



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 2022
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 = 9 (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
SECTION A**

The summarised statements of financial position of the two companies as at 31 March 2022 are:

	Note	Zanta RM'000	Meta RM'000
Non-current assets			
Property, plant and equipment		25,400	13,500
Financial asset: equity investments	(i) & (iv)	12,000	2,000
		37,400	15,500
Current assets			
Inventory	(v)	12,700	5,300
Cash at bank	(vi)	8,600	200
Trade receivables	(vi)	1,100	3,800
		22,400	9,300
Total assets		59,800	24,800
Equity and liabilities			
Equity			
Equity shares at issued price of RM1.00	(i)	20,000	6,000
Retained earnings	(i)	18,284	7,400
Revaluation reserve		2,500	1,200
		40,784	14,600
Non-current liabilities			
Term loan		5,000	-
Current liabilities			
Trade payables	(vi)	10,016	8,600
Other payables		1,300	1,600
Deferred consideration	(i)	2,700	-
Current liabilities		14,016	10,200
Total equity and liabilities		59,800	24,800

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

- (i) On 1 April 2021, Zanta Bhd (Zanta) acquired 60% of Meta Bhd's (Meta) equity shares. The purchase consideration consists of initial cash amount of RM3.0 million, a share exchange of one new share in Zanta for every two acquired shares in Meta. The market value of Zanta's shares was RM3.00 each. In addition, Zanta will pay a further RM3.15 million to the owner of Meta on 1 April 2023. Zanta has a cost of capital of 8%. The appropriate discount rate is 0.857.
- (ii) At the date of acquisition:
- The retained earnings of Meta were RM4.4 million.
 - The revaluation reserve of Meta stood at RM1.0 million.
 - Meta had a factory building that was deemed to have a fair value of RM1.2 million in excess of its carrying amount. This factory building had a remaining useful economic life of 10 years from its acquisition date.
- (iii) Zanta's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, a share price for Meta of RM1.50 each is representative of the fair value of the shares held by the non-controlling interest. Impairment losses of RM1.0 million have occurred since acquisition.
- (iv) At 31 March 2022, Meta held goods in inventory which had been supplied by Zanta at a mark-up on cost of 35%. These goods had cost Meta RM2.43 million.
- (v) At 31 March 2022, Zanta had a trade receivable balance of RM1.1 million owned by Meta. The amount differed to the balance in Meta due to cash in transit of RM500,000. This cheque was received by Zanta on 5 April 2022.

All calculations may be taken to the nearest RM0.1 million. No new equity capital was issued by any group company since the acquisition.

Required:

Prepare the consolidated statement of financial position of Zanta Bhd as at 31 March 2022.

(Subtotal: 30 marks)

SECTION B

The following statements of Comprehensive Income were extracted from Pacific Bhd (Pacific) and Seas Bhd (Seas) for the year ended 31st March 2022:

	Note	Pacific RM'000	Seas RM'000
Sales	(v)	57,400	13,602
Cost of sales	(v)	(36,200)	(7,248)
Gross profit		21,200	6,354
Other income:			
Consultancy service income	(vi)	300	-
Other income		1,200	1,000
Expenses:			
Distribution expenses		(7,200)	(1,170)
Administration expenses	(vi)	(4,680)	(2,580)
Finance expenses		(690)	(210)
Profit before tax		10,130	3,394
Income tax		(180)	(30)
Net profit		9,950	3,364

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

Note: Investment in Seas Bhd

- (i) On 1 April 2020, Pacific acquired 80 million of Seas's 100 million issued equity shares for a cash payment of RM23 million and agreed to pay the owners of Seas a further RM24 million on 1 April 2023. The accountant has recorded the full amounts of both elements of the consideration in investments. Pacific has a cost of capital of 8%. The appropriate discount rate at third year is 0.794.
- (ii) The fair value of the identifiable net assets totalled RM45 million. The following matters related to the date of acquisition:
 - Machines having a carrying amount of RM10 million had an estimated fair value of RM12 million. The estimated remaining useful life of this plant was ten years.
 - A contingent liability of RM1 million relating to a pending legal case was disclosed in the notes to the financial statements of Seas at 1 April 2020. The contingency was settled during the year ended 31 March 2021.
 - All depreciation and amortisation of non-current assets is to be charged to cost of sales in the consolidated financial statements.
- (iii) The directors of Pacific measured the non-controlling interest in Seas using the proportionate share of the net assets of Seas at that date.

Note: Impairment review of goodwill on acquisition of Seas

- (iv) On 31 March 2022, Pacific carried out an impairment review which identified that the goodwill on the acquisition of Seas was impaired by RM1.2 million and to be charged to cost of sales.

Note: Intra-group trading

- (v) Sales of the product by Pacific to Seas for the year ended 31 March 2022 totalled RM8 million.

On 31 March 2021, the opening inventories of Seas was RM3 million. As at 31st March 2022, inventory worth of RM4 million remained unsold at the store of Seas. All inventories were invoiced at cost plus mark-up of 25%.

Note: Consultancy services

- (vi) During the year, Pacific has provided consultancy services to Seas at RM25,000 per month. Seas charged the amount to administrative expenses

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

Required:

- a) Calculate the consolidated goodwill as at 31 March 2022. (6 marks)
- b) Prepare the consolidated statement of profit or loss and other comprehensive income of Pacific Bhd for the year ended 31 March 2022. (*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

SP Bhd prepares financial statements to 31 March 2022 each year. On 1 April 2021, SP Bhd entered into an agreement to lease a building for a 5-year period.

The lease terms stipulated that the annual lease rental would be RM100,000 per annum in arrears, with the first payment due on 31 March 2022. The interest rate implicit in the lease is 7% per annum.

SP Bhd incurred the following costs of arranging the lease building:

Cost	RM
Legal fees of executing the lease	30,500
Cost of negotiating the terms and conditions	15,000

The lease terms allow for the extension of the lease at market rental. The board of directors has unanimously agreed to exercise the option at the end of the lease term.

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 7% is 4.1002

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 commencement of the lease term. In the calculation, indicate which amount that should be excluded in the right of use asset. (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 the first 2 years period in respect of the lease in the books of Senoda Bhd.
 - (i) Non-current assets at carrying amount
 - (ii) Non-current liabilities

(iii) Current liabilities (3 marks)

f) Discuss on 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

Suria REIT Bhd (Suria) has its financial year end is 31 March. The following two properties are to be treated separately:

Property One

Suria owns a piece of property it purchased on 1 April 2019 for RM3.5 million. The freehold land component of the property was estimated to be RM1 million at the date of purchase. The useful economic life of the building on this land was estimated to be 25 years on 1 April 2019. The property was used as the corporate headquarters for two years from that date.

On 1 April 2022, the company moved its headquarters to another building and leased the entire property for five years to an unrelated tenant on an arms length basis in order to benefit from the rental income and future capital appreciation.

The fair value of the property for 2021 and 2022 are as follows:

Date	Detail
1 April 2021	RM4.1 million (land component RM1.9 million)
1 April 2022	RM4.8 million (land component RM2.1 million)

The estimate of useful economic life remained unchanged throughout the period. Land and buildings are considered to be two separate assets by the directors of Suria.

Required

- Calculate the carrying amount of the land and building after the fair value gain or loss as at 1 April 2021. (4 marks)
- As at 1 April 2021, prepare the journal entry to recognise the fair value gain or loss in accordance to MFRS 116 *Property, Plant and Equipment*. (5 marks)
- As at 1 April 2022, prepare the journal entry to recognise the transfer of land and building to investment property in accordance to MFRS 140 *Investment Properties*. (4 marks)
- As at 1 April 2022, prepare the journal entry to recognise the fair value gain or loss in accordance to MFRS 140. (4 marks)

Property Two

Suria owned another office building which sub-let to its subsidiary. At 1 April 2022, it had a fair value of RM1.5 million which had risen to RM1.65 million at 31 March 2022.

Required

- e) Prepare the journal entry to recognise the fair value gain or loss as in accordance to MFRS 140 *Investment Properties*. (2 marks)
- f) Discuss how the property is accounted for in the book of Suria's subsidiary and its consolidated group account by reference to the relevant accounting standards. (3 marks)
- g) Explain why the accounting treatment under MFRS 140 is different from that of owner-occupied property. (3 marks)

[Total 25 marks]

QUESTION 3

MFRS 9 *Financial Instruments* sets out the principles and rules for the appropriate accounting treatment of most financial instruments. In particular, it deals with loans between entities, both from the perspective of the lender and the borrower.

Required

- a) Discuss the accounting treatment required by MFRS 9 for recognition and measurement of financial liabilities such as bonds, paying particular attention to the classifications and tests required to decide between alternative treatments. (7 marks)

Tamasik Bhd issues in bonds. Sometimes, the bond may be redeemed before it reaches its stated maturity. Others are held for the long term.

Tamasik Bhd's financial year ended 31 July. The following are the bonds issued on 1 August 2021:

	Dana Bond	Bumi Bond
Nominal value of bond	RM45 million	RM30 million
Coupon interest rate	4%	5%
Issue price of bond	RM38.5 million	RM28 million
Effective yield to maturity	6.75%	7.8%

The 'Dana' bond was issued with a view to holding it till maturity, paying the interest and principal as it becomes payable.

The 'Bumi' bond was issued at a deep discount, and the aim is to redeemed before its maturity. At 31 July 2022, the 'Bumi' bond had a fair value of RM27.5 million.

In both cases, the coupon is payable on 31 July each year, and has been paid as promised.

Required

- b) In the case of each bond above, prepare the journal entries to record the transactions on 1 August 2021 and 31 July 2022. (12 marks)

On 1 August 2021, Tamasik Bhd bought 20,000 shares in a public listed company, CMA Consolidated Bhd for RM40,000 and incurred transaction costs of RM2,000. Tamasik Bhd 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 1 March 2022, CMA Consolidated Bhd declared and paid the final dividend of RM0.15 per share. The fair value of the shares was RM55,000 at 31 July 2022.

Required

- c) Prepare the journal entries to record the transactions for the year ended 31 July 2022 (The journal entries must include the initial measurement and amount to be charged to profit or loss or to other comprehensive income). (6 marks)

[Total 25 marks]

END OF QUESTION PAPER