



**FACULTY OF BUSINESS**

**FINAL EXAMINATION**

Student ID (in Figures) : 

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Student ID (in Words) : \_\_\_\_\_  
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Course Code & Name : **ACC2123 FINANCIAL REPORTING 1**  
Semester & Year : SEPTEMBER – DECEMBER 2023  
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.

**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**

Menang Group Bhd (MGB) is a company involved in the manufacture of steel products for the building industry. The following trial balance was extracted from their books as at 31 December 2022:

	<b>Dr (RM)</b>	<b>Cr (RM)</b>
Administrative expenses	254,874	
Land and buildings	2,584,200	
Accumulated depreciation – buildings		194,200
Motor vehicles, at cost	254,800	
Accumulated depreciation – motor vehicle		98,480
Plant and equipment, at cost	854,200	
Accumulated depreciation – plant & equipment		458,410
Intangible assets	80,000	
Accumulated amortisation –intangible assets		16,000
Provisions		14,500
Finance costs	24,581	
Allowance for doubtful debts		6,821
Revaluation reserve		40,000
Inventory at 31 December 2022	199,650	
Revenue		2,985,412
Investments	500,000	
Bank		69,632
Retained earnings at 1 January 2022		2,027,032
Long term loan repayable 2025		300,000
Issued share capital - RM1.00 shares each		770,000
Cost of sales	1,865,221	
Income tax expenses	28,450	
Other income		12,500
Trade payables		154,581
Other payable		25,100
Selling and distribution costs	345,872	
Other receivable	12,300	
Trade receivables	168,520	
	<b>7,172,668</b>	<b>7,172,668</b>

Additional information:

- (i) Inventory was counted and valued at 31 December 2022 at RM199,650. This figure included inventory of RM6,820 which was damaged and will have to be scrapped. The scrappage company will pay MGB of RM3,250 for the inventory on condition that MGB deliver it to them. This delivery charge will cost MGB of RM440.
- (ii) Land and buildings were last revalued on 1 January 2020 when the freehold land was valued at RM2,000,000 and the buildings at RM584,200. A loss of RM5,000 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 2022, resulting in a value of RM2,500,000 for the freehold land and RM500,000 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:

<b>PPE</b>	<b>Depreciation Method</b>	<b>Depreciation Charges to</b>
Plant & equipment	12% 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 2022 MGB sold plant and equipment for RM40,600. This plant and equipment had cost RM220,000 in 2016. The disposal of the plant & equipment has not been recorded as at 31 December 2022. Any gains or loss is to be charged to cost of sales.

- (iii) During 2022, MGB spent RM10,000 on developing a brand of a product made in-house and the amount was wrongly capitalised to intangible assets. The intangible assets' finite useful life was reviewed to 10 years on 1 January 2022. The brand amount which was wrongly capitalised as intangible assets and amortisation charges are to be charged to administrative expenses.
- (iv) MGB maintained a provisions for legal fees which was carried at RM14,500 at the reporting date. However, it is expected one of the customers of MGB was not satisfied with the goods sent to them and have initiated a legal case against MGB looking for damages of RM40,000 as well as legal fees of RM10,000. MGB intends to vigorously dispute the case, in spite of receiving legal advice from its legal team advising that there is an 80% chance of losing the case.

- (v) In March 2022, the directors of MGB discovered a fraud by one of the employees who had embezzled a total amount of RM20,000 received from trade receivable but not recorded in the book. The investigation revealed the following breakdown:

<b>Financial year</b>	<b>RM</b>
2021	15,000
2022	5,000
<b>Total</b>	<b>20,000</b>

A customer of MGB was declared bankrupt in December 2022 and MGB wrote off the amount owing to them of RM6,900 as a bad debt. The allowance for doubtful debts is to be set at 5% of the balance of trade receivables. The current year's loss of fraud, bad debts and increase or decrease should be charged to selling and distribution expenses.

- (vi) The investments carried 5% per annum investment income. In January 2023, the company received the balance of the investment income earned for the previous year.

The investment had a fair value of RM512,000 at 31 December 2022, which has not yet been incorporated into the financial statements. MGB has made an irrevocable election to take all fair value gains and losses on equity investments to profit or loss under other income as permitted by MFRS 9 *Financial Instruments*.

- (vii) MGB took out a long-term loan of RM300,000 on 1 July 2022. The loan is subject to an annual interest rate of 4%. MGB paid the interest accruing on the loan on 2 January 2023.

**Required**

Prepare the following financial statements of Menang Group Bhd for the year ended 31 December 2022:

- a) Statement of profit or loss and other comprehensive income (20 marks)
  - b) Statement of changes in equity (10 marks)
  - c) Statement of financial position (20 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**

Meta Diversified Bhd (MDB) is a manufacturing multinational company. On 1 July 2022, MDB acquired a piece of land in Klang for its administrative building. The cost of the land is RM10 million and the administrative building will be constructed immediately once the land is ready and is expected to complete on June 2024.

The detailed costs of the construction costs of the administrative building are as follows:

	<b>RM</b>
Demolition of old structure	200,000
Legal fee and stamp duty on land	40,000
Architect's fees	400,000
Engineering and technical costs	100,000
Building materials	2,500,000
Annual general administrative expenses	120,000
Contractor's costs	2,000,000
Direct labour on construction	3,000,000
Payment for obtaining certificate of completion and compliance of the building	60,000

Additional information:

- (i) Included in the contractor's costs, a sum of RM200,000 was paid to rectify a faulty installation of the building electrical system.
- (ii) Of the direct labour used, RM350,000 is attributable to the cost of inefficiencies caused by a labour strike.
- (iii) MDB managed to sell scrapped material of RM40,000 from the demolished old structure.

**Required**

- a) Calculate the total amount that should be capitalised as land and building in accordance with MFRS 116 *Property, Plant and Equipment*. (6 marks)
- b) Define the term property, plant and equipment in accordance with paragraph 6 of MFRS 116 *Property, Plant and Equipment*. (4 marks)
- c) Explain what is a direct attributable cost incurred under paragraph 16 of MFRS 116. Provide **TWO (2)** examples of the direct attributable costs. (4 marks)

MDB acquired plant and equipment and a shop building at Cheras costing RM800,000 and RM1,000,000 respectively on 1 January 2018.

On 1 July 2022, the plant and equipment were sold for RM730,000. The plant and equipment is depreciated at the rate of 10% per annum on a straight line basis. Full year depreciation is calculated in the year of purchase but none in the year of disposal.

On 31 December 2022, MDB engaged a professional valuer and the shop building was revalued to RM850,000. The remaining expected useful life of the shop lot is 80 years. As at 31 December 2022, the book of MDB has an opening balance of RM52,000 for revaluation reserve.

MDB has adopted a revaluation policy for the shop building from this valuation date and has decided that the original useful life of building has not changed as a result of the revaluation.

**Required**

- d) Calculate the gain or loss arising from the disposal of the plant and equipment. (3 marks)
- e) Calculate the revaluation gains or losses of the shop building on 31 December 2022. (3 marks)
- f) Prepare the journal entries necessary to record the transactions of the shop building including the elimination of accumulated depreciation and the revaluation gains or losses. (5 marks)

**[Total 25 marks]**

**QUESTION 2**

**SECTION A**

Suncity Corporation Bhd has carried out its stock take at the end of its financial year. Included in its inventories are the following items:

- (i) A table that cost the company RM1,250. This type of table usually sells for RM1,895 but it was damaged in a flood and will therefore be sold at a significant discount. It is expected to sell for RM450.
- (ii) A wardrobe that cost the company RM720 and normally sells for RM995. The wardrobe has been damaged and will cost approximately RM120 to repair at which point it can be sold for RM750.
- (iii) A dresser that was made to a customer's own specifications and cost the company RM1,832 to make. Unfortunately, the customer went bankrupt and could not purchase the item. Due to the unusual design the dresser was not easy to sell. After the year end however, the company sold the dresser for RM2,250 but incurred commission costs on the sale of RM105 and delivery costs of RM158.

**Required**

- a) Determine the value that each of the above items will be included in the company's year-end inventory in accordance with MFRS 2 *Inventories*. (6 marks)

b) Provide **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. (3 marks)

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

**(Subtotal Section A: 12 marks)**

## **SECTION B**

Amanah Holdings Bhd (AHB) is a company involved in manufacturing of chocolates and snacks. The following events occurred during the financial year ended 31 December 2022:

### **Required**

For each of the events below, justify whether provisions should be recognised in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*:

d) AHB is currently expanding its business globally into foreign markets. In July 2022, the factory operations in the foreign country have seriously polluted the environment and the probable clean-up costs has been estimated at RM8,500,000. Though there is no environmental law in the foreign country, the company still claims to be a socially and environmentally responsible corporate citizen. (4 marks)

e) AHB's board of directors decided to restructure its company in one year's time due to adverse economic condition. The restructuring involves closing its branches in Rawang and Hulu Langat. Due to this, 20% of the staff will be made redundant. AHB has not come up with the decision as to which employees will be affected, hence, the board of directors decided not to make any official announcement. (5 marks)

f) One of the cocoa suppliers, Killy Cocoa Bhd (KCB) had adverse publicity due to the issue of cleanliness of its factory. Therefore, on 1 September 2022, AHB decided to terminate the contract with KCB. The contract will expire in 8 months' time. According to the contract, the cost to fulfill the contract is RM80,000 per month. It is also stipulated in the contract that KCB can accept a compensation of RM150,000 if the contract is terminated more than 6 months before it expires. (4 marks)

**(Subtotal Section B: 13 marks)**

**[Total 25 marks]**

### QUESTION 3

#### Section A

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 for initial recognition and subsequent expenditure. (4 marks)
  
- b) Discuss the requirements of MFRS 138 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)

**(Subtotal Section A: 10 marks)**

#### Section B

1. Auro Research Bhd (ARB) is an established and well-known company in the knowledge creation sector. In 2021, it agreed with Solar Manufacturing Bhd (SMB) to conduct research and development in order to produce cheaper construction materials. ARB spent the whole of 2021 conducting research to create knowledge to produce the material. By 2022, it started developing the prototype of the material. Costs incurred in 2021 and 2022 were RM500,000 and RM1,200,000 respectively.
  
2. In January 2023, SMB unexpectedly withdrew from the agreement. ARB sued SMB for damages estimate the recoverable amount of the development costs at RM1.1 million. However, in July 2023, ARB managed to sell the development costs to Zheng He Construction Berhad at RM1.5 million.

#### Required

- d) In each of the above transactions, prepare the journal entries for 2021 to 2023 in the books of Auro Research Bhd including the impairment loss and disposal gain or loss. (9 marks)

**(Subtotal Section B: 9 marks)**



### Section C

Apache Holdings Bhd (AHB) has a year end of 31 December and operates a factory which makes computer chips for mobile phones.

It purchased a machine on 1 July 2020 for RM80,000 which had a useful life of ten years and is depreciated on the straight-line basis. Full year depreciation is calculated in the year of purchase but none in the year of disposal.

A fire at the factory on 1 October 2023 damaged the machine leaving it with a lower operating capacity. The accountant considers that AHB will need to recognise an impairment loss in relation to this damage.

The accountant has ascertained the following information at 1 October 2023:

- The machine could be sold in its current condition for a gross amount of RM45,000. Dismantling costs would amount to RM2,000.
- In its current condition, the machine could operate for three more years which gives it a value in use figure of RM38,685.

#### **Required**

- e) Calculate the recoverable amount of the non-current asset as at 31 December 2023 in accordance with MFRS136 *Impairment of Assets*. (2 marks)
- f) Calculate the impairment loss that would be charged to profit or loss as at 31 December 2023. (4 marks)

**(Subtotal Section C: 6 marks)**

**[Total 25 marks]**

**END OF QUESTION PAPER**