

**CF04**

# **Basic Accounting**

**9 MAY 2002**

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 books of Majestic Design Bhd on 31 August 2001:

TRIAL BALANCE AS AT 31 AUGUST 2001

	RM	RM
Ordinary share capital @ RM1 each		1,000,000
Profit and loss account as at 31 August 2000		104,000
General reserve		58,000
6% debentures		250,000
Freehold premises, at cost	2,280,000	
Motor vehicles, at cost	238,000	
Provision for depreciation as at 31 August 2000		86,000
Fixtures and fittings, at cost	53,000	
Provision for depreciation as at 31 August 2000		12,000
Office equipment, at cost	135,000	
Provision for depreciation as at 31 August 2000		54,000
Stock as at 31 August 2000	236,000	
Purchases & sales	4,375,000	8,360,000
Trade debtors & trade creditors	1,444,000	1,370,000
Provision for bad debts		11,000
Bad debts	8,000	
Administrative expenses	271,000	
Marketing & distribution cost	620,000	
Debenture interest paid	10,000	
Directors' remuneration	100,000	
Cash at bank	1,375,000	
Cash in hand	140,000	
Interim ordinary dividend paid	20,000	
	11,305,000	11,305,000

**Additional information available at 31 August 2001:**

- (i) Majestic Design Bhd has an authorised share capital of 3,000,000 ordinary shares at RM1 each.
- (ii) Closing stock as at 31 August 2001 is RM245,000.
- (iii) The provision for bad debts is 1% of debtors' balance as at 31 August 2001.
- (iv) The provision for depreciation on fixed assets is as follows:
  - Motor vehicles at 20%, using the straight line method.
  - Fixtures and fittings at 25%, using the straight line method.
  - Office equipment at 25%, using the reducing balance method.

- (v) Wages of RM3,000 due to casual labourers was not included in the marketing and distribution cost.
- (vi) To accrue for the balance of the debenture interest payable for the year.
- (vii) To provide for final ordinary dividend at 7.5%.
- (viii) To provide RM700,000 for corporation tax.
- (ix) To transfer RM142,000 to general reserve.

**Required:**

Prepare for internal use, showing in good order the following:

- (a) Trading and Profit and Loss Account for the year ended 31 August 2001. [15½]
  - (b) Balance Sheet as at 31 August 2001 (in vertical format). [15½]
- (Total:31 marks)

**2.** You were given the following information by Profiteer Sdn Bhd:

- (i) As at 1 January 2001, Profiteer Sdn Bhd has in its possession machinery costing a total of RM475,000 with an accumulated depreciation of RM262,000.
- (ii) On 20 March 2001, Profiteer Sdn Bhd purchased new machinery costing RM58,000 by cheque.
- (iii) On 1 June 2001, Profiteer Sdn Bhd purchased machinery costing RM70,000 by trading in old machinery for RM10,000 and paying the balance by cheque. The old machinery cost RM45,000 and had been depreciated by RM30,000.
- (iv) It is Profiteer Sdn Bhd's policy to depreciate its machinery at the rate of 25% per annum on a reducing balance method.
- (v) A full-years' depreciation is provided for all machinery held by Profiteer Sdn Bhd at the end of each accounting year.
- (vi) Profiteer Sdn Bhd's financial year ends 31 December 2001.

**Required:**

- (a) Prepare the following accounts for the year ended 31 December 2001:
    - (i) Machinery account [5]
    - (ii) Provision for depreciation on machinery account [4]
    - (iii) Fixed assets disposal account [4]
  - (b) State **two** factors that cause fixed assets to depreciate. [2]
- (Total:15 marks)

3. For each of the following questions, there are four possible answers (A, B, C and D). Select the BEST answer.
- (a) Which accounting convention is observed when leased assets are shown in the balance sheet?
- A. Prudence
  - B. Substance over form
  - C. Materiality
  - D. Accruals
- [2]
- (b) Everbest Sdn Bhd sells goods on “sale or return basis” at a mark up of 50%. At accounting year-end, goods in store are valued at cost of RM350,000 and goods on “sale or return” basis are valued at selling price of RM300,000.
- What is the value of Everbest Sdn Bhd’s closing stock?
- A. RM650,000
  - B. RM550,000
  - C. RM450,000
  - D. RM350,000
- [2]
- (c) What is “net current assets”?
- A. Fixed assets – current liabilities
  - B. Fixed assets + current assets – current liabilities
  - C. Current assets – current liabilities
  - D. Fixed assets + current assets + current liabilities
- [2]
- (d) Why do firms provide for depreciation on fixed assets?
- A. To finance the replacement of assets.
  - B. To charge the cost of assets to the profit & loss account.
  - C. To make cash available for repair and maintenance of assets.
  - D. To show the current market value of assets.
- [2]
- (e) What is revenue expenditure?
- A. Expenditure that adds to the value of the assets.
  - B. Expenditure for running the business on a day-to-day basis.
  - C. Cost of acquiring fixed assets.
  - D. Installation cost of fixed assets.
- [2]
- (f) Which of the following is **not** shown in the profit & loss appropriation accounts?
- A. Dividends
  - B. Directors’ remuneration
  - C. Retained profit brought forward from last year
  - D. Transfers to reserves
- [2]
- (g) Which of the following **BEST** describes the prudence concept?
- A. A business will record all anticipated profits.
  - B. A business will not record all losses in the books.
  - C. A business will choose the figure, which overstates capital.
  - D. A business will take the figure, which understates rather than overstate profit.
- [2]
- (h) Which of the following will improve a company’s liquidity position?
- A. Disposal of assets
  - B. Reducing provision for bad debts
  - C. Bonus issue of shares
  - D. Increasing depreciation on fixed assets
- [2]

- (i) Product XYZ costs RM380.00 per unit. The firm expects to make a gross profit margin of 20%.

What is the gross profit of this product?

- A. RM95.00  
 B. RM76.00  
 C. RM63.00  
 D. RM32.00 [2]

- (j) Which of the following is **not one** of the acceptable inventory costing methods under Generally Accepted Accounting Practices (GAAP) in Malaysia?

- A. First-in, first-out  
 B. Last-in, first-out  
 C. Weighted average cost  
 D. Market value [2]

(Total:20 marks)

4. Woodart Sdn Bhd wishes to purchase a warehouse costing RM1,200,000. Woodart Sdn Bhd is able to furnish the downpayment of RM120,000. Bank Bebas agreed to loan Woodart Sdn Bhd the balance of RM1,080,000 for 20 years.

**Required:**

- (a) If the interest rate is 5% per annum compounded annually for 20 years, calculate the following:

(i) The yearly repayment on the loan. [3]

(ii) The nominal annual interest rate if the yearly instalment is RM100,000. [4]

- (b) If Bank Bebas charges a simple interest at a rate of 6.5% per annum for 20 years, calculate:

(i) the annual interest charged. [2]

(ii) the total amount of interest charged for 20 years. [2]

(iii) the accumulated amount of the loan at the end of 20 years. [2]

(Total:13 marks)

5. Study the following information extracted from the books of Titans Trading, a company owned by a sole proprietor, for the financial years of 31 December 2000 and 2001:

	<b>2000</b> RM	<b>2001</b> RM
Sales	400,000	560,000
Cost of goods sold	149,000	184,000
Administrative expenses	76,000	92,000
Marketing expenses	30,000	44,000
Capital	265,000	284,000
Bank overdraft	-	35,000
Creditors	45,000	36,000
Fixed assets	200,000	230,000
Debtors	50,000	70,000
Stock	40,000	55,000
Bank	20,000	-

**Additional information:**

- Capital balance as at 1 January 2000 was RM250,000.
- Stock balance as at 1 January 2000 was valued at RM60,000.

**Required:**

- (a) Calculate the following ratios for the years 2000 and 2001:
- (i) Gross profit as a percentage of sales [3]
  - (ii) Net profit as a percentage of sales [3]
  - (iii) Stock turnover [3]
  - (iv) Current ratio [3]
  - (v) Acid test ratio [3]
  - (vi) Return on capital employed [3]
- (b) Briefly comment on the liquidity position of Titans Trading. [3]
- (Total:21 marks)

**- END OF QUESTION PAPER -**

## OUTLINE ANSWERS

### Question 1

This was a relatively straightforward question. While many candidates were able to answer this question well, some others still could not identify profit and loss items from balance sheet items.

1. (a)

Majestic Design Bhd  
Trading and Profit and Loss Account for the year ended 31 August 2001

	RM	RM	RM
<b>Sales</b>			8,360,000
Less: Cost of Goods Sold:			
Opening Stock		236,000	
Add: Purchases		4,375,000	
		4,611,000	
Less: Closing Stock		245,000	
		4,366,000	4,366,000
Gross Profit			3,994,000
Less Expenses:			
Increase in Provision for Bad Debts [14,440 – 11,000]		3,440	
Depreciation:			
- Motor Vehicles [238,000 x 20%]		47,600	
- Fixtures and Fittings [53,000 x 25%]		13,250	
- Office Equipment [(135,000 – 54,000) x 25%]		20,250	
Bad Debts written off		8,000	
Administrative Expenses		271,000	
Marketing & Distribution Cost [620,000 + 3,000]		623,000	
Debenture Interest [250,000 x 6%]		15,000	
Directors' Remuneration		100,000	
		1,101,540	1,101,540
Net Profit before taxation			2,892,460
Less: Taxation			700,000
Net Profit after taxation			2,192,460
Retained Profit b/fwd from last year			104,000
			2,296,460
Appropriated as follows:			
Transfer to General Reserve		142,000	
Ordinary Share Dividend:			
Interim Dividend:	20,000		
Proposed Final Dividend [1000000 x 7.5%]	75,000		
	75,000	95,000	237,000
Retained Profit c/fwd to next year			2,059,460

(b)

Majestic Design Bhd  
Balance Sheet as at 31 August 2001

	RM	RM	RM
<u>Fixed Assets</u>	<u>Cost</u>	<u>Depn</u>	<u>NBV</u>
Land & Building	2,280,000		2,280,000
Motor Vehicle	238,000	133,600	104,400
Furniture and Fittings	53,000	25,250	27,750
Office Equipment	135,000	74,250	60,750
	<u>2,706,000</u>	<u>233,100</u>	<u>2,472,900</u>
 <u>Current Assets</u>			
Stock	245,000		
Trade Debtors (less Prov for Bad Debts)	1,429,560		
Cash at Bank	1,375,000		
Cash in Hand	140,000	3,189,560	
	<u>2,189,560</u>		
 <u>Current Liabilities</u>			
Trade Creditors	1,370,000		
Accruals - Debenture interest [(250,000 x 6%) – 10,000]	5,000		
- Taxation	700,000		
- Proposed Dividend	75,000		
- Wages	3,000		
	<u>2,153,000</u>		
Net Current Assets			<u>1,036,560</u>
			<u>3,509,460</u>
 Financed by:			
		<u>Authorised</u>	<u>Issued</u>
Ordinary Share Capital @ RM1 each		3,000,000	1,000,000
 <u>Reserves</u>			
General Reserve [58,000 + 142,000]		200,000	
Profit & Loss Account		2,059,460	
		<u>2,259,460</u>	<u>2,259,460</u>
			<u>3,259,460</u>
 <u>Long Term Liabilities</u>			
6% Debentures			<u>250,000</u>
			<u>3,509,460</u>

**Question 2**

Some candidates were unable to draw up single accounts. Many still need to improve their knowledge on these topics.

2. (a) (i)

Machinery Account

2001		RM	2001		RM
1-Jan	Balance b/f	475,000	1-Jun	Fixed Assets Disposal a/c	45,000
20-Mar	Bank	58,000	31-Dec	Balance c/f	558,000
1-Jun	Bank	60,000			
	Fixed Assets Disposal a/c	10,000			
		603,000			603,000

(ii)

Provision for Depreciation on Machinery

2001		RM	2001		RM
1-Jun	Fixed Assets Disposal a/c	30,000	1-Jan	Balance b/f	262,000
31-Dec	Balance c/f	313,500	31-Dec	Profit & Loss a/c	81,500
		343,500			343,500

(iii)

Fixed Assets Disposal Account

2001		RM	2001		RM
1-Jun	Machinery	45,000	1-Jun	Prov for Depn Machineries	30,000 10,000
		45,000		Profit & Loss A/c	5,000 45,000
<b>Working:</b>					
	cost	558,000			
	depn	232,000			
	nbv	326,000			
	25% depn	81,500			

b) Any **two** of the following factors:

- Time factor
- Economic factors
- Physical deterioration
- Depletion

### Question 3

About half of the candidates showed poor performance in this multiple-choice question on accounting concepts and principles.

3. Answers to multiple-choice questions:

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

### Question 4

Candidates have consistently shown poor understanding of compound interest, and this sitting was no different.

4. (a) (i)  $P_a = A (PVIFA_{r,n})$   
 $P_a = 1,080,000$   
 $r = 5\%$   
 $n = 20 \text{ years}$

$$1,080,000 = A (PVIFA_{5\%, 20})$$
$$= A (12.462)$$

$$\therefore A = 1,080,000 / 12.462$$

Yearly repayment = **RM86,663**

(ii) If yearly instalment = RM100,000

$$P_a = A (PVIFA_{r,n})$$
$$1,080,000 = 100,000 (PVIFA_{r,20})$$
$$(PVIFA_{r,20}) = 1,080,000 / 100,000$$
$$= \mathbf{10.800}$$

By referring to the  $PVIFA_{r,n}$  Table,  $r$  falls between 6% and 7%.

$$\therefore r = 6\% + \frac{11.470 - 10.800}{11.470 - 10.594}$$
$$= 6\% + 0.765$$
$$= \mathbf{6.765\%}$$

(b) (i) I (simple interest) =  $Prt$   
 $P = \text{RM}1,080,000$   
 $r = 6.5\%$

$$I = \text{RM}1,080,000 \times 6.5\% \times 1 \text{ year}$$
$$\therefore \text{Annual interest charged} = \mathbf{RM70,200}$$

(ii) Total interest charged =  $\text{RM}70,200 \times 20 \text{ years}$   
= **RM1,404,000**

(iii) The accumulated amount =  $\text{RM}1,080,000 + \text{RM}1,404,000$   
= **RM2,484,000**

**Question 5**

The computation of the ratios required in this question was well answered, but candidates were unable to comment well on the liquidity position of the given company.

5. (a)

	<b>2000</b>	<b>2001</b>
(i) Gross profit as a percentage of sales = $\frac{\text{Sales} - \text{CGS}}{\text{Sales}} \times 100$	251,000/400,000 x 100 = <b>62.75%</b>	376,000/560,000 x 100 = <b>67.14%</b>
(ii) Net profit as a percentage of sales = $\frac{\text{GP-exp}}{\text{Sales}} \times 100$	145,000/400,000 x 100 = <b>36.25%</b>	240,000/560,000 x 100 = <b>42.86%</b>
(iii) Stock turnover = CGS / Av stk	149,000 / [(60,000+40,000)/2] = <b>2.98 times</b>	184,000 / [(40,000+55,000)/2] = <b>3.87 times</b>
(iv) Current ratio = CA / CL	110,000/45,000 = <b>2.44 : 1</b>	125,000/71,000 = <b>1.76 : 1</b>
(v) Acid test ratio = (CA-Stk) / CL	70,000/45,000 = <b>1.56 : 1</b>	70,000/71,000 = <b>0.99 : 1</b>
(vi) Return on capital employed = NP/Av capital x 100	145,000 / [(250,000+265,000)/2] x 100 = <b>56.31%</b>	240,000 / [(265,000+284,000)/2] x 100 = <b>87.43%</b>

(b) Comment on the liquidity position of Titans Trading:

Titans Trading's current ratio in 2000 was better than in 2001. The current ratio of 1.76 is below the acceptable range. Its acid test ratio has also dropped from 1.56 to 0.99, which is below the acceptable ratio. These indicate that Titans Trading might not be able to meet its liabilities when they fall due. There has been a rise in the current liabilities mainly due to the bank overdraft of RM35,000, which shows that the company does face liquidity problems.