



**FINAL EXAMINATION
NOVEMBER 2023**

COURSE TITLE	FINANCIAL ACCOUNTING AND REPORTING 4
COURSE CODE	AACT4113
DATE/DAY	14 FEBRUARY 2024 / WEDNESDAY
TIME/DURATION	09:00 AM - 12:00 PM / 03 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES:

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 5 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet. [50 MARKS]

QUESTION 1

(20 Marks)

On 3 July 2023, Fatin Bhd. purchased 65 percent of the 100,000 equity shares in Farra Bhd. in exchange for 45,000 of its own shares. On the date of this transaction the fair value of each share in Fatin Bhd. was RM 16.50 and the fair value of each share in Farra Bhd. was RM 11.20. The non-controlling interest is measured at fair value.

The carrying amount of Farra's share capital and retained earnings on 3 July 2023 was RM 100,000 and RM 750,000 respectively. Farra adopts the historical cost model to measure property, plant and equipment, and at this date, its property had a fair value RM 200,000 in excess of carrying amount.

Besides that, over a number of years, Farra has developed a brand name "BestFarra". However, this is not recognized in its individual statement of financial position. The fair value of the brand was determined at RM 70,000 at the acquisition date by specialists in this field.

In the last financial statement of Farra on 30 June 2023, a contingent liability was disclosed in respect of a legal claim. Lawyers advised the management of Fatin that as at the date of acquisition date, there was a 30 percent chance of Farra losing the legal case and its fair value amounted to RM 35,000.

The tax department of Farra has provided the following information:

- I. The tax rate applicable to Farra is 30 percent.
- II. Costs associated with the development of the brand were allowable for tax purposes when incurred.
- III. Costs associated with the legal claim will be allowable when any payment is made.

Fatin has decided to make all necessary adjustments for Farra at the consolidation level.

At the end of the year on 30 June 2024, as a result of unexpected legislative changes that adversely affected Farra's market, the goodwill in that company was assessed to be impaired by 20 percent.

Required:

- a) Briefly comment on the accounting treatments with the appropriate standard (*hint*: begin with whether the transaction is considered as a business combination, followed by goodwill computation and measurement method). (5 marks)
- b) Compute parent's consideration on the acquisition date with detailed workings. (1 mark)
- c) Compute the fair value of identifiable net asset of the subsidiary on the acquisition date with detailed workings. (2 marks)
- d) Compute parent's goodwill and NCI's goodwill with detailed workings. (4 marks)

- e) Prepare pro-forma entries for Fatin and Farra on the acquisition date if applicable. (2 marks)
- f) Prepare the pre-acquisition elimination entry. (6 marks)

QUESTION 2 (5 Marks)

Alya Bhd. owns 48% of the equity shares in Mus Bhd., providing it with the right to receive variable dividends. Alya also nominates the majority of individuals that are approved as directors of Mus, due to Alya's presence at shareholder meetings. The other investors comprise a number of shareholders, none of whom hold more than 5% of the votes. These shareholders have no arrangements to vote collectively, and representation at general meetings is historically less than 30%.

Required:

- a) Explain how IFRS 10 establishes control. (3 marks)
- b) Explain with justification whether Alya Bhd. has power over Mus Bhd. (2 marks)

QUESTION 3 (10 Marks)

Atila Bhd. acquired 20% of the ordinary share capital of Aida Bhd. on 1 January 2023 for RM 1,250,000. At that date the fair value of the net assets of Aida was RM 1,150,000 after revaluing a property upwards by RM 200,000 (gross amount). Retained earnings at that date were RM 425,000.

The following events relating to the year ending 31 December 2023 are relevant:

- The financial statements of Aida show a profit before tax of RM 200,000.
- Aida paid dividends of RM 20,000 on 2.11.2023.
- Atila Ltd sold goods costing RM 40,000 to Aida for RM 50,000 on 2.11.2023. The full amount was online transferred on the same day from Aida to Atila's bank account. A quarter ($\frac{1}{4}$) of the inventory remained in Aida's warehouse on 31 December 2023.

The tax rate is 30%. Extracts from the draft financial statements of Atila including its subsidiaries are as follows:

Extract from consolidated statement of profit or loss

	<u>RM</u>
Profit before tax	12 500 000
Income tax expense	<u>(3 500 000)</u>
Profit for the year	<u>9 000 000</u>

Extract from consolidated statement of financial position

	<u>RM</u>
Equity and liabilities	<u>45 000 000</u>
Investment in Aida	1 250 000
Other assets	<u>43 750 000</u>
	<u>45 000 000</u>

Required:

- a) Briefly comment on the accounting treatment with the appropriate standard together with the treatment of goodwill. (2 marks)
- b) Prepare Atila's pro-forma entries throughout the financial year 2023. (4 marks)
- c) Prepare journal entries applying the equity method for Atila Bhd. throughout the financial year 2023, followed by investment in associate's closing balance. (4 marks)

QUESTION 4

(15 Marks)

Tomato Bhd. purchased 80% of Chili Bhd. on 1 January 2023. On 31 December 2023, Chili Bhd. sold an item of plant with a carrying amount of RM 40,000 to Tomato Bhd. for RM 35,000, settled in the next month. The remaining useful life of the plant is four years with zero residual value. Both Tomato and Chili depreciate plant on a straight-line basis.

Tax rate is at 30%.

The following figures were extracted from the consolidation worksheet for the financial year ended 31 December 2023:

	<u>Chili Bhd.</u>
	<u>RM</u>
Profit for the year	200 000
Opening retained earnings	120 000
Issued & paid-up capital	100 000

Required:

- a) Prepare the pro-forma entries for Tomato Bhd. and Chili Bhd. in respect of the transfer of plant for the year ended 31 December 2023. (2 marks)
- b) Prepare the consolidation entries in respect of the transfer of plant for the year ended 31 December 2023. (6 marks)
- c) Calculate NCI's retained profit as at 31 December 2023. (2 marks)

- d) Advise Tomato ahead on the relevant consolidation entries for the subsequent measurement end of the second year, on 31 December 2024. (5 marks)

***** END OF QUESTION PAPER *****


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