



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Student ID (in Words) : _____

Course Code & Name : **ACC3113 FINANCIAL REPORTING 2**
Semester & Year : JANUARY – APRIL 2024
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 only 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**

Platinum Bhd (PB) a parent with a subsidiary Silver Bhd (SB) presented the following consolidated statement of financial position at 31 December:

Statement of Financial Position as at 31 December 2023			
	Note	Platinum Bhd RM'000	Silver Bhd RM'000
Non-current assets			
Property, plant and equipment	(ii) & (iv)	20,400	17,500
Investments	(i) & (v)	16,000	2,000
		36,400	19,500
Current assets			
Inventory	(vi)	12,700	5,300
Trade receivable	(vii)	8,700	3,500
Cash and cash equivalent	(vii)	1,000	500
		22,400	9,300
Total assets		58,800	28,800
Equity and liabilities			
Equity			
Share capital (RM1.00 issued)		20,000	9,000
Retained earnings		17,780	8,600
Revaluation reserve		5,000	1,000
		42,780	18,600
Non-current liabilities			
Long term borrowings		6,000	500
Current liabilities			
Trade payable	(vii)	7,400	8,460
Other payable		1,000	1,240
Deferred consideration	(i)	1,620	-
		10,020	9,700
Total liabilities		16,020	10,200
Total equity and liabilities		58,800	28,800

Additional information:

Note: Investment in SB

- (i) PB acquired 60% of SB equity share capital on 1 January 2022.
The acquisition consideration at the date of acquisition consists of the following:
- Cash amounting to RM3.8 million paid on 1 January 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 RM3.00 each.
 - In addition, PB will pay a further of RM0.35 to the owner of SB on 31 December 2024. PB has a cost of capital of 8%. The appropriate discount rate is 0.7938.
- (ii) The directors of PB carried out a fair value exercise to measure the identifiable assets and liabilities of SB on the date of acquisition. The following matters emerged:
- The retained earnings balance of SB at the date of acquisition stood to be RM6.5 million and the revaluation reserves of SB were RM600,000.
 - A fair value exercise carried out on 1 January 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 RM2.5 million above its fair value. At 31 December 2023, the plant and equipment had a remaining economic useful life of ten years.
 - 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) On 31 December 2023, PB carried out an impairment review which identified that the goodwill on the acquisition of SB was impaired by 10%.

Note: Property, plant and equipment

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

Note: Investments

- (v) As at 31 December 2023, the remaining investments in the books of PB and SB consist of equity investments. These had a fair value of RM3.15 million and RM2.65 million respectively. As permitted by MFRS 9 *Financial Instruments*, any fair value gains and losses on all these equity investments through profit or loss.

Note: Intra-group trading

- (vi) During the year ended 31 December 2023, SB sold goods worth RM22.5 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 December 2023.
- (vii) At 31 December 2023, SB had a trade receivable balance of RM2.5 million owned by PB. The amount differed to the balance in PB due to cash in transit of RM1.0 million. This cheque was received by SB on 5 January 2024.

Required:

Prepare the consolidated statement of financial position of Platinum Bhd as at 31 December 2023.

(Subtotal: 30 marks)

SECTION B

Planetarium Bhd (PB) a parent company with one subsidiary Saturn Bhd (SB) is preparing the consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2023. The draft statement of profit or loss and other comprehensive income are as follows:

	Planetarium Bhd RM'000	Saturn Bhd RM'000
Revenue	64,600	38,000
Cost of sales	(51,200)	(26,000)
Gross profit	13,400	12,000
Selling and distribution costs	(1,600)	(1,800)
Administrative expenses	(3,800)	(2,400)
Investment income	1,500	-
Finance costs	(420)	(580)
Profit before tax	9,080	7,220
Income tax expense	(2,800)	(1,600)
Profit for the year	6,280	5,620
Other comprehensive income:		
Gain on property revaluation	2,300	1,200
Total comprehensive income	8,580	6,820

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

Note: Investment in SB

- (i) On 1 January 2022, PB acquired 9.0 million equity share capital of SB in a share exchange in which PB issued two new shares for every three shares it acquired in SB. On that date, SB had 10.0 million equity shares in issue.

Additionally, on 31 December 2023, PB will pay the shareholders of SB RM2.00 per share acquired. PB's cost of capital is 10% per annum. At the discount rate of 10% per annum, the present value of RM1.00 payable in two years is RM0.8.265.

At the date of acquisition, shares in PB and SB had a stock market value of RM6.50 and RM2.50 each respectively.

- (ii) At the date of acquisition, PB carried out a fair value exercise to measure the identified assets and liabilities of SB on the date of acquisition. The follow matters emerged:
- The net assets of SB stood to be at RM46.55 million.

- An item of plant and equipment had a fair value of RM1.8 million above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.
 - SB had a contingent liability which PB estimated to have a fair value of RM450,000. This has not changed as at 31 December 2023.
- (iii) PB's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, SB's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

Note: Impairment of goodwill on acquisition of SB

- (iv) Although SB has been profitable since its acquisition by PB, the market for SB's products has been badly hit in recent months and PB has calculated that the goodwill has been impaired by RM2.0 million as at 31 December 2023. This amount is to be charged to cost of sales.

Note: Dividend paid by SB

- (v) On 30 June 2023, SB paid a dividend of RM500,000. This was the only dividend paid by SB in the year ended 31 December 2023 and was recognised as investment income by PB.

Note: Long term loan to SB

- (vi) On 1 January 2023, PB made a long-term loan to SB of RM1.0 million. The loans are included in the financial statements of SB at this amount. These long-term loans attract interest at an annual rate of 8%. Both PB and SB have correctly accounted for this investment income and finance costs respectively in their individual financial statements for the year ended 31 December 2023.

Note: Intra-group trading

- (vii) Sales from SB to PB throughout the year ended 31 December 2023 totalled to RM7.2 million. SB made a mark-up on cost of 25% on these sales. On 31 December 2022 and 2023, the inventories of PB included goods costing RM1.0 and RM1.5 million respectively which had been purchased from SB.

Required:

- a) Calculate the consolidated goodwill as at 31 December 2023. (5 marks)
- b) Prepare the consolidated statement of profit or loss and other comprehensive income of Planetarium Bhd for the year ended 31 December 2023. (*Show clearly the profits attributable to the parent and non-controlling interest*). (15 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

Layla Corporation Bhd (LCB) prepares its financial statements to 31 March each year. On 1 April 2024, LCB entered into a contract to acquire one Tata Prima refrigerated truck. The truck is be used in the delivery and distribution of dairy products.

The following information was obtained from the abovementioned lease agreement:

- (i) The lease payments payable 5 annually in arrears amounting to RM250,000. The first such payment is payable on 31 March 2025.
- (ii) The interest rate implicit in the lease is 6% per annum. The present value factor for an ordinary annuity for RM1.00 is 4.2124 and the discount factor is 0.7473.
- (iii) The board of directors of LCB has unanimously agreed to exercise the purchase option at the end of the lease term and if this option is exercised, RM25,000 will need to be paid to the lessor.
- (iv) LCB incurred the following initial costs in the course of arranging the refrigerated truck:

	RM
Initial deposits	50,000
Sales and purchase agreement of executing the lease	8,500
Application for licensing of commercial vehicles	3,000
Road tax and insurance	15,000
Cost of preparing the purchase order	1,000

- (v) The useful life the delivery vehicle was estimated to be eight years at the inception of the lease.
- (vi) Assumptions: Taxation implications are to be ignored.

Required

- a) List any **FOUR (4)** 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*. (4 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. (5 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 Riverview Corporation Bhd.
- (i) Non-current assets at carrying amount
 - (ii) Non-current liabilities
 - (iii) Current liabilities
- (4 marks)
- f) Discuss 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 **THREE (3)** cases are to be treated separately:

Case 1

Nam Wah Bhd (NWB) is a public listed company and its financial year period ending 31 December 2023.

On 1 January 2023, NWB acquired a 14-storey building in Kota Kinabalu for RM28,000,000. The directors of NWB estimated that the initial cost of the property should be allocated as follows for accounting purposes:

	RM' million
Top four storeys of building	5
Remainder ten storeys of building	10
Land component	13
Total	28

The top four storeys of the building are leased out to a third party on a long-term lease. The annual rental receivable charged by NWB was RM3.0 million. The portions of the four storeys building are capable of being sold in a separate transaction. The remaining ten storeys are occupied by NWB's management for administrative purposes.

On 31 December 2023, the property had an estimated total fair value of RM35 million. The directors considered that 20% of this fair value was attributable to the top four storeys of the building. The directors of NWB wish to use the cost model for measuring property, plant and equipment and the fair value model for measuring investment property. NWB depreciates the buildings component of properties over an estimated useful life of 50 years, with no estimated residual value. The rental payable to NWB was paid in accordance with the terms of the lease.

Required

- a) Advise the management how the properties should be accounted for with the scope of MFRS 140 *Investment Properties* and MFRS 116 *Property, Plant and Equipment*.
- (4 marks)

- b) Prepare the journal entries to record the transactions on 31 December 2023. (6 marks)

Case 2

NWB owns another building at Penang that it rents out to independent third parties. The NWB provides cleaning, security and maintenance services for the lessees of the building. To do this, NWB's building administration and maintenance staff occupied a part of the building that measures less than 1% of the floor area of the building.

Required

- c) Advise the management whether the properties should be accounted for with the scope of MFRS 140 *Investment Properties* and MFRS 116 *Property, Plant and Equipment*. (4 marks)
- d) Assume that the building is rented out to its subsidiary in return for rental payment. The subsidiary uses the building as a retail outlet. Discuss how the property is accounted for in the book of NWB and its consolidated group accounts by reference to the relevant accounting standard. (4 marks)

Case 3

Pertama Bhd (PB) carries plantation activities at Peak Highland which include growing oil palm trees, harvesting the palm fruits, and producing and bottling the palm oil into edible vegetable oils in various packaging at its factory.

On 1 June 2023, PB purchased 500 cattle at a cost of RM350,000. It is estimated that the fair value of the cattle in the market on 31 December 2023 is RM365,000. The company estimates that commission to dealers is about RM13,500 if they decide to sell the cattle. The company's financial year end is 31 December 2023.

Required

- e) Explain the accounting treatments of the activities reported by PB with reference to the relevant accounting standards. (3 marks)
- f) Prepare the journal entries to record the transactions for the financial year ended 31 December 2023 including the purchase of the cattle. (4 marks)

[Total 25 marks]

QUESTION 3

The following events occurred for the financial period ending 31 December 2023 for Muhibah Consolidated Bhd (MCB):

- (i) On 1 March 2023, MCB bought 30,000 shares in a public listed company, Jaya Resources Bhd. Each share costs RM2.50 to purchase and a fee of RM0.05 per share was paid as commission to a broker. MCB has no intention to keep the shares as long-term investment and has decided to sell off in 2024 when the price of the shares goes up by 20%. The fair value of each share at 31 December 2023 was RM2.90.

- (ii) On 1 May 2023, MCB bought 10,000 shares in a public listed company, Oral Plus Bhd (OPB) at RM1.80 per share and incurred transaction costs of RM0.05 per share. MCB 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 2023, OPB declared and paid the final dividend of RM0.15 per share. As at 31 December 2023, the fair value of the shares was RM2.15 per share.

- (iii) MCB issued a 5-year bond on 1 January 2023 at the face value of RM100,000. The bond will pay annually coupon interest at 9% per annum. The bond price at the time of issue was calculated at the present value of RM96,250. 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 Muhibah Consolidated Bhd for the year ended 31 December 2023. (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 2023. (6 marks)

[Total 25 marks]

END OF QUESTION PAPER