

- (v) Sales of the product by Pagoda to Sigma for the year ended 31 March 2023 totalled RM1.5 million.
- (vi) On 31 March 2023, the inventories of Sigma included RM800,000 in respect of goods supplied by Pagoda. On 1 April 2022, the amount in the inventories of Sigma was RM300,000. All inventories were invoiced at cost plus mark-up of 25%.

**Required:**

- a) Calculate the consolidated goodwill as at 31 March 2023. (6 marks)
- b) Prepare the consolidated statement of profit or loss and other comprehensive income of Pagoda Bhd for the year ended 31 March 2023. (*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.

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**QUESTION 1**

Ho Hip Bhd (HHB) prepares financial statements to 31 March each year. On 1 April 2022, HHB entered into a contract to lease an item of high technology plant and equipment from a Germany supplier for five years.

The agreement provided for 5 annual payments of RM60,000 payable in arrears and the first payment was made on 31 March 2022. The interest rate implicit in the lease is 10% per annum.

HHB incurred the following costs in the course of arranging the plant and equipment:

Cost	RM
Legal fees of executing the lease	6,500
Commissioning the plant and equipment	12,500
Transportation charges from Port Klang to HBB's factory	2,500
Cost of air tickets and accommodation for visiting the plant in Germany prior to the signing of the lease agreement	18,500

The board of directors of HHB has unanimously agreed to exercise the purchase option at the end of the lease term which is provided in the agreement. The plant and equipment 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. (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 Ho Hip 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 2021, Kingston Group Bhd (KGB) purchased a 20-storey building for RM12 million for its own use.

The building has an expected useful life of 50 years and with no salvage value. Straight line method is used to depreciate its non-current assets. At the end of the financial period ended 31 December 2022, KGB recognised an impairment loss of RM50,000. KGB chooses to measure using the cost model.

### **Required**

- a) Calculate the carrying amount as at 31 December 2022. (3 marks)

On 1 January 2023, KGB ceased using the building as an owner occupied and decided to rent out 90% of the building and transfer the property at fair value to investment property at RM14 million. KGB adopted the fair value model.

### **Required**

- b) Prepare the journal entries in accordance with MFRS 40 *Investment Property*. (3 marks)

### **Case 2**

Inter Pacific Holdings Bhd (IPH) has the following properties:

- (i) A 20-storey building in Klang whereby three floors are used for office administration and business purposes and the balance is rented out to outsiders.
- (ii) A 15-storey building in Melaka whereby IPH provides ancillary services such as security, cleaning and maintenance services to the occupants of the building. However, the services are considered to be significant to the arrangement as a whole.
- (iii) IPH bought a piece of land in Puchong, Selangor and it is expected its value will increase over time. No rentals are expected to be generated from the land in the foreseeable future.

**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**

IPH owned a building in Shah Alam, Selangor and it was decided to rent out to its subsidiary in return for rental payment. The subsidiary uses the building as a retail outlet for marketing its products.

**Required**

- d) Discuss how the property is accounted for in the book of IPH 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 growing tea bushes, harvesting the tea leaves, and producing and packing the tea in various packagings at its factory.

**Required**

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

On 1 June 2022, Guthrie Bhd purchased 500 cattle at a cost of RM250,000. It is estimated that the fair value of the cattle in the market on 31 December 2022 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 2022.

- f) Prepare the journal entries to record the transactions for the financial year ended 31 December 2022 including the purchase of the cattle and the fair value as at 31 December 2022.  
(4 marks)

**[Total 25 marks]**

**QUESTION 3**

The following events occurred for the financial period ending 31 December 2022 for Jaya Group Bhd (JGB):

- (i) On 1 March 2022, JGB bought 50,000 shares in a public listed company, Jati Holdings Bhd. Each share costs RM2.00 to purchase and a fee of RM0.02 per share was paid as commission to a broker. JGB has no intention to keep the shares as long-term investment and has decided to sell off in 2023 when the price of the shares goes up by 15%. The fair value of each share at 31 December 2022 was RM2.70.
- (ii) On 1 May 2022, JGB bought 20,000 shares in a public listed company, Omega Plus Bhd (OMB) at RM1.50 per share and incurred transaction costs of RM0.02 per share. JGB 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 2022, OMB declared and paid the final dividend of RM0.10 per share. The fair value of the shares was RM2.85 per share as at 31 December 2022.

- (iii) JGB issued a 5-year debenture on 1 January 2022 for RM1.0 million. The bonds are held to pay interest at 8% per annum. The annual rate of interest implicit in this arrangement is at 10%.

**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 Jaya Group Bhd for the year ended 31 December 2022. (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 December 2022. (6 marks)

**[Total 25 marks]**

**END OF QUESTION PAPER**