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BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

Student ID (in Words) :

Subject Code & Name	:	**ACC3113 FINANCIAL REPORTING 2**
Semester & Year	:	SEPTEMBER – DECEMBER 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 statement of financial position of AB and CD as below:

Statement of Financial position at 31 December 2017

	AB	CD
	RM'000	**RM'000**
Non-Current Assets		
Property, plant and equipment	20,000	12,000
Investments (held at fair value)	11,000	
	31,000	12,000
Current Assets	16,000	6,000
Total Assets	**47,000**	**18,000**
Equity and Liabilities		
Equity shares of RM1 each	10,000	1,000
Retained earnings	25,000	13,000
Total equity	35,000	14,000
Total liabilities	12,000	4,000
Total equity and liabilities	**47,000**	**18,000**

The following information is relevant:

1. AB acquires 80% of the 1 million RM1 equity shares of CD on 1 January 2017 when CD's retained earnings were RM8,300,000. The consideration for the acquisition consisted of the following:
   - RM703,000 cash paid on the acquisition date.
   - RM1,000,000 cash paid on 31 December 2018 (a discount rate of 8% was used to value the liability in the financial statement of AB. The present value factor for an ordinary annuity for RM1.00 at the interest rate of 8% is 0.857).
   - The transfer of 1,000,000 RM 1.00 equity shares in AB with deemed value of RM7.00 at the date of acquisition.

2. The non-controlling interest in CD was measured at its fair value of RM2,140,000 at the date of acquisition.

3. The fair value of CD's net assets was the same as book value on 1 January 2017, with one exception of two items:
   - Property with carrying value of RM1,200,000 had a fair value of RM2,000,000 on that date. The assets were estimated to have a remaining useful life of 8 years from the date of acquisition and AB depreciation property on a straight-line basis.
   - CD had a contingent liability which AB estimated to have a fair value of RM450,000. This has not changed as at 31 December 2017.
   - Deferred tax implications are to be ignored.
   - AB has not incorporated these fair value changes into its financial statements.

4. An impairment review performed on 31 December 2017 indicated that goodwill arising on the acquisition had been impaired by 20%.

5. AB's accounting policy for land and buildings is that they should be carried at their fair values. The fair value of CD's land at the 31 December 2017 had increased by RM5 million from the date of acquisition. CD's buildings did not require any fair value adjustments. The fair value of AB's own land and buildings at 31 December 2017 was increased by RM12 million in excess of its carrying value in the above Statement of Financial Position.

6. The current accounts of the two companies are included in receivables and payables respectively. AB owed CD RM730,000, whereas in the books of CD the amount was shown as RM750,000. The difference was due to a cheque in transit from AB to CD which was received by CD only on 5th January 2018.

Required

a) Calculate the consolidated goodwill at the date of acquisition of CD. (8 marks)

b) Prepare the consolidated statement of financial position for AB Group as at 31 December 2017.
(42 marks)

[Total 50 marks]

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 Merchant Trade ended on 30 November 2010.

On 1 December 2010, Merchant Trade entered into a lease requiring the payment of five annual rental payments of RM785,000 payable at the beginning of 1 December 2010, 2011, 2012, 2013 and 2014.

The fair value of the leased asset on 1 December 2010 was RM3,500,000 and it was expected to have a five-year economic life as from 1 December 2010 with no residual value. The rate of interest in the lease is 6% 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 6% is 4.212.

Required

a) Determine, with justifications, whether the lease transaction entered by Merchant Trade are finance lease or operating lease in accordance with MFRS 117 *Leases*. (4 marks)

b) Discuss the characteristics of finance lease in accordance with MFRS 117 *Leases*. (5 marks)

c) Prepare a table showing how the finance charges, liability at the beginning and the start of the period would be allocated to each of the five years. (9 marks)

d) Show entries in the statement of financial position for the five years period in respect of the lease in the books of Merchant Trade.
   i) Non-current assets at carrying amount
   ii) Total liabilities
   iii) Non-current liabilities
   iv) Current liabilities (7 marks)

[Total 25 marks]

QUESTION 2

a) Howard invested in the below **TWO (2)** financial instruments. Explain how these financial instruments should be classified, recognised and initially and subsequently to be measured in accordance with MFRS 9 *Financial instruments: Recognition and Measurement* for the year ended 30 June 2015.

Instrument 1: On 1 January 2015, Howard acquired 15% of the shares in Northern Bhd for a total price of RM5.2 million. At 30 June 2015, the fair value of the shares had risen to RM5.5 million. The company believes it would be strategic for it to hold shares in Northern Bhd. (5 marks)

Instrument 2: On 5 April 2015, Howard acquired RM1 million of shares in Southern Bhd and sold half the shares on 15 May for RM600,000. The remainder had a fair value of RM650,000 at 30 June 2015. (5 marks)

b) Explain what is meant by a "compound" financial instrument. (5 marks)

c) Howard also issued RM6 million 7% convertible bonds on 1 July 2014 at par. The bonds are redeemable at par on 30 June 2018 or convertible at that date on the basis of two RM1.00 ordinary shares for every nominal RM10.00 of bonds. At the date of issue, the market rate for similar debt without conversion rights was 9%. The interest due was paid on 30 June 2015 and recorded within finance costs during the year.

The interest factors are as follows:

Year	**1**	**2**	**3**	**4**
Discount 9%	0.917	0.842	0.772	0.708
Discount 7%	0.935	0.873	0.816	0.763

i) Calculate the initial recognised amounts of convertible bonds to be split between debt and equity in accordance with MFRS 132 *Presentation Financial Instruments.* (4 marks)

ii) Demonstrate the subsequently measured in accordance with MFRS 9 *Financial Instruments: Recognition and Measurement* in the Statement of Comprehensive Income and Statement of Financial Position for the year ended 30 June 2015. (6 marks)

[Total 25 marks]

QUESTION 3

Cahaya Bhd purchased a building as an investment property on 1 January 2016 for RM3 million. The legal cost and other incidental costs relating to the purchase of property was RM80,000.

The building purchased is a 25-storey building where 15 floors are rented out to its other subsidiaries and 7 floors are rented out to outsider retailers, while the balance is used by Cahaya Bhd as its head office.

The building is appraised on 31 December every year. The fair value of the building is determined to be RM4 million and RM3.5 million at 31 December 2016 and 2017 respectively. The company uses the straight line method to depreciate its non-current assets.

Required

a) Discuss how the property is accounted for in the book of Cahaya Bhd and its group account. Indicate which accounting standards are applied in the books of Cahaya Bhd and its consolidated group account. (6 marks)

b) Assume that Cahaya Bhd applies fair value model to accounts for its investment property. Prepare all journal entries relating to the acquisition of the property and any adjusting entries required at 31 December 2016 and 2017. (Ignore the depreciation charge). (6 marks)

c) Security, cleaning and maintenance services are ancillary services to the tenants who occupy the investment building. Discuss how the accounting treatments would be applied for services which are significant and insignificant to the arrangement as a whole. (6 marks)

d) If the ancillary services are unable to determine whether is significant or not, discuss whether the property which fall under the scope of *MFRS 140 Investment Property* or *MFRS 116 Property, Plant and Equipment.* (7 marks)

[Total 25 marks]

END OF QUESTION PAPER