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BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) : | | | | | | | | | | | | | | |

Student ID (in Words) : ______________________________

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Course Code & Name	:	**ACC3113 FINANCIAL REPORTING 2**
Trimester & Year	:	JANUARY – APRIL 2018
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 = 6 (Including the cover page)

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

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

QUESTION 1

The following is the Statement of Financial Position of Pandora Bhd and Sigma Bhd as at 31 December 2017.

Statement of Financial position at 31 December 2017

	Pandora	Sigma
	RM'000	**RM'000**
Non-Current Assets		
Property, plant and equipment	1,300	1,145
Investments (held at fair value)	800	-
	2,100	1,145
Current Assets	360	402
Total Assets	**2,460**	**1,547**
Equity and Liabilities		
Equity shares of RM1 each	1,000	700
Retained earnings	1,053	247
Total equity	2,053	947
Total liabilities	407	600
Total equity and liabilities	**2,460**	**1,547**

The following information is relevant:

1. Pandora acquires 60% of the 700,000 RM1 equity shares of Sigma on 1 January 2017 when Sigma's retained earnings were RM30,000. The consideration for the acquisition consisted of the following:
   - RM240,000 cash paid on the acquisition date.
   - The transfer of 200,000 RM 1.00 equity shares in Pandora with deemed value of RM1.80 at the date of acquisition.

2. The non-controlling interest in Sigma was measured at its fair value of RM400,000 at the date of acquisition.

3. The fair value of Sigma's net assets was the same as book value on 1 January 2017, with one exception of two items:
   - Property with carrying value of RM120,000 had a fair value of RM2,00,000 on that date. The assets were estimated to have a remaining useful life of 8 years from the date of acquisition and Pandora depreciation property on a straight-line basis.

- Sigma had a contingent liability which Pandora estimated to have a fair value of RM50,000. This has not changed as at 31 December 2017.
- Deferred tax implications are to be ignored.
- Pandora has not incorporated these fair value changes into its financial statements.

4. An impairment review performed on 31 December 2017 indicated that goodwill arising on the acquisition had been impaired by 20%.

5. Pandora's accounting policy for land and buildings is that they should be carried at their fair values. The fair value of Sigma's land at the 31 December 2017 had increased by RM200,000 from the date of acquisition. Sigma's buildings did not require any fair value adjustments. The fair value of Pandora's own land and buildings at 31 December 2017 was increased by RM300,000 in excess of its carrying value in the above Statement of Financial Position.

6. Sigma's trade receivables at 31 December 2017 include RM60,000 due from Pandora which did not agree with Pandora's corresponding trade payable. This was due to cash in transit of RM20,000 from Pandora to Sigma which was received by Sigma on 15 January 2018.

Required

a) Calculate the consolidated goodwill at the date of acquisition of Sigma Bhd. (7 marks)

b) Prepare the consolidated statement of financial position for Pandora Bhd Group as at 31 December 2017. (43 marks)

[Total 50 marks]

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

DG acquired 500,000 shares in HJ, a listed entity, for RM3.50 per share on 28 February 2015. The costs associated with the purchase were RM15,000. The directors plan to realise this investment before the end of 2015. The investment was designated on acquisition as held for trading. There has been no further adjustment made to the investment since the date of purchase. The shares were trading at RM3.65 each on 30 June 2015.

Required

a) Explain how the acquired shares should be classified, initially measured and subsequently measured. Your answer should be supported by journal entries. (8 marks)

b) Explain how the treatment will differ if the financial investment is classified as not held for trading, in accordance with MFRS 9 Financial Instruments: Recognition and Measurement. (2 marks)

DG purchased a bond with a par value of RM 5million on 1 July 2010. The bond carries a 5% coupon, payable annually in arrears and is redeemable on 30 June 2015 at RM5.8 million. DG fully intends to hold the bond until the redemption date. The bond was purchased at a 10% discount. The effective interest rate on the bond is 10.26%. The interest due for the year was received and credited to investment income in the statement of profit or loss.

Required

c) Explain how the acquired bond should be classified, initially measured on 1 July 2010 and subsequently measured on 30 June 2011. Your answer should be supported by journal entries. (7 marks)

d) Explain why there is a difference between the 5% coupon and 10.26% effective interest rate in the bond and how to recognise them in the financial statements. (8 marks)

[Total 25 marks]

QUESTION 2

Lapricorn Bhd enters into a leasing arrangement with Tetricome Bhd on 1 January 2015 for an equipment costing RM110,000. The lease agreement requires payment of five annual rents of RM25,000 each, payable in arrears at the end of the respective years.

After the end of the primary lease period, the lessee has the right to purchase the assets at a bargain price of RM20,000. At the date of the lease agreement, Lapricorn Bhd is reasonably certain that it will exercise the right to purchase the equipment at the end of the lease term. The lease is non-cancellable.

The title of the equipment is to be passed to Lapricorn Bhd at the end of the lease period. Lapricorn Bhd believes that the equipment will last for eight years and will have no residual value at the end of that period. It depreciates assets of this type on a straight line method. Lapricorn Bhd engages the lessor to service the equipment, paying a servicing fee of RM5,000 per year. The implicit interest rate is 10% per annum.

Assumptions:

- Taxation implications are to be ignored.
- The present value factor for an ordinary annuity for RM1.00 at the interest rate of 10% is 3.7908 and the present value for RM1.00 at the interest rate of 10% at the end of fifth year is 0.6209.

Required

a) Calculate the amount of initial recognition in the books of Lapricorn Bhd in accordance with MFRS 117 *leases.* (3 marks)

b) Prepare a table showing how the finance charges, liability at the beginning and the start of the period would be allocated to each of the five years. (10 marks)

c) Prepare the journal entries, initially measured on 1 January 2015 and subsequently measured on 31 December 2016. (4 marks)

d) Show the journal entries in the statement of financial position for 2015 and 2016 in respect of the lease in the books of Lapricorn Bhd.
   i) Non-current assets at carrying amount
   ii) Total liabilities
   iii) Non-current liabilities
   iv) Current liabilities (8 marks)

[Total 25 marks]

QUESTION 3

Part A

Inter World Bhd issues 4% convertible bonds at their nominal value of RM5 million on 1 July 2014. Each bond is convertible at any time up to maturity into 400 ordinary shares. Alternatively the bonds will be redeemed at par after 3 years. The market rate applicable to convertible bonds is 6%. The present value of RM1 payable at the end of year, based on rates of 4% and 6% are as follows:

Year	1	2	3
Discount 4%	0.96	0.92	0.89
Discount 6%	0.94	0.89	0.84

Required

a) Calculate the initial recognised amounts of convertible bonds to be split between debt and equity in accordance with MFRS 132 *Presentation Financial Instruments.* (4 marks)

b) Demonstrate the subsequently measured in accordance with MFRS 9 *Financial Instruments: Recognition and Measurement* in the Statement of Comprehensive Income and Statement of Financial Position for the year ended 30 June 2015. (6 marks)

Part B

The accountant of Eagle Point Plantation Bhd reports the following activities which include grows rubber trees and oil palm trees. Eagle Point exports its tea to Thailand, Singapore and China.

Required

a) Explain whether the activities reported by Eagle Point Plantation Bhd are within the scope of MFRS 141 Agriculture. (5 marks)

b) Explain which standards are applicable if the activities are not within the scope of MFRS 141. (5 marks)

c) Explain how the rubber trees and latex are measured under MFRS 141. (5 marks)

[Total 25 marks]

END OF QUESTION PAPER