



PENINSULA
COLLEGE
GEORGETOWN DK266-03(P)



UNIVERSITY OF
PLYMOUTH

FINAL EXAMINATION

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| Semester | : | JANUARY 2025 SEMESTER |
| Programme Name | : | BA (HONOURS) ACCOUNTING & FINANCE 3+0 IN COLLABORATION WITH UNIVERSITY OF PLYMOUTH |
| Course Code & Name | : | MAL3007 ADVANCED FINANCIAL ACCOUNTING AND REPORTING |
| Duration | : | 3 HOURS |

INSTRUCTIONS TO CANDIDATES:

1. Please read the instructions given in the question paper **CAREFULLY**.
2. The question paper consists of **THREE (3)** questions.
3. Answer **ALL** questions in the question paper.
4. Answers to the questions are to be written into the examination booklet.
5. Electronic dictionaries, lecture notes, files or any unauthorised materials except writing equipment are strictly prohibited.

This question paper must be submitted along with all used and/or unused rough papers and/ or graph papers (if any). Candidates are **NOT ALLOWED** to take any examination paper(s) used or unused out of the examination hall.

WARNING:

The Examination Board of Peninsula College Georgetown regards cheating as a very serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from Peninsula College Georgetown.

(This booklet contains 6 printed pages including this page)

DO NOT OPEN THIS BOOKLET UNTIL YOU ARE ALLOWED TO DO SO

Answer **ALL** questions on the separate sheet provided.

[100 marks]

- On 1 January 2024, Maple Bhd. (Maple) acquired 70% of the equity share capital of Oak Bhd. (Oak). The consideration for the acquisition comprised a share exchange of three shares in Maple for every five shares acquired in Oak and a cash payment of RM1 per share acquired, which has already been recorded by Maple.

The share issue related to the acquisition has not yet been recorded by Maple. The market price of Maple's shares on the acquisition date was RM5 per share. The shares of Oak had a market price of RM3.50 each.

At the date of acquisition, the issued share capital of Maple and Oak consisted of 15 million and 8 million ordinary shares, respectively. No additional shares were issued by either company after this date.

Additionally, several years ago, Maple acquired a 30% equity interest in Pine Bhd. (Pine) for RM2.4 million when Pine's retained earnings stood at RM6 million. This investment, which grants Maple significant influence over Pine, has been recorded in Maple's books.

The summarised financial statements of Maple, Oak, and Pine are provided below:

Statements of profit or loss for the year ended 30 June 2024

| | Maple RM'000 | Oak RM'000 | Pine RM'000 |
|-------------------------|------------------|------------------|-----------------|
| Revenue | 270,000 | 195,000 | 97,500 |
| Cost of sales | <u>(189,000)</u> | <u>(150,000)</u> | <u>(75,000)</u> |
| Gross profit | 81,000 | 45,000 | 22,500 |
| Distribution costs | (16,680) | (13,548) | (7,732) |
| Administrative expenses | (27,460) | (17,500) | (8,240) |
| Finance costs | <u>(2,700)</u> | <u>(1,312)</u> | <u>(1,000)</u> |
| Profit before tax | 34,160 | 12,640 | 5,528 |
| Income tax expense | <u>(8,252)</u> | <u>(4,040)</u> | <u>(2,008)</u> |
| Profit for the year | <u>25,908</u> | <u>8,600</u> | <u>3,520</u> |

Statements of financial position as at 30 June 2024

| | Maple RM'000 | Oak RM'000 | Pine RM'000 |
|-------------------------------|-----------------|---------------|----------------|
| ASSETS | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 52,352 | 15,600 | 13,120 |
| Investments | <u>8,000</u> | <u>-</u> | <u>-</u> |
| | 60,352 | 15,600 | 13,120 |
| <i>Current assets</i> | | | |
| Inventories | 10,320 | 9,300 | 6,428 |
| Trade receivables | 3,300 | 1,500 | 1,124 |
| Cash and bank | <u>1,500</u> | <u>720</u> | <u>500</u> |
| | 15,120 | 11,520 | 7,872 |
| TOTAL ASSETS | <u>75,472</u> | <u>27,120</u> | <u>20,992</u> |

Statements of financial position as at 30 June 2024 (continued)

| | Maple RM'000 | Oak RM'000 | Pine RM'000 |
|-------------------------------------|----------------------|----------------------|----------------------|
| EQUITY AND LIABILITIES | | | |
| Ordinary shares | 15,000 | 8,000 | 7,200 |
| Retained earnings | <u>37,800</u> | <u>12,600</u> | <u>10,400</u> |
| Total equity | <u>52,800</u> | <u>20,600</u> | <u>17,600</u> |
| <i>Non-current liabilities</i> | | | |
| Long-term borrowings | 1,500 | 448 | 356 |
| <i>Current liabilities</i> | | | |
| Trade payables | 6,000 | 1,872 | 936 |
| Short-term borrowings | <u>15,172</u> | <u>4,200</u> | <u>2,100</u> |
| Total current liabilities | <u>21,172</u> | <u>6,072</u> | <u>3,036</u> |
| TOTAL EQUITY AND LIABILITIES | <u>75,472</u> | <u>27,120</u> | <u>20,992</u> |

Additional Information:

- At the acquisition date, all net assets of Oak were recorded at fair value except for its plant, which had a fair value of RM750,000 above its carrying amount. The plant is depreciated on a straight-line basis over its remaining useful life of five years. The group policy is to allocate all depreciation to cost of sales on a time-apportioned basis. Oak has not yet adjusted its assets to reflect this fair value.
- After the acquisition, Oak sold goods to Maple amounting to RM1,100,000 at a profit margin of 30%. By the year-end, half of these goods remained unsold.
- Oak's trade receivables as of 30 June 2024 included an amount of RM65,000 due from Maple, which did not match Maple's corresponding trade payable. This discrepancy was due to RM15,000 of cash in transit from Maple to Oak.
- The group applies the proportionate method to value non-controlling interests, based on the subsidiary's fair value at the acquisition date.
- There has been no impairment of consolidated goodwill.
- All revenues and expenses are assumed to accrue evenly throughout the year unless otherwise stated.
- Maple's policy is to value non-controlling interests at proportionate share of the fair value of the subsidiary's net assets.

Required:

- Prepare the consolidated statement of profit or loss for Maple Bhd. Group for the year ended 30 June 2024 in accordance with relevant accounting standards.
(15 marks)
- Prepare the consolidated statement of financial position for Maple Bhd. Group as at 30 June 2024 in accordance with relevant accounting standards.
(35 marks)
[Total: 50 marks]

2. Forest Bhd. (Forest) is a parent company with a presentation and functional currency of Ringgit Malaysia (RM). On 1 August 2022, Forest acquired 80 million equity shares of Tree Bhd. (Tree), a subsidiary located overseas that uses Dollar (\$) as its functional currency. At the date of acquisition, Tree's retained earnings stood at \$64 million.

Below are the summarised financial statements of Forest and Tree:

Statements of Financial Position as at 31 July 2024

| | Forest RM'mil | Tree \$'mil |
|-------------------------------------|------------------|----------------|
| ASSETS | | |
| <i>Non-current assets</i> | | |
| Property, plant and equipment | 10,600 | 468 |
| Investments | 680 | - |
| Loan to Trees | 76 | - |
| | 11,416 | 468 |
| <i>Current assets</i> | | |
| Inventories | 1,624 | 104 |
| Trade receivables | 448 | 40 |
| Cash and bank | 180 | 60 |
| | 2,252 | 204 |
| TOTAL ASSETS | 13,668 | 672 |
| EQUITY AND LIABILITIES | | |
| Ordinary shares | 1,200 | 100 |
| Share premium | 600 | 72 |
| Retained earnings | 10,196 | 200 |
| Total equity | 11,996 | 372 |
| <i>Non-current liabilities</i> | | |
| Long-term borrowings | 1,140 | 212 |
| <i>Current liabilities</i> | | |
| Trade payables | 440 | 40 |
| Short-term borrowings | 92 | 48 |
| Total current liabilities | 532 | 88 |
| TOTAL EQUITY AND LIABILITIES | 13,668 | 672 |

Additional Information:

1. The fair value of the net assets of Tree at the date of acquisition is assumed to be the same as the carrying amount
2. An impairment test as of 31 July 2024 revealed that Tree's recognised goodwill had to be written down by 25%. No previous impairment loss had been recognised.
3. Forest granted a loan of \$6 million to Tree on 1 August 2023. The loan is interest-free and will be repaid by Tree after six years.

4. The relevant exchange rates are as follows:

| Date | \$1: RM |
|--|---------|
| 1 August 2022 | 1: 3.50 |
| 31 July 2023 | 1: 3.90 |
| 1 August 2023 | 1: 3.90 |
| 31 July 2024 | 1: 3.25 |
| Average rate for the year ended 31 July 2024 | 1: 3.35 |

5. The group's policy is to value non-controlling interests at fair value at the date of acquisition. The fair value of the non-controlling interests in Tree was \$163 million at the acquisition date.
6. Tree's profit for the year ended 31 July 2024 amounted to \$99 million.
7. Forest and Tree have 1,200 million shares and 100 million shares in issue, respectively.

Required:

- a. Prepare a consolidated statement of financial position for Forest Bhd. Group as at 31 July 2024 in accordance with relevant international accounting standards.
(36 marks)
- b. Explain the calculation of goodwill and the treatment of exchange differences on goodwill in the consolidated financial statements.

(4 marks)
[Total: 40 marks]

3. a. Sedap acquired 10% of the equity voting shares and 80% of the non-voting preferred shares of Yum Yum. The directors of Sedap are also the directors of Yum Yum, there is a common head office with shared administration departments and the functions of Yum Yum are mainly the provision of transport facilities for Sedap. Another company, Bestie, holds 90% of the remaining equity voting shares of Yum Yum but has never used its voting power to interfere with the decisions of the directors.

(5 marks)

- b. Hazel acquired 25% of the shares of Pine several years ago with the intention of acquiring influence over the operating and financial policies of that company. Pine sells 90% of its output to Hazel. While Hazel has a veto over the operating and financial decisions of Pine's board of directors, it has only used this veto on one occasion in the past to prevent that company from supplying to two of the Hazel's competitors.

(3 marks)

Required:

Consider the above two cases and give your opinion on whether or not there is a parent/subsidiary relationship. You should clearly explain your reasoning with reference to IFRS 3 Business Combinations.

- c. Pearl holds 30% of the voting shares of Keys. Moon, Bolt and Rain each hold 20% of the voting rights of Keys. The remaining voting rights are held by five other investors, each holding 2%. There are no other arrangements that affect decision-making.

Required:

Explain whether Pearl should consolidate Keys in accordance with IFRS 10 Consolidated Financial Statements.

(2 marks)

[Total: 10 marks]

- END OF QUESTIONS -