ADVANCED FINANCIAL ACCOUNTING AND REPORTING
SUGGESTED SOLUTIONS
MARCH 2020

QUESTION 1

		Goodwill	NCI	GRE
	RM million	**RM million**	**RM million**	**RM million**
Shikoku Bhd				
CT		57.6		
NCI	32m x (RM57.6/48m)	38.4	38.4	
FVNA (1.1.18)				
OSC	80			
RE	12			
OR	0.3			
ARR	(2)	90.3		
Goodwill		5.7		
Kyushu Bhd				
DCT		9.1		
ICT	63.7x60% 63.7x40%	38.22	(25.48)	
NCI	48%x70mx (RM9.1/7m)	43.68	43.68	
FVNA (1.1.19)				
OSC	70			
RE	15			
OR	0.7	85.7		
Goodwill		5.3		
Hokkaido Bhd				
CT		12		
FVNA (1.4.19)				
OSC	40			
RE	12+1.6x3/12 12.4			
	52.4x25%	13.1		
BP		1.1		1.1
Gain/Loss on 2nd acquisition				
CT	8mxRM1.25	10		
FVNA 1.7.19				
OSC	80			
RE	13+6.8x6/12			
OR	0.3			
ARR	(2)			
	94.7x10%	9.47	(9.47)	
Loss		0.53		
RE Shikoku				

On consol	19.8			
On 1.7.19	(16.4)			
Depreciation adjustment #1 2/10x6/12	0.1			
	3.5		1.05	2.45
On 1.7.19	16.4			
On 1.1.18	(12)			
Depreciation adjustment #1 2/10x18/12	0.3			
	4.7		1.88	2.82
RE Kyushu				
On consol	21.4			
On 1.1.19	(15)			
	6.4			
Jan-June	3.2		1.54	1.66
July-Dec	3.2		1.31	1.89
RE Honshu				
On consol	22			
Share of profit In Hokkaido 25%x1.6x9/12	0.3			
Gain on disposal of land 0.7x25%	(0.18)			
URP inventory 0.5x80%	(0.4)			
	21.72			21.72
To CSOFP		11	52.91	31.64

Consolidated Statement of Financial Position of Honshu Bhd as at 31 December 2019		
		RM million
Property, Plant & Equipment	30+26.3+80-2+0.4	134.7
Investment in Hokkaido Bhd	12+0.3-0.18 (gain)+1.1(BP)	13.22
Other investments	14+12+5	31
Intangibles	2+6+11 (goodwill)	19
Inventories	21+7.5+10-0.4	38.1
Trade receivables	10.5+8+7-7.5 (note 1)	18
Bills receivables	0.5+2.1-1	1.6
Bank	2.5+2.5+3+0.4	8.4
Total		**264.02**
Ordinary shares		125
Group retained earnings		31.64
Non-controlling interest		52.91
Other reserves	1.6-0.53 (loss)	1.07
Bank borrowings	14+15+13	42
Trade payable	4.6+7.7+3.9-7.5	8.7
Bills payable	2+1.7-1	2.7
Total		**264.02**
Note 1		
21/0.7=30x30%=9 9+0.5=9.5 9.5-2=7.5 debt between members		

(25 marks)

QUESTION 2

A. The transaction should be reported in the financial statements in the form of notes to the accounts. Both the sales transaction and the name of the subsidiary should be disclosed.

Since Enzima Bhd has significant influence over Holistica Bhd, Holistica Bhd is an associates company of Enzima Bhd. Enzima Bhd need to disclose that it has an associates company named Holistica Bhd even though the was no transaction between them in 2019.

Movement of senior staff between the two companies is an evidence of significant influence. Thus, 20Ever Bhd is an associates company of Enzima Bhd. Enzima Bhd need to disclose that it has an associates company named 20Ever Bhd and its CFO has been temporarily attached to the associates company.

The fact that the three top management of both companies are the same person does not means that both companies are related. Even though there was a transaction between them, Enzima Bhd is not required by the standard to report anything.

(8 marks)

B. a. The CGU in the case is Jazz Bhd, the subsidiary. The impairment loss was RM47.9 million (47.4m + 0.5m) – RM 44 million =RM3.9 million.

The rules are:

1. Allocate to goodwill
2. Allocate to remaining assets on pro-rata
3. Impairment should not be charges against Inventory, trade receivables and cash as they are not covered under MFRS136.

Therefore, the allocation is:

1. On goodwill;RM0.5 million
2. On building; RM1.4 million (cost to restore the building only, 2.4m-1.0m)
3. On air-condition; RM0.1 million
4. On pro-rata; RM1.9 million

	Impairment allocation RM million	**New value RM million**
Goodwill	0.5	0.5-0.5=nil
Property, plant and equipment (the shopping complex)	1.5 (1.4+0.1)	10-1.5= 8.5
Other Property, plant and equipment	1.9x30/32.5= 1.75 (note 2)	30-1.75=28.25
Intangible	1.9x2.5/32.5=0.15	2.5-0.15=2.35
Inventories, trade receivables and cash	nil	4.90-0=4.9
Total	3.9	44.00

Note 2

	RM million
Other Property, plant & equipment	40-10= 30.00
Intangibles	2.50
Total	32.50

(10 marks)

b. i. The impairment should be charged to the smallest CGU. In this case, the CGU is the plant.

ii. With the withdrawal of Gaga Coffee, the plant will only produce 2 products, Honey Tea and Lucky Latte. The value in use of the plant before the withdrawal is:

Periods (n)	**Interest Rate 5%**	**Cash inflows**	**Present Value cash inflows**
1	0.952	760	723.52
2	0.907	760	689.32
3	0.864	760	656.64
			2,069.48

The value in use of the plant after the withdrawal is:

Periods (n)	Interest Rate 5%	Cash inflows	Present Value cash inflows
1	0.952	410	390.32
2	0.907	410	371.87
3	0.864	410	354.24
			1,116.43

Plant impairment:
Carrying Value: RM2.0 million (10m-8m)
Value in use: RM1.116 million
Impairment: RM0.884 million

(7 marks)
(Total: 25 marks)

QUESTION 3

DELI BHD	
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019	
	RM'000
Sales	1,905,000
(-) Cost of sales	(421,818)
Gross profit	1,483,182
Dividend income	198,900
Revaluation deficit- land	(80)
Revaluation deficit – building	(732)
Litigation claim	(25,000)
Loss on disposal- machine (35,000 – (125,000 -87,500))	(2,500)
Administrative expenses (W1)	(241,950)
Distribution expenses	(133,500)
Finance expenses	(84,000)
Other operating expenses	(6,000)
Profit before tax	1,188,320
Taxation	(308,000)
Profit after tax	880,320
Other comprehensive income	
Deficit on revaluation- land	(2,250)
Deficit on revaluation- building	(1,568)
Total comprehensive income	876,502
Basic EPS (880,320,000 / 135,000,000)	RM6.52

W1

Administrative expenses	RM’000
As per TB	157,500
Depreciation	40,450
Amortization (80,000/10 x 6/12)	4,000
Development expenditure written off	40,000
Total	241,950

DELI BHD	
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019	
	RM’000
Non-current Asset	
Property, plant and equipment (note)	1,694,450
Deferred development expenditure (120,000-40,000-4,000)	76,000
Investment in subsidiaries	61,470
Current asset	
Cash and bank balances (331,500 +35,000-250,000)	116,500
Inventories	307,500
Trade receivables	613,500
Tax recoverable (308,000 – 8,100 – 300,000)	100
Total asset	**2,869,520**
Equities	
Ordinary shares	675,000
Retained earnings (W2)	1,587,975
Non-current liabilities	
8% Debentures	40,945
Deferred tax (7,500+8,100)	15,600
Current liabilities	
Trade payables	525,000
Litigation	25,000
Total equities and liabilities	**2,869,520**

W2

	Retained Earnings	ARR	
		Land	Building
	RM'000	RM'000	RM'000
As per TB	734,655	2,250	1,568
Profit for the year	880,320**of**		
Deficit on revaluation:			
Land		(2,250)	
Building			(1,568)
Interim dividend paid	(27,000)		
Balance c/d	1,587,975	-	-

Notes to PPE				
	Land	**Building**	**Plant & machinery**	**Total**
	RM'000	RM'000	RM'000	RM'000
<u>Cost/Valuation</u>				
Bal b/d	904,530	700,000	380,000	1,984,530
Addition			250,000	250,000
Disposal			(125,000)	(125,000)
Deficit on revaluation	(2,330)	(2,300)		(4,630)
Elimination		(335,200,)		(335,200)
Bal c/d	902,200	362,500	505,000	1,769,700
<u>Accumulated depreciation</u>				
Bal b/d		320,000	137,500	457,500
Disposal			(87,500)	(87,500)
Charge for the year		15,200	25,250	40,450
Elimination		(335,200)		(335,200)
Bal c/d		-	75,250	75,250
Carrying value	**902,200**	**362,500**	**429,750**	**1,694,450**

(25 marks)

QUESTION 4

A. i. The building in Nilai was been transferred from owner-occupied to investment property. In accordance with MFRS140 Investment Property, since the building was carried at cost less accumulated depreciation, the value of the investment property as at 1 January 2019 will be the carrying value of the building which was RM2,777,800 (refer working)., The company adopt fair value model for the investment property, hence the value of the property as at 31 December 2019 was RM3,120,000.

For the financial year ended 31 December 2019, there is an increase of RM342,200(refer workings) that will be recognised as income in the statement of profit or loss.

Workings:

	RM
Cost	3,230,000
Accumulated depreciation (3,230/50 x 7years)	(452,200)
Carrying amount as at 1 January 2019	2,777,800
Fair value at 31 December 2019	3,120,000
Increase in IP	342,200

(6 marks)

ii. 80% of the units in the building in Alor Setar which were rented out can be classified as investment property in accordance with MFRS140: Investment Property. The remaining 20% which was occupied by the owner as branch office have to be classified in accordance with MFRS116 Property, Plant and Equipment. This is because the units of the building can be sold separately. Hence the accounting treatment for the building can be done separately.

(6 marks)

B i. Foreign exchange - Jones

The functional currency of Jone is the same as that of the parent, which is Ringgit Malaysia (RM) . This is because the operations of Jone are carried out as an extension of the parent. Materials are provided by the parent and the products are sold by the parent. Therefore “RM” is the currency that mainly influences material and other costs of providing the goods as well as the sale prices.

(4 marks)

ii. Functional currency - Milli

The functional currency of Milli is its own local currency, which is “ML” . This is because Milli’s operations are independent of those of Maya Bhd. Materials are supplied by local companies and the product is also sold to local customers. Therefore “ML” is the currency that mainly influences material and other costs of providing the goods as well as the sale prices.

(4 marks)

iii. Foreign transactions.

The revenue on the sale of the equipment is to be recognised on 1 January 2019. It will be translated at RM100,000 (250,000/2.5).

When Hani PLC paid 75% of the amount on 1 July 2019, the amount paid is translated at RM93,750 [(75%x250,000)/2] . There was a gain on exchange difference of RM18,750 (93,750-75,000) that is recognised in the profit or loss of the company.

As at year end the remaining amount is retranslated at closing rate which becomes RM26,042 [(25% x250,000)/2.4]. This also gives rise to a gain on exchange difference of RM1,042 (26,042 – 25,000) that is also recognised in the profit or loss.

(5 marks)
(Total: 25 marks)

END OF SOLUTION