**ADVANCED FINANCIAL ACCOUNTING AND REPORTING**
**SUGGESTED SOLUTIONS**
**SEPT 2019**

**QUESTION 1**

Luminosa Bhd
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

| | | RM Million |
|---|---|---|
| Turnover | [120+50+45]-9 | 206 |
| Cost of Sales | [36+15+20]-9+0.08+0.1 | (62.18) |
| | | 143.82 |
| Dividend Income | [5+4+1]1.125-0.6 | 8.275 |
| Gain on Disposal of Assets | [1.2+0.5]-0.4 | 1.3 |
| Administrative Expenses | [25+18+15.5]-0.08+0.3] | (58.72) |
| Selling & Distribution Expenses | [10+8+2] | (20) |
| Share of losses in J/V business | RM1.6x 50% | (0.8) |
| | | 73.875 |
| Finance Costs | [2.7+3+2] | (7.7) |
| | | 66.175 |
| Taxation | [13.1+2.5+1.8] | (17.4) |
| Net Profits | | 48.775 |

Net Profits attributable to:

The equity holders of the parent 48.775-3.891=44.884
The Non-controlling Interest (W1) 1.68+1.259+0.952 =3.891

W1

| | Radiante Bhd [RM Million] | Luce Bhd [RM Million] | Luce Bhd [RM Million] |
|---|---|---|---|
| PAT | 7.5 | 8/12x5.2 | 4/12x5.2 |
| -) URP goods | (0.18) | - | |
| -) URP Equipment | - | (0.4) | |
| +) Depreciation | - | 0.08 | |
| -) Dividend from sub | (0.6) | | |
| Adjusted PAT | 6.72 | 3.147 | 1.73 |
| NCI % | 25% | 40% | 55% |
| NCI share of PAT of Sub | 1.68 | 1.259 | 0.952 |

Consolidated Statement of Changes in Equity of Luminosa Bhd for the year ending 31 December 2018.

| | GRE [RM Million] | NCI [RM Million] |
|---|---|---|
| Balance b/f W2/W3 | 68.55 | 13.125 |
| Net profits/TCI attributable | 44.884 | 3.891 |
| Acquisition of Sub W4 | - | 6.08 |
| Indirect CT W4 | | (3.25) |
| Dividend 1.5x25%+1x40% | (3) | (0.775) |
| Changes in shareholding | (0.334) | |
| Balance b/f | 110.1 | 19.071 |

W2

| | |
|---|---|
| Luminosa Bhd profits: | 62.70 |
| Radiante Bhd profits: [25.8-18x75%] | 5.85 |
| | **68.55** |

W3

Radiante Bhd:

| | | Goodwill | NCI | GRE |
|---|---|---|---|---|
| CT | | 35 | | |
| +) NCI | 25%x44.7 | 11.175 | 11.175 | |
| -) FVNA 1.1.17 | | | | |
| OSC | 25 | | | |
| RE | 18 | | | |
| ARR | 1.7 | 44.7 | | |
| | | 1.475 | | |
| -) Impairment | | [0.3] | | [0.3] |
| | | 1.175 | | |
| RE Radiante | | | | |
| On 1.1.18 | 25.8 | | | |
| -) Pre acquisition | 18 | | 25% | 75% |
| | 7.8 | | 1.95 | 5.85 |
| | | | 13.125 | |

W4

Luce Bhd:

| | | Goodwill | NCI | GRE |
|---|---|---|---|---|
| ICT<br>13x75%<br>13x25% | | 9.75 | (3.25) | |
| NCI | 40%x15.2 | 6.08 | 6.08 | |
| -) FVNA 1.1.18 | | | | |
| OSC | 10 | | | |
| RE | 5.2 | 15.2 | | |
| Goodwill | | 0.63 | | |

W5 Gain/Loss on disposal of shares

| | | |
|---|---|---|
| | | RM Million |
| Proceeds | 2m x RM1.70 | 3.4 |
| -) FVNA 1.9.18 | | |
| OSC | 10 | |
| RE 5.2+ (5.2x8/12) | 8.67 | |
| | 18.67x20% | 3.734 |
| Loss | | 0.334 |

**QUESTION 2**

A. i. Possible reasons are:

a. Gain as compared to cash settlement.

b. Company B is a reputable company whose shares are highly sought after with very minimum downside risk.

c. Company A has healthy cash flow.

Any 2 of the above.

(4 marks)

ii. Journal entries

| Date | Particulars | Debit (RM) | Credit (RM) |
|---|---|---|---|
| 25/2/18 | Lawn Tractors 15xRM15,000 | 225,000 | |
| | Accounts Payable | | 225,000 |
| 1/3/18 | Accounts Payable | 225,000 | |
| | P&L | 6,000 | |
| | Ordinary Shares 300,000xRM0.77 | | 231,000 |

(6 marks)

B. i. Journal entries:

2017: Research phase. RM500,000 cost is expensed.
2018: Development phase with secured buyer. RM1.2 million can be treated as intangible asset.
2019: January-impairment of RM100,000 is required (RM1.2m -RM1.1m)
July- gain of RM0.4 million can be recognized.

| Date | Accounts | Debit (RM) | Credit (RM) |
|---|---|---|---|
| 31/12/2017 | Research<br>Bank | 500,000 | <br>500,000 |
| 31/12/2018 | Intangible asset<br>Bank | 1,200,000 | <br>1,200,000 |
| 31/1/2019 | Impairment<br>Intangible asset | 100,000 | <br>100,000 |
| 31/7/2019 | Bank<br>Intangible Asset<br>Gain on disposal | 1,500,000 | <br>1,100,000<br>400,000 |

(8 marks)

ii. These two companies involved in technology with heavy investment in R&D. Market capitalization incorporated intangible assets, such as R&D, in the valuation process. However, international accounting standard (such as MFRS 138 applicable in Malaysia) does not permit inclusion of many of these investments as assets. Hence the big difference in both values.

(3 marks)

iii. Though data is very important, it has to fulfill the conditions spelled in MFRS138 about recognition as intangible assets such as:
The data is own by the company
The data bring future economic benefits to the company
The value can be objectively determined
However, if the data is purchased from other party, it can be recognized as intangible asset.

(4 marks)
(Total: 25 marks)

**QUESTION 3**

a)

| **LaserPro Bhd** | | |
|---|---|---|
| **Statement of Profit or Loss for and Other Comprehensive Income for the year ended 30 June 2019** | | |
| | | RM |
| Revenue | | 169,000,000 |
| (-) Cost of sales | | (69,310,000) |
| Gross profit | | 99,690,000 |
| | | |
| Increase in FV of IP | 5,350 – 4,628 | 722,000 |
| Gain on disposal of PPE | 885 – (1,220 – (1,220 /10 x 4y)) | 153,000 |
| Administrative expenses (W2) | | (41,114,930) |
| Distribution expenses | | (28,331,000) |
| Finance cost | 1,900,000 + 249,487(W1) | (2,149,487) |
| Profit before tax | | 28,969,583 |
| | | |
| Tax expense | 1,512 + 1,004 | (2,516,000) |
| Profit after tax | | 26,453,583 |
| | | |
| Other comprehensive income | | |
| Surplus in revaluation: | | |
| Land | 150,000 -142,600 | 7,400,000 |
| Building | 90,000 - (90,650 – 9,065) | 8,415,000 |
| Total comprehensive income | | 42,268,583 |
| | | |
| EPS | 26,453,583 /37,500,000 OSC* | RM0.71**OF** |

*RM240,000,000/ RM6.40 per share = 37,500,000 OSC

**W1- Lease**

| | | | |
|---|---|---|---|
| Annual payment (4 years) : | RM1,200,000 x 3.4651 | = | RM4,158,120 |
| Dr Right use of Asset | RM4,158,120 | | |
| Cr Lease Liability | | RM4,158,120 | |
| Depreciation: | RM4,158,120 / 4y = | RM1,039,530 | |
| Dr Depreciation | RM1,039,530 | | |
| Cr Accumulated depreciation | | RM1,039,530 | |
| Finance cost: | RM4,158,120 x 6% | = | RM249,487 |
| Dr Finance cost | RM249,487 | | |
| Cr Lease liability | | RM249,487 | |

**W2- Impairment of PPE**

| | **RM** |
|---|---|
| Cost at 1/7/2012 | 1,340,000 |
| Accumulated depreciation<br>1,340 /10 x 7y | 938,000 |
| Carrying value at 30 June 2019 | 402,000 |
| Recoverable amount:<br>FVLCTS (350 -12.4) | 337,600 |
| Impairment | 64,400 |

**W3- Administrative expenses**

| | **RM** |
|---|---|
| As per TB | 31,025,000 |
| Depreciation (Note PPE) | 10,025,530 |
| Impairment of PPE (W2) | 64,400 |
| | 41,114,930 |

b)

| **LaserPro Bhd** | | |
|---|---|---|
| **Statement of Financial Position as at 30 June 2019** | | |
| **Non-current asset** | | |
| Property, plant and equipment | Note to PPE | **277,851,190** |
| Investment property | 4,628 +722 – 5,350 | **-** |
| Development cost | | 60,800,000 |
| Investment in fixed deposit | | 21,200,000 |
| | | |
| **Current asset** | | |
| Trade receivables | | 4,184,000 |
| Bank | 16,680,000 – 1,650,000 +885,000 – 1,200,000 | 14,715,000 |
| Inventories | | 3,658,000 |
| | | |
| **Total assets** | | **382,408,190** |

| | | |
|---|---|---|
| **Equity** | | |
| Ordinary shares capital | | 240,000,000 |
| Retained earnings (W4) | | 74,046,183 |
| Asset revaluation reserve (W4) | | 31,478,400 |
| | | |
| **Non-current liabilities** | | |
| 5% Debentures | | 28,000,000 |
| Deferred tax | | 3,455,000 |
| Lease liability | 4,158,120 + 249,487 – 1,200,000 | 3,207,607 |
| | | |
| **Current liabilities** | | |
| Trade payables | | 1,152,000 |
| Tax payable | 1,208 + 1,512 – 1,651 | 1,069,000 |
| | | |
| **Total equities and liabilities** | | **382,408,190** |

**W4- RE and ARR**

| | **Retained Earnings** | **ARR** |
|---|---|---|
| As per TB | 63,256,000 | 16,000,000 |
| Profit for the year | 26,453,583**of** | |
| Surplus on revaluation: | | |
| Land | | 7,400,000 |
| Building | | 8,415,000 |
| Transfers (8,415 / 25y) | 336,600 | (336,600) |
| Interim dividend paid | (16,000,000) | |
| Balance c/d | 74,046,183 | 31,478,400 |

c)

**Notes to Property, Plant and Equipment**

| | **Land** | **Building** | **Plant & equipment** | **Right of use Asset (lease)** | **Total** |
|---|---|---|---|---|---|
| | RM | RM | RM | | RM |
| **<u>Cost/Valuation</u>** | | | | | |
| Bal b/d | 142,600,000 | 90,650,000 | 53,430,000 | - | 286,680,000 |
| Addition | | | 1,650,000 | 4,158,120 | 5,808,120 |
| Reclassification from IP | | 5,350,000 | | | 5,350,000 |
| Disposal | | | (1,220,000) | | (1,220,000) |
| Surplus on revaluation | 7,400,000 | 8,415,000 | | | 15,815,000 |
| Elimination | | (9,065,000) | | | (9,065,000) |
| Bal c/d | 150,000,000 | 95,350,000 | 53,860,000 | 4,158,120 | 303,368,120 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **Accumulated depreciation** | | | | | |
| Bal b/d | - | 9,065,000 | 15,915,000 | - | 24,980,000 |
| Elimination | | (9,065,000) | | | (9,065,000) |
| Disposal | | | (488,000) | | (488,000) |
| Charge for the year | - | 3,600,000 | 5,386,000 | 1,039,530(W1) | 10,025,530 |
| Bal c/d | - | 3,600,000 | 20,813,000 | 1,039,530 | 25,452,530 |
| | | | | | |
| **Accumulated impairment** | | | | | |
| Bal b/d | - | - | - | - | - |
| Charge for the year | - | - | 64,400 | - | 64,400 |
| Bal c/d | - | - | 64,400 | - | 64,400 |
| | | | | | |
| **Carrying value** | **150,000,000** | **91,750,000** | **32,982,600** | **3,118,590** | **277,851,190** |
| | | | | | |

(**25 marks)**

**QUESTION 4**

A. i. The building can be classified as asset in accordance with MFRS 5 Non-current Asset Held for Sale since the sales of the building is highly probable. This is because the management is committed to sell the building by actively seeking for buyers and actively marketed the building by using advertisements. In addition, the company expected the building to be sell in January 2020 which is within one year from the date of classification.

(6 marks)

ii. The value should be the lower of carrying value and fair value less cost to sell at year end.

| | RM |
|---|---|
| Cost as at 1 July 2001 | 3,400,000 |
| Accumulated depreciation<br>3,400,000/50y x 18 y | (1,224,000) |
| Carrying value as at 30 June 2019 | 2,176,000 |

| | |
|---|---|
| Fair value | 2,120,000 |
| Brokerage fee | (45,000) |
| Legal fee | (26,000) |
| FVLCTS | 2,049,000 |

Lower value: FVLCTS = RM2,049,000√ to be recognised in financial statement.

(15 marks)

iii. Extract of SOFP and SOPL

HGR Bhd

| Statement of Financial Position as at 30 June 2019 (extract) | |
|---|---|
| Non current asset | RM |
| Property, plant and equipment (286,781,000 – 2,176,000) | 284,605,000 |
| | |
| Non-current asset held for sale | 2,049,000 |

| Statement of Profit or Loss for the year ended 30 June 2019 | |
|---|---|
| | RM |
| Impairment loss (2,176,000 – 2,049,000) | 127,000 |

(4 marks)

B. i. Accounting treatment

**Shares in TY Bhd**
On initial recognition, the shares are measured at RM 1,835,000 ((500,000 x RM3.50) + RM85,000) on 1 July 2018.

As at year end, the shares are re-measured at RM 2,100,000 (500,000 x RM4.20) in the statement of financial position. The increase in fair value of RM265,000 is shown through other comprehensive income.

**Shares in Milly Bhd**
On initial recognition, the shares are measured at RM 860,000 as the transaction cost of RM24,000 will be expensed off in the SOPL on 1 July 2018.

As at year end, the shares are re-measured at RM 650,000 (200,000 x RM3.25) in the statement of financial position. The decrease in fair value of RM210,000 is shown through statement of profit or loss for the year ended 30 June 2019.

(6 marks)

ii. Redeemable debentures

The redeemable debentures are financial liabilities. In accordance with MFRS 9, financial liabilities are classified as measured at:

a) Fair value through profit or loss or
b) Amortised cost.

Financial liabilities are classified as measured at fair value through profit or loss only if they are held for trading or are designated as fair value through profit or loss upon initial recognition.

(4 marks)
(Total: 25 marks)

**END OF SOLUTION**