



FINAL EXAMINATION
NOVEMBER 2023

COURSE TITLE FINANCIAL ACCOUNTING AND REPORTING 3
COURSE CODE AACT3123
DATE/DAY 18 FEBRUARY 2024 / SUNDAY
TIME/DURATION 01:00 PM - 04:00 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.

[50 MARKS]

QUESTION 1

(15 Marks)

On 1st January 2022, Keshu Bhd. purchased a quoted bond at a cost of RM X. Transaction costs amounted to RM 2,420. The bond pays a fixed coupon interest of 8% per annum and is redeemable at its nominal value by the issuer on 1st January 2027 amounted to RM 100,000. Keshu's business model objective for managing the bond changes and the conditions for classification as at amortised cost are met.

On 1st January 2024, the market price of the bond on this date is RM 85,000. The decline in the market value of the bond is due mainly to a downgrade in the credit quality of the issuer. Meanwhile, Keshu decided to change its business model objective to manage the instrument for fair value changes rather than collecting contractual cash flows, hoping for a buoyant market in the near future.

Required:

- a) Explain how Keshu should classify and measure the quoted bond on initial recognition using the relevant standard. (2 marks)
- b) Prepare journal entries for the bond purchased by Keshu at inception. Detail your workings. (5 marks)
- c) When the business model is changed on 1st January 2024, explain how Keshu shall apply the relevant standard in terms of accounting treatment. Prepare journal entries on 1st January 2024 with detailed workings. (6 marks)
- d) Subsequent to the business model change, is there an interest expense or interest income recognized in Keshu's statement of profit or loss? (2 marks)

QUESTION 2

(10 Marks)

On 1 January 2023, Sakinah Berhad entered into a lease to acquire a machine. The cash price of the machine would have been RM 132,000. The lease agreement specified that the company would make four lease payments, each of RM45,303, starting from 31 December 2023. The interest rate implicit in the lease was 14% per annum. Sakinah Berhad prepares accounts to 31 December each year.

Required:

- a) Explain the definition of a lease using the relevant standard, and the tests that must be undertaken to ensure that the contract entered is a lease arrangement. (2 marks)
- b) Prepare a schedule for lease liability using the template below. (4 marks)

Lease Liability				
Year	Opening balance RM	Interest expense RM	Lease payment RM	Closing balance RM
0				
1				
2				
3				
4				
5				

- c) Prepare journal entries for Sakinah for year 2023 (*hint: initial and subsequent measurements*) with detail workings. (4 marks)

QUESTION 3

(15 Marks)

On 1 January 2023, Hezrin Sdn. Bhd. spent RM 200,000 on research and development activities to create a new software product. In order to complete the development, Hezrin incurred legal fees of RM 15,000 to register a patent for the software. Hezrin believes that the software has a useful life of 5 years.

Required:

- a) State the relevant standard(s) and briefly discuss the accounting treatments for research and development. (5 marks)
- b) Calculate the initial recognition and measurement of the above transaction for Hezrin. Comment if there shall be subsequent measurement of the above transaction. (4 marks)
- c) Prepare the relevant journal entries with detailed working for the financial 2023 which ends on December 31. (4 marks)
- d) State the impact of the transactions on the relevant financial statements. (2 marks)

QUESTION 4

(10 Marks)

Priscilla Sdn. Bhd. has a cash-generating unit comprises the following:

	RM (million)
Building	300
Plant	60
Goodwill	100
Inventory	200

Following a recession, an impairment review has estimated the recoverable amount of the cash-generating unit to be RM 500 million.

Required:

- What are the considerations in identifying Priscilla's cash-generating unit? Briefly discuss. (2 marks)
- Complete the template given below with detailed workings. (6 marks)

	Carrying amount before impairment	Impairment loss	Carrying amount after impairment
Building			
Plant			
Goodwill			
Inventory			

- Prepare the relevant journal entries if impairment has been taken place. (2 marks)

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

Appendix

Table 1 - Future value interest factors for single cash flows. Formula: $FV = (1 + k)^n$

Period (n) / per cent (k)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	1.0100	1.0200	1.0300	1.0400	1.0500	1.0600	1.0700	1.0800	1.0900	1.1000	1.1100	1.1200	1.1300	1.1400
2	1.0201	1.0404	1.0609	1.0816	1.1025	1.1236	1.1449	1.1664	1.1881	1.2100	1.2321	1.2544	1.2769	1.2996
3	1.0303	1.0612	1.0927	1.1249	1.1576	1.1910	1.2250	1.2597	1.2950	1.3310	1.3676	1.4049	1.4429	1.4815
4	1.0406	1.0824	1.1255	1.1699	1.2155	1.2625	1.3108	1.3605	1.4116	1.4641	1.5181	1.5735	1.6305	1.6890
5	1.0510	1.1041	1.1593	1.2167	1.2763	1.3382	1.4026	1.4693	1.5386	1.6105	1.6851	1.7623	1.8424	1.9254
6	1.0615	1.1262	1.1941	1.2653	1.3401	1.4185	1.5007	1.5869	1.6771	1.7716	1.8704	1.9738	2.0820	2.1950

Table 2 - Future value interest factors for an annuity. Formula: $FV = [(1 + k)^n - 1] / k$

Period (n) / per cent (k)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2	2.0100	2.0200	2.0300	2.0400	2.0500	2.0600	2.0700	2.0800	2.0900	2.1000	2.1100	2.1200	2.1300	2.1400
3	3.0301	3.0604	3.0909	3.1216	3.1525	3.1836	3.2149	3.2464	3.2781	3.3100	3.3421	3.3744	3.4069	3.4396
4	4.0604	4.1216	4.1836	4.2465	4.3101	4.3746	4.4399	4.5061	4.5731	4.6410	4.7097	4.7793	4.8498	4.9211
5	5.1010	5.2040	5.3091	5.4163	5.5256	5.6371	5.7507	5.8666	5.9847	6.1051	6.2278	6.3528	6.4803	6.6101
6	6.1520	6.3081	6.4684	6.6330	6.8019	6.9753	7.1533	7.3359	7.5233	7.7156	7.9129	8.1152	8.3227	8.5355

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