

CF04

Basic Accounting

14 OCTOBER 1999

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions on 6 pages
3. Number of questions to be answered : All five (5) questions
4. Show details of working, where appropriate. Silent, non-programmable calculators may be used.
5. Mathematical tables are provided in this question paper.
6. Begin each answer to a new question on a fresh page.
7. Answer **all** questions in **English**.

ANSWER ALL FIVE (5) QUESTIONS

1. The following trial balance was extracted from the books of Meorazam Sdn Bhd on 30 June 1999:

TRIAL BALANCE AS AT 30 JUNE 1999

	Dr RM	Cr RM
Purchases and sales	86,012	120,510
Stock as at 1 July 1998	6,260	
Wages	14,730	
Term loan		9,000
Cash in hand	176	
Leasehold premises, at cost	30,500	
Discount allowed and discount received	615	1,072
Bank balance		1,587
Repairs to premises	1,080	
Carriage inwards	369	
Carriage outwards	876	
Motor van, at cost	11,400	
Accumulated depreciation on motor van		2,850
Electricity	945	
Debtors and creditors	4,080	2,452
Equipment, at cost	6,150	
Motor van running expenses	2,055	
Return inwards and return outwards	398	467
Rates	1,890	
Insurance	171	
Bad debts written-off	231	
Share capital		30,000
	167,938	167,938

Additional information:

- (i) The stock as at 30 June 1999 was valued at RM6,930.
- (ii) The remaining lease period for premises is **four** years as at 30 June 1999.
- (iii) Meorazam Sdn Bhd has decided to depreciate the motor van at 25% per annum using reducing balance method and the equipment at 20% per annum using straight-line method.
- (iv) Electricity cost amounting to RM63 is still owing as at 30 June 1999.
- (v) Payments in advance as at 30 June 1999 were as follows:

Items	RM
Rates	420
Insurance	30

- (vi) Meorazam Sdn Bhd had obtained the term loan from a bank on 1 January 1999. Interest at 10% per annum has not been paid.
- (vii) The bank has advised Meorazam Sdn Bhd that interest yet to be charged on the bank overdraft amounted to RM142.
- (viii) Meorazam Sdn Bhd has the following share capital structure:
- Authorised : 50,000 ordinary shares of RM1 each.
 - Issued and fully paid-up : 30,000 ordinary shares of RM1 each.
- (ix) The tax agent of Meorazam Sdn Bhd has advised that no tax provision is required for the financial year ended 30 June 1999 since 1999 is a tax-free year.
- (x) Provision for doubtful debts is at 5% of the trade debtors' balance as at 30 June 1999.
- (xi) Meorazam Sdn Bhd's directors have proposed a final dividend of 5%.

Required:

- (a) Prepare the following for Meorazam Sdn Bhd (wherever necessary, round up your answers to the nearest Ringgit):
- (i) Trading and Profit and Loss Account (in vertical format) for the year ended on 30 June 1999. [15]
- (ii) Balance Sheet as at 30 June 1999. [10]
- (b) Briefly explain the difference between "authorised" share capital and "issued and fully paid-up" share capital. [3]
(Total:28 marks)
2. (a) On 1 January 1997, Eza Bhd owned the following assets and had made provisions for depreciation as follows:

Items	Cost (RM)	Provision for depreciation (RM)
Trucks (acquired within the past five years)	99,840	29,076
Handling equipment (acquired within the past four years)	22,320	11,520

During the year ended 31 December 1997, an additional second-hand truck costing RM18,800 and an additional unit of handling equipment costing RM9,600 were purchased.

During the year ended 31 December 1998, a truck originally purchased in 1994 for RM22,500 was sold for RM2,800 and handling equipment purchased for RM4,500 in 1995 was sold for RM1,200.

Eza Bhd's depreciation policy is as follows:

- Trucks : at 20% per annum using straight-line method
 Handling equipment : at 25% per annum using straight-line method

A full year's depreciation is provided in the year of acquisition of the asset. It is the company's practice not to provide the usual depreciation in the year of disposal of any assets but to make the adjustment through the Disposal of Assets account.

Required:

Prepare the following accounts for the financial years ended 31 December 1997 and 31 December 1998:

- (i) Trucks account [2]
- (ii) Handling equipment account [2]

- (iii) Provision for depreciation of trucks account [4]
- (iv) Provision for depreciation of handling equipment account [4]
- (v) Disposal of trucks account [4]

- (b) Kimmie and Jessie jointly won the grand prize in a national quiz competition. They were offered the following **two** alternatives which are of equal risk:

- Alternative 1 : Receive RM20,000 now *or*
 Alternative 2 : Receive RM50,000 at the end of **ten** years

Both Kimmie and Jessie have come to you for advice and they inform you that they require an interest rate of return of 9%.

- (i) Which alternative (Alternative 1 or Alternative 2) should Kimmie and Jessie accept? Show all workings. [4]
- (ii) What would be your advice to Kimmie and Jessie if the organiser of the national quiz competition decides to offer a 5-year annuity of RM6,000 payable at the end of each year as Alternative 3? Show all workings. [3]

(Total:23 marks)

3. (a) Identify the generally accepted accounting concepts or conventions from the table below to be followed in each of the statements from (i) to (v).

- | |
|--|
| <ul style="list-style-type: none"> • Accounting entity • Consistency • Measuring unit • Historical cost • Matching principle • Materiality |
|--|

- (i) Land is valued at cost. [1]
- (ii) Small tools used by a large manufacturing firm are recorded as expenses when purchased. [1]
- (iii) Depreciation on plant assets is consistently computed each year by using straight-line method. [1]
- (iv) A sole-proprietor decided to use the same bank account for his personal affairs as well as for his business. [1]
- (v) Associating expense with a particular revenue or time period. [1]
- (b) Select the **best** answer for each of the following:
- (i) An intangible asset may include:
- A. mineral deposits.
 B. franchise.
 C. construction work-in-progress.
 D. leasehold property. [1]
- (ii) A limited company is not characterised by:
- A. separate legal entity.
 B. limited liability.
 C. mutual agency.
 D. perpetual existence. [1]

(iii) Alam Sinar Sdn Bhd recently purchased **five** units of calculators for RM50 each. It was guaranteed that the calculators would last for at least **three** years. Nonetheless, the accountant of Alam Sinar Sdn Bhd charged the full RM250 to an expense account. This treatment is based on the:

- A. historical cost convention.
- B. matching principle.
- C. realisation concept.
- D. materiality principle.

[1]

(iv) Sri Bayu Sdn Bhd, a transport company replaced all the tyres of **10** of its trucks. This cost should be accounted for:

- A. as an increase in the cost of trucks.
- B. as a repair and maintenance expense.
- C. as an intangible asset.
- D. as a reduction of the accumulated depreciation of the trucks.

[1]

(v) A rights issue:

- A. will not bring new funds into the company.
- B. will not increase the number of shares issued.
- C. will not affect the proportional ownership of shareholders who do not take up their rights entitlement.
- D. will increase the total shareholders' equity.

[1]

(Total:10 marks)

4. Nagasari Berhad ("Nagasari") is the exclusive rights agent for several world renowned designers/fashion houses. Its head-office is located at Shah Alam, Selangor. For the financial year ended 31 December 1998, Nagasari's auditor did not conduct a stock-take until 6 January 1999. The storekeeper of Nagasari confirmed that no goods had been received between 1 January 1999 to 6 January 1999.

The stock-take sheet contained the following items:

Stock Item	Quantity (units)	Original unit cost (RM)	Expected unit selling price (RM)	Status comments
Brand "Q"	250	1,800	2,700	All okay.
Brand "R"	150	900	1,500	20 units soiled - will sell at 50% of the selling price.
Brand "S"	100	1,200	1,250	All okay.
Brand "T"	20	750	1,350	10 units damaged – will be thrown away.
Brand "U"	60	600	900	All okay.
Brand "V"	50	1,500	1,350	Selling price has fallen due to change in customers' demand.

Additional information:

Nothing has been heard about the sale of 60 units of Brand "U" on a sales or return basis. These goods were despatched on 5 January 1999.

Required:

Using the above information, compute the correct stock valuation of Nagasari for the financial year ended 31 December 1998 based on the following format. You are also required to explain the valuation treatment for each of the stock items.

Stock Item	Stock Valuation (RM)
Brand "Q"	
Brand "R"	
Brand "S"	
Brand "T"	
Brand "U"	
Brand "V"	
<i>Total</i>	

(Total:18 marks)

5. Encik Zaki and Mr Chin had acquired a food processing business on 1 July 1998. They borrowed a term loan of RM80,000 from your bank for the purchase of machineries and working capital for the company. The results of the **first** year trading after their acquisition ended 30 June 1999 are as follows:

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1999

	RM	RM
Sales		480,000
Opening stock	43,200	
Purchases	384,000	
	427,200	
<i>Less: Closing stock</i>	91,200	336,000
Gross profit		144,000
Electricity and water	5,400	
Promotional and marketing expenses	2,400	
Travelling and transport expenses	7,200	
Interest expenses	12,600	
Depreciation	16,800	
Salaries	39,600	84,000
Net profit before taxation		60,000

BALANCE SHEET AS AT 30 JUNE 1999

	RM	RM
Fixed assets		
Factory premises : at cost	84,000	
: accumulated depreciation	1,680	82,320
Machineries : at cost	151,200	
: accumulated depreciation	15,120	136,080
Current assets		
Stock	91,200	
Debtors	30,000	
	121,200	
Current liabilities		
Creditors	38,400	
Bank overdraft	61,200	
	99,600	
Net current assets		21,600
		240,000
Financed by:		
Ordinary shares of RM1 each		96,000
Retained profits		64,000
		160,000
10-year term loan		80,000
		240,000

Encik Zaki and Mr Chin seek your views on the results of their **first** year's trading. The industry's average for the various financial ratios are shown below:

<u>Items</u>	<u>Industry's average</u>
Gross profit margin	33.33%
Stock turnover	6 times
Net profit margin	15%
Current ratio	1.7
Quick/acid test ratio	0.9
Average age of debtors	30 days
Average age of creditors	30 days
Fixed assets turnover	2
Return on total assets	20%
Long-term debts to shareholders' fund	35%

Required:

- (a) Calculate the above financial ratios for Encik Zaki and Mr Chin's business for the year ended 30 June 1999. Show all relevant workings. [15]
- (b) Comment on the results of Encik Zaki and Mr Chin's business during its **first** year. [6]
- (Total:21 marks)

TABLE 1

Present Value of RM1:

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350	0.317	0.287	0.261	0.237	0.215
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319	0.286	0.257	0.231	0.208	0.187
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290	0.258	0.229	0.204	0.182	0.163
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263	0.232	0.205	0.181	0.160	0.141
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239	0.209	0.183	0.160	0.140	0.123
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218	0.188	0.163	0.141	0.123	0.107
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198	0.170	0.146	0.125	0.108	0.093
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180	0.153	0.130	0.111	0.095	0.081
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164	0.138	0.116	0.098	0.083	0.070
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073	0.061
21	0.811	0.660	0.538	0.439	0.359	0.294	0.242	0.199	0.164	0.135	0.112	0.093	0.077	0.064	0.053
22	0.803	0.647	0.522	0.422	0.342	0.278	0.226	0.184	0.150	0.123	0.101	0.083	0.068	0.056	0.046
23	0.795	0.634	0.507	0.406	0.326	0.262	0.211	0.170	0.138	0.112	0.091	0.074	0.060	0.049	0.040
24	0.788	0.622	0.492	0.390	0.310	0.247	0.197	0.158	0.126	0.102	0.082	0.066	0.053	0.043	0.035
25	0.780	0.610	0.478	0.375	0.295	0.233	0.184	0.146	0.116	0.092	0.074	0.059	0.047	0.038	0.030
Period	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%	26%	27%	28%	29%	30%
1	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806	0.800	0.794	0.787	0.781	0.775	0.769
2	0.743	0.731	0.718	0.706	0.694	0.683	0.672	0.661	0.650	0.640	0.630	0.620	0.610	0.601	0.592
3	0.641	0.624	0.609	0.593	0.579	0.564	0.551	0.537	0.524	0.512	0.500	0.488	0.477	0.466	0.455
4	0.552	0.534	0.516	0.499	0.482	0.467	0.451	0.437	0.423	0.410	0.397	0.384	0.373	0.361	0.350
5	0.476	0.456	0.437	0.419	0.402	0.386	0.370	0.355	0.341	0.328	0.315	0.303	0.291	0.280	0.269
6	0.410	0.390	0.370	0.352	0.335	0.319	0.303	0.289	0.275	0.262	0.250	0.238	0.227	0.217	0.207
7	0.354	0.333	0.314	0.296	0.279	0.263	0.249	0.235	0.222	0.210	0.198	0.188	0.178	0.168	0.159
8	0.305	0.285	0.266	0.249	0.233	0.218	0.204	0.191	0.179	0.168	0.157	0.148	0.139	0.130	0.123
9	0.263	0.243	0.225	0.209	0.194	0.180	0.167	0.155	0.144	0.134	0.125	0.116	0.108	0.101	0.094
10	0.227	0.208	0.191	0.176	0.162	0.149	0.137	0.126	0.116	0.107	0.099	0.092	0.085	0.078	0.073
11	0.195	0.178	0.162	0.148	0.135	0.123	0.112	0.103	0.094	0.086	0.079	0.072	0.066	0.061	0.056
12	0.168	0.152	0.137	0.124	0.112	0.102	0.092	0.083	0.076	0.069	0.062	0.057	0.052	0.047	0.043
13	0.145	0.130	0.116	0.104	0.093	0.084	0.075	0.068	0.061	0.055	0.050	0.045	0.040	0.037	0.033
14	0.125	0.111	0.099	0.088	0.078	0.069	0.062	0.055	0.049	0.044	0.039	0.035	0.032	0.028	0.025
15	0.108	0.095	0.084	0.074	0.065	0.057	0.051	0.045	0.040	0.035	0.031	0.028	0.025	0.022	0.020
16	0.093	0.081	0.071	0.062	0.054	0.047	0.042	0.036	0.032	0.028	0.025	0.022	0.019	0.017	0.015
17	0.080	0.069	0.060	0.052	0.045	0.039	0.034	0.030	0.026	0.023	0.020	0.017	0.015	0.013	0.012
18	0.069	0.059	0.051	0.044	0.038	0.032	0.028	0.024	0.021	0.018	0.016	0.014	0.012	0.010	0.009
19	0.060	0.051	0.043	0.037	0.031	0.027	0.023	0.020	0.017	0.014	0.012	0.011	0.009	0.008	0.007
20	0.051	0.043	0.037	0.031	0.026	0.022	0.019	0.016	0.014	0.012	0.010	0.008	0.007	0.006	0.005
21	0.044	0.037	0.031	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.008	0.007	0.006	0.005	0.004
22	0.038	0.032	0.026	0.022	0.018	0.015	0.013	0.011	0.009	0.007	0.006	0.005	0.004	0.004	0.003
23	0.033	0.027	0.022	0.018	0.015	0.012	0.010	0.009	0.007	0.006	0.005	0.004	0.003	0.003	0.002
24	0.028	0.023	0.019	0.015	0.013	0.010	0.008	0.007	0.006	0.005	0.004	0.003	0.003	0.002	0.002
25	0.024	0.020	0.016	0.013	0.010	0.009	0.007	0.006	0.005	0.004	0.003	0.003	0.002	0.002	0.001

TABLE 2

Present Value of an Annuity of RM1 per period:

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	6.207	5.938	5.687	5.453	5.234
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	6.492	6.194	5.918	5.660	5.421
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103	6.750	6.424	6.122	5.842	5.583
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367	6.982	6.628	6.302	6.002	5.724
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606	7.191	6.811	6.462	6.142	5.847
16	14.718	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824	7.379	6.974	6.604	6.265	5.954
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022	7.549	7.120	6.729	6.373	6.047
18	16.398	14.992	13.754	12.659	11.690	10.828	10.059	9.372	8.756	8.201	7.702	7.250	6.840	6.467	6.128
19	17.226	15.678	14.324	13.134	12.085	11.158	10.336	9.604	8.950	8.365	7.839	7.366	6.938	6.550	6.198
20	18.046	16.351	14.877	13.590	12.462	11.470	10.594	9.818	9.129	8.514	7.963	7.469	7.025	6.623	6.259
21	18.857	17.011	15.415	14.029	12.821	11.764	10.836	10.017	9.292	8.649	8.075	7.562	7.102	6.687	6.312
22	19.660	17.658	15.937	14.451	13.163	12.042	11.061	10.201	9.442	8.772	8.176	7.645	7.170	6.743	6.359
23	20.456	18.292	16.444	14.857	13.489	12.303	11.272	10.371	9.580	8.883	8.266	7.718	7.230	6.792	6.399
24	21.243	18.914	16.936	15.247	13.799	12.550	11.469	10.529	9.707	8.985	8.348	7.784	7.283	6.835	6.434
25	22.023	19.523	17.413	15.622	14.094	12.783	11.654	10.675	9.823	9.077	8.422	7.843	7.330	6.873	6.464
Period	16%	17%	18%	19%	20%	21%	22%	23%	24%	25%	26%	27%	28%	29%	30%
1	0.862	0.855	0.847	0.840	0.833	0.826	0.820	0.813	0.806	0.800	0.794	0.787	0.781	0.775	0.769
2	1.605	1.585	1.566	1.547	1.528	1.509	1.492	1.474	1.457	1.440	1.424	1.407	1.392	1.376	1.361
3	2.246	2.210	2.174	2.140	2.106	2.074	2.042	2.011	1.981	1.952	1.923	1.896	1.868	1.842	1.816
4	2.798	2.743	2.690	2.639	2.589	2.540	2.494	2.448	2.404	2.362	2.320	2.280	2.241	2.203	2.166
5	3.274	3.199	3.127	3.058	2.991	2.926	2.864	2.803	2.745	2.689	2.635	2.583	2.532	2.483	2.436
6	3.685	3.589	3.498	3.410	3.326	3.245	3.167	3.092	3.020	2.951	2.885	2.821	2.759	2.700	2.643
7	4.039	3.922	3.812	3.706	3.605	3.508	3.416	3.327	3.242	3.161	3.083	3.009	2.937	2.868	2.802
8	4.344	4.207	4.078	3.954	3.837	3.726	3.619	3.518	3.421	3.329	3.241	3.156	3.076	2.999	2.925
9	4.607	4.451	4.303	4.163	4.031	3.905	3.786	3.673	3.566	3.463	3.366	3.273	3.184	3.100	3.019
10	4.833	4.659	4.494	4.339	4.192	4.054	3.923	3.799	3.682	3.571	3.465	3.364	3.269	3.178	3.092
11	5.029	4.836	4.656	4.486	4.327	4.177	4.035	3.902	3.776	3.656	3.543	3.437	3.335	3.239	3.147
12	5.197	4.988	4.793	4.611	4.439	4.278	4.127	3.985	3.851	3.725	3.606	3.493	3.387	3.286	3.190
13	5.342	5.118	4.910	4.715	4.533	4.362	4.203	4.053	3.912	3.780	3.656	3.538	3.427	3.322	3.223
14	5.468	5.229	5.008	4.802	4.611	4.432	4.265	4.108	3.962	3.824	3.695	3.573	3.459	3.351	3.249
15	5.575	5.324	5.092	4.876	4.675	4.489	4.315	4.153	4.001	3.859	3.726	3.601	3.483	3.373	3.268
16	5.668	5.405	5.162	4.938	4.730	4.536	4.357	4.189	4.033	3.887	3.751	3.623	3.503	3.390	3.283
17	5.749	5.475	5.222	4.990	4.775	4.576	4.391	4.219	4.059	3.910	3.771	3.640	3.518	3.403	3.295
18	5.818	5.534	5.273	5.033	4.812	4.608	4.419	4.243	4.080	3.928	3.786	3.654	3.529	3.413	3.304
19	5.877	5.584	5.316	5.070	4.843	4.635	4.442	4.263	4.097	3.942	3.799	3.664	3.539	3.421	3.311
20	5.929	5.628	5.353	5.101	4.870	4.657	4.460	4.279	4.110	3.954	3.808	3.673	3.546	3.427	3.316
21	5.973	5.665	5.384	5.127	4.891	4.675	4.476	4.292	4.121	3.963	3.816	3.679	3.551	3.432	3.320
22	6.011	5.696	5.410	5.149	4.909	4.690	4.488	4.302	4.130	3.970	3.822	3.684	3.556	3.436	3.323
23	6.044	5.723	5.432	5.167	4.925	4.703	4.499	4.311	4.137	3.976	3.827	3.689	3.559	3.438	3.325
24	6.073	5.746	5.451	5.182	4.937	4.713	4.507	4.318	4.143	3.981	3.831	3.692	3.562	3.441	3.327
25	6.097	5.766	5.467	5.195	4.948	4.721	4.514	4.323	4.147	3.985	3.834	3.694	3.564	3.442	3.329

OUTLINE ANSWERS

Question 1

Overall performance on the preparation of a full set of final accounts, both the Profit and Loss account and the Balance Sheet, were quite good. However, candidates are advised to concentrate on the final layout and presentation of the accounts.

(a) (i)

Meorazam Sdn Bhd
Trading, Profit and Loss Account
For the year ended 30 June 1999

	RM	RM	RM
Sales			120,510
Less: Returns inwards			398
			120,112
Less: Cost of sales			
Stock on 1 July 1998		6,260	
Add: Purchases	86,012		
Less: Returns outwards	467		
	85,545		
Add: Carriage inwards	369	85,914	
		92,174	
Less: Stock on 30 June 1999		6,930	85,244
Gross profit			34,868
Discount received			1,072
			35,940
Less: Expenses			
Wages		14,730	
Discount allowed		615	
Repairs to premises		1,080	
Carriage outwards		876	
Electricity (945 + 63)		1,008	
Motor van running expenses		2,055	
Rates (1,890 - 420)		1,470	
Insurance (171 - 30)		141	
Depreciation			
- Leasehold premises		6,100	
- Equipment		1,230	
- Motor van		2,138	
Interest expenses			
- Overdraft		142	
- Term loan (RM9,000x 10% x 6/12)		450	
Bad debt written off		231	
Provision for doubtful debts		204	
			32,470
Net profit before taxation			3,470
Taxation			-
Net profit after taxation			3,470
Dividend – final dividend proposed			1,500
			1,970

(ii)

Meorazam Sdn Bhd
Balance Sheet as at 30 June 1999

	RM Cost	RM Accumulated Depreciation	RM Net book value
<i>Fixed assets</i>			
Leasehold premises	30,500	6,100	24,400
Motor van (W1)	11,400	4,988	6,412
Equipment	6,150	1,230	4,920
	48,050	12,318	35,732
<i>Current assets</i>			
Stock		6,930	
Debtors (4,080- 204)		3,876	
Prepayment (420 + 30)		450	
Cash in hand		176	
		11,432	
<i>Current liabilities</i>			
Creditors		2,452	
Accrued charges (W2)		655	
Proposed dividend (W3)		1,500	
Bank overdraft		1,587	
		6,194	
<i>Net current assets</i>			5,238
			40,970
<i>Financed by:</i>			
Authorised share capital: 50,000 ordinary shares of RM1 each			50,000
Issued and fully paid-up 30,000 ordinary shares of RM1 each			30,000
Retained profits			1,970
			31,970
Term loan			9,000
			40,970

(iii) **Workings:**(W1) Motor van

Current year depreciation charge (on reducing balance basis) is,

	RM
Cost	11,400
Less: accumulated depreciation	(2,850)
Net book value at 1 July 1998	8,550
	<u>X 25%</u>
Charge for the year	2,138
	=====

Accumulated depreciation = Balance b/f + current year charge

Therefore,

$$\text{RM2,850} + \text{RM2,138} = \text{RM4,988}$$

(W2) Accrued charges comprises:

	RM
Interest charges : Overdraft	142
: Term loan	450
Electricity	63
	655
	=====

(W3) Proposed dividend = RM30,000 x 5% = RM1,500

- (b) Whilst authorised share capital refers to the maximum number of share capital which a company is allowed to issue to its shareholders; issued and fully paid up share capital refers to the part of authorised share capital which has been issued or allotted and fully paid-up by the shareholders. If the entire authorised share capital has been issued, then both authorised and issued share capital would be of the same amount.

Question 2

This question attempts to examine candidates on double entries principles on fixed assets, which include acquisition and disposal of assets, and time value. This question was poorly attempted and candidates displayed poor understanding of double entries principles on fixed assets as many were unable to draw up a proper set of accounts with proper double entries. As in previous sittings, the majority of the candidates showed lack of understanding of the concept of time value as they were unable to provide satisfactory answers.

- (a) Eza Bhd's Ledger Books

(i)		Trucks Account			
			RM		RM
1997				1997	
Jan. 1	Balance b/d		99,840	Dec. 31	Balance c/d
Dec. 31	Bank		18,800		
			118,640		
			118,640		118,640
1998				1998	
Dec. 31	Balance b/d		118,640	Dec. 31	Disposal of
					Trucks Account
					22,500
				Dec. 31	Balance c/d
					96,140
			118,640		118,640
			118,640		118,640

(ii)		Handling Equipment Account			
			RM		RM
1997				1997	
Jan. 1	Balance b/d		22,320	Dec. 31	Balance c/d
Dec. 31	Bank		9,600		
			31,920		
			31,920		31,920
1998				1998	
Dec. 31	Balance b/d		31,920	Dec. 31	Disposal of
					Handling
					Equipment
					Account
					4,500
				Dec. 31	Balance c/d
					27,420
			31,920		31,920
			31,920		31,920

(iii)		Provision For Depreciation of Trucks Account			
			RM		RM
1997				1997	
Dec. 31	Balance c/d		52,804	Jan. 1	Balance c/d
				Dec. 31	Profit & Loss
					Account
			52,804		23,728
			52,804		52,804
1998				1998	
Dec. 31	Balance c/d		72,032	Jan. 1	Balance b/d
				Dec. 31	Profit & Loss
					Account
					19,228
			72,032		72,032
			72,032		72,032

(iv) Provision For Depreciation of Handling Equipment Account					
1997			1997		
Dec. 31	Balance c/d	RM 19,500	Jan. 1	Balance c/d	RM 11,520
			Dec. 31	Profit & Loss Account	7,980
		<u>19,500</u>			<u>19,500</u>
1998			1998		
Dec. 31	Balance c/d	26,355	Jan.1	Balance b/d	19,500
			Dec. 31	Profit & Loss Account	6,855
		<u>26,355</u>			<u>26,355</u>

(v) Disposal of Trucks Account					
1998			1998		
Dec. 31	Trucks Account	RM 22,500	Dec. 31	Provision of depreciation of trucks account	18,000
			Dec. 31	Bank	2,800
		<u>22,500</u>	Dec. 31	Loss on disposal	1,700
					<u>22,500</u>

Workings:1. Depreciation for year ended 31 December 1997

- Trucks = RM118,640 x 20% = RM 23,728
- Handling Equipment = RM31,920 x 25% = RM7,980

2. Accumulated depreciation for disposal of assets in Year 1998

Therefore, accumulated depreciation for:

- Trucks (from Year 1994 to Year 1997) = RM22,500 x 20% x 4 years = RM18,000
- Handling equipment (from Year 1995 to Year 1997) = RM4,500 x 25% x 3 years = RM3,375

3. Depreciation for year ended 31 December 1997

- Trucks = RM96,140 x 20% = RM 19,228
- Handling Equipment = RM27,420 x 25% = RM6,855

(b) (i) The general formula to establish present value of a single receipt is:

$$\text{Present Value (PV)} = \frac{\text{Future value (FV)}}{(1+k)^n}$$

Therefore,

$$\text{PV} = \text{RM50,000 (PVIF}_{9\%, 10})$$

Since $\text{PVIF}_{9\%, 10} = 0.422$

Therefore,

$$\text{PV} = \text{RM50,000 (0.422)} = \text{RM21,100}$$

Theoretically, barring any unforeseen circumstances, it would be advisable for Kimmie and Jessie to accept the RM50,000 at end of year 10 instead of accepting RM20,000 now. This is in view of the fact that they will get extra RM1,100 if they were to opt for RM50,000 at end of year 10 as compared to accepting RM20,000 now.

- (ii) Based on the option of a 5-year annuity of RM6,000 instalment payment payable at end of year, Kimmie and Jessie should receive in terms of present value the following:

The present value of the RM6,000 a year annuity can be established as follows:

Year	Annuity	PVIF, 9%,n	Present value(RM)
1	RM6,000	0.917	5,502
2	“	0.842	5,052
3	“	0.772	4,632
4	“	0.708	4,248
5	“	0.650	3,900
		3.889	23,334

Alternatively, you may compute the present value of the annuity by referring to the PVIFA k,n table. The formula is as follows:

$$PV = RM6,000 (PVIFA_{9\%,5}), \text{ where } (PVIFA_{9\%,5}) = 3.890$$

Therefore, the present value of RM6,000 a year annuity for 5 years is:

$$PV = RM6,000 \times 3.890 = RM23,340 \text{ (the difference is merely rounding up difference)}$$

Based on the foregoing, the RM6,000 a year annuity for 5 years is the BEST alternative as it offers the highest present value to Kimmie and Jessie.

Question 3

Generally, candidates' knowledge and understanding of basic accounting principles and concepts were of average level. However, there were still quite a number of candidates who were not strong in the basic accounting concepts. Candidates need to read up more and practice on past year examination questions to have a stronger grasp of the fundamentals of accounting principles and concepts.

- (a) (i) historical cost
(ii) materiality
(iii) consistency
(iv) accounting entity
(v) matching principle
- (b) (i) B
(ii) C
(iii) D
(iv) B
(v) D

Question 4

The question on stock valuation, i.e. the lower of cost and net market value rule (the “LCM rule”) was badly attempted as most candidates failed to even apply the LCM rule and were unable to compute the cost of stock correctly under specific circumstances. Candidates have a tendency to ignore the “comment” part of the question and hence did not provide comments or explanations as required.

Stock Item	Stock Valuation RM	Workings	Remarks
Brand "Q"	450,000	250 @ RM1,800	LCM. Therefore, value at original unit cost of RM1,800.
Brand "R"	132,000	(130 @ RM900) + (20 @ RM750)	The 20 soiled units which will probably sell at 50% of selling price (i.e. RM750) are valued at 20 x RM750. Whereby, the remaining 130 will be valued at RM900 per unit.
Brand "S"	120,000	100 @ RM1,200	LCM rule. Therefore, to be valued at RM1,200 per unit.
Brand "T"	7,500	10 @ RM750	10 units will be written-off. Hence, no value is assigned to the 10 damaged units. The remaining 10 units will be valued at RM750 per unit based on LCM rule.
Brand "U"	36,000	60 @ RM600	The 60 units which were dispatched on 5 January 1999 was on "sales or return basis" or "consignment basis". Under the generally accepted accounting standards in Malaysia, sales on "sales or return basis" are deemed sold only when the consignee confirms the sales. Until such time, the consignor (i.e. Nagasari in this instance) is still the legal owner of the stocks. As such, Nagasari could still recognise the 60 units of stock although at the date of stock-take, the goods were not in its premises/warehouse. Based on LCM rule, the value is determined at RM600 per unit.
Brand "V"	67,500	50 @ RM1,350	Based on LCM rule. The stock should be valued at the selling price which is RM1,350 per unit.
	Total: 813,000		

Question 5

Despite being a popular question in almost every sitting, most candidates were unable to compute the key financial ratios correctly and failed to display their understanding when required to interpret the ratios analytically by comparing with the industry's ratios. Candidates again, did not attempt to comment on the results and for those who did, it was a rather disappointing attempt as most candidates reported the results instead of giving an analytical outlook based on the results.

The question aims to test candidates' knowledge in stock valuation and the usage of the lower of cost and net realisable value (i.e. LCM) rule.

$$(a) \quad \frac{\text{Gross profit margin}}{(\text{Gross profit/sales}) \times 100\%} = \frac{\text{RM144,000}}{\text{RM480,000}} \times 100\% = 30\%$$

$$\frac{\text{Stock turnover}}{\text{Cost of goods sold/average stock}} = \frac{\text{RM336,000}}{\frac{1}{2} (\text{RM43,200} + \text{RM91,200})} = 5 \text{ times}$$

<u>Net profit margin</u> = Net profit before taxation (NP)/sale	=	$\frac{\text{RM}60,000}{\text{RM}480,000} \times 100\%$	=	12.5%
<u>Current ratio</u> = Current assets/current liabilities	=	$\frac{\text{RM}121,200}{\text{RM}99,600}$	=	1.22
<u>Liquid (quick) ratio</u> = Current assets-stock/current liabilities	=	$\frac{\text{RM}30,000}{\text{RM}99,600}$	=	0.30
<u>Average age of debtors</u> = Debtors/Sales x 365 days	=	$\frac{\text{RM}30,000}{\text{RM}480,000} \times 365 \text{ days}$	=	23 days
<u>Average age of creditors</u> = Creditors/Purchases x 365 days	=	$\frac{\text{RM}38,400}{\text{RM}384,000} \times 365 \text{ days}$	=	37 days
<u>Fixed assets turnover</u> = Sales/fixed assets	=	$\frac{\text{RM}480,000}{\text{RM}218,400}$	=	2.2
<u>Return on total assets</u> = (NP + interest)/Total assets x 100%	=	$\frac{(\text{RM}60,000 + \text{RM}12,600)}{\text{RM}339,600} \times 100\%$	=	21%
<u>Long-term debts to shareholders' fund</u> = Long-term debts/Shareholders' fund	=	$\frac{\text{RM}80,000}{\text{RM}160,000} \times 100\%$	=	50%

(b) Profitability & Efficiency

- The company's gross profit margin is lower than the industry average (30% as compared to 33 1/3%). Its net profit margin is also lower than the industry average (12.5% as compared to 15%). However, its return on total assets is higher than the industry average (21% as compared to 20%).
- Based on the ratios, it is apparent that the company is efficient in utilising its assets, particularly its fixed assets. This is revealed in the relatively higher fixed assets turnover ratio of 2.2 times as compared to 2.0 times of the industry's average.
- The lower net profit margin could be due to high borrowing cost as a result of high gearing of the company as compared to the industry average.

Liquidity

- The company's liquidity position may be regarded as rather weak as compared to those in the same industry. This is evidenced by its lower current and quick ratios. As a result, it has taken longer time to repay its creditors than those in the industry (37 days as compared to 30 days).
- However, the company's average age of debtor's payback period of 23 days reveals that the company may have a better debt collection policy than its counterparts in the same industry. Hopefully, the debt collection policy is not too stringent which might be detrimental to the future sales of the company.

Solvency

- The company is highly geared compared to those in the same industry (50% as compared to 35%).
- The company should improve its gearing position in order to enhance its profitability. This can be done via raising more capital by issuance of more new shares (e.g. rights issues).