



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Student ID (in Words) :

Course Code & Name : **ACC3113 FINANCIAL REPORTING 2**
 Trimester & Year : MAY – AUGUST 2019
 Lecturer/Examiner : JAMES LIOW
 Duration : 3 Hours

INSTRUCTIONS TO CANDIDATES

- 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.
- Candidates are not allowed to bring any unauthorized materials except writing equipment into the Examination Hall. Electronic dictionaries are strictly prohibited.
- 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.
- 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 = 8 (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**

On 1 January 2019, Palitech Bhd acquired 75% of Stretch Bhd's ordinary shares capital by means of an immediate share exchange of two shares in Palitech Bhd for five shares in Stretch Bhd. The fair value of Palitech Bhd and Stretch Bhd's shares on 1 January 2019 were RM4.00 and RM3.00 respectively. In addition to the share exchange, Palitech Bhd will make a cash payment of RM1.32 per acquired share, deferred until 1 January 2020. Palitech Bhd has not recorded any of the consideration for Stretch Bhd in its financial statements. Palitech Bhd's cost of capital is 10% per annum. The interest factor for 1 year is 0.9091.

The summarised statements of financial position of the two companies as at 30 June 2019 are:

	Palitech Bhd	Stretch Bhd
	RM'000	RM'000
Assets		
Non-current assets (note (ii))		
Property, plant and equipment	55,000	28,600
Financial asset equity investments (note (v))	11,500	6,000
	66,500	34,600
Current assets		
Inventory (note (iv))	17,000	15,400
Trade receivables (note (iv))	14,300	10,500
Bank	2,200	1,600
	33,500	27,500
Total assets	100,000	62,100
Equity and Liabilities		
Equity		
Ordinary shares capital of RM1.00 each	20,000	20,000
Other general reserve	4,000	-
Retained earnings - at 1 July 2018	26,200	14,000
- for year ended 30 June 2019	24,000	10,000
	74,200	44,000
Current liabilities (note (iv))	25,800	18,100
Total equity and liabilities	100,000	62,100

The following information is relevant:

- (i) Stretch Bhd's business is seasonal and 60% of its annual profit is made in the period 1 January to 30 June each year.
- (ii) At the date of acquisition, the fair value of Stretch Bhd's net assets was equal to their carrying amounts with the following exceptions:
 - An item of plant had a fair value of RM2 million below its carrying value. At the date of acquisition it had a remaining life of two years.
 - The fair value of Stretch Bhd's investments was \$7 million (see also note (v)).
 - Stretch Bhd owned the rights to a popular mobile (cell) phone game. At the date of acquisition, a specialist valuer estimated that the rights were worth RM12 million and had an estimated remaining life of five years.
- (iii) Following an impairment review, consolidated goodwill is to be written down by RM3 million as at 30 June 2019.
- (iv) Palitech Bhd sells goods to Stretch Bhd at cost plus 30%. Stretch Bhd had RM1.8 million of goods in its inventory at 30 June 2019 which had been supplied by Palitech Bhd. In addition, on 28 June 2019, Palitech Bhd processed the sale of RM800,000 of goods to Stretch Bhd, which Stretch Bhd did not account for until their receipt on 2 July 2019. The in-transit reconciliation should be achieved by assuming the transaction had been recorded in the books of Stretch Bhd before the year end. At 30 June 2019, Palitech Bhd had a trade receivable balance of RM2.4 million due from Stretch Bhd which differed to the equivalent balance in Stretch Bhd's books due to the sale made on 28 June 2019.
- (v) At 30 June 2019, the fair values of the financial asset equity investments of Palitech Bhd and Stretch Bhd were RM13.2 million and RM7.9 million respectively.
- (vi) Palitech Bhd's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Stretch Bhd's share price at that date is representative of the fair value of the shares held by the non-controlling interest.

Required

Prepare the consolidated statement of financial position of the Palitech Bhd as at 30 June 2019.

(30 marks)

Section B

On 1 April 2018 Bycom Industries Bhd (Bycom) acquired 80% of Cypark Industries Bhd's (Cypark) equity shares on the following terms:

- a share exchange of two shares in Bycom for every three shares acquired in Cypark; and
- a cash payment due on 31 March 2019 of RM1.54 per share acquired (Bycom's cost of capital is 10% per annum). The interest factor for 1 year is 0.9091.

At the date of acquisition, shares in Bycom and Cypark had a stock market value of RM3.00 and RM2.50 each respectively.

Statements of profit or loss for the year ended 31 March 2019:

	Bycom Industries Bhd	Cypark Industries Bhd
	RM'000	RM'000
Revenue	24,200	10,800
Cost of sales	(17,800)	(6,800)
Gross profit	6,400	4,000
Distribution costs	(500)	(340)
Administrative expenses	(800)	(360)
Finance costs	(400)	(300)
Profit before tax	4,700	3,000
Income tax expense	(1,700)	(600)
Profit for the year	3,000	2,400

Equity in the separate financial statements of Cypark as at 1 April 2018:

	RM'000
Equity	
Equity shares of RM1.00 each	12,000
Retained earnings	13,500

The following information is also relevant:

- At the date of acquisition, the fair values of Cypark's assets were equal to their carrying amounts with the exception of an item of plant which had a fair value of RM720,000 above its carrying amount. The remaining life of the plant at the date of acquisition was 18 months. Depreciation is charged to cost of sales.
- On 30 September 2018, Cypark commenced the construction of a new production facility, financing this by a bank loan. Cypark did not follow the *MFRS 132 Borrowing Costs* by capitalising the interest, instead the amount has been charged out in profit and loss. Bycomb has calculated that, in accordance with *MFRS 132 Borrowing Costs*, interest of RM100,000 would have been capitalised at 31 March 2019. The production facility is still under construction as at 31 March 2019.

- (iii) Sales from Bycom to Cypark in the post-acquisition period were RM3 million at a mark-up on cost of 20%. Cypark had RM420,000 of these goods in inventory as at 31 March 2019.
- (iv) Bycom's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Cypark's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
- (v) On 31 March 2019, Bycom carried out an impairment review which identified that the goodwill on the acquisition of Cypark was impaired by RM500,000. Impaired goodwill is charged to cost of sales.
- (vi) A fair value exercise conducted on 31 March 2019 concluded that the carrying amounts of Cypark's net assets were equal to their fair values with the following exceptions of the fair value of Cypark's land was revalued by RM2 million in excess of its carrying amount.

Required:

- a) Calculate the consolidated goodwill as at 31 March 2019. (6 marks)
- b) Prepare the consolidated statement of profit or loss and other comprehensive income of Bycom Industries Bhd for the year ended 31 March 2019. (14 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

The financial statements of Burrow Bhd ended on 31 December 2019.

On 1 January 2019, Burrow Bhd acquired a new automatic equipment from Lydon Finance Bhd on a finance lease and entered into a lease contract requiring the payment of 5 annual rental payments of RM181,000 payable at the **end** of the respective years.

In addition, Burrow Bhd incurred initial direct cost of RM33,865 relating to the leasing of the equipment. It is expected that Burrow Bhd will not exercise the purchase option at the end of the lease term. The equipment has an economic useful life of 10 years with no residual value. The rate of interest in the lease is 10% a year.

Assumptions:

- Taxation implications are to be ignored.
- The present value factor for an ordinary annuity for RM1.00 at the interest rate of 10% is 3.7908.

Required

- a) At the inception of the lease contract, explain how to assess whether this is a finance lease.
(4 marks)
- b) If this is a finance lease, explain **THREE (3)** conditions or series of test exist for a finance lease.
(6 marks)
- c) Calculate the initial amount to be recognised as right of use asset in the statement of financial position at the beginning of the lease term.
(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 4 years period in respect of the lease in the books of Burrow Bhd.
 - i) Non-current assets at carrying amount
 - ii) Non-current liabilities
 - iii) Current liabilities
(6 marks)

[Total 25 marks]

QUESTION 2

- a) One of the issues covered by *MFRS 9 Financial Instruments* (effective from January 2018) is the classification and measurement of financial assets. The three possible measurement bases identified by the Standard are:
- (i) Amortised cost
 - (ii) Fair value through other comprehensive income
 - (iii) Fair value through profit or loss

Required

Explain the basis for classifying and measuring the financial assets under MFRS 9 and how this Standard requires entities to select the appropriate measurement basis for a financial asset.

(7 marks)

- b) Epsilon Bhd prepares financial statements to 31 March each year. The following events have occurred which are relevant to the year ended 31 March 2019:
- (i) On 1 April 2018, Epsilon Bhd loaned RM30 million to another entity. Interest of RM1.5 million is payable annually in arrears. An additional final payment of RM35.3 million is due on 31 March 2021. Epsilon Bhd incurred direct costs of RM250,000 in arranging this loan. The annual rate of interest implicit in this arrangement is approximately 10%. Epsilon Bhd has no intention of assigning this loan to a third party at any time. (6 marks)
 - (ii) On 1 April 2018, Epsilon Bhd purchased 500,000 shares in a key supplier – entity X. The shares were purchased in order to protect Epsilon Bhd's source of supply and Epsilon Bhd has no intention of trading in these shares. The shares cost RM2.00 per share and the direct costs of purchasing the shares were RM100,000. On 1 January 2019, the supplier paid a dividend of 30 sen per share. On 31 March 2019, the fair value of a share in entity X was RM2.25. (6 marks)
 - (iii) On 1 January 2019, Epsilon Bhd purchased 100,000 call options to purchase shares in entity Y – an unconnected third party. Each option allowed Epsilon Bhd to purchase shares in entity Y on 31 December 2019 for RM6.00 per share. Epsilon Bhd paid RM1.25 per option on 1 January 2019. On 31 March 2019, the fair value of a share in entity Y was RM8.00 and the fair value of a share option purchased by Epsilon Bhd was RM1.60. This purchase of call options is not part of a hedging arrangement. (6 marks)

Required

Explain and show how the three events should be reported in the financial statements of Epsilon Bhd for the year ended 31 March 2019. (The answer must include the calculation for initial measurement, subsequent measurement and amount to be charged to profit or loss, or to other comprehensive income).

[Total 25 marks]

QUESTION 3

The following three properties are accounted for under *MFRS 140 Investment Properties* and each property is to be treated separately.

Property 1

A business owns a building which it has been using as a head office. In order to reduce costs, on 30 June 2019 it moved its head office functions to one of its production centres and is now letting out its head office. Company policy is to use the cost model for investment property.

The building had an original cost on 1 January 2010 of RM250,000 and was being depreciated over 50 years. At 31 December 2019 its fair value was valued to be RM350,000.

Required

- a) Discuss how the property is accounted for in the financial statements at 31 December 2019 by showing the extract of the statement of profit and loss and other comprehensive income, and statement of financial position. (5 marks)

Property 2

An entity owns two investment properties, X and Y, the fair value of which are:

	31 December 2017	31 December 2018
	RM '000	RM '000
Property X	19,000	20,000
Property Y	10,000	8,000

The original cost of the properties was RM9 million each when they were acquired on 1 January 2016. The properties were being depreciated over 20 years. The entity uses the cost model for property X and at end of each year, the property Y will be revalued based on the value provided by the independent valuer. (16 marks)

Required

- b) Discuss how these transactions be accounted for in the financial statements for the year ended 2017 and 2018 by showing the extract of the statement of profit and loss and other comprehensive income, and statement of financial position.

Property 3

An entity owns a 20-storey building in Shah Alam. The Financial Controller is unsure whether the property should be accounted for within the scope of *MFRS 140 Investment Properties* or otherwise. The building will be used as its headquarters for administrative purposes while the rest of the building is rented out to outsiders.

Required

- c) Advise the Financial Controller by reference to the relevant standards how the entity should accounts for the building in its financial statements. (4 marks)

[Total 25 marks]

END OF QUESTION PAPER