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 2022
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

Usaha Holdings Bhd (UHB) is a company involved in the manufacture of semiconductor chips equipment for the electronic industry. The following trial balance was extracted from its books as at 31 December 2021:

	RM	**RM**
Land & buildings	1,500,000	
Motor vehicle	68,000	
Plant & equipment	214,900	
Accumulated depreciation – Buildings		250,000
Accumulated depreciation – motor vehicle		24,560
Accumulated depreciation – plant & equipment		145,784
Intangible assets	200,000	
Accumulated amortisation of intangible assets		40,000
Trade receivables /trade payable	324,700	246,807
Investments - 6%	100,000	
Selling & distribution costs	265,874	
Ordinary share capital		150,000
Other payable		1,200
Revenue		1,687,542
Cost of sales	887,075	
Closing stock	89,120	
Revaluation reserve		10,520
Investment income		4,800
Bank		2,413
Administrative expenses	325,167	
Interest expenses	720	
Retained earnings at 1 Jan 2021		1,274,722
Allowance for bad debts		12,458
Long term loan		124,750
	3,975,556	**3,975,556**

Additional information:

(i) Land and buildings were last revalued on 1 January 2016, when the freehold land was valued at RM1.0 million and the buildings at RM500,000. A loss of RM2,000 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 2021, resulting in a value of RM1.2 million for the freehold land and RM250,000 for the buildings. The building has a remaining expected useful life of 25 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	10% straight line	Cost of sales
Motor vehicle	25% reducing balance	Selling and distribution

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

During 2021 UHB sold plant and equipment for RM2,000. This plant and equipment had cost RM15,000 in 2015. The disposal of the plant & equipment has not been recorded as at 31 December 2021. Any gains or loss is to be charged to cost of sales.

(ii) The intangible asset has a finite useful life and was reviewed on 1 January 2021. from the review, it was identified that the intangible asset's useful economic life is now 10 years from the date of the review. The amortization charges are to be charged to administrative expenses.

(iii) UHB sells goods with a warranty covering the cost of repairs of any defects that are discovered within the first two months after purchase. Past experience suggests the following:

Stages of Defect	**% of defect in Product Sold**	**Cost of repairs (RM)**
No defects	85%	Nil
Minor defects	10%	40,000
Major defects	5%	180,000

Provision for the warranty costs will be charged to administrative expense.

(iv) Inventory was counted and valued at 31 December 2021 at RM89,120. It was realised that the following errors were found relating to the inventory:

- The closing stock of RM12,500 has been omitted
- The opening stock of RM10,000 was overstated

(v) In March 2021, the directors of UHB discovered a fraud by one of the employees who had embezzled a total amount of RM20,000 received from accounts receivable but not recorded in the book. RM15,000 of the amount is related to the year ended 31 December 2020 and the remaining balance 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 is to be set at 2% of the balance of trade receivables. The amount of increase or decrease in doubtful debts is to be charged to selling and distribution expenses.

(vi) UHB took out an additional long-term loan of RM124,750 on 3 July 2021. The loan is subject to an annual interest rate of 4%. UHB paid the interest accruing on the loan on 2 January 2022. The accrued amount is to be charged to finance costs.

(vii) The balance of the interest that was due on the investments was received in 2022. Investment amount is to be classified under non-current assets.

(viii) Corporation tax charge for 2021 is estimated at RM12,200. Ignore the taxation effects of any adjustment.
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 the year ended 31 December 2021. (21 marks)

b) Prepare the statement of changes in equity for the year ended 31 December 2021. (8 marks)

c) Prepare the statement of financial position as at 31 December 2021. (21 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

Mr. Toby Jordan, the managing director of TJ Sdn Bhd (TJSB) has a number of specific queries in relation to Inventory and has asked the accountant for advice in relation to MFRS 102 *Inventories*. As part of its overall inventory, TJSB has three items of inventories whose costs and net realisable value (NRV) are as follows:

Item	Cost (RM'000)	NRV (RM'000)
Alpha	72	80
Beta	56	48
Omega	92	96
	220	**224**

Required

a) Calculate the closing value of each item of inventory and hence the total value of closing inventory for these items for TJSB at the year-end. (4 marks)

b) Provides **THREE** (3) examples of costs which are specifically excluded from the costs of inventories and instead are recognised as expenses in the period in which they are incurred. (6 marks)

c) Briefly discusses **THREE** (3) situations in which NRV is likely to be less than cost. (6 marks)

TJSB's closing inventory at 31 December 2021 is RM347,841. This includes RM4,640 for items accidentally destroyed on 31 December 2021 after the count was completed. Also included is RM2,980 which relates to the cost of inventory damaged in October 2021, which can be reworked at a cost of RM680 and which can then be sold for RM2,410.

d) Calculate the closing value of inventory at the year-end. (4 marks)

Part B

TJSB had a property with a carrying amount of RM640,000 as at 1 January 2020 and with a remaining life of 8 years. The property was revalued to RM580,000 as at 31 December 2020. Then as at 31 December 2021, the property was again revalued to RM447,000.

Required

e) Prepare the journal entries to record the revaluation gains or loss for 2020 and 2021 respectively. (5 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.

Required

a) Discuss the recognition the criteria of MFRS 138 *Intangible Assets* for initial recognition and subsequent expenditure. (5 marks)

Rahim & Razak Berhad (RRB) has entered into the following transactions during the financial year ended 31 December 2021:

1) In 2020, RRB spent RM80,000 on research into a product which it hopes will be further developed in 2021 with a view to starting production of the product in 2022.
2) On 1 January 2020 RRB acquired the exclusive distribution rights for a unique bakery equipment. The cost of the rights to RRB was RM2.1 million and the term of the deal was 3 years.
3) On 1 January 2020, RRB purchased and paid for a brand name for a specific bakery ingredient costing RM300,000. At 31 December 2020, an independent brand specialist has valued the brand at RM400,000.
4) In 2020, RRB spent RM250,000 to engage a brand consultant on advertising a new piece of bakery equipment. This proved to be a very good idea and, as a result, the management of RRB believed that the company has grown as a result and the amount spent on advertising should be capitalised.

Required

b) In each of the scenarios (1) to (4) above:
   (i) Justify whether the expenditures could be recognised under MFRS 138. (10 marks)
   (ii) Prepare the journal entries including the initial measurements and amortisation if any for year ended 31 December 2021. (10 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 disclosures 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. (6 marks)

b) In the following circumstances, indicate whether a provision should be recognised:

(i) On 13 December 2021 the board of an entity decided to close down a division. The accounting date of the company is 31 December 2021. Before 31 December 2021 the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

(ii) The board agreed a detailed closure plan on 20 December 2021 and details were given to customers and employees.

(iii) A company is obliged to incur clean-up costs for environmental damage (that has already been caused).

(iv) A company intends to carry out future expenditure to operate in a particular way in the future.

(v) A company intends to provide training costs to re-train its staff.

(1 mark each = 5 marks)

c) During 2020 Smack Corporation Bhd gives a guarantee of certain borrowings of Pony Bhd whose financial condition at that time is sound. During 2021, the financial condition of Pony Bhd deteriorates and at 30 June 2021. Pony Bhd files for protection from its creditors.

Required

Discuss the accounting treatments in respect of the financial year ending 2020 and 2021 respectively. Justify whether a provision should be recognised or contingent liabilities should be disclosed. (7 marks)

d) On 1 January 2021, Digital Bhd (DB) is given the right to operate telecommunication network facilities for 10 years. After the end of year 10, DB is required to decommissioning the facilities. The following are the breakdown of the costs:

	RM'000
Installation costs	420,000
Decommissioning costs	50,000

The current borrowing cost is 8% per annum and the present value of the discount factor is 0.4632.

Required

Prepare the journal entries for the capitalisation costs of the telecommunication network facilities including the provision for decommissioning and the unwinding of finance costs for first year.

(7 marks)

[Total 25 marks]

END OF QUESTION PAPER