Private & Confidential

FACULTY OF BUSINESS

FINAL EXAMINATION

Student ID (in Figures)	:	
Student ID (in Words)	:	

Course Code & Name	:	**ACC2123 FINANCIAL REPORTING 1**
Semester & Year	:	SEPTEMBER – DECEMBER 2021
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 = 9 (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

Fajar Baru Group Bhd (FBGB) is a company involved in the manufacture of confectionery for the retail industry. The following trial balance was extracted from their accounts as at 31 December 2020:

	RM	**RM**
Land and buildings	1,658,000	
Accumulated depreciation - buildings		780,000
Motor Vehicles at cost	420,000	
Accumulated depreciation - motor vehicles		240,000
Plant & Equipment at cost	1,241,200	
Accumulated depreciation - plant & equipment		635,000
Administrative expenses	446,010	
Allowance for doubtful debts		12,860
Bank	365,740	
Others payable		23,000
Selling and distribution expenses	425,160	
Finance costs	35,600	
Intangible assets	60,000	
Inventory at 31 December 2020	346,800	
Equity investments	300,000	
Other income		12,000
Ordinary share capital - issued at RM1.00 each		250,000
Long term loan repayable 2025		300,000
Cost of sales	2,424,370	
Retained earnings at 1 January 2020		1,709,050
Revaluation reserve		30,000
Revenue		3,845,240
Trade payables		326,540
Trade receivables	440,810	
	8,163,690	**8,163,690**

Additional information:

(i) During January 2021, the company received invoices amounting to RM1,600 for administrative expenses relating to 2020.

(ii) Inventory was counted and valued at RM346,800 at 31 December 2020. This figure excluded inventory costing RM24,360 which had left FBGB main manufacturing plant and was being stored in one of its warehouses before being sold on 10 January 2021.

(iii) Land and buildings were last revalued on 1 January 2016, when the freehold land was valued at RM600,000 and the buildings at RM1,058,000. A loss of RM10,000 was charged to profit or loss in respect of the building as a result of previous years' revaluation. This amount is to be charged to other income if there is any revaluation upward.

A further revaluation exercise took place on 31 December 2020, resulting in a value of RM700,000 for the freehold land and RM324,000 for the buildings. The building has a remaining expected useful life of 40 years. Land and buildings are treated as a single asset for the purpose of revaluations. The depreciation for the building is to be charged to cost of sales.

Depreciation of the other property, plant and equipment (PPE) is to be charged as follows:

PPE	**Depreciation Method**	**Depreciation Charges to**
Plant & equipment	12% straight line	Cost of sales
Motor vehicle	20% reducing balance	Selling and distribution

Depreciation for the year is charged in full in the year of sale and none in the year of purchase.

During 2020 FBGB sold plant and equipment for RM30,000. This plant and equipment had cost RM120,000 in 2014. The disposal of the plant & equipment has not been recorded as at 31 December 2020. Any gains or loss is to be charged to cost of sales.

(iv) The intangible assets on the trial balance comprise several brands of a product made in-house, some of which were launched on the market during the year. These represent RM30,000 of the total balance. FBGB wishes to amortise these over 10 years on a straight-line basis, applying a full year's charge in the current year.

Further development costs of RM100,000 are included in administration expenses. These meet the criteria for capitalisation as an intangible asset. Amortisation is to be charged to cost of sales. No amortisation should be charged except for the RM30,000.

(v) A customer of FBGB, has finally repaid a bad debt of RM6,000 which had previously been written off. This amount was received in December 2020 and to be charged as other income.

(vi) In March 2020, the directors of FBGB discovered a fraud. In total, RM170,000 which had been included as trade receivables in the above trial balance had been stolen by an employee. RM120,000 of this related to the year ended 31 December 2019, the rest to the current year.

The current year's loss of fraud should be charged to selling and distribution expenses. Then, the allowance for doubtful debts should be set at 6% of the balance of trade receivables. The amount of increase or decrease in doubtful debts is to be charged to selling and distribution expenses.

(vii) FBGB took out an additional long-term loan of RM300,000 on 1 July 2020. The loan is subject to an annual interest rate of 4%. FBGB paid the interest accruing on the loan on 2 January 2021.

(viii) The equity investment had a fair value of RM310,000 at 31 December 2020, which has not yet been incorporated into the financial statements. FBGB has made an irrevocable election to take all fair value gains and losses on equity investments to other income as permitted by MFRS 9 *Financial Instruments*.

(ix) The corporation tax charge for the year has been estimated at RM15,000. Ignore the taxation effects of any adjustments you make.

All workings are to be shown clearly.
All amounts are to be rounded to the nearest Ringgit

Required

a) Prepare the statement of profit or loss and other comprehensive income for Fajar Baru Group Bhd for the year ended 31 December 2020. (20 marks)

b) Prepare the statement of changes in equity for Fajar Baru Group Bhd for the year ended 31 December 2020. (22 marks)

c) Prepare the statement of financial position of Fajar Baru Group Bhd as at 31 December 2020.
(8 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

The financial year period for Prime Bhd (PB) is on 31 December.

PB owns 2 parcels of freehold lands in Selangor. The land in Kuala Selangor (KS) was purchased on 1 January 2019 at a cost of RM10 million while the land in Seri Rawang (SR) was purchased at a cost of RM12 million. Both assets are classified as property, plant and equipment (PPE) in accordance with MFRS 116.

The board of directors of PB has unanimously agreed that the accounting policy is to use revaluation method in order to reflect the fair value of the PPE in the statement of financial position.

The lands are revalued at the end of 31 December as follows:

Financial Year	Land – KS (RM' million)	Land – SR (RM' million)
2019	7	16
2020	15	10

Required

a) Prepare the journal entries to record the revaluation of the lands for the financial year ended 2019 and 2020. (10 marks)

PB has an opening inventory on 1 January 2020 valued at RM4,000,000. This amount included inventory Alpha items which were carried at its net realisable value of RM400,000. The original cost of these items was RM800,000.

During the current year ended 31 December 2020, the sale revenue was RM20,000,000 and the following costs are incurred in relation to the purchases of inventories for the year 2020:

	RM
Purchases of inventories	10,000,000
Transportation and freight charges	200,000
Freight insurance	50,000
Import taxes	150,000
Administrative expenses incurred for processing the purchase order	12,000

At year end, a physical inventory count was carried out and it was valued at RM6,000,000. Included in the closing inventory, the following were valued at cost:

Item	At cost (RM)	At Net realisable value (RM)
Beta	2,000,000	1,200,000
Gamma	500,000	800,000

In addition, inventory Alpha items which were brought forward from the prior year remained unsold at year end. There was an increase in demand for these items and it was estimated that they could be sold for RM1,000,000.

Required

b) Calculate the costs of sales and gross profit that should be recognised in the statement of comprehensive income of PB for the year ended 31 December 2020. (12 marks)

c) Comment on effect of the inventory systems under FIFO, LIFO and weighted average cost in the period of rising price on profit, cost of sales and closing inventory. (3 marks)

[Total 25 marks]

QUESTION 2

MFRS 138 *Intangible Assets* sets out the principles of accounting for the recognition and measurement of intangible assets. The standard differentiates between intangible assets acquired individually, those acquired as part of a business combination, and those which are internally generated. MFRS 138 relies on the concept of fair value to measure intangibles, but the strength of the fair value test varies depending on the objective.

Required

a) Discuss the criteria of MFRS 138 *Intangible Assets* for initial recognition and subsequent expenditure. (3 marks)

b) Discuss the requirements of MFRS 138 *Intangible Assets* with respect to the initial recognition of intangible assets acquired:
   (i) Separate acquisition for cash
   (ii) as part of a business combination
   (iii) internally generated (3 marks)

c) In accordance with MFRS 138, all research expenditures are to be expensed off as is incurred. List any **THREE** (3) criteria for development expenditures to be recognised as intangible assets in the statement of financial position. (3 marks)

Homez Corporation Bhd (HCB) has entered into the following transactions during the financial year ended 31 March 2021. The company seeks to maximise the reported value of its following assets wherever possible:

(i) On 1 April 2020, HCB acquired, from a bankrupt competitor, a licence to provide radio broadcast services to a region within Malaysia. This licence would have been originally issued by the government for a ten-year period at zero cost, but has a market value due to its exclusivity. The cost of the licence to HCB was RM3.3 million, and the remaining useful economic life was 6 years.

(ii) On 1 April 2020, HCB commenced work on developing a new technology to enhance the quality of the radio broadcasts. It purchased a number of patents at a cost of RM2 million with expected useful economic life of 10 years. HCB spent RM6 million developing the technology. The directors of HCB were confident throughout the development process that the technology had massive potential to generate future economic benefit. On 31 March 2021, this opinion was validated when a rival broadcaster offered HCB RM15 million for its partially developed technology project. The useful economic life is expected to be 10 years.

(iii) HCB further spent another RM1 million researching the international market for the technology in advance of its launch. HCB wishes to capitalise all these expenditures as an intangible assets.

(iv) As a result of HCB's growing reputation in the broadcasting industry, the directors commissioned a consulting firm to promote the brand name and develop marketing strategies to increase radio listenership. HCB wishes to include the brand in its financial statements for year ended 31 March 2021 at its estimated costs of RM20 million.

(v) HCB has a portfolio of patents it developed over the past few years. These represent technologies and processes used in the company's business to generate economic benefits. The total carrying value of these patents was RM2.8 million at 1 April 2020. They originally had a 15-year useful economic life, but on average seven years remain to their expiry date. The directors propose, at 31 March 2021, to revalue this portfolio to its estimated fair value of RM5 million.

Required

d) In each of the above transactions, prepare the journal entries for year ended 31 March 2021.

(16 marks)

[Total 25 marks]

QUESTION 3

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 recognition 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 Howarth Bhd (Howarth) for year ended 31 July 2020:

(i) On 1 August 2019, Howarth acquired an electricity 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 2019, 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% for contingent expenses that probably will be incurred). At 31 July 2020, Howarth reviewed the provisions of each reporting period and if necessary adjust to reflect the current best estimate.

It is anticipated that the 25% allocated for contingent expenses are highly probable that it will not be incurred and hence, Howarth decided to reverse the provision amount.

Required

b) Prepare the journal entries to record the above transactions including the acquisition, depreciation, provisions and the interest charges as at 31 July 2020 applying MFRS 137 and other relevant standards. (10 marks)

(ii) During the year ended 31 July 2020, Howarth decided to close both its coal burning power generating plants in December 2020. This decision has been announced publicly, and a detailed 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 value of these plants is RM12 million at 31 July 2020.

Required

c) Company restructuring often incurred direct expenditures arising from the restructuring. Discuss the **TWO** (2) constructive obligations arises when an entity has an obligation to provide such provisions of the direct expenditures. (2 marks)

d) Prepare the journal entry to record the redundancy costs as at 31 July 2020, applying MFRS 137.

(2 marks)

e) Discuss the accounting treatment for retraining costs whether it should be recognised as a provision. Justify your reason. (3 marks)

[Total 25 marks]

END OF QUESTION PAPER