

CF04

# Basic Accounting

13 MAY 1999

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions on 5 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. Alam Mewah Sdn Bhd has an authorised share capital of 4million ordinary shares of RM1.00 each and issued share capital of 1million ordinary shares.

The following trial balance was extracted from the company's accounts for the year ended 31 December 1998:

**TRIAL BALANCE AS AT 31 DECEMBER 1998**

	<b>Dr RM</b>	<b>Cr RM</b>
Ordinary share capital		1,000,000
Share premium		120,000
General reserve		190,000
Profit & loss account		350,000
Land & building, at cost	2,000,000	
Machinery, at cost	980,000	
Provision for depreciation – machinery		196,000
Motor vehicles, at cost	220,000	
Provision for depreciation – motor vehicles		55,000
Office equipment, at cost	120,000	
Provision for depreciation – office equipment		44,200
Stock, at 1 January 1998	760,000	
Purchases & sales	1,600,000	5,355,000
Carriage inwards	74,000	
Carriage outwards	35,000	
Return inwards & return outwards	30,000	70,000
Trade debtors & trade creditors	460,000	630,000
Provision for doubtful debts		12,800
Discount received		6,900
Bank	555,000	
Salaries	660,000	
Motor vehicle expenses	76,000	
Administrative expenses	96,900	
Advertising expenses	150,000	
Marketing & distribution cost	108,000	
Directors' remuneration	105,000	
	<b>8,029,900</b>	<b>8,029,900</b>

***Additional information:***

- (i) The closing stock as at 31 December 1998 was valued at RM410,000.
- (ii) RM4,000 owing for administrative expenses.
- (iii) Marketing and distribution cost amounting to RM13,000 is still owing as at 31 December 1998.
- (iv) It is the company's policy to depreciate motor vehicles at 25% per annum on a straight-line basis.
- (v) The company's machinery and office equipment are depreciated at 20% per annum using the reducing balance method.
- (vi) Provision for doubtful debts is provided at 3% of trade debtors' balance.
- (vii) The company's directors have proposed a final dividend of 10%.
- (viii) The liability for corporation tax for the year had been agreed at RM450,000.
- (iv) The company's directors have decided to transfer RM200,000 to general reserve.

**Required:**

Prepare the following for Alam Mewah Sdn Bhd:

- (a) Trading and Profit and Loss Account (in vertical format) for the year ended 31 December 1998. [17]  
 (b) Balance Sheet as at 31 December 1998 (in vertical format) for internal purposes. [13]  
 (Total:30 marks)

2. (a) The following is extracted from the cash book of Aziz Trading Company:

**Cash Book (bank column)**

1998	RM	1998	Cheque	RM
Sept 1	Balance b/f	Sept 6	Picky Ltd	1,254
Sept 2	Husin Sdn Bhd	Sept 8	Access Trading	4,477
Sept 2	Mewah Trading	Sept 10	Plus Machinery Co.	11,000
Sept 8	Cash	Sept 13	Komware Trading	2,789
Sept 18	Kar Sdn Bhd	Sept 17	Picky Ltd	9,762
Sept 19	Giat Giat Sdn Bhd	Sept 23	Petty Cash	550
Sept 23	Cash	Sept 24	Dynamik Sdn Bhd	4,470
Sept 26	Husin Sdn Bhd	Sept 26	Komware Trading	2,113
Sept 27	Upwell Trading	Sept 28	Superduper Co.	8,760
Sept 27	Cash	Sept 28	Star Machinery	13,500
Sept 29	Mewah Trading	Sept 29	Access Trading	9,876
		Sept 30	Hassan – advance	5,000
		Sept 30	Balance c/f	356,300
	<u>429,851</u>			<u>429,851</u>

Aziz Trading Company received the following bank statement from Bank Ramai-Ramai:

**BANK RAMAI-RAMAI**  
**Bank Statement for September 1998**

1998	Dr RM	Cr RM	Balance RM
Sept 1			230,455
Sept 3		23,600	254,055
Sept 4	7,700		246,355
Sept 6	8,444		237,911
Sept 8		13,320	251,231
Sept 10	4,477		246,754
Sept 13	2,789		243,965
Sept 17	1,254		242,711
Sept 20	11,000		231,711
Sept 23		99,050	330,761
Sept 24	4,570		326,191
Sept 24	550		325,641
Sept 25	9,762		315,879
Sept 27		64,570	380,449
Sept 28	68,755		311,694
Sept 29	6,123		305,571
Sept 30		10,105	315,676
Sept 30	96		315,580

**Required:**

- (i) Bring the cash book up-to-date (bank column only). [6]
- (ii) Prepare a bank reconciliation statement as at 30 September 1998. [8]
- (b) Yuntalee Sdn Bhd is in the computer hardware business. The firm trades on cash and credit terms. The firm's debtors' balance was as follows:
- |                 |             |
|-----------------|-------------|
| 31 October 1996 | RM3,000,000 |
| 31 October 1997 | RM2,680,000 |
| 31 October 1998 | RM3,700,000 |

The firm maintains a provision for doubtful debts of 2.5% on the debtors' balance at the end of each accounting period. The provision for doubtful debts account as at 31 October 1995 was RM70,000.

The firm also disclosed that the bad debts written-off in the last two years were:

RM20,009	for the year ended 31 October 1997, and
RM22,050	for the year ended 31 October 1998.

**Required:**

- (i) Prepare the provision for doubtful debts account for the years ended 31 October 1996, 31 October 1997 and 31 October 1998. [9]
- (ii) Prepare the bad debts account for the years ended 31 October 1997 and 31 October 1998. [4]
- (Total:27 marks)

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

- Accounting period concept
- Accruals concept
- Conservatism convention
- Consistency convention
- Going concern concept
- Historical cost concept
- Materiality convention
- Money measurement concept
- Realisation concept
- Separate entity concept
- Substance over form concept

- (a) Accounting reports assume that the business enterprise is going to continue operating with no intention of winding-up in the foreseeable future. [1]
- (b) A piece of machinery bought on hire purchase for RM120,000 is recorded in the company's account as one of its fixed assets. [1]
- (c) The concept provides a common denominator by which facts about the business can be expressed in terms of numbers. [1]
- (d) This concept regards a business to have an existence in its own right and is distinct from its owners. [1]
- (e) An asset purchased five years ago costing RM23,000 is still recorded at RM23,000 although its replacement cost is RM28,000. [1]
- (f) The main objective of this principle is to ensure that changes to the accounting methods do not take place too often to render the comparison of financial statements meaningless. [1]

- (g) The object of this concept is to match income with expenses incurred in order to earn that income. [1]
- (h) A batch of goods valued at RM8,000 was delivered to a customer on a “sale or return basis” on 31 January 1999. The accounts department would not record the RM8,000 as part of the month’s sales. [1]
- (i) When there is reasonable choice between amounts or accounting methods, the one showing the lowest profit should be used. [1]
- (j) A calculator costing RM22 and an expected useful life of 10 years, will be recorded in the expenses account rather than the fixed assets account. [1]

(Total:10 marks)

4. Juta Emas Sdn Bhd wishes to apply for a bank loan to finance the purchase of a shophouse costing RM600,000. The downpayment of RM200,000 will be furnished by the company itself.

The bank agreed to loan Juta Emas Sdn Bhd RM400,000 for 10 years.

**Required:**

- (a) If the interest rate is 10% per annum compounded annually for 10 years, calculate the following:
- (i) The yearly repayment on the loan [3]
- (ii) The nominal annual interest rate if the yearly instalment is RM70,000 [4]
- (b) If the bank charges simple interest at a rate of 12% per annum for 10 years, calculate the following:
- (i) The annual interest charged [2]
- (ii) The total amount of interest charged for 10 years [2]
- (iii) The accumulated amount of the loan at the end of 10 years [2]

(Total:13 marks)

5. Puffy Bhd is faced with strong competition from companies in the same industry. The directors of Puffy Bhd are seeking your assistance in obtaining more information that may help them improve their business position in the industry.

The following are extracts from Puffy Bhd’s financial statements for your further action:

Items	1998 (RM'000)	1997 (RM'000)
Turnover	24,000	18,000
Cost of goods sold	18,240	12,600
Expenses	3,640	3,400
Corporation tax	1,160	1,080
Dividends	920	840
Retained profits b/f	560	480
Fixed assets	20,400	18,600
<b>Current assets:</b>		
Stock	6,040	3,120
Debtors	5,880	3,040
Bank	-	1,280
<b>Current liabilities:</b>		
Creditors	5,560	3,080
Taxation	1,160	1,080
Dividends	920	840
Bank overdraft	3,600	-
Ordinary share capital - paid up	12,000	12,000
General reserve	2,880	2,880
Profit and loss account	600	560
12% debenture	5,600	5,600

**Required:**

- (a) Calculate the following ratios for 1997 and 1998:
- (i) Current ratio [2]
  - (ii) Quick/Acid test ratio [2]
  - (iii) Debtors' collection period (in days) [2]
  - (iv) Gross profit margin [2]
  - (v) Net profit margin [2]
  - (vi) Return on capital employed (ROCE) [2]
- (b) Comment on Puffy Bhd's liquidity and profitability position. [8]
- (Total:20 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, most candidates did well in this question.**

(a)

**Alam Mewah Sdn Bhd**  
**Trading and Profit and Loss Account for the year ended 31 December 1998**

	RM	RM	RM
Sales			5,355,000
<i>Less</i> : Return Inwards			<u>30,000</u>
			5,325,000
Cost of Goods Sold:			
Opening Stock		760,000	
<i>Add</i> : Purchases	1,600,000		
<i>Less</i> : Return Outwards	<u>70,000</u>		
	1,530,000		
<i>Add</i> : Carriage Inwards	<u>74,000</u>	1,604,000	
		<u>2,364,000</u>	
<i>Less</i> : Closing Stock		<u>410,000</u>	1,954,000
Gross Profit			<u>3,371,000</u>
Discount Received			<u>6,900</u>
			<u>3,377,900</u>
<i>Less</i> : Expenses:			
Carriage Outwards		35,000	
Depreciation:			
- Machinery      [(980000 – 196000)x 20%]		156,800	
- Motor Vehicles    [220000 x 25%]		55,000	
- Office Equipment   [(120000 – 44200)x 20%]		15,160	
Increase in Provision for Doubtful Debts      [W1]		1,000	
Salaries		660,000	
Motor Vehicle Expenses		76,000	
Administrative Expenses      [96900 + 4000]		100,900	
Advertising Expenses		150,000	
Marketing & Distribution Cost    [108000 + 13000]		121,000	
Directors' Remuneration		<u>105,000</u>	1,475,860
Net Profit before taxation			1,902,040
<i>Less</i> : Taxation			<u>450,000</u>
Net Profit after taxation			1,452,040
Retained Profit b/fwd			<u>350,000</u>
			<u>1,802,040</u>
Appropriated as follows:			
Transfer to General Reserve		200,000	
Proposed Final Dividend    [1000000 x 10%]		<u>100,000</u>	300,000
Retained Profit c/fwd			<u>1,502,040</u>

(b)

**Alam Mewah Sdn Bhd**  
**Balance Sheet as at 31 December 1998**

	RM	RM	RM
	<u>Cost</u>	<u>Accm Depn</u>	<u>NBV</u>
<u>Fixed Assets</u>			
Land & Building	2,000,000	-	2,000,000
Machinery	980,000	352,800	627,200
Motor Vehicle	220,000	110,000	110,000
Office Equipment	120,000	59,360	60,640
	<u>3,320,000</u>	<u>522,160</u>	<u>2,797,840</u>
 <u>Current Assets</u>			
Stock	410,000		
Trade Debtors (less Prov for Doubtful Debts)	446,200		
Bank	<u>555,000</u>	1,411,200	
 <u>Current Liabilities</u>			
Trade Creditors	630,000		
Accruals [4000 + 13000]	17,000		
Taxation	450,000		
Proposed Dividend	<u>100,000</u>	<u>1,197,000</u>	
Net Current Assets			<u>214,200</u>
			<u>3,012,040</u>
 Financed by:			
		<u>Authorised</u>	<u>Issued</u>
Ordinary Share Capital		<u>4,000,000</u>	<u>1,000,000</u>
 <u>Reserves</u>			
Share Premium		120,000	
General Reserve		390,000	
Profit & Loss Account		<u>1,502,040</u>	<u>2,012,040</u>
			<u>3,012,040</u>
 Workings:			
[W1]			
Provision for Doubtful Debts for 1998 = 460,000 x 3%		= 13,800	
Less: Provision for 1997		12,800	
Increase in Provision		<u>1,000</u>	

**Question 2**

**This question was done fairly well but some candidates did not know how to write an updated Cash Book.**

(a) (i)

<b>Cash Book (Bank Column)</b>					
1998		RM	1998	RM	
30 Sept	Balance b/d	356,300	30 Sept	AIA	4,570
	Mutiara Sdn Bhd	10,105		Payroll	68,755
				Setia Bank	6,123
				Bank charges	96
				Balance c/d	286,861
		<u>366,405</u>			<u>366,405</u>

(ii)

**Bank Reconciliation Statement as at 30 September 1998**

	RM	RM
Updated Cash Book		286,861
add: Unpresented Cheques		
611128	4,470	
611129	2,113	
611130	8,760	
611131	13,500	
611132	9,876	
611133	5,000	
	<u>43,719</u>	
		330,580
less: Bank lodgement not on bank statement		
Mewah Trading		15,000
		<u>315,580</u>

(b) (i)

<b>Provision for Doubtful Debts</b>				
	RM	1995	RM	
		1 Nov	Balance b/d	70,000
1996		1996		
31 Oct	Balance c/d	31 Oct	Profit & Loss a/c	5,000
	<u>75,000</u>			<u>75,000</u>
1997		1996		
31 Oct	Profit & Loss a/c	1 Nov	Balance b/d	75,000
	8,000			
	Balance c/d			<u>75,000</u>
	<u>67,000</u>			
	<u>75,000</u>			
		1997		
		1 Nov	Balance b/d	67,000
1998		1998		
31 Oct	Balance c/d	31 Oct	Profit & Loss a/c	25,500
	<u>92,500</u>			<u>92,500</u>
	<u>92,500</u>			

(b) (ii)

<b>Bad Debts Account</b>				
1997	RM	1997	RM	
31 Oct	Debtors	31 Oct	Profit & Loss a/c	20,009
	<u>20,009</u>			
1998		1998		
31 Oct	Debtors	31 Oct	Profit & Loss a/c	22,050
	<u>22,050</u>			<u>22,050</u>

### Question 3

The majority of candidates did well in this question.

- (a) Going Concern Concept
- (b) Substance Over Form Concept
- (c) Money Measurement Concept
- (d) Entity Concept
- (e) Historical Cost Concept
- (f) Consistency Convention
- (g) Accruals Concept
- (h) Realisation Concept
- (i) Conservatism Convention
- (j) Materiality Convention

### Question 4

This question was generally poorly answered. Many of the candidates did not show the workings to their answers.

$$\begin{aligned}
 \text{(a) (i)} \quad Pa &= A(PVIFA; r; n) \\
 Pa &= 400,000 \\
 r &= 10\% \\
 n &= 10 \text{ years} \\
 \\ 
 400,000 &= A(PVIFA 10\%, 10) \\
 &= A(6.145) \\
 A &= 400,000 / 6.145 \\
 \text{Yearly repayment} &= \text{RM}65,093.57
 \end{aligned}$$

$$\text{(ii) If yearly instalment} = \text{RM}70,000$$

$$\begin{aligned}
 Pa &= A(PVIFA; r; n) \\
 400,000 &= 70,000(PVIFA; r; 10) \\
 (PVIFA; r; 10) &= 400,000 / 70,000 \\
 &= 5.714
 \end{aligned}$$

By referring to the PVIFA; $r$ ;  $n$  Table,  $r$  falls between 11% and 12%.

$$\begin{aligned}
 \therefore r &= 11\% + \frac{5.889 - 5.714}{5.889 - 5.650} \\
 &= 11\% + 0.73 \\
 \text{Interest rate} &= 11.73\%
 \end{aligned}$$

$$\begin{aligned}
 \text{(b) (i)} \quad I \text{ (simple interest)} &= Prt \\
 P &= \text{RM}400,000 \\
 r &= 12\% \\
 t &= 1 \text{ year} \\
 I &= \text{RM}400,000 \times 12\% \times 1 \text{ year} \\
 \therefore \text{Annual interest charged} &= \text{RM}48,000
 \end{aligned}$$

- (ii) Total interest charged = RM48,000 x 10 years  
= RM480,000
- (iii) The accumulated amount = RM400,000 + RM480,000  
= RM880,000

### Question 5

Most of the candidates were able to calculate all the ratios correctly in part (a). However, a large percentage of these candidates were not able to analyse the ratios in depth as required in part (b).

	1997	1998
(a) (i) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{7,440}{5,000}$ = <b>1.49 : 1</b>	$\frac{11,920}{11,240}$ = <b>1.06 : 1</b>
(ii) Quick Ratio = $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$	$\frac{4,320}{5,000}$ = <b>0.86 : 1</b>	$\frac{5,880}{11,240}$ = <b>0.52 : 1</b>
(iii) Debtors Collection = $\frac{\text{Debtors} \times 365}{\text{Turnover}}$	$\frac{3,040 \times 365}{18,000}$ = <b>61.64 days</b>	$\frac{5,880 \times 365}{24,000}$ = <b>89.43 days</b>
(iv) Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Turnover}}$	$\frac{5,400 \times 100}{18,000}$ = <b>30%</b>	$\frac{5,760 \times 100}{24,000}$ = <b>24%</b>
(v) Net Profit Margin = $\frac{\text{Net Profit}}{\text{Turnover}}$	$\frac{2,000 \times 100}{18,000}$ = <b>11.1%</b>	$\frac{2,120 \times 100}{24,000}$ = <b>8.8%</b>
(vi) ROCE = $\frac{\text{Profit before tax}}{\text{Capital Employed}}$	$\frac{2,000 \times 100}{12,000 + 2,880 + 560 + 5,600}$ $\frac{2000 \times 100}{21,040}$ = <b>9.5%</b>	$\frac{2,120 \times 100}{12,000 + 2,880 + 600 + 5,600}$ $\frac{2120 \times 100}{21,080}$ = <b>10.1%</b>

- (b) Puffy Bhd's liquidity position has worsened when we compare its 1998 and 1997 liquidity ratios. Puffy Bhd would have problem meeting its liabilities when they fall due. Its current ratio has worsened from a weak 1.49 to 1.06, whilst the acid test ratio has gone down to 0.52 compared with 0.86 in 1997.

Debtors are taking a longer period to settle their debts. This indicates poor credit control, which might lead to more bad debts.

Puffy Bhd's cash position is negative with a high bank overdraft. This might be due to the purchase of additional fixed assets during the year.

Turnover in 1998 is higher than 1997 but this is not reflected likewise in the company's profit margin. This is probably due to a reduction in the selling price leading to higher turnover but lower profit margin. Lower profit margins will affect future expansion and growth of the company. The return on capital employed has increased slightly from 9.5% to 10.1%.