

**CF04**

# **Basic Accounting**

**14 APRIL 2005**

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 extracted from the accounts of Federal Gold Sdn Bhd:

### TRIAL BALANCE AS AT 31 MARCH 2005

Item	DR RM	CR RM
Ordinary share capital - issued and fully paid up		4,000,000
Retained profits as at 1 April 2004		2,650,000
Share premium		1,000,000
Freehold property, at cost	5,500,000	
Equipment, at cost	1,100,000	
- Provision for depreciation as at 31 March 2004		220,000
Fixtures and fittings, at cost	900,000	
- Provision for depreciation as at 31 March 2004		180,000
Motor vehicles, at cost	750,000	
- Provision for depreciation as at 31 March 2004		137,500
Stock as at 31 March 2004	1,800,000	
Purchases	6,800,000	
Sales		16,000,000
Carriage inwards	350,000	
Carriage outwards	630,000	
Returns inwards	375,000	
Returns outwards		150,500
Discount allowed	94,000	
Discount received		46,000
Debtors	1,830,000	
Creditors		1,980,000
Provision for bad and doubtful debts		36,000
Wages	1,200,000	
General office expenses	578,000	
Marketing expenses	1,110,000	
Directors' remuneration	250,000	
7.5% Interim dividend paid on all issued and fully paid-up share capital	300,000	
Cash in hand	353,000	
Cash at bank	2,480,000	
	26,400,000	26,400,000

Additional information available as at 31 March 2005:

- The authorised ordinary share capital of Federal Gold Sdn Bhd is RM10,000,000 at RM1.00 each.
- Closing stock as at 31 March 2005 was valued at RM2,200,000.
- To accrue RM3,600 for general office expenses.
- To accrue RM10,000 for auditors' remuneration.
- Marketing expenses included RM15,000 advertisement cost for the month of April 2005.
- A bill for carriage outwards amounting to RM1,000 for the month of February 2005 had not been recorded in the books.
- Wages due and unpaid totalled RM4,000.
- The provision for bad and doubtful debts is at 3% of debtors' balance as at 31 March 2005.
- The provision for depreciation on fixed assets is as follows:
  - Equipment at 20% using the straight line method.
  - Fixtures and fittings at 20% using the straight line method.
  - Motor vehicles at 25% using the reducing balance method.
- Freehold property was revalued at RM10,000,000.
- Corporate tax for the year is estimated at RM300,000.
- The directors have proposed a transfer of RM500,000 to general reserve.

**Required:**

Prepare the following for Federal Gold Sdn Bhd:

- (a) Profit and Loss Account for the financial year ended 31 March 2005. [17]
- (b) Balance Sheet as at 31 March 2005. [13]
- (Total:30 marks)

2. The following information was taken from the cash book of Chuan Huat Sdn Bhd:

**CASH BOOK (BANK COLUMN)**

2005	Item	RM	2005	Item	Cheque	RM
3 March	Fortune Sdn Bhd	6,600	1 March	Balance b/f		6,000
4 March	Syarikat Klip-Klip	3,400	5 March	Subra	622321	5,100
7 March	Popu Trading	5,700	8 March	Jelita Enterprise	622322	7,200
16 March	Simon	2,300	14 March	Ginagino Trading	622323	3,700
17 March	James Trading	1,100	21 March	Syarikat Supreme	622324	1,010
20 March	Ah Wah Enterprise	1,900	26 March	Conquest Sdn Bhd	622325	4,770
23 March	Suzie	2,800	31 March	Balance c/f		3,020
25 March	Syarikat Klip-Klip	4,400				
31 March	Fortune Sdn Bhd	2,600				
		<u>30,800</u>				<u>30,800</u>

Chuan Huat Sdn Bhd received the following bank statement from Bank JJ Bhd:

**BANK JJ BHD  
BANK STATEMENT FOR THE MONTH OF MARCH 2005**

2005	Item	DR RM	CR RM	Balance RM	
1 March	Balance b/f			6,000	O/D
4 March	Banking		6,600	600	
7 March	Banking		3,400	4,000	
8 March	Cheque no: 622321	5,100		1,100	O/D
9 March	Banking		5,700	4,600	
10 March	Cheque no: 622322	7,200		2,600	O/D
16 March	Cheque no: 622323	3,700		6,300	O/D
17 March	Banking		2,300	4,000	O/D
18 March	Banking		1,100	2,900	O/D
23 March	Banking		1,900	1,000	O/D
24 March	Standing order - insurance	400		1,400	O/D
29 March	Banking		2,800	1,400	
30 March	Credit transfer – XYZ Sdn Bhd		2,200	3,600	
31 March	Bank charges	500		3,100	

\* O/D - Overdraft

**Required:**

Prepare the following for Chuan Huat Sdn Bhd:

- (a) An updated cash book (bank column). [4]
- (b) The bank reconciliation statement as at 31 March 2005. [5]
- (Total:9 marks)

3. For each of the following questions, choose the **correct** answer (A, B, C or D):

- (a) Which of the following should be treated as capital expenditure?
- A. The addition of a back-up system on an existing computer at a cost of RM900.
  - B. The replacement of a broken wooden fence with a new fence.
  - C. Cost incurred in repairing a car when the cost cannot be recovered from the insurance company.
  - D. Rent paid for a factory, whilst the company negotiated to purchase the same factory.
- [1½]
- (b) Which of the following is classified as revenue expenditure?
- A. Cost of repairs to factory plant and machinery.
  - B. Cost of painting new office premises during construction.
  - C. Wages of a company's own workmen for building an office extension.
  - D. Legal fees for the purchase of new factory premises.
- [1½]
- (c) Which of the following assets does **NOT** need to be depreciated?
- A. Freehold land.
  - B. Oil well.
  - C. Quarry.
  - D. Revaluated property.
- [1½]
- (d) The current ratio of a company increased from 1.5 to 1.8.
- Which of the following gave rise to the increase?
- A. Granted cash discounts to customers.
  - B. Gave more credit terms to customers.
  - C. Purchased more stock at year end.
  - D. Issued more ordinary shares for cash.
- [1½]
- (e) Which of the following types of capital will all limited companies have?
- A. Convertible loan stock.
  - B. Debentures.
  - C. Ordinary shares.
  - D. Preference shares.
- [1½]
- f) A vehicle costs RM90,000. The vehicle was later sold for RM27,000 and the profit on the disposal was RM4,500.
- What was the accumulated depreciation of the vehicle on disposal?
- A. RM58,500
  - B. RM66,500
  - C. RM67,500
  - D. RM85,500
- [1½]
- (g) Which of the following is **NOT** a source of long-term finance?
- A. Debentures.
  - B. Bank overdrafts.
  - C. Ordinary shares.
  - D. Preference shares.
- [1½]

- (h) Fitness Trading Company ("Fitness") uses the straight line method for the provision of depreciation of its equipment.

Why should Fitness continue using this method in subsequent years?

- A. To ensure that the balance sheet always shows the market value of its equipment.
- B. To ensure that profits are stated on a consistent basis over time.
- C. Other methods of depreciation are not suitable for depreciating its equipment.
- D. Accounting principles do not allow accounting methods to be changed. [1½]

- (i) En Zamley, a sole trader, pays his private electricity bills from the business account but records them as drawings.

Which of the following accounting concepts is being applied above?

- A. Matching.
- B. Prudence.
- C. Consistency.
- D. Business entity. [1½]

- (j) Which of the following **BEST** defines a business as a going concern?

- A. The business has accumulated revenue reserves.
- B. The business has more assets than liabilities.
- C. The business is currently liquid and able to pay its creditors.
- D. The business will continue in operational existence for the foreseeable future. [1½]

- (k) The following information relates to a company's fixed assets:

Item	RM
Cost as at 1 January 2004	100,000
Accumulated depreciation as at 1 January 2004	58,000
Purchases for the year ended 31 December 2004	43,000

Depreciation is 25% per annum on a reducing balance method.

What is the depreciated value of the fixed assets for the year?

- A. RM21,250
- B. RM25,000
- C. RM28,750
- D. RM50,250 [1½]

- (l) Beautiful Boutique revalued some of its old stock at net realisable value.

Which of the following accounting concepts is being applied above?

- A. Materiality.
- B. Prudence.
- C. Consistency.
- D. Going concern. [1½]

- (m) The cost of buying paper clips is treated as an expense even though the paper clips last for several years.

Which of the following accounting concepts is being applied above?

- A. Materiality.
- B. Prudence.
- C. Consistency.
- D. Going concern. [1½]

- (n) Chair model E434B costs RM120.00 per unit. The furniture company expects to make a gross profit margin of 60%.

What is the gross profit of this product?

- A. RM72.00  
 B. RM45.00  
 C. RM180.00  
 D. RM192.00

[1½]  
 (Total:21 marks)

4. Rachel is looking into the possibility of starting a costume jewellery business on 1 June 2005 in a shopping mall. She intends to start off with RM10,000 of her own savings and borrow RM20,000 from her father. She has provided the following projections for the first three months of her business:

Item	RM
Stall space rental per month	1,500
Purchase of stock	
- June 2005	10,000
- July 2005	12,000
- August 2005	15,000
Wages per month	2,400
Purchase of wooden stall in June 2005	3,300
Wrappers and bags	
- June 2005	300
Sundry and motor vehicle expenses per month	1,500
Sales	
- June 2005	18,000
- July 2005	28,000
- August 2005	40,000

Additional information:

- Rachel expects to sell 75% on cash term and 25% on one-month credit term.
- Her purchase of stock is to be 50% on cash term and 50% on a one-month credit term.
- Stock balance at the end of each month is estimated at 20% of each month's purchase.
- The wooden stall has an estimated life of 5 years and provision for depreciation will be calculated at the end of each accounting year.

**Required:**

Prepare the following for Rachel:

- (a) Cash budget for the **three** months from June 2005 to August 2005. [14½]  
 (b) Profit and Loss Account for the three-month period ending 31 August 2005. [5½]

(Total:20 marks)

5. Suria Trading is in the hampers and gift business. The following is an extract of Suria Trading's trial balance for the financial year ended 31 December 2004:

Item	RM
Sales	2,500,000
Cost of goods sold	500,000
Interest income	2,000
Marketing expenses	90,000
General expenses	60,000
Financial charges	3,000
Motor vehicle expenses	55,000
Capital	500,000
Stock	65,000
Debtors	125,000
Creditors	220,000
Cash balance	38,000
Bank balance	230,000

**Required:**

- (a) Calculate the following ratios using the above information:
- (i) Gross profit margin [2]
  - (ii) Net profit margin [2]
  - (iii) Current ratio [2]
  - (iv) Acid test ratio [2]
  - (v) Return on capital employed [2]
- (b) Compare and comment on the performance of Suria Trading based on the ratios calculated in (a) above for the financial year ended 31 December 2004, with Gift Box Trading's performance given below:

Gross profit margin	60%
Net profit margin	40%
Current ratio	2.0 : 1
Acid test ratio	1.2 : 1
Return on capital employed	250%

[10]  
(Total:20 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 should be in the Profit and Loss Account and the Balance Sheet.

1. (a) **FEDERAL GOLD SDN BHD**  
**PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR ENDED**  
**31 MARCH 2005**

	RM	RM	RM
Sales			16,000,000
less: Return inwards			375,000
			15,625,000
less: Cost of goods sold:			
Opening stock		1,800,000	
Purchases	6,800,000		
less: Return outwards	150,500		
	6,649,500		
add: Carriage inwards	350,000	6,999,500	
		8,799,500	
less: Closing stock		2,200,000	
			6,599,500
Gross profit			9,025,500
Discount received			46,000
			9,071,500
less: Expenses			
Carriage outwards	(630,000+1,000)	631,000	
Discount allowed		94,000	
Increase in Provision for bad and doubtful debts [(1,830,000 x 3%) – 36,000]		18,900	
Wages [1,200,000 + 4,000]		1,204,000	
General office expenses [578,000 + 3,600]		581,600	
Marketing expenses [1,110,000 – 15,000]		1,095,000	
Directors' remuneration		250,000	
Auditors' remuneration		10,000	
Provision for depreciation:			
- Equipment [1,100,000 x 20%]		220,000	
- Fixtures and fittings [900,000 x 20%]		180,000	
- Motor vehicles [(750,000 – 137,500) x 25%]		153,125	
			4,437,625

Net Profit before taxation		4,633,875
less: Corporate tax		300,000
Net Profit after taxation		4,333,875
add: Retained profits as at 1 April 2004		2,650,000
		6,983,875
Appropriated as follows:		
Transfer to general reserve	500,000	
Interim ordinary dividend	300,000	
		800,000
Retained profit as at 31 March 2005		6,183,875

1. (b)

**Balance Sheet as at 31 March 2005**

	<u>RM</u> <u>Cost</u>	<u>RM</u> <u>Accm Depn</u>	<u>RM</u> <u>NBV</u>
<u>Fixed assets</u>			
Freehold property at revaluation	10,000,000	-	10,000,000
Equipment	1,100,000	440,000	660,000
Fixtures and fittings	900,000	360,000	540,000
Motor vehicles	750,000	290,625	459,375
	<u>12,750,000</u>	<u>1,090,625</u>	<u>11,659,375</u>
<u>Current assets</u>			
Stock		2,200,000	
Debtors (1,830,000 – 54,900)		1,775,100	
Prepayment		15,000	
Cash at bank		2,480,000	
Cash in hand		353,000	
		<u>6,823,100</u>	
<u>Current liabilities</u>			
Creditors (1,980,000 + 1,000)	1,981,000		
Accruals (4,000 + 3,600 + 10,000)	17,600		
Provision for Taxation	300,000		
		<u>2,298,600</u>	
Net current assets			<u>4,524,500</u>
			<u>16,183,875</u>
<u>Financed by:</u>			
		<u>Authorised</u>	<u>Issued</u>
Ordinary share capital		<u>10,000,000</u>	4,000,000
<u>Reserves</u>			
Revaluation reserve		4,500,000	
Share premium		1,000,000	
General reserve		500,000	
Retained profits		<u>6,183,875</u>	
			<u>12,183,875</u>
			<u>16,183,875</u>

**Question 2**

- Candidates were unable to present an updated cash book.
- Candidates are advised to match the information in the bank statement with that in the cash book.

2. (a)

**UPDATED CASH BOOK (BANK COLUMN)**

2005		RM	2005		RM
31 March	Balance b/f	3,020	31 March	Insurance	400
	Sykt XYZ	2,200		Bank charges	500
		<u>5,220</u>		Balance c/f	<u>4,320</u>
		<u><u>5,220</u></u>			<u><u>5,220</u></u>

(b)

**Bank Reconciliation Statement as at 31 March 2005**

		RM
Bank balance as per updated cash book		4,320
Add: unpresented cheques:		
	622324	1,010
	622325	<u>4,770</u>
		<u>5,780</u>
		10,100
less: uncleared cheques:		
	Syarikat Klip-Klip	4,400
	Fortune Sdn Bhd	<u>2,600</u>
		<u>7,000</u>
		<u><u>3,100</u></u>

**Question 3**

- Candidates showed poor understanding of the accounting principles.

- 3.
- (a) A
  - (b) A
  - (c) D
  - (d) D
  - (e) C
  - (f) C
  - (g) B
  - (h) B
  - (i) D
  - (j) D
  - (k) A
  - (l) B
  - (m) A
  - (n) C

**Question 4**

- Candidates were unable to present a cash budget and a Profit and Loss Account.

4. (a)

**Rachel  
Cash Budget for three months from June 2005 to August 2005**

	<b>June</b>	<b>July</b>	<b>Aug</b>	<b>Total</b>
	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>
Receipts:				
Sales	13,500	25,500	37,000	76,000
<i>Total cash receipt</i>	<u>13,500</u>	<u>25,500</u>	<u>37,000</u>	<u>76,000</u>
Payments:				
Wooden stall	3,300			3,300
Stall space rental	1,500	1,500	1,500	4,500
Purchases of stock	5,000	11,000	13,500	29,500
Wages	2,400	2,400	2,400	7,200
Sundry expense	1,500	1,500	1,500	4,500
Wrappers and bags	300			300
	<u>14,000</u>	<u>16,400</u>	<u>18,900</u>	<u>49,300</u>
Surplus/(Deficit)	(500)	9,100	18,100	
Opening Balance	30,000	29,500	38,600	
Closing Balance	<u>29,500</u>	<u>38,600</u>	<u>56,700</u>	

(b) **Profit and Loss Account for the three months period ending 31 August 2005**

Sales		<b>RM</b>
		86,000
less: Cost of goods sold	(10,000 + 12,000 + 15,000) – (15,000 x 20%)	<u>34,000</u>
Gross profit		52,000
less: Expenses		
Stall space rental		4,500
Wages		7,200
Sundry expenses		4,500
Wrappers and bags		<u>300</u>
		<u>16,500</u>
Net profit		<u><u>35,500</u></u>

**Workings:**

<b>(1) Sales</b>	<b>RM Cash Sales</b>	<b>RM Credit Sales</b>	<b>RM Cash Receipts</b>
June	13,500	4,500	13,500
July	21,000	7,000	25,500
August	30,000	10,000	37,000

<b>(2) Purchases</b>	<b>RM Cash Payment</b>
June = 10,000 x 50%	5,000
July = (10,000 x 50%) + (12,000 x 50%)	11,000
August = (12,000 x 50%) + (15,000 x 50%)	13,500
	29,500

### Question 5

- Candidates could not give a satisfactory interpretation of the computed financial ratios.

5. (a)

(i) Gross profit margin =  $\frac{(\text{Sales} - \text{Cost of goods sold})}{\text{Sales}} \times 100\%$   
=  $\frac{(2,500,000 - 500,000)}{2,500,000} \times 100\%$   
= 80.0%

(ii) Net profit margin =  $\frac{(\text{Gross profit} + \text{Revenue} - \text{Expenses})}{\text{Sales}} \times 100\%$   
=  $\frac{(2,000,000 + 2,000 - 90,000 - 60,000 - 3,000 - 55,000)}{2,500,000} \times 100\%$   
= 71.6%

(iii) Current ratio =  $\frac{\text{Current assets}}{\text{Current liabilities}}$   
=  $\frac{65,000 + 125,000 + 38,000 + 230,000}{220,000}$   
= 2.08 : 1

(iv) Acid test ratio =  $\frac{\text{Current assets} - \text{Stock}}{\text{Current liabilities}}$   
=  $\frac{65,000 + 125,000 + 38,000 + 230,000 - 65,000}{220,000}$   
= 1.78 : 1

(v) Return on capital employed =  $\frac{\text{Net profit}}{\text{Capital}} \times 100\%$   
=  $\frac{2,000,000 + 2,000 - 90,000 - 60,000 - 3,000 - 55,000}{500,000} \times 100\%$   
= 358.8%

- (b) (i) Suria Trading's ("Suria") gross profit margin of 80% is better than Gift Box Trading's ("Gift Box") by 20%. This indicates that Suria's business is more profitable.
- (ii) Suria's net profit margin of 71.8% is higher than Gift Box's by 31.8%. This could be due to a better management of resources and control of expenses by Suria.
- (iii) Suria's current ratio is better by 0.08 compared to Gift Box's. However, 2.0:1 is an acceptable ratio indicating both companies are able to meet their current liabilities.
- (iv) Suria's acid test ratio is better than Gift Box's though both companies are able to pay their immediate debts when they fall due.
- (v) Suria's return on capital employed is better by 108.8% compared to Gift Box's. This shows that the Suria's overall performance is very good and much better than that of Gift Box.