

SULIT



**BAHAGIAN PEPERIKSAAN DAN PENILAIAN
JABATAN PENDIDIKAN POLITEKNIK
KEMENTERIAN PENDIDIKAN TINGGI**

JABATAN PERDAGANGAN

PEPERIKSAAN AKHIR

SESI JUN 2016

APA7013: FINANCIAL REPORTING 1

TARIKH : 2 NOVEMBER 2016

MASA : 08.30 AM - 11.30 AM (3 JAM)

Kertas ini mengandungi **SEPULUH (10)** halaman bercetak.
Esei (5 soalan)

Dokumen sokongan yang disertakan : **TIADA**

JANGAN BUKA KERTAS SOALAN INI SEHINGGA DIARAHKAN

(CLO yang tertera hanya sebagai rujukan)

SULIT

ESSAY: 100 MARKS**INSTRUCTION:**

This section consists of **FIVE (5)** essay questions. Answer **ALL** questions.

QUESTION 1

- (a) According to MFRS 118; Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Required:

CLO 1:
C2

Discuss the conditions that must be satisfied before the transaction below can be recognized as revenue.

(i) **Sale of goods**

(5 marks)

(ii) **Rendering services**

(5 marks)

- (b) 1 July 2015 Woody Bhd has in inventory unseasoned cut timber valued at RM108 million. The timber will be sold in three years' time when it is fully seasoned. In the meantime, Woody Bhd enters into an agreement with KFC Bank Bhd to sell the timber for RM120 million with the understanding that Woody Bhd will buy back the timber in three years' time (on 30 June 2018) for RM148.8 million. Woody Bhd intends to sell the timber for RM180 million on the same date it repurchases from KFC Bank Bhd. The current interest rate is 8 %. The year end of Woody Bhd is 30 June 2018.

Required:

CLO 1:
C3

- 1) Extract the Statement of Profit or loss and Other Comprehensive Income and Statement of Financial Position of Woody Bhd for the 3 years to 30 June 2018 in respect of the above transaction based on:**

- i. **The legal form of the transaction** **(4 marks)**
 - ii. **The substance over form of the transaction** **(6 marks)**
- 2) Comments on the effect of the two treatments have on the statements of profit or loss and the statements of financial position.** **(5 marks)**
- (25 marks)**

QUESTION 2

The following trial balance relates to Anggerik Bhd as at 31 December 2015:

	RM'000	RM'000
Revenue		183,600
Cost of sales	128,200	
Construction contract (note (i))	4,000	
Distribution costs	13,500	
Administrative expenses	16,500	
Bank interest	900	
Land (RM12 million) and building (RM48 million) at cost (note (ii))	60,000	
Owned plant and equipment at cost (note (ii))	65,700	
Accumulated depreciation at 1 January 2015:		
Building		10,000
Owned plant and equipment		17,700
Inventory at 31 December 2015	26,600	
Trade receivables	38,500	
Bank		7,450
Deferred tax (note (iii))		8,000
Trade payables		21,300
Current tax (note (iii))		1,050
Equity shares of 20 cents each		45,000
Loan note (note (iv))		40,000
Retained earnings at 1 January 2015		19,800
	<u>353,900</u>	<u>353,900</u>

The following notes are relevant:

- (i) The balance on the construction contract is made of the following items:

	RM'000
Cost incurred to date	14,000
Value of contract billed (work certified)	10,000

The contract commenced on 1 January 2015 and is for a fixed price of RM25 million. The costs to complete the contract at 31 December 2015 are estimated at RM6 million. Anggerik Bhd's policy is to accrue profits on construction contracts based on a stage of completion given by the work certified as a percentage of the contract price.

- (ii) Non-current assets:

Anggerik Bhd decided to revalue its land and building, for the first time, on 1 January 2015. A qualified valuer determined the relevant revalued amounts to be RM16 million for the land and RM38.4 million for the building. The building's remaining life at the date of the revaluation was 16 years. This revaluation has not yet been reflected in the trial balance figures.

Owned plant and equipment is depreciated at 12.5% per annum using the reducing balance method.

No depreciation has yet been charged on any non-current asset for the year ended 31 December 2015. All depreciation is charged to cost of sales.

- (iii) A provision for income tax for the year ended 31 December 2015 of RM3.4 million is required. The balance on current tax represents the under/over provision of the tax liability for the year ended 31 December 2015. At 31 December 2015, the tax base of Anggerik Bhd's net assets was RM24 million less than their carrying amounts. The income tax rate of Anggerik Bhd is 25%.
- (iv) The RM40 million loan note was issued at par on 1 January 2015. No interest will be paid on the loan; however, it will be redeemed on 31 December 2017 for RM53,240,000 which gives an effective finance cost of 10% per annum.

CLO 2:
C4

Required:

- (i) Prepare the statement of comprehensive income for Anggerik Bhd for the year ended 31 December 2015; (12 marks)
 - (ii) Prepare the statement of financial position of Anggerik Bhd as at 31 December 2015. (13 marks)
- (25 marks)

Note: Your answers and workings should be presented to the nearest RM1,000;

A statement of changes in equity and notes to the financial statements are not required.

QUESTION 3

- a) Blue Transport Bhd wish to expand their transport and purchased three heavy lorries with a list price of RM18,000 each. The director of the Blue Transport Bhd has negotiated lease finance to fund this expansion, and the company has entered into a finance lease agreement with Grandy Garages Bhd on 1 January 2014. The agreement states that Blue Transport Bhd will pay a deposit of RM9,000 on 1 January 2014 and two annual instalments of RM24,000 on 31 December 2014, 2015 and a final instalment of RM20,391 on 31 December 2016.

Interest is to be calculated at 25% on the balance outstanding on 1 January each year and paid on 31 December each year.

The depreciation policy of Blue Transport is to write off the vehicles over a four years period using the straight line method and assuming a scrap value of RM1,333 for each vehicle at the end of its useful life.

Required:

Show the entries in the Statement of Profit or Loss and Statement of Financial Position for the years 2014, 2015 and 2016. This is the only lease transaction undertaken by this company.

Calculations to the nearest RM.

(10 marks)

- b) i) The objective of MFRS 136 *Impairment of assets* is to prescribe the procedures that an entity applies to ensure that its assets are not impaired.

Required:

Explain what is meant by an impairment review and the recoverable amount.

Note: you are NOT required to describe the indicators of an impairment or how impairment losses are allocated against assets.

(7 marks)

- ii) On 1 January 2015 Myplex Bhd acquired Line Bhd, a company that operates a scenic railway along the coast of a popular tourist area. The summarised statement of financial position at fair values of Line Bhd on 1 January 2015, reflecting the terms of the acquisition was:

	RM'000
Goodwill	200
Operating licence	1,200
Property- train stations and land	300
Rail Track and coaches	300
Two steam engines	1,000
Purchase consideration	<u>3,000</u>

The operating licence is for ten years. It was renewed on 1 January 2015 by the transport authority and is stated at the cost of its renewal. The carrying values of the property and rail track and coaches are based on their value in use. The engines are valued at their net selling prices.

On 1 February 2015, the boiler of one of the steam engines exploded, completely destroying the whole engine. Fortunately no one was injured but the engine was beyond repair. Due to its age a replacement could not be obtained. Because of the reduced passenger capacity the estimated value in use of the whole of the business after the accident was assessed at RM2 million.

The number of passenger after the accident were below expectations even allowing for the reduced capacity. A market research report concluded that tourists were not using the railway because of their fear of a similar accident occurring to the remaining engine. In the light of this, the value in use of the business was reassessed on 31 March 2015 at RM1.8 million. On this date Myplex received an offer of RM900,000 in respect of the operating licence (it is transferable). The realizable value of the other net assets has not changed significantly.

Required:

Calculate the carrying amounts of the above assets at 1 February 2015 and 31 March 2015 after recognising any impairment losses.

(8 marks)

(25 marks)

CLO 3:
C3

QUESTION 4

- (a) FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* contains guidance on the use of accounting policies and accounting estimates.

Required:

CLO 1:
C2

Explain the basis on which the management of an entity must select its accounting policies and distinguish, with an example, between changes in accounting policies and changes in accounting estimates. (6 marks)

- (b) The directors of Timmy are disappointed by the draft profit for the year ended 30 September 2015. The company's assistant accountant has suggested an idea where she believes the reported profit may be improved as follows:

A major item of plant that cost RM20 million to purchase and install on 1 October 2012 is being depreciated on a straight-line basis over a five-year period (assuming no residual value). The plant is wearing well and at the beginning of the current year (1 October 2014) the production manager believed that the plant was likely to last eight years in total (i.e. from the date of its purchase). The assistant accountant has calculated that, based on an eight-year life (and no residual value) the accumulated depreciation of the plant at 30 September 2015 would be RM7.5 million (RM20 million/8 years x 3). In the financial statements for the year ended 30 September 2014, the accumulated depreciation was RM8 million (RM20 million/5 years x 2). Therefore, by adopting an eight-year life, Timmy can avoid a depreciation charge in the current year and instead credit RM0.5 million (RM8 million – RM7.5 million) to the income statement in the current year to improve the reported profit.

CLO 1:
C3

Required:

Comment on the acceptability of the assistant accountant's suggestions and quantify how they would affect the financial statements if they were implemented under FRS. Ignore taxation.

(9 marks)

(15 marks)

QUESTION 5

CLO 1:
C2

- (a) Briefly describe the **THREE (3)** functions of International of Accounting Standards Board (IASB) and International Financial Reporting Interpretation Committee (IFRSIC).

(6 marks)

- (b) Describe **TWO (2)** advantages and disadvantages of adopting International Financial Reporting Standards.

(4 marks)

(10 marks)

-END OF QUESTIONS-