



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 2020

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

Patrick Bhd (Patrick) was incorporated in Malaysia and was listed on the Main Board of Bursa Malaysia. It has shareholdings in two other companies, Sally Bhd (Sally) and Frank Bhd (Frank). Statement of Financial Position are shown below for all three companies as at 31 July 2020:

Statement of Financial Position as at 31 July 2020			
	Patrick Bhd RM' million	Sally Bhd RM' million	Frank Bhd RM' million
Non-current assets:			
Property, plant and equipment	4,860	2,100	1,530
Investments	4,450	750	-
	9,310	2,850	1,530
Current assets:			
Inventories	1,350	460	375
Accounts receivable	1,720	520	375
Cash & bank	460	130	80
	3,530	1,110	830
Total assets	12,840	3,960	2,360
Equity:			
Ordinary share capital	5,000	1,500	800
Revaluation surplus	3,000	1,200	500
Retained earnings	1,790	1,000	950
	9,790	3,700	2,250
Current liabilities:			
Accounts payable	1,430	100	70
Taxation	940	120	40
Dividends proposed	680	40	-
	3,050	260	110
Total equity and liabilities	12,840	3,960	2,360

The following additional information may be relevant:

- (i) Patrick Bhd (Patrick) bought 900 million shares in Sally Bhd (Sally) on 1 August 2018, at a cost of RM2.50 per share paid in cash. On that date, the balance on the retained earnings reserve of Sally stood at RM600 million, and the revaluation surplus was zero. At the date of acquisition, the net assets of Sally were equal to their carrying amounts except for certain items of property, plant and equipment, which had a fair value RM400 million in excess of their carrying amount. Patrick has had a policy of carrying property, plant and equipment at fair values. This policy is implemented across all group companies from the date of acquisition.
- (ii) Sally bought 640 million shares in Frank Bhd (Frank) on 1 August 2019. The consideration for the purchase was RM1.172 per share in cash. On that date, the retained earnings reserve of Frank stood at RM200 million, and the revaluation surplus at RM150 million. Frank has always had a policy of measuring property, plant and equipment at fair value, hence the carrying amounts of these assets were equal to their fair values at the acquisition date. However, Frank controls a famous brand name, not recognised in its books, which had a fair value of RM50 million on 1 August 2019. This brand was estimated to have a useful economic life of 20 years from that date.
- (iii) On the same date, Patrick acquired a 20% interest in Frank with a cash consideration of RM480 million.
- (iv) Goodwill was reviewed for impairment at the reporting date, and a RM200 million impairment loss was considered necessary to the goodwill of Patrick.
- (v) At 31 July 2020, the fair values of the financial asset equity investments of Patrick were RM1,800 million and 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 July 2020, Patrick had sold goods to Sally amounting to RM600 million. The purchase price included a mark-up of 20% on cost. Patrick's normal mark-up on goods sold is 60%. Of these goods, one-quarter remained in the closing inventory of Sally at the reporting date.
- (vii) Recorded in the books of Patrick was an intra-group accounts payable of RM200 million owed to Sally at year-end. However, the books of Sally showed a balance of RM220 million owed by Patrick. The difference was due to a cheque in transit from Patrick Bhd to Sally Bhd which was received by Sally Bhd only on 5 August 2020.
- (viii) The dividends by both companies were proposed at 31 July 2020. No dividend was paid by any company during the financial year. Patrick has not recognised its share of Sally's proposed dividend.
- (ix) The group accounting policy is to value any Non-Controlling Interests (NCI) at their proportionate share of identifiable net assets at the acquisition date.
- (x) All workings and solutions should be completed to the nearest RM million.

Required:

- a) Calculate the effective interest of the group structure of the three companies mentioned above. (4 marks)
 - b) Prepare the Consolidated Statement of Financial Position of Patrick Bhd and its group of companies as at 31 July 2020 in accordance with the Malaysian Financial Reporting Standards. (46 marks)
- [Total 50 marks]**

END OF PART A

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 following information relates to the defined benefit employee compensation scheme of Amada Bhd:

	RM'000
Present value of obligation at start of 2019	20,000
Market value of plan assets at start of 2019	20,000

	2019 RM'000	2020 RM'000
Current service cost	1,250	1,430
Benefits paid out	987	1,100
Contributions paid by entity	1,000	1,100
Present value of obligation at end of the year	23,000	20,400
Market value of plan assets at end of the year	21,500	17,840
Yield on corporate bonds at end of year	8%	9%

During 2019, the benefits available under the plan were improved. The resulting increase in the present value of the defined benefit obligation was RM1 million. This amount represents the past service cost which must be recognised immediately.

On the final day of 2020, Amada Bhd divested of part of its business, and as part of the sale agreement, transferred the relevant part of its pension fund to the buyer. The present value of the defined benefit obligation transferred was RM5.7 million and the fair value of plan assets transferred was RM5.4 million.

Assume that all transactions occur at the end of the year.

Required:

- Calculate the net defined benefit obligation and plan assets as at the start and end of 2019 and 2020 showing clearly any remeasurement gain or loss on the plan each year. (12 marks)
- Prepare the following extract of financial statements in each of the year 2019 and 2020:
 - Profit or loss statement
 - Other comprehensive income statement
 - Statement of financial position (5 marks)
- 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)
- 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 it 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. (4 marks)
- b) The conditions which must be fulfilled for an employee to exercise their right in a share-based payment arrangement. (2 marks)
- c) The accounting entries (debit and credit) required during the vesting period. (3 marks)

Scenario 2

Kappa Bhd (Kappa) prepares financial statements to 31 March each year. The following are the details of the share-based payment arrangements:

On 1 April 2017, Kappa granted options to 500 employees to subscribe for 400 share options each in Kappa on 31 March 2020, providing the employees still worked for Kappa at that time. On 1 April 2017, the fair value of each option was RM1.50.

In the year ended 31 March 2018, 10 of these employees left Kappa and expected that 20 more would leave during this period. During the year ended 31 March 2019, five of the employees left and expected that ten more would leave. During the year ended 31 March 2020, none of the employees left the entity and the share options would be exercised on 31 March 2020 for those employees who remain employed by the entity until that date.

Required

- a) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit and loss of Kappa as at 31 March 2018, 2019 and 2020 in respect of the share options. (6 marks)
- b) Record the journal entries for the charge to profit or loss for employee services over the three years, including when the options are exercised on 31 March 2020. (4 marks)

Scenario 3

On 1 April 2018, Kappa granted share appreciation rights to 50 senior employees. The number of rights to which each employee becomes entitled depends on the cumulative profit of Kappa for the three years ended 31 March 2021:

- 1,000 rights per employee are awarded if the cumulative profit for the three-year period is below RM500,000.
- 1,500 rights per employee are awarded if the cumulative profit for the three-year period is between RM500,000 and RM1 million.
- 2,000 rights per employee are awarded if the cumulative profit for the three-year period exceeds RM1 million.

On 1 April 2018, Kappa expected that the cumulative profits for the three-year period would be RM800,000. After the disappointing financial results for the year ended 31 March 2019, this estimate was revised at that time to RM450,000. However, given the improvement in results for the year ended 31 March 2020, the estimate was revised again at 31 March 2020 to RM1,100,000.

The fair value of one share appreciation right was RM0.90 at 31 March 2019 and to RM1.20 at 31 March 2020. All the senior employees are expected to remain employed by Kappa for the relevant three-year period. The rights are exercisable on 30 June 2021.

Required

- a) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit and loss of Kappa as at 31 March 2019 and 2020 in respect of the share appreciation right. (4 marks)
- b) Record the journal entries for the charge to profit or loss for employee services over the two years. (2 marks)

[Total 25 marks]

QUESTION 3

- a) Explain what is meant by an entity's presentation and functional currency. Explain your answer with reference to how the presentation and functional currency of an entity should be determined. (5 marks)
- b) On 1 June 2019, Tops Berhad purchased equipment imported from a supplier, EMC Equipment Ltd (EMC) whose prices are quoted in British Pounds Sterling. The purchase price of the equipment is GBP7,000. The exchange rate at the date of purchase is GBP1.00 = RM5.2348

On 31 August 2019, Tops Berhad made a payment to EMC of GBP2,000 and the exchange rate at the date of payment is GBP1.00 = RM5.1094.

At the financial year ended 31 December 2019, there is a balance outstanding to EMC and the exchange rate is at GBP1.00 = RM5.4248

The balance owing to EMC is fully settled on 31 January 2020 at the exchange rate of GBP1.00 = 5.4054

Required

Prepare the journal entries for the above transactions including the realised and unrealised gain or loss arising from the transactions. (5 marks)

- c) MTM Precisions AG (MTM), a subsidiary of Tops Bhd acquired 100% equity of SPG on 1 January 2019. In accordance with the MFRS 121 *The Effects of Changes in Foreign Exchange Rates*, Tops Berhad 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 MTM for the year ended 31 December 2019:

Statement of Comprehensive Income for the Year Ended 31 December 2019		
	EUR'000	EUR'000
Revenue		146,114
Cost of sales		(113,969)
Gross profit		32,145
Less:		
Distribution costs	150	
Administrative expenses	9,000	
Other expenses	1,000	
Finance costs	3,000	(13,150)
Profit before tax		18,995
Income tax expense		(4,495)
Profit for the year		14,500
Extract from the statement of changes in equity		
		EUR'000
Retained earnings at the beginning of year		18,000
Profit for the year		14,500
Dividend		(3,000)
Retained earnings at the end of year		29,500

The statements of financial position at 31 December 2019	
	EUR'000
Property, plant and equipment	85,000
Inventory	8,000
Accounts receivable	12,000
Cash	5,000
Total assets	110,000
Accounts payable	5,500
Overdraft	5,000
Loan	50,000
Total liabilities	60,500
Ordinary share capital	20,000
Retained earnings	29,500
Total equity	49,500
Total liabilities and equity	110,000

The applicable exchange rates of 1.00 Euro:

	RM
1 January 2019	4.875
31 December 2019	4.611
Average in 2019	4.451
Average in 2018	4.377

Required

Translate the following financial statements of the German subsidiary at 31 December 2019 in the presentation currency of Ringgit Malaysia for the purposes of consolidation:

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

(15 marks)

[Total 25 marks]

END OF QUESTION PAPER