

CF04

Basic Accounting

7 OCTOBER 2004

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions
3. Number of questions to be answered : All five (5) questions
4. Show details of workings 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 taken from the books of i-Read Sdn Bhd.

TRIAL BALANCE AS AT 30 JUNE 2004

	DR	CR
	RM'000	RM'000
Revenue		13,130
Cost of goods sold	11,650	
Debtors and creditors	2,755	1,845
Prepayment and accruals	18	21
Premises, at cost	1,920	
Furniture and fittings, at cost	1,312	
Motor vehicles, at cost	369	
6% irredeemable convertible unsecured loan stock (ICULS)		1,200
Issued and paid-up share capital:		
- Ordinary shares		1,875
- 8% preference shares		300
Interest paid on ICULS (for 6 months to 31 December 2003)	36	
Inventory as at 30 June 2004	1,120	
Bank	195	
Auditors' remuneration	40	
Accumulated provision for depreciation to 30 June 2004		
- Furniture and fittings		363
- Motor vehicles		156
Preference dividend – paid (half year)	12	
Depreciation charge for the year	215	
Directors' remuneration	115	
Administration, selling and distribution costs	612	
Shares premium		512
Retained profits as at 1 July 2003		962
Taxation	37	
Provision for taxation		42
	20,406	20,406

Additional information as at 30 June 2004:

- Premises are to be revalued to RM2,560,000.
- Fire insurance for the premises amounting to RM84,000 has been included as part of administration, selling and distribution costs. The insurance premium is for one year period from 1 October 2003.
- On 1 June 2004, a new vehicle was purchased from Motortrade Sdn Bhd on credit for RM82,500, to replace an old vehicle, which was purchased on 3 March 2001. Motortrade Sdn Bhd agreed on a trade-in price of RM2,500 for the old vehicle. The original purchase price of the old vehicle was RM35,000. All motor vehicles are depreciated at 40% on reducing balance method. The vehicles have a full year's depreciation charged for each financial year, regardless of the date of purchase, except in the financial year of sale, when no depreciation is charged. Loss on disposal of motor vehicle is included as part of administration, selling and distribution costs.
- The debtors' figure given in the trial balance is net after deduction of a provision of doubtful debts of 5%. A review of the debts has revealed a bad debts of RM38,000 should be written off. Provision for doubtful debt for the year has been included as part of administration, selling and distribution costs.
- Authorised shares capital include:
 - 3,750,000 ordinary shares of RM0.50 each.
 - 300,000 8% preference shares of RM1.00 each, dividend payable half yearly.
- The Irredeemable Convertible Unsecured Loan Stock is for a period of five years from 1 January 2002 to 31 December 2006. Interest is payable on half-yearly basis. Interest for six months to 30 June 2004 has not been accrued for in accounts.
- The directors propose payment of the preference dividend for the second half of the year, and a final dividend of RM0.03 for each ordinary share. All dividends are to be paid out from tax-exempt account.

Required:

- (a) Prepare the following for i-Read Sdn Bhd:
- (i) Profit and Loss Account for the financial year ended 30 June 2004. [10]
 - (ii) Balance Sheet as at 30 June 2004. [10]
 - (iii) Disposal of motor vehicles account for the financial year ended 30 June 2004. [4]

(Note: Your answers should be to the nearest one decimal point.)

- (b) The Board of Directors ("Board") of i-Read Sdn Bhd is proposing to increase the company's issued and paid-up share capital via bonus issue.

You are required to advise the Board on the following:

- (i) The benefit of issuing bonus shares via capitalisation of non-distributable reserves as opposed to distributable reserves. [2]
- (ii) The maximum number of bonus shares that can be issued by i-Read Sdn Bhd via capitalisation of its available non-distributable reserves. [2]

(Total:28 marks)

2. (a) The following information have been gathered by the accounts clerk of Dragon Gate Restaurant ("Dragon Gate"):

- The bank statement on 30 June 2004 shows a balance of RM60,000.
- A service charge of RM105 was included in the bank statement.
- There was a deposit of RM3,250 on the bank statement for the monthly rent from the sub-tenants.
- Cheques numbered #222541 and #222545 for RM1,305 and RM2,705, respectively, were not among the cheques returned with the bank statement.
- The cheque deposited by the accounts clerk of RM1,123 on 30 June 2004 was not captured in the bank statement.
- The accounts clerk has mistakenly recorded a RM80 cheque payment to a supplier as RM800.
- Included with the cancelled cheques was a cheque written and cancelled by Dragon Gate for RM2,008 which was deducted from Dragon Gate's account by the bank.
- The cash in the bank account showed a balance of RM55,256.

Required:

Taking into account the given information, prepare the following:

- (i) An updated cash and bank account as at 30 June 2004. [4]
- (ii) Bank reconciliation as at 30 June 2004. [4]

(b) Syarikat Ken O Mayo purchased machinery on January 2002 at a total cost of RM65,500. Mr Mayo (the owner) estimated the useful life of the machinery to be 8 years or 1.25 million hours, with an estimated residual value of RM3,000. The machinery was used for 123,500 hours in 2002 and 162,500 hours in 2003.

Required:

Calculate depreciation expense for years 2002 and 2003 under each of the following methods:

	2002	2003
(i) Straight-line		
(ii) Unit-of-production		
(iii) Sum-of-years' digits		

(Note: Your answers should be to the nearest one decimal point.)

[6]
(Total:14 marks)

3. For each of the following questions, choose the **correct** answer (A, B, C or D):
- (a) Which accounting convention is observed when motor vehicles under hire-purchase are shown in the balance sheet?
- A. Accruals.
 B. Materiality.
 C. Prudence.
 D. Substance over form. [2]
- (b) AXA Sdn Bhd's factory was completely burnt down during a fire and the production has ceased since then. There was insufficient insurance coverage. Thus, there is great uncertainty about the business continuity.
- What accounting concept does this illustrate?
- A. Matching.
 B. Materiality.
 C. Prudence.
 D. Going concern. [2]
- (c) The **two** main types of inventory systems are:
- A. operating and selling.
 B. single-step and multiple-step.
 C. periodic and perpetual.
 D. standard and report bases. [2]
- (d) At the beginning of the financial year, Jako Sdn Bhd had a provision for doubtful debts of RM2,750. At the end of the financial year, the required provision was RM3,750. During the financial year, debts of RM975 were written off and RM525 was received in respect of a debt written off many years ago.
- What is the net amount charged to the Profit and Loss Account for provision for doubtful debts?
- A. RM1,000.
 B. RM1,450.
 C. RM1,500.
 D. RM1,975. [2]
- (e) Which of the following is **always** adopted as a means of stock valuation under the generally accepted accounting practices for stocks/inventory?
- A. First-in, first-out (FIFO).
 B. Last-in, first-out (LIFO).
 C. Base stock.
 D. Replacement cost. [2]
- (f) What is classified as a current liability in a balance sheet?
- A. Prepaid expenses.
 B. Proposed dividend.
 C. Deferred taxation.
 D. Preference shares. [2]
- (g) Which of the following assets does **not** need to be depreciated?
- A. A quarry.
 B. A leasehold property.
 C. A freehold land.
 D. An oil well. [2]

- (h) A business has a gross profit margin and net profit margin of 30% and 8% respectively. If the sales volume increase by 12%, which of the following will be **TRUE**?

Gross profit margin

Net profit margin

- A. Increases
B. Increases
C. Unchanged
D. Unchanged

- Decreases
Increases
Decreases
Increases

[2]

- (i) A limited company purchases a business by issuing 200,000 RM1.00 ordinary shares at a premium of RM0.50 per share. The net tangible assets of the company is RM225,000.

Which of the following is known as the excess payment over and above the net tangible assets of the company?

- A. Revaluation surplus.
B. Retained earnings.
C. Goodwill.
D. Capital reserves.

[2]

- (j) The Board of Directors would like to propose interim cash dividend.

Which of the following can be utilised for this purpose?

- A. Retained earnings.
B. Share premium.
C. Foreign exchange reserves.
D. Revaluation reserves.

[2]

(Total:20 marks)

4. Fountain Spring Sdn Bhd has introduced a new product, "Stream". Its budgeted unit sales for July 2004 to October 2004 are as follows:

Months	July	August	September	October
Units	750	680	720	850

Stream is sold at RM1,600 per unit.

Budgeted unit costs are:

Item	RM
Direct material	270
Direct labour	375
Variable overheads (including selling expenses)	225

- 75% of the sales are on credit. It is expected that 75% of that figure will be paid during the month following the sale and will be allowed a 2.5% discount. The remaining customers who pay by credit are expected to pay the full amount 2 months after sales. Customers who pay cash are allowed a discount of 5%.
- Each month's production is planned to meet the following month's sales, whilst purchases of direct materials meet the following month's production. All suppliers are paid during the month after purchase, to qualify for a 3% discount.
- The workers are paid for each month's labour during the month of production.
- Variable overheads and selling expenses are paid during the month after production.

- Annual fixed overheads is RM48,000. The amounts are being paid equally every month with the exception of insurance premium, which is paid quarterly and commences on April each year. Included in the fixed overhead is depreciation and insurance premium of RM7,200 and RM3,600 per annum respectively.
- At the beginning of July 2004, there was a bank overdraft of RM10,200.

Required:

Prepare a budgeted cash flow statement for Fountain Spring Sdn Bhd for the **three** months from July 2004 to September 2004. (Total:17 marks)

5. The following information was furnished to you by the Board of Directors of Sri Gemilang Sdn Bhd (“Sri Gemilang”).

	30 June 2004 RM'000	30 June 2003 RM'000
Inventory	2,247	2,498
Sales	6,480	7,125
Purchases	4,200	4,350
Cost of goods sold	5,850	6,690
Expenses	125	285
Trade debtors	1,515	1,830
Trade creditors	630	750

All sales and purchases assumed to be made on credit terms and there are 365 days in the year. You are not required to calculate average figures.

Required:

- (a) Calculate the following ratios for Sri Gemilang for the financial years ended 30 June 2003 and 2004:
- (i) Gross profit margin [3]
 - (ii) Net profit margin [3]
 - (iii) Trade debtor turnover (i.e. average collection period) [in days] [3]
 - (iv) Trade creditors turnover [in days] [3]
 - (v) Stock turnover period [in days] [3]
- (Note: Your answers should be to the nearest one decimal point.)
- (b) Calculate the length of the working capital cycle (in days) for years 2003 and 2004. [2]
- (Note: Working capital cycle (days) = Debtors Turnover + Stock turnover – Creditors Turnover)
- (c) You are requested by the Board of Directors of Sri Gemilang to suggest **two** ways in which the length of the overall working capital cycle can be improved. [4]

Total:21 marks)

- END OF QUESTION PAPER -

OUTLINE ANSWERS

The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

Question 1

- Candidates were unable to identify the items that were supposed to be in the Profit and Loss Account and the Balance Sheet.
- Candidates were confused with the additional information given in the question on depreciation and fixed asset disposal account.

1. (a) (i)

i-READ BHD PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004

	RM'000	RM'000
Revenue		13,130
Cost of sales		(11,650)
Gross profit		1,480
Interest expenses (36+36)		(72)
Directors' remuneration		(115)
Auditors' remuneration		(40)
Administration, selling and distribution costs [(612) – insurance (84x3/12) – over provision for doubtful debts (145 – 143) + bad debts written off (38)]		(627)
Depreciation		(215)
Net profit before taxation		411
Taxation		(37)
Net profit after taxation		374
Dividend - preference dividend (paid)		(12)
preference dividend (proposed)		(12)
ordinary dividend (proposed)		(112.5)
Profit for the year		237.5
Retained profits as at 1 July 2003		962
Retained profits as at 30 June 2004		1,199.5

1. (a) (ii)

i-READ SDN BHD
BALANCE SHEET AS AT 30 JUNE 2004

	Cost/ revalued	Acc Dep	NBV
	RM'000	RM'000	RM'000
Fixed assets			
Premises, at revaluation	2,560	-	2,560
Furniture and fittings	1,312	(363)	949
Motor vehicles	369	(156)	213
	4241	(519)	3,722
Current assets			
Inventories			1,120
Debtors (2900 – b/d w/off (38) – (145 – 2)			2,719
Prepayment (18) + insurance (21)			39
Bank			195
			4,073
Current liabilities			
Creditors			1,845
Accruals (21) + interest (36)			57
Provision for taxation			42
Proposed dividend (12 + 112.5)			124.5
			2,068.5
Net current assets			2,004.5
			5,726.5
Financed by:			
Share capital - ordinary shares			1,875
- preference shares			300
Share premium			512
Revaluation reserves (2560 – 1920)			640
Retained profits			1,199.5
			4,526.5
6% - irredeemable convertible unsecured loan stock			1,200
			5,726.5

1. (a) (iii)

**DISPOSAL OF MOTOR VEHICLE ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2004**

	RM		RM
Motor vehicle	35,000	Accumulated depreciation	27,440
		Trade-in price	2,500
		Loss on disposal – P&L	5,060
	35,000		35,000

(W1) Accumulated depreciation

	Depreciation (RM)	NBV (RM)
FYE 30/6/2001	14,000	21,000
FYE 30/6/2002	8,400	12,600
FYE 30/6/2003	5,040	7,560
	27,440	

- (b) (i) Since a company cannot frank cash dividend based on its non-distributable reserves, it will be beneficial for i-Read Sdn Bhd to conserve its distributable reserves for future cash dividend franking, should the need arise.
- (ii) RM1,152,000 (being share premium of RM512,000 and revaluation reserves of RM640,000).

Question 2

- Candidates could not present the bank reconciliation.
- Candidates were unable to present the straight-line method of depreciation correctly.

2. (a) (i)

**RESTORAN DRAGON GATE
CASH AND BANK ACCOUNT (UPDATED) AS AT 30 JUNE 2004**

	RM		RM
Balance b/f	55,256	Service charges	105
Rental from sub-tenant	3,250	Balance c/f	59,121
Clerical error (800 – 80)	720		
	<u>59,226</u>		<u>59,226</u>

(ii)

**RESTORAN DRAGON GATE
BANK RECONCILIATION AS AT 30 JUNE 2004**

	RM'000
As per bank statement @ 30/6/2004	60,000
Uncredited lodgement	1,123
Bank error	2,008
	<u>63,131</u>
Unpresented cheques	
- # 222541	(1,305)
- # 222545	(2,705)
As per Cash & Bank a/c (updated)	<u>59,121</u>

(b)

		Workings	2002	2003
			RM	RM
(i)	Straight-line	(65500-3000)/8	7812.5	7812.5
(ii)	Unit of production	(2002) 123500/1250000 x 62500 (2003) 162500/1250000 x 62500	6,175	8,125
(iii)	Sum-of-year	(2002) 62500 x 8/36 (2003) 62500 x 7/36	13,889	12,153

Question 3

- No comments were provided for this question.

3. (a) D
 (b) D
 (c) C
 (d) D
 (e) A
 (f) B
 (g) C
 (h) D
 (i) C
 (j) A

Question 4

- Candidates were unable to present budgeted cash flow statement.

4.

**FOUNTAIN SPRING SDN BHD
 BUDGETED CASH FLOW FOR 3 MONTHS FROM SEPTEMBER TO NOVEMBER 2004
 (THOSE IN SHADED COLUMNS ONLY)**

	July	Aug	Sep	Oct
	RM	RM	RM	RM
<u>Inflow</u>				
Cash sales (net)	285,000	258,400	273,600	323,000
Credit sales (net)	-	702,000	636,480	673,920
Credit sales (no discount)	-	-	180,000	163,200
	285,000	960,400	1,090,080	1,160,120
<u>Outflow</u>				
Direct material	(178,092)	(188,568)	(222,615)	0
Direct labour	(255,000)	(270,000)	(318,750)	0
Variable overheads	(168,750)	(153,000)	(162,000)	(191,250)
Fixed overheads	(4,000)	(3,100)	(3,100)	(4,000)
	(605,842)	(614,668)	(706,465)	(195,250)
Net inflow (outflow)	(320,842)	345,732	383,615	964,870
Beginning balance	(10,200)	(331,042)	14,690	398,305
Ending balance	(331,042)	14,690	398,305	1,363,175

Workings

1 Sales

	July	Aug	Sep	Oct
Unit	750	680	720	850
Unit price 1,600				
Cash sales	300,000	272,000	288,000	340,000
Cash discount 5%	(15,000)	(13,600)	(14,400)	(17,000)
Cash sales (net)	285,000	258,400	273,600	323,000
Credit sales (with discount)		720,000	652,800	691,200
Discount 2.50%		(18,000)	(16,320)	(17,280)
		70,200	63,648	673,920
Credit sales (with no discount)			180,000	163,200
2 Direct Material				
Production unit	680	720	850	0
Unit cost (RM) 270				
Direct material - payment	183,600	194,400	229,500	0
Less: Discount 3%	(5,508)	(5,832)	(6,885)	0
	178,092	188,568	222,615	0
3 Direct labour				
Unit cost 375				
Direct labour	255,000	270,000	318,750	0
4 Variable overheads				
Unit cost 225				
	168,750	153,000	162,000	191,250
5 Fixed overheads 48,000				
Less: Depreciation – 7,200				
Insurance – 3,600				
	37,200	3,100	3,100	3,100
Insurance premium 3,600		900		900
	4,000	3,100	3,100	4,000

Question 5

- Candidates could not compute the basic ratios such as gross profit margin and net profit margin correctly.

5. (a)

		Workings	2004	2003
(i)	Gross profit margin	$(6480-5850)/6480 = 9.72\%$ $(7125-6690)/7125 = 6.11\%$	9.7%	6.1%
(ii)	Net profit margin	$(6480-5850-125)/6480 = 7.79\%$ $(7125-6690-285)/7125 = 2.11\%$	7.8%	2.1%
(iii)	Trade debtors turnover (days)	$(1515/6480) \times 365 = 85.34$ days $(1830/7125) \times 365 = 93.75$ days	85 days	94 days
(iv)	Trade creditors turnover (days)	$(630/4200) \times 365 = 54.75$ days $(750/4350) \times 365 = 62.93$ days	54.8 days	62.9 days
(v)	Stock turnover (days)	$(2247/5850) \times 365 = 140.2$ days $(2498/6690) \times 365 = 136.29$ days	140.2 days	136.3 days

(b)

	2004	2003
Working capital cycle (days) = Debtors Turnover + Stock turnover – Creditors Turnover		
85 days + 140.2 days – 54.8 days	170.4 days	167.4 days
94 days + 136.3 days – 62.9 days		

(c) Ways to improve the length of the overall working capital cycle.

(Give any two of the following ways:)

- Shorten the stock turnover period by using the just-in-time system rather than keeping a huge stockpile.
- Shorten the debtor turnover period by tightening credit terms to debtors or improving credit collection.
- Lengthen the payout period to creditors (but not at the expense of losing creditworthiness).