Private & Confidential

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures)	:
Student ID (in Words)	:

Subject Code & Name	:	**ACC2123 FINANCIAL REPORTING 1**
Semester & Year	:	MAY – AUGUST 2017
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 of Hospitality 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 of Hospitality.

Total Number of pages = 6 (Including the cover page)

PART A : **COMPULSORY QUESTIONS (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 following trial balance relates to CD Bhd at 31 December 2014

	RM'000	**RM'000**
Leasehold property – at valuation 1 January 2014	50,000	
Plant and equipment – at cost	76,600	
Plant and equipment – accumulated depreciation 1 January 2014		24,600
Brand – at cost	30,000	
Brand – accumulated amortisation 1 January 2014		9,000
Closing inventory at 31 December 2014	20,000	
Trade receivables	44,700	
Bank		7,100
Trade payables		23,400
Provisions		400
Revenue		300,000
Cost of sales	204,000	
Distribution costs	14,500	
Administrative expenses	22,200	
Preference dividend paid	800	
Interest on bank borrowings	200	
Equity dividend paid	6,000	
Equity shares of 25 cents each		50,000
8% redeemable preference shares of RM1.00 each		20,000
Retained earnings at 1 January 2014		24,500
Leasehold property revaluation reserve		10,000
	469,000	**469,000**

The following notes are relevant:

1. Non-current assets – tangible

   The leasehold property had a remaining life of 20 years at 1 January 2014. The company's policy is to revalue its property at each year and at 31 December 2014 it was valued at RM 43 million. Ignore deferred tax on the revaluation.

   On 1 January 2014 an item of plant was disposed of for RM 2.5 million cash. CD had mistreated the proceeds as sales revenue. The plant is still included in the above trial balance figures at its cost of RM 8 million and accumulated depreciation of RM 4 million (to the date of disposal).

All plant is depreciated at 20% per annum using the reducing balance method. Depreciation is charged to cost of sales, but none has yet been charged on any non-current asset for the year ended 31 December 2014.

2. Non-current assets – brand
   An impairment review on 1 January 2014 concluded that the brand had a value in use of RM 12 million and a remaining useful life of three year. On the same day, CD received a customer's offer to purchase its brand for RM 15 million. Any impairment loss is charged to cost of sales.

3. CD is being sued by a customer for RM2 million for breach of contract over a cancelled order. CD has obtained legal opinion that there is a 20% chance that CD will lose the case. Accordingly, CD has provided RM 400,000 (RM 2 million x 20%) included in administrative expenses in respect of the claim. The unrecoverable legal costs of defending the action are estimated at RM 100,000. There have not been provided for as the legal action will not go to court until next year.

4. In late March 2014 the directors of CD discovered a material fraud perpetrated by the company's credit controller that had been continuing for some time. Investigations revealed that a total of RM 4 million of the trade receivables as shown in the statement of financial position at 31 December 2014 had in fact been paid and the money had been stolen by the credit controller. An analysis revealed that RM 1.5 million had been stolen in the year to 31 December 2013 with the rest being stolen in the current year. CD is not insured for this loss and it cannot be recovered from the credit controller, nor is it deductible for tax purpose. Any fraud loss is charged to administrative expenses.

5. The preference shares were issued on 1 July 2014 at par. They will redeemable at par at the maturity.

Required

(a) Prepare the statement of profit or loss and other comprehensive income for CD for the year ended 31 December 2014. (20 marks)

(b) Prepare the statement of changes in equity for CD for the year ended 31 December 2014. (5 marks)

(c) Prepare the statement of financial position of CD as at 31 December 2014. (25 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

(a) Define provisions and contingent liabilities and their recognitions in accordance with MFRS *137 Provision, contingent liabilities and contingent assets.* (10 marks)

(b) MN Bhd obtained a licence free of charge from the government to dig and operate a gold mine.

MN spent RM 6 million digging and preparing the mine for operation and erecting buildings on site. The mine commenced operations on 1 September 2013.

The licence requires that at the end of the mine's useful life of 10 years, the site must be reinstated, all buildings and equipment must be removed and the site landscaped. At 1 September 2013, MN estimated that the cost in 10 years' time of the removal and landscaping will be RM5 million and its present value is RM 2 million, which discounted at 10% per annum.

Required

i) Explain how MN should record the cost of the site reinstatement as at 31 August 2014 in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

(3 marks)

ii) Prepare extract of MN's statement of profit or loss and statement of financial position for the year ended 31 August 2014 in respect of the gold mine.

(12 marks)

[Total 25 marks]

QUESTION 2

The draft financial statements of PD Bhd for the year to 31 December 2015 are being prepared and the accountant has requested your advice on dealing with the following issues.

a) PD has an administrative building, which cost RM500,000 on 1 January 2014 and is being depreciated 25 years. The revalued figure of this building on 1 January 2015 was as follows:

	RM
Revalued building costs	800,000
Less: Accumulated depreciation for 1 year	(32,000)
Carrying amount	**768,000**

Required

i) Calculate the gain or surplus arising on the revaluation and show the journal entry under each of the **TWO (2)** methods of recording the revaluation assets. (7 marks)

ii) Present and compare the building account after the revaluation under each method.

(3 marks)

b) PD completes the installation of its manufacturing plant building on 1 January 2013. The total costs in relation to the plant building with their related useful life are as follows:

	RM'000	Useful life
Plant building structure	50,000	40 years
Building lifts	12,000	10 years
Building equipment	4,000	4 years
Plant machinery	100,000	10 years
Major inspection cost	4,000	4 years
Cost of manufacturing plant	**170,000**	

Required

i) Compute the carrying amount of each of the manufacturing plant at the end of 31 December 2016, after a major inspection is performed at the end of every four years at a cost of RM4.6 million. *(your answer must show each component cost, accumulated depreciation and net carrying amount)* (8 marks)

ii) Prepare the journal entry to derecognise the old major inspection cost. (2 marks)

iii) Comment on the relevant standards on the recognition treatment of major inspection cost incurred. (5 marks)

[Total 25 marks]

QUESTION 3

Pepper Bhd has an opening inventory on 1 January 2016 valued at RM4,000,000. This amount included inventory Alpha items which were carried at its net realisable value of RM400,000. The original cost of these items was RM800,000.

During the current year ended 31 December 2016, the sale revenue was RM20,000,000 and the following costs are incurred in relation to the purchases of inventories for the year 2016:

	RM
Purchases of inventories	10,000,000
Transportation and freight charges	200,000
Freight insurance	50,000
Import taxes	150,000
Administrative expenses incurred for processing the purchase order	12,000

At year end, a physical inventory count was carried out and it was valued at RM6,000,000. Included in the closing inventory, the following were valued at cost:

Item	At cost (RM)	At Net realisable value (RM)
Beta	2,000,000	1,200,000
Gamma	500,000	800,000

In addition, inventory Alpha items which were brought forward from the prior year remained unsold at year end. There was an increase in demand for these items and it was estimated that they could be sold for RM1,000,000.

Required

a) Calculate the costs of sales and gross profit that should be recognised in the income statement of Pepper Bhd for the year ended 31 December 2016. (12 marks)

b) Comment on the relevant standards on the following:
   i) Cost method used.
   ii) Effect of the **THREE (3)** inventory systems in the period of rising price on profit, cost of sales and closing inventory.
   iii) List **THREE (3)** items that should be excluded from the cost of conversion of inventories.

(13 marks)

[Total 25 marks]

END OF QUESTION PAPER