Private & Confidential

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :														

Student ID (in Words) : ________________________________

____

Course Code & Name	:	**ACC2123 FINANCIAL REPORTING 1**
Trimester & Year	:	JANUARY – APRIL 2019
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 = 7 (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

The following trial balance relates to Quincy Bhd as at 30 September 2018:

	RM'000	**RM'000**
Revenue		213,500
Cost of sales	136,800	
Distribution costs	12,500	
Administrative expenses [note (i)]	19,000	
Loan note interest and dividend paid [notes (i) & (ii)]	20,700	
Investment income		400
Ordinary shares capital of RM 0.25 each		60,000
Share premium [notes (iii)]		3,000
6% loan note [note (i)]		25,000
Retained earnings at 1 October 2017		18,500
Land and buildings at cost (land element RM 10 million) [note (iv)]	50,000	
Plant and equipment at cost [note (iv)]	83,700	
Patent at cost (ten-year life) [note (iv)]	7,500	
Accumulated depreciation/amortisation at 1 October 2017:		
- Building		8,000
- plant and equipment		33,700
- Patent		3,000
Equity financial asset investments [note (v)]	17,000	
Inventory at 30 September 2018 [note (vi)]	24,800	
Trade receivables [note (vii)]	28,500	
Bank	5,900	
Trade payables		41,300
	406,400	**406,400**

The following notes are relevant:

(i) Quincy Bhd issued a RM25 million 6% loan note on 1 October 2017. Issue costs were RM1 million and these have been charged to administrative expenses. The loan will be redeemed on 30 September 2020 at a premium which gives an effective interest rate on the loan of 8%.

(ii) Quincy Bhd declared and paid an interim ordinary shares dividend of RM0.08 per share on 30 March 2018.

(iii) Quincy Bhd made a 1 for 8 bonus issue on 30 September 2018, which has not yet been recorded in the above trial balance. Quincy Bhd intends to utilise the share premium as far as possible in recording the bonus issue.

(iv) Non-current assets:

Quincy Bhd had been carrying land and buildings at depreciated cost, but due to a recent rise in property prices, it decided to revalue its property on 1 October 2017 to market value. An independent valuer confirmed the value of the property at RM60 million (land element RM12 million) as at that date and the directors accepted this valuation. The property had a remaining life of 16 years at the date of its revaluation. Quincy Bhd will make a transfer from the revaluation reserve to retained earnings in respect of the realisation of the revaluation reserve. Ignore deferred tax on the revaluation.

Plant and equipment is depreciated at 15% per annum using the reducing balance method.

During the current year, the income from royalties relating to the patent had declined considerably and the directors are concerned that the value of the patent may be impaired. A study at the year end concluded that the present value of the future estimated net cash flows from the patent at 30 September 2018 is RM3.25 million; however, Quincy Bhd also has a confirmed offer of RM3.40 million to sell the patent immediately at that date.

No depreciation/amortisation/impairment has yet been charged on any non-current asset for the year ended 30 September 2018. All depreciation/amortisation/impairment is charged to cost of sales.

(v) The investments had a fair value of RM15.7 million as at 30 September 2018. There were no acquisitions or disposals of these investments during the year ended 30 September 2018.

(vi) It has been discovered that inventory totalling RM390,000 had been omitted from the final inventory count in the above trial balance.

(vii) In March 2018, the directors of Quincy Bhd discovered a fraud. In total, RM700,000 which had been included as receivables in the above trial balance had been stolen by an employee. RM450,000 of this related to the year ended 30 September 2017, the rest to the current year.

Required

a) Prepared the adjusted cost of sales for the year ended 30 September 2018.

(11 marks)

b) Prepare the statement of profit or loss and other comprehensive income for Quincy Bhd for the year ended 30 September 2018.

(11 marks)

c) Prepare the statement of changes in equity for Quincy Bhd for the year ended 30 September 2018.

(13 marks)

d) Prepare the statement of financial position of Quincy Bhd as at 30 September 2018. (15 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

In the light of Malaysian Financial Reporting Standards (MFRS), explain how each of the following transactions should be accounted for under the MFRS *138 Intangible Assets* of Howard International Bhd (HIB) for the year ended 31 December 2018.

a) Research and development costs are significant expenditure for many companies. They are either written off as an expense immediately or capitalised as an asset.

Required

Discuss **THREE** (3) recognition criteria of MFRS *138 Intangible Assets* and how the research and development costs to be recognised in the financial statements. (8 marks)

b) HIB is planning to expand its line of products. The related information for the year ended 31 December 2018 is as follows:

(i) Research and development of a new product commenced on 1 January 2018. On 1 October 2018, the recognition criteria for capitalisation of an internally generated intangible asset were met. It is estimated that the product would have a useful life of 7 years.

Details of expenditures incurred are as follows:

	RM’000
Research work	4,500
Development work	9,000
Training of production staff	500
Cost of trial run	800
Total costs	14,800

Required

Discuss how the research and development costs should be recognised in the financial statements and calculate the amortisation charge for the year ended 31 December 2018.

(4 marks)

(ii) The right to manufacture a well-established product under a patent for a period of five years was purchased on 1 March 2018 for RM17 million. The patent has an expected remaining useful life of 10 years. HIB has the option to renew the patent for a further period of five years for a sum of RM12 million.

Required

Provide **TWO** (2) reasons whether the right to manufacture should be capitalised in the statement of financial statements. Calculate the amount of amortisation to profit and loss for the financial year ended 31 December 2018 and indicate **ONE** (1) reason why the amortisation should be charged. (5 marks)

(iii) HIB has acquired a brand at a cost of RM2 million. The cost was incurred in the month of June 2018. The life of the brand is expected to be 10 years. Currently, there is no active market for this brand. However, HIB is planning to launch an aggressive marketing campaign in February 2019.

Required

Discuss how the acquired brand is to be recognised in the financial statements and calculate the amortisation charge for the year ended 31 December 2018. (3 marks)

(iv) In September 2017, HIB developed a new production process and capitalised it as an intangible asset at RM7 million. The new process is expected to have an indefinite useful life. During 2018, HIB incurred further development expenditure of RM3 million on the new process which meets the recognition criteria for capitalisation of an intangible asset.

Required:

Discuss whether the production process should be amortised and what further test should be carried out by HIB annually. Discuss how the RM3 million should be accounted for in the financial statements. (5 marks)

[Total 25 marks]

QUESTION 2

a) The objective of MFRS *136 Impairment of Assets* is to prescribe the procedures that an entity applies to ensure that its assets are not impaired.

Required

Explain what is meant by an impairment review, how impairment review to be carried out and recognised in the financial statements. Your answer should include reference to assets that may form a cash generating unit. (10 marks)

b) The assets of a Cash Generating Unit (CGU) of Orlando Bhd at 31 December 2018 are presented as follows:

	RM’000
Goodwill	13,000
Property	20,000
Machinery	49,000
Vehicles	35,000
Patents	14,000
Net other assets	19,000
Total	**150,000**

Orlando Bhd carried out an annual impairment review for the above CGU and the recoverable amount of the CGU is as follows:

- Fair value less cost to disposal is amounted to RM100 million.
- Present value of cash flow is calculated to be RM109 million.

The net selling price of the unit's assets were insignificant except for the property, which had a market value of RM35 million. The net other assets include inventory, receivables and payables will be realised in full as It is considered that the book value of net other assets is a reasonable representation of its net realisable value.

Required

i) Explain how the impairment loss would be dealt with and calculate the revised balances of the assets in the CGU of Orlando Bhd at 31 December 2018 following the impairment review and explain your treatment of the impairment loss. (11 marks)

ii) A year later, the CGU of the recoverable amount has been revised. Discuss the accounting treatment in respect of the reversal of impairment of goodwill and CGU in accordance with MFRS 136.

(4 marks)

[Total 25 marks]

QUESTION 3

MFRS 116 Property Plant and Equipment sets out the accounting requirements for initial recognition and measurement, subsequent measurement and derecognition of items of property, plant and equipment.

On 31 December 2018, SK Hill Bhd completed the construction of a new headquarters building. Some costs associated with this are as follows:

	RM'000
Purchase of land	200
Legal costs and stamp duty on land purchase	16
Reclamation of land	18
Building design and planning costs	49
Redesign costs due to conditions of planning permission	15
Redesign costs due to errors in the original design	12
Tendering and procurement costs	5
Management time spent on the above, estimated apportionment	22
Construction contractor's fee to builder's finish	754
Rectification costs due to contractor error, not covered by the contractor	13
Completion, painting and furnishing	113
Cost of moving in staff, files and equipment	37
Cancellation costs of operating lease on previous headquarters building	31
Total	**1,285**

The new building was brought into use on 1 July 2019. It was estimated to have a useful economic life of 50 years from that date, and a residual value of RM140,000 at the end of its life (excluding the freehold land).

All the above costs were debited to a temporary suspense account to record all the costs associated with the land and building until its completion. No other entries were made. All items were paid as incurred.

Required

a) Explain the meaning of property, plant and equipment under the scope of MFRS 116 Property, Plant and Equipment and the criteria for recognition of property, plant and equipment as an asset. (6 marks)

b) List **TWO** (2) examples of direct attributable costs under the scope of MFRS *116 Property Plant and Equipment*. (2 marks)

c) Determine the amount of a newly constructed building (including land) that should be capitalised in the statement of financial position applying the principles of MFRS *116 Property Plant and Equipment*. (4 marks)

d) Determine the amount of the costs involved that should be expensed off in the statement of income and outline the **FOUR** (4) reasons why the costs cannot be capitalised. (7 marks)

e) Prepare the necessary journal entries on 1 July 2019 to transfer the suspense accounts to the appropriate accounts in the financial statements (note: land and building to record separately). (4 marks)

f) Prepare the journal entry for depreciation charge assuming straight line depreciation is used for the year ended 31 December 2019. (2 marks)

[Total 25 marks]

END OF QUESTION PAPER