



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3113 FINANCIAL REPORTING 2**
Semester & Year : MAY – AUGUST 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.

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 following draft statements of financial position relate to Evergreen Bhd and its subsidiary Ribena Bhd, both public listed entities as at 31 March 2021:

| Statement of Financial Position as at 31 March 2021 | | | |
|--|------------------|---------------------------------|------------------------------|
| | Note | Evergreen Bhd RM'000 | Ribena Bhd RM'000 |
| Non-current assets | | | |
| Property, plant & equipment | | 580,000 | 260,000 |
| Investments | (i), (ii), (iii) | 400,000 | 30,000 |
| | | 980,000 | 290,000 |
| Current assets | | | |
| Inventories | (iv) | 76,000 | 34,000 |
| Trade receivables | (v) | 58,000 | 53,000 |
| Cash & bank | | 20,000 | 12,000 |
| | | 154,000 | 99,000 |
| Total assets | | 1,134,000 | 389,000 |
| Equity and liabilities | | | |
| Equity | | | |
| Ordinary share capital | | 525,000 | 230,000 |
| Retained earnings | | 518,000 | 93,000 |
| | | 1,043,000 | 323,000 |
| Current liabilities | | | |
| Trade payables | | 41,000 | 32,000 |
| Other payables | | 32,000 | 24,000 |
| Taxation | | 18,000 | 10,000 |
| | | 91,000 | 66,000 |
| Total equity & liabilities | | 1,134,000 | 389,000 |

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

- (i) Evergreen Bhd bought a 75% interest in the equity capital of Ribena Bhd on 1 April 2019. The cost of the investment was paid in cash of RM100 million and the balance by mean of an immediate share exchange of two shares in Evergreen Bhd for five shares in Ribena Bhd. The fair value of Evergreen Bhd and Ribena Bhd's shares on 1 August 2019 were RM3.30 and RM2.00 respectively.
- (ii) At the date of acquisition:
 - The retained earnings of Ribena Bhd were RM34 million.
 - Ribena Bhd had some specialised equipment that was deemed to have a fair value of RM16 million in excess of its carrying value. This equipment had a 4-year useful economic life from its acquisition date.
 - It was decided to apply the fair value method to calculate goodwill on acquisition.
 - For this purpose, Ribena Bhd's share price at that date is representative of the fair value of the shares held by the non-controlling interest. Impairment losses of RM10.3 million have occurred since acquisition.
- (iii) As at 31 March 2021, the remaining investments in the books of Evergreen Bhd and Ribena Bhd consist of equity investments. These had a fair value of RM96 million and RM32 million respectively. As permitted by MFRS 9 *Financial Instruments*, any fair value gains and losses on all these equity investments through profit or loss.
- (iv) Evergreen Bhd sold goods to Ribena Bhd at cost plus 25%. RM4 million of the goods purchased from Evergreen Bhd remained in the inventory of as at 31 March 2021.
- (v) At 31 March 2021, Evergreen Bhd had a trade receivable balance of RM20 million owned by Ribena Bhd. The amount differed to the balance in Ribena Bhd due to cash in transit of RM1,000. This cheque was received by Evergreen Bhd on 5 April 2021.

All calculations may be taken to the nearest RM0.1 thousand.

Required:

Prepare the consolidated statement of financial position of Evergreen Bhd as at 31 March 2021.

(Subtotal: 30 marks)

SECTION B

Plato Bhd has one subsidiary, Sukiya Bhd. The draft statements of profit or loss for both entities for the year ended 31 March 2021 are given below:

| | Plato Bhd RM'000 | Sukiya Bhd RM'000 |
|----------------------------|-----------------------------|------------------------------|
| Revenue | 900,000 | 276,000 |
| Cost of Sales | (420,000) | (132,000) |
| Gross profit | 480,000 | 144,000 |
| Administration expenses | (69,000) | (54,000) |
| Distribution costs | (33,000) | (23,000) |
| Finance costs | (2,000) | (1,000) |
| Other income | 21,000 | - |
| Profit before taxation | 397,000 | 66,000 |
| Taxation | (36,000) | (6,000) |
| Profit for the year | 361,000 | 60,000 |

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

Note: Investment in Sukiya Bhd

- (i) On 1 April 2019, Plato Bhd acquired 150 million of Sukiya Bhd's 200 million issued equity shares for a cash payment of RM150 million and agreed to pay the owners of Sukiya Bhd a further RM30 million on 1 October 2022. The accountant has recorded the full amounts of both elements of the consideration in investments. Plato Bhd 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 Plato Bhd measured the non-controlling interest in Sukiya Bhd using the proportionate share of the net assets of Sukiya Bhd at that date.
- (iii) The net assets of Sukiya Bhd as shown in the individual financial statements totalled RM80 million. The following matters emerged on the date of acquisition:
- Plant and equipment having a carrying amount of RM100 million had an estimated fair value of RM150 million. The estimated remaining useful life of this plant was four years.
 - A contingent liability of RM20 million relating to a pending legal case was disclosed in the notes to the financial statements of Sukiya Bhd at 1 April 2019. The contingency was settled during the year ended 31 March 2020.
 - 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 Sukiya Bhd

- (iv) On 31 March 2021, Plato Bhd carried out an impairment review which identified that the goodwill on the acquisition of Sukiya Bhd was impaired by RM5 million and to be charged to cost of sales.

Note: Intra-group trading

- (v) Sales of the product by Plato Bhd to Sukiya Bhd for the year ended 31 March 2021 totalled RM10 million.
- (vi) On 31 March 2021, the inventories of Sukiya Bhd included RM7.5 million in respect of goods supplied by Plato Bhd. On 31 March 2020, the amount in the inventories of Sukiya Bhd was RM3 million. All inventories were invoiced at cost plus mark-up of 20%.

All calculations may be taken to the nearest RM0.1 thousand.

Required:

- a) Calculate the consolidated goodwill as at 31 March 2021. (6 marks)
- b) Prepare the consolidated statement of profit or loss and other comprehensive income of Plato Bhd for the year ended 31 March 2021. (*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.

QUESTION 1

Redhill Bhd (Redhill) prepares financial statements to 31 March 2021 each year. On 1 April 2020, Redhill entered into a contract to acquire a specialised piece of equipment.

The agreement provided for 5 annual payments of RM800,000 payable in arrears and the first payment was made on 31 March 2021.

Redhill incurred the following costs in the course of arranging the lease equipment:

| Cost | RM |
|--|-----------|
| Legal fees of executing the lease | 25,500 |
| Commissioning the equipment | 12,000 |
| Cost of negotiating the terms and conditions | 8,300 |

The board of directors of Redhill has unanimously agreed to exercise the purchase option at the end of the lease term. The agreement also provided that Redhill could exercise the purchase option at the end of the lease term. The 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 10% is 3.7908.

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 beginning 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 5 years period in respect of the lease in the books of Redhill Bhd.
- i) Non-current assets at carrying amount
 - ii) Non-current liabilities
 - iii) Current liabilities

(6 marks)

[Total 25 marks]

QUESTION 2

The following **FOUR** (4) cases are to be treated separately:

Case 1

On 1 January 2019, Cybex Bhd purchased a 20-storey building and the whole building is for owner occupied. The cost of the building was RM80 million with an expected useful life of 50 years and with no salvage value. Straight line method is used to depreciate its non-current assets.

Cybex Bhd chooses to measure using the cost model. The financial year end is 31 December. On 31 December 2020, Cybex Bhd recognised an impairment loss of RM35,000 for the building.

Required

- a) Calculate the carrying amount of the building as at 31 December 2020. (3 marks)

During the financial year to 2021, Cybex Bhd ceased using the property as an owner occupied and rented out the whole building and the management has decided to transfer the property at fair value to investment property at RM 70 million.

Required

- b) If the management has adopted the fair value model of reclassification, prepare the journal entries in accordance with MFRS 40 *Investment Property*. (3 marks)

Case 2

Intel Group Bhd acquired the following properties in Klang Valley:

- (i) A 25-storey building in Klang whereby three floors are used for office administration and business purposes and the balance is rented out to outsiders.
- (ii) The management has decided to provide ancillary services to the occupants of the building in Klang such as security, cleaning and maintenance services to the tenants. The services are considered to be insignificant to the arrangement as a whole.
- (iii) A piece of land in Pandan Indah was acquired with the intention of future development for building hostel to accommodate its workers.

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

Platinum Bhd owns a building and has decided to lease out to its subsidiary, Sapphire Bhd in return for rental payment. Sapphire Bhd uses the building as a retail outlet for its products.

Required

- d) Discuss how the property is accounted for in the book of Sapphire Bhd 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 grows tea bushes, harvests the tea leaves, and produces and packs the tea in various packaging at its factory.

Required

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

On 1 June 2020, Guthrie Bhd purchased 500 cattle at a cost of RM250,000. It is estimated that the fair value of cattle in the market on 31 December 2020 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 2020.

- f) Prepare the journal entries to record the transactions for the financial year ended 31 December 2020 including the purchase of the cattle and the fair value as at 31 December 2020. (4 marks)

[Total 25 marks]

QUESTION 3

Escot Bhd prepares financial statements to 31 March each year. The following events have occurred which are relevant to the year ended 31 March 2021:

- (i) On 1 January 2021, Escot Bhd purchased 200,000 call options to purchase shares in Excel Bhd – an unconnected third party. Each option allowed Escot Bhd to purchase shares in Excel Bhd on 31 December 2021 for RM5.00 per share. Escot Bhd paid RM1.55 per option on 1 January 2021. On 31 March 2021, the fair value of a share option of Excel Bhd was RM1.80. This purchase of call options is not part of a hedging arrangement. (7 marks)

- (ii) On 1 April 2020, Escot Bhd invested 600,000 shares in the initial public offering of Mr Donut Bhd for the initial price of RM1.20 per share. Escot Bhd has decided to keep this investment for their dividend payout and hence has no intention of trading in these shares. Escot Bhd has incurred direct costs of purchasing the shares at RM12,000. During the financial period ended 31 March 2021, Mr Donut Bhd received a dividend of 20 sen per share. On 31 March 2021, the market price of Mr Donut Bhd was traded at RM1.80. (9 marks)
- (iii) On 1 April 2019, Escot Bhd loaned RM50 million to another entity. Interest of RM2.5 million is payable annually in arrears. Escot Bhd incurred direct costs of RM320,000 in arranging this loan. The annual rate of interest implicit in this arrangement is at 10%. Escot Bhd has no intention of assigning this loan to a third party at any time. (9 marks)

Required

In each of the above three events:

- a) Indicate the business model used.
- b) Prepare the journal entries to record the transactions in the financial statements of Escot Bhd for the year ended 31 March 2021. (The journal entries must include the initial measurement and amount to be charged to profit or loss or to other comprehensive income).
- c) Calculate the carrying amount of the financial assets as at 31 March 2021.

[Total 25 marks]

END OF QUESTION PAPER