



FINAL EXAMINATION
MARCH 2024

COURSE TITLE	FINANCIAL ACCOUNTING AND REPORTING 3
COURSE CODE	AACT3123
DATE/DAY	22 JUNE 2024 / SATURDAY
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 6 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. Please answer ALL questions in the answer booklet.

[100 MARKS]

QUESTION 1

(25 Marks)

You are required to answer ALL the following:

- a) "Financial assets and non-financial assets are all non-current assets." Please comment with the relevant standards and raise an example for each of them. (6 marks)
- b) Aura Bhd. issued 2000 convertible bonds on the first day of 2023. The bonds have a three-year term and are issued at par with a face value of RM 1,000 per bond, giving total proceeds of RM 2 million. Interest is payable annually in arrears at a nominal rate of 6%. Each bond is convertible at any time up to its maturity into 250 ordinary share.

When the bonds are issued, the prevailing market rate for the similar debt without conversion options is 9%. On the issue date, the market price of one ordinary share is RM 3. The dividends expected over the three-year term of the bonds amount to RM 0.14 per share at the end of each year. The risk-free annual rate for a three-year term is 5%.

Are these convertible bonds categorized as financial assets? Then, you are required to compute the equity component of the bond with detail workings, followed by the journal entries for Year 2023. Assume that Aura Bhd. has the financial year same as the calendar year. (10 marks)

- c) GXX Bank holds financial assets to meet its everyday liquidity needs. The bank actively manages the return on the portfolio to minimize the costs of managing those liquidity needs. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets.

To this end, GXX holds financial assets to collect contractual cash flows and sells financial assets to reinvest in higher yielding financial assets or to better match the duration of its liabilities. In the past, this strategy has resulted in frequent sales activity and such sales have been significant in value. This activity is expected to continue in future. You are required to:

- i. Advise GXX on the accounting classification based on the scenario above and the basis of classification based on the relevant standard. (4 marks)
- ii. Advise GXX if the classification of its financial assets is allowed to be reclassified in future. (2 marks)
- iii. How if GXX invested RM 200,000 in PYX's equity instrument? What is your advice on the accounting classification, and prepare the journal entries at inception. (3 marks)

QUESTION 2

(25 Marks)

Adi Berhad owns an equipment (forklift) with a current market price of RM 200,000. On the first day of its financial year, it enters into a lease agreement to lease the equipment to Asyraf Sdn. Bhd. for a lease term of five years. There is no bargain purchase option in the agreement.

The lease payment is RM 65,000 per annum, to be paid in advance on the first day of each year. The unguaranteed residual value of the equipment at the end of Year 5 is RM 40,000. The interest rate that will be used for accounting purposes is 12%. The equipment has an economic life of 10 years. Both companies' financial year is the same as the calendar year.

Required:

- a) Based on the above scenario, is the agreement considered as a lease agreement? Explain with the relevant standard, and if the interest rate is needed for accounting measurement. (3 marks)
- b) Is the above scenario considered as an operating lease or finance lease? Is there a "bright-line" rule to make a decision as a professional accountant? (3 marks)
- c) Prepare journal entries for Asyraf throughout the lease term. (15 marks)
- d) Prepare journal entries for Adi for only for the first year of lease with detail workings, assuming:
 - i. It is a Finance Lease. (2 marks)
 - ii. It is an Operating Lease. (2 marks)

QUESTION 3

(25 Marks)

Hanshe Sdn. Bhd. is a research company which specializes in developing new materials and manufacturing processes for the furniture industry. The company receives payments from a variety of manufacturers, which pay for the right to use the company's patented fabrics and processes.

Research and development costs for the year ended 30 September 2023 can be analyzed as follows:

	<u>RM ('000)</u>
Expenditure on continuing research projects	1,420
Amortisation of development expenditure capitalised in earlier years.	240

<u>New projects started during the year:</u>	
Project A New flame-proof padding. Expected to cost a total of RM 800,000 to develop. Expected total revenue RM 2,000,000 once work completed – probably late 2024.	280 <i>(incurred and paid)</i>
Project B New colour-fast dye. Expected to cost a total of RM 3,000,000 to complete. Future revenues are likely to exceed RM 5,000,000. The completion date is uncertain because external funding will have to be obtained before research work can be completed.	150 <i>(incurred and paid)</i>
Project C Investigation of new adhesive recently developed in aerospace industry. If this proves effective, then Hanshe Sdn. Bhd. may well generate significant income because it will be used in place of existing adhesives.	110 <i>(incurred and paid)</i>
	2,200

Required:

- a) Explain how the three projects A, B and C will be dealt with in Hanshe Sdn. Bhd.'s statement of profit or loss and statement of financial position. In each case, explain your proposed treatment with the relevant standard. (12 marks)
- b) Prepare the relevant journal entries (with a bracket next to the account title whether it is an asset or an expense) for projects A, B and C for the financial 2023. (4 marks)
- c) Prepare an extract of statement of profit or for the financial year ended 30 September 2023. (4 marks)
- d) Prepare an extract of statement of financial position as at 30 September 2023 with detail workings. (5 marks)

QUESTION 4

(25 Marks)

You are required to answer **ALL** the following:

- a) Two years ago a company bought a machine for RM 500,000. Depreciation has been charged straight line over five years assuming no residual value. Now the machine has a value in use of RM 270,000 and the fair value less costs of disposal is RM 120,000. Its useful life is still estimated as five years from acquisition and residual value is still expected to be zero. Prepare journal entries for impairment and compute the future depreciation charge. (5 marks)

- b) Minimart belongs to a retail store chain Maximart. Minimart makes all its retail purchases through Maximart's purchasing centre. Pricing, marketing, advertising and human resources policies (except for hiring Minimart's cashiers and sales staff) are decided by Maximart. Maximart also owns five other stores in the same city as Minimart (although in different neighbourhoods) and 20 stores in other cities. All stores are managed in the same way as Minimart. Minimart and four other stores were purchased five years ago, and goodwill was recognised. What is the cash-generating unit for Minimart? (5 marks)

- c) A company has acquired another business for RM4.5m: tangible assets are valued at \$4.0m and goodwill at RM0.5m.

An asset with a carrying amount of RM1m (original cost was at RM3m) is destroyed in a terrorist attack. The asset was not insured. The loss of the asset, without insurance, has prompted the company to assess whether there has been an impairment of assets in the acquired business and what the amount of any such loss is.

The recoverable amount of the business (a single cash-generating unit) is measured as RM 3.1m. Prepare journal entries for impairment with detail workings and compute the carrying amount of the CGU after impairment. (7 marks)

- d) A cash-generating unit comprising a factory, plant and equipment etc. and associated purchased goodwill becomes impaired because the product it makes is overtaken by a technologically more advanced model produced by a competitor. The recoverable amount of the cash-generating unit falls to RM 60m, resulting in an impairment loss of RM 80m, allocated as follows:

	Carrying amounts before impairment RM million	Carrying amounts after impairment RM million
Goodwill	40	0
Patent (with no market value)	20	0
Tangible non-current assets (market value RM 60m)	80	60
Total	140	60

After three years, the entity makes a technological breakthrough of its own, and the recoverable amount of the cash-generating unit increases to RM 90m. The carrying amount of the tangible non-current assets had the impairment not occurred would have been RM 70m. Prepare the journal entries for impairment three years ago and the journal entries for the reversal of impairment now. Compute the carrying amount of the CGU after impairment, then briefly comment why goodwill and patent are not reversed for impairment. (8 marks)

*** END OF QUESTION PAPER ***


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Appendix

Table 3 - Present value interest factors for single cash flows. $PV = 1/(1 + k)^n$

Period (n) / per cent (k)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772
2	0.9803	0.9612	0.9426	0.9246	0.9070	0.8900	0.8734	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695
3	0.9706	0.9423	0.9151	0.8890	0.8638	0.8396	0.8163	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750
4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.7629	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921
5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194
6	0.9420	0.8880	0.8375	0.7903	0.7462	0.7050	0.6663	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556

Table 4 - Present value interest factors for an annuity. Formula: $PV = [1 - 1/(1 + k)^n] / k$

Period (n) / per cent (k)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.9901	0.9804	0.9709	0.9615	0.9524	0.9434	0.9346	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.7125	1.6901	1.6681	1.6467
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4437	2.4018	2.3612	2.3216
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.1024	3.0373	2.9745	2.9137
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6959	3.6048	3.5172	3.4331
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.2305	4.1114	3.9975	3.8887