



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC2123 FINANCIAL REPORTING 1**
Semester & Year : MAY – AUGUST 2023
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

Trinity Corporation Bhd (TCB) is a company involved in the manufacture of semiconductor chips for the automotive industry. The following trial balance was extracted from their books as at 31 December 2022:

	RM	RM
Land and buildings	1,658,200	
Accumulated depreciation – buildings		280,000
Motor Vehicles at Cost	420,000	
Accumulated depreciation – motor vehicles		240,000
Plant & Equipment at cost	1,241,200	
Accumulated depreciation – plant & equipment		635,000
Intangible assets	60,000	
Accumulated amortisation of intangible assets		12,000
Administrative expenses	423,510	
Allowance for doubtful debts		12,860
Bank	365,740	
Other payable		23,000
Selling and distribution expenses	425,160	
Finance costs	35,600	
Income tax expenses	22,500	
Closing inventory	346,800	
Investments	300,000	
Other income		12,000
Issued share capital – RM1.00 shares each		250,000
Long term loan repayable 2025		300,000
Other receivables	15,000	
Cost of sales	2,424,370	
Retained earnings at 1 January 2022		2,172,050
Revaluation reserve		30,000
Provision for warranty costs		25,000
Revenue		3,845,240
Trade payables		326,540
Trade receivables	425,610	
	8,163,690	8,163,690

Additional information:

- (i) TCB held an inventory count at the year-end which found that the year-end inventories at cost amounted to RM346,800. Included in this figure is slow moving inventory costing RM10,300. This slow-moving inventory can be sold immediately for RM7,600, provided that additional repair work to the inventory costing RM1,600 is incurred.
- (ii) Land and buildings were last revalued on 1 January 2019 when the freehold land was valued at RM900,000 and the buildings at RM758,200. A loss of RM2,000 was charged to profit or loss in respect of the building as a result of previous years' revaluation. This amount is to be charged to other income if there is any revaluation upward.

A further revaluation exercise took place on 31 December 2022, resulting in a value of RM700,00 for the freehold land and RM900,000 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 the building is to be charged to cost of sales.

Depreciation of the other property, plant and equipment (PPE) is to be charged as follows:

PPE	Depreciation Method	Depreciation Charges to
Plant & equipment	12% straight line	Cost of sales
Motor vehicle	25% reducing balance	Selling and distribution

preciation for the year is charged in full in the year of purchase and none in the year of sale.

During 2022 TCB sold plant and equipment for RM30,000. This plant and equipment had cost RM120,000 in 2016. The disposal of the plant & equipment has not been recorded as at 31 December 2022. Any gains or loss is to be charged to cost of sales.

- (iii) During 2022, TCB spent RM20,000 on developing a brand of a product made in-house and the amount was wrongly capitalised to intangible assets. The intangible assets' finite useful life was reviewed to 10 years on 1 January 2022. The brand amount which was wrongly capitalised as intangible assets and amortisation charges are to be charged to administrative expenses.
- (iv) TCB sells goods with a warranty covering the cost of repairs of any defects that are discovered within the first two months after purchase. Past experience suggests the following:

Stages of Defect	% of defect in Product Sold	Cost of repairs (RM)
No defects	85%	Nil
Minor defects	10%	50,000
Major defects	5%	200,000

Provision for the warranty costs is to be charged to administrative expense.

- (v) In March 2022, the directors of TCB discovered a fraud by one of the employees who had embezzled a total amount of RM30,000 received from trade receivable but not recorded in the book. The investigation revealed the following breakdown:

Financial year	RM
31 December 2021	25,000
31 December 2022	5,000
Total	30,000

The current year's loss of fraud should be charged to selling and distribution expenses. Then, the allowance for doubtful debts is to be set at 5% of the balance of trade receivables. The amount of increase or decrease in doubtful debts is to be charged to selling and distribution expenses.

- (vi) The investment had a fair value of RM320,000 at 31 December 2022, which has not yet been incorporated into the financial statements. TCB 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*.
- (vii) TCB took out an additional long-term loan of RM300,000 on 1 July 2022. The loan is subject to an annual interest rate of 4%. TCB paid the interest accruing on the loan on 2 January 2023.

Required

Prepare the following financial statements of Trinity Corporation Bhd for the year ended 31 December 2022:

- a) Statement of profit or loss and other comprehensive income. (20 marks)
- b) Statement of changes in equity (10 marks)
- c) Statement of financial position. (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

Durex Development Bhd (DDB) is a company involved in building offices in Klang Valley. The management has requested the financial controller to account correctly the amount for property, plant and equipment (PPE) in accordance with MFRS 116 *Property, Plant and Equipment*.

The following costs have occurred on the building of office buildings for the year ended 31 December 2022:

	RM
Preparation of site	80,000
Administrative and general overhead expenses	30,000
Annual maintenance once operational	120,000
Staff training on correctly operating the office building once operational	25,000
Cost of dismantling and clearing the land for the office buildings	250,000
Initial surveying of site	40,000
Project manager's salary to build the office buildings	140,000
Wages of employees to build the office buildings	300,000
Annual wages of employees once the office buildings are operating	100,000
Payments for obtaining certificate of completion and compliance of the buildings	60,000
Import duty on materials purchased	28,000
Discount received and rebates on materials purchased	33,000

Required

- a) Calculate the total amount that should be capitalised as PPE in accordance with MFRS 116. (4 marks)
- b) Calculate the total amount that should be charged as expense to profit or loss. (2 marks)
- c) In accordance with MFRS 116 *Property, Plant & Equipment* explain the following:
 - (i) Criteria for recognition as an asset.
 - (ii) Accounting treatment at recognition and subsequent recognition. (6 marks)
- d) Explain what is a direct attributable cost incurred under paragraph 16 of MFRS 116. Provide **TWO (2)** examples of the direct attributable costs. (5 marks)

DDB's head office building was purchased on 1 January 2020. As at 31 December 2021, the carrying amount of head office building is RM2,100,000 and the remaining expected useful life is 48 years. The carried amount of revaluation reserve is RM180,000.

On 31 December 2022 using the professional valuers, the head office building was revalued at RM1,700,000.

DDB has adopted a revaluation policy for building from this valuation date and has decided that the original useful life of building has not changed as a result of the revaluation.

Required

- e) Calculate the revaluation gains or losses of the head office building for the financial year ended 31 December 2022. (2 marks)
- f) Prepare the journal entries necessary to record the transactions including the depreciation charge for the year 2022 and the revaluation gains or losses. (6 marks)

[Total 25 marks]

QUESTION 2

Section A

Juara Furniture Bhd (JFB) is a company that sells home and office furniture. Details of the company's unsold furniture as at 1 May 2022 are as follows:

Item No.	Unit	Cost per unit (RM)	Net realisable value (RM)
Foldable Sofa Bed	8	650	1,500
Retro Dining room set	5	1,300	2,500
Wooden bookcase	2	430	310
Computer table	4	810	1,890
Rosewood book shelves	2	1,200	2,600

Required

- a) Determine the value of the above products on 1 May 2022 adopting an item-by- item basis as provided in MFRS 102 *Inventories*. (5 marks)

On 15 July 2022, the JFB purchased ten units of armchair for RM800 each. In addition, the company had to pay customs duties of RM400 and carriage inwards of RM250 to purchase the 10 armchairs. The selling price of the armchair is RM1,400 per unit.

On 31 December 2022, the inventory is still unsold and after conducting the stocktake, the armchairs were found to be damaged, which can be reworked at a total cost of RM1,500 and it is estimated it can be sold for RM920 per unit.

Required

- b) Determine the value of the value of inventory for the armchairs as at 31 December 2022. (3 marks)
- c) Provide **THREE (3)** examples of costs which are specifically excluded from the costs of inventories and instead are recognised as expenses in the period in which they are incurred. (6 marks)
- d) Briefly discuss **THREE (3)** situations in which NRV is likely to be less than cost (6 marks)

Section B

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 disclosures as well as specific application guidance for certain issues. This guidance aims to assist preparers of financial statements in applying MFRS 137.

Required

- e) In the following circumstances, indicate whether a provision should be recognised:
 - (i) On 13 December 2022 the board of a listed company decided to close down a division. The accounting date of the company is 31 December 2022. Before 31 December 2022 the decision was not communicated to any of those affected and no other steps were taken to implement the decision.
 - (ii) The board agreed a detailed closure plan on 20 December 2022 and details were announced to its staff via internal memo and subsequently customers and suppliers were informed.
 - (iii) A company is obliged to incur clean-up costs for environmental damage (that has already been caused).
 - (iv) A company is required to incur decommission costs of its facilities at the end of tenth year.
 - (v) A company intends to transfer its staff to another division and provide training costs to re-train its staff after the closure of its present division.

(1 mark each = 5 marks)

[25 marks]

QUESTION 3

Section A

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.

Required

- a) Discuss the recognition the criteria of MFRS 138 for initial recognition and subsequent expenditure. (5 marks)

- b) Discuss the requirements of MFRS 138 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)

Section B

Landmark Technology Berhad (LTB) has entered into the following transactions during the financial year ended 31 December 2022:

1. On 1 January 2022, LTB acquired a franchise at an initial cost of RM540,000. The franchise has a finite useful life. On 31 December 2022, the company determines that the remaining economic useful life was 10 years.

2. On 15 March 2022, LTB undertook an expensive but successful advertising campaign during the year to promote a new product. The campaign cost RM1.0 million, but the directors believe that the extra sales generated by the campaign will be well in excess of that over its four-year expected useful life.

3. LTB has capitalised the product development costs in the statement of financial position as at 1 January 2012. No revenue has yet been earned from any of these products. They are all expected to be successful once ready for market, with the exception of one project. The amount previously capitalised in respect of this project was RM6.0 million. However, due to adverse developments have led to the decision to abandon the project as it was unlikely to be successful in the marketplace.

Required

- d) In each of the above scenarios, prepare the journal entries including the initial measurements and amortisation if any for year ended 31 December 2022. (8 marks)

Section C

Rahman Bhd (RB) acquired a non-current asset on 1 October 2017 at a cost of RM100,000 which had a useful economic life of ten years and a nil residual value. The asset had been correctly depreciated up to 30 September 2022.

On 30 September 2022, the asset was damaged and an impairment review was performed. RB ascertained the fair value of the asset less costs to sell was RM30,000 and the expected future cash flows were RM8,500 per annum for the next five years. The current cost of capital is 10% and a five-year annuity of RM1.00 per annum at 10% would have a present value of RM3.79.

Required

- e) Calculate the recoverable amount of the non-current asset as at 30 September 2022 in accordance with MFRS136 *Impairment of Assets*. (4 marks)
- f) Calculate the impairment loss that would be charged to profit or loss as at 30 September 2022. (2 marks)

[Total 25 marks]

END OF QUESTION PAPER