



UNIVERSITI KUALA LUMPUR BUSINESS SCHOOL

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FINAL EXAMINATION
JANUARY 2016 SEMESTER

SUBJECT CODE : EAB30703
SUBJECT TITLE : FINANCIAL ACCOUNTING AND REPORTING 4
LEVEL : BACHELOR
TIME / DURATION : 9.00 AM - 12.00 P.M / 3 HOURS
DATE : 23rd MAY 2016

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INSTRUCTIONS TO CANDIDATES

1. Please read the instructions given in the question paper CAREFULLY.
2. This question paper is printed on both sides of the paper.
3. This question paper consists of FIVE (5) questions. Answer ALL questions.
4. Please write your answers on the answer booklet provided.
5. All questions must be answered in English (any other language is not allowed).
6. This question paper must not be removed from the examination hall.

THERE ARE EIGHT (8) PAGES OF QUESTIONS, EXCLUDING THIS PAGE.

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Total: 100 marks

INSTRUCTION: Answer ALL questions.

Please use the answer booklet provided.

Question 1

The following is the preliminary trial balance of Mariann Bhd. at 31 December 2015:

	Debit RM'000	Credit RM'000
Revenue (note i.)		663,300
Cost of sales	374,500	
Administrative expenses	28,650	
Sales and distribution expenses	42,340	
Director's remuneration	970	
Staff benefits expenses	8,640	
Finance expenses (note iii.)	2,940	
Dividend income		4,520
<i>Non-current assets – at cost</i>		
Land	125,860	
Building	235,000	
Plant and machinery	75,400	
Research and development	6,600	
<i>Accumulated depreciation at 1 January 2015 (note vii.)</i>		
Building		17,625
Plant and machinery		10,053
Research and development		3,300
Investments (note iv.)	35,600	
Inventory (note ii.)	11,420	
Trade receivables	10,355	
Bank	7,570	
Trade payables		7,030
Bank overdraft (unsecured)		1,782
Tax paid (note vi.)	34,725	
Ordinary share capital		140,000
9% Redeemable preference shares		22,800
Share premium		60,000

Retained earnings as at 1 January 2015		68,870
Deferred tax liability		1,290
	1,000,570	1,000,570

Additional Information

i. Included in the revenue was an amount of RM270,000 which relates to goods returned from customers on 31 December 2015. These goods which were sold on credit, has been included as part of inventory at 31 December 2015.

ii. Closing inventories which were recognised at costs amounting to RM740,000 was ascertained to be damaged and their net realisable value were RM390,000.

iii. Finance expenses of RM2,940,000 includes

	<u>RM'000</u>
Interest on bank overdraft	19
Lease rentals	2,921
	<u>2,940</u>

The lease rentals were for a plant which was used 30% for administrative purposes and 70% for distribution.

iv. Investments comprise financial assets valued at:

	<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>RM'000</u>	<u>RM'000</u>
Fair value through profit or loss	23,500	20,400
Fair value through other comprehensive income	11,600	12,800
Amortised cost	500	740
	<u>35,600</u>	<u>33,940</u>

There were no purchases or disposals of any of these investments during the year. Fair value shown above is as at 31 December 2015.

v. Dividends on preference shares have not been provided.

vi. The tax paid account is related to the tax paid during the year for the current year. The current year's tax expense was estimated to be RM37.4 million inclusive of an increase to deferred tax liability of RM1.1 million of which RM120,000 was related to financial assets at 'Fair value through other comprehensive income'.

vii. The depreciation for the year has not been made:

	Depreciation method	Estimated useful life (years)
Building	Straight line	40
Plant and machinery	Straight line	10
Research and development	Straight line	6

All depreciation is charged to cost of sales.

viii. Prior to the end of the financial year, Mariann has raised concerned about the financial health of one of its debtors, Walid & Co. The debtor, who owed the company RM540,000 has requested an extension to its credit period for the second time. On 12 February 2016, Walid & Co. was declared a bankrupt and was unable to pay all of its outstanding debt.

Required:

A. Prepare the statement of comprehensive income for the year ended 31 December 2015.

(12 marks)

B. Prepare the statement of financial position as at 31 December 2015.

(Note: Clearly show your workings)

(18 marks)

Total: 30 marks

QUESTION

A. OlaPetola Bhd has acquired a plant under a lease on the following terms:

- i. Payment of RM275,000 is to be made every year in arrears.
- ii. First payment is to be made on 31 December 2013.
- iii. The lease provides for a total of four instalment payments.
- iv. Fair value of the asset is RM835,000.
- v. Economic life of the asset is five years.
- vi. At the end of the lease period, title to the plant is not passed on to OlaPetola.
- vii. Interest rate in the lease is 12% per annum.
- viii. Lessee is to incur initial direct cost of RM15,000.

Required:

- i. State into which category the above contract fall into and explain why. (4 marks)
- ii. Assuming contract 1 is a finance lease, as far as the information permits; prepare in the books of lessee (i.e. OlaPetola Bhd) extracts of:
 - a. Statement of Comprehensive Income for years ended 31 December 2014 and 2015.
 - b. Statement of Financial Position as at 31 December 2014 and 2015.

(Note: For the purpose of these calculations, interest should be apportioned in accordance with the actuarial method.)

(12 marks)

B. Gerda acquired a machinery on 1 January 2011 for RM56 million. The useful life of the machinery was estimated to be seven years.

On 31 December 2012, the equipment showed evidence of impairment. An estimate of recoverable amount was carried out which indicated that the fair value of the machinery was RM24 million, the expected decommission and transportation cost was RM2 million and the estimated present value of future economic benefits was RM23 million. The useful life of the machinery remained the same.

On 31 December 2015, due to a sudden surge in the demand for the product manufactured by the machinery, the recoverable amount based on its value in use was estimated to be RM18 million.

Required:

With reference to the relevant MFRS, prepare extracts of following for the financial year ending 31 December 2011 to 2015:

- i. Statement of profit or loss.
- ii. Statement of financial position.

(9 marks)

Total: 25 marks

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Question 3

On 1 January 2015, the deferred tax liability brought forward for Beliga Bhd was RM3 million. At 31 December 2015, you were asked to calculate the amount of deferred tax charged in the statement of comprehensive income.

The following transactions took place during 2015:

- a. During the year, plant was revalued and surplus was RM3 million. At the end of the year the carrying amount of the plant was RM35 million and tax base was RM22 million.
- b. Development expenditure of RM7 million was capitalized in accordance with MFRS 138 but it is deducted for tax purpose. There was no amortisation during the year.
- c. The company has made provision for legal settlement of RM1 million. The expenditure will only be tax deductible when paid.
- d. Beliga has also recognised interest income receivable of RM1.2 million but none has been received yet.
- e. The trade receivables were disclosed at RM2.5 million after providing for doubtful debts of RM500,000.
- f. Financial instruments were classified as at fair value through profit or loss of RM12 million. The cost of these financial instruments was RM10 million.
- g. The tax payable for the year was calculated at RM3.7 million.
- h. Tax rate is 30%.

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Required:

For the financial year ending 31 December 2015:

- A. Prepare a table showing the carrying amounts tax base and temporary differences for each of the items above.
- B. Calculate:
 - i. the amount of tax expense as charged in the statement of comprehensive income.
 - ii. the amount disclosed in the deferred tax liability in the statement of financial position.

Total: 15 marks

Question 4

A. The following information is provided for Muqit Bhd.

- i. The profit and dividends declared for the year ended 31 December 2013 are as shown below.

	<u>RM'000</u>	<u>RM'000</u>
Profit after taxation from continuing operations		14,500
Loss after tax from discontinued operation		(550)
Profit after tax		<u>13,950</u>
Dividends declared for the year:		
Ordinary shares	15,000	
Preference shares	500	
Ordinary share capital	RM10 million in shares of RM0.50 each	
5% cumulative preference share capital	RM10 million shares of RM1 each	

- ii. On 1 April 2014, the company made a bonus issue of one ordinary share for every four shares presently held.
- iii. On 1 Jun 2014, the company issued 5 million ordinary shares to acquire a business. Profits after tax for year 2014 amounted to RM20.5 million.

- iv. A rights issue of one ordinary share for every four held was made on 31 July 2015 at RM4 each. The market price of each ordinary share immediately before the issue was RM6. The profit after tax for year 2015 was RM22 million.

Required:

For the year ended 31 December 2013, 2014 and 2015 calculate:

- i. the basic earnings per share.
- ii. comparative figures (where relevant).

(10 marks)

B.

- i. Public listed companies report on their financial performance to investors with sufficient regularity (e.g. quarterly, half yearly or annual).
- ii. Entity A has incurred significant trading losses for several years. The company's Board of Directors is concerned over the business' survival in the long term. Therefore, affecting the bases used in the company's financial reporting.
- iii. MFRS 117 requires that all assets leased under finance leases be capitalized as non-current assets in the books of lessee even though the legal titles to the assets are still with the respective lessors.
- iv. MFRS 108 states that changes to accounting policy must be accounted for retrospectively, i.e. amounts recognized in previous accounting periods are restated to account for the change in accounting policy.
- v. MFRS 102 requires that inventories should be measured at lower of cost and net realizable value.

Required:

For each of the statement above, identify the accounting concept.

(5 marks)

Total: 15 marks

Question 5

- A. PDB Bhd estimated its closing inventory at cost to be RM1.7 million as at the financial year end 31 December 2015. On 17 February 2016, the government passed a law that classified the main ingredients of the products PDB sold as hazardous to health. Sales dropped and the company had to sell the stock at a significant discount, 60% of the original cost. The financial statements of the company are authorized for issue only in April.
- B. OshOsh commenced building a shopping mall for a customer on 1 March 2015 and expects to take 22 months to complete it. The fixed contract price is RM17 million and the estimated total cost to complete is RM12 million. Cost incurred to date is RM9 million and the customer has been billed RM8 million.
- C. Kecak Bhd received grant from the government to build hotels to keep up with the demand for rooms generated by Visit Malaysia programmes. The grant received was RM30 million with the understanding that the hotels should be built in Sabah and Sarawak only.

Required:

With reference to the above situations, for each case:

- i. Identify the relevant MFRS (s).
- ii. Explain the accounting treatment.
- iii. Prepare relevant journal entries (if any).

(Note: In all cases the financial year-end is 31 December.)

Total: 15 marks

END OF QUESTION PAPER

