



FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3123 CORPORATE REPORTING**
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 only TWO (2) out of THREE (3) problem solving questions given. 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**

Paramount Bhd (Paramount) was incorporated in Malaysia and was listed on the Main Board of Bursa Malaysia. It has shareholdings in two other companies, Supreme Bhd (Supreme) and Sahid Solutions Bhd (Sahid Solutions). Statement of financial position is shown below for all three companies as at 31 December 2022:

	Paramount RM'000	Supreme RM'000	Sahid Solutions RM'000
Non-current assets			
Property, plant & equipment	90,000	60,000	60,000
Long-term deposits	7,000	2,000	3,000
Investment	300,000	70,000	20,000
	397,000	132,000	83,000
Current assets			
Trade receivables	40,000	50,000	40,000
Inventory	5,000	3,000	2,000
Advance & other receivables	15,000	2,000	3,000
Short-term investments	5,000	3,000	5,000
Cash & bank	38,000	10,000	7,000
	103,000	68,000	57,000
	500,000	200,000	140,000
Equity			
Ordinary shares of RM1.00 each	250,000	62,000	55,000
Other equity reserve	5,000	12,000	5,000
Retained earnings	75,000	56,000	25,000
	330,000	130,000	85,000
Non-current liabilities			
Long-term loans	63,000	10,000	-
Current liabilities			
Contingent consideration	35,000	-	-
Trade payables	62,000	55,000	52,000
Accrued and other liabilities	10,000	5,000	3,000
	107,000	60,000	55,000
	500,000	200,000	140,000

Additional information:

- (i) Paramount bought 43.3 million ordinary shares in Supreme on 1 January 2022, when the other equity reserves of Supreme were RM8.0 million and the retained earnings were RM33 million.

The consideration was agreed at RM185 million. This was satisfied by the issue of 120 million equity shares by Paramount at an agreed fair valuation of RM150 million, plus RM35 million to be paid by Paramount on 1 January 2023. The contingent element of the consideration was recorded at its fair value of RM35 million at 1 January 2022.

At 1 January 2022, some equipment held by Supreme had a fair value RM15 million in excess of its carrying value. This equipment had a remaining useful economic life of 5 years at that date.

The group accounting policy is to value any non-controlling interests (NCI) at their fair value at the acquisition date. On the date when Paramount acquired its interest in Supreme, the fair value of the NCI in Supreme was RM18 million.

- (ii) Paramount acquired 16.5 million shares in the ordinary shares of Sahid Solutions on 1 January 2022, when the other equity reserves were RM2.2 million and the retained earnings stood at RM16 million. The consideration consisted of an immediate cash payment of RM65 million.
- (iii) On the same date, Supreme acquired 33 million shares in Sahid Solutions with a cash consideration of RM70 million. The fair value of the non-controlling interest in Sahid Solutions at 1 January 2022 was RM22 million.
- (iv) Goodwill was reviewed for impairment at each reporting date and 10% should be provided for the investment of Paramount.
- (v) At 31 December 2022, the fair values of the financial asset equity investments of Paramount and Sahid Solutions were RM56 million and RM22 million respectively, as permitted by MFRS 9 *Financial Instruments*, any fair value gains and losses on all these equity investments through profit or loss.
- (vi) During the financial year ended 31 December 2022, Paramount sold goods to Supreme for RM2.0 million. These goods were sold at a mark-up on cost of 25%. Of these goods, 40% of these goods remained in the inventory of Supreme at the reporting date.
- (vii) Recorded in the books of Paramount was an intra-group accounts payable of RM8.0 million owed to Supreme at year-end. However, the books of Supreme showed a balance of RM10 million owed by Paramount. The difference was due to a cheque in transit from Paramount to Supreme which was received by Supreme only on 5 January 2023.
- (viii) All workings and solutions should be completed to the nearest RM thousand.

Required:

- a) Calculate the effective interest of the group structure of the three companies mentioned above.
(5 marks)
- b) Prepare the consolidated statement of financial position of Paramount Bhd and its group of companies at 31 December 2022 in accordance with the Malaysian Financial Reporting Standards.
(45 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

Delta Corporation Bhd (DCB) prepares its financial statements to 31 December each year. The following relevant information relates to the defined benefit employee compensation scheme for 2021 and 2022:

	2021 RM'000
Present value of obligation at start of 2021	76,000
Market value of plan assets at start of 2021	75,200

	2021 RM'000	2022 RM'000
Current service cost	6,200	4,300
Benefits paid out	4,200	3,500
Contributions paid by entity	7,000	8,500
Present value of obligation at end of the year	85,850	91,800
Market value of plan assets at end of the year	87,550	90,400
Yield on corporate bonds at end of year	5%	8%

Additional information:

- (i) During the financial year 2021, the benefits available under the plan were improved and hence the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by RM1.5 million from that date. This amount represents the past service cost which must be recognised immediately.
- (ii) During the financial year 2022, DCB was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by RM8.0 million. Before 31 December 2022, DCB made payments of RM7.5 million to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.
- (iii) Assume that all transactions occur at the end of the year.

Required:

- a) Calculate the net defined benefit obligation and plan assets as at the start and end of 2021 and 2022 showing clearly any remeasurement gain or loss on the plan each year.

(11 marks)

- b) Prepare the following extract of financial statements in each of the year 2021 and 2022:
- (i) Statement of profit or loss
 - (ii) Statement of other comprehensive income
 - (iii) Statement of financial position
- (6 marks)
- c) The asset ceiling test (ACT) is applied when the net balance in the statement of financial position is a surplus, describe how MFRS 119 *Employee Benefits* limits the measurement of the net defined benefit asset? (4 marks)
- d) Describe the accounting recognition of the gain or loss on a curtailment and settlement and in which account that this gain or loss should be charged to. (4 marks)
- [Total 25 marks]**

QUESTION 2

Scenario 1

MFRS 2 *Share-based Payment* defines a share-based payment transaction as one in which an entity receives goods or services from a third party (including an employee) in a share-based payment arrangement. A share-based payment arrangement is an agreement between an entity and a third party which entitles the third party to receive either:

- Equity instruments of the entity (equity-settled share-based payments); or
- Cash or other assets based on the price of equity instruments of the entity (cash-settled share-based payments).

Share-based payment arrangements are often subject to vesting conditions which must be satisfied over a vesting period.

Required:

Explain the following for both cash-settled and equity-settled share-based payment arrangements:

- a) The basis on which the arrangements should be measured for an employee and third party. (3 marks)
- b) The conditions which must be fulfilled for an employee to exercise their right in a share-based payment arrangement. (3 marks)
- c) The accounting entries (debit and credit) required during the vesting period. (3 marks)

Scenario 2: Granting of Share Appreciation Rights to Senior Executives

Advanced Industries Bhd (AIB) is an entity which prepares financial statements to 31 March each year. On 1 April 2020, the board of directors had granted share appreciation rights (SAR) to 200 senior executives. Each executive will receive 2,000 rights on 31 March 2023 provided he or she continues to be employed by AIB at that date.

The following events take place during the following financial periods:

Year	No. of employees
2021	10 of these employees left AIB and expected that 5 more would leave during this period.
2022	15 of the employees left AIB and expected that 8 would leave during this period
2023	5 of the employees left AIB.

On 31 March 2023, 50 employees exercised their rights. The fair value of the share appreciation rights for the year in which liability exists are shown below:

Year	Fair value (RM)	Intrinsic value (RM)
2021	1.60	1.65
2022	1.80	1.89
2023	1.74	1.78

Required:

- d) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit or loss of AIB as at 31 March 2021, 2022 and 2023 in respect of the SAR. (6 marks)
- e) Prepare the journal entries for the charge to profit or loss for employee services over the three years including when the SARs are exercised on 31 March 2023. (4 marks)

Scenario 3: Granting of Options to Sales Staff

On 1 April 2021, AIB granted share options to 100 sales staff. The options are due to vest on 31 March 2024.

The granting of the options was subject to two conditions:

- (i) The staff member remains employed by AIB on 31 March 2024.
- (ii) The sales revenue of Delta grows by a cumulative amount of at least 40% in the three-year period ending on 31 March 2024 subject to satisfying other vesting conditions (see the table below).

Cumulative growth in revenue	Number of options each employee is entitled
Between 40% and 50%	200
Over 50%	250

On 1 April 2021, the fair value of a share option was RM4.20. This had increased to RM4.50 by 31 March 2022 and to RM4.80 by 31 March 2023.

During the three years ended 31 March 2024, expectations of revenue growth and employee retention in the three-year period ending on 31 March 2024 changed as follows:

Year	Expected cumulative growth	Employee leaving	
		Left	Expected to leave
2022	42%	10	20
2023	54%	5	9

Required:

- f) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit or loss of AIB as at 31 March 2022 and 2023 in respect of the share options. (4 marks)
- g) Prepare the journal entries for the charge to profit or loss for employee services over the two years. (2 marks)

[Total 25 marks]

QUESTION 3

MFRS 121 *The Effects of Changes in Foreign Exchange Rates* prescribes the accounting treatment for foreign currency transactions.

Required:

- a) Under MFRS 121, describe any **TWO (2)** primary indicators to be considered when determining a functional currency. (4 marks)
- b) Explain the accounting treatment for monetary and non-monetary items under MFRS 121. Provide an example of accounts of monetary and non-monetary item. (4 marks)

The financial year end of Madani Confectionery Bhd’s (MCB) is at 31 December. The functional currency of MCB is in Ringgit Malaysia (RM).

On 1 October 2022, MCB purchased a biscuit packing equipment on credit for USD100,000 from Borsh Limited, USA. According to the agreement, MCB will make a partial payment of USD60,000 on 30 November 2022 and the remainder will be payable on 15 January 2023. MCB made all the payments according to the due date.

The following exchange rates of USD1.00 applied during the financial year:

Date	RM
1 October 2022	4.64
30 November 2022	4.75
31 December 2022	4.41
15 January 2023	4.44

Required

- c) Prepare journal entries to record the above transactions including the realised and unrealised gain or loss arising from the transactions as at the dates mentioned above. (5 marks)

On 1 April 2021, MCB acquired 100% equity of Success Biscuits Limited, a public listed company in Bermuda. In accordance with the MFRS 121 *The Effects of Changes in Foreign Exchange Rates*, MCB is required to present its financial statements in its functional currency, the Malaysian Ringgit (RM) for the purposes of consolidation.

Given below are the financial statements of Success Biscuits Limited for the year ended 31 March 2022:

Statement of Comprehensive Income for the Year Ended 31 March 2022	
	USD
Sales	540,000
Cost of goods sold	(310,000)
Gross profit	230,000
Distribution costs	(12,500)
Administrative expenses	(34,500)
Other expenses	(57,000)
Finance costs	(4,000)
Profit before tax	122,000
Income taxes	(40,000)
Net profit	82,000

Extract from the Statement of Changes in Equity as at 31 March 2022	
	USD
Retained earnings at the beginning of year	154,000
Net profit	82,000
Dividends	(20,000)
Retained earnings at the end of year	216,000

Statement of Financial Position as at 31 March 2022	
	USD
Property, plant and equipment	230,000
Inventory	72,000
Accounts receivable	100,000
Cash	50,000
Total assets	452,000
Accounts payable	25,500
Overdraft	10,500
Loan	150,000
Total liabilities	186,000
Ordinary share capital	50,000
Retained earnings	216,000
Total equity	266,000
Total liabilities and equity	452,000

The applicable exchange rates of USD1.00:

	RM
1 April 2022	4.54
31 March 2022	4.15
Average in 2021	4.12
Average in 2022	4.09

Required:

d) Translate the following financial statements of Success Biscuits Limited subsidiary at 31 March 2022 in the presentation currency of Ringgit Malaysia for the purposes of consolidation:

- (i) Statement of comprehensive income (2 marks)
- (ii) Extract of statement of changes in equity (2 marks)
- (iii) Statement of financial position (8 marks)

[Total 25 marks]

END OF QUESTION PAPER