

CF04

Basic Accounting

13 OCTOBER 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 taken from the books of Noble House Sdn Bhd ("Noble House"):

TRIAL BALANCE AS AT 30 JUNE 2005

Item	DR RM'000	CR RM'000
Freehold premises, at cost	2,980	
Fixtures and fittings, at cost	1,562	
Motor vehicles, at cost	559	
Accumulated provision for depreciation to 30 June 2004:		
- Fixtures and fittings		543
- Motor vehicles		234
Inventories as at 30 June 2005	1,005	
Trade debtors and creditors	4,420	2,447
Prepayments and accruals	734	532
Deposit with a licensed financial institution	150	
Bank overdraft		250
Provision for doubtful debts		121
Issued and paid-up share capital:		
- Ordinary shares		2,400
- 6% preference shares		200
Debentures (12%)		1,500
Share premium		103
Accumulated losses as at 1 July 2004	257	
Revenue		19,980
Cost of goods sold	12,980	
Debenture interest (6 months to 31 December 2004)	90	
Auditors' remuneration	65	
Depreciation	322	
Directors' remuneration	535	
Administration, selling and distribution costs	2,636	
Taxation	69	
Provision for taxation		54
	28,364	28,364

Additional information as at 30 June 2005:

- Club membership of RM3,600 has been included as part of administration, selling and distribution costs. The club membership is for a one-year period from 1 November 2004.
- The provision of doubtful debts is to be adjusted to 5% of the total trade debtors.
- Utility bills not recorded in the accounts amount to RM1,800.
- Premises is to be re-valued to RM4,386,000.
- Authorised share capital include:
 - 6,000,000 ordinary shares of RM0.50 each.
 - 500,000 6% preference shares of RM1.00 each with dividends payable yearly.
- Debenture is for a period of five years from 1 January 2004 to 31 December 2008. Interest is payable on a half-yearly basis. Interest for six months to 30 June 2005 has not been accrued for in the accounts.
- The Board of Directors of Noble House proposes payment of the final dividend for preference shares and a final dividend of RM0.02 for each ordinary share. All dividends are to be paid out from the tax-exempt account.

Required:

- (a) Prepare the following for Noble House:
- (i) Profit and Loss Account for the year ended 30 June 2005. [10]
 - (ii) Balance Sheet as at 30 June 2005. [14]
- (b) The Board of Directors of Noble House would like to raise RM800,000 to fund a new project in the development and commercial production of a software product. A team of consultants has advised the Board of Directors that this could be achieved either via equity-financing or debt-financing.
- (i) Give **one** example of equity-financing. [1]
 - (ii) Give **two** examples of debt-financing. [2]
- (Total:27 marks)

2. (a) Langka-Suria Limousine Sdn Bhd (“Langka-Suria”) is a luxury car hire operator in Langkawi Island. The following information was obtained from the fixed assets register as at 1 July 2004:

Car Registration Number	Cost Price (RM)	Date of Purchase
KA 1111 V	48,000	12 January 2002
KA 9988 V	56,000	23 March 2003
KB 1234 V	63,000	18 August 2003

On 11 February 2005, a new limousine, car registration number KB 2345 V, was purchased on credit from Melia Motors Sdn Bhd (“Melia”) for RM66,000. Melia agreed for a trade-in price of RM16,000 for KA 1111 V, which will be replaced by the new limousine.

All limousines are depreciated at 30% per annum on reducing balance method. They have a full year’s depreciation charged against them each financial year, regardless of the date of purchase. However, in the financial year of sale, there will be no depreciation charged.

Required:

Prepare the following for the financial year ended 30 June 2005:

- (i) Limousine account [3]
 - (ii) Provision for depreciation of limousine account [6]
 - (iii) Disposal of limousine account [3]
- (b) The financial year of MyVipe Software Sdn Bhd ends on 30 September 2005. A stock-take was conducted and the following information was obtained from the stock-taking sheet:

Stock Item	Quantity (Units)	Original Cost (RM)	Expected Selling Price (RM)	Remarks
MMV	600	18	21	All stocks are in good condition.
MMW	300	9	12	30 units are damaged – will probably be thrown away.
MMX	200	8	10	50 units are soiled – will probably sell at half the price each.
MMY	120	15	12	Selling price has fallen due to change in demand.

Required:

Based on the given information, compute the stock valuation as at 30 September 2005:

Stock Item	Stock Valuation (RM)
MMV	
MMW	
MMX	
MMY	
Total	

[8]
(Total:20 marks)

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

(a) Which of the following accounting conventions is observed when a property under mortgage is shown in the balance sheet?

- A. Accruals.
- B. Materiality.
- C. Prudence.
- D. Substance over form. [2]

(b) Which of the following items may be included in a balance sheet at more than its historical cost?

- A. Research and development expenditures.
- B. Land and buildings.
- C. Patents.
- D. Inventories. [2]

(c) Which of the following costs should be included when valuing stock?

- A. Production.
- B. Production and administration.
- C. Production, marketing and distribution.
- D. Production, administration, marketing and distribution. [2]

(d) Why do businesses charge depreciation on their property, plant and machinery?

- A. To show when the assets must be replaced.
- B. To spread the cost of the assets over their estimated useful life.
- C. To ensure sufficient cash is available for future replacement of the assets.
- D. To show the replacement value of the assets in the balance sheet. [2]

(e) LeCosa Bhd ("LeCosa") purchased a business for RM1million. LeCosa completed the transaction via a cash payment of RM500,000 and the remaining balance by issuing RM0.50 ordinary share, fully paid, at RM0.80. Market value of these shares is RM1.00 each.

How many new ordinary shares of RM0.50 each would have been issued by LeCosa for this transaction?

- A. 1,000,000
- B. 500,000
- C. 625,000
- D. 1,250,000 [2]

(f) Which of the following is an example of capital expenditure?

- A. Payment of utility bills.
- B. Payment of directors' leave passage.
- C. Purchase of stock.
- D. Purchase of a brand name. [2]

(g) A company re-values its building upwards.

What is the impact of the above on the following ratios?

- | | Fixed Assets Turnover | Gearing | |
|----|------------------------------|----------------|-----|
| A. | Increases | Increases | |
| B. | Increases | Decreases | |
| C. | Decreases | Increases | |
| D. | Decreases | Decreases | [2] |

- (h) Jacko Sdn Bhd's ("Jacko") cash budget for the next 3 months shows a cash deficiency of RM50,000 arising at the end of the period.

Which of the following possible remedies will overcome the cash deficiency?

- A. A revaluation of Jacko's freehold property from RM94,000 to RM150,000.
- B. Cancelling a planned amortisation of research and development cost of RM56,000.
- C. Deferring the planned bonus issue to existing shareholders.
- D. A rights issue to its existing shareholders and to raise proceeds of RM56,000. [2]

- (i) Which of the following purposes can a share premium account be legally used?

- A. Write-off preliminary expenses.
- B. Make a rights issue.
- C. Repay debentures.
- D. Redeem preference shares. [2]

- (j) Which of the following actions is **least** likely to increase a company's trade debtors' turnover?

- A. Offer customers larger cash discounts for making early payments.
 - B. Reduce the interest rates charged to credit customers.
 - C. Sell trade debtors to a factor.
 - D. Encourage customers to use bank credit cards, such as, Visa and MasterCard. [2]
- (Total:20 marks)

4. (a) Mr KC needs to have RM400,000 in three years from now for his son's tertiary education in Australia. An investment trust fund can earn him 12% on his investment in the normal course of events.

What is the amount that Mr KC should invest now in order to have RM400,000 in three years' time? [5]

- (b) Since the investment amount payable in (a) above is a huge amount, Mr KC opts for quarterly instalments payable at the end of each quarter.

What is the quarterly amount payable by Mr KC to the investment trust company in order for him to have RM400,000 three years from now? [6]

(Note: Your answers to (a) and (b) should be to the nearest two decimal points.)
(Total:11 marks)

5. The following information was furnished to you by the Board of Directors of Seri Maya Sdn Bhd ("Seri Maya"):

**DRAFT TRADING, PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER**

Item	2004 RM'000	2005 RM'000
Sales/revenue	16,000	22,000
Cost of sales/revenue:		
Opening stock	2,200	2,600
Purchases	10,000	14,000
Closing stock	(2,600)	(3,400)
	(9,600)	(13,200)
Gross profit	6,400	8,800
Operating expenses	(5,200)	(7,240)
Net profit	1,200	1,560

DRAFT BALANCE SHEET AS AT 30 SEPTEMBER

Item	2004 RM'000	2005 RM'000
Fixed assets	3,400	6,760
Stock	2,600	3,400
Trade debtors	2,400	3,200
Bank	-	600
	8,400	13,960
Ordinary shares (RM1.00 each)	4,000	6,000
Retained profits	2,000	2,760
8% debentures (2001- 2007)	-	2,000
Bank overdraft	200	-
Proposed dividends	-	800
Trade creditors	2,200	2,400
	8,400	13,960

Additional information:

- All revenue and purchases are on credit.
- Assume that there are 360 days in a year.
- For computation of trade debtors' turnover and stock turnover period ratios, use the "period-end" numbers.

Required:

- (a) Calculate the following ratios for Seri Maya for the financial years ended 30 September 2004 and 2005:
- | | | |
|-------|--|-----|
| (i) | Current ratio | [2] |
| (ii) | Acid test ratio | [2] |
| (iii) | Trade debtors' turnover (i.e. average collection period) [in days] | [2] |
| (iv) | Stock turnover period [in days] | [2] |
| (v) | Gross profit margin | [2] |
| (vi) | Net profit margin | [2] |
| (vii) | Return on equity | [2] |

(Note: Your answer should be to the nearest two decimal points.)

- (b) Briefly comment on the asset management ratios and profitability ratios of Seri Maya for the years ended 30 September 2004 and 2005. [8]
(Total:22 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 not able to present the required financial statements.
- Some candidates were not able to identify the items that should be in the Profit and Loss Account and the Balance Sheet.
- Candidates are advised to read the questions carefully and answer as per the question's requirement. Candidates are also advised to work out the calculations and adjustments before answering the question and to practise past year questions.

1. (a) (i)

Noble House Sdn Bhd Profit and Loss Account for the year ended 30 June 2005

Item	RM'000	<u>RM'000</u>
Revenue		19,980
Cost of sales		(12,980)
Gross profit		7,000
Expenses:		
Debenture interest (90+90)		(180)
Directors' remuneration		(535)
Auditors' remuneration		(65)
Administration, selling and distribution costs (2,636 - club membership 1.2 + utilities accrued 1.8)		(2,636.6)
Provision for doubtful debts [(4,420 x 5%) - 121]		(100)
Depreciation		(322)
		3,838.6
Net profit before taxation		3,161.4
Taxation		(69)
Net profit after taxation		3,092.4
Proposed dividend		
- Preference shares (200 x 6%)	(12)	
- Ordinary dividend (4,800 x RM0.02)	(96)	(108)
		2,984.4
Profit for the year		2,984.4
Accumulated losses b/f		(257)
Retained revenue c/f		2,727.4

1. (a) (ii)

Noble House Sdn Bhd
Balance Sheet as at 30 June 2005

Item	Cost/ revalued RM'000	Acc Dep RM'000	NBV RM'000
Fixed assets			
Freehold premises, at revaluation	4,386	-	4,386
Fixtures and fittings	1,562	(543)	1,019
Motor vehicles	559	(234)	325
			5,730
Current assets			
Inventory			1,005
Debtors (4,420 - (4,420 x 5%))			4,199
Prepayment (734 + club membership 1.2)			735.2
Deposit with a licensed financial institution			150
			6,089.2
Current liabilities			
Trade creditors			2,447
Accruals (532+1.8 utilities + 90 debenture interest)			623.8
Provision for taxation			54
Proposed dividend (96 + 12)			108
Bank overdraft			250
			3,482.8
Net current assets			2,696.4
			8,336.4
Financed by:		Authorised	Issued & fully paid-up
Share capital - ordinary shares		3,000	2,400
- preference shares		500	200
		3,500	2,600
Share premium			103
Revaluation reserves (4,386 - 2,980)			1,406
Retained revenue			2,727.4
			6,836.4
12% debentures			1,500
			8,336.4

(b) (i) Equity-financing (example: rights issue of shares)

(ii) Debt-financing (example: debentures, ICULS, RCULS and bonds)

Question 2

- Candidates were unable to present a double-entry account for fixed assets, provision for depreciation account and asset disposal account.
- They also showed poor understanding of stock valuation.
- Candidates are advised to learn the accounting principles as well as the double entry and T-account.

2. (a) (i)

Limousine Account

2004		RM	2005		RM
1/7	Balance b/f		11/2	Disposal A/C	
	KA 1111V	48,000		KA 1111V	48,000
	KA 9988V	56,000			
	KB 1234V	63,000			
2005			30/6	Balance c/f	
11/2	Melia Motors Sdn Bhd	66,000		KA 9988V	56,000
				KB 1234V	63,000
				KB2345 V	66,000
		<u>233,000</u>			<u>233,000</u>

(ii)

Provision of Depreciation of Limousine Account

2005		RM	2004		RM
11/2	Disposal a/c	31,536	1/7	Balance b/f	
				KA 1111V (W1)	31,536
				KA 9988V (W1)	28,560
				KB 1234V (W1)	18,900
30/6	Balance c/f		30/6	P&L- depreciation	
	KA 9988V	36,792		KA 9988V	8,232
	KB 1234V	32,130		KB 1234V	13,230
	KB2345 V	19,800		KB2345 V	19,800
		<u>120,258</u>			<u>120,258</u>

Disposal of Limousine Account

2005		RM	2005		RM
11/2	Limousine a/c	48,000	11/2	Prov for dep	31,536
				Trade-in-value	16,000
			30/6	P & L – gain on disposal	464
		<u>48,000</u>			<u>48,000</u>

Workings:
(W1)

	KA1111V	KA 9988V	KB 1234V	KB 2345V
	RM	RM	RM	RM
Cost	48,000			
Dep	(14,400)			
NBV @30/6/2002	<u>33,600</u>	56,000		
Dep	(10,080)	(16,800)		
NBV @30/6/2003	<u>23,520</u>	39,200	63,000	
Dep	(7,056)	(11,760)	(18,900)	
NBV @30/6/2004	<u>16,464</u>	27,440	44,100	66,000
Dep		(8,232)	(13,230)	(19,800)
NBV @30/6/2005		<u>19,208</u>	<u>30,870</u>	<u>46,200</u>
Acc dep @ 30/6/2004	31,536	28,560	18,900	

(b)

Stock item	workings	Stock valuation RM
MMW	600*RM18	10,800
MMX	(300-30)*RM9	2,430
MMY	[(200-50)*RM8] + (50*RM10/2)	1,450
MMZ	120*RM12	1,440
	Total:	<u>16,120</u>

Question 3

- Candidates showed poor understanding of accounting principles.

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

Question 4

- Candidates had difficulty in calculating the present and future values.

4. (a) The investment amount Mr KC should pay now in order to get RM400,000 in three years from now based on an annual return of 12% is as follows:

$$PV = \frac{FV_n}{(1+i)^n} ; \text{ or}$$

$$\begin{aligned} PV &= FV_n \times PVIF_{i,n} \\ &= RM400,000 \times PVIF_{12\%, 3} \\ &= RM400,000 \times 0.712 = \underline{RM284,800} \end{aligned}$$

- (b) The quarterly amount payable by Mr KC to the investment trust company in order for him to have RM400,000 in three year from now will be as follows:

$$\begin{aligned} FVA_n &= PMT \times FVIFA_{i,n} \\ RM400,000 &= PMT \times FVIFA_{3\%, 12} \\ PMT &= RM400,000 / FVIFA_{3\%, 12} \\ PMT &= RM400,000 / 14.192 = \underline{RM28,184.90} \end{aligned}$$

FVA	=	<i>future value of n-year annuity</i>
PMT	=	<i>amount deposit annually or any regular time period</i>

Question 5

- Candidates were unable to compute the financial ratios.

5.	(a)	Workings	2004	2005
	(i)	Current ratio = CA/CL		
		$(2600+2400)/(200+2200)$ $= 5000/2400 = 2.08$ $(3400+3200+600)/(800+2400)$ $= 7200/3200$ $= 2.25$	2.08	2.25
	(ii)	Acid-test ratio = (CA- stock)/CL		
		$2400/2400=1$ $(3200+600)/3200$ $= 3800/3200$ $= 1.19$	1.00	1.19
	(iii)	Trade debtors' turnover (days)		
		$(2400/160000) \times 360 = 54$ days $(3200/22000) \times 360 = 52.36$ days	54 days	52.36 days
	(iv)	Stock turnover (days) = Closing Stock/cost of sales		
		$(2600/9600) \times 360 = 97.5$ days $(3400/13200) \times 360 = 92.73$ days [* if use average stock instead of closing stock. Both answers are accepted]	97.5days	92.73days
			90 days*	81.82 days*
	(v)	Gross profit margin		
		$(6400)/16000 * 100\% = 40\%$ $(8800)/22000 * 100\% = 40\%$	40%	40%
	(vi)	Net profit margin		
		$(1200)/16000 * 100\% = 7.5\%$ $(1560)/22000 * 100\% = 7.09\%$	7.5%	7.09%
	(vii)	ROE = Net profit / shareholders' fund		
		$1200/(4000+2000) * 100\% = 20\%$ $1560/(6000+2760) * 100\% = 17.81\%$	20%	17.81%

(b) Asset management ratios

- Debtors' collection period has improved from 54 days in year 2004 to 52.36 days in year 2005.
- Stock turnover period has also improved from 97.5 days in year 2004 to 92.73 days in year 2005.
- Seri Maya has been more efficient in debtor control than in stock control.

Profitability ratios

- Gross profit margin has been constant for years 2004 and 2005. This may be due to no significant change in product mix, cost of sales and selling price of the company.
- Net profit margin has deteriorated from 7.5% to 7.09% primarily due to higher operating expenses. It is likely that the interest expenses/borrowing cost for the 8% debenture may contribute to the higher operating expenses.
- Return on equity decrease from 20% in year 2004 to 17.81% in year 2005. This decrease is in line with the drop in net profit margin for the same period.