



## BERJAYA BUSINESS SCHOOL

### FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) :

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Course Code & Name : **ACC3113 FINANCIAL REPORTING 2**

Trimester & Year : SEPTEMBER – DECEMBER 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 = 7 (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.

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**QUESTION 1****Section A**

The following are the statements of financial position of Proton Bhd and Subaru Bhd as at 30 September 2015:

|                                     | <b>Proton Bhd</b> | <b>Subaru Bhd</b> |
|-------------------------------------|-------------------|-------------------|
|                                     | <b>RM'000</b>     | <b>RM'000</b>     |
| <b>ASSETS</b>                       |                   |                   |
| <b>Non-current assets</b>           |                   |                   |
| Property, plant and equipment       | 392,000           | 84,000            |
| Investments                         | 120,000           | -                 |
|                                     | 512,000           | 84,000            |
| Current assets                      | 94,700            | 44,650            |
| <b>Total assets</b>                 | <b>606,700</b>    | <b>128,650</b>    |
|                                     |                   |                   |
| <b>EQUITY AND LIABILITIES</b>       |                   |                   |
| <b>Equity</b>                       |                   |                   |
| Ordinary share capital              | 190,000           | 60,000            |
| Retained earnings                   | 210,000           | 36,500            |
| Revaluation surplus                 | 41,400            | 4,000             |
|                                     | 441,400           | 100,500           |
| <b>Non-current liabilities</b>      |                   |                   |
| Deferred consideration              | 28,000            | -                 |
|                                     |                   |                   |
| <b>Current liabilities</b>          | 137,300           | 28,150            |
| <b>Total equity and liabilities</b> | <b>606,700</b>    | <b>128,650</b>    |

The following information is relevant:

- (i) On 1 October 2014, Proton Bhd acquired 80% of the share capital of Subaru Bhd. At this date the retained earnings of Subaru Bhd were RM34 million and the revaluation surplus stood at RM4 million. Proton Bhd paid an initial cash amount of RM92 million and agreed to pay the owners of Subaru Bhd a further RM28 million on 1 October 2016. The accountant has recorded the full amounts of both elements of the consideration in investments. Proton Bhd has a cost of capital of 8%.

The present value interest factor is as follows:

Year 1: 0.8573

Year 2: 0.9259

- (ii) On 1 October 2014, the fair values of Subaru Bhd's net assets were equal to their carrying amounts with the exception of some inventory which had cost RM3 million but had a fair value of RM3.6 million. On 30 September 2015, 10% of these goods remained in the inventories of Subaru Bhd.
- (iii) During the year, Proton Bhd sold goods totalling RM8 million to Subaru Bhd at a gross profit margin of 25%. At 30 September 2015, Subaru Bhd still held RM1 million of these goods in inventory. Proton Bhd's normal margin (to third party customers) is 45%.
- (iv) The Proton group uses the fair value method to value the non-controlling interest. At acquisition the non-controlling interest was valued at RM15 million.

### **Required**

Prepare the consolidated statement of financial position of the Proton group as at 30 September 2015.

(25 marks)

### **Section B**

On 1 October 2013, Pendant Bhd acquired 90 million of Sphere Bhd's 150 million RM1.00 equity shares. The acquisition was achieved through a share exchange of one share in Pendant for every three shares in Sphere. At that date the stock market prices of Pendant's and Sphere's shares were RM4.00 and RM2.50 per share respectively. Additionally, Pendant will pay RM1.54 cash on 30 September 2014 for each share acquired. Pendant's finance cost is 10% per annum. The present value interest factor is 0.90909.

The retained earnings of Sphere brought forward at **1 April 2013** were RM120 million.

The summarised statements of profit or loss and other comprehensive income for the companies for the year ended 31 March 2014 are:

|  | <b>Pendant Bhd</b> | <b>Sphere Bhd</b> |
|--|--------------------|-------------------|
|  | <b>RM'000</b>      | <b>RM'000</b>     |
| Sales revenue                                  | 620,000            | 310,000           |
| Cost of sales                                  | (400,000)          | (150,000)         |
| Gross profit                                   | 220,000            | 160,000           |
| Distribution expenses                          | (40,000)           | (20,000)          |
| Administrative expenses                        | (36,000)           | (25,000)          |
| Investment income                              | 5,000              | 1,600             |
| Finance costs                                  | (2,000)            | (5,600)           |
| Profit before tax                              | 147,000            | 111,000           |
| Income tax expense                             | (45,000)           | (31,000)          |
| <b>Profit for the year</b>                     | <b>102,000</b>     | <b>80,000</b>     |
| Other comprehensive income                     |                    |                   |
| Gain/(loss) on revaluation of land             | (2,200)            | 3,000             |
| <b>Total comprehensive income for the year</b> | <b>99,800</b>      | <b>83,000</b>     |

The following information is relevant:

- (i) A fair value exercise conducted on 1 October 2013 concluded that the carrying amounts of Sphere's net assets were equal to their fair values with the following exceptions:
  - the fair value of Sphere's land was RM2 million in excess of its carrying amount.
  - an item of plant had a fair value of RM6 million in excess of its carrying amount. The plant had a remaining life of two years at the date of acquisition. Plant depreciation is charged to cost of sales.
  - Pendant placed a value of RM5 million on Sphere's good trading relationships with its customers. Pendant expected, on average, a customer relationship to last for a further five years. Amortisation of intangible assets is charged to administrative expenses.
- (ii) Pendant's group policy is to revalue land to market value at the end of each accounting period. Prior to its acquisition, Sphere's land had been valued at historical cost, but it has adopted the group policy since its acquisition. In addition to the fair value increase in Sphere's land of RM2 million (see note (i)), it had increased by a further RM1 million since the acquisition.
- (iii) On 1 October 2013, Pendant also acquired 30% of Vantor's equity shares. Vantor's profit after tax for the year ended 31 March 2014 was RM10 million and during March 2014 Vantor paid a dividend of RM6 million. Pendant uses equity accounting in its consolidated financial statements for its investment in Vantor. Sphere did not pay any dividends in the year ended 31 March 2014.
- (iv) After the acquisition Pendant sold goods to Sphere for RM20 million. Sphere had one fifth of these goods still in inventory at 31 March 2014. In March 2014 Pendant sold goods to Vantor for RM15 million, all of which were still in inventory at 31 March 2014. All sales to Sphere and Vantor had a mark-up on cost of 25%.
- (v) Pendant's policy is to value the non-controlling interest at the date of acquisition at its fair value. For this purpose, the share price of Sphere at that date (1 October 2013) is representative of the fair value of the shares held by the non-controlling interest.
- (vi) All items in the above statements of profit or loss and other comprehensive income are deemed to accrue evenly over the year unless otherwise indicated.

**Required:**

- (a) Calculate the consolidated goodwill as at 1 October 2013. (6 marks)
- (b) Prepare the consolidated statement of profit or loss and other comprehensive income of Pendant for the year ended 31 March 2014. (19 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.

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**QUESTION 1**

The financial statements of Burrow Bhd ended on 31 December 2017.

On 1 January 2014, Burrow Bhd acquired a new automatic equipment from Lydon Finance Bhd on a finance lease and entered into a lease requiring the payment of four annual rental payments of RM206,490 payable at the **beginning** of 1 January 2014.

The fair value of the leased asset on 1 January 2014 was RM720,000 and it was expected to have a five-year economic life as from 1 January 2014 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 3.1699.

**Required**

- a) Determine, with justifications, whether the lease transaction entered by Burrow Bhd are finance lease or operating lease in accordance with MFRS 117 *Leases*. (2 marks)
- b) Calculate the initial amount to be recognised as lease equipment in the statement of financial position. (4 marks)
- c) Discuss **THREE (3)** characteristics of finance lease in accordance with MFRS 117 *Leases*. (3 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 four years. (8 marks)
- e) Show entries in the statement of financial position for the four years period in respect of the lease in the books of Burrow Bhd.
  - i) Non-current assets at carrying amount
  - ii) Total liabilities
  - iii) Non-current liabilities
  - iv) Current liabilities(8 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 2018.

**Instrument 1:** On 1 January 2018, Howard acquired 15% of the shares in Northern Bhd for a total price of RM5.2 million. At 30 June 2018, 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 2018, 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 2018. (5 marks)

- b) Explain what is meant by a “compound” financial instrument. (5 marks)
- c) Tanore Bhd issued 1 million convertible bonds of RM1.00 each carrying nominal interest of 10% on 1 January 2015. Bondholders are entitled to convert their bonds into RM1.00 ordinary shares of the company on the date of their maturity on 31 December 2017, a term of three years. The Interest rate of a similar bond without the conversion option is 15%. The interest due was paid on 31 December each year and recorded within finance costs during the year.

The interest factors are as follows:

| Year         | 1      | 2      | 3      |
|--------------|--------|--------|--------|
| Discount 15% | 0.8696 | 0.7561 | 0.6575 |

- 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 31 December 2015. (6 marks)

**[Total 25 marks]**

### QUESTION 3

As at 31 December 2018, Victoria Bhd owns several properties. Wherever possible, Victoria Bhd carries investment properties under the fair value model.

**Property 1** was acquired on 1 January Year 2012. It had a cost of RM1.1 million, comprising RM500,000 for land and RM600,000 for buildings. The land was acquired under the freehold title and the buildings have a useful life of 40 years. Victoria uses this property as its head office.

#### **Required**

- a) Discuss how this property is accounted for in the book of Victoria Bhd and indicate which accounting standards are applied in the books of Victoria Bhd. (2 marks)

**Property 2** was acquired on 1 January 2017 for RM2.2 million for its investment potential. This property is appraised on 31 December every year. On 31 December 2017, it had a fair value of RM2.5 million. By 31 December 2018, its fair value had reduced to RM2.1 million. This property has a useful life of 40 years.

#### **Required**

- b) Discuss how the property is accounted for in the book of Victoria Bhd and indicate which accounting standards are applied in the books of Victoria Bhd. (5 marks)
- c) Prepare the journal entry relating to the increase/decrease in fair value as at 31 December 2017 and 2018 respectively. (4 marks)

**Property 3** was acquired on 30 June 2013 for RM2 million for its investment potential. The directors believed that the fair value of this property was RM3 million on 31 December 2017 and RM3.5 million on 31 December 2018. However, due to the specialised nature of this property, these figures cannot be incorporated. This property has a useful life of 50 years with no salvage value.

#### **Required**

- d) Discuss how the property is accounted for in the book of Victoria Bhd and indicate which accounting standards are applied in the books of Victoria Bhd. (5 marks)
- e) Discuss how this property be accounted for in the statement of financial position. (3 marks)

**Property 4** was acquired many years ago for RM2.5 million and since then this property was leased to Arthur Sdn Bhd, one of the subsidiary companies of Victoria Bhd.

#### **Required**

- f) Discuss how the property is accounted for in the book of Victoria Bhd and its group accounts. Indicate which accounting standards are applied in the books of Victoria Bhd and its consolidated group accounts. (6 marks)

**[Total 25 marks]**

**END OF QUESTION PAPER**