Private & Confidential

FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures)	:														

Student ID (in Words) : ______________________________

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Course Code & Name	:	**ACC2123 FINANCIAL REPORTING 1**
Semester & Year	:	JANUARY – APRIL 2021
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 Trial Balance for Hoover Investment Bhd (HIB) as at 31 December 2020 is shown below:

	Note	RM'000	RM'000
Revenue			1,200,000
Cost of Sales		790,000	
Distribution costs		86,000	
Administration expenses		259,000	
Land & Building at valuation	(i)	750,000	
Plant & equipment at cost	(ii)	475,000	
Accumulated depreciation at 1/1/ 2020:			
- Building	(i)		60,000
- Plant & equipment	(ii)		175,000
Intangible assets at cost	(iii)	100,000	
Financial assets	(iv)	260,000	
Inventory at 31/12/2020		140,000	
Trade receivables	(v)	194,000	
Cash at bank		20,000	
Trade payables			244,000
Equity shares at issued price of RM1.00 each			500,000
Revaluation reserve	(ii)		40,000
Retained earnings at 1/1/2020			815,000
Investment income	(iv)		22,000
Provision for warranty costs	(vi)		18,000
		3,074,000	**3,074,000**

The following notes are relevant:

(i) Land and buildings were last revalued on 1 January 2016, when the freehold land was valued at RM150 million, and the buildings at RM600 million. A loss of RM50 million was charged to profit or loss in respect of the land as a result of that revaluation. A further revaluation exercise took place on 31 December 2020, resulting in a value of RM180 million for the freehold land and RM580 million for the buildings. The building has a remaining expected useful life of 40 years. Land and buildings are treated as a single asset for the purpose of revaluations. The depreciation for land and building is to be charged to cost of sales.

(ii) The existing revaluation surplus on the trial balance relates solely to plant and equipment. No revaluation of plant or equipment was deemed necessary during the current year. HIB has not yet charged depreciation for the year to 31 December 2020. HIB depreciates plant and equipment at 20% using the reducing balance basis. All depreciation is to be charged to cost of sales.

(iii) The intangible assets on the trial balance comprise several ongoing projects, some of which were launched on the market during the year. These represent RM30 million of the total balance. HIB wishes to amortise these over 5 years on a straight line basis, applying a full year's charge in the current year. Further development costs of RM12 million are included in administration expenses. These meet the criteria for capitalisation as an intangible asset. Amortisation is to be charged to cost of sales. No amortisation should be charged except as indicated above.

(iv) The financial assets represent equity investments. These had a fair value of RM310 million at 31 December 2020, which has not yet been incorporated into the financial statements. HIB has made an irrevocable election to take all fair value gains and losses on equity investments to "profit or loss" as permitted by MFRS 9 *Financial Instruments*.

(v) In March 2020, the directors of HIB discovered a fraud. In total, RM1,700,000 which had been included as receivables in the above trial balance had been stolen by an employee. RM1,200,000 of this related to the year ended 31 December 2019, the rest to the current year.

(vi) HIB offers a 12-month warranty on all goods sold to retail customers and maintains a provision for the expected cost of honouring this warranty. At 31 December 2020, HIB has estimated the cost of honouring this warranty over the next 12 months to be RM23 million. All costs are expected to be incurred within 12 months. The loss arising from the increase in warranty costs is to be charged to administrative expenses.

(vii) The corporation tax charge for the year has been estimated at RM14 million. Ignore the taxation effects of any adjustments you make.

Required

a) Prepare the statement of profit or loss and other comprehensive income for Hoover Investment Bhd for the year ended 31 December 2020. (20 marks)

b) Prepare the statement of changes in equity for Hoover Investment Bhd for the year ended 31 December 2020. (17 marks)

c) Prepare the statement of financial position of Hoover Investment Bhd as at 31 December 2020. (13 marks)

All workings are to be shown clearly. **[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

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. MFRS 116 also permits non-current assets to be revalued to fair value, should a reporting entity either choose the fair value model or cost model.

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)

HassanBee Bhd (HBB), a hotel operator acquired a hotel asset on 1 April 2018 at a cost of RM50 million. This cost was allocated as follows:

	RM'000	**Useful Economic Life**
Land	12,000	Indefinite
Building	25,000	50 years
Furniture and fittings	10,000	10 years
Inventory of retail products	3,000	Until sold
Total	**50,000**	

The financial accounting period of HassanBee Bhd ending on 31 March. The following are the details of transactions for year 2019 and 2020:

Year ended 31 March 2019

A renovation of HBB's property was carried out on 5 April 2018 at a cost of RM10 million. RM3 million of this cost was allocated to the building and RM7 million as additional furniture and fittings. A full year's depreciation was charged for year ended 31 March 2019. The inventory was sold for RM5 million during that year.

Required

c) Prepare the journal entries to record the above transactions for the year ended 31 March 2019 including the acquisition of the hotel assets and depreciation charge for 2019 *(Land, building, furniture and fittings are to be added under property, plant and equipment accounts*).

(8 marks)

Year ended 31 March 2020

The hotel property was revalued on 1 April 2019 to RM74 million. The revaluation was conducted by a professional who produced the following breakdown of the property, plant and equipment and its revised economic useful life:

	RM'000	Useful Economic Life
Land	18,000	Indefinite
Building	40,000	50 years
Furniture and fittings	16,000	8 years
Total	**74,000**	

Required

d) Prepare the journal entries necessary to record the above transactions for the year ended 31 March 2020 including the depreciation charges for 2020. HBB adopts the revaluation model of MFRS 116 whenever it is permitted to do so. *(Show separately for revaluation of land, building, furniture and fittings).* (9 marks)

[Total 25 marks]

QUESTION 2

MFRS 138 *Intangible Assets* sets out the principles of accounting for the recognition and measurement of intangible assets. The standard differentiates between intangible assets acquired individually, those acquired as part of a business combination, and those which are internally generated. MFRS 138 relies on the concept of fair value to measure intangibles, but the strength of the fair value test varies depending on the objective.

Required

a) Discuss the criteria of MFRS 138 *Intangible Assets* for initial recognition and subsequent expenditure. (3 marks)

b) Discuss the requirements of MFRS 138 *Intangible Assets* with respect to the initial recognition of intangible assets acquired:
   (i) Separate acquisition for cash
   (ii) as part of a business combination
   (iii) internally generated (3 marks)

c) In accordance with MFRS 138, all research expenditures are to be expensed off as is incurred. List any **THREE** (3) criteria for development expenditures to be recognised as intangible assets in the statement of financial position. (3 marks)

Homez Corporation Bhd (HCB) has entered into the following transactions during the financial year ended 31 March 2021. The company seeks to maximise the reported value of its following assets wherever possible:

(i) On 1 April 2020, HCB acquired, from a bankrupt competitor, a licence to provide radio broadcast services to a region within Malaysia. This licence would have been originally issued by the government for a ten-year period at zero cost, but has a market value due to its exclusivity. The cost of the licence to HCB was RM3.3 million, and the remaining useful economic life was 6 years.

(ii) On 1 April 2020, HCB commenced work on developing a new technology to enhance the quality of the radio broadcasts. It purchased a number of patents at a cost of RM2 million with expected useful economic life of 10 years. HCB spent RM6 million developing the technology. The directors of HCB were confident throughout the development process that the technology had massive potential to generate future economic benefit. On 31 March 2021, this opinion was validated when a rival broadcaster offered HCB RM15 million for its partially developed technology project. The useful economic life is expected to be 10 years.

(iii) HCB further spent another RM1 million researching the international market for the technology in advance of its launch. HCB wishes to capitalise all these expenditures as an intangible assets.

(iv) As a result of HCB's growing reputation in the broadcasting industry, the directors commissioned a consulting firm to promote the brand name and develop marketing strategies to increase radio listenership. HCB wishes to include the brand in its financial statements for year ended 31 March 2021 at its estimated costs of RM20 million.

(v) HCB has a portfolio of patents it developed over the past few years. These represent technologies and processes used in the company's business to generate economic benefits. The total carrying value of these patents was RM2.8 million at 1 April 2020. They originally had a 15-year useful economic life, but on average seven years remain to their expiry date. The directors propose, at 31 March 2021, to revalue this portfolio to its estimated fair value of RM5 million.

Required

d) In each of the above transactions, prepare the journal entries for year ended 31 March 2021.

(16 marks)

[Total 25 marks]

QUESTION 3

MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* sets out the accounting treatment and disclosures for these transactions and events. The standard discusses general principles of recognition, measurement and presentation as well as specific application guidance for certain issues. This guidance aims to assist preparers of financial statements in applying MFRS 137.

Required

a) Discuss the accounting recognition in relation to provisions, contingent liabilities and contingent assets required by MFRS 137. (8 marks)

The following situations have arisen during the preparation of the draft financial statements of Howarth Bhd (Howarth) for year ended 31 July 2020:

(i) On 1 August 2019, Howarth acquired an electricity power plant at a cost of RM200 million. Part of the arrangement was that the plant be dismantled and the site restored after its useful economic life of 20 years had passed. The cost of restoration was estimated on 1 August 2019, after discounting to present value, to be RM40 million. This amount reflected an appropriate discount rate of 6%, (75% of this estimate related to the dismantling of the plant, and 25% for contingent expenses that probably will be incurred). At 31 July 2020, Howarth reviewed the provisions of each reporting period and if necessary adjust to reflect the current best estimate.

It is anticipated that the 25% allocated for contingent expenses are highly probable that it will not be incurred and hence, Howarth decided to reverse the provision amount.

Required

b) Prepare the journal entries to record the above transactions including the acquisition, depreciation, provisions and the interest charges as at 31 July 2020 applying MFRS 137 and other relevant standards. (10 marks)

(ii) During the year ended 31 July 2020, Howarth decided to close both its coal burning power generating plants in December 2020. This decision has been announced publicly, and a detailed formal plan prepared. The plan proposes to make 75 employees redundant, retrain 25 other staff to work in the nuclear plant, and sell the coal-fired plants in their current condition. It is anticipated that the redundancy costs will amount to RM7.5 million, and the retraining will cost RM1 million. The coal plants will be disposed of for zero consideration as the new owner will be expected to dismantle the plants and clean up the sites. The carrying value of these plants is RM12 million at 31 July 2020.

Required

c) Company restructuring often incurred direct expenditures arising from the restructuring. Discuss the **TWO** (2) constructive obligations arises when an entity has an obligation to provide such provisions of the direct expenditures. (2 marks)

d) Prepare the journal entry to record the redundancy costs as at 31 July 2020, applying MFRS 137. (2 marks)

e) Discuss the accounting treatment for retraining costs whether it should be recognised as a provision. Justify your reason. (3 marks)

[Total 25 marks]

END OF QUESTION PAPER