Malaysian Institute of Accountants
(Established under the Accountants Act 1967)
Institut Akauntan Malaysia
(Diperbadankan di bawah Akta Akauntan 1967)

QUALIFYING EXAMINATION

Advanced Financial Accounting and Reporting

Date	:	18 March 2020
Time	:	2.15 pm – 5.30 pm
Reading and Planning	:	15 minutes
Writing	:	3 hours

INSTRUCTIONS TO CANDIDATES:

This question paper contains 4 questions on 9 printed pages.

Answer ALL questions.

Answer Questions 1 and 2 in separate booklet(s) from Questions 3 and 4.

Do not open this paper until instructed by the invigilator.

During reading and planning time only the question paper may be annotated. You must **NOT** write in your answer booklet until instructed by the invigilator.

UNIVERSITI TEKNOLOGI MARA
Examination Body

Paper: Advanced Financial Accounting and Reporting

QUESTION 1

The Statements of Financial Position of Honshu Bhd and its related companies as at 31 December 2019 are as follows:

	Honshu Bhd RM million	**Shikoku Bhd RM million**	**Kyushu Bhd RM mIllion**	**Hokkaido Bhd RM mIllion**
Property, Plant and Equipment	30.0	26.3	80.0	44.0
Investment in:				
Shikoku Bhd	67.6	-	-	-
Kyushu Bhd	9.1	63.7	-	-
Hokkaido Bhd	12.0	-	-	-
Other investments	14.0	12.0	5.0	1.0
Intangibles	2.0	-	6.0	-
Inventories	21.0	7.5	10.0	4.1
Trade receivables	10.5	8.0	7.0	1.5
Bills receivables	0.5	2.1	-	-
Current Account - Kyushu Bhd	-	2.4	-	-
Bank	2.5	2.5	3.0	4.2
	169.2	**124.5**	**111.0**	**54.8**
Ordinary share capital	125.0	80.0	70.0	40.0
Retained earnings as at 1 January 2019	14.0	13.0	15.0	12.0
Retained earnings for the year	8.0	6.8	6.4	1.6
Other reserves	1.6	0.3	0.7	-
Bank borrowings	14	15.0	13.0	-
Trade payable	4.6	7.7	3.9	1.2
Bills payable	2.0	1.7	-	-
Current Account - Shikoku Bhd	-	-	2.0	-
	169.2	**124.5**	**111.0**	**54.8**

Additional information:

1. Honshu Bhd acquired 60% of the existing ordinary shares of Shikoku Bhd on 1 January 2018 when the retained earnings and other reserves of Shikoku Bhd stood at RM12 million and RM0.3 million respectively. The consideration transferred were shares and cash of RM10 million. On the acquisition date, a plant of Shikoku Bhd was revalued from RM15 million to RM13 million. The plant has 10 years of remaining useful life. The revaluation is not recorded in the books of Shikoku Bhd.

2. On 1 January 2019, Honshu Bhd and Shikoku Bhd acquired 7 million and 49 million of the existing ordinary shares of Kyushu Bhd respectively. Honshu Bhd paid cash for this acquisition. On the other hand, the existing shareholders of Kyushu Bhd agreed to accept shares of Shikoku Bhd as the mode of payment.

3. On 1 April 2019, Honshu Bhd acquired 25% of the existing ordinary shares of Hokkaido Bhd for cash. Since then, Honshu Bhd is able to participate in the important decisions of Hokkaido Bhd, including determining the dividend policy.

4. On 1 June 2019, Honshu Bhd sold a piece of land, costing RM8.8 million, to Hokkaido Bhd for RM9.5 million. The land is part of the non-current assets of Hokkaido Bhd as at the year end.

5. On 1 July 2019, Honshu Bhd acquired another 10% of the existing ordinary shares of Shikoku Bhd at RM1.25 per share.

6. Honshu Bhd was able to sell on credit, 30% of its inventories to Shikoku Bhd in December 2019 at a profit of RM0.5 million. Shikoku Bhd managed to sell 20% of the inventories to its customers, all of whom are non-related parties, at 15% margin. Shikoku Bhd has paid RM2 million to Honshu Bhd.

7. All bills payable of Honshu Bhd are in favour of Shikoku Bhd. Shikoku Bhd discounted 50% of it to Fuji Bhd, a non-related party.

8. Differences in current accounts are due to payment in transit.

9. The non-controlling interest is valued using the full goodwill method.

10. Depreciation is calculated on a monthly basis.

11. Profit or loss were deemed to accrue evenly through out for the year 2018 and 2019.

12. Shares were issued or acquired at their current market prices.

13. Ignore deferred tax on fair value adjustment and inter-company sale of assets.

Required:

The consolidated statement of financial position of Honshu Bhd as at 31 December 2019.

(25 marks)

QUESTION 2

A. For the year ending 31 December 2019, Enzima Bhd has the following cases to be considered in relation to MFRS 124 *Related Party Transaction*:

   a. Enzima Bhd sold goods at a margin of 0.5% lower than the market to its subsidiary Vita Bhd.

   b. Enzima Bhd invested in Holistica Bhd where Enzima Bhd has significant influence but not controlling interest. However, there were no transactions between the two entities in 2019.

c. The son of Enzima Bhd's CEO has been the CEO of 20Ever Bhd since 2017. It is a normal practice for senior staff movement between the two entities. In 2019, the board of directors of Enzima Bhd approved the temporary secondment of its CFO to 20Ever Bhd. However, 20Ever Bhd is not a subsidiary of Enzima Bhd.

d. Three of the top management of Enzima Bhd are also the top three management of Solefit Bhd. Enzima Bhd sold goods to Solefits Bhd, on a credit basis at prevailing market terms.

Required:

Discuss how the above cases should be reported (if any) in the financial statements of Enzima Bhd.

(8 marks)

B. a. Jazz Bhd is a wholly-owned subsidiary of Getz Bhd since 2017. The remaining goodwill from the acquisition is RM500,000. Jazz Bhd's income has substantially contributed to the total income of Getz Bhd. The extract statement of financial position of Jazz Bhd as at 31 December 2019 shows the following:

	RM million
Property, plant and equipment	40.00
Intangibles (Note 1)	2.50
Inventories	1.20
Trade receivables	2.00
Cash and cash equivalent	1.70
	47.40

Note 1:

Goodwill	0.7
Patent	1.2
Research and development	0.6
	2.5

In December 2019, an upgrade was done on an air-condition facility at one of the buildings (the building's carrying value, excluding air-condition, is RM10 million) owned by Jazz Bhd. The building is a shopping cum business complex, one of the attractions of the city. The old air-condition was sold as scrap and replaced by a new, more powerful unit. The upgrade required new wiring to be carried out. The works were completed before the year end. The details about the replacement are shown below:

	RM'000
Scrap value of old air-condition	100
New air-condition unit	1,000
Wiring cost	80

In January 2020, a fire at the building damaged part of the top storey of the building. An impairment review was carried out. The damaged building, including fitting of a new air-condition, will be restored to its original condition at a cost of RM2.4 million. Due to the incident, the value of Jazz Bhd was estimated at RM44 million.

Required:

Explain how the impairment loss (if any) should be dealt with in Getz Bhd's group accounts, assuming that Jazz Bhd is the cash generating unit (CGU). Show your calculations.

(10 marks)

b. Healty Triangle Bhd sells three products namely Honey Tea Plus, Gaga Coffee and Lucky Latte. The products are manufactured at the company's plant in Batu Pahat, Johor. The company applies a process costing method. In the first process, 50% of the ingredients, which are common to the three products, are mixed. The mixed ingredients are then transferred to the second process. The second process has three production lines where each respective product's taste ingredients (tea, coffee or latte) is added to the common mixture. A yearly sales budget data is prepared for each product.

Recently, the Health Ministry has temporarily withdrawn approval for Gaga Coffee after a reported health problem linked to the consumption of the coffee surfaced in the mainstream media. Revenues from the other two products are not significantly affected. The company will stop producing Gaga Coffee and start producing another health-related drink, Buzz Isotonic, at the company's other plant. An impairment exercise is expected to be launched in the near future. The related yearly cash flows are shown below:

	Before withdrawal of Gaga Coffee (RM'000)			**After withdrawal of Gaga Coffee (RM'000) - expected cash flows for the next 3 years**		
Product	**Honey Tea**	**Gaga Coffee**	**Lucky Latte**	**Honey Tea**	**Buzz Isotonic**	**Lucky Latte**
Cash inflow	360	520	300	350	120	280
Cash outflow	(100)	(200)	(120)	(100)	(50)	(120)
Net cash inflow	260	320	180	250	70	160

The plant was acquired 12 years ago at a cost of RM10 million. The accumulated depreciation recorded so far is RM8 million. The remaining useful life of the plant is 3 years. The related discounting factors are given here:

Periods (n)	**Interest Rate 5%**
1	0.952
2	0.907
3	0.864
4	0.823
5	0.784

Required:

i. Explain how the impairment loss should be charged.
ii. Compute the impairment loss.

(7 marks)
(Total: 25 marks)

QUESTION 3

Deli Bhd is a public listed company, engaged in the business of milling and selling wheat flour as well as trading in grains and other allied products. The following trial balance was extracted from the company's books as at 31 December 2019.

	Debit RM'000	**Credit RM'000**
Administrative expenses	157,500	
8% Debentures		40,945
Cash and bank balance	331,500	
Cost of sales	421,818	
Deferred development expenditure	120,000	
Deferred tax as at 1 January 2019		7,500
Distribution expenses	133,500	
Dividend income		198,900
Finance expenses	84,000	
Interim dividend paid	27,000	
Inventories	307,500	
Ordinary share capital		675,000
Asset revaluation reserve as at 1 January 2019:		
Land		2,250
Building		1,568
Other operating expenses	6,000	
Property, plant and equipment as at 1 January 2019:		
Freehold land at valuation	904,530	
Building at valuation	700,000	
Plant and machinery at cost	380,000	

	Debit RM'000	Credit RM'000
Accumulated depreciation as at 1 January 2019:		
Building		320,000
Plant and machinery		137,500
Investment in subsidiaries	61,470	
Retained earnings as at 1 January 2019		734,655
Revenue		1,905,000
Tax paid	300,000	
Trade receivables	613,500	
Trade payables		525,000
	4,548,318	**4,548,318**

Additional information:

1. The balance in the asset revaluation reserve is related to the previous year's revaluation of land and building. The remaining useful life of the building as at 1 January 2019 is 25 years. As at 31 December 2019, the land and building were revalued at RM902,200,000 and RM362,500,000 respectively. These revaluations have not been recorded for the year ended 31 December 2019.

2. A new machine costing RM250,000,000 was purchased on 1 January 2019 to replace the old machine costing RM125,000,000 that was purchased on 1 January 2005. The old machine was disposed for RM35,000,000. None of these adjustments have been made in Deli Bhd's books.

   The company's depreciation policy for plant and machinery is straight line method over a useful life of 20 years. All depreciation and amortisation are classified as administrative expenses.

3. The deferred development expenditure includes RM40,000,000 from project F1 with the remaining amount from project F2. Both amounts were capitalised since 1 July 2019 and to be amortised over 10 years. However, due to major technical problems, the directors are of the opinion that it is not feasible to continue with project F1.

4. On 1 November 2019, an employee of Deli Bhd sued the company for damages because of serious injuries sustained as a result of a breach of safety regulations. Deli Bhd's legal representatives opined that due to weak evidences from the plaintiff, the probability that the outcome could be unfavorable to Deli Bhd was low. Hence, as at 31 December 2019, the law suit will be regarded as part of the contingent liabilities.

   However, on 1 February 2020, due to new major findings on the case, the court decided that Deli Bhd was responsible for the damages and the company was obliged to pay the claim of RM25,000,000.

5. The financial statements of Deli Bhd for the year ended 31 December 2019 will be authorised for issue on 31 March 2020.

6. The income tax charge for the year has been estimated at RM308,000,000 which includes a deferred taxation charge of RM8,100,000.

7. The number of issued and paid up ordinary shares of Deli Bhd was 135,000,000 units.

Required:

a. Prepare the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019. (Note on Earnings per Share is required)

(11 marks)

b. Prepare the Statement of Financial Position as at 31 December 2019.

(10 marks)

c. Prepare the note on Property, Plant and Equipment.

(4 marks)
(Total: 25 marks)

QUESTION 4

A. The construction of Aria Bhd's building in Nilai commenced on 1 January 2010 and was completed on 1 January 2012. Since then, the building was occupied as the headquarters of Aria Bhd and has been classified in accordance with MFRS 116 *Property, Plant and Equipment* at an initial cost of RM3,230,000. The building was depreciated over its estimated useful life of 50 years on the cost model basis.

On 1 July 2018, the board of directors agreed to move the headquarters to a new building in Cyberjaya on 1 January 2019. The building in Nilai was immediately rented out to a tenant from 1 January 2019. As at 31 December 2019, the fair value of the building was RM3,120,000.

Aria Bhd acquired a ten-storey building in Alor Setar on 1 July 2019 at a cost of RM1,450,000. The company occupied 20% of the units in the building as their branch office and the remaining units were rented out to various tenants. There is a possibility that the units in the building can be sold separately.

Aria Bhd adopted the fair value model to measure its investment properties.

Required:

i. Discuss the accounting treatment of the building in Nilai in accordance with the relevant Malaysian Financial Reporting Standards as at 1 January 2019 and 31 December 2019.

(6 marks)

ii. Explain the classification of the building in Alor Setar in accordance with the relevant Malaysian Financial Reporting Standards.

(6 marks)

B. The following are the two foreign subsidiaries wholly-owned by Maya Bhd:

1. Jone Pte Ltd, a company located in a country whose currency is ‘JN’, was acquired by Maya Bhd on 1 January 2019. Jone Pte Ltd assembles computer terminals from materials supplied by Maya Bhd. Once assembled, the computer terminals are shipped to Malaysia where Maya Bhd sells them.

2. Milli Pte Ltd, a company whose currency is ‘ML’, manufactures computers using materials supplied by local companies. Milli Pte Ltd sells the computers to local customers. Milli Pte Ltd was also acquired by Maya Bhd on the same date as Jone Pte Ltd.

Required:

i. Explain whether the functional currency of Jone Pte Ltd is the same as Maya Bhd in accordance with MFRS 121*The Effects of Changes in Foreign Exchange Rates.*

(4 marks)

ii. Explain the functional currency of Milli Pte Ltd in accordance with MFRS 121 *The Effects of Changes in Foreign Exchange Rates.*

(4 marks)

iii. Maya Bhd has entered into a transaction with a foreign company, Hani Pte Ltd whose functional currency is ‘HN’. Maya Bhd supplied an equipment to Hani Pte Ltd at a price of HN250,000 on 1 January 2019 and recognized revenue immediately as the equipment was transferred and installed as at that date. Hani Pte Ltd paid 75% of the amount on 1 July 2019 and agreed to pay the remainder by 30 June 2020.

The exchange rate were as follows:

	RM	**HN**
1 January 2019	1	2.5
1 July 2019	1	2
31 December 2019	1	2.4
Average rate	1	2.3

Required:

Discuss the accounting entries for the above foreign exchange transaction in the financial statements of Maya Bhd for the year ended 31 December 2019.

(5 marks)
(Total:25 marks)

END OF QUESTION PAPER