Private & Confidential

BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures)	:														

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Course Code & Name	:	**ACC2123 FINANCIAL REPORTING 1**
Semester & Year	:	SEPTEMBER – DECEMBER 2019
Lecturer/Examiner	:	JAMES LIOW
Duration	:	3 Hours

<u>INSTRUCTIONS TO CANDIDATES</u>

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.**

<u>WARNING:</u> 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

The following trial balance was extracted from the books of Peppercorn Bhd (Peppercorn) on 31 March 2019:

	Note	**RM'000**	**RM'000**
Revenue			372,000
Cost of sales		221,000	
Distribution costs		46,000	
Administration expenses		74,000	
Land and buildings at valuation 1 April 2018	(i)	62,000	
Plant and equipment at cost	(ii)	60,000	
Accumulated depreciation 1 April 2018 - plant and equipment	(ii)		20,000
Intangible assets at cost	(iii)	30,000	
Financial assets at fair value 1 April 2018	(iv)	70,000	
Inventory at 31 March 2019	(vii)	18,000	
Trade receivables	(viii)	69,000	
Cash and bank		26,000	
Trade payables			27,500
Other payables and accruals			500
Ordinary shares capital	(x)		120,000
Revaluation reserve	(i)		10,000
Provision for warranty claim	(v)		15,000
7% Debentures	(vi)		40,000
Suspense account	(ii)	11,000	
Retained earnings reserve 1 April 2018			82,000
		687,000	**687,000**

The following notes may be relevant:

(i) Peppercorn applies the revaluation model of MFRS 116 *Property, Plant & Equipment* to its land and buildings. The revaluation surplus reserve relates entirely to previous revaluations of this category of asset. A revaluation took place on 31 March 2018 and resulted in the fair value of RM62 million shown above. This figure included RM22 million in respect of freehold land. The buildings were deemed to have a 40-year useful economic life remaining at that date. No depreciation has yet been charged for the accounting period ended on 31 March 2019. All depreciation is charged to cost of sales.

On 31 March 2019, a further revaluation took place which revealed a fair value of RM24 million for the freehold land, and RM41 million for the buildings. This is to be recorded in the books in accordance with the accounting policy of Peppercorn.

(ii) Plant & equipment is being depreciated at 25% per annum straight line from the date of purchase to the date of sale. On 1 October 2018, a piece of plant was purchased at a cost of RM12 million. This replaced another piece of plant which had cost RM8 million some years ago and was fully depreciated prior to 31 March 2018. A trade-in allowance of RM1 million was received for the old plant. The only entries made to record this transaction were to credit bank and debit suspense with the net payment of RM11 million. No other item of plant was more than three years old at 1 April 2018.

(iii) Intangible assets consist of capitalised development costs of RM30 million. These relate to products in development at 1 April 2014. No revenue has yet been earned from any of these products. They are all expected to be successful once ready for market, with the exception of one project. The amount previously capitalised in respect of this project was RM6 million. However, adverse developments have led to the decision to abandon the project as it was unlikely to be successful in the marketplace. During the year further expenditure was incurred on other qualifying projects and was charged to administration expenses. The amounts are as follows:

1)	Prototype development costs	RM3 million
2)	Marketing research to determine the optimal selling strategy	RM1 million
3)	Basic research which may lead to future projects	RM4 million

(iv) The figure for financial assets represents the fair value of equities held at 1 April 2018. As permitted by MFRS 9 *Financial Instruments*, any fair value gains and losses on all these equity investments through “profit and loss”. The fair value of the equity investments at 31 March 2019 was RM63.5 million. No equities were purchased or sold during the year.

(v) Peppercorn maintains a provision for warranty claims expected to arise in the future on goods sold. At the reporting date this provision was carried at RM15 million. It has been agreed that this provision should be increased to RM17.5 million. The increase in the provision for warranty claims should be charged to administration expenses.

(vi) The 7% debentures were issued on 1 April 2018 at par value. There is a premium payable on redemption which has the effect of raising the effective annual finance cost to 8.5%. Coupon interest is payable annually in arrears. No interest has been provided for or paid as at 31 March 2019.

(vii) It has been discovered that inventory totalling RM390,000 had been omitted from the final inventory count in the above trial balance.

(viii) In January 2019, the directors of Peppercorn discovered a fraud. In total, RM700,000 which had been included as receivables in the above trial balance had been stolen by an employee. RM450,000 of this related to the year ended 31 March 2018, the rest to the current year.

(ix) Corporation tax for the year was estimated at RM500,000.

(x) An equity dividend of 2% was proposed before the reporting date and is expected to be approved at the next annual general meeting. No entry has yet been made to reflect this proposal.

Required

Prepare the following in a form suitable for publication to the shareholders of Peppercorn Bhd:

a) Statement of profit or loss and other comprehensive income for Peppercorn Bhd for the year ended 31 March 2019. (17 marks)

b) Statement of changes in equity for Peppercorn Bhd for the year ended 31 March 2019. (9 marks)

c) Statement of financial position of Peppercorn Bhd as at 31 March 2019. (24 marks)

All workings are to be shown clearly.

[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

MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets* sets out the accounting treatment and disclosures for these transactions and events. The standard discusses general principles of recognition, measurement and presentation as well as specific application guidance for certain issues. This guidance aims to assist preparers of financial statements in applying MFRS 137.

Required

a) Discuss the accounting treatment in relation to provisions, contingent liabilities and contingent assets required by MFRS 137. (8 marks)

The following situations have arisen during the preparation of the draft financial statements of Haywood Bhd for year ended 31 July 2019:

Scenario 1

On 1 August 2018, Haywood Bhd acquired a power plant at a cost of RM200 million. Part of the arrangement was that the plant be dismantled and the site restored after its useful economic life of 20 years had passed. The cost of restoration was estimated on 1 August 2018, after discounting to present value, to be RM40 million. This amount reflected an appropriate discount rate of 6%, (75% of this estimate related to the dismantling of the plant, and 25% to the removal of waste fuel). At 31 July 2019, due to regulatory and other obstacles, no power had yet been produced, hence no waste fuel had been generated.

Required

b) Discuss the accounting treatment by showing the journal entries on the 1 August 2018 and subsequent recognition on 31 July 2019. (7 marks)

Scenario 2

During the year ended 31 July 2019, Haywood Bhd decided to close both its coal burning power generating plants in October 2019. This decision has been announced publicly, and a detailed restructuring formal plan prepared. The plan proposes to make 75 employees redundant, retrain 25 other staff to work in the nuclear plant, and sell the coal-fired plants in their current condition. It is anticipated that the redundancy costs will amount to RM7.5 million, and the retraining will cost RM1 million. The coal plants will be disposed of for zero consideration as the new owner will be expected to dismantle the plants and clean up the sites. The carrying amount of these plants is RM12 million at 31 July 2019.

Required

c) Discuss the following accounting treatment by applying MFRS 137 as at 31 July 2019:
   (i) Restructuring plan
   (ii) Redundancy costs, retraining costs and the carrying amount of the plants.

(5 marks)

Scenario 3

Tech Berhad, a subsidiary company of Haywood Bhd sells electronic equipment such as desktop computers, lap tops, note books and net books to its customers. Each of these items has a 3-year warranty that commences from the date of sale. Based on past records, 15% of the company's customers will return with faulty products within the first year of sale. In the financial year 31 July 2019, the company's total sales amounted to RM15 million.

d) Identify whether the provision for faulty product should be made and discuss how accounting treatment of MFRS 137 should be applied in the financial year ended 31 July 2019. (5 marks)

[Total 25 marks]

QUESTION 2

Huckabee Bhd, a hotel operator, acquired a hotel asset on 1 January 2018 at a cost of RM47 million. This cost allocated for each classification of property, plant and equipment (PPE) is as follows:

Classification	**RM'000**	**Useful Economic Life**
Land	12,000	Indefinite
Building	25,000	51 years
Furniture and fittings	10,000	10 years
Total	**47,000**	

A renovation of Huckabee Bhd's property was carried out on 1 January 2018 at a cost of RM12 million. RM5 million of this cost was allocated to the building and RM7 million as additional furniture and fittings. A full year's depreciation was charged for year ended 31 December 2018.

The hotel property was revalued on 31 December 2018 and 2019 respectively. The revaluation was conducted by a professional valuer who produced the following breakdown:

On 31 December 2018:

Classification	**RM'000**	**Useful Economic Life**
Land	16,000	Indefinite
Building	30,380	50 years
Furniture and fittings	16,200	9 years
Total	**62,580**	

On 31 December 2019:

Classification	RM'000
Land	18,000
Building	30,500
Furniture and fittings	12,400
Total	**60,900**

Required

a) Identify **TWO** (2) criterions on how MFRS 116 *Property, Plant and Equipment* are being recognised as an asset. (5 marks)

b) Prepare the journal entries for each classification of property, plant and equipment for the years ended 31 December 2018 and 2019 for the following transactions:
   (i) The revaluation gains or loss
   (ii) Depreciation charge for the year (17 marks)

c) Calculate the amount in each classification of PPE for Revaluation Reserve or Profit or Loss for the financial year ended 31 December 2019. (3 marks)

Huckabee Bhd adopts the revaluation model of MFRS 116 whenever it is permitted to do so. Show workings for all figures calculated. No residual values are expected.

[Total 25 marks]

QUESTION 3

Stauffer Bhd (Stauffer) is a public listed company reporting under Malaysian Financial Reporting Standards. It has asked for your opinion on the accounting treatment of the following items in relation to MFRS 138 *Intangible Assets*:

a) The Stauffer brand has become well known and has developed a lot of customer loyalty since the company was set up eight years ago. Recently, valuation consultants valued the brand for sale purposes at RM14.6 million. Stauffer's directors are delighted and plan to recognise the brand as an intangible asset in the financial statements. They plan to report the gain in the revaluation surplus as they feel that crediting it to profit or loss would be imprudent.

b) On 1 October 2018 the company was awarded one of six licences issued by the government to operate a production facility for five years. A "nominal" sum of RM1 million was paid for the licence, but its fair value is actually RM3 million.

c) The company undertook an expensive, but successful advertising campaign during the year to promote a new product. The campaign cost RM1 million, but the directors believe that the extra sales generated by the campaign will be well in excess of that over its four year expected useful life.

d) Stauffer owns a 30-year patent which it acquired two years ago for RM8 million which is being amortised over its remaining useful life of 16 years from acquisition. The product sold is performing much better than expected. Stauffer's valuation consultants have valued its current market price at RM14 million.

e) On 1 August 2018, Stauffer entered into a contract to acquire the franchise for Healthy Yogurt Ice Cream. Stauffer has to pay RM1 million for the franchise and recipe and can manufacture and sell the yogurt ice cream for five years. Additionally, It has also incurred RM300,000 in advertising and recruiting staff.

f) Stauffer commenced a project to design a more efficient filtering system to be used on air conditioning units. The project began on 1 October 2018. The following are events related to that project in the financial year ended 30 September 2019:

Month	**Costs**
Oct 2018	Paid RM145,000 in salaries of company engineers and consultants who conducted basic tests on existing filters available in the market.
Mar 2019	Spent RM165,000 on developing a new filtering system, including the production of a basic model.
May 2019	Acquired a patent for SPONGEBOK360, a fibrous component, from Zelwe Bhd for RM330,000. The purchase was made to be able to use the fibrous component in designing the filtering system.
June 2019	Spent RM135,000 on revising the filtration process and incorporating SPONGEBOK360 in the filtering system design.
Aug 2019	Developed a prototype of the filtration system and tested it with a variety of air conditioner models. Costs incurred were RM65,000. By end of August, the filtration system has proven successful.
Sept 2019	Invited various manufacturers to the demonstrations of the filtration system. Costs incurred were RM25,000 including RM12,000 for food and beverages for the prospective clients.

Required

Explain how the directors should treat each of the above items in the financial statements for the year ended 30 September 2019.

[Total 25 marks]

END OF QUESTION PAPER