Private & Confidential

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

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

Course Code & Name	:	**ACC2123 FINANCIAL REPORTING 1**
Trimester & Year	:	MAY – AUGUST 2018
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 = 6 (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

The following trial balance relates to TBS Bhd at 31 December 2015:

	RM'000	**RM'000**
Share capital of 50 cents each		60,000
Share premium		24,500
Retained earnings at 1 January 2015		11,200
Revaluation reserve		2,000
Land and Building – at cost (land RM10 million)	60,000	
Brand - at cost	10,000	
Plant and equipment – at cost	94,500	
Investment property - valuation	14,500	
Accumulated depreciation at 1 January 2015 - building		20,000
Accumulated depreciation at 1 January 2015 – plant & equipment		24,500
Accumulated amortisation at 1 January 2015 – brand		4,000
Inventory at 1 January 2015	43,700	
Trade receivables	42,200	
Bank		6,800
Trade payables		35,100
Revenue		532,200
Cost of sales	401,500	
Distribution costs	21,500	
Administrative expenses	30,900	
Investment income		4,000
Dividends paid	4,800	
Bank interest	700	
	724,300	**724,300**

The following notes are relevant.

1. Non-current assets:

   On 1 January 2015, the directors of TBS decided that the financial statements would show an improved position if the land and buildings were revalued to market value. At that date, an independent valuer valued the land at RM12 million and the buildings at RM35 million and these valuations were accepted by the directors. The remaining life of the buildings at that date was 14 years. Ignore deferred tax on the revaluation surplus.

   Plant and equipment is depreciated at 20% per annum using the reducing balance method and time apportioned as appropriate. All depreciation is charged to cost of sales, but none has yet been charged on any non-current asset for the year ended 31 December 2015.

2. The brand is amortised for five years and the amortisation charge for the year has not been recorded and the amount is to be charged to cost of sales.

3. On 1 July 2015 TBS made a 1 for 4 bonus issue, utilising the share premium account. The issue was not recorded yet.

4. In June 2015 dividend of 4 cents per share was paid. In December 2015 a further dividend of 3 cents per share was proposed. The dividend that paid in June 2015 was recorded but not the proposed dividend in December 2015.

5. The investment property had a fair value of RM15.7 million as at 31 December 2015. TBS adopted fair value model for the subsequent measurement of its investment property. There were no acquisition and disposal of investment property during the year ended 31 December 2015. Any fair value adjustment is recognised in investment income.

6. TBS is being sued by SLA Sdn Bhd for a breach of contract over undelivered orders. The unrecoverable legal costs of defending the action are estimated at RM100,000. There have not been provided for as the legal action will not go to court until next year. The provision amount is to be charged to the administrative expenses.

Required

a) Prepare the statement of profit or loss and other comprehensive income for TBS for the year ended 31 December 2015. (15 marks)

b) Prepare the statement of changes in equity for TBS for the year ended 31 December 2015. (10 marks)

c) Prepare the statement of financial position of TBS as at 31 December 2015. (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) Research and development costs are significant expenditure for many companies. They are either written off as an expense immediately or capitalised as an asset.

Required

Explain how the research and development costs to be treated in the financial statements. Your answer should include the recognition criteria of MFRS 138 Intangible assets and the recognition requirements for research and development costs. (7 marks)

b)

i) TRC Bhd had RM20 million of capitalised development expenditure at cost brought forward at 1 October 2014 in respect of products currently sell in the market. A new project began on 1 October 2014, the research stage of the new project lasted until 31 December 2014 and incurred RM1.4 million of costs. From that date the project incurred development costs of RM800,000 per month. On 1 April 2015, the directors became confident that the project would be successful and yield a profit well in excess of expenditure. The project is still in development at 30 September 2015. The development cost is amortised at 20% per annum using the straight-line method.

ii) TRC is also developing a special type of product for its customer. At 30 September 2015, TRC had spent RM 250,000 on this project, but at this date it was uncertain as to whether the project would be successful. As a consequence the accountant has treated the RM250,000 as an expense in the statement of profit or loss.

iii) TRC spent RM200,000 sending its staff on training courses during the year. This has already led to an improvement in the company's efficiency and resulted in cost savings. The directors of TRC believe these benefits will continue for at least three years and wish to treat the training costs as an asset.

Required

Explain how the above matters should be treated in the financial statements of TRC for the year to 30 September 2015 and quantify the amounts involved. (18 marks)

[Total 25 marks]

QUESTION 2

a) The objective of MFRS 136 Impairment of assets is to prescribe the procedures that an entity applies to ensure that its assets are not impaired.

Required

Explain what is meant by an impairment review, how impairment review to be carried out and recognised in the financial statements. Your answer should include reference to assets that may form a cash generating unit. (10 marks)

b) The assets of a cash-generating unit (CGU) of Orton Ltd at 31 December 2014 are as follows:

	RM
Goodwill	28,000
Patent	56,000
Property, plant and equipment	84,000
Inventories	60,000
Total	**228,000**

At 31 December 2014, an impairment review is carried out and the recoverable amount of the CGU is calculated to be RM186,000. The value of the inventory was the lower of cost and net realisable value.

A year later on 31 December 2015, the following are the assets of a cash-generating unit (CGU) of Orton Ltd:

	RM
Patent	40,320
Property, plant and equipment	60,480
Inventories	70,000
Total	**170,800**

The recoverable amount of the CGU was assessed as RM196,000. The value of the inventory was the lower of cost and net realisable value. If the original impairment had not occurred the property, plant and equipment would now be carried at RM67,200 and the patent at RM 44,800.

Required

i) Explain how the impairment loss would be dealt with and calculate the revised balances of the assets in the CGU of Orton Ltd at 31 December 2014 following the impairment review and explain your treatment of the impairment loss. (8 marks)

ii) Explain how the reversal of the impairment would be dealt with and calculate the revised balance of the assets in the CGU of Orton Ltd at 31 December 2015. (7 marks)

[Total 25 marks]

QUESTION 3

Amazing Bhd purchased a three-storey building on 1 January 2016 at the value of RM1 million. The building is to be used for general administrative duties and exhibition centre. The useful life of the building is estimated to be 20 years while the residual value is expected to amount to RM200,000. At the end of the second year on 31 December 2017, the market value of the building was estimated at RM1.3 million.

Required

a) Calculate the carrying amount of the building as at 31 December 2017. (3 marks)

b) On 31 December 2017, assume the Amazing Bhd opts to value the building upon the advice of the professional valuer, prepare the journal entries of the building based on the following methods:
   (i) The revaluation is adjusted using the write-off method
   (ii) The revalution is adjusted using the proportionate restatement method (8 marks)

c) Amazing Bhd also owned a peice of freehold land in Selangor. The land was purchased in year 2013 at the cost of RM12 million. Prepare the journal entries to record the carrying amount of the land. The land was revalued based on the market value of RM11 million and RM14 million in year 2016 and 2017. (5 marks)

d) Amazing Bhd completed the installation of its manufacturing plant building on 1 January 2015. The total costs in relation to the plant building with their related useful life are as follows:

	RM'000	**Useful life**
Plant building structure	30,000	30 years
Building equipment	3,000	3 years
Plant machinery	50,000	10 years
Major inspection cost	3,000	3 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 2017, after a major inspection is performed at the end of every three years at a cost of RM5 million. *(your answer must show each component cost, accumulated depreciation and net carrying amount)* (6 marks)

ii) Prepare the journal entry to derecognise the old major inspection cost. (3 marks)

[Total 25 marks]

END OF QUESTION PAPER