

**CF04**

# **Basic Accounting**

**11 MAY 2000**

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. Syhabas Sdn Bhd has an authorised share capital of 5million ordinary shares of RM1.00 each and issued share capital of 3.2million ordinary shares.

The following trial balance was extracted from the company's accounts for the year ended 31 December 1999.

### TRIAL BALANCE AS AT 31 DECEMBER 1999

	Dr RM	Cr RM
Ordinary share capital		3,200,000
Share premium		500,000
General reserve		200,000
Profit & loss account		550,000
Freehold land & building, at cost	4,900,000	
Machinery, at cost	1,100,000	
Provision for depreciation – machinery		220,000
Motor vehicles, at cost	1,940,000	
Provision for depreciation – motor vehicles		450,000
Office equipment, at cost	280,000	
Provision for depreciation – office equipment		56,000
Stock, as at 1 January 1999	1,430,000	
Trade debtors & trade creditors	890,000	1,120,000
Provision for doubtful debts		19,900
Discount allowed & discount received	7,600	15,200
Purchases & sales	3,150,000	10,100,000
Carriage inwards	165,000	
Carriage outwards	127,500	
Return inwards & return outwards	66,000	187,700
Bank	850,000	
Salaries	660,000	
Motor vehicle expenses	187,000	
Administrative expenses	345,000	
Marketing & distribution cost	360,700	
Interim dividend	160,000	
	16,618,800	16,618,800

**Additional information:**

- (i) The closing stock was valued at RM970,000.
- (ii) The company depreciates motor vehicles at 20% per annum using the straight-line method.
- (iii) Machinery and office equipment are depreciated at 20% per annum using the reducing balance method.
- (iv) Provision for doubtful debts is provided at 5% of trade debtors' balance.
- (v) It is the company's policy to accrue for telephone expenses at year end; the amount equivalent to the average telephone expenses of RM1,700 per month.
- (vi) Salesmen's commission amounting to RM11,000 is still owing as at 31 December 1999.
- (vii) Insurance prepaid for the year 2000 amounted to RM3,000.
- (viii) The company's directors proposed a final dividend of 8%.
- (ix) The liability for corporation tax for the year has been agreed at RM750,000.
- (x) The company's directors decided to transfer RM350,000 to general reserve.

**Required:**

Prepare the following for Syahabas Sdn Bhd for internal use:

- (a) Trading and Profit and Loss Account for the year ended 31 December 1999. [18]
  - (b) Balance Sheet as at 31 December 1999 (in vertical format). [14]
- (Total:32 Marks)

2. Company Ezzzy is in the launderette business. The company purchased **four** washing machines for RM12,000 on 1 January 1997 and **two** dryers for RM5,000 on 6 January 1997. It also purchased a delivery van on 1 July 1997 for RM38,000.

On 30 April 1999, Company Ezzzy traded in **two** washing machines for RM4,000 and paid the difference of RM8,600 for **three** new washing machines.

It is the company's policy to depreciate the launderette equipment at the rate of 25% per annum using the straight-line method, and motor vehicle at the rate of 25% using the reducing balance method; based on the assets held at end of each year. The company's financial year ends on 31 December.

**Required:**

Prepare the following accounts for the financial years ended 1997, 1998 and 1999:

- (i) Provision for depreciation on motor vehicle account [5½]
  - (ii) Launderette equipment account [5]
  - (iii) Provision for depreciation on launderette equipment account [6]
  - (iv) Fixed assets disposal account (for the year 1999 only) [3½]
- (Total:20 marks)

3. Amran Yusof is keen on vegetable farming. He plans to begin operations on 1 June 2000. He will be making use of his savings of RM6,000 and will borrow RM5,000 from a bank.

He expects to begin harvesting in July 2000. He expects a revenue of RM8,000 in July 2000 and RM11,000 in August 2000.

He also gives you additional information as stated in the table below:

	<b>RM</b>
Land rental per month	1,000
Purchase of seeds in June 2000	135
Purchase of insecticide per month	120
<b><u>Purchase of fertiliser - June 2000</u></b>	600
- July 2000	380
- August 2000	250
Wages per month	900
Wages for soil preparation	1,300
General expenses per month	700
Bank interest per month effective July 2000	85

**Required:**

- (a) Prepare a cash budget for June, July and August 2000. [16½]
- (b) Prepare a Trading and Profit and Loss Account for the **three**-month period ending 31 August 2000. [3½]  
(Total:20 marks)
4. Identify the generally accepted accounting concepts or conventions from the table below to be followed in each of the statements below:

• Accounting period	• Accruals	• Separate entity
• Consistency	• Going concern	• Historical cost
• Materiality	• Money measurement	• Prudence
• Realisation	• Substance over form	

- (a) It is the company's policy to depreciate equipment at 20% using the reducing balance method. The company's new accounts executive had proposed a change to depreciate equipment using the straight-line method. [1]
- (b) The year end stock-in-trade is valued at RM335,000, at cost. This figure included a batch of stock valued at cost of RM40,000 but its net realisable value is only RM20,000. [1]
- (c) A company car bought on hire-purchase through ABC Finance, was recorded in the motor vehicles account at cost of RM138,000. [1]
- (d) The telephone bill of RM134 for the month of December 1999 was only received on 5 January 2000. The accounts manager included this amount in the December 1999 expenses account. [1]
- (e) The sales figure for the month included goods invoiced on "sale or return basis" to XYZ Company for RM22,000 but to date, no confirmation has been received that the goods have been sold. [1]

- (f) Beezee Sdn Bhd purchased **two** calculators at RM45 per unit. The company's accountant upon checking, found that the total amount of RM90 was recorded in the office equipment account. The accountant insisted that this amount should be reversed and charged as an expense in the office expenses account. [1]
- (g) An asset purchased **four** years ago costing RM55,000 is still recorded at RM55,000 although its replacement cost is RM60,000. [1]
- (h) A shareholder, during the annual general meeting suggested that the company's assets should be recorded at the value they are worth should the company be liquidated. The company's accountant did not agree with the suggestion. [1]
- (h) Any transaction a company's owner may have with its business is to be recorded separately. [1]
- (j) Non-quantitative transactions, such as "the loyalty of staff" are not included in the accounts. Only salaries payable to staff are recorded in the accounts. [1]

5. The following information were extracted from the books of Dingdong Sdn Bhd for the year ended 31 October 1999:

	<b>RM</b>
Sales	750,550
Cost of goods sold	375,400
Commission receivable	3,750
Administrative expenses	71,850
Selling and distribution cost	61,275
Financial charges	9,375
Loss on disposal of fixed assets	2,500
Share capital	190,000
Stock	55,750
Debtors	25,800
Cash balance	5,600
Creditors	43,650
Bank overdraft	25,000

**Required:**

- (a) Calculate the following ratios by using the information given above:
- (i) Gross profit margin [2]
- (ii) Net profit margin [3½]
- (iii) Current ratio [2½]
- (iv) Quick/acid test ratio [2]
- (v) Return on capital employed [1½]

- (b) Briefly compare and comment on the performance of Dingdong Sdn Bhd based on the ratios calculated in part (a) for the year ended 31 October 1999, with the industry's average given below: [6½]

<b>Ratios</b>	<b>Industry's average</b>
Gross profit margin	30%
Net profit margin	22%
Current ratio	2.5 : 1.0
Quick/acid test ratio	1.5 : 1.0
Return on capital employed	40%

(Total:18 marks)

**- END OF QUESTION PAPER -**

## OUTLINE ANSWERS

### Question 1

Generally most candidates were able to attempt the Profit and loss and balance sheet question satisfactorily. Only a handful were unable to differentiate profit and loss items from balance sheet items and to prepare a full set of accounts.

1. (a)

Syahabas Sdn Bhd			
Trading and Profit and Loss Account for the year ended 31 December 1999			
	RM	RM	RM
Sales			10,100,000
less Return Inwards			66,000
			10,034,000
Cost of Goods Sold:			
Opening Stock		1,430,000	
Add: Purchases	3,150,000		
Less: Return Outwards	187,700		
	2,962,300		
Add: Carriage Inwards	165,000	3,127,300	
		4,557,300	
Less: Closing Stock		970,000	3,587,300
Gross Profit			6,446,700
add Discount Received			15,200
			6,461,900
Less Expenses:			
Carriage Outwards		127,500	
Depreciation:			
- Machinery		176,000	
- Motor Vehicles		388,000	
- Office Equipment		44,800	
Increase in Provision for Doubtful Debts (44500-19900)		24,600	
Salaries		660,000	
Motor Vehicle Expenses		187,000	
Administrative Expenses (34500+1700-3000)		343,700	
Marketing & Distribution Cost (360700+11000)		371,700	
Discount Allowed		7,600	2,330,900
Net Profit before taxation			4,131,000
Less: Taxation			750,000
Net Profit after taxation			3,381,000
Retained Profit b/fwd			550,000
			3,931,000
Appropriated as follows:			
Transfer to General Reserve		350,000	
Interim Dividend		160,000	
Proposed Final Dividend - 8%		256,000	766,000
Retained Profit c/fwd			3,165,000

(b)

Syahabas Sdn Bhd  
Balance sheet as at 31 December 1999

	RM	RM	RM
	Cost	Accm Depn	NBV
<u>Fixed Assets</u>			
Land & Building	4,900,000	-	4,900,000
Machinery	1,100,000	396,000	704,000
Motor Vehicle	1,940,000	838,000	1,102,000
Office Equipment	280,000	100,800	179,200
	<u>8,220,000</u>	<u>1,334,800</u>	<u>6,885,200</u>
<u>Current Assets</u>			
Stock	970,000		
Trade Debtors (less Prov for Doubtful Debts)	845,500		
Prepayment	3,000		
Bank	<u>850,000</u>	2,668,500	
<u>Current Liabilities</u>			
Trade Creditors	1,120,000		
Accruals (1700 + 11000)	12,700		
Taxation	750,000		
Proposed Dividend	<u>256,000</u>	<u>2,138,700</u>	
Net Current Assets			<u>529,800</u>
			<u><u>7,415,000</u></u>
Financed by:			
		<u>Authorised</u>	<u>Issued</u>
Ordinary Share Capital		<u>5,000,000</u>	<u>3,200,000</u>
<u>Reserves</u>			
Share Premium		500,000	
General Reserve		550,000	
Profit & Loss Account		<u>3,165,000</u>	<u>4,215,000</u>
			<u><u>7,415,000</u></u>

**Question 2**

The worst attempted question was on depreciation. Most candidates lost marks when they failed to enter the depreciation charges in the right account or right entry. A few students were unsure of how to draw up the accounts properly with the appropriate title, dates and corresponding accounts.

2.

(i)

Provision for Depreciation - Motor Vehicle

	RM		RM
1997		1997	
31-Dec Balance c/d	9,500	31-Dec Profit & Loss A/C	9,500
1998		1998	
31-Dec Balance c/d	16,625	1-Jan Balance b/d	9,500
		31-Dec Profit & Loss A/C	7,125
1999		1999	
31-Dec		1-Jan Balance b/d	16,625
Balance c/d	21,969	31-Dec Profit & Loss A/C	5,344
		2000	
		1-Jan Balance b/d	21,969

(ii)

Launderette Equipment

	RM		RM
1997		1997	
2-Jan Bank	12,000	31-Dec Balance c/d	17,000
6-Jan Bank	5,000		
1998		1998	
1-Jan Balance b/d	17,000	31-Dec Balance c/d	17,000
1999		1999	
1-Jan Balance b/d	17,000	30-Apr Disposal A/C	6,000
30-Apr Bank	8,600		
Disposal A/C	4,000	31-Dec Balance c/d	23,600
2000			
1-Jan Balance b/d	23600		

## (iii) Provision for Depreciation - Launderette Equipment

1997	RM	1997	RM
31-Dec Balance c/d	4,250	31-Dec Profit & Loss A/C	4,250
1998		1998	
31-Dec Balance c/d	8,500	1-Jan Balance b/d	4,250
	8,500	31-Dec Profit & Loss A/C	4,250
1999		1999	
31-Dec Disposal	3,000	1-Jan Balance b/d	8,500
Balance c/d	11,400	31-Dec Profit & Loss A/C	5,900
	14,400	2000	
		1-Jan Balance b/d	11,400

## (iv) Fixed Assets Disposal Account

1999		1999	
31-Dec Launderette Equipment	6,000	31-Dec Prov for Depreciation	3,000
Profit & Loss A/C	1,000	Launderette Equipment	4,000
	7,000	(trade-in)	7,000

**Question 3**

Most of the candidates could attempt the question on cash budget satisfactorily. A few candidates were even able to score full marks for this question. Those who failed, however, were unable to prepare the opening and closing balance for each month-end. Some failed to prepare the Profit and Loss Account for 3-month period.

3.

(a)

Amran Yusof

Cash Budget for the 3 months ending 31 August 2000

	June	July	August	Total
<b><u>Receipts</u></b>				
Harvest		8,000	11,000	19,000
<b><u>Payments</u></b>				
Land rental	1,000	1,000	1,000	3,000
Purchase of seeds	135	-	-	135
Insecticide	120	120	120	360
Fertiliser	600	380	250	1,230
Wages	900	900	900	2,700
Soil Preparation	1,300	-	-	1,300
General Expenses	700	700	700	2,100
Bank Interest	-	85	85	170
	4,755	3,185	3,055	10,995
Surplus/ (Deficit)	(4,755)	4,815	7,945	8,005
Opening Balance	11,000	6,245	11,060	11,000
Closing Balance	6,245	11,060	19,005	19,005

(b)

Trading and Profit and Loss Account for the 3 month period ending 31 August 2000

	RM
Sales	19,000
less Cost of Goods Sold	5,725
Gross Profit	<u>13,275</u>
less Expenses	5,270
Net Profit	<u><u>8,005</u></u>

#### **Question 4**

Although a higher proportion of the candidates were able to perform well in the question on accounting concepts and conventions, yet there were a good number who did not perform well.

4. (a) Consistency  
(b) Prudence  
(c) Substance over form  
(d) Accruals  
(e) Realisation  
(f) Materiality  
(g) Historical cost  
(h) Going concern  
(i) Business entity  
(j) Money measurement

#### **Question 5**

Most candidates were able to answer the first part of the question on calculating the basic financial ratios required. However, poor analytical skills and poor command of English caused a high proportion of the candidates to perform badly in the second part. They were unable to analyse the ratios calculated and compare it with the industry's average.

5. (a) (i) GP/Sales =  $\frac{(\text{Sales} - \text{CGS}) \times 100}{\text{Sales}}$   
=  $\frac{750,550 - 375,400}{750,550} \times 100$   
= 375,150 / 750,550 %  
= **49.98 %**

(ii) NP/sales =  $\frac{(\text{GP} + \text{Income} - \text{Exp}) \times 100}{\text{Sales}}$   
=  $\frac{(375,150 + 3,750 - 145,000)}{750,550} \times 100$   
= 233,900 / 750,550 %  
= **31.16 %**

(iii) Current Ratio = CA / CL  
= 87,150 / 68,650  
= **1.27 : 1**

(iv) Acid Test Ratio = CA - Stk / CL  
= 31,400 / 68,650  
= **0.46 : 1**

$$\begin{aligned}
 \text{(v) ROCE} &= \text{NP} / \text{Capital} \\
 &= \frac{233,900}{190,000} \times 100 \\
 &= \mathbf{123.11\%}
 \end{aligned}$$

- (b) (i) GP margin  
Firm's GP margin of 49.98% is better than the Industry's average of 30%.
- (ii) NP margin  
Firm's NP margin is 31.16% which is better than the Industry's average of 22%.
- (iii) Current Ratio  
Firm's current ratio of 1.27 : 1 is worse than the industry's average of 2.5 but the firm is still able to meet its current liabilities when they fall due.
- (iv) Quick/acid Test  
Firm's acid test is 0.46 which is worse than the industry's average of 1.5. This meant that the firm might be unable to pay its immediate debts when they fall due.
- (v) ROCE  
Firm's ROCE is 123.11%. It is better than the industry's average of 40%. This shows that the overall performance of the firm is good