



**FINAL EXAMINATION**  
**NOVEMBER 2023**

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<b>COURSE TITLE</b>	<b>FINANCIAL ACCOUNTING AND REPORTING 2</b>
<b>COURSE CODE</b>	<b>AACT3113</b>
<b>DATE/DAY</b>	<b>18 FEBRUARY 2024 / SUNDAY</b>
<b>TIME/DURATION</b>	<b>01:00 PM - 04:00 PM / 03 Hour(s) 00 Minute(s)</b>

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**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 4 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 provided. [50 MARKS]

QUESTION 1

(23 Marks)

The following information is extracted from the financial statements of ADEEBAH Sdn. Bhd at 31 December 2023.

ADEEBAH Sdn. Bhd	
An Extract of Statement of Financial Position as at 31 December 2023	
	RM'000
<b>Assets</b>	
Cash	2,700
Trade receivables	2,700
Interest receivable	400
Inventory	1,000
Plant	2,000
Research and development	2,000
<b>Total</b>	<b>10,800</b>
<b>Liabilities and shareholders' equity</b>	
Trade payables	2,960
Loan	650
Provision for warranties	150
Deferred tax liability	290
Share capital	5,000
Retained earnings	1,750
<b>Total</b>	<b>10,800</b>

Tax rate is at 30%. Additional information for relevant assets and liabilities:

- (i) The company provides for doubtful debts, but tax rules allow only specific bad debts. The carrying amount of trade receivables of RM2.7 million is after providing for provision for doubtful debts amounting to RM300,000.
- (ii) Interest receivable refers to interest on investment. The company accrues interest on investment on a time basis, but interest on investment is taxable only upon receipt.
- (iii) Capital allowance given to plant for tax purposes is RM3.6 million. The carrying amount of plant of RM2 million is after providing for accumulated depreciation amounting to RM3 million.
- (iv) Research and development refers to the development costs that were capitalized. The tax law allows all research and development costs to be written off immediately in computing taxable profits.
- (v) Under tax rules, warranties are deductible expenses only when goods are returned or reimbursed. However, the company provides for warranties on goods sold only.

- (vi) The balance in the deferred tax liability account is the carried forward closing balances from the prior year.

**Required:**

- a) Prepare a table showing the carrying amount, tax base and temporary differences for each of the items above. Indicate the different types of temporary differences whenever applicable. (17 marks)
- b) Prepare relevant journal entries relating to the deferred tax, followed by the closing balances of the relevant account titles. (6 marks)

**QUESTION 2**

**(5 Marks)**

Liyana Sdn. Bhd. managed to secure a contract with Parumalar Sdn. Bhd. to transfer a software license, to provide an antivirus installation, and to provide software updates at the end of the first year and end of the second year. The total amount is amounting to RM 4,000.

Liyana also sells each of these components at:

Types	RM
Transfer software license	3,000
Antivirus installation	1,000
Software update- each time	500

**Required:**

Discuss how Liyana should account for the above transaction in accordance with the relevant standard (*Hint: Apply the five-step model and the accounting treatment. Journal entry is not necessary*).

**QUESTION 3**

**(15 Marks)**

- (i) During the financial year 2022, Firjani Bhd sued its main supplier for RM1.5 million damages for faulty supply of materials which had affected its production. As at the reporting date, a decision was given in favour of the entity. The hearing to determine the amount of damages, however, would only be held after the reporting date.
- (ii) Hanshelina Bhd had an overseas subsidiary involved in mining activities that caused significant damage to the environment. The mine was situated in a country where there was no environmental regulation requiring the entity to remedy environmental damage. It was estimated that the cost of restoration of the mining site, which was estimated to be in 10 years' time, would probably be RM15 million.

- (iii) Ilyas Bhd sold goods with a warranty where customers are covered for the cost of repairs due to manufacturing defects within the first year after purchase. Ilyas Bhd estimated that the probability of goods sold with major defects will be 25% and the estimated repair cost would be RM2 million.
- (iv) On 1 September, an employee of Muhaimin Bhd sued the entity for damages regarding serious injuries sustained, as a result of a breach of safety regulations. The claim for the damages amounted to RM2 million. Legal advisers of Muhaimin Bhd revealed that the outcome could be unfavourable. In addition, legal costs incurred during 2022 amounted to RM 100,000.
- (v) Ashlam Bhd operates a factory in a foreign country where there is no environmental legislation requiring entities to provide for the cost of environmental clean-up. In 2022, the factory operators caused a serious threat to the ecosystem of a nearby river, and the probable clean-up cost was estimated to be RM10 million. Ashlam Bhd had taken an insurance policy for environmental damages, and the insurers agreed to pay a compensation of RM7.5 million in January 2023. Ashlam Bhd was publicly acclaimed as a socially and environmentally responsible corporate citizen.

**Required:**

For each situation, discuss how the entity should account for the transactions in accordance with *MFRS 137 Provisions, Contingent Liabilities and Contingent Assets*, giving reasons for your answer. Assume that the accounting year end is 31 December 2022.

**QUESTION 4**

**(7 Marks)**

Farish Bhd. owns an office building 30 years ago for administrative purposes with a depreciated historical cost of RM2 million. On 1 July 2022, it had a remaining life of 20 years. After a reorganisation on 1 January 2023, the property was let to a third party and reclassified as an investment property using the fair value model. An independent valuer assessed the property to have a fair value of RM1.3 million on the date of reclassification, which had risen to RM1.34 million end of the financial year 2023. Farish's financial year ends on June 30.

**Required:**

Advise Farish on the different accounting treatments due to reclassification and list all relevant journal entries throughout the financial year 2023.

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