

CF04

Basic Accounting

6 APRIL 2006

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 information was extracted from the books of William Ngu as at 31 December 2005:

Item	RM
Freehold premises, at cost	250,000
Fixtures and fittings, at cost	65,000
- Provision for depreciation as at 31 December 2004	25,000
Motor vehicles, at cost	120,000
- Provision for depreciation as at 31 December 2004	60,000
Stock as at 31 December 2004	230,000
Purchases	890,000
Sales	2,650,000
Carriage inwards	22,500
Carriage outwards	25,500
Returns inwards	13,650
Returns outwards	23,800
Discounts allowed	28,000
Discounts received	31,000
Debtors	21,500
Creditors	44,000
Bad debts	9,850
General expenses	121,800
Marketing expenses	320,000
Investment	500,000
Cash in hand	16,000
Cash at bank	370,000
Capital	200,000
Drawings	30,000

Additional information available as at 31 December 2005:

- Closing stock as at 31 December 2005 was valued at RM260,000.
- General expenses included RM2,400 of insurance premium for the period from 1 May 2005 to 30 April 2006.
- To accrue for water and electricity by RM1,750.
- To accrue for courier charges by RM230.
- To provide RM260 for telephone expenses for the month of December 2005.
- Provision for bad and doubtful debts is 5% of debtors' balance as at 31 December 2005.

- The provision for depreciation on fixed assets is as follows:
 - Fixtures and fittings at 20% using the straight line method.
 - Motor vehicles at 25% on a reducing balance method.
- William Ngu received a cheque for RM6,630 on 31 December 2005 from a debtor whose debts were written off as at 31 December 2004. The receipt of this cheque has not been recorded in the books.

Required:

Prepare the following for William Ngu:

- (a) Trading, Profit and Loss Account for the financial year ended 31 December 2005. [13]
- (b) Balance Sheet as at 31 December 2005. [12]
- (Total:25 marks)

2. You were given the following information by Mosagate Sdn Bhd ("Mosagate"):

On 1 April 2003, Mosagate owned equipment costing RM380,000 with an accumulated depreciation of RM190,000.

On 1 August 2003, Mosagate purchased a new equipment at RM180,000 and financed the purchase by trading in one old equipment for RM50,000 and the balance through a bank loan. The old equipment cost RM120,000 and had an accumulated depreciation of RM88,000.

It is Mosagate's policy to depreciate its equipment at the rate of 25% per annum on a reducing balance method, based on the assets held at the end of each year.

Mosagate's financial year ended on 31 March 2004.

Required:

- (a) Prepare the fixed assets disposal account for Mosagate for the financial year ended 31 March 2004. [4]
- (b) Prepare the following accounts for Mosagate for the financial years ended 31 March 2004, 2005 and 2006:
- (i) Equipment account [6]
 - (ii) Provision for depreciation on equipment account. [7]
- (c) State **three** factors which cause fixed assets to depreciate. [3]
- (Total:20 marks)

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

- (a) Calculators are often treated as expenditure items even though calculators will last for several years.

Which of the following accounting concept is being applied above?

- A. Accrual.
- B. Going concern.
- C. Materiality.
- D. Prudence. [2]

- (b) Revenue is considered to be earned only on the date when goods or services are made available to the buyer in exchange for some consideration.

Which of the following accounting concept is being applied above?

- A. Accrual.
- B. Going concern.
- C. Historical cost.
- D. Prudence. [2]

- (c) Which of the following is not a profit and loss appropriation account item?

- A. Transfer to reserve.
- B. Retained profit brought forward from last year.
- C. Dividend.
- D. Directors' remuneration. [2]

- (d) Speed Buggy Sdn Bhd manufactured a new remote control toy car that costs RM120 per unit and expects to make a gross profit margin of 75%.

What is the selling unit price of the toy car?

- A. RM240
- B. RM360
- C. RM480
- D. RM600 [2]

- (e) Which of the following is **NOT** an intangible asset?

- A. Patent.
- B. Mineral deposits.
- C. Goodwill.
- D. Franchise. [2]

- (f) Emerald Trading replaced all its van's tyres. The cost of the new tyres should be debited to the:

- A. disposal account.
- B. motor vehicles' account.
- C. motor vehicles' repair and maintenance account.
- D. provision for depreciation account. [2]

- (g) It is Company JJ's policy to provide for bad and doubtful debts at a rate of 3% of the debtors' balance at the end of its financial year.

Given the following information, what is the increase or decrease in the provision for bad debts in 2006?

Financial Year Ended	Debtors	Provision for Bad Debts for the year
31 March 2005	RM48,000	RM1,440
31 March 2006	RM56,000	?

- A. Increase in provision of RM240.
B. Increase in provision of RM1,680.
C. Decrease in provision of RM240.
D. Decrease in provision of RM1,440. [2]
- (h) Supermart Trading intends to purchase a premises for RM1,500,000. Supermart Trading will furnish the downpayment of RM300,000 and borrow the balance of RM1,200,000 from a bank.
- If the bank charges simple interest at a rate of 5.25% per annum for 20 years, what is the annual interest charged?
- A. RM15,750
B. RM47,250
C. RM63,000
D. RM78,750 [2]
- (i) What is revenue expenditure?
- A. Cost of acquiring fixed assets.
B. Expenditure that adds to the value of the assets.
C. Expenditure for running the business on a day-to-day basis.
D. Installation cost of fixed assets. [2]
- (j) Which of the following is not a source of long-term finance?
- A. Preference shares.
B. Ordinary shares.
C. Debentures.
D. Bank overdraft. [2]

(Total:20 marks)

4. The opening cash balance of Lacy Loo Trading as at 1 January 2006 is RM12,000. The projection of the business for the first three months of the year 2006 is as follows:

Item	RM
Sales	
– January 2006	108,000
– February 2006	88,000
– March 2006	124,000
Rental per month	4,500
Purchase of stock	
– January 2006	30,000
– February 2006	28,000
– March 2006	35,000
Salary and wages per month	5,900
General expenditure	
– January 2006	2,000
– February 2006	1,800
– March 2006	3,100
Sales expenses per month	8,700
Motor vehicle expenses per month	1,500

Additional information available as at 1 January 2006:

- Lacy Loo Trading expects to sell 80% on cash-term and 20% on a one-month credit term.
- Trade debtors' balance as at 1 January 2006 is RM30,000.
- Purchase of stock is to be 40% on cash-term and 60% on a one-month credit term.
- Trade creditors' balance as at 1 January 2006 is RM24,000.

Required:

Prepare a cash budget for the months of January, February and March 2006.

(Total:15 marks)

5. The following is an extract of Bijaksana Trading's trial balance for the year ended 31 March 2006:

Item	RM'000
Sales	5,000
Cost of goods sold	2,250
Commission receivable	23
Administrative expenses	42
Sales and distribution expenses	218
Financial charges	56
Motor vehicle expenses	75
Capital	1,720
Stock	295
Debtors	303
Cash balance	80
Creditors	200
Bank overdraft	90

Required:

- (a) Calculate the following ratios using the given 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 Bijaksana Trading based on the ratios calculated in part (a) for the year ended 31 March 2006 with Wellon Trading's performance provided below:

Gross profit margin	48%
Net profit margin	35%
Current ratio	2.5 : 1
Acid test ratio	0.7 : 1
Return on capital employed	110%

[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 did not include water, electricity, courier and telephone charges under “general expenses”.

1. (a)

William Ngu

Trading, Profit and Loss Account for the year ended 31 December 2005

	RM	RM	RM
Sales			2,650,000
less returns inwards			13,650
			2,636,350
less cost of goods sold:			
Opening stock		230,000	
add purchases	890,000		
add carriage inwards	22,500		
	912,500		
less returns outwards	23,800	888,700	
		1,118,700	
less closing stock		260,000	
			858,700
Gross profit			1,777,650
Discount received			31,000
			1,808,650
less expenses:			
Discount allowed		28,000	
Bad debts (9850 – 6630)		3,220	
Provision for bad debts		1,075	
Carriage outwards		25,500	
General expenses		123,240	
Marketing expenses		320,000	
Provision for depreciation - fixtures & fittings		13,000	
- motor vehicles		15,000	
			529,035
Net profit			1,279,615

1. (b)

William Ngu
Balance Sheet as at 31 December 2005

Fixed assets	Cost	Depreciation	NBV
	RM	RM	RM
Freehold premises	250,000		250,000
Fixtures and fittings	65,000	38,000	27,000
Motor vehicles	120,000	75,000	45,000
	<u>435,000</u>	<u>113,000</u>	<u>322,000</u>
Investment			<u>500,000</u>
			822,000
Current assets			
Stock	260,000		
Debtors (21,500-1,075)	20,425		
Prepayments	800		
Cash at bank (370,000+6,630)	376,630		
Cash in hand	<u>16,000</u>	673,855	
Current Liabilities			
Creditors	44,000		
Accruals	<u>2,240</u>	<u>46,240</u>	
Net current assets			<u>627,615</u>
			<u><u>1,449,615</u></u>
Financed by:			RM
Capital			200,000
add net profit			<u>1,279,615</u>
			1,479,615
less drawings			<u>30,000</u>
			<u><u>1,449,615</u></u>

Question 2

- Candidates were unable to draw up the required accounts.

2.

(a) **Fixed Assets Disposal Account**

		RM			RM
1/8/03	Equipment	120,000	1/8/03	Prov for depreciation	88,000
31/3/04	Profit & loss a/c	18,000	1/8/03	Equipment – trade in value	50,000
		138,000			138,000

(b) (i) **Equipment Account**

		RM			RM
1/4/03	Balance b/f	380,000	1/8/03	Fixed assets disposal	120,000
1/8/03	Bank loan	130,000	31/3/04	Balance c/f	440,000
	Fixed assets disposal	50,000			560,000
		560,000			
1/4/04	Balance b/f	440,000	31/3/05	Balance c/f	440,000
		440,000			440,000
1/4/05	Balance b/f	440,000	31/3/06	Balance c/f	440,000
		440,000			440,000

(b) (ii) **Provision for Depreciation on Equipment Account**

		RM			RM
1/8/03	Fixed assets disposal	88,000	1/4/03	Balance b/f	190,000
31/3/04	Balance c/f	186,500	31/3/04	Profit & loss a/c	84,500
		274,500			274,500
31/3/05	Balance c/f	249,875	1/4/04	Balance b/f	186,500
		249,875	31/3/05	Profit & loss a/c	63,375
		249,875			249,875
31/3/06	Balance c/f	297,406	1/4/05	Balance b/f	249,875
		297,406	31/3/06	Profit & loss a/c	47,531
		297,406			297,406

Working:	31/3/04	31/3/05	31/3/06
Cost	440,000	440,000	440,000
Depreciation	102,000	186,500	249,875
NBV	338,000	253,500	190,125
25% Depreciation	84,500	63,375	47,531

(c) Give any three of the following factors:

- Time factor
- Economic factors
- Physical deterioration
- Depletion

Question 3

- No comments were provided for this question.

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

Question 4

- No comments were provided for this question.

4.

**Lacy Loo Trading
Cash Budget for January, February and March 2006**

	Jan (RM)	Feb (RM)	Mar (RM)	Total (RM)
Receipts:				
Sales	116,400	92,000	116,800	325,200
Total cash receipt	116,400	92,000	116,800	325,200
Payments:				
Rental	4,500	4,500	4,500	13,500
Purchases	36,000	29,200	30,800	96,000
Salary & wages	5,900	5,900	5,900	17,700
General expenditure	2,000	1,800	3,100	6,900
Sales expenses	8,700	8,700	8,700	26,100
Motor vehicle expenses	1,500	1,500	1,500	4,500
	58,600	51,600	54,500	164,700
Surplus/(deficit)	57,800	40,400	62,300	
Opening balance	12,000	69,800	110,200	
Closing balance	69,800	110,200	172,500	

Question 5

- Candidates' poor command of English language affected the commentary section of the question.

5.

(a) (i) Gross profit margin = $\frac{\text{Sales} - \text{CGS}}{\text{Sales}} \times 100$

= $\frac{5,000,000 - 2,250,000}{5,000,000} \times 100$

= $2,750,000 / 5,000,000 \times 100$

= 55%

(ii) Net profit margin = $\frac{\text{GP} + \text{Income} - \text{Exp}}{\text{Sales}} \times 100$

= $\frac{2,750,000 + 23,000 - 391,000}{5,000,000} \times 100$

= $\frac{2,382,000}{5,000,000} \times 100$

= 47.64%

(iii) Current ratio = CA / CL

= $\frac{678,000}{290,000}$

= 2.34 : 1

(iv) Acid test ratio = (CA - Stock) / CL

= $\frac{383,000}{290,000}$

= 1.32 : 1

(v) Return on capital Employed (ROCE) = NP / Capital

= $\frac{2,382,000}{1,720,000} \times 100$

= 138.49%

- (b)
 - (i) Bijaksana Trading's ("Bijaksana") gross profit margin is higher than Wellon Trading's ("Wellon") by 7%.
 - (ii) Bijaksana's net profit margin is better than Wellon's by 12.64%. This is in tandem with the high gross profit margin. In addition it could also be partly due to a better management of resources and control of expenses by Bijaksana.
 - (iii) Wellon's current ratio is better than Bijaksana's. A current ratio of 2.34:1 is however an acceptable ratio as it indicates that Bijaksana is able to meet all its current liabilities obligation when they fall due.
 - (iv) Bijaksana's acid test is better than Wellon's. This indicates that Bijaksana Trading is able to pay its immediate debts when they fall due.
 - (iv) Bijaksana's ROCE is better than Wellon's by 28.49%. This shows Bijaksana's overall performance is very good.