



BERJAYA BUSINESS SCHOOL

FINAL EXAMINATION

Student ID (in Figures) :

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Student ID (in Words) : _____

Course Code & Name : **ACC3123 CORPORATE REPORTING**
 Semester & Year : SEPTEMBER – DECEMBER 2019
 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.

QUESTION 1

Adams Bhd (Adams) was incorporated in Malaysia and was listed on the Main Board of Bursa Malaysia. It has shareholdings in two other companies, Truman Bhd (Truman) and Carter Bhd (Carter). Statements of Financial Position are shown below for all three companies as at 31 July 2019:

Statements of Financial Position as at 31 July 2019				
	Note	Adams Bhd RM'000	Truman Bhd RM'000	Carter Bhd RM'000
Non-current assets:				
Property, plant & equipment	(iii)	500,000	145,000	100,000
Investments	(i) & (ii)	300,000	48,000	-
		800,000	193,000	100,000
Current assets:				
Inventories	(iv)	180,000	51,000	23,000
Trade receivables	(v)	64,000	24,000	13,000
Cash & bank		24,000	13,000	13,000
		268,000	88,000	49,000
Total assets		1,068,000	281,000	149,000
Equity:				
Ordinary share capital		450,000	100,000	60,000
Retained earnings		358,000	65,000	61,000
		808,000	165,000	121,000
Non-current liabilities:				
6% loan notes	(i)	100,000	-	-
Current liabilities:				
Trade payables	(v)	143,000	116,000	28,000
Dividends proposed		17,000	-	-
Total liabilities		260,000	116,000	28,000
Total equity & liabilities		1,068,000	281,000	149,000

The following additional information may be relevant:

- (i) Adams bought 75 million ordinary shares in Truman on 1 August 2017, when the retained earnings of Truman were RM44 million. The consideration was agreed at RM220 million for these shares. RM120 million of this was settled in cash on the date of purchase, the balance being paid by means of a 6% loan note.

This investment has been correctly recorded at cost in the books of Adams, included under the heading "Investments". The loan note interest was paid during the year ended 31 July 2018, but no entry has been made to reflect the interest payable in the current accounting period.

- (ii) Truman bought a 60% holding in the ordinary shares of Carter on 1 August 2018, when the retained earnings balance in Carter's books stood at RM52 million. The consideration consisted of an immediate cash payment of RM48 million. The directors of Adams negotiated the right to appoint 4 directors to Carter's 12-person board as a result of its investment. On the same date, Adams acquired a 20% interest in Carter with a cash consideration of RM80 million.
- (iii) On 1 August 2017, certain property held by Truman had a fair value RM20 million in excess of its carrying value. The buildings component of this property, comprising 75% of the total value, had a useful economic life remaining of 10 years at the date of acquisition.
- (iv) During the financial year ended 31 July 2019, Adams had sold goods to Truman amounting to RM60 million. The purchase price included a mark-up of 20% on cost. Adams's normal mark-up on goods sold is 60%. Of these goods, one-quarter remained in the closing inventory of Truman at the reporting date.
- (v) Recorded in the books of Adams was an intra-group trade payable of RM20 million owed to Truman at year-end. However, the books of Truman showed a balance of RM22 million owed by Adams. The difference was due to a cheque in transit from Adams Bhd to Truman Bhd which was received by Truman Bhd only on 5 August 2019.
- (vi) Goodwill was reviewed for impairment at the reporting date, and a RM3 million impairment loss was considered necessary to the goodwill of Truman.
- (vii) The group accounting policy is to value any Non-Controlling Interests (NCI) at their proportionate share of identifiable net assets at the acquisition date.

All workings may be rounded to the nearest RM'000

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 Adams Bhd and its group of companies as at 31 July 2019 in accordance with the Malaysian Financial Reporting Standards. (46 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

Part A

J&L Bhd granted 200 options on its RM1.00 ordinary shares to each of its 800 employees on 1 January 2017. Each grant is conditional upon the employee being employed by J&L Bhd until 31 December 2019.

J&L Bhd estimated at 1 January 2017 that:

- (i) The fair value of each option was RM4.00 (before adjustment for the possibility of forfeiture).
- (ii) Approximately 50 employees would leave during 2017, 40 during 2018 and 30 during 2019 thereby forfeiting their rights to receive the options. The departures were expected to be evenly spread within each year.

The exercise price of the options was RM1.50 and the market value of a J&L Bhd share on 1 January 2017 was RM3.00. In the event, only 40 employees left during 2017 (and the estimate of total departures was revised down to 95 at 31 December 2017), 20 during 2018 (and the estimate of total departures was revised to 70 at 31 December 2018) and none during 2019, spread evenly during each year.

Required

The directors of J&L Bhd have requested that the scheme is to be accounted for under MFRS 2 *Share based payment*:

- a) Show in a tabular form the amounts that will appear in the statement of financial position and statement of profit and loss of J&L Bhd as at 31 December 2017, 2018 and 2019 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 and for the share issue, assuming all employees entitled to benefit from the scheme exercised their rights and the shares were issued on 31 December 2019. (9 marks)
- c) Comment how your solution would differ had J&L Bhd offered its employees cash based on the share value rather than share options in accordance with MFRS 2. (3 marks)

Part B

On 1 September 2019, J&L Bhd purchased machineries for RM5 million. The supplier has agreed to accept payment for the machineries either in cash or in shares. The supplier can choose either 2.5 million shares of the company to be issued in six months' time or receive a cash payment in three months' time equivalent to the market value of 2 million shares.

The share price of J&L Bhd at 1 September 2019 is RM4.00 per share. It is estimated that the share price will be RM5.50 in three months' time and RM6.00 in six months' time.

Required

- Briefly explain the accounting treatment for MFRS 2 *Share-based Payments* when the counterparty (supplier, employee or consultant) has the right of choice of settlement. (4 marks)
- Determine the initial fair value amount of the equity instrument if the supplier agreed to receive a cash payment six months' time. (3 marks)

[Total 25 marks]

QUESTION 2

The following data applies to the post-employment defined benefit compensation scheme of Bina Puri Bhd (Bina Puri) for the financial year ended 30 June 2017, 2018 and 2019 respectively:

Discount rate	10% (each year)
Present value of obligation at start of 2017	RM1,000,000
Market value of plan assets at start of 2017	RM1,000,000

The following figures are relevant:

	2017 RM'000	2018 RM'000	2019 RM'000
Current service cost	140	150	150
Benefits paid out	120	140	150
Contributions paid by Bina Puri Bhd	110	120	120
Present value of obligation at year end	1,200	1,650	1,700
Fair value of plan assets at year end	1,250	1,450	1,610

Additional information:

- At the end of financial year 2018, a division of the company was sold. As a result of this, a large number of the employees of that division opted to transfer their accumulated pension entitlement to their new employer's plan. Assets with a fair value of RM48,000 were transferred to the other company's plan and the actuary has calculated that the reduction in Bina Puri's defined benefit liability is RM50,000. The year end valuations in the table above were carried out before this transfer was recorded.

- (ii) At the end of financial year 2019, a decision was taken to make a one-off additional payment to former employees currently receiving pensions from the plan. This was announced to the former employees before the year end. This payment was not allowed for in the original terms of the scheme. The actuarial valuation of the obligation in the table above includes the additional costs of RM40,000 relating to this additional payment of past service costs.

Required

In each of the financial year 2017, 2018 and 2019 and in accordance with MFRS 119 *Employee Benefits*:

- a) Calculate the net measurement gain or loss of the defined benefit obligation. (10 marks)
- b) Calculate the net measurement gain or loss of the plan assets. (9 marks)
- c) Prepare the following extract of financial statement:
 - (i) Profit or loss statement
 - (ii) Other comprehensive income statement
 - (iii) Statement of financial position

(6 marks)

[Total 25 marks]

QUESTION 3

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

Sonne Precisions AG	
Statement of Profit or Loss for the year ended 31 December 2019	
	EUR'000
Sales	135,000
Cost of sales	(110,000)
Gross profit	25,000
Expenses	(7,000)
Profit before tax	18,000
Tax	3,000
Profit after tax	21,000
Movement in retained profit:	EUR'000
Retained profit brought forward	10,800
Retained profit for the year	21,000
Dividend	(800)
Retained profit carried forward	31,000

Sonne Precisions AG Statement of Financial Position as at 31 December 2019	
	EUR'000
Assets	
Property, plant and equipment	80,000
Inventory	23,000
Trade and other receivables	23,800
Bank	20,000
	146,800
Equity and liabilities	
Ordinary shares	100,000
Retained profit	31,000
Bank loan	10,000
Trade payables	5,000
Dividend payable	800
	146,800

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

[Total 25 marks]

END OF QUESTION PAPER