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

QUALIFYING EXAMINATION

Advanced Financial Accounting and Reporting

Date	:	14 March 2018
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 8 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

Excellente Bhd started business many years ago. Over the years, the company has successfully acquired several smaller companies. The Statements of Profit or Loss of Excellente Bhd and its subsidiaries are presented below:

Statement of Profit or Loss for the year ending 31 December 2017

	Excellente Bhd RM Million	**Brillar Bhd RM Million**	**Dorado Bhd RM Million**
Revenue	120	50	45
Cost of Sales	[36]	[15]	[20]
	84	35	25
Dividend Income	5	4	1
Gain on Disposal of Assets	1.2	-	0.5
Administrative Expenses	[25]	[18]	[15.5]
Selling & Distribution Expenses	[10]	[8]	[2]
	55.2	13	9
Finance Costs	[2.7]	[3]	[2]
	52.5	10	7
Taxation	[13.1]	[2.5]	[1.8]
Net Profit	**39.4**	**7.5**	**5.2**
Retained Profit as at 1 January 2017	62.7	25.8	5.2

Additional information:

1. On 1 January 2016, Excellente Bhd acquired 75% of Brillar Bhd's 25 million ordinary shares for RM35 million when Brillar Bhd's retained earnings was RM18 million.

2. On 1 January 2017, Excellente Bhd acquired 80% of Dorado Bhd's 10 million ordinary shares for RM13 million.

3. Excellente Bhd entered into a joint venture business with Campo Bhd where Excellente Bhd has 50% share. As at 31 December 2017, the business incurred a loss of RM1.6 million.

4. Excellente Bhd disposed 3.75 million of its shares in Brillar Bhd for RM7 million on 31 December 2017. There was no change in the ordinary shares issued by Brillar Bhd since 1 January 2016.

5. Revaluation of Brillar Bhd's asset on the acquisition date revealed that a land has increased in value by RM1.7 millon compared to its carrying value. Brillar Bhd has not adjusted its book to account for the increase.

6. Dorado Bhd disposed equipment to Brillar Bhd on 1 February 2017 at a gain of RM0.4 million. The equipment was depreciated at 20% per annum using the reducing balance method.

7. During the financial year, Excellente Bhd sold inventories to Dorado Bhd as follows:

Date of sale	Selling Price (RM Million)	Note
20 March 2017	3	Dorado Bhd has sold the entire goods to a third party.
15 July 2017	4	Dorado Bhd kept 20% of the inventory purchased.
10 November 2017	2	Dorado Bhd managed to sell 50% of the inventory.

It is the group's policy to earn profit margins of **10%** on intercompany sale of inventories.

8. Tests conducted on 31 December 2017 showed that an impairment of RM0.3 million was required for goodwill on acquisition of Brillar Bhd.

9. Dividend declared and paid by Excellente Bhd, Brillar Bhd and Dorado Bhd were RM3 million, RM1.5 million and RM1 million respectively. The parent company received its dividend from the subsidiary companies on 30 December 2017.

10. Excellente Bhd valued the non-controlling interest in its subsidiaries using the **partial goodwill** method.

Required:

Prepared the Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Consolidated Statement of Changes in Equity of Excellente Bhd for the year ending 31 December 2017.

(Total: 25 marks)

QUESTION 2

A. i. A parent company owns a building solely acquired to earn rentals. This property is leased to, and occupied by its subsidiary company.

Required:

Discuss whether the property is an investment property:

a. In the parent company's financial statements
b. In the Group financial statements

(4 marks)

ii. A company owns a factory with a floor area of 4000 sq. meters which was constructed on 5000 sq. meters of land also belonging to the company. The company uses 10% of the floor area as its office and rented-out the rest to another company.

Required:

Explain whether the factory can be classified as an investment property according to MFRS 140 *Investment Property.*

(6 marks)

iii. A subsidiary company obtained an interest free loan from its parent company to settle payments to its suppliers. This is the first time the subsidiary sought help from the parent company in the last 5 years. According to the loan agreement, full settlement is expected within 3 months.

Required:

Identify whether the loan falls under MFRS 9 *Financial Instruments*.

(3 marks)

B. i. An entity applies hedge accounting to hedging relationships that meet the qualifying criteria.

Required:

Explain the three (3) types of hedging relationships.

(6 marks)

ii. Material omissions or misstatements in prior years required retrospective restatement of financial statements.

Required:

Explain “retrospective restatement” as stated above.

(4 marks)

iii. In order to compare financial statements of an entity over time, a business entity is required to maintain the same accounting policies. However, the entity is permitted by MRFS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to change its accounting policies under two situations.

Required:

Explain the two (2) situations stated in MFRS 108.

(2 marks)
(Total: 25 marks)

QUESTION 3

The following trial balance relates to Axon Bhd as at 31 December 2017.

	Debit RM'000	Credit RM'000
Revenue		38,160
Cost of sales	20,560	
Administrative expenses	6,240	
Distribution costs	2,320	
Loan from Bank T		5,200
Interest on loan	195	
Investment income		1,200
Dividend paid	1,000	
Land at valuation as at 1 January 2017	12,000	
Buildings at cost as at 1 January 2017	10,000	
Plant and machinery at cost as at 1 January 2017	3,200	
Office equipment at cost as at 1 January 2017	1,200	
Accumulated depreciation on 1 January 2017:		
Buildings		2,000
Plant and machinery		1,280
Office equipment		600
Investment property as at 31 December 2017	22,000	
Development costs as at 1 January 2017	4,000	
Ordinary shares capital at RM1 per share		40,000
Retained profits as at 1 January 2017		2,915
Revaluation reserve as at 1 January 2017		3,000
Inventories as at 31 December 2017	1,602	
Cash at bank	9,500	
Trade and other receivables	960	
Trade and other payables		502
Deferred tax liability		240
Tax paid	320	
	95,097	**95,097**

Additional information:

1. Axon Bhd adopts revaluation model to revalue its land every two years. On 31 December 2017, due to an earthquake in the neighboring area, the land has been revalued by an independent valuer at RM10.6 million. The land has been previously revalued in 2015 which resulted in a surplus of RM1.2 million. The recent revaluation has not been recorded.

2. A new machine costing RM1.6 million was purchased on 30 September 2017 to replace the old machine costing RM900,000 that was purchased on 1 January 2015. The old machine was disposed at RM660,000 for cash. Both the acquisition of the new machine and disposal of the old machine have not been recorded as at 31 December 2017. It is the company's policy to depreciate its plant and machinery at 10% per annum.

   The company depreciates its office equipment at 20% per annum.

   Building has an estimated useful life of 25 years.

   It is the company's policy to provide a full year's depreciation charge in the year of purchase and none in the year of disposal.

3. A loan from Bank T amounting to RM5.2 million was taken on 1 April 2017 for the purpose of financing the construction of a new wing to the factory building belonging to Axon Bhd. The annual interest rate was 5%. The construction works were only started on 1 July 2017 therefore, the loan was temporarily invested in April 2017 at the rate of 2% per annum. The interest on the loan has been expensed off during the year.

4. On 1 December 2017, a customer filed a law suit against Axon Bhd for its faulty product. The lawyers were of the opinion that Axon Bhd may incur legal and other costs amounting to RM72,000. The provision has been recorded in other payables as at 31 December 2017. On 17 January 2018, the settlement was made with the customer in which Axon Bhd will pay RM560,000 for the damage.

5. Axon Bhd carried out a development project that met the criteria for recognition as an asset on 1 October 2017. Total cost incurred until 1 October 2017 were RM4 million. The fair value of the development costs as at 31 December 2017 was RM4.8 million. The economic life of the asset is indefinite. It is the company's policy to adopt the revaluation model for its intangible asset.

6. The income tax charge for the year has been estimated at RM420,000 which excludes changes in its deferred tax liability. The deferred tax liability on 31 December 2017 was estimated at RM250,000.

Required:

Prepare a Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017 for Axon Bhd together with a Statement of Financial Position as at that date in a format suitable for publication. (Show all workings)

(Total: 25 marks)

QUESTION 4

A. MFRS 15 *Revenue from Contract with Customers* sets out a five-step model, which applies to revenue earned from a contract with a customer with limited exceptions, regardless of the type of revenue transaction or the industry.

i. State five (5) information that must be disclosed by an entity that will enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts with customers.

(5 marks)

ii. Briefly explain any three (3) criteria that should be met in order for a contract with a customer to be considered within the scope of MFRS 15.

(3 marks)

B. Malia Plantation Bhd is in the business of cultivating and selling rubber trees. The trees are ready for sale when they are one year old. As at year end 31 December 2017, the plantation has 20 acres of land that were planted with 5,000 rubber trees in early January 2017. The following information is available:

1. The cost of the land on which the rubber trees were planted was RM10.8 million.

2. The gain on change in fair value less point-of-sale costs of the rubber trees to be recognised as income for the year ended 31 December 2017 is RM25,200

3. Other than the cost of the land, the following costs were incurred in 2016 and 2017:

		RM
i.	Construction of nursery in 2016 (useful life – 5 years)	25,000
ii.	Construction of plantation infrastructure in 2016 (useful life – 20 years)	42,000
iii.	Acquisition of plantation machinery and equipment in 2016 (useful life – 10 years)	75,000
iv.	Plantation overheads other than depreciation, per year	1,500
v.	Weeding, fertilising and pest control costs, per year	1,200
vi.	Salaries, wages and other employee benefits, per year	4,500

4. At 31 December 2017, one of the plantation machinery which had a carrying amount of RM12,500 was discovered to have a net realisable value of RM11,700 only. Its value-in-use is estimated to be RM12,050.

Required:

i. Calculate the net profit or loss from the plantation operations on the 20 acre land for the year ended 31 December 2017.

(6 marks)

ii. *Agriculture: Bearer Plants* amended the scope of MFRS 116 *Property, Plant and Equipment* to include bearer plants related to agricultural activity. Explain the term 'bearer plant' in accordance with the relevant financial reporting standard.

(3 marks)

C. According to MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*, there are two broad approaches to the accounting of government grants namely the capital approach and the income approach.

Required:

i. Explain one (1) argument that supports the capital approach and one (1) argument that supports the income approach.

(4 marks)

ii. On 1 June 2017, Leki Bhd received a government grant of RM500,000 to purchase a special equipment costing RM1.3 million to be used in its manufacturing activities. Leki Bhd depreciates its equipment over 10 years based on period of ownership.

Required:

State the journal entries to account for the grant using 'deferred income method' and 'write off against asset method' on 1 June 2017 and as at year end 31 December 2017.

(4 marks)
(Total: 25 marks)

END OF QUESTION PAPER